

## **NICARAGUA FAITH-BASED SPECIALTY COFFEE ALLIANCE**

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Central America and Dominican Republic

Quality Coffee Program (CADR-QCP)

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### **NICARAGUA FAITH-BASED SPECIALTY COFFEE ALLIANCE** **Appraisal of Proposed Project and Options**

#### **Summary:**

This report provides a general assessment, detailed information, and implementation options to consider regarding a USAID-funded initiative to market Nicaraguan small producer coffee to U.S. churches and religious institutions at fair trade minimum prices through three U.S. faith-based private, voluntary organizations (PVOs): Catholic Relief Services, World Relief Corporation, and Lutheran World Relief. The report was prepared in mid-May 2003 by a Chemonics consultant specialized in coffee farming and management of PVOs. The report is divided in three parts, a narrative overview, reports on meetings with each organization, and other detailed annexes.

My general assessment is that this initiative has great potential as a short-term source of additional markets and income for small coffee farmers, but it needs some adjustments in design and more beneficiary producers served by each PVO if it is to be cost-effective and significant in scope and impact.

Several important features of the program are highlighted using SWOT analysis:

**Strengths:** Capable PVOs mobilized, experienced producer groups, proven coffee marketing networks, and sufficient funding and technical support available.

**Weaknesses:** High cost-benefit ratio at outset, incremental value of project unclear, sustainability based on subsidy, coffee quality below standards, and multiple agendas distract from goal.

**Opportunities:** U.S. market potential expandable, more producers could benefit, business partners could do more, other agencies wish to coordinate, and model is replicable regionally.

**Threats:** Faith-based market not permanent, producers may not satisfy demand, other countries could benefit more, producers may prefer other buyers, and project could become too complex.

Options proposed for improving and supporting the program include the following:

- a) Keep the project focused on coffee sales and farmer income and avoid overloading it with other goals and agendas.
- b) Increase the number of participating producers, and ensure that they get most of the added value from higher coffee prices and increased production.
- c) Ensure that increased marketing benefits Nicaragua as country of origin
- d) Increase coffee quality by excluding lowland plantations, improving processing, and tracking percentage of harvests that meet quality criteria.
- e) Set marketing goals and exit plans for each PVO and share supplies and markets as needed to balance supply and demand
- f) Broaden markets beyond faith-based constituencies and link producers to other marketing opportunities.
- g) Define shared indicators, a common baseline study, and a monitoring system to track project results including documenting incremental coffee sales by origin
- h) Assure coordination between donors and increase private business involvement.

Finally, terms of reference are proposed for the Chemonics-led Quality Coffee Project in Central America and the Dominican Republic to assist USAID/Nicaragua with the implementation of this FBSCA initiative.

## **PART I – NARRATIVE OVERVIEW**

### **A) Scope of Work for Visit – Specific Activities**

#### **Purpose:**

The contractor will provide short-term technical assistance to the faith-based organizations in Managua in order to prepare the Terms of Reference for specific types of technical assistance in designing/developing a marketing plan for coffee through their respective churches. The consultancy will include, but not limited to, the following:

#### **Meetings:**

Meet with USAID officials, including Mike Maxey, Steve Olive and Tomás Membreño, in order to understand the intentions of the Mission in supporting coffee marketing by the above-indicated organizations. Then meet with CRS, WRC, and LWR to:

- Understand the objectives, concepts and ideas of each organization's coffee activities.
- Establish the alternatives open to each for sourcing and marketing.
- Establish the magnitude of operation contemplated by each organization.

#### **Deliverables:**

1. Prepare a description of the objectives, strategy and scope of each organization's coffee activity.

2. Evaluate the technical assistance required for developing a design for each organization to achieve its objectives.
3. Prepare terms of reference for the technical assistance required

## **B) Meetings and Contacts**

I met with the twelve organizations and related individuals listed below. A full report on each meeting appears in Part II, in the following sequence:

1. Chemonics International: Dr. Michael Schwartz, Chief of Party, Regional Coffee Program
2. USAID/Nicaragua: Tomás Membreño, Agribusiness Advisor; Michael Maxey, Chief, and Steve Olive, Deputy Chief, Office of Enterprise & Rural Development.
3. Catholic Relief Services (CRS): Betsy A. Wier, Manager, Global Solidarity & Growth (Gerente, Solidaridad Global y Crecimiento); Orlando Moncada, Agricultural Manager, National Office; Santos Palma, Director, Agricultural Program in Matagalpa and Jinotega; Lara Puglielli, CRS Nicaragua Country Representative (by phone)
4. World Relief Corporation (WRC): Kevin Sanderson, Nicaragua Country Director, with APAC, Esperanza Coffee, and HPI representatives listed separately below.
5. Lutheran World Relief (LWR): Jefferson Shriver, Humanitarian Response Manager for Latin America; Amalia Chamorro, Regional Representative, Lutheran World Federation, Central America
6. Asociación Pueblos en Acción Comunitaria (APAC): Mario Pérez Lejarza, Executive Director (WRC colleague agency)
7. Esperanza Coffee Group, S.A.: Carlos Javier Mejía, President, Nicaraguan Specialty Coffee; Mario M. Mejía, Vice-President, Nicaraguan Specialty Coffee (WRC colleague agency)
8. Inter-American Development Bank (IADB/BID): Jaime A. Cofre Camuzzi, Sectoral Specialist, with Miguel Angel Castellón, IDR, and Tomás Membreño, USAID
9. Instituto de Desarrollo Rural (IDR): Miguel Angel Castellón, Coordinator, Rural Production Revitalization Program, with Jaime Cofre, IADB, and Tomás Membreño, USAID
10. TechnoServe Nicaragua: Ing. Erwin Mierisch, Coordinator, Cup of Excellence – Nicaragua; Thomas Kilroy, Consultant, Cup of Excellence, with Tomás Membreño, USAID

11. Ministry of Agriculture, Government of Nicaragua: Miguel R. Gómez D., Consultant to the Minister of Agriculture on Coffee issues and Executive Director, Ilusión Estate Coffee; with Tomás Membreño, USAID

12. Heifer Project Nicaragua (HPI-NIC): Dr. David Villalonga Blondin, Country Representative

**C) Preliminary Findings and Conclusions**

My general assessment of the FBSCA initiative is summarized below using a S.W.O.T. analysis framework. References to quantitative projections are tied to the charts in Annex A, and scopes of work for further technical assistance are in Annex B.

<b>S.W.O.T. Analysis</b>	Positive Elements	Negative Elements
Internal Aspects	<b>STRENGTHS</b>	<b>WEAKNESSES</b>
External Aspects	<b>OPPORTUNITIES</b>	<b>THREATS</b>

**General Assessment of the Faith-Based Specialty Coffee Alliance (FBSCA)**

<b>STRENGTHS</b>	<b>WEAKNESSES</b>
<ol style="list-style-type: none"> <li>1. Capable PVOs mobilized</li> <li>2. Experienced producer groups</li> <li>3. Proven coffee marketing networks</li> <li>4. Sufficient funding available</li> <li>5. Technical support available</li> </ol>	<ol style="list-style-type: none"> <li>1. High cost-benefit ratio at outset</li> <li>2. Incremental value of project unclear</li> <li>3. Sustainability based on subsidy</li> <li>4. Coffee quality below standards</li> <li>5. Multiple agendas distract from goal</li> </ol>
<b>OPPORTUNITIES</b>	<b>THREATS</b>
<ol style="list-style-type: none"> <li>1. U.S. market potential expandable</li> <li>2. More producers could benefit</li> <li>3. Business partners could do more</li> <li>4. Other agencies wish to coordinate</li> <li>5. Model is replicable regionally</li> </ol>	<ol style="list-style-type: none"> <li>1. Faith-based market not permanent</li> <li>2. Producers may not satisfy demand</li> <li>3. Other countries could benefit more</li> <li>4. Producers may prefer other buyers</li> <li>5. Project could become too complex</li> </ol>

Fuller explanations of the points in the above chart follow:

**1. Strengths**

1. Capable PVOs mobilized: Each of the selected PVOs brings special strengths to the project, and all three share a strong commitment to make it succeed. WRC has practical, on-the ground experience with farmers and agribusiness; CRS has good management systems and working relationships with local counterparts; and LWR has a well-established market and a solid track record in coalition-building.
2. Experienced producer groups: Each PVO has proposed to work with established cooperatives that know how to produce quality coffee, including some that

already have fair trade and organic certification. The performance of these cooperatives will be critical to the project's success.

3. Proven coffee marketing networks: Equal Exchange has already been able to sell its coffee to 270 Lutheran Churches, and 250 Catholic entities are involved with Fair Trade. IFTI reaches additional ecumenically-oriented denominations, while WRC is well-connected to conservative evangelicals, the fastest-growing segment of Christianity in the world today. Esperanza Coffee and Pura Vida have handled WRC's processing and export logistics well.
4. Sufficient funding available: USAID, IADB, and other donor agencies have more funding available for coffee projects than the FBSCA initiative can absorb. The three PVOs should have no trouble meeting their private matching requirements from various non-USAID sources.
5. Technical support available: Each PVO has experienced in-house staff and management systems and can access other technical resources in Nicaragua and at their Headquarters. Chemonics and other outside entities can complement these resources with additional expertise when needed.

## 2. Weaknesses

1. High cost-benefit ratio at outset: A very preliminary analysis (See Annex A, section 4) indicates that the total additional value of selling coffee at fair-trade prices over 32 months through the FBSCA as currently designed could be as little as \$861,600, compared to a total project budget of \$4.75 million. In per capita terms, the average yearly income per small farmer from coffee sold through the FBSCA could be only \$752, i.e. \$331 more than the \$421 the farmer would receive otherwise without the FBSCA. Although this is a 79% increase, it is probably not enough to lift a small farmer out of poverty.
2. Incremental value of project unclear: Since churches are already marketing Fair Trade coffee from various origins, the added value of the FBSCA may be difficult to determine, especially if over-all increases in fair trade coffee sales cannot be directly attributed to this initiative. It may be tempting to claim as project achievements sales results that are not caused by FBSCA interventions but by the normal over-all growth of the fair trade movement and specialty coffee markets. Likewise, world market trends, weather conditions, and other aid programs that work with the same cooperatives could affect the outcomes of the project in ways not legitimately attributable to the project.
3. Sustainability based on subsidy: The FBSCA initiative as currently designed assumes that, by paying higher prices to small farmers, they will remain in business and produce more and better coffee, and that therefore their business will be more sustainable. However, "Fair Trade" is an aid program that subsidizes production by paying a higher price primarily based on sympathy for the

predicament of small farmers, not the intrinsic quality of the coffee. Although the quality of fair trade coffees are improving, the “Fair Trade” and “High Quality” market segments are not the same. (See Annex H, Allegro coffee buyer’s article on sustainability.)

4. Coffee quality below standards: Some of the PVO plans, especially those of CRS and LWR, contemplate diversification assistance for displaced coffee workers from low-altitude plantations. If coffee from such plantations is expected to enter the FBSCA pipeline to help finance those efforts, it may not be good enough for the high quality specialty market. There is also a tendency in LWR to assume that organic coffee must be good quality coffee, a conceptual error. If processors and roasters have inferior batches they cannot sell to other market segments, they may be tempted to sell them in the FBSCA segment, assuming it is less demanding.
5. Multiple agendas distract from goal: The project’s main goal is to increase coffee sales and income for Nicaraguan small farmers, but various stakeholders have additional expectations that could overshadow this goal. PVOs facing reduced budgets as Mitch funding winds down may see this as a new way to maintain their broader Nicaragua program.

### **3. Opportunities**

1. U.S. market potential expandable: Equal Exchange coffee sold under the LWR Coffee project increased by 56% from 2001 to 2002, and orders from other IFTI members increased by 97% during the same year. Yet currently only 2,700 Lutheran congregations out of 18,000 in the USA participate. The Catholic market is even larger and has only begun to be tapped. WRC’s access to the US conservative Evangelical market is only beginning. If marketing and promotional efforts are sustained, demand could rapidly exceed current projected supply.
2. More producers could benefit: About 80% of Nicaragua’s coffee is produced by small farmers and has the potential to meet specialty coffee market criteria. The FBSCA program reaches a small percentage of those producers. However, each PVO has developed relations with networks of cooperatives that involve other producers not currently targeted by the project. If demand increases, these networks could be tapped to engage more producers.
3. Business partners could do more: Coffee roasters, exporters, and distributors related to the project include for-profit companies (e.g., Esperanza Coffee) and non-profit organizations (e.g., Equal Exchange, Pura Vida) that operate like businesses. Since they benefit financially from expanded volumes, they have an incentive to cooperate with the FBSCA without requiring grant funding. By relying increasingly on such companies while limiting their profit margin, PVOs can reduce their role and ensure that the program can become more cost-effective and sustainable.

4. Other agencies wish to coordinate: TechnoServe expects to become operational in July with a \$4.5 million regional IADB-funded coffee program with similar aims as the USAID QCP. ICO has \$5.1 million for wet mills, and no doubt many other donors have coffee funding looking for creative and viable ways to be spent. As the FBSCA gets launched and visible, many agencies will want to participate.
5. Model is replicable regionally: If the Nicaragua FBSCA initiative is successful, it could easily be expanded or replicated to include other coffee producing countries in Latin America, Africa, and Asia. The same PVOs have program offices in other Central America countries, and other PVOs may also be interested in joining the effort, assuming the faith-based market can absorb higher levels of coffee than the current Nicaragua program alone can supply.

#### 4. Threats

1. Faith-based market not permanent: Since social action causes come and go within the religious community as world events unfold, one cannot assume that the faith-based market segment will remain committed to buying more expensive “Fair Trade” coffee forever. It would be risky for producers to depend on this market to the exclusion of others and forget that real coffee prices are volatile. Many religious individuals and institutions face tight budgets and need to economize, even on coffee.
2. Producers may not satisfy demand: If marketing efforts in the US faith-based communities prove very successful, the current cooperatives in the FBSCA may be unable to produce enough coffee to meet demand. Expectations could be created in the US that cannot be fulfilled, at least in the short-run. If unsatisfied requests are for Nicaraguan coffee from specified sources, substituting other coffees could undermine the credibility of the entire program among buyers.
3. Other countries could benefit more: The LWR Coffee Project, and presumably other such efforts that rely on larger Fair Trade suppliers for their coffee, generate many purchases of coffees with no specific geographical origin. Although the initial intent of the FBSCA is to increase income for Nicaraguan small farmers, other origins publicized in promotional literature may prove more popular, and purchases of blended coffees or may include more coffee from other countries than from Nicaragua. The FBSCA may benefit Equal Exchange and other networks more than the specific countries and farmer groups that produced the coffee.
4. Producers may prefer other buyers: According to the Allegro coffee buyer (see article in [Attachment H](#)), “the premium for specialty coffees typically results in a price to the producer that substantially exceeds fair trade prices.” Since the FBSCA initiative includes an emphasis on upgrading coffee quality, the coops involved may discover that other specialty buyers will offer them higher prices than the FBSCA had agreed to pay. Due to the multiple players involved and

their respective rules, it may be difficult for the FBSCA to increase its offering prices beyond those that apply worldwide to all Fair Trade coffees.

5. Project could become too complex: As often happens with projects that have an aura of “success” around them, too many resources may be offered for this effort, and if these are accepted uncritically, confusion, dependency, and/or reduced sustainability may result. For example, unspent ICO funds for wet mills could lead to greater investments in infrastructure than required to meet the faith-based market demand. The USAID Mission and several of the NGOs have included reforestation and watershed management plans under this project, and other funders may wish to join the “bandwagon” and add their own conditions to those already in the project design.

**D) Options for the Future:**

The following lines of action could help the FBSCA initiative overcome some of the weaknesses and threats and take advantage of opportunities identified above.

<u>ASSESSMENT FINDINGS</u>	<u>ACTIONS TO CONSIDER OPTIONS</u>	<u>WHO DOES</u>	<u>SUPPORT NEEDED</u>
2.1. High cost-benefit ratios	a) Ensure partner coops involve more producers or seek additional coops to participate in program b) Define amount producers will get per qq and limit other costs accordingly c) Increase volume per producer making plants more productive c) Marketers increase price per pound for the best quality coffees	3 PVOs  3 PVOs and coops  Farmers & coops PVOs /HQ EE, sellers	Check for realism  USAID to approve  Agronomists  Mktg. experts
2.2. Incremental value unclear	a) Design and carry out a base-line study of current production, exports, sales, and plans that would occur without the FBSCA. b) Require PVOs to use a common reporting format for outputs that ties to base-line study indicators c) Ensure EE and other US sellers can track Nica coffee sales to churches before and after FBSCA	Local consultant w/PVOs  USAID or QCP  PVO HQ & IFTI staff	See other models of studies  Format design in agreement  MIS design to track sources
2.3. Sustainability based on subsidy	a) Require PVOs to include an approved exit plan in proposals  b) Upgrade producer and coop	USAID or QCP  QCP	PVO meeting to learn how  TA in

<b><u>ASSESSMENT FINDINGS</u></b>	<b><u>ACTIONS TO CONSIDER OPTIONS</u></b>	<b><u>WHO DOES</u></b>	<b><u>SUPPORT NEEDED</u></b>
	quality to be able to sell to other specialty coffee market buyers		production & marketing
2.4. Coffee quality below standards	a) Exclude coffee from >800 mts from FBSCA eligibility, though PVO can help producers diversify b) Monitor & increase % of coffee that meets specialty market quality and niche certification criteria c) Improve wet mills and drying facilities where needed	USAID  PVOs  coops	PVO consent  Common criteria adopted  ICO, QCP
2.5. Multiple agendas distract	a) Limit key success indicators to coffee sales and producer income b) Budgets reflect priority goals, not unrelated activities	USAID, PVOs  PVOs	check how practical it is  guidelines
3.1. US market potential expandable	a) Target potential high-volume constituents & regions by PVO b) Set goals for each PVO for sales by year	PVO HQ  PVO HQ	market studies  CEO approval
3.2. More producers could benefit	a) If sales projections justify it, involve more cooperatives b) Share output and markets among PVOs, link supply/demand	PVOs  PVOs, EE, distributors	USAID to OK  agreements reached
3.3. Business partners could do more	a) Contract out processing and shipping at fixed cost or low bids b) Require PVO exit plans to shift roles to ongoing businesses	PVOs  USAID	generate bids  agreement conditions
3.4. Other agencies wish to coordinate	a) Define roles and regions with TechnoServe, BID/IDR, QCP,... b) Share/coordinate policies among aid programs using best practices c) Co-finance joint programs, with consolidated budgets by source d) Monthly meetings to update	Donor agencies  “  “  “	Meeting(s)  “  “  “
3.5. Model is replicable regionally	a) If market potential is confirmed, replicate in 2 CADR countries with same or other faith-based PVOs b) Broaden market access to non-religious schools and institutions	PVO HQ or Reg Ofc  PVO HQ	Design teams  Revised promotion materials
4.1. Faith-based market not	a) Clarify duration of PVO HQ commitments to selling coffee	PVO HQ	Commitment

<u>ASSESSMENT FINDINGS</u>	<u>ACTIONS TO CONSIDER OPTIONS</u>	<u>WHO DOES</u>	<u>SUPPORT NEEDED</u>
permanent	b) Connect coops supplying FBSCA to other specialty buyers based on coffee quality	PVOs, QCP	Contact buyers
4.2. Producers may not satisfy demand	[See same options listed under 3.2.]		
4.3. Other countries could benefit more	a) Include Nicaraguan coffee in order forms for PVO constituents b) Ensure roasters include Nica FBSCA coffee in popular blends c) Negotiate coffee % origins to include in blends, allowing for variations when shortfalls occur	PVO HQ, EE, Pura Vida, etc.	Practical system to monitor origins in blends
4.4. Producers may prefer other buyers	a) Monitor prices paid to producers and ensure FBSCA can compete b) Plan “graduation” of coops into exit strategies, replace as needed	PVOs  PVOs	Price info  experiences w/ similar models
4.5. Project could become too complex (see 2.5.)	a) Avoid excessive donor funding with incompatible requirements b) Shift other support to small farmers into separate projects c) Minimize environmental goals and requirements if they distract from production and sales goals	USAID QCP PVOs	Restraint

### **Additional Ideas and Suggestions:**

1. USAID/Nicaragua, with support from QCP if needed, should move quickly to sign an MOU with all three PVOs so that their Headquarters can more confidently gear up market development efforts.
2. QCP, on behalf of Chemonics, should submit an unsolicited proposal to USAID/Nicaragua to assist the Mission in a number of steps needed to implement the FBSCA initiative.
3. QCP should ensure that it has a grant-making capability in place before agreeing to coordinate the FBSCA initiative on behalf of USAID-Nicaragua.
4. USAID and QCP should develop grant proposal instructions for PVOs and negotiate agreements ASAP so that the program can begin before the 2003-2004 harvest season.
5. QCP should seek ways to ensure that PVOs have the technical support they need in key areas including coffee technology; crop diversification; program design and monitoring; linkages and learning; and business, program and financial management.

6. Confirm that PVOs may include U.S. market development costs as part of their matching contribution to the project, and that foregone ICR is also eligible as match.

## **PART II – NOTES ON INTERVIEWS AND MEETINGS**

Notes from all interviews and meetings are presented below in the following common format:

1. Organization visited:
  2. Date and place of meeting/interview:
  3. Name(s) and role(s) of person(s) interviewed:
  4. Contact information:
  5. Information about the individual(s) interviewed:
  6. Others persons involved:
  7. General information about the organization's country program:
  8. Past and current activities with small coffee producers:
  9. Comments about the Faith-Based Specialty Coffees Alliance:
  10. Quantitative projections of production and market capacity:
  11. Technical assistance required:
  12. Other information provided that seems relevant:
  13. Documentation, referrals, and sources of additional information:
  14. Interviewer's impressions and follow-up recommendations:
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1. Organization visited: **Chemonics International, Regional Coffee Program**
2. Date and place of meeting/interview: May 9 and 15 in Guatemala City, plus subsequent phone calls.
3. Name(s) and role(s) of person(s) interviewed: Dr. Michael Schwartz, Chief of Party
4. Contact information: 5a Avenida 15-45, Zona 10, Edif. Centro Empresarial, Torre II Of. 908 y 909, Guatemala, Guatemala 01010; Tel. (502) 333-7188/97/333-7202; Fax (202) 367-6320; [mschwartz@chemonics.net](mailto:mschwartz@chemonics.net)
5. Information about the individual(s) interviewed: Responsible for implementing USAID's \$8.5 million Quality Coffee Project in Central America and the Dominican Republic. Had worked previously in Nicaragua on coffee with CLUSA and others.
6. Others persons involved but absent: None.
7. General information about the organization's country program: The Chemonics coffee program is regional in scope. Selected highlights from their November 2002 technical proposal to USAID describing the planned program are reproduced in Annex E.

8. Past and current activities with small coffee producers: The CADR-QCP builds upon prior USAID assistance to the coffee sector in all Central American countries. Previous projects had focused on production and income-generation for small producers. The new project emphasizes marketing and sustainability.

9. Comments about the Faith-Based Specialty Coffees Alliance: If it seems viable, Chemonics would be willing to submit a proposal to USAID/Nicaragua to coordinate this activity as a coffee project on behalf of USAID.

The marketing role proposed by LWR seems simplest for a PVO and may turn out less costly than the WRC model that involves the PVO in depth in all phases of the production and marketing process.

Look at costs of production more than market prices to determine what would be a reasonable return to farmers to keep them in business. Limit the percentage of profits taken by others in the value chain by just paying them for services or having pre-set percentage for the middlemen involved.

The Fair Trade minimum price established by TransFair, \$1.26/lb, is a good basis for projecting future income from project-related coffee sales. Even though organic coffee is priced at \$1.41, its volume is not significant nor is it a major future trend. If the faith-based PVOs can market a segment of the production as “organic”, that’s fine. Likewise, although some specialty coffees can command higher prices, most farmers will be happy to get the 90 cents that should go to them from the \$1.26 price, according to TransFair’s rules. No need to project higher “weighted average” income per lb to account for some sales above Fair Trade’s floor price.

Roasting coffee in the country of origin can be viable if the U.S. market will buy it. Further study may be needed to clarify the pro’s and cons of exporting roasted vs. green coffee.

10. Quantitative projections of production and market capacity: The concept has great potential if the participating coops are able to deliver sufficient quality coffee and the PVO’s can broaden and maintain sufficiently sizable markets to make this interesting. Mike is skeptical about the volume PVOs can move. Beware of overly-precise quantitative projections: “Significance is only as great as your least accurate number”.

11. Technical assistance required: At this stage, clarifying options is more important than formulating recommendations. Recommendations for additional studies are usually not well-received. Identify what the PVOs need to get their programs functioning, and if additional activity is required in Nicaragua, that could be part of a separate Chemonics proposal. If necessary, Chemonics could assist PVO Headquarters with developing their marketing plans in support of the Nicaragua initiative.

12. Other information provided that seems relevant: Most green coffee export contracts assume shipments will be in 20-foot containers that contain 250 bags each weighing 60

kgs, equivalent to 375 Quintales (100-lb bags). In practice, shippers are often able to add 25 bags to a container, counting it as part of the next shipment.

Although coffee shipments are in 60-kg bags, reference prices in the “C” market are per pound (or per 100-lb bag = quintal), not per 60-kg. bag. “Normal” coffee prices have been close to 50 cents per lb for the past year, and for future projections 60 cents seems reasonable. This does not all reach the farmer, as shipping and other costs are deducted.

For planning purposes, reduction in weight is normally calculated at –20 to -23% from parchment coffee to green coffee, although the best yields can be –17% and the worst –25%. Reduction from green to roasted can be estimated at -15% of green coffee weight.

13. Documentation, referrals, and sources of additional information: If roasting is done in-country, consider using a new state-of-the-art plant near Brasiles (outside Managua). Only 3% of its capacity is currently being used. Contact David Dallis, Dallis Brothers Coffee (NY firm).

14. Interviewer’s impressions and follow-up recommendations: The Chemonics project seems pragmatic, responsive, flexible, and open to suggestions.

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1. Organization visited: **USAID/Nicaragua**
2. Date and place of meeting/interview: May 12 and 14, USAID Office
3. Name(s) and role(s) of person(s) interviewed: **Tomás Membreño**, Agribusiness Advisor (both mtgs); **Michael Maxey**, Chief, and **Steve Olive**, Deputy Chief, Office of Enterprise & Rural Development (May 14 only).
4. Contact information: De la Lotería Nacional, 200 mts. Al Oeste, Managua; AmEmb/Managua/USAID Unit 2712 Box 9, APO AA 34021; Tel. (505) 267-0502, 267-4028, 267-4029; Fax 278-3828; [tmembreño@usaid.gov](mailto:tmembreño@usaid.gov); [mmaxey@usaid.gov](mailto:mmaxey@usaid.gov); [solive@usaid.gov](mailto:solive@usaid.gov).
5. Information about the individual(s) interviewed: Tomás Membreño is a Honduran coffee farmer who married a USAID worker and has been working for several years with the Mission, first as Hurricane Mitch relief coordinator, and now as Agribusiness Advisor (Asesor en Agro-Negocios). He plans to return to private life in Honduras in July or August, and will be replaced by Leonard Fagot, Agricultural Specialist. Mike Maxey, who has been in Nicaragua for just over one year, plans to move to Washington within a few months; Steve Olive is early in his assignment and plans to stay. He seems very interested in environmental issues.
6. Others persons involved but absent: None

7. General information about the organization's country program:

According to USAID's FY2004 Congressional Budget submission, FY 2003 is a transition year for USAID in Nicaragua as it implements its current strategic plan and designs its new strategy for FY 2004 through FY 2008. FY 2003 includes the following objectives: 1) Strengthening Democracy; 2) Sustainable Economic Growth; and 3) Improved Health and Education. The new strategy for 2004 and beyond includes: 1) Justice Reform and Institutional Strengthening; 2) Trade and Agricultural Diversification; and 3) Human Investment.

Budget information for both fiscal years is summarized as follows (in thousands of US\$):

<b>Budget Category</b>	<b>FY 2003 Request</b>	<b>FY 2004 Request</b>
Child Survival & Health - CSH	7,606	6,855
Development Assistance - DA	19,730	24,152
PL-480, Title II	10,365	10,562
<b>TOTAL:</b>	<b>37,699</b>	<b>41,572</b>
<b>Funding by Strategic Objective</b>		
Strengthening Democracy - DA	4,510	0
Sustainable Economic Growth		0
DA	12,520	0
PL-480	5,788	0
Improved Health & Education		
CSH	7,606	0
DA	2,700	0
PL-480	4,575	0
Justice Reform & Inst. Strength. - DA	0	6,750
Trade & Agricultural Diversification		
DA	0	14,102
PL-480	0	5,830
Human Investments		
CSH	0	6,855
DA	0	3,300
PL-480	0	4,735
Special Initiatives	(5,490)	0

In general, high levels of special funding in response to Hurricane Mitch in 1998 are winding down and a more normal development program is being designed.

On December 12, 2002, President Bush signed an Executive Order creating within USAID a Center for Faith-Based and Community Initiatives (CFBCI), the purpose of which is to facilitate access by such NGOs to USAID resources. On April 11, 2003, Mr. Michael Magan was appointed as Director of the center – Tel. (202) 712-4080.

8. Past and current activities with small coffee producers: USAID has provided a lot of support to the coffee sector, which represented 50% of Nicaragua's agriculture, through a variety of organizations. Recent efforts include promotion of quality coffees through CLUSA, IICA, and the Rainforest Alliance.

9. Comments about the Faith-Based Specialty Coffees Alliance:

The FBSCA initiative grew out of the Mission's existing work with World Relief Corporation and Catholic Relief Services and could become a "showcase" early project within the framework of USAID's CFBCI. The concept paper first drafted in March 2003 has been modified several times, and the planned Memorandum of Understanding (MOU) has not yet been signed between the Mission and the three faith-based PVOs. The idea of an "Alliance" is consistent with USAID's partnership strategy of working with the private sector.

The concept paper proposes five illustrative intermediate results:

- 1) Improved production, processing, marketing, and sales of specialty coffees
- 2) Increased incomes and food security for small coffee farmers
- 3) Increased diversification to high value alternative crops for those small coffee farmers that cannot compete in the specialty coffee market
- 4) Stronger and more effective farmer and community organizations
- 5) Increased demand for high-quality Nicaraguan coffee through enhanced sales in U.S. specialty coffee markets.

The illustrative budget over a 32 month period (in thousands of dollars) includes:

1) Program design and assessment	50
2) Technical assistance to improve coffee quality and crop diversification	2,500
3) Market promotion for coffee and diversified crops	950
4) Market linkages and distribution	1,250
Totals:	4,750

More detailed breakdowns appear later in this report.

The Mission had proposed a greater amount of funding for marketing coffee, but the PVOs succeeded in lobbying to shift more of the funding towards technical assistance within Nicaragua for quality improvement and agricultural diversification.

During the debrief meeting, it was agreed that the MOU should be signed soon so that the project can be funded and implemented quickly, before the next harvest season distracts attention and coffee is sold elsewhere. It was considered important to build in an exit plan for each PVO from the start, and to emphasize business strategy development and not just technical aspects of coffee production and marketing.

Maxxey: Plans by LWR and CWS to put their additional label on Equal Exchange coffee may end up benefiting EE more than Nicaragua, since EE will probably retain the additional market share in the long run. Be sure Nicaragua benefits.

Olive: Consider complementing the FBSCA with funding from the Rainforest Alliance to ensure greater attention to environmental concerns. They can help train local certifiers for organic, shade-grown, and eco-friendly coffees.

10. Quantitative projections of production and market capacity: The Mission did not have solid numbers about the production and marketing potential of the Alliance. It needs help determining the market size and developing a strategy to ensure the business is sustainable after four years. The \$50,000 for program design may best be used for market development instead of production. The PVOs may count their early investments in market research as match under this budget line item.

11. Technical assistance required: The Mission would welcome a more active role for Chemonics in helping design and coordinate this project. USAID should be seen as a single entity, not separating the Mission from the QCP.

12. Other information provided that seems relevant: Since 1998, the International Coffee Organization (ICO) has offered \$2 million to Nicaragua and the same amount to Honduras for wet mills. We need to reactivate these agreements (see notes on meeting with Nicaraguan Agriculture Ministry).

TechnoServe Nicaragua is about to receive \$4.5 million from the IADB to coordinate coffee programs in Nicaragua, a role similar to that of Chemonics with USAID. They expect to work closely with CAFÉ NICA, a federation reaching 6,000 small producers.

13. Documentation, referrals, and sources of additional information: The FBSCA concept paper was the only document given. Congressional Budget Submission was from USAID's website.

14. Interviewer's impressions and follow-up recommendations: The Mission team is eager to proceed, and Chemonics should help them get the program launched before key advocates in the Mission (Membreño and Maxxey) leave their posts.

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1. Organization visited: **Catholic Relief Services (CRS)**
2. Date and place of meeting/interview: May 12<sup>th</sup>, CRS Nicaragua Office
3. Name(s) and role(s) of person(s) interviewed: **Betsy A. Wier**, Manager, Global Solidarity & Growth (Gerente, Solidaridad Global y Crecimiento); **Orlando Moncada**, Agricultural Manager, National Office; **Santos Palma**, Director, Agricultural Program in Matagalpa and Jinotega.
4. Contact information: CRS Programa para Nicaragua, Metrocenter Hotel Intercontinental 1c. Al Lago, ½ c. Abajo, Casa # 77 – Aptdo Postal 4224, Managua; Tel. (505) 278-3808; 278-1857; 278-1108 ext. 127; Fax (505) 278-1852; bwier@ns.crs.org.ni

5. Information about the individual(s) interviewed: Betsy Weir arrived in Nicaragua in January 2003 having completed her MA in International Development from the University of Denver and a fellowship in Guatemala. Her role emphasizes advocacy and networking around social justice issues more than technical aspects of coffee. Orlando Moncanda and Santos Palma have been with CRS for several years. The three would be part of a CRS project team responsible for implementation and inter-institutional coordination. The team would include a coffee technician in the field, a field-based agronomist, and a Managua-based agronomist.

6. Others persons involved but absent: **Lara Puglielli**, CRS Nicaragua Country Representative (by phone May 14<sup>th</sup>). Headquarters contacts include **Wendy Verity**, LACRO, **Paul Tillman**, Director of Marketing and Publicity, **Kim Burgo**, Director of U.S. Operations, and someone from their Church Outreach Department.

7. General information about the organization's country program: The CRS 2002 Annual Public Summary of Activity, Nicaragua Program, identifies twelve program sites and \$ 7.15 million in program expenses in eight areas: Agriculture (\$2,094 K), Emergency response (\$362 K), Small Enterprise Development (\$907 K), Health (\$697 K), Outreach and Advocacy/Civil Society (\$699 K), Administration (\$392 K), Commodities (value \$1,064 K), and ocean freight (\$935 K). USAID accounts for \$3.64 million of the total budget. The "Sustainable Agriculture with Rural Credit" project seems to be a major program within which coffee activities may be integrated. CRS has a regional office in Sebaco, Matagalpa, but it always works through counterpart agencies.

8. Past and current activities with small coffee producers: For the past 7-8 years, CRS has partnered with ADAC, *Asociación para el Desarrollo Agrícola Comunitario*, a cooperative with seven member associations engaged in diversified products including coffee which is all certified as organic and shade-grown. They have started the process of Fair Trade certification. In 2002, CRS implemented a 7-month emergency response project in the municipalities of Matagalpa, San Ramón, and El Tuma-La Dalia, Matagalpa Department, to attend to 5,000 permanent coffee worker families (estimated 25,000 total beneficiaries) with monthly food rations, enabling them to continue working and to do needed farm maintenance work in anticipation of future harvests. This Food-for-Work (FFW) project through Caritas-Matagalpa ended in November 2002 with the coffee harvest coming in. Most CRS-related producers cultivate coffee between 400 and 1,400 meters of altitude, many at the lower end of this range and hence are unlikely to be able to produce top quality specialty coffee and need support for crop diversification. Currently, all CRS-related coffee from the Northern region is sun-dried at SOLCAFE's drying facility, owned by CECOCAFEN, which caters to small producers. CRS is satisfied that batches are not mixed.

9. Comments about the Faith-Based Specialty Coffees Alliance: The fair trade concept is new to U.S. Catholics and has not been promoted much. Equal Exchange reaches some 250 Catholic organizations according to EE's own records, and has potential for expansion in this segment. Market studies done in CRS HQ indicate that

there are a few active diocesan and parish relationships that deal with coffee, notably Seattle University (Jesuit). It would not be difficult to introduce coffee issues into many Catholic outreach organizations currently linked to CRS, using existing promotion staff of CRS. CRS, WRC, and LWR are all based in Baltimore and have designated point persons to meet and coordinate the project in the USA. CRS has discussed the Alliance idea since November 2002.

CRS has done some return on investment analysis of small farmer coffee using a model developed by CLUSA but with different price information based on Fair Trade. It is important that the price cover all costs including production, processing, shipping, and a portion to retain in CRS HQ to fund Nicaragua programs or even its general fund. For this reason, CRS may mark up its coffee price to generate extra income to cover costs that might otherwise decrease the return channeled to producers.

A first, CRS did not expect the private matching funds requirement to be so high, but they anticipate no problem meeting their share in part from earmarked funds and foregone indirect cost recovery.

CRS agronomists credit the “Cup of Excellence” program with raising quality standards for Nicaragua’s coffee. While working with producers to upgrade coffee quality, CRS also wants project resources to support agricultural diversification within and outside coffee plantations to lower risks to producers. Specific areas to develop include water tanks to process coffee and provide drip irrigation for higher-value crops, fruit production, processing agricultural products at a viable scale in connection with existing enterprises such as a tomato sauce factory in Matagalpa, and market research on what to produce to reduce Nicaragua’s \$260 million of food imports.

General recommendations include: a) Improve quality of coffee produced by small farmers to increase their income; b) Broaden options for drying and processing coffee beyond Solcafé and Café Nica’s facilities, possibly by creating smaller, closer patios for 8-10 producers and/or providing better transportation; c) Undertake cost-benefit analyses of all options; c) Increase domestic consumption of coffee; d) Provide linkages for marketing in the USA; e) Spend less on studies and more on accompaniment; f) Facilitate participation of producers in international gatherings on coffee issues; g) Increase exchanges of experiences between NGOs on diversification alternatives, including more in-depth 15-day assignments instead of one-day visits; h) Promote fish farming and small animals (goats, peribueyes, chickens, pigs, cattle) and related centers to manufacture balanced animal feed; i) If organic fair trade coffees can sell for \$141.00, producers should be able to cover costs of the technical assistance they will need using part of the income from sales; j) Design an exit strategy from the outset; k) Develop common indicators and systems for monitoring and evaluation by all three agencies, and establish a base-line of the status of these indicators at the outset.

10. Quantitative projections of production and market capacity: CRS was unable to provide reliable projections of its production and marketing potential at this time. Their initial goal was to reach 4,000 coffee-producing families, but that was changed to 400

beneficiaries, 200 through ADAC and 200 through Caritas-Matagalapa, most of whom cultivate less than 5 *manzanas*. CRS indicates that these small producers average 15-20 quintales of wet parchment coffee per *manzana*, which would mean 75-100 qq total per year if they all had an average of 5 *manzanas*. Assuming 100 qq of wet parchment coffee can yield 50 qq of dry parchment coffee, these 50 qq would yield 40 qq of green coffee per beneficiary per year. Multiplied by 400 beneficiaries, the total would be 16,000 qq of green coffee per year from all producers. Assuming roasting reduces 15% of the weight, the total number of pounds of roasted coffee to sell would be 13,600. If Equal Exchange continues to supply 250 Catholic institutions, that would average 54 pounds of roasted coffee per institution per year. If these numbers are in the right ballpark, it would seem that more active marketing by CRS could increase demand well beyond the productive capacity of the current planned set of beneficiaries.

11. Technical assistance required: CRS would welcome assistance from Chemonics on how to plan production with coffee farmers and increase their options. The CRS agronomists indicated that ADAC has 3-4 technicians to support the 170 producers now involved in this project, but they still need help with:

- a) Upgrading staff knowledge about the requirements of quality coffee;
- b) Training farmers in shade management (types and height of trees), disease control, and expansion of basic infrastructure;
- c) Training in post-harvest process management including de-pulping, wastewater disposal, cleaning machines, fermentation, and measurement of degree of humidity;
- d) Transportation logistics to make sure product delivered to dry mills is of good quality; and
- e) Cupping techniques using CLUSA's network of field labs.

They have no need for certification assistance. Country Director Lara Puglieli argues that, precisely because the CRS beneficiaries are deficient in so many basic areas of quality coffee, the impact of technical assistance provided by the project will make a greater difference than would be the case for more advanced producer groups. Furthermore, the CRS agronomists see a need for more generic organizational development work to identify common interests, develop medium and long-term vision, and develop administrative and legal skills.

12. Other information provided that seems relevant: The IADB/BID program seems more focused on mid-sized farms (10-50 mz) compared to the CRS program which only works with small farmers (under 10 mz).

13. Documentation, referrals, and sources of additional information: Specific projected outputs for each illustrative intermediate result were sent by e-mail after the visit.

14. Interviewer's impressions and follow-up recommendations: The CRS team seemed capable and motivated, and the agency has much of the technical skills needed to meet the technical assistance requirements they listed. The large number of lower-altitude farmers among CRS beneficiaries may limit the potential of CRS to meet volume

requirements for specialty coffee. The FBSCA project needs to define how much it can support agricultural diversification if its main focus is marketing coffee in the USA.

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1. Organization visited: **World Relief Corporation (WRC)**
2. Date and place of meeting/interview: May 13<sup>th</sup>, WRC Office in Managua
3. Name(s) and role(s) of person(s) interviewed: **Kevin Sanderson**, Nicaragua Country Director. At the end, persons from APAC and Esperanza Coffee joined us.
4. Contact information: Km. 6 ½ Carretera Sur, del Restaurant Los Ranchitos 250 varas abajo, Managua; Nicabox 179, P.O. Box 52-7444, Miami, Florida 33152-7444; Tel. (505) 265-3415, 265-3430; Fax 265-3572; Kevin@apac.org.ni
5. Information about the individual(s) interviewed: Kevin Sanderson has lived in Nicaragua for 12 years, having opened the WRC office in 1991.
6. Others persons involved for part of meeting: **Mario Pérez Lejarza**, Director Ejecutivo, Asociación Pueblos en Acción Comunitaria (APAC); **Carlos Javier Mejía**, President, and **Mario M. Mejía**, Vice-President, Esperanza Coffee Group, Nicaraguan Specialty Coffee; **David Villalonga**, Heifer Project Nicaragua National Representative.
7. General information about the organization's country program: See Annex F. The country program began in 1991 in the Río San Juan border area with Costa Rica emphasizing grains, dryers, and diversification from cocoa. In 1996, it shifted to Estelí, Madriz, and Nueva Segovia promoting food security through agricultural services and businesses. Diversification efforts take place in three zones: Lowland humid tropics, interim drylands, and high altitude (>1,000 mts). In 1998, a new program—interrupted by Hurricane Mitch—was launched featuring crop collection centers. APAC is the main counterpart agency, as well as alliances with businesses to get better markets for farmers. Emphasis has been on fast-growing crops with proven markets and irrigation of fruits and vegetables for stable markets. WRC had a USAID child survival program that ended in 2000.

The country program has three major components:

- a) Agricultural services or agribusiness, which includes marketing, post-harvest services, and farm supply, and alliances with businesses and associations;
- b) Small farmer technical services or extension, including a Small Farmer resource Center, diversification, irrigation design and implementation on the farm; and
- c) A credit component serving the other two components. WRC manages a \$3.5 million credit fund that turns over funds to APAC at 5%, which in turn on-lends the funds to farmers at an average of 19% interest.

The total current WRC country budget is \$1.4 million/year, but that is expected to go down to \$700,000 next year, including an expected \$150,000 from the coffee project. Credit fund re-flows are not included in this total. WRC will put 350-400,000 per year in the program, and IADB another 80-100,000/year. WRC expects to use most of the USAID coffee funding for technical assistance in-country.

8. Past and current activities with small coffee producers:

WRC began working with coffee in 1996, supporting on-farm production from shade management to harvesting, but not including processing. In 1998, they started small scale wet mills jointly owned by several small farmers, plus a credit fund for maintenance disbursed in May, September, and October as needed. The shift towards quality coffee was post-Mitch, influenced by an alliance with Esperanza Coffee. Technical assistance and credit were provided to farmers over 1,000 meters to get quality harvest to dry mills. Harvesting was improved by having more than two pass-throughs per year, fermenting and pre-drying were upgraded using small dryers, concrete patios, and plastic sheeting. A few groups got organic certification, and one sells to the UK at \$177/quintal.

Roasted Coffee is provided under three labels by Esperanza Coffee, which last year sold 20,000 lbs mainly to church groups visiting Nicaragua. Sales in the US started in April 2003. Meanwhile a “World Relief Mission Brand” has been roasted and distributed Pura Vida in the USA. Pura Vida, started by two Harvard Business School friends (a pastor in Costa Rica and a retired Microsoft executive), started marketing coffee to churches in 1996. There is a risk that Pura Vida could go after WRC’s customers within a year. Pura Vida handled 300 quintales (30,000 lbs) of WRC Nicaraguan coffee last year.

WRC inherited part of CLUSA’s USAID-funded post-Mitch coffee program. Of six wet mills built, only two are considered viable for specialty coffee markets. Two others are in lowlands, and the other two have been problematic. One is tied to TechnoServe, and two remain linked to CLUSA.

Cumulative coffee exports facilitated by WRC are described as follows in the project’s “Sustainability Plan” recently submitted to USAID: “Exports of 35 containers of specialty coffee at average price of \$85/qq including one container of roasted coffee compared with 0 containers of specialty coffee four years ago.”

In its latest quarterly report (Jan-March 2003) from a USAID-funded Agricultural Services Project, WRC described its coffee activities as follows:

Working with several partners including Esperanza Coffee, CBI, COOMPROCOM, and others, the program produced and is marketing a total of 20,625 qq of specialty coffee this crop cycle. The program has already exported 17 containers of this coffee at an average price of US\$109.05/qq during the quarter. An additional 33 containers of specialty coffee will be exported over the next quarter at similar prices. The project has also opened up a window for exporting higher quality conventional coffee through Atlantic for those producers below 1,000 meters who do not qualify for the specialty market.

Currently the program has facilitated the sale of ten containers (4,450 qq.) of this coffee at an average price of \$71.50/qq., some \$10 above the price farmers would have otherwise obtained....In the next quarter, the project will market approximately 14,000 qq of specialty coffee.

Results of the promotion of commercialization during the trimester

Product	Quantity (qq) Services provided	# of Communities	# of producers
Other Coffee	24,623	89	559
High altitude Coffee	63,557	21	212
Organic Coffee	919	8	30
TOTAL COFFEE	89,099	118	801

9. Comments about the Faith-Based Specialty Coffees Alliance:

The “Alliance” was created by USAID, whereas WRC just sees it as a coordination instance in Nicaragua and Baltimore. WRC’s program will contribute a significant percentage of the outputs planned for the entire Alliance (see Annex A).

10. Quantitative projections of production and market capacity:

APAC and PACJINO can produce 15 containers per year and can sell green coffee to other roasters. WRC’s goal is to market 12 containers per year through the FBSCA project. See Annex A. If the US FBSCA market can absorb it, WRC would like to tie their output to the Esperanza brand of roasted coffee.

11. Technical assistance required:

WRC would prefer to use the funding to hire its own local technical assistance than having outside experts use up the available budget. They need help fine-tuning *beneficio* operations, business planning and accounting, and alliances and market linkages, including TA to obtain Fair Trade certification for APAC and PACJINO.

12. Other information provided that seems relevant:

A separate watershed project with IADB funding could provide \$150,000 per year covering 15-20 communities in two watersheds.  
8,500 farmers are involved in the total food security program.

13. Documentation, referrals, and sources of additional information: See Esperanza Coffee.

14. Interviewer’s impressions and follow-up recommendations: WRC has a strong track record working with local groups in remote areas and promoting a diversity of products. Their projected 12 containers of green coffee per year may be ambitious, but it seems feasible. More information is needed about US marketing strategies to determine if they can reach a large enough market to absorb the Nicaraguan coffee they can produce and ship.

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1. Organization visited: **Lutheran World Relief (LWR)**
  2. Date and place of meeting/interview: Casa Sol, Managua office of LWR and six other mainly European NGOs.
  3. Name(s) and role(s) of person(s) interviewed: **Jefferson Shriver**, Humanitarian Response Manager for Latin America; **Amalia Chamorro**, Representante Regional, Acción Luterana Mundial, Centroamérica
  4. Contact information: Jeff at USA HQ - 700 Light Street, Baltimore, MD 21230, USA; Tel. (410) 230-2857; Fax (410) 230-2882; Cell (202) 460-4500; In Nicaragua: “Casa Sol”, Planes de Altamira, Carretera a Masaya, del Casino Pharaoh’s 1 ½ cuadra abajo, # 74, Managua; Apdo. Postal 2277, Managua; Tel. (505) 270-2650, 270-8222, ext. 44; Fax. (505) 277-0214; Jeff’s Cel. 088-94-550; [jshriver@lwr.org](mailto:jshriver@lwr.org); [achamorro@casasol.org](mailto:achamorro@casasol.org); [www.lwr.org](http://www.lwr.org)
  5. Information about the individual(s) interviewed: Jefferson Shriver came to Nicaragua in September 1998 with the Mennonite Central Committee (MCC) to work on Hurricane Mitch relief and a year later became LWR’s Mitch response coordinator covering Nicaragua, Honduras, and El Salvador. Based on this experience, he published an analysis of NGO experiences in risk management with a gender focus in Central America. He is now coordinating relief in Latin America from LWR Headquarters while pursuing an MA at American University, writing a thesis on the growth of the Fair Trade movement. Amalia Chamorro, from Nicaragua, represents the Lutheran World Federation, a Geneva-based world body. Both share office space in Casa Sol, home to 8 mainly European organizations including Trocaire, Diakonia-Sweden, Casa Sueca, Ibis, Form Fyd, and an NGO from the UK.
  6. Others persons involved: None
  7. General information about the organization’s country program: LWR is the relief and development arm of two US Lutheran Churches, the Evangelical Lutheran Church in America (ELCA) and the Lutheran Church, Missouri Synod (LCMS). Its Mission statement reads: “LWR works with partners in 50 countries to help people grow food, improve health, strengthen communities, end conflict, build livelihoods and recover from disasters. With people in the U.S. we work for justice for those we serve.” Its 2002 annual report indicates worldwide income of \$29 million, of which less than \$3 million came from U.S. Government grants and ocean freight reimbursement.

In Nicaragua, LWR is concluding a 3-year, \$2-million Hurricane Mitch reconstruction program and now has a budget of \$500,000 allocated from LWR’s “Emergent Development Fund” for Central America. The Mitch response work was mainly risk management, vulnerability reduction, watershed management, disaster preparation and

mitigation, early warning systems, evacuation and civil defense planning, and risk mapping. The agency left Nicaragua in 2000 to open a regional development program for which it is now doing strategic planning, focusing on food security. Plans include working in several priority action zones: a) Coffee projects in Matagalpa and Jinotega working for up to ten years with coffee producers, fair trade, and the FBSCA; b) Maybe a project on the Atlantic coast near Honduras; c) Maybe work in Las Segovias and Nacaome with food security, risk management, and emergency response.

8. Past and current activities with small coffee producers:

LWR manages a “Small Farmers’ Fund” derived from coffee sold to Lutheran Congregations via Equal Exchange. Since 1998, this fund generated almost \$100,000, of which \$45,000 is available. LWR supported a project with FRODECOOP, a regional federation of coffee cooperatives, to rebuild 50 houses using Mitch reconstruction and Small Farmer’s Funds.

LWR has supported agro-ecological and organic farming projects in the Andean Region and Central America for 20 years. Working with coffee is not a “huge leap” beyond this experience. In El Salvador, about 200 small farmers were assisted through an agro-ecology project to rehabilitate coffee plants in cooperatives.

9. Comments about the Faith-Based Specialty Coffees Alliance:

LWR is seeking other funding for its Nicaragua program. Meeting the \$450,000 match under the FBSCA project could be a challenge.

LWR plans to work with four partner organizations within Nicaragua:

- a) SOPPEXCCA - Sociedad de Pequeños Productores y Exportadores de Café, is an association of 12 coffee cooperatives in Jinotega with a total of 450 members growers, 35% of which are women. Together, they produce about 15,000 qq/year of which SOPPEXCCA is only able to store and ship 5,000 due to limited facilities. Of the 5,000 shipped, 60% was fair trade and 40% conventional. SOPPEXCCA is already certified for Fair Trade, and 20% of its growers are certified as organic. They have a cupping laboratory in Jinotega set up with USAID and Thanksgiving Coffee support, and won four “Cup of Excellence” awards. 80 producers with 300 mz of land will soon be certified as organic. LWR may help them set up a rotating fund to purchase organic inputs and enhance food security through purchases of small animals (peribueyes).
- b) CECOCAFEN represents 1,200 producers in nine member organizations. They were included in LWR’s proposal at the suggestion of Equal Exchange. Yearly shipments have grown from 6,000 qq. In 1997 to 40,000 qq in 2002. Some 80-100 producers may be assisted, although precise numbers have not yet been set. With help from ex-Peace Corps volunteers, CECOCAFEN is undertaking a feasibility study for a coffee tourism project called “Rutas Justas del Café” as an alternative to the Ministry of Tourism’s program to visit big haciendas under the slogan “Rutas del Café”.
- c) CIPRES – Centro para la Promoción, Investigación, y Desarrollo Rural y Social, has been marketing food products since 1991 including fair trade products to the

- US and Europe. Two of its affiliated coops already sell coffee to CECOCAFEN outside the Fair Trade framework. LWR would like to help them insert their coops into the FLO marketing networks of SOPPEXCCA and CECOCAFEN.
- d) CIEETS – Centro Inter-Ecclesial de Estudios Teológicos y Sociales, has been an ecumenical LWR partner since the beginning of Hurricane Mitch reconstruction, working in food security, agro-ecology, and risk management. They have a budget of \$700-900,000/year. They helped 200 unemployed former coffee hacienda workers in the Municipality of San Ramón, Matagalpa, find alternative livelihoods cultivating basic grains. They are looking at seed banks, soil recovery, sustainable agriculture, and food security.

LWR plans to help SOPPEXCCA and CECOCAFEN train producers to obtain organic certification and preserve it through annual renewals. Other ideas include market studies of viable agricultural products beyond coffee, followed by experimentation. They plan to have a coffee program manager based in Jinotega or Matagalpa who will work with the four partner organizations to further design and implement the program.

LWR's main strength, however, is its capacity to build coalitions and market coffee to US churches as part of IFTI, the Interfaith Fair Trade Initiative.

#### 10. Quantitative projections of production and market capacity:

LWR plans to use existing Equal Exchange labels and add its own sticker or that of the IFTI initiative. IFTI was set up by LWR with support from Equal Exchange and a McArthur grant. The Equal Exchange 2001 annual report says that "In 1997, EE and LWR launched the LWR Coffee Project, an initiative encouraging Lutheran parishes to use fairly traded coffee as a way of reaching out to communities in need." In 2001, IFTI member denominations extended participation in the program to over 3,500 places of worship, purchasing over 60 tons (= 132,000 lbs) of fairly traded coffee.

Currently, over 2,700 Lutheran congregations purchase Equal Exchange coffee out of a total of 18,000 Lutheran congregations in the USA. Individuals from congregations also buy EE coffee for their home consumption and promote its sale with local grocery stores. There is still considerable growth potential under this project to increase demand for certified fair trade coffee. The number of active participants in the project grew by 24% between 2001 and 2002. Volume sold by LWR increased by 24% from 60,000 lbs in 2001 to 93,774 lbs. In 2002. Over-all IFTI sales grew by 97% from 120,000 lbs in 2001 to 236,693 lbs in 2002. A new product line of FBSCA Nicaraguan coffee could be introduced and promoted. It is not clear how much of the sale to Lutheran and other IFTI congregations would consist of Nicaraguan coffee, since EE markets coffee from many countries.

#### 11. Technical assistance required:

Ideas included market studies of creative diversification options, shade tree preservation and introduction of other shade-grown crops such as cacao, and making agro-ecological information available to campesinos.

Other ideas are to use program design funding to set up common monitoring and evaluation systems within each Alliance member PVO and to use some project resources for learning exchanges (research, meetings, documentation, replication) within the Alliance in Central America and worldwide. Training in business plan development can also be a component, using CIPRES materials.

LWR does not foresee a need for outside technical assistance in coffee quality training or in marketing.

12. Other information provided that seems relevant:

13. Documentation, referrals, and sources of additional information: EE Annual Report, LWR Annual Report, sheet with updated statistics.

14. Interviewer's impressions and follow-up recommendations: LWR is already marketing fair trade coffee successfully. It would be important to determine how much of the future growth in US church sales can be attributed to the FBSCA initiative. LWR seems more interested in organic agriculture, crop diversification, and constituency education than in producing more quality coffee, so it may be necessary to refocus their expectations of the project to integrate more fully their marketing strength with the coffee production end in Nicaragua.

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1. Organization visited: **Asociación Pueblos en Acción Comunitaria (APAC)**
2. Date and place of meeting/interview: WRC Office, Managua, with Kevin Sanderson
3. Name(s) and role(s) of person(s) interviewed: **Mario Pérez Lejarza**, Director Ejecutivo
4. Contact information: Semáforos del Hospital Vélez Paíz, 1c al lago, 2 ½ c. Abajo. Quinta CAM, Managua; Tel. (505) 265-3415, 265-3430; Fax 265-3572; [mario@apac.org.ni](mailto:mario@apac.org.ni)
5. Information about the individual(s) interviewed: Mario Pérez Lejarza has led APAC since it was founded. He attended a recent SCAA meeting in Boston.
6. Others persons involved: Mejía brothers from Esperanza Coffee were present during the same meeting.
7. General information about the organization's country program: APAC's producers are located in border areas where there are forest reserves, land mine clearance operations, and deep poverty. See notes from WRC and Esperanza Coffee meetings.
8. Past and current activities with small coffee producers: See notes from WRC mtg.

9. Comments about the Faith-Based Specialty Coffees Alliance: Need specific information on benefits to producers to share with buyers. This can help market the coffee while sensitizing the customer and ensuring accountability.
10. Quantitative projections of production and market capacity: See Esperanza Coffee and WRC notes.
11. Technical assistance required: Need to improve coffee quality and find buyers.
12. Other information provided that seems relevant: Very brief meeting
13. Documentation, referrals, and sources of additional information: See WRC
14. Interviewer's impressions and follow-up recommendations: APAC is a key counterpart to WRC. It is important to assess their degree of autonomy and ability to manage the programs which WRC supports. It seems their coffee quality has met high standards of Esperanza Coffee, but broader US market acceptability is still unproven.

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1. Organization visited: **Esperanza Coffee Group, S.A.**
2. Date and place of meeting/interview: May 13<sup>th</sup> at WRC Office, Managua
3. Name(s) and role(s) of person(s) interviewed: **Carlos Javier Mejía**, President, Nicaraguan Specialty Coffee; **Mario M. Mejía**, Vice-President, Nicaraguan Specialty Coffee
4. Contact information: Nicaragua: Esperanza Coffee Group, SA, Km. 120 carretera Sébaco-Matagalpa; Tel. (505) 612-6849; Telefax: (505) 612-6690, 2719; [esperanzacoffee@tmx.com.ni](mailto:esperanzacoffee@tmx.com.ni); [www.esperanza.com.ni](http://www.esperanza.com.ni); USA: Esperanza Commodity Group, Inc., 1050 E. Dominguez Street, Suite O, Carson, California 90745; Tel. (310) 604-0095; [specialtyproducts@esperanzacoffee.com](mailto:specialtyproducts@esperanzacoffee.com); [www.esperanzacoffee.com](http://www.esperanzacoffee.com)
5. Information about the individual(s) interviewed: Carlos and Mario are two of three Mejía brothers that co-manage the company. They won a 1999 bid from WRC because of their skills with specialty coffee and their fit with WRC's Christian identity.
6. Others persons involved: WRC's Kevin Sanderson and APAC's Mario Pérez Lejarza were also present during this brief meeting.
7. General information about the organization's country program: This private company was formed to dry and export quality coffee. In three years of exporting, none of their coffee has been rejected. They serve small producers mainly in Matagalpa and Jinotega.

8. Past and current activities with small coffee producers:

Seven years ago they saw the need for specialty coffee training and created several groups of producers, APAC being the strongest. All of their coffee is sun-dried in patios. 50% of all Esperanza Coffee comes from small producers, including 30% from WRC's counterpart organizations, APAC and PACJINO. 15% of their business comes from APAC, 15% from PACJINO, and 70% from others customers. 30-40% of their business is Fair Trade organic and specialty coffee. They accept all coffee offered, shifting any lower quality coffee to domestic markets mainly through Café Atlantic.

APAC members have a network of reception points where they receive coffee, which then is turned over to Esperanza Coffee for drying. Esperanza prefers receiving fresh, wet parchment coffee since partial drying elsewhere could cause defects beyond their control. Producers are paid for the actual dried green beans that result from the wet parchment coffee they deliver. All batches are strictly controlled from start to finish to not mix origins.

50% of the potential 15 containers that PAC and PACJINO can provide per year could qualify as specialty coffee. Of 9 specialty coffee containers exported last year, 5 were from PAC and 4 from PACJINO. Atlantic Coffee paid \$10 more per bag for two containers, considering the quality. In addition to WRC-related business, Esperanza sold 35 containers from other groups last year.

In November 2002, Esperanza Coffee opened a roasting facility that has toasted over 20,000 lbs. of coffee, mainly from APAC.

9. Comments about the Faith-Based Specialty Coffees Alliance:

They welcome the initiative and hope it will bring them more business.

10. Quantitative projections of production and market capacity:

Past exports (in *quintales*) have been 25,000 in Yr. 2000, 16,000 in Yr. 2001, and 20,000 in Yr. 2002. They could easily expand their drying facilities using plastic sheets.

11. Technical assistance required: None.

12. Other information provided that seems relevant: They have a good reputation.

13. Documentation, referrals, and sources of additional information: Roasted coffee bags identify them as the roasting company but name the product at client's request.

14. Interviewer's impressions and follow-up recommendations:

Seems like a top-quality business with a good reputation. WRC will continue to use them in the future, while another part of its coffee is marketed via Pura Vida.

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1. Organization visited: **Inter-American Development Bank (IADB/BID)**
2. Date and place of meeting/interview: May 14, 2003 in IADB Managua Office
3. Name(s) and role(s) of person(s) interviewed: **Jaime A. Cofre Camuzzi**, Sectoral Specialist
4. Contact information: Banco Interamericano de Desarrollo, Km 4 ½ Carretera a Masaya, contiguo Hotel Princess, Managua; Apartado Postal 2512, Managua; Tel. (505) 267-0831; Fax (505) 267-3469; [jaimeco@iadb.org](mailto:jaimeco@iadb.org)
5. Information about the individual(s) interviewed: Jaime Cofre, of Chilean citizenship, is BID's lead person for coffee and related ag issues.
6. Others persons involved: **Tomás Membreño**, USAID-Managua; **Miguel Angel Castellón**, IDR (see separate report on IDR)
7. General information about the organization's country program: The IADB's strategy for 2000-2002 has been directed toward rationalizing social spending, continuing to strengthen infrastructure, and generally to support implementation of the Nicaraguan Government's Enhanced Strategy for Economic Growth and Poverty Reduction (ERCERP) with the participation of civil society and the support of the international community. The ERCERP rests on four pillars: (i) broad economic growth, with an emphasis on agricultural expansion; (ii) improvement of human capital; (iii) protection of the most vulnerable groups; and (iv) good governance and institutional development.

See Annex F: "Excerpts from IADB/IDR Loan Request Document".

8. Past and current activities with small coffee producers:  
The Multilateral Investment Fund (Fondo Multilateral de Inversiones—FOMIN) has approved a \$3 million donation to TechnoNicaragua (TechnoServe) with \$1 million match to promote quality coffee regionally through the same types of interventions promoted by the Chemonics-led CADR/QCP. TechnoServe's program could become operational in July. BID would support any operating agreements that would coordinate these two efforts, since they are dealing with the same organizations and small farmers.

Meanwhile, working through IDR, the bank's coffee program in Nicaragua promotes a "forest ecology coffee" model ("café eco-forestal") which includes semi-traditional, labor-intensive techniques that are low in cost for small farmers that use family labor and few inputs. They would like to open the scope to mid-sized producers that have wet processing facilities, and invest more in productive infrastructure, access roads, wet mills, and reception centers. The new strategy will emphasize marketing, an aspect that will become a requirement for all projects. IADB has access to plenty of agricultural technicians, but may seek complementary inter-institutional capabilities in marketing from USAID and IICA.

The BID/IDR program has no budget line items tied to specific products. They can fund inputs, training, community (not individual) infrastructure, rural energy, laboratories, with minimum \$100,000 and maximum \$300,000 per project as long as its economic viability can be demonstrated. All grants are provided centrally through Rural Development Agencies. Applications are received in September, selected in September-October, and require a 10% minimum contribution from the entity's own resources. IDR can fund administrative entities including municipalities as grants, not loans. All grants require co-financing at percentages that differ based on the capacity of the executing agency.

9. Comments about the Faith-Based Specialty Coffees Alliance:

Be sure to require beneficiary contributions to ensure sustainability.

10. Quantitative projections of production and market capacity:

Not applicable.

11. Technical assistance required:

Coordinate Chemonics and Techno-Serve

12. Other information provided that seems relevant: None

13. Documentation, referrals, and sources of additional information: IADB Nicaragua Rural Production Revitalization Program (NI-0159) Loan Proposal, 27-8-03, 65 pp.

14. Interviewer's impressions and follow-up recommendations: BID's projects seem more macro than micro, and may not overlap as much with USAID's as they think. It would be advisable for the FBSCA to get launched before July, or confusion may result if TechnoServe begins working with the same cooperatives.

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1. Organization visited: **Instituto de Desarrollo Rural (IDR)**

2. Date and place of meeting/interview: May 14, 2003 in IADB Managua Office

3. Name(s) and role(s) of person(s) interviewed: **Miguel Angel Castellón,**  
Coordinador, Programa de Reactivación Productiva

4. Contact information: Instituto de Desarrollo Rural, Centro Comercial Camino de Oriente detrás de SOGEL, modulo B-3, Managua; Tel. (505) 270-3527;  
[miguelc@idr.gob.ni](mailto:miguelc@idr.gob.ni)

5. Information about the individual(s) interviewed: Nicaraguan, probably agronomist.

6. Others persons involved but absent: Tomás Membreño, USAID-Nicaragua; Jaime A. Cofre Camuzzi, Sectoral Specialist, IADB.

7. General information about the organization’s country program:

This description of IDR appeared in an IADB loan proposal document for the Nicaragua Rural Production Revitalization Program, 2003-2008:

The IDR was established pursuant to Law 290 of 3 June 1998 as a decentralized government agency, with its own corporate identity and capital, and with functional, technical, and operational autonomy within the scope of its authority. One of its functions is to contribute to the country’s economic revitalization through the execution, administration, and coordination of rural development programs and projects that involve the participation of civil society and strengthen the capacity of local governments. The organizational structure of the IDR consists of: (i) a board of directors composed of nine representatives of the public and private sectors; (ii) an executive board represented by the executive director who is the legal representative of the organization, and is authorized to sign agreements with public and private entities, to approve the selection of personnel, and to sign the relevant employment contracts; and (iii) line and support offices, consisting of the Office of Coordination and Monitoring and the Office of Financial Administration. From its founding, the IDR has taken on the execution of some 18 projects and programs financed by various sources, including the PRPA, in a total amount of US\$224 million, benefiting approximately 1.7 million rural inhabitants located in 129 of the country’s 151 municipios. These programs have allowed the IDR to have a presence in the country’s rural areas, and an annual execution amount ranging from US\$36 million to US\$40 million is projected for the next four years.

8. Past and current activities with small coffee producers: The scope of IDR’s work is nationwide, so coffee is only one of many products.

9. Comments about the Faith-Based Specialty Coffees Alliance: - No objections

10. Quantitative projections of production and market capacity: - Not applicable

11. Technical assistance required: Has access to TA and can provide it.

12. Other information provided that seems relevant:

13. Documentation, referrals, and sources of additional information: IADB Nicaragua Rural Production Revitalization Program (NI-0159) Loan Proposal, 27-8-03, 65 pp.

14. Interviewer’s impressions and follow-up recommendations: Although IDR has access to large amounts of resources, there is little overlap with the FBSCA. They can be helpful in diversification strategy development.

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1. Organization visited: **TechnoServe Nicaragua**
2. Date and place of meeting/interview: May 14, 2003 in Technoserve Nicaragua Office
3. Name(s) and role(s) of person(s) interviewed: **Ing. Erwin Mierisch**, Coordinator, Cup of Excellence – Nicaragua; **Thomas Kilroy**, Consultant, Cup of Excellence
4. Contact information: Carretera a Masaya, Edificio Delta, Costado Norte, ½ c. arriba, Managua; Kilroy: Tel. (505) 278-4487; Fax (505) 267-0022; [tom\\_kilroy@tns.org.ni](mailto:tom_kilroy@tns.org.ni); Mierisch: Tel. (505) 270-9880; Cel. (505) 883-5103; [emierisch@nicaraguancoffees.com](mailto:emierisch@nicaraguancoffees.com)
5. Information about the individual(s) interviewed: Erwin Mierisch is a Nicaraguan who grew up in Memphis, Tennessee. His parents own a large coffee farm where he learned about coffee. They recently gave 100,000 qq. of their green coffee to the Assembly of God denomination via the Lakewood Ave. Church in Houston, TX. He is on loan from IICA to ACEN, the Association of Specialty Coffees of Nicaragua, and paid for by USAID. Thomas Kilroy is a short-tem consultant from Chicago who reports to Erwin Mierish.
6. Others persons involved: **Tomás Membreño**, USAID-Nicaragua; Absent: **Ernest Von Panhuys**, TechnoServe Nicaragua Country Director ([ernest.von.panhuys@tns.org](mailto:ernest.von.panhuys@tns.org))
7. General information about the organization's country program: The 2001 Annual report indicates that “TechnoServe helps entrepreneurial men and women in poor rural areas of the developing world to build businesses that create income, opportunity and economic growth for their families, their communities and their countries.” The Nicaragua \$1.14 million budget is 6.8% of the PVO's \$16.7 million worldwide budget. In 2001, TechnServe worked with the owners and managers of five dairy plants--with combined sales of over \$1.2 million in milk and cheese—to help them improve quality, convert to pasteurization and expand operations in order to take advantage of the rapidly growing market for specialty cheeses in El Salvador.
8. Past and current activities with small coffee producers: Proctor & Gamble and USAID provided a Matching Grant which allowed TechnoServe to work with at least two coffee coops, Manko Tal in Jinotega and another in Pueblo Nuevo, Jinotega. With the first coop., that serves 150 members each owning less than 5 mz of land, Technoserve helped the business organize, find buyers, and get its coffee certified as organic. In the Pueblo Nuevo coop, support for only the business end led them to get financing and build a wet mill, selling their coffee to a major U.S. buyer at \$110/qq. TechnoServe is part of the organizing committee for Nicaragua's “Cup of Excellence” event and hosts CQI in its offices. Through an “extended auction”, the Cup of Excellence program, which benefits only 1% of coffee growers, should be expanded to reach 15% of all growers, attempting to create an alternative to the NY coffee market.

One goal of TechnoServe is to shorten the bridge between boutique coffees and their buyers.

9. Comments about the Faith-Based Specialty Coffees Alliance:

The two persons we met were not well-informed about the FBSCA but expressed interest in coordinating the two programs. They also were not fully aware of the IADB-funded contract being negotiated for TechnoServe to promote a regional coffee project, but knew that an agreement would be signed some time in June.

10. Quantitative projections of production and market capacity: None made

11. Technical assistance required: None requested

12. Other information provided that seems relevant: None

13. Documentation, referrals, and sources of additional information: 2001 Annual Report

14. Interviewer's impressions and follow-up recommendations: Good courtesy visit, to be followed up with Country Director. As suggested by BID, we need to coordinate.

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1. Organization visited: **Ministry of Agriculture, Government of Nicaragua**

2. Date and place of meeting/interview: May 14, 2003 in office of PROCOMPE, adjacent to MINSIC.

3. Name(s) and role(s) of person(s) interviewed: **Miguel R. Gómez D.**, Consultant to the Minister of Agriculture on Coffee issues; Executive Director, Ilusión Estate Coffee

4. Contact information: Ilusión Estate Coffee, Apdo. Postal 645, Managua; Tel. (505) 278-5719; Fax (505) 278-1880; Cel. (505) 882-3206; [mrgomez@ibw.com.ni](mailto:mrgomez@ibw.com.ni); [www.cafeilusion.com.ni](http://www.cafeilusion.com.ni)

5. Information about the individual(s) interviewed: Founding member of the Asociación de Productores de Café Gourmet de Nicaragua; Consultant with World Bank, IADB, Ministry of Agriculture of Nicaragua; PhD in Economics from Harvard University; Active in design of GON's coffee strategy, to be announced soon.

6. Others persons involved in meeting: **Tomás Membreño**, USAID-Nicaragua; We were referred to Mr. Gómez by **Roberto Bendaña**, Vice-Minister of Agriculture, who was unavailable.

7. General information about the organization's country program: Our meeting focused on an immediate pending issue: What to do with \$5.1 million earmarked since 1998 by

the International Coffee Organization (ICO) for wet mills in Nicaragua. Since Mr. Bendaña and Mr. Gómez planned to go to London in a few days to attend an International Coffee Organization (ICO) meeting, this was to explore how best to revive this project.

8. Past and current activities with small coffee producers:

The Fondo Común de Productos Básicos (Common fund for Basic Products) of the ICO, managed by a Mr. Caleff(?), approved two projects in 1998 for the region: a) A management and marketing project for Mexico and Nicaragua to be implemented in Nicaragua through CAFENICA in cooperation with a U.K-based Anglo-American firm (“Queen”?); and b) A \$5.1 million wet mill project for Honduras and Nicaragua to be coordinated by IICA, which has not yet been implemented for various reasons. First, Nicaragua delayed paying its annual fees to the OIC, problem now resolved, although PROMICAFE fees are pending. Second, issues concerning need to co-finance the project or reinvest in it. Third, disagreement on the size of the implementation office.

Having gone in circles for five years, this proposal may be doomed in its present form. Yet it may be a logical extension of CLUSA’s wet mill project and may not require a heavy supervision structure of re-designed. It may be possible for Chemonics to reshape it within the framework of the QCP. USAID funds could be considered part of the GON counterpart funding required. Repairing wet mills is the priority.

9. Comments about the Faith-Based Specialty Coffees Alliance:

It may be possible to use OIC resources to cover wet mill improvements within the framework of USAID’s proposed FBSCA initiative.

10. Quantitative projections of production and market capacity: N/A

11. Technical assistance required:

Miguel and Tomás agreed that a 2-3 page concept paper for a revived project should be discussed with the ICO and that they should indicate what are the current terms for accessing those funds. The total funding available was \$5.1 million only for Nicaragua wet mills with environmental impact measures.

USAID is open to any channel to revive the project and access the funds. This includes channeling the funds via the Chemonics-led QCP if interested. Supervision in Nicaragua could be jointly assured by MICIC and ICO/Nicaragua.

The plan would be to implement wet mills over 3-4 years at \$200-300,000/year. Funds would need to be kept in a private bank. Agreement would be needed on the merits of central wet mills vs. smaller, closer wet mills.

It was agreed that a Tomás and Miguel would draft a letter from the Agriculture Minister to the OIC formally requesting that this project be reconsidered. Miguel would reassemble a file of relevant documents and discuss this with the OIC in London.

12. Other information provided that seems relevant: OIC had convened an extraordinary assembly on Tuesday 20/5 to discuss the conclusion of a World Bank meeting on Monday 19/5 on the coffee crisis. There are rumors that the USA will rejoin the ICO, but how and when were not known to any of us.

13. Documentation, referrals, and sources of additional information: OIC project file

14. Interviewer's impressions and follow-up recommendations: I knew nothing about this, so apologies if these notes are inaccurate or misleading. It does look like the additional funding for wet mills from OIC could become part of the \$1.9 million from "other sources" foreseen in the FBSCA concept paper budget.

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1. Organization visited: **Heifer Project Nicaragua (HPI-NIC)**
2. Date and place of meeting/interview: May 13, 2003 in a Managua restaurant
3. Name(s) and role(s) of person(s) interviewed: **Dr. David Villalonga Blondin,** Representante Nacional
4. Contact information: Reparto San Juan, Iglesia Santa Martha 1 cuadra arriba, 10 varas al lago, Casa 302-4, Managua; Telefax (505) 278-3051, 278-4412; Cel. 0884-8872; [hpinic@ibw.com.ni](mailto:hpinic@ibw.com.ni) (Del Gimnasio Hércules, 1 al lago, 2ª casa Izq.)
5. Information about the individual(s) interviewed: Personal friend who worked as a veterinarian with HPI and Church World Service as part of a six-agency relief and rehabilitation consortium in Cambodia 1980-1983. Left his native Cuba and has lived in Nicaragua since 1989 working with various NGOs including HPI, CEPAD, and the Presbyterian Church.
6. Others persons involved in meeting: David's niece, a medical student.
7. General information about the organization's country program: HPI has worked with small animals at community levels in many countries for some 60 years, providing initial gifts of animals whose offspring is passed on to other needy families. The Nicaragua program is very small, but is open to building alliances within which HPI's special capabilities could be helpful.
8. Past and current activities with small coffee producers: In Guatemala, HPI is designing a project to assist an organic coffee cooperative near Lake Atitlán, "La Voz que Clama en el Desierto", by providing chickens with training to ensure food security and income diversification without distracting from coffee production. This effort is supported in part by Green Mountain Coffee Roasters (GMCR), which buys most of the coop's production. If this proves to be a viable model, HPI would be willing to do something similar in Nicaragua.

9. Comments about the Faith-Based Specialty Coffees Alliance:  
Contacts have been established between HPI and WRC which may lead to future cooperation.
10. Quantitative projections of production and market capacity: Not applicable
11. Technical assistance required: HPI can offer expertise in small animals.
12. Other information provided that seems relevant: Mark Schomer has served as a consultant to the HPI Guatemala project and can share some of the lessons learned.
13. Documentation, referrals, and sources of additional information: None
14. Interviewer's impressions and follow-up recommendations: A door has been opened, but it may be more suitable for lowland diversification of coffee farms than intensified production of specialty coffees to secure higher prices.

### **PART III – OTHER DETAILED ANNEXES**

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F) Current World Relief (WRC) Nicaragua Program Overview

G) Excerpts from IADB/IDR Loan Request Document

H) Highlights from Allegro Coffee Buyer's Article on Sustainability

**A) Charts Showing Magnitude of Each Agency's Operations and Projections**

The following charts provide a brief indication of the scope of each PVO's activities in relation to the Alliance project in Nicaragua. Fuller details are in the meeting notes. The formats may be useful for further investigation, as the information is incomplete.

**1. Current country program and coffee activities**

**Current PVO Total Nicaragua Country Program**

<b><u>PVO</u></b>	<b><u>Year Began</u></b>	<b><u>Program Sectors</u></b>	<b><u>Geogr. Zones</u></b>	<b><u>Partner Organizations</u></b>	<b><u>Total Staff</u></b>	<b><u>Annual Budget</u></b>
CRS	1964	Health; Emergency response/Coffee Crisis; Agriculture; Civil Society; Microfinance	12 program sites, most in North-west	NICASALUD, RENOC, Caritas, ADAC, and many local partners	39 expat & 37 national staff	\$7.15 million
WRC	1994	1. Private sector ag (marketing, supply) services 2. Small farmer demonstration, training, TA 3. Credit program	RAAS, Río San Juan --- Estelí, Madriz, Nueva Segovia, Jinotega	Pueblos en Acción Comunitaria (PAC); similar one in Jinotega (PACJINO)	20?	\$1.4 million 2003; \$700,000 in 2004; + credit (\$3.5 Million)
LWR	1973 then 1998 new	Food security, emergency response, risk mgt, housing; coffee new option	Matagalpa, Jinotega, Atlantic coast, maybe las Segovias	FRODECOOP, SOPPEXCCA, CECOCAFEN, CIPRES, CIEETS	3-4?	Ending 3-yr \$2 million; now \$500,000 seek \$

**Current PVO Coffee Activities in Nicaragua**

<b><u>PVO</u></b>	<b><u>Year Began</u></b>	<b><u>Types of Activities</u></b>	<b><u>Coffee Zones</u></b>	<b><u>Coffee Partners</u></b>	<b><u>Funding Sources</u></b>
CRS	2002	7-month emergency Food for Work project for 5,000 coffee workers	Matagalpa, San Ramón, Tuma-La Dalia	ADAC, Caritas Matagalpa, SOLCAFE, CECOCAFEN, CLUSA	WFP, BID, Church
WRC	1996	Part of broader ag program; shade mgt, small wet mills, maintenance credit, quality improvement, marketing via Esperanza & Pura Vida	Estelí, Madriz, Nueva Segovia, Northern border zones	PAC, PACJINO, Esperanza Coffee	BID, USAID, Private
<b><u>PVO</u></b>	<b><u>Year Began</u></b>	<b><u>Types of Activities</u></b>	<b><u>Coffee Zones</u></b>	<b><u>Coffee Partners</u></b>	<b><u>Funding Sources</u></b>
LWR	2002?	Coalition-building; fair trade marketing assistance	Matagalpa, Jinotega	SOPPEXCCA, CECOCAFEN	Small Farmer fund, Equal Exchange

**Current PVO Coffee Activities in the USA**

<b><u>PVO</u></b>	<b><u>Year Began</u></b>	<b><u>Types of Activities</u></b>	<b><u>Countries Benefiting</u></b>	<b><u>Colleague Agencies</u></b>
CRS	2002	HQ market studies, several big diocesan relationships, 250 Catholic organizations reached by Equal Exchange	Nicaragua, others not specified	100% sold via Equal Exchange
WRC	2003	Sold 20,000 lbs of Esperanza coffee (3 labels) to visiting US church groups; began US sales April 2003	Nicaragua	Esperanza Coffee Group; Pura Vida Coffee
LWR	1997	LWR Coffee Project launched with Equal Exchange, broadened to other churches under the Interfaith Fair Trade Initiative (IFTI) selling coffee and other Fair Trade goods via churches.	Tanzania, El Salvador ?, Unspecified Origin Blends by Equal Exchange	IFTI involves Lutheran, Methodist, Presbyterian, Bretheren, Quaker, and Unitarian

				Churches
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**3. Each agency’s share of proposed outputs of faith-based alliance project**

Based on oral projections during interviews, the proposed outputs in the concept paper are likely to be exceeded by the totals from the three agencies, except for bio-generators and tree planting goals suggested by USAID. WRC’s program alone is large enough to cover most of the projected outputs. The data below suggest a need to clarify what is meant by “additional” results attributable to the Alliance project and not from other pre-existing activities.

**Projected Outputs of Alliance Project**

<b><u>Intermediate Results Outputs</u></b>	<b><u>Total Goal</u></b>	<b><u>CRS Share</u></b>	<b><u>WRC Share</u></b>	<b><u>LWR Share</u></b>	<b><u>Surplus (Shortfall)</u></b>
<b><u>1. Improved production, processing, marketing, and sales of specialty coffees</u></b>					
Small coffee farmers produce more and higher-quality coffee that is competitive in the specialty coffees	1,300	400	1,200	260	560
Small coffee farmers have completed organic certification	200	85	50	160	95
Small coffee producers have improved their wet-mill operations to obtain a higher-quality coffee	500	170	1,200 small impr.	0	870
Communities have <b>improved</b> reforested watersheds surroundings	15	15	15	0	15
Cooperatives or <b>farmer associations</b> have markedly improved their marketing strategies as a result increased their sales and incomes	10	4 assoc.	4; 2 assoc. & 2 coops	3 coops	1
<b><u>2. Increased incomes and food security for small coffee farmers</u></b>					
Small farmers and wage laborers	1,200	340	1,200	300	640

have improved their families' food security through increased income to buy food, food production, or both					
Small farmers and wage laborers have increased their incomes from the sale of higher-quality coffees sold at higher prices	700	340	1,200	260	1,100
Small farmers' families have increased their food security through agro-ecological food production	500	160	500	300	460
<b>3. <u>Increased diversification to high value alternative crops for those small coffee farmers that can not compete in the specialty coffee market</u></b>					
Small farmers have diversified their coffee farms with the production of other high value crops	400	130	400	0	130
<b><u>Intermediate Results</u></b> <b><u>Outputs</u></b>	<b><u>Total Goal</u></b>	<b><u>CRS Share</u></b>	<b><u>WRC Share</u></b>	<b><u>LWR Share</u></b>	<b><u>Surplus (Shortfall)</u></b>
Small farmers have diversified their coffee farms with the production of vegetables and fruits for the local and regional markets	300	100?	300?	100	200?
Small coffee farmers' families use bio-generators or produce fast-growing trees for firewood to meet their cooking fuel needs	350	0	100 plant trees	0	(250)
<b>4. <u>Stronger and more effective farmer and community organizations</u></b>					
Cooperatives and/or associations of small coffee growers have improved management and marketing techniques for sustainable increase in incomes	12	12; 4 assoc. & 8 mktg. Grps.	4?	3; 1 assoc. & 2 coops	7?
Cooperatives or associations of small coffee farmers have improved management of their cooperatives	14	12; 4 assoc. & 8 mktg. Grps.	4?	3 coops	5?
Cooperatives or associations of small coffee farmers show increased incomes as a result of effective managerial practices	10	12; 4 assoc. & 8 mktg. Grps.	4?	3 coops	9?

<b>5. <u>Increased demand for high-quality Nicaraguan coffee through enhanced sales in U.S. specialty coffee markets</u></b>					
Alliance members increase Nicaraguan coffee sales in U.S. faith-based coffee markets	+ 50% LOP	+ 50%? LOP	1,200 % + LOP	+ 50% LOP	WRC 12 x increase; rest 50% ?

CRS: The 4 associations are comprised of 120 small organic coffee producers in total and the 8 marketing groups involve 130 families with other “rubros” like basic grains and vegetable gardens. NOTE: some of the families involved in the marketing groups form part of the associations.

**4. Volumes of Nicaraguan Coffee and Potential Market Development**

It is very difficult to make realistic projections of total production and market potential of the three Alliance PVOs at this stage. However, based on what was said during the visit, a rough projection can be made as a way to highlight some issues and provoke further discussion on reasonable indicators of significance and success in relation to total project cost.

**Projected Volumes of Green Coffee to Produce and Sell (100 lb. Bags)**

<b><u>PVO</u></b>	<b><u>No. of Producers</u></b>	<b><u>Current Amount</u></b>	<b><u>Year 1 12 mos.</u></b>	<b><u>Year 2 12 mos.</u></b>	<b><u>Year 3 8 mos.</u></b>	<b><u>Projected Total</u></b>
CRS	400	160/yr	240	240	160	640
WRC	1,200	375/yr	4,500	4,500	3,000	12,000
LWR	260	104/yr	156	156	104	416
<b>Total:</b>	1,860	639/yr	4,896	4,896	3,264	13,056

Assumptions used in above calculations:

- a) One average Quintal (100 lbs) of dried parchment coffee yields 80 lbs of green coffee (-20%), which in turns yields 64 lbs of roasted coffee (-20%).
- b) One 68-kg (150 lb) export bag of green coffee requires 82 kgs (180 lbs.) of dried parchment coffee (+1.20%).
- c) One contractual 20-foot container of green coffee includes 250 68-kg bags, which is approximately equivalent to 17 MT or 375 *quintales* (375,000 lbs).
- d) One 375,000-lb. container of green coffee can produce 300,000 lbs of roasted coffee (-20%).
- e) Amounts of coffee currently produced will continue and increase during the three-year life of the project as a result of technical assistance and marketing.
- f) WRC will be able to sell all of its proposed increase from one to twelve containers of coffee per year, and CRS and LWR will increase sales of Nicaraguan coffee by 50% from current levels (a modest stated goal).
- g) Both CRS and LWR’s projections assume each targeted beneficiary can produce 40 *quintales* of coffee/year on 5 mz., to be increased by 50%, so projections are derived from targeted beneficiaries, not market potential which would seem much greater. (If the same standard were used for WRC, their

current volume/year would be 480 qq, growing to 720 qq/yr, but they have a stated goal to reach 12 containers/year, so that prevails. A closer look may be needed to see how realistic WRC is and whether the others are too modest.)

- h) Weather conditions will not adversely affect production goals Shortfalls from some producer groups can be met from supplies by others.
- i) Demand from each faith-based PVO's market segment will absorb all projected supply and will not require cutbacks in planned shipments.

**Projected Value of Coffee Produced and Sold through Alliance**

(In thousands of US Dollars)

<b>PVO</b>	<b>Price</b>	<b>Normal Value, Coffee Sold</b>				<b>Price</b>	<b>Additional Value Project</b>			
	<b>/ lb</b>	<u>Yr 1</u>	<u>Yr 2</u>	<u>Yr 3</u>	<u>Total</u>	<b>/ lb</b>	<u>Yr 1</u>	<u>Yr 2</u>	<u>Yr 3</u>	<u>Total</u>
CRS	0.60	14.4	14.4	9.6	38.4	1.26	15.8	15.8	10.5	42.1
WRC		270	270	180	720	-0.60	297	297	198	792
LWR		9.4	9.4	6.3	25.1	=	10.3	10.3	6.9	27.5
<b>Total:</b>		293.8	293.8	195.9	783.5	0.66	323.1	323.1	215.4	861.6

Assumptions used in above calculations:

- a) World coffee prices will not rise significantly from 2002 levels, but if they do, the Fair Trade price will always exceed market prices by at least 5 cents/lb.
- b) Nicaraguan coffee of the quality currently produced by the affiliated producer groups would sell for the conventional price of 60 cents a pound, even though 80% of the coffee produced in Nicaragua is potentially eligible for the specialty coffee market. (They may get more, but prices could fall lower)
- c) The total value is calculated on the basis of the previous chart's projected volumes of coffee production multiplied by the price per bag without and with the Alliance project.
- d) "Normal" coffee prices for conventional green coffee fluctuate between \$0.50-\$0.90/lb, currently averaging \$0.60/lb. Organic coffee could average \$0.75/lb, but since the percentage that is organic has not been determined, the more conservative conventional price has been used for all coffee.
- e) Current worldwide Fair Trade prices of \$1.26/lb. of conventional coffee and US\$1.41/lb. of organic coffee are assumed to continue for all coffee produced and sold under the project. Again, the premium for organic is not reflected in this rough projection, although it may raise the benefits of the project.
- f) The difference between the fair trade price and the normal price (1.26-0.60 = 0.66/lb or 66/qq) represents the additional value per pound or per quintal that could be attributed to the Alliance project.
- g) The Fair Trade prices obtained by the Alliance project would not have been obtained otherwise by the producer groups, or at least not for the same amount of coffee they produced. This is a critical assumption that is open to debate.

- h) Net value-added from roasting some of the coffee in country for export to Alliance PVOs would increase the additional value from the figures projected above, making them conservative.

**Projected Yearly Benefit to Farmers from Higher Prices**  
(In US Dollars)

<b>PVO</b>	<b>No. of Producers</b>	<b>Value of Coffee per Capita</b>				<b>Extra Value Per Capita</b>			
		<b>Yr 1</b>	<b>Yr 2</b>	<b>Yr 3</b>	<b>Total</b>	<b>Yr 1</b>	<b>Yr 2</b>	<b>Yr 3</b>	<b>Total</b>
CRS	400	27	27	18	72	28	28	19	75
WRC	1,200	169	169	113	451	177	177	118	472
LWR	260	36	36	24	96	40	40	27	107
<b>Total:</b>	1,860	158	158	105	421	124	124	83	331

Assumptions used in above calculations:

- a) About 90 cents per pound from the 1.26 Fair Trade prices would be passed on to the individual producers, the rest and no more being used to cover processing, shipping, and other costs of intermediary organizations including cooperatives, businesses, and collaborating NGOs. Likewise, about 45 cents per pound from the 0.60 conventional price would go to the producers, i.e. about half of what they would get from Fair Trade.
- b) The number of producers targeted by each PVO will be able to produce the volumes of coffee needed to supply the market demand. If coffee from more small producers is needed to meet higher demand, the extra income will be received by the other producers and per capita income will remain constant.
- c) Small farmers involved in the program will continue to want to market their coffee through the networks established by Alliance member PVOs, lacking more profitable alternatives, throughout the life of the project.

**5. Budget projections and sources of funding for each component**

The March 2003 draft concept paper for the Faith-Based Specialty Coffees Alliance included two illustrative budget charts, one by component and another by funding source. Those figures are reproduced below in the sub-total and totals columns and rows. As a result of the interviews, it is possible to propose a more detailed illustrative breakdown that combines both charts and shows which components may be funded by each source. This format shows that PVOs could use some of their match in program design and U.S. market linkages and distribution, and expect to use USAID and other partners funding to cover most of their Nicaragua in-country costs. However, these breakdowns are speculative, as very little budget information was provided by the PVOs.

**Illustrative Sources of Funding by Program Component**  
(In thousands of dollars)

<b><u>Component:</u></b> <b><u>Source</u></b>	<b><u>Program</u></b> <b><u>Design</u></b>	<b><u>Technical</u></b> <b><u>Assistance</u></b>	<b><u>Nica. Mktg.</u></b> <b><u>Promotion</u></b>	<b><u>U.S. Links</u></b> <b><u>Distribution</u></b>	<b><u>Totals</u></b>
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<b>PHASE I (June 03 – September 04)</b>					
USAID	10	415	75	0	500
CRS	5	50	45	50	150
LWR	20	30	30	70	150
WRC	0	150	0	0	150
Others	15	105	50	130	300
<b>Sub-Total:</b>	<b>50</b>	<b>750</b>	<b>200</b>	<b>250</b>	<b>1,250</b>
<b>PHASE II (September 04 – September 06)</b>					
USAID	0	750	250	0	1,000
CRS	0	100	100	100	300
LWR	0	100	100	100	300
WRC	0	100	100	100	300
Others	0	700	200	700	1,600
<b>Sub-Total:</b>	<b>- 0 -</b>	<b>1,750</b>	<b>750</b>	<b>1,000</b>	<b>3,500</b>
<b>LIFE OF PROJECT (June 03 – September 06)</b>					
USAID	10	1,165	325	0	1,500
CRS	5	150	145	150	450
LWR	20	130	130	170	450
WRC	0	250	100	100	450
Others	15	805	250	830	1,900
<b>TOTAL:</b>	<b>50</b>	<b>2,500</b>	<b>950</b>	<b>1,250</b>	<b>4,750</b>

## **B) Program Design, Technical Assistance Needs, and Terms of Reference**

### 1. Program design activities envisaged by each PVO

The three PVOs have conveyed a clear understanding of what is needed to get this program launched, and most of them feel that they can find their own technical expertise to do things their way. On the other hand, without specifically requesting external assistance, their comments have indicated a number of areas where they could use help with training, technical assistance, and other support. These are listed below and grouped by similar content areas:

#### *Coffee Technology*

- a) “Quality coffee” requirements in general for non-experts
- b) Training in best practices for harvesting, de-pulping, and pre-drying coffee
- c) Fine-tuning wet mills (beneficios) rather than building new ones
- d) Post-harvest processing and how to do it better, including small patios
- e) Cupping coffee to determine quality
- f) Organic certification – training, costs, monitoring compliance, preserving
- g) Fair Trade certification for green coffee – how to obtain and maintain it

#### *Crop Diversification*

- h) Agro-forestry – how to make best use of multi-layered farming
- i) Shade tree preservation and how to use them for other shade-grown crops
- j) Organic fertilizer and how to produce it using worms
- k) Market studies for crop diversification decisions in lowland coffee farms

- l) How to help unemployed wage laborers from inactive large coffee farms

*Program Design and Monitoring*

- m) Base-line studies and monitoring indicators - system design
- n) Designing how to document and monitor benefits to producers
- o) Design of exit strategies from the outset of such programs
- p) Ideas and other models on how to use “Small Farmers Fund” from Equal Exchange and other Fair Trade buyers

*Business, Program, and Financial Management*

- q) Organizational development: Group organization, legal issues, strategic planning
- r) Business planning, accounting, and basic administration
- s) Cost/benefit, feasibility, and profitability analysis
- t) “Bridge” funding to preserve programs and staff after Mitch funding ends
- u) Guidance on matching funds and whether partner inputs can be counted
- v) Sub-grant system design and how sub-grantees can comply with USG regulations

*Linkages and Learning*

- w) Accompaniment of PVOs in project implementation rather than studies
- x) Opportunities for producer groups to link with others in gatherings
- y) Funding learning exchanges—research, meetings, replication—within Alliance in Nicaragua, Central America, and beyond

2. Potential requests for technical assistance from USAID & CADR-QCP

The USAID-Nicaragua Office has expressed interest in delegating the implementation of much of this program to the CADR-QCP, which is USAID’s point project for coffee-related initiatives in the region. The Mission would oversee the project and provide a major share of the funding, but it would like the QCP would work as a team with the Mission so that USAID will be seen as a single entity by all parties concerned.

Anticipating this need on the part of the Mission, Chemonics could prepare an unsolicited proposal to USAID/Nicaragua which would specify how the CADR-QCP could provide a set of supportive services that include but is not limited to the FBSCA initiative. Elements of this proposal are listed in the terms of reference below.

3. Terms of Reference for Possible QCP Assistance to USAID-Nicaragua

- a) Review and edit a draft MOU between USAID/Nicaragua and all three PVOs defining the FBSCA initiative so that it can be signed in May and PVOs can proceed more confidently with planning activities.
- b) Develop grant proposal instructions for PVOs and negotiate agreements ASAP so that the program can begin before the 2003-2004 harvest season.

c) Ensure that PVOs have the technical support they need in key areas including coffee technology; crop diversification; program design and monitoring; linkages and learning; and business, program and financial management.

d) Coordinate USAID coffee-related plans with other donors to avoid duplication of effort and contribute to a coherent national coffee strategy that will benefit small producers.

e) Undertake other coffee-related assignments that may be proposed by the Mission within the constraints of available time and resources.

### **C) List of Documents Gathered**

Chemonics “Terms of Reference” (Scope of Work) for consultancy on Coffee Activities for Faith-Based Organizations, USAID/Managua, 2 pp.

USAID Statement of Work: Central America and Dominican Republic Quality Coffee Project, Attachment No 1, RFTOP 596-03-P-006, November 2002, 20 pp.

Chemonics USAID Technical Proposal, Quality Coffee Project in Central America and the Dominican Republic, November 2002, 32 pp.

Notes from Chemonics Technical Proposal, November 2002, highlighted by Mark Schomer, 4 pp.

USAID Managua Draft Concept Paper: The Faith-Based Specialty Coffee Alliance (Partnership between Catholic Relief Services, Lutheran World Relief, World Relief Corporation and USAID), March, 2003, 9 pp.

Catholic Relief Services, Annual Public Summary of Activity, Nicaragua Program, 2002, 16pp.

CRS Illustrative Intermediate Results, Nicaragua Faith-Based Specialty Coffees Alliance, May 16, 2003, 2 pp.

CRS Spanish summary of USAID concept paper: “Breve reseña de la alianza con principios religiosos para promover los cafés especiales de pequeños cafetaleros”, 2 pp.

WRC Current Program Overview, Agricultural Services Project – See attachment, 3 pp.

WRC Quarterly Report #14 (Period: January 1 to March 31, 2003), Agricultural Services Project, USAID Agreement # 524-A-00-99-00048-00, 15 pp.

WRC Sustainability Plan, World Relief Corporation, Pueblos en Acción Comunitaria (PAC), Agricultural Services Program, 9 pp.

CLUSA Nicaragua, “Exposición sobre la Necesidad”, excerpt from an April 2003 report prepared by Fjeld & Associates, 1 pp. (provided by WRC)

LWR background sheet on its Coffee Project, the Interfaith Fair Trade Initiative (IFTI), and the Faith-based alliance, 1 pp.

Lutheran World Relief Coffee Project marketing brochure, “Coffee with a Conscience”, 2 pp.

Lutheran World Relief 2002 Annual Report, “To Others Through Others”, 17 pp.

LWR/UNDP Report: “La Gestion de Riesgo Con Enfoque de Genero en Centroamérica: Experiencias de Trabajo de Organizaciones No Gubernamentales”, 64 pp.

Equal Exchange (Fairly Traded Gourmet Coffee) Annual Report 2001 “Building Alternatives Amid Crisis”, 15 pp. (EE, 251 Revere Street, Canton, MA 02021 – Tel. 781-830-0303; [www.equalexchange.com](http://www.equalexchange.com))

IADB/BID Nicaragua Rural Production Revitalization Program (NI-0159) Loan Proposal, 65 pp.

IADB/BID Excerpts from Loan Request Document for the Nicaragua Rural Production Revitalization Program, 4pp.

TechnoServe 2001 Annual Report, “Launching a Business Revolution in the Developing World”, 25 pp.

#### **D) List of Acronyms**

ACE	Alliance for Coffee Excellence, based in Montana, USA
ACEN	Asociación de Cafés Especiales de Nicaragua
ADDAC	Asociación para el Desarrollo Agrícola Comunitario, CRS counterpart
AFSC	American Friends Service Committee, IFTI member
APAC	Asociación de Pueblos en Acción Comunitaria, WRC counterpart
BID	Banco Inter-Americano de Desarrollo, also known as IADB
CADR	Central America and the Dominican Republic, acronym used with QCP
CAFENICA	A conglomerate that works with Chemonics
CARITAS	CRS counterpart agency, especially branches in Matagalpa and Jinotega
CECOCAFEN	Federation of coops reaching 1,200 small producers, based in Matagalpa, counterpart for EE and CRS, may become LWR counterpart too

CIPRES	Centro para la Promoción, Investigación, y Desarrollo Rural y Social, LWR Counterpart
CFBCI Initiatives	USAID Center for Faith-Based and Community Initiatives
CLUSA	Cooperative League of the United States of America
COB	Church of the Brethren, IFTI member
CONACAFE	Consejo Nacional del Café, a Nicaraguan institution called for by the 2002 coffee law, not yet operating
CRS	Catholic Relief Services
ECG, Inc.	Esperanza Commodity Group, Inc., US branch of Esperanza Coffee Group
EDF	Emergent Development Fund, LWR fund for Central America
EE	Equal Exchange
EEMA	Equal Exchange, Massachusetts Alliance
ELCA	Evangelical Lutheran Church in America, member of LWR
ERCERP	Estrategia Reforzada de Crecimiento Económico y Reducción de la Pobreza [Enhanced Strategy for Economic Growth and Poverty Reduction], adopted by the Government of Nicaragua in August 2001
FBO	Faith-Based Organization
FBSCA	Faith-Based Specialty Coffee Alliance
FFW	Food for Work
FLO	Fair Trade Listing Organization, which maintains a registry of certified organizations eligible for fair trade pricing
FBSCA	Faith-Based Specialty Coffees Alliance
FRODECOOP	Regional federation of cooperatives with LWR housing project
G-CAP	Guatemala and Central America Programs Office of USAID
GDA	Global Development Alliance, a USAID private sector initiative
GON	Government of Nicaragua
HPI	Heifer Project International
IADB	Inter-American Development Bank, also known as BID
ICO	International Coffee Organization, also known as OIC
IEC	Ilusión Estate Coffee, managed by Miguel Gómez, GON Consultant
IDR	Instituto de Desarrollo Rural, IADB/BID counterpart in the GON
IFTI	Inter-Faith Fair Trade Initiative, a joint initiative of LWR and Equal Exchange with AFSC, UMCOR, PCUSA, UUSC, and COB
IICA	Instituto de Investigaciones en Ciencias Agrícolas
IQC	Indefinite Quantity Contract, USAID mechanism used to fund Chemonics

IR	Intermediate Result, used in USAID's Results Framework plans
LACRO	Latin America and Caribbean Regional Office of CRS Headquarters
LCMS	Luthern Church, Missouri Synod, member of LWR
LOE	Level of Effort
LWF	Lutheran World Federation
LWR	Lutheran World Relief
MCC	Mennonite Central Committee
MOU	Memorandum of Understanding
mz	<i>Manzana</i> , a surface measurement equivalent to 1.4 acres or 16 <i>cuerdas</i> de 25 x 25 <i>varas</i>
NGO	Non-Governmental Organization, also known as ONG
NICASALUD	Network of international and national health organizations, CRS counterpart
NSC	Nicaraguan Specialty Coffee, another name for Esperanza Coffee Group
OIC	Organización Internacional del Café, also known as ICO
ONG	Organización No Gubernamental, also known as NGO
P&G	Proctor & Gamble, US conglomerate that owns Maxwell House Coffee
PAC	Pueblos en Acción Comunitaria, WRC counterpart
PACJINO	Pueblos en Acción Comunitaria Jinotega, WRC counterpart
PCUSA	Presbyterian Church of the USA, IFTI member
PMA	Programa Mundial de Alimentos, UN agency also known as WFP
PRODECOOP	Federation of cooperatives that sells to EE, LWR counterpart
PVOs	Private Voluntary Organizations
QCP	Quality Coffee Program in Central America and the Dominican Republic, a USAID-funded project managed by Chemonics
qq	<i>Quintales</i> , a 100-pound bag measure commonly used for parchment coffee
RENOC	National Network of Watershed Organizations, CRS strategic counterpart
ROI	Return on Investment
SCAA	Specialty Coffee Association of America
SFF	Small Farmers Fund created by LWR with Equal Exchange coffee resources
SFRC	Small Farmer Resource Center, a WRC program component
SFTS	Small Farmer Technical Services, a WRC program component
SOLCAFE	Wet mill company owned by CECOCAFEN that serves many coops
SOPPEXCA	Sociedad de Pequeños Productores y Exportadores de Café, an association of 12 coffee cooperatives in Jinotega, LWR counterpart
TSN	TechnoServe Nicaragua
UMCOR	United Methodist Committee on Relief, IFTI member
USAID	United States Agency for International Development
UUSC	Unitarian Universalist Service Committee, IFTI member
WFP	World Food Programme, UN agency also known as PMA

WRC  
WRMB

World Relief Corporation  
World Relief Mission Blend, a WRC brand roasted by Pura Vida

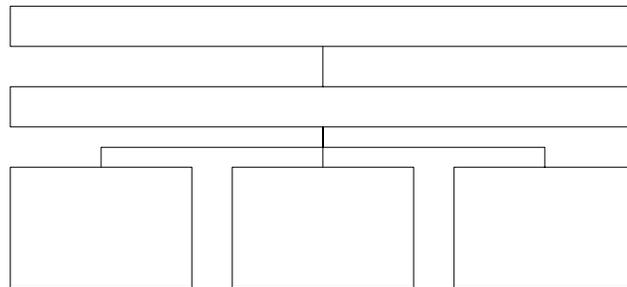
## E) Overview of Chemonics Proposal to USAID for the Quality Coffee Project (QCP) in

### Central America and the Dominican Republic (CADR)

The QCP task order under the RAISE IQC will run for 32 months, and operate with core funding of approximately \$4 million from USAID/G-CAP, and will receive additional funding from bilateral missions of another \$4 million to an expected ceiling of \$8 million”.

The project’s objectives are described in these terms:

#### Results Framework for QCP



#### Enhanced Quality Performance Targets (32-month life of task order targets)

- Producers trained in quality enhancement (2000)
- Quality training courses conducted for associations (200)
- Producers meeting certification standards (500)
- Wet mill alliances formed and functioning (10)

A total of 15 to 20 groups and at least one federation in each country will be incorporated into the project during its 32 months.

Therefore, a criterion for selecting the first groups will be a track record that would benefit from assistance focused on improving coffee marketing and strengthening business organization. *One to three groups or federations will be selected for marketing activities in each country and one to three in each country for infrastructure development during the first year.* Management strengthening targets will also be for one to three per country, depending on need or coffee sector size. Training courses will also get underway and reach one to three groups per country in the first year.

The focus of the QCP is not on production, it is on competitiveness and marketability. A precise knowledge of per-unit costs is essential to identifying potential markets and minimum acceptable prices. SEM’s Enterprise Development Team, coupled with Enrique Abril and Michael Schwartz, will evaluate costs and cost structures as part of the

diagnostic of each federation and cooperative. The team will develop business plans which incorporate an organization's realistic market potential, considering its coffee quality and price competitiveness.

### **Infrastructure and Training for Producing and Conserving Quality**

*Wet mill installation.*

*Resolving wet mill problems.*

*Cupping laboratories.*

*Alliances with dry mills and buyers.*

### **Improving Producer Access to Quality Markets**

*Product certification. First generation certification focused on guaranteeing specific attributes of final products.*

*Certification for specific programs.*

*Process certification.*

### **Improved Business Practices Performance Targets**

*(32-month life of task order targets)*

- Appellations established in at least one country
- Brand recognition program developed for at least one country
- Companies or producer groups using E-trade mechanisms (10)
- Stable business arrangements implemented (6)
- Cooperatives and businesses demonstrating improved business practices (50)

*Identifying markets.*

*Differentiating product.*

*Appellation designation and certification.*

*Generating value added.*

*Competitiveness.*

### **Improving Sales and Marketing Practices**

*Increasing contacts with buyers.*

*Auctions and electronic trading.*

*Promoting ethnic and emerging markets.*

*Increasing domestic marketing.*

*Expanding market information and intelligence.*

### **Improving Business Practices**

*Enterprise management and administration.*

*Vertical integration of production, processing and marketing.*

### **Business arrangements, contracts, and joint ventures.**

*Management advisory services by cooperatives and federations.*

### **Improved Policies Results**

*(over the 32-month life of task orders)*

- Competitiveness improvement plans in place
- Plan for harmonizing coffee standards developed
- CADR countries eliminating disincentives to quality coffee
- Export policies and procedures in place

We will vet the performance monitoring plan with USAID and partners within 90 days of project start-up. We will then work with USAID and partners to establish baselines and targets for the indicators.

There are several pillars—or guiding principles—that underpin our general approach to implementing QCP. Three guiding principles—using alliances to leverage resources, flexibility, and maximizing indigenous group and women’s potential participation—are discussed in other sections of this proposal. The other four guiding principles are:

- Promote entrepreneurial capacity development within producer organizations
- Focus on broadening access to intermediate and final markets, transforming producers from stakeholders to shareholders
- Maximize use of experienced, regionally- based technical assistance
- Sustainability of quality and returns to farmers

## **F) Current World Relief (WRC) Nicaragua Program Overview**

### **USAID Agreement No. 524-A-00-99-00048-00 Agricultural Services Project**

- A. Project Goal: to permanently raise the incomes of small farm families in the project area.
- B. Project Purpose: to strengthen and develop private sector enterprise providing agricultural services to small farmers and other rural clients in: 1) farm supply, post-harvest management, and marketing services, 2) extension, technical assistance, and training in non-traditional crops and quality improvements in traditional crops, and 3) rural credit

#### C. Project Background

World Relief (WRC) began implementing a sustainable agriculture project in Esteli, Madriz, Nueva Segovia, Jinotega in 1996 and the RAAS, and Rio San Juan in 1994. The project's main emphasis is to motivate and train farm families in adopting sustainable cultivation practices to improve production yields and provide food security, changing negative attitudes and environmentally destructive practices in the process. During the initial stage project activities focused on sustainable food production and post-harvest management of basic grains and tree crops as well as nutrition activities for women. A credit component was added to the project in 1997.

The second phase of the project began in late 1999. During this phase the project expanded geographically, strengthening or developing sustainable agriculture services for marketing and farm supply for small farmers. During this phase continued training and technical assistance was provided to farmers as well as expanding the credit program. To facilitate these services to farmers and other rural clients, this phase has been implemented in partnership with a farmer/rural women membership association, *Pueblos en Accion Comunitaria* (PAC) that will eventually take over the project.

#### D. Program Components:

- 1) Private Sector Agricultural Services: this component serves 10,000 clients.
  - a) Marketing Services: These services provide farmers training and support in changing their production orientation from a supply driven approach to a market driven approach. For crops with proven market profitability, the project assists farmers to enhance production quality as demanded by the market by improving both on- and off-farm post-harvest management, strengthening private sector crop collection businesses, and facilitating development of such businesses in areas where they do not exist. Currently the project has constructed twelve different crop collection centers to provide drying, milling, cleaning, classifying, packing, storage and marketing services to farmers for basic grains, coffee, cocoa, and spices. We contract out these facilities, enabling private businesses to operate and providing farmers the assistance needed to improve and maintain product quality in order to access more competitive markets and improved prices.

This component also provides credit and technical support for other service businesses to improve their facilities. Additionally, farmer associations receive direct training in marketing and negotiating sales contracts with buyers and private companies. Access to the facility also provides these associations the option to store their crops, taking advantage of higher prices during predictable seasonal price swings.



b) Supply Services: To enable farmers to meet market demands, the project strengthens existing and facilitates development of farm supply services that provide seed, other inputs, tools, small machinery, supplies, and technical services required to improve production and quality. Through these services the supply businesses receive training in general accounting and administration; technical training in new technology and inputs to offer to farmers such as in supplying irrigation equipment, supplies, and services, new types of seed, etc; and networking assistance with suppliers these rural businesses normally cannot access. The supply services component also supports small workshop businesses such as tinsmiths, welding, and mechanics which make grain silos, small pumps, and other appropriate rural technology, or provide repair services needed by farmers or the general population in the rural economy.

2) Small Farm Appropriate Technology/Demonstration/Training/Technical Assistance: Through a technical services unit the project provides education on sustainable agriculture focusing on organic pest control, watershed management, erosion control, protection of existing forest lands and bio-diversity, and reforestation where appropriate. One of the technical service units' primary focus is the promotion of non-traditional cash crops to increase small farmer income. Non-traditional crops differ depending on geographic area and include spices such as cinnamon, allspice, black pepper, cloves, nutmeg, new plantain varieties, rambutan, pulasan, jackfruit, apples, grapes, strawberries, raspberries, blackberries, etc. A small farm resource center, currently serving 4,000 farmers, enhances the services provided through the technical services unit by providing a venue for demonstration and training as well as practical trials and reproduction of seed and plant material provided to farmers for non-traditional crops. During initial commercial trials of new crops, farmers receive the material free from the program with training and technical assistance to assess both the agronomic and commercial viability of the crop. The credit program provides long-term loans at a low interest rate (12%) to expand production of crops with proven market viability. While most farmers receiving assistance from the technical services unit also take part in the credit component, the project provides training and technical assistance regardless of participation in the credit program.

3) Credit Program: WRC will continue to expand and strengthen its role as a financial intermediary to meet the credit needs of farmers, farm supply and marketing businesses, and small traders as well as general rural credit needs in order to meet program goals of non-traditional crop production. The project uses innovative credit mechanisms such as crop retention credit for farmers to reap the benefits of price increases and marketing credit for local private buyers to make the rural economy more competitive, improve services, and produce the greatest multiplier effect in the economy as a whole. The credit program offers different loan periods and interest rates in accordance with the sector, type of client, and risk involved with the loan. WRC's credit program is strongly managed with the proper loan guarantees, legal documentation and credit management tools and systems in order to monitor and maintain the health of the credit portfolio. Currently the credit program serves 10,000 clients (8,500 are farmers), most of whom receive assistance from our marketing services or our technical services unit or both. The goal of the credit program is to help PAC achieve financial self-sufficiency over the next five years. The current portfolio totals approximately \$3.5 million. To meet current credit demands of clients in the project areas and make the project financially self-sustainable, WRC is attempting to increase the fund by twofold through both fund raising efforts and borrowing for the purposes of on-lending. Currently the project generates 50% of its expenditures, with a goal of 100% self-sufficiency in five years.

F) Excerpts from IADB/IDR Loan Request Document

**INTER-AMERICAN DEVELOPMENT BANK (IADB)**  
**RURAL PRODUCTION REVITALIZATION PROGRAM (PRPA)**  
**(NI-0159)**

**Borrower:** Republic of Nicaragua

**Executing agency:** Instituto de Desarrollo Rural [Rural Development Institute] (IDR)

**Amount and source:** IDB: (FSO) US\$60 million  
Local: US\$ 8 million  
Total: US\$68 million

**Financial terms and conditions:**

Amortization period: 40 years

Grace period: 10 years

Disbursement period: Minimum 3 years

Inspection and supervision: Maximum 5 years

Credit fee: 1%

Interest rate: 0.5% - 1% for the first 10 years and 2% thereafter

**Objectives:** The general objective of the program is to increase the incomes of low-income rural families in a sustainable manner. The specific objective of the project is to increase the productivity of agricultural activities, with a comprehensive vision of rural business, through the introduction of specialized technologies, technical and managerial training in product marketing, promotion of environmentally sustainable productive practices, investment in productive infrastructure, and reduction of the risk of damage from drought.

**Description:** The program has two components.

**Component I: Rural productive investment** will provide non-reimbursable financing to support rural productive activity. This component is divided into three subcomponents: (i) projects to support competitiveness: comprehensive proposals of investment, technical assistance, and training required by an organized group of producers having sufficient productive potential to undertake a transformation in production, but lacking the basic support and minimum resources to realize that potential; (ii) productive infrastructure: Financing will be provided for projects that aim to restore production-related tertiary roads, training, technical assistance, and the establishment of mechanisms to maintain the roads and works financed, the purpose of which is to improve the competitiveness of the rural economy; and (iii) promotion, support for participatory processes, and pre-investment: financing will be provided for promotion activities to ensure that potential beneficiaries have the information they need to access the program; municipal development committees will receive support in identifying and prioritizing projects, and for project feasibility studies.

**Component II: Strengthening of the institutional framework for development of the rural economy.** This component supports the IDR through consulting and training activities to assist in its process of organizing and its financial accounting systems; the environmental management unit (EMU), expansion and modernization of the Sistema de Procedimientos Ambientales de Desarrollo Rural [System of Environmental Procedures for Rural Development] (SISPADRU), the environmental monitoring unit, and dissemination activities relating to environmental sustainability. The component also provides support for the Ministry of Agriculture and Forestry (MAGFOR) in (i) the preparation of a strategy and action plan for development of rural production; (ii) organizational study for agricultural development and the pricing system for forest products in the Región Autónoma del Atlántico Norte [North Atlantic Autonomous Region] (RAAN) and the Región Autónoma del Atlántico Sur [South Atlantic Autonomous Region] (RAAS); (iii) modernization of the price information system; (iv) management and reduction of the risk of drought-related damage; and (v) proposals for the development of mechanisms to supply rural financial services.

#### **The Bank's country and sector strategy:**

The program is consistent with the Bank's strategy for agrifood development (GN-2069-1) of January 2000, supporting the strengthening of human resources, rural infrastructure, and the management capacity of the public agricultural sector with a joint vision of the agrifood chain. The Bank's strategy for Nicaragua for 2000-2002 as contemplated in the programming memorandum (CP-1627-3) supports implementation of the Estrategia Reforzada de Crecimiento Económico y Reducción de la Pobreza [Enhanced Strategy for Economic Growth and Poverty Reduction] (ERCERP), which offers actions for rural areas and marketing and training programs. The program is also consistent with the objectives proposed in the new country strategy, which is now going through the approval process. Under that strategy, the Bank would support efforts to increase the competitiveness of Nicaragua's economy by promoting sustainable programs that boost investment and production, with high short-term economic returns (paragraph 1.24). The Bank has also proposed extending the coverage of projects to the autonomous coastal regions.

#### **Nicaragua's strategy in the sector**

The broad economic growth pillar of the Estrategia Reforzada de Crecimiento Económico y Reducción de la Pobreza [Enhanced Strategy for Economic Growth and Poverty Reduction] (ERCERP), adopted by the Government of Nicaragua in August 2001, includes the modernization and integration of the country's rural economy and the development of the Atlantic Coast, given its high potential and wealth of factors, to ensure expansion where the incidence of poverty is greatest. As a principle underpinning all its pillars, the strategy also emphasizes the importance of promoting equity, with special attention to rural communities, women, indigenous groups, and the inhabitants of the Atlantic Coast.

Within the context of the ERCERP, and in order to take full advantage of the experience gained in promoting productive activities in the two previous programs, the government has requested that the Bank continue to finance rural productive investment which makes it possible to continue the effort to expand the productive base in agriculture and forestry with a focus on competitiveness, increasing the rural areas served and helping to consolidate the institutional structure of the rural economy.

The Government of Nicaragua, through the Secretariat of Coordination and Strategy, is preparing its new development strategy, in which it is adopting a business cluster approach. The secretariat is in the process of identifying the areas of the country that are best suited for economic development, to focus investment territorially toward areas with greater potential, which would evolve toward groups of activities in cluster-type economic conglomerations. Once these areas have been prioritized, public investment would be directed strategically toward them.

Under its drought management strategy, MAGFOR is responsible for providing early warnings and for promoting or implementing strategic projects and programs that help manage risk and reduce the impact of drought on the country's rural sector.

### **The Bank's strategy in the sector**

The program is consistent with the Bank's strategy for food and agricultural development (GN-2069-1) of January 2000. Pursuant to the guidelines of this strategy, the program supports the strengthening of human resources, rural infrastructure, and basic services, and of the management capacity of the public agricultural sector, by pursuing greater integration and articulation between instruments and action modalities and the overall view of the food and agricultural chain.

The Bank's strategy for 2000-2002 set forth in the programming memorandum (CP-1627-3) is directed toward rationalizing social spending, continuing to strengthen infrastructure, and generally to support implementation of the ERCERP with the participation of civil society and the support of the international community. The ERCERP rests on four pillars: (i) broad economic growth, with an emphasis on agricultural expansion; (ii) improvement of human capital; (iii) protection of the most vulnerable groups; and (iv) good governance and institutional development. To stimulate the expansion of the rural economy, the ERCERP proposes actions regarding: rural infrastructure, agricultural technology for the poorest producers, electricity, telecommunications, and water for rural areas that are insufficiently attractive to the private sector, and marketing and training programs. Additionally, the aim is to extend project coverage to the extent possible, to benefit the Atlantic Coast of Nicaragua.

The program directly supports the objectives of the ERCERP and is consistent with the objectives proposed in the new country strategy, which is now in the process of being approved. In the new strategy, the Bank would support efforts to increase the economy's competitiveness, by supporting sustainable projects that increase investment and the production of goods with high short-term economic returns. These projects could

stimulate the production and productivity of the rural economy, the work force, and small and medium-scale producers through the effective use of technology, work training, implementation of effective management systems, and the promotion of sustainable lending programs.

### **Borrower and executing agency**

The borrower will be the Republic of Nicaragua, and the program's executing agency will be the Instituto de Desarrollo Rural [Institute of Rural Development] (IDR), through the program coordinating unit (PCU). Civil society organizations (NGOs), private entities (associations, cooperatives), and providers of consulting services, goods and related services, and construction works will participate in program execution.

The IDR was established pursuant to Law 290 of 3 June 1998 as a decentralized government agency, with its own corporate identity and capital, and with functional, technical, and operational autonomy within the scope of its authority. One of its functions is to contribute to the country's economic revitalization through the execution, administration, and coordination of rural development programs and projects that involve the participation of civil society and strengthen the capacity of local governments. The organizational structure of the IDR consists of: (i) a board of directors composed of nine representatives of the public and private sectors; (ii) an executive board represented by the executive director who is the legal representative of the organization, and is authorized to sign agreements with public and private entities, to approve the selection of personnel, and to sign the relevant employment contracts; and (iii) line and support offices, consisting of the Office of Coordination and Monitoring and the Office of Financial Administration. From its founding, the IDR has taken on the execution of some 18 projects and programs financed by various sources, including the PRPA, in a total amount of US\$224 million, benefiting approximately 1.7 million rural inhabitants located in 129 of the country's 151 municipios. These programs have allowed the IDR to have a presence in the country's rural areas, and an annual execution amount ranging from US\$36 million to US\$40 million is projected for the next four years.

Execution of the PRPA has been the responsibility of the IDR's central staff, supported by five departmental rural development agencies (ADDRs) created exclusively for the decentralized execution of the PRPA. In all, approximately 100 individuals are assigned to the program, 50 of whom work in the ADDRs. The ADDRs are composed of a director, a technical assistance specialist, an infrastructure specialist, a project economist, an environmental specialist, a promoter of participation, an administrator, and administrative support staff. The cost of this staff has been financed with resources from the PRPA, and during its execution, these costs have been progressively and gradually assumed by the IDR, using local counterpart resources, so that when execution is complete, the government will be contributing the total of these costs. Taking into account that the functions that the ADDRs perform are essential for conducting the program's activities, their staff and operational costs will be considered program costs, charged against the local counterpart resources. The ADDRs will have the following responsibilities, among others; (i) promoting the program in the regions where they are

located; (ii) assisting producer organizations and municipal and regional committees in the preparation of project profiles; (iii) performing the monitoring and tracking related to execution of the projects to be financed; and (iv) other responsibilities as set forth in the program's Operating Regulations.

#### **H) Highlights from Allegro Coffee Buyer's Article on Sustainability**

The full article can be downloaded from [www.allegrocoffee.com/articles/shade\\_trade.php](http://www.allegrocoffee.com/articles/shade_trade.php)

### **Shade, Trade, Aid & Sustainability: Hot Issues in Coffee**

by Kevin Knox, Allegro coffee buyer

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#### **Selected Highlights**

**Organic Coffee:** Most certified organic coffee... ranges in quality from mediocre to out-and-out defective. Typically social activists with compassionate intentions but little coffee knowledge will select unskilled farmers in areas not ideally suited to coffee production for such "project" organics. In such cases, the focus is on getting price premiums based purely on organicity instead of quality, based on an almost puritanical notion that if the "bad" inputs are kept out of the coffee whatever is left must be, taste, and do good. The reality is that many certified organic coffees are defective in the cup, making them "sustainable" only for socially motivated masochists who perhaps believe coffee needs to taste bad in order to do good.

**Shade-Grown, Bird-Friendly Coffee:** ... For consumers, who might hope to equate "shade" or "bird-friendly" labels with peace of mind, it is perfectly possible – in fact commonplace – for a coffee to be shade-grown, yet involve tremendous water pollution, total dependence upon very poorly paid migrant workers, and grinding poverty. Countries such as Brazil and Costa Rica, on the other hand, which have sought to apply technology intelligently in order to improve yields and farmer incomes while preserving their environments, have much to teach struggling farmers caught up in the poverty of forest coffee. The real issue is sustainability, and shade is a small part of the means to that end in some regions. Confusing means with ends may make for great marketing, but it deceives and degrades both the farmer and the consumer.

**Fair Trade Coffee:** ... "Fair trade" is not a trade program, it is an aid program that pays a handful of farmers a much higher price than their coffee can earn based on its own merits. It is a subsidy program, born of compassion to be sure, but unlike working with farmers to produce coffees of high intrinsic quality which buyers will vie to pay good prices for, the fair trade model is not sustainable. It should come as no surprise to anyone that supply of such coffees greatly exceeds demand.

**Specialty Coffee:** Specialty coffee generally requires centralized wet-processing facilities and is only worth pursuing in a relatively narrow range of altitude and microclimate. The premium for specialty coffees typically results in a price to the producer that substantially exceeds fair trade prices, and because that premium is based on quality rather than charity it is a far more sustainable economic model.