

The Conservation Coffee Alliance

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Annual and Final Report 2004-2007

to the

United States Agency for International Development

by

Conservation International

and

Starbucks Coffee Company

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EXECUTIVE SUMMARY

Conservation International (CI) developed the concept of *Conservation Coffee* because farmers with low incomes grow coffee mostly in areas of high biodiversity. The purpose of the Conservation Coffee program is to provide incentives to farmers to adopt a set of land use practices (Best Practices) that increase farm income and conserve biodiversity. The major incentives come through the value chain, through an alliance with Starbucks Coffee Company (Starbucks), which pays a premium price to farmers adopting the practices. Additionally, through its Verde Ventures fund, CI provides affordable financial services to the farmers. In 2003, the United States Agency for International Development (USAID), joined CI and Starbucks to establish the Conservation Coffee Alliance (CCA).

The purpose of the Alliance was to grow the *Conservation Coffee* program in three countries- Mexico, Costa Rica and Panama by: increasing the number of small producers participating; expanding the coffee area cultivated under the Best Practices criteria; and making more high quality, *Conservation Coffee* available to the market. CCA's strategy is to create conditions in the coffee value chain that will:

1. *At Origin*: Create new incentives that encourage farmers to produce high-quality coffee while adopting the Best Practices.
2. *In the Supply Chain*: Ensure that service providers maintain the integrity of that coffee while efficiently and transparently transferring it to buyers.
3. *With Consumers*: Build Starbucks' market for high quality coffee so that its customers create the demand that drives the *Conservation Coffee* incentive system.

The major achievements through the life of the project of the Alliance were as follows:

At Origin:

In summary

- With the support of the local communities, local institutions and the academic sector CI developed the Coffee Conservation Best Practices (CCBP). The CCBP are a set of farming practices that are integrated and encourage farmers to use farming methods that reduces harmful impacts on the environment and encourages those practices that help protect, promote, and conserve habitat for flor and fauna species found in the protected areas in and around the coffee farms, incorporates a social component that encourages fair treatment and compensation for workers, supports the production of quality coffee, provides systems of transparency and traceability, and seeks premium price compensation for the farmers.
- In Mexico CI implemented the Field Schools (ECEA Farmer field school) to train training local coffee technicians to monitor and evaluate CCBP as a new model. This was the first of its kind in the area and has been successful in training hundreds of farmers thus far in the CCBP.
- 918 Families are implementing the Best Practices on 3,200 hectares of land in Mexico.
- 118 families are implementing the Best Practices on 400 hectares of land in Costa Rica.
- 36 families are implementing the Best Practices on 970 hectares of land in Panama.
- Technical assistance and awareness was provided to more than 1700 farmers and their families in Central America and Mexico that includes education of the Conservation Coffee

Best Practices. Many of these farmers had never received technical assistance before and on such a consistent basis. Again the first program of its kind in the regions.

- The Natural Protected Areas Commission in Mexico adopted the CCBP as a new model and expanded the project during the life of the award from one natural protected area “El Triunfo” to the natural protected area named “La Sepultura” and from a conservation corridor based in Conservation Coffee Project
- Biodiversity assessments were completed in Costa Rica and Panama in project sites that concluded species identification and determined their endemic and endangered status resulting in:
 - Of the 194 species found endemic in Costa Rica 102 rely on and require the habitat found in the parks surrounded by coffee and of the 181 endangered species found in Costa Rica 64 or 35% are or potentially could be found in this study zone of San Isidro around the coffee areas.
 - Of the 279 defined endangered species for Panama, 83 or 30% are in the Panama focus zone for conservation coffee projects.
 - For Panama, and Costa Rica the coffee areas where the projects are located had never been biologically evaluated farmer strengthening and education to this level of detail before.
- To ensure long term sustainability of transition the project we worked on strengthening relationships with partners and built capacity among farmers into a sustainable and long term state that includes administrative, financial and marketing skills.
- In Mexico FIRA (Fideicomisos Instituidos en Relacion con la Agricultura) is providing gives financial support to the Conservation Coffee initiative to scale up and guarantee financial stability in the short term.
- We identified and gained identification and support of local partners including farmers, millers, and exporters that are committed to maintaining the integrity of the coffee as well as implementing transparency and traceability systems. This will provide integrity to the coffee supplied as well as create trust along the supply chain.
- The framework of the project lent itself to perform a case study was completed showing an improved economic state amongst the coffee farmers in the Mexico project due to the transparency systems that were implemented between the CCA partners.

In the Supply Chain:

In summary

- Between 2004-2007a total of 8.6 million pounds of coffee was sold to Starbucks from the Mexico project at an average price of \$1.28/lb. This is a 20% premium price compared to other coffees from that region.
- In 2006 - 2007 Conservation Coffee strengthened its presence in the Japanese coffee market creating interest in the CCA and its function.
- In 2007 sold the first Conservation Coffee Panama to Japan at a premium price of \$3.00/lb.
- Strengthened and implemented the Conservation Coffee Best Practices with farmers, processors, exporters, importers and roasters and engaging these partners to respect the coffee produced under these guidelines.
- Starbucks implemented their C.A.F.E. Practices based on the Conservation Coffee Best Practices developed by CI and partners.

- Developed Regional Guidance Documents to complement the Conservation Coffee Best Practices that are more detailed at the regional level with respect to conservation and easier to understand for the partners implementing the practices.
- Verde Ventures, CI's micro-credit arm, total investment to date with Starbucks funds totals \$4,176,400 to 14 partners located near key biodiversity areas, directly benefiting more than 6,029 people in five countries.

With Consumers:

In summary

- Through CI and Starbucks speaking engagements, fundraising events, and conferences more than 3300 consumers have been educated about the Conservation Coffee program. And a CI Barista Bear promotion sold more than 115,000 to consumers with a message about CI.
- The Shade Grown Coffee program with Starbucks reached more than 5,000 consumers through the sale and purchase of shade grown coffee in Starbucks stores during 2004-2007.
- Developed promotional materials and sought speaking engagements as opportunities to educate the consumer about the Conservation Coffee program.
- 2003 - 2007 the Japanese coffee market has been introduced to the Conservation Coffee mark and learning more about the program and the CCBP thereby increasing awareness amongst consumer.

This report summarizes the evolution of the Conservation Coffee program and details the main achievements during the period 2003 to February 2007. It also presents the challenges and lessons learned during the life of the project. A financial report is attached in a separate excel spreadsheet.

ACRONYMS

AMSA	- Agroindustrias Unidas de Mexico S.A. de C.V. (Chiapas, Mexico)
C.A.F.E.	- Coffee and Farmers Equity (Starbucks)
CCA	- Conservation Coffee Alliance (Starbucks- CI- USAID)
CCN	- The Conservation Coffee Network (Chiapas, Mexico)
CCT	- Tropical Science Center (Costa Rica)
CBC	- Center for Biodiversity Conservation
CELB	- Center for Environmental Leadership in Business (Washington, DC)
CEPF	- Critical Ecosystems Partnership Fund (Washington, DC)
CI	- Conservation International (Washington, DC)
COMCAFE	- Mexican Coffee Council
CONANP	- Comision Nacional de Areas Naturales Protegidas
CSR	- Corporate Social Responsibility (Starbucks)
ECEA	- Farmer field school (Mexico)
ECOSUR	- Southern Border College (Chiapas, Mexico)
FIRA	- Fideicomisos Instituidos en Relacion con la Agricultura (Mexico)
FNC	- Federaci3n Nacional de Caficultores de Colombia
FUNDICCEP	- Fundaci3n Desarrollo Integral del Corregimiento de Cerro Punta (Panama)
GDA	- Global Development Alliance
ICAFFE	- National Coffee Institute of Costa Rica
ICEAAC	- Indigenas Campesinos Ecologicos de Angel Albino Corzo, (Chiapas)
INBIO	- National Biodiversity Institute (Costa Rica)
IPRC	- Iniciativa de Prosperidad Rural y Conservaci3n (Mexico)
KBA	- Key Biodiversity Area (CI spatial planning unit)
KR	- Key Result (CI project management tool)
MAG	- Ministry of Agriculture and Livestock (Costa Rica)
NGO	- Non-government organization
OPERT	- Organizaci3n de Productores Ecol3gicos de la Reserva del Triunfo Sociedad de Solidaridad (Mexico)
PSP	- Preferred Supplier Program (Starbucks)
RGD	- Regional Guidance Documents (Starbucks C.A.F.E. Practices)
SCS	- Scientific Certification Systems (California)
SCTC	- Starbucks Coffee Trading Company (Switzerland)
SCAA	- Specialty Coffee Association of America
SCAC	- Starbucks Coffee Agronomy Company (San Jose, Costa Rica)
USAID	- United States Agency for International Development
UT	- Clean our Fields Foundation, Technical Unit (Costa Rica)

CI PERSONNEL

CI manages its operations in the region under the Mexico and Central America Center for Biodiversity Conservation (CBC). CI's Sustainable Landscapes technical unit, Center for Environmental Leadership in Business (CELB), and Verde Ventures, all based in Washington, DC, contribute to the Conservation Coffee program. In May 2005 and Kelly Peltier came aboard in October 2005. CI personnel implementing the CCA, since October of 2005, are as follows:

At Origin

Edward Millard, Senior Advisor, Sustainable Landscapes and Project Key Personnel
 Goetz Schroth, initially Agroforestry Advisor, then Senior Advisor, Land Use Strategies
 Kathryn Kelly, Coordinator, Program Management and Promotion
 Kelly Peltier, Coffee Program Advisor and Marketing and Promotions Specialist

Ricardo Hernández, Director, Selva Maya
 Teresa Castillejos, Coordinator, Conservation Coffee, Mexico
 Gabriel Nava, Extension Coordinator, Mexico
 Fausto Grajales, Training Coordinator, Mexico
 Lázaro Escalante, Coordinator, Best Practices

Luis Murillo, Director, Sustainable Development, Southern Mesoamerica
 Gabriela Avila, Coordinator, Conservation Coffee, Costa Rica. Cynthia Granda was the first coordinator of the program, Gabriela occupied the position for 3 years and Cynthia Granda returned last July.
 Damaris Sánchez, Coordinator, Conservation Coffee, Panama

In the Supply Chain

Justin Ward, Senior Director, Agriculture, Forestry and Fisheries, CELB
 John Buchanan, Director, Agriculture, Forestry and Fisheries, CELB
 Kelly Peltier, Coffee Program Advisor and Marketing and Promotions Specialist

With Consumers

Angela Prosek, Manager, Corporate Alliances, CELB

Verde Ventures

Jennifer Morris, Senior Managing Director
 Adriana Madrigal, Investment Officer

CI-Starbucks relationship

Glenn Prickett, Senior Vice President, CI & Executive Director, CELB
 Jason Anderson, Director, Corporate Media, CELB

1. Evolution of the Conservation Coffee program¹

Starbucks and Conservation International (CI) launched an alliance in October 1998 to promote the cultivation of coffee in a manner that protects biodiversity and improves farmer livelihoods. The focus of the alliance was, and continues to be, to support coffee growers in areas of high biodiversity to adopt agricultural practices that are socially, environmentally and economically sustainable – thereby demonstrating the positive role the coffee industry can play in the conservation of the Earth’s biodiversity.

The alliance began with a three year commitment to support CI’s Conservation Coffee program in the buffer zone of El Triunfo Biosphere Reserve in Chiapas, Mexico. This collaboration met with early success. In 2000, Starbucks and CI signed a second Memorandum of Understanding to expand our alliance to include work on projects with coffee farmers in five regions in Latin America and Asia, develop the Starbucks green coffee purchasing guidelines pilot program, create a year-round product line reflecting Starbucks commitment to environmental and social quality and enter into discussions with other leaders in the coffee industry. Once again, the alliance produced impressive results. In a first-ever move within the coffee industry, Starbucks launched the green coffee purchasing guidelines and Preferred Supplier Program (PSP) in November 2001.

Based on this history of achievement between Starbucks and CI, USAID, who always monitored the relationship joined and collaborated in late 2003 and formed the with the intentions of forming a Global Development Alliance (GDA) project. This project creates synergies between the private, sector, the public sector and the environmental sectors. initiative of Conservation International. For the next three years, the objective of the newly established Conservation Coffee Alliance (CCA) would contribute positively to conservation and farmer livelihoods. This expanded collaboration included initiatives *At Origin*, *In the Supply Chain* and *With Consumers*, as well as concentrated efforts to provide small-scale coffee producers with direct access to affordable credit.

Over the last few years the Conservation Coffee program with the support of the GDA project has evolved from support to a single pilot program to replication of the pilot program in other important coffee growing areas (Costa Rica, Panama, Peru, Colombia and Indonesia), conservation coffee awareness in the marketplace, and the development of a set of global coffee-buying guidelines. These guidelines, called C.A.F.E. Practices, not only address environmental concerns, but also quality, social and economic factors. In addition the alliance has been successful in providing coffee producers access to credit through *Verde Venture* as well as leveraging additional resources through collaboration with other donors. As we prepare this final report concluding the three year period of the expanded collaboration, we also reflect on the success of the CCA alliance *At Origin*, *In the Supply Chain* and *With Consumers*.

1.1 Conservation Coffee Supply

One of the most public and celebrated successes of the *At Origin* component of the CCA alliance, has been the success of the conservation coffee supply coming out of the Chiapas Coffee Project in Mexico. Since 1998, the volume in pounds of coffee that has been produced in Mexico according to Conservation Coffee Best Practices (CCBPs) and sold to Starbucks has increased threefold, with 2006-2007 volumes topping off at 1.4 million pounds. *Shade Grown Mexico* coffee, launched as a

¹ CI has written a fuller description of the evolution of the program in Mexico in a case study for USAID, to be published by the Micro-enterprise office under the Accelerated Micro-enterprise Advancement Project (AMAP)

promotional product offering in 1998, became a permanent product offering after being warmly received and in high demand by Starbucks customers. In addition to Shade Grown Mexico, two other coffees, *Conservation Colombia* and *Starbucks Peru*, were also brought to market as a result of the groundwork led by the USAID-GDA project in Central America.

In Costa Rica, in the beginning stages of the expansion into other countries, an area was identified that could supply Starbucks with more than 20 containers of conservation coffee from the Perez Zeledon regions. And in Panama the Volcanic area was assessed to support a minimum of 4 containers of coffee coming from the highest coffee farms of Panama. While this coffee was never commercialized to Starbucks, in the end, it should be applauded that the initial infrastructure of processors and exporters was determined to support this volume and supply Starbucks with high quality coffee from Mexico, Costa Rica, and Panama.

In Mexico, this area of expansion in the supply chain was met with unforeseen challenges. For example, in the first year of the program, the change of export arrangements led four cooperatives in Mexico to discontinue participation in the Chiapas Coffee project. This led to volumes supplied to Starbucks to decline significantly. However, it has been widely observed that most of the farmers whose organizations left the program at that time have continued to farm according to CCBPs. This is a program achievement and should be taken into account. In addition, these farmer organizations went on to form their own export company and have been achieving fair trade premiums. Thus, while increases in the supply of Conservation Coffee were below what was anticipated at the outset of the program, the overall achievement of the program should be evaluated through a much broader lens. Ultimately, success can be seen by the number of producers commercializing coffee farmed according to CCBPs through one of the available premium marketing mechanisms.

In addition, two other factors must be taken into account to balance a quantitative evaluation of impact of the work that USAID, Starbucks and CI have made possible *At Origin*. First, local supply is always dependent on several variables, especially climate. The damage done by Hurricane Stan in 2005 disrupted the volume of supplies in Mexico and had major impacts on the quality. However, it is important to note that farmers belonging to the program argue that damage to their farms was significantly reduced due to tree cover, so losses may otherwise have been greater.

Second, the purpose of the Conservation Coffee program is to erect the pillars for long-term sustainable growth that achieves biodiversity conservation in the project sites. This inadvertently slows down product coming to market in different ways. In new sites, CI requires detailed assessments that include evaluating coffee quality and commercial logistics and identifying capable local partner organizations. It also includes assessing potential conservation impact of a range of possible geographical areas and linkage to CI's regional strategy to ensure CI's capacity to implement and monitor activities. Costa Rica and Panama are examples of this complex assessment delaying the development of product from a particular origin. These assessments are important to conduct at the beginning of a project site to assure that alliance partners' objectives are met and the goals are realistic and will be able to achieve.

1.2 Producer Group Strengthening and Building Local Networks

In established sites, CI's focus has been in accelerating the transition process, under which operational responsibility for the agronomic and commercial services required by participating

coffee producers passes from CI to local partners. This transition allows CI to concentrate on five key tasks for long term sustainability and conservation impact: 1) ensuring that partners have the understanding, knowledge, capacity and tools necessary to operate the project; 2) strengthening links between conservation coffee and local biodiversity management activities; 3) monitoring impacts and disseminating lessons learned; 4) extending the program to new areas; and 5) fundraising to support project partners and functions. In most cases, developing and monitoring the detailed agreements necessary for partners to take on responsibilities is a very delicate process which has required extensive time investment from CI's Conservation Coffee team. The 5 partners in Mexico, AMSA, CONANP, ECOSUR, FIRA, Coops, are extremely conscious of working together as a team so that the project will be successful. These partners were selected leveraging and using commercial relationships and that are aware of the special needs working with rural farmers and that also had a concern for protecting the environment. The group also agreed on the importance of being able to grow together and share information transparently that would benefit all groups involved. Our partner, will be carrying out the objectives of the CCA in Mexico over the next few years. Their strengths are financial sustainability and it is for these reasons the CCA feels they are qualified to continue the legacy of the CCA and the CCBP's. In Costa Rica our partner Fundacion Natura is well qualified to carry out the project objectives given their well-known and qualified recognition in the environmental community. Delicafe (an export partner for Panama and Costa Rica) sells to Starbucks from other parts of the country thereby solidifying the role of a successful export partner to take the Conservation Coffee to the marketplace. In Panama FUNDICCEP has a long history amongst community members and the local ngo's and has been successful in previous environmental projects. They will continue the technical assistance component to farmers.

Non Government Organizations can provide several valuable benefits to farmers: technical assistance, information and advice, access to credit programs, buying crops on more favorable terms, access to more profitable markets, a forum for learning and exchange and a focal point for community development. The Conservation Coffee program supports organizational development so that farmers may profit from these services. *Verde Ventures* channels credit through the producer organization partners in Mexico and Peru. CI's technical specialists provide training to the technical staff of producer organizations in Mexico, Costa Rica, and Panama thereby are able to reach larger numbers of farmers. The Conservation Coffee team has provided official technical assistance to a total of 1072 farmers in Costa Rica, Mexico, and Panama. And unofficially to more than 2000 if you consider those farmers that attend seminars or workshops buy may not be officially enrolled.

In Mexico, COMON YAJ NOP TIC is the best example of an organization that has flourished and grown through the program. It was featured in Starbucks' 2006 Corporate Social Responsibility report for its initiative in building a community school through funding from Starbucks in Mexico, as well as from its own savings from *Verde Ventures*. The cooperative has also provided a full range of agronomic and commercial services to its members. Even after the cooperative's charismatic president, Roberto Hernández, stepped down in 2006, the cooperative and its leadership have continued to be successful in their Conservation Coffee work, with Bernabe Ruiz Gallegos the actual president.

It is not realistic that Chiapas cooperatives can immediately take over all of the training, extension and verification services that their members require in order to participate in the Conservation Coffee program. Nor does the commercial partner, Agroindustrias Unidas de Mexico S.A. de C.V (AMSA), have the set of skills necessary. Thus, CI has maintained active involvement in providing

services, while doing as much as it can to train the technical staff of the cooperatives and AMSA to take these services over. Looking ahead, CI believes that there is a need for an independent organization as a service provider. Creation of this organization by CI was rigorously analyzed in 2004 but put on hold because CI could not cover the risk of guaranteeing its financial stability. Following this setback, CI-Mexico worked with AMSA to develop a new set of growth projections and estimated the service requirements that would accompany the targets. This followed the signing of a formal Memorandum of Understanding between CI and AMSA in August 2006. The projections are based on existing interest from farmers who work in biological priority areas to join the program.

In addition in Mexico CI promoted a Conservation Coffee Initiative signing a formal Memorandum of Understanding between CI, CONANP, ECOSUR, FIRA, local cooperatives, AMSA, and USAID. With this alliance the project has demonstrated the importance of developing strong partnerships with local government and with the park administration CONANP. Building on this partnership, we now propose to elevate conservation best practices to become a compulsory standard for coffee farming in three continuous reserves in the region – El Triunfo, La Sepultura and El Ocote – thereby having a large impact on reserve management and attaining a large number of coffee farmers.

In Costa Rica and Panama, through our local partners Delicafe and Ratibor Hartmann, CI has developed the capability to provide technical support assistance to producer groups. This includes technical support in areas of quality control, such as basic cupping skills, importance of ripe cherry and varieties separation as well as marketing capacities necessary for success in the specialty coffee market.

1.3 Strengthening Conservation Coffee Work

The CCA alliance has enabled CI's capacity to continue pioneering work in commodities as an economically viable means to achieve biodiversity conservation. During the 2004-2007 alliance period, CI evaluated its approach to the program and articulated a clearer and stronger rationale for the growth of the program as a conservation strategy that can provide long-term benefits to farmers. A total of 1370 hectares (970 Panama and 400 Costa Rica) have been farmed in Central America using the CCBP since 2004, and 3,200 hectares in Mexico. In the Costa Rica and Panama projects conservation work included the initial assessment of what endemic and endangered species were or could be found in the project farms as well as several environmental education workshops and the creation and publication of a Conservation Coffee species guidebook. These two project sites shifted the Conservation Coffee program to include establishing biodiversity baselines and monitoring. As a result, in these project sites farmers are able to identify species (endemic and endangered) and monitor their visits to their farm areas.

When CI began working in Conservation Coffee, its conservation rationale was broadly aligned with the concept of conservation corridors. Maintaining forest cover in biologically important areas lying outside of formally protected land can provide habitat and food sources for threatened species and thereby have the effect of increasing the land area available to those species. As the program has developed, CI has learned that protecting biodiversity is more complex than just conserving forest on production land and, in all cases, requires definition at the actual site. Moreover, achieving

conservation through coffee production requires accompanying land use practices beyond the agronomic best practices on the farm.

In this way, CI has increased its capacity to articulate, plan and design Conservation Coffee projects that are integrated fully into regional program strategies. In the first half of the alliance period, 2003-2004, the program developed its project design and management framework, under the coordination of a project implementation manager. The Latin America sites have all adopted this methodology for administering their activities. However, the framework does not attempt to address the critical issue of the conservation purpose and impact. In 2005, CI began placing its emphasis on understanding this better, so that projects can be effective in their purpose, as well as efficient in their execution. CI wrote the project design and management framework in 2006 so that this tool would be available for future projects. Over the coming year, the program will document its approach to project assessment and selection so that the learning may be shared among programs, as well as externally with other practitioners and stakeholders.

Program strategy within CI is led by regional programs and supported by the technical team at in CI headquarters. In 2005 the Conservation Coffee Program organized a workshop in Costa Rica which enabled the people working on Conservation Coffee to learn from one another and begin continuous lateral communication. Following this workshop, the D.C. team refined its functions as responsibilities for business development and project implementation passed to the regional teams. A change of personnel in the central technical function of agroforestry advisor in 2004 enabled CI to bring on one of the acknowledged experts in agriculture and biodiversity, Goetz Schroth. Goetz was recently asked to take on a more substantial role as Senior Advisor, Land Use Strategies, recognizing his critical contribution to the program's evolution. The other addition to the team is Kelly Peltier, a specialist in quality control and marketing, who has been especially active in supporting partners in sites where the coffee is not of commercial interest to Starbucks. In addition, the personnel working in the technical team can also draw on a large range of resources in other CI programs to support site planning, such as specialists in Global Information Systems, biological monitoring and mapping. In this sense, the inevitable turnover in personnel, including the decision of Edward Millard to transfer to the sustainable agriculture team of Rainforest Alliance as the program ends, does not hinder CI's ability to continue building the program.

However, there is a significant financial challenge to maintaining the momentum of the program. The process of generating resources locally has begun, both through donors, and also by recovering contributions for services from producers. In addition, the actual costs of supporting local sites have been reduced. However, losses in major funding sources will cause challenges in program development. The process of transferring farmer services and project operational activities to partners is made more difficult when funding cannot be provided to those partners during transitional periods.

A further challenge that is inherent to the program is balancing criteria for site selection. The relatively slow start to activities in Costa Rica illustrated the dilemma of selecting a site for both conservation impact and coffee quality, namely that if quality in a site is not high, then sales would not sustain a project. However, if sites are selected on the basis of their coffee quality without regard to biological assessments, then farmers adopting best practices would not necessarily be conserving any significant biodiversity. In this regard, supporting local commercial partners to access other markets that can accept different qualities is an important development in this phase of the alliance. As USAID, Starbucks and CI conclude this phase of the relationship; CI will continue

efforts to strengthen Conservation Coffee work by consolidating site integration to conservation priorities and developing the most appropriate local alliances and international markets to sustain the initiative.

1.4 Major Achievements and Challenges

Over the project's life 2004-2007 we have achieved the following:

During

1. 2004-2007 the commercialization of 1.4.8 million pounds to Starbucks at an increase in price, annually, creating trust in the supply chain and better income to the farmers.
2. Launched the Conservation Coffee concept and product into the Japanese marketplace through the Starbucks Japan stores thereby educating consumers.
3. A total of 4,570 hectares have been farmed in Mexico and Central America using the CCBP since 2004. This large quantity of land mass implementing these practices will impact the effect to the environment positively thereby creating sustainable landscapes near and around protected areas.
4. 1062 farmers have been involved in the CC program in Central America and Mexico and implementing the Best Practices helping to build a better environment.
5. Provided technical assistance to more than 2000 farmers in Central America and Mexico. This includes those farmers that aren't officially involved in the program but attend meetings and workshops to learn more efficient farming methods.
6. Transparency in trading arrangements. This is an industry-changing concept in Chiapas and goes against the grain of traditional exploitative contracts between intermediaries controlling market access and information and uninformed, non-capitalized farmers. The contracts between AMSA and the cooperatives are more transparent than those made under fair trade certification. These transparency systems build trust amongst partners in the supply chain.
7. Traceability systems have been implemented with processors and intermediaries to be able to provide for the buyer the history of the coffee lot, as well as a mechanism to separate out higher quality coffees. These systems build integrity into the coffee supplied to Starbucks.
8. Improved quality. There is general recognition in Jaltenango that *Conservation Coffee* has spurred a general improvement in coffee quality over the past years resulting in better prices.
9. The best practices have improved and established waste management systems which reduced environmentally damaging practices such as dumping processing waste into in fresh water sources. The environmental impact of minimizing water contamination helps protect the ecosystems and marine life in the mountain streams.
10. Through the strengthening of the Conservation Coffee Best Practices and the guidelines this created the regional guidance documents that address and advise specific conservation measures to be implemented in certain regions like shade tree species selection.
11. Cost recovery. CI negotiated with the cooperatives in the 2001/02 harvest the payment of fees for the extension services their members received, through the mechanism of a levy on each bag of coffee sold. This levy yielded US\$52,000 in 2003. This mechanism was an important step in demonstrating the project's potential for sustainability and also in transparency. Prior to this agreement, cooperatives had deducted from the price paid to farmers the cost of services provided by technical staff; but no information was provided to farmers about those costs. The new system made the pricing of services explicit.
12. Through the Verde Ventures fund more than 2.5 million dollars of investment are contributing to the conservation of more than 16,192 hectares of critical habitat and

- indirectly impacting 349,294 hectares in nearby protected areas; and these investments support the conservation of 35 IUCN Red List Species.
13. In 2003, the authority of the El Triunfo Reserve committed to promoting the Conservation Coffee concept as part of its five-year development plan and thereby improved enabling environment.
 14. Industry leverage. The project provided the learning ground for Starbucks sustainability system, which the company is now rolling out throughout its supply chain.
 15. Improved household security. Socio-economic studies undertaken in 2001, 2002 and 2003 tracked improvements in social and economic indicators suggesting an improvement in household security.²
 16. Increased creditworthiness. CI's successful investment of US\$1.4 million loan finance through Verde Ventures boosted the viability of lending to agricultural cooperatives and leveraged financial services from local institutions resulting in increased creditworthiness.
 17. Through the project and the financial assistance the project was able to react urgently to the effects of Hurricane Stan and provide intense and specific technical assistance on how to rehabilitate coffee farms that suffered damage.the coffee farms.
 18. The project helped CI understand more the SBUX purchasing program and how the message gets to consumers.
 19. Developed the Conservation Coffee mark guidelines and implementation of how the mark will be used in the marketplace.
 20. Established farmer groups and their interest in participation in the CCBP and through these connections strengthened and organized the farmers in Mexico, Panama and Costa Rica.
 21. In Costa Rica the project expanded into a new area Valle de Coto Brus, and identified farmers and processors and exporters opening opportunity for more volume and impact on the environment.
 22. Developed a very strong alliance between our in country partners, AMSA, Fundacion Neotropica, Delicafe, CoopeAgri, Lilas Estate, FUNDICCEP, and Hartmann Farms creating a sustainable group of partners. .
 23. Opened up new markets, specifically in Japan and attracted other interested roasters in the USA and Europe encouraging alternative markets.
 24. Created awareness in the marketplace about Conservation Coffee (SCAA and SCAJ 2006), and educated roasters and importers about CCBP and their significance.
 25. Developed important and effective promotional materials presentations and fact sheets about the projects to distribute to the coffee market, as well as consumers.
 26. The successful promotion and sale of 115,000 *Special Edition Conservation International Barista Bears* through Starbuck's retail channel. This activity educated consumers and represented the work we do to protect critical species and conserve the Earth's biodiversity.
 27. Through fundraisers, speaking engagements and conferences educated more than 3300 general public audiences about the CI Starbucks relationship and our combined efforts for conservation.
 28. Hosted the first coffee tour with client to the regions of Costa Rica and Panama.

² see van Leeuwen, Arthur C J., 2003, *Socio Economic Monitoring: Household Level Impacts of Conservation Coffee Production of the Conservation Coffee Project in Chiapas, Mexico.*

29. Leveraged the CI-Japan office and their involvement to help support and procure the relationship with the Starbucks Japan office and launch the CC product and educate consumers in the Japanese market.
30. Initiated and generated interest in the project by roasters interested in carbon credits and coffee forests.
31. Developed and distributed more than 300 Conservation Coffee Species Identification guidebooks and biodiversity monitoring to farmers in Costa Rica and Panama contributing to biodiversity conservation..
32. Conducted a biodiversity assessment for Costa Rica and Panama projects determining a large concentration of endemic and endangered species are found or potentially could be found in the Conservation Coffee project sites, and an average of 30% - 35% of the endangered species could be found in CC farms.
33. Created a farm evaluation baseline to develop farm plans and measure progress with the CCBP. This evaluation is a 90 question survey that takes inventory in the farm of soil, water, and flor and fauna found in the farm and develops a plan to measure progress in conservation efforts.

The project incurred these major challenges:

1. Growth. Incorporating more farmers into the project is essential for generating scaled-up conservation impact and achieving economies of scale. The partners looked and identified areas where the CCBP would be well accepted and expanded into them.
2. Sustainability. Despite the producer levy and transparent trading arrangements, some of the services that farmers need still require subsidy and independent providers are not yet available for all the services, so that CI has not been able to define an exit strategy. In FY2004, CI developed a plan to create an independent institution to provide services, but the plan still requires financial viability. As the project closes CI has identified well capable partners to embrace the projects and continue to implement the objectives.
3. Hurricane Stan destroyed more than 30% of the Mexico crop and it was difficult to recover from this natural disaster and fulfill the contract agreements. However, the Verde Ventures fund and patience and understanding with Starbucks allowed for the reality of the damage to be accommodated and rectified.
4. Loyalty from farmers compared to a competitive price. In 2006 harvest season the “C” market price increased beyond the price already agreed to by farmers. This triggered many farmers to leave the Mexico project and seek a more advantageous price elsewhere, thereby causing the Mexico project unable to deliver the volumes agreed to in the contracts. As a result AMSA created and formatted a new contract with farmers that includes and triggers a renegotiation once C market prices have reached a certain point.
5. While quality was improved in some areas in others quality deteriorated and did not meet the requirements of the primary buyer. Starbucks rejected the planned purchases and as a result the coffee did not get sold. This caused the in-country partners to reevaluate the relationship. Although time was lost, the partners eventually came back to the table to negotiate and recommit themselves to the project.
6. Costa Rica suffered a transitional phase while the alliance discussed where the project should work. Internally the alliance could not agree on a site selection due to the conflict in priority areas. Conservation International selected a site due to the biodiversity concerns and Starbucks selected a different site for the quality of coffee that was produced. In Costa Rica these sites were not in the same place. As a result the project was set back at least a year.

However, this did trigger a maturation of the project partners and realizing how to make the project sustainable despite conflicts on site selection.

7. Panama had a slow beginning as a result of the site selection discussion. By the time sites were selected Starbucks was no longer interested in the coffee. This has encouraged the CI marketing team to create awareness within the coffee industry and seek alternative markets, in particular in the Japanese market for the coffee from Panama.
8. Up until 2006 the primary buyer was Starbucks, as a result there was a lack of education and awareness in the marketplace about the Conservation Coffee project and the Best Practices. This prompted the CI marketing team to educate and create interest as well as recruit new potential buyers for the coffee.

2.0 At Origin 2004 – 2007

Project framework

The objective of the *At Origin* component is to provide growers access to the knowledge, skills and tools they need to improve the quality of their coffee and to implement Best Practices for land management and conservation on their farms. To do this, the CCA helps its on-site implementation team to form alliances with local organizations to provide the required training, extension, processing, trading and financial services. Commercial contracts must be transparent and allow farmers to receive full market value, less true costs, based on the quality of their product. Alliance members provide expertise to assist individual farmers and cooperatives with post-harvest processing and quality control, the selection of appropriate service providers, and guidance for negotiating equitable sales contracts and marketing agreements with buyers.

The CCA is concentrating its resources in areas where coffee producers live in and around Key Biodiversity Areas (KBAs). These are areas identified by scientific analysis as critical for conserving biodiversity, and with the potential to produce high quality coffee exhibiting a distinctive flavor profile (the key parameter is that the site be above 1,000 meters.) In each site selected, CI or a local partner must have operational activities and deep knowledge of the region.

CI continued to use the project design and management framework that it started developing for *Conservation Coffee* in the previous few years. The framework uses a system of five **key results** (KR) for planning and monitoring activities. These are:

- 1: Farmers are adopting locally defined Best Practices.
2. Providers of technical assistance are promoting, evaluating and verifying Best Practices
3. Commercialization service providers create access to market opportunities for producers adopting Best Practices.
4. Financial institutions provide credit to farmers who are adopting Best Practices.
5. The market is providing long-term economic benefits to farmers adopting Best Practices.

Individual projects adapt the framework according to their own needs and the interests of stakeholders (some projects have less than five KRs; others more). In 2005, CI wrote up this framework for sharing with regional programs, so that new projects benefit from this learning.

The CCA measures project progress against baseline data by four quantitative indicators that are specified in the USAID/GDA agreement. These are:

1. Amount of parchment coffee sold by participating farmers (lbs).
2. Weighted average price received by verified farmers (U.S.\$).
3. Number of farmers verified by an independent auditor.
4. Percentage difference of weighted average price received for parchment coffee by participating farmers versus prices received by non-participating farmers.

The core of the CCA has been to assist coffee farmers in improving their livelihoods while protecting the important ecosystems that surround their farms. Through technical assistance, purchase of coffee that meets Starbucks quality standards, and funding, the alliance supports coffee farmers in areas where biodiversity is threatened.

USAID, Starbucks and CI have worked to develop *At Origin* projects in Mexico, Costa Rica, Panama. Outside of project objectives, but it is very worth mentioning that the Conservation Coffee program expanded to Colombia and Peru based on the success in Central America. In each of these areas, the Conservation Coffee program works with local partners to:

- Implement agricultural assistance programs that provide farmers with training in techniques such as biological pest controls, soil building and enrichment, diversification of shade cover and low-impact coffee processing.
- Strengthen farmer organizations to operate effectively in the international market and to provide benefits to their members.
- Provide marketing assistance to farmer organizations to increase exports.
- Design quality control systems and incentives that enable farmers to offer premium coffee on a consistent basis.
- Identify local best practices that meet the Starbucks green purchasing guidelines.
- Provide credit and financial assistance to farmer organizations so they may provide members with the full market value for their product. One such mechanism for credit is *Verde Ventures*, which may be established under a separate agreement between Starbucks and Conservation International.

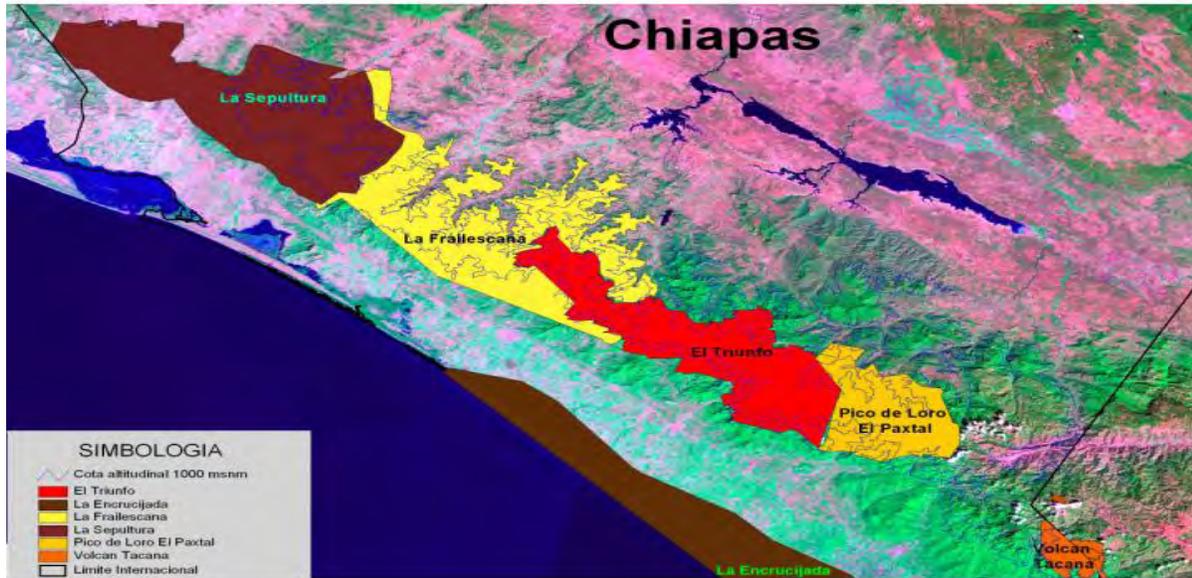
A summary of achievements is organized into three sections reflecting commercial growth, producer group strengthening and strengthening Conservation Coffee work beyond the Conservation Coffee program. In addition, separate sections of this report are devoted to individual *At Origin* site activities, as well as additional sections dedicated to progress by *Verde Ventures*, and the *Case Study*.

2.1 Mexico

The Mexico project impacts directly on nearly 12,000 people in 45 communities. It is under the operational management of Teresa Castillejos, coffee coordinator, who reports to Ricardo Hernández, Director, Selva Maya. Both work from the Tuxtla Gutierrez office. CI retains three technical staff based in Jaltenango: Gabriel Nava, Fausto Grajales and Lázaro Escalante.

Over the last three years the CCBP have been implemented in 3,200 hectares in these regions: Biosphere of Reserve “El Triunfo”, “La Fraylescana” and “La Sepultura”. We began in 2004 in “El Triunfo” and since have expanded the program annually successfully to include these regions and 2 new Reserves. This is significant and helped contribute to achieving the alliance’s goal in

expanding the program annually thereby creating a larger impact in biodiversity conservation in Chiapas coffee growing regions.



This Map 1. shows the Sierra Madre de Chiapas region where CCBP implemented

CCA Indicators 2004-2007

Mexico:

Progress in the At Origin component of the program is measured annually against baseline data by the four indicators specified in the GDA document.

INDICATOR 1: Amount of parchment coffee sold by participating farmers (lbs).

<u>Baseline 2003</u>	<u>Actual FY 2004</u>	<u>Actual FY 2005</u>	<u>Actual FY 2006</u>	<u>Actual FY 2007</u>
2,665,000	2,251,000	1,187,991	1,109,390	1,426,359

INDICATOR 2: Weighted average price received by verified farmers (U.S. \$ per lb).

<u>Baseline 2003</u>	<u>Actual FY 2004</u>	<u>Actual FY 2005</u>	<u>Actual FY 2006</u>	<u>Actual FY 2007</u>
0.73	0.68	1.10	1.09	1.00

INDICATOR 3: Number of farmers verified by an independent auditor.

<u>Baseline 2003</u>	<u>Actual FY2004</u>	<u>Actual FY 2005</u>	<u>Actual FY 2006</u>	<u>Actual FY 2007</u>
300	310	578	700	950

INDICATOR 4: Percentage difference of weighted average price received for parchment coffee by participating farmers versus prices received by non-participating farmers.

<u>Baseline 2003</u>	<u>Actual FY 2004</u>	<u>Actual FY 2005</u>	<u>Actual FY 2006</u>	<u>Actual FY 2007</u>
+74.0%	+ 47.0%	+0%	+0%	+0%

Commercialization

Through the years 2004-2007 Mexico Conservation Coffee project has sold to Starbucks a total of 8.6 million of pounds, with an average of 1.7 millions of pounds annually. Farmers have received an increase in price every harvest as well as in the benefit of last three harvests and the commitment to participate in the Conservation Coffee Program, has been strong. They have shown their commitment and made sacrifices in order to support biodiversity conservation. They believe that conserving nature assures their future, for a long term contracts creating a moreand sustainable and commercially viable relationship, with the market.

Technical Assistance

Through the CI team and their partners the program has trained more than 1200 farmers in the CCBP (this includes those farmers that left the program). These workshops are given monthly and are hosted by ECOSUR they are the Institution that is supporting the process in the field, with the cooperation of Aires de Cambio and Conservation International.

During the last year the Mexico Coffee project focused on strengthening the partnerships necessary to sustain project activities as well as reinforcing conservation planning around the project. CI and partners including AMSA formalized an agreement in August 2006. The most immediate impact is the facilitation of financing from the government to cover the costs of technical assistance in the next phase of the project. CI's technical team confirmed the continuing need for an independent organization to undertake the training, technical assistance and verification services that producers require. In addition to meeting the needs of the 797 producers currently active in the project, CI and AMSA worked together on growth projections for work in the region. Projections for future numbers of farmers and volumes (based on amount produced irrespective of whether contracted) are as follows:

	Conservatory Estimate (CI)		High Estimate (AMSA)*	
	# producers	containers	# producers	containers
2006/07	Base Line		797	49
2007/08	1395	64	1910	91
2008/09	2441	118	3343	159
2009/10	4271	208	5849	284

*These projections are based on identified farmers with interest to join the project.

CI and AMSA also developed financial projections for reaching the target number of producers. Training and technical assistance costs can be covered by Fideicomisos Instituidos en Relación con la Agricultura (FIRA) but there is a need for new equipment totally approximately \$75,000. CI presented the projections to AMSA at a meeting in October 2006 that United States Agency for International Development (USAID) and Iniciativa de Prosperidad Rural y Conservación (IPRC) also attended.

Hurricane Damage

As the second year of the Alliance ended, Hurricane Stan arrived in Chiapas. It affected coffee production substantially; there is argument as to how much but a reasonably agreed figure is 30%. Starbucks responded very rapidly to the situation, sending its representative to Chiapas and Central

America and immediately authorizing a large amount of relief money, only a small proportion of which was given to Mexico.

In a meeting with cooperatives in Jaltenango following the hurricane there is testimony by several farmers who spoke strongly about the benefits of the best practices in conserving natural resources and soil quality and the benefits of the tree cover in protecting farmers against the recent floods resulting from the Hurricane. They also emphasized the economic benefits: independence from exploitative traders; access to an international market; and affordable credit.

Through the CCA the Chiapas farmers were able to rehabilitate with technical knowledge the 30% hectares of land damaged by Hurricane Stan, in the Coffee Areas. It was made possible through the support of Starbucks and the CCA.

Major achievements for the Mexico program besides the conservation and commercial benefits:

- CI completed Global Positioning System (GPS) records of the location of each farmer.
- The project recovered nearly \$203,000 in contributions from producers to the cost of technical assistance; negotiations with the cooperatives for the 2006-2007 harvest secured an agreement for them to pay \$4/quintal.
- Comon Yaj Noptic and ICEAAC completely repaid *Verde Ventures* for the \$444,600 in loans provided to the producer organizations.
- Introduction of AMSA in Mexico in 2003 required partners to develop a transparent system to overcome distrust. This system increased earnings for producers compared to exporting through their cooperatives
- AMSA secured funds from the International Finance Corporation (IFC) to develop, together with other partners, commercial best practices in Mexico and Central America. AMSA now buys 80 percent of its coffee directly from producers and has increased its number of technical staff. CI and AMSA have strengthened relations, especially through the close collaboration with former Conservation Coffee Coordinator, Santiago Arguello.

2.2. Costa Rica

The Costa Rica project began in Perez Zeledon and then expanded to San Vito de Coto Brus. These are both districts within San Isidro, which borders Chirripó National Park. The goal of the Costa Rica Coffee project is to promote sustainable land use in the buffer zone of La Amistad Biosphere Reserve, where it works with communities in the regions of San Isidro and the Coto Brus valley. We have been successful in achieving conservation in this important buffer zone. Currently there are 400 hectares of land managed using CCBPs with 63 participating farmers and 118 potential farmers in the project. This second group of farmers are aware of the CCBP's and have attended trainings but have not signed the agreements yet. Fundacion Natura project managers hope to sign these farmers before the beginning of 2007/2008 harvest season.

During 2006 CI focused on formally transitioning operating activities to Fundación Neotrópica, which appointed its own project coordinator, Cinthia Granda, in September 2006. Before transitioning work to Fundación Neotrópica, CI completed farm plans based on local best practices for the farmers in the project and revised work plans and budgets. CI also focused on defining the functions of the local processor, CoopeAgri. While its roles have not been solidified, CoopeAgri recognizes the importance of their participation and will begin separating the coffee from the

Conservation Coffee project sites in Perez Zeledon to explore premium market opportunities. CooeAgri has indicated that they will commit to these types of processes once a long term buyer has expressed an interest in this coffee.

In other areas, Delicafe, our export partner in Costa Rica, has signed agreements with the processor and farmers involved in the Conservation Coffee program. Delicafe has also committed to returning \$2.50 per quintal to the farmers in the Costa Rica Coffee project during the 2006-2007 harvest once coffee has been sold. This is a significant contribution back to the farmer by the exporter and is uncommon. Delicafe should be applauded for its transparency and encouragement for the farmers to get involved. This return back to the farmers by Delicafe is only for those participating in the Valle de Coto Brus project. Delicafe has also hired a coordinator for the San Vito region to provide technical assistance and quality control to the farmers in the project. Delicafe has made a commitment to the project to provide the best quality coffee possible from the region, as well as to become sustainable.

In the San Vito or Coto Brus Region, the farmer group has selected Café Lilas to be the coffee processor for the project. Café Lilas is recognized for its quality controls in the processing and is transitioning to a traceability system. CI is also maintaining a close relationship with the Starbucks Farmer Support Center in Costa Rica.

On the marketing front, the Costa Rica Coffee project invested time and resources into accessing market opportunities by participating in the Specialty Coffee Association of Japan trade fair in August 2006 and making contact with potential new client roasters. Fact sheets on Conservation Coffee and the Costa Rica, Panama and Colombia sites were prepared to take to the fair in Japan, and the CI team in Japan translated them into Japanese, together with a power point presentation. CI's office in Japan has become an important resource for developing new market opportunities as well as educating the Japanese coffee industry of the Starbucks- CI relationship. Visits to Costa Rica, to the Valle de Coto Brus farmers and millers, and the coffee farms in the regions of Volcan, Renacimiento/Candela and Boquete in Panama helped the CI-Japan staff to educate consumers about the CC project. The purpose was for the CI-Japan office to fully learn about and evaluate the Conservation Coffee projects in these countries. For CI, this provided the opportunity to answer questions, build capacity and confidence in project team members and participants and test the projects' marketing strategy for selling coffee into the Japanese market. Delicafé, which also participated in the fair in Japan, has been active with CI in organizing the trip and has contributed to necessary resources to support these activities. This trip was successful as it rejuvenated CI-Japan's interest in promoting the Conservation Coffee concept amongst the Japanese coffee industry and consumers.

In support of these new opportunities, CI, Delicafé and Neotrópica have developed a collaborative working relationship. Delicafé has been extremely supportive of the Conservation Coffee program and has helped move the Costa Rica Coffee project into the next phase of market development. CI has worked with Delicafé to form a strategy and a general operating plan for implementing the Costa Rica Coffee project with Neotrópica. In addition, Delicafé has helped to identify milling partners and analyze the project to make sure it is viable and successful. Delicafé also played a critical role in getting more mills and farmers involved. 2007/2008 harvest year will be a true and first test of its capacity and operational effectiveness of the strategy work that CI and Delicafé have done.

Despite the significant progress of these efforts, several continuing challenges remain. One of the most critical is finalizing written agreements with all partners. In addition, funding of critical core activities is a challenge as the Inter-American Foundation has not yet announced its decision on the funding request presented by the project earlier in 2006. With the loss of critical project funding and no new sources, the project's funding situation is critical. The small fee for service charged to producers based on volumes of coffee will provide some resources to the project but not enough to cover the costs necessary to sustain all activities. The CI headquarters team is dedicated to support the Costa Rica Coffee project and other regional projects in addressing funding challenges and access to market opportunities.

Farmers have expressed their commitment to developing the *Conservation Coffee* project by agreeing to pay a small percentage fee for services. They understand and agree that the fee is necessary to ensure the sustainability of the project. The farmers' commitment can be attributed to the reforestation and environmental education programs that CI and Amisconde have carried out in the project sites and that helped pave the way for a coffee project. CI- Costa Rica has earned the trust of the coffee producers in the region and found that they are adopting the Best Practices in their farm because of the environmental benefits first and foremost, and not solely because of the promise of a price premium.

Local Partners

During 2005 the project restructured its approach in line with the new model of strengthening local alliances that can provide the services needed and market the coffee internationally. The coffee samples taken from the 2004-05 harvest did not reach the quality standard required by Starbucks. Starbucks intimated that its main interest would be in the Central Valley, where CI is not presently working, but which is part of the corridor San Juan-La Selva. However, Starbucks subsequent clarification that it is not interested in *Conservation Coffee* from Costa Rica triggered a reevaluation of priorities and seeking new coffee buyers for the Conservation Costa Rica coffee.

Through the course of 2004-2007 a partner network that CI established included these key institutions:

- Instituto de Café (ICAFFE), which will supervise quality control in farms and in the wet and dry processing facilities.
- DELIcafé provides export marketing services, ensuring quality control operations and providing technical assistance to the suppliers. DELIcafé has also expressed its commitment to the goals of *Conservation Coffee*.
- Fundacion Neotrópica, received the project in 2006-2007 and will conduct biological monitoring of the project and all fieldwork. Fundacion Neotrópica is a highly regarded institution in Costa Rica, with a history of success with reforestation, environmental education and biodiversity promotion.
- Centro Científico Tropical (CCT), an environmental research and planning institute, which provides scientific advice to ensure the connectivity of conservation activities (not only coffee) throughout the buffer zone of La Amistad Biosphere Reserve.
- CoopeAgri a miller and exporter in the San Vito/Perez Zeledon region had stepped away from the project in 2005-2006 given the unsure commitments to purchase the coffee from Starbucks. However, in 2006-2007 harvest season CoopeAgri did implement the separation, transparent and traceability of the coffees from the Perez Zeledon Conservation Coffee regions with intentions to leverage the Conservation Coffee program and access new markets.

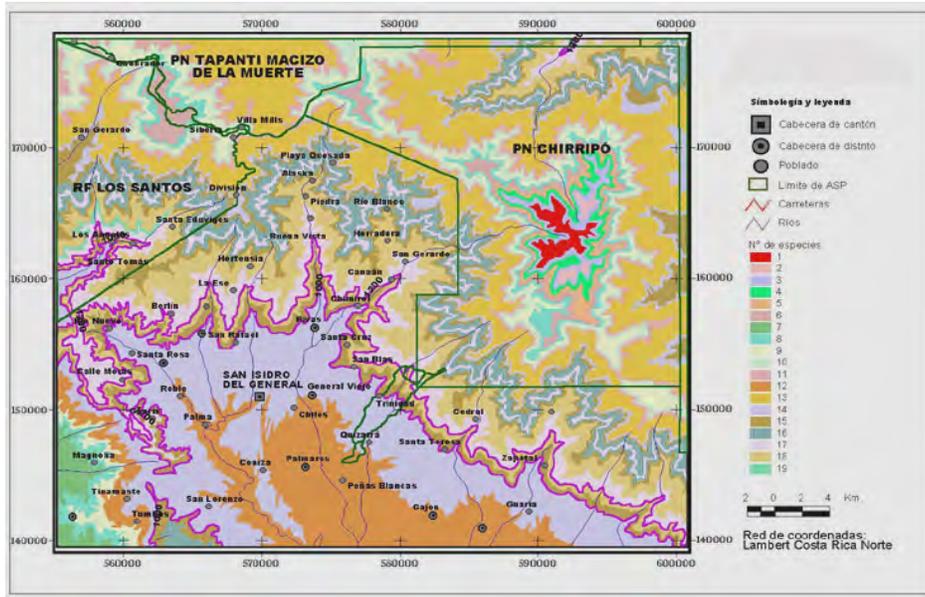
- MINAE: Ministerio de Ambiente y Energía, who has helped the program with Environmental education component as a contributor and assessor when applying environmental legislation and requirements to the project sites.

Through this network of specialist organizations, the project aims to achieve large-scale conservation and sustainable enterprises for producers throughout the buffer zone of the Reserve. The project believes that under this new structure there is greater emphasis on a landscape level outcome and that the new actors will ensure that essential components (planning, monitoring and evaluation) of conservation are in place.

CCA Indicators and Conservation Coffee Best Practices

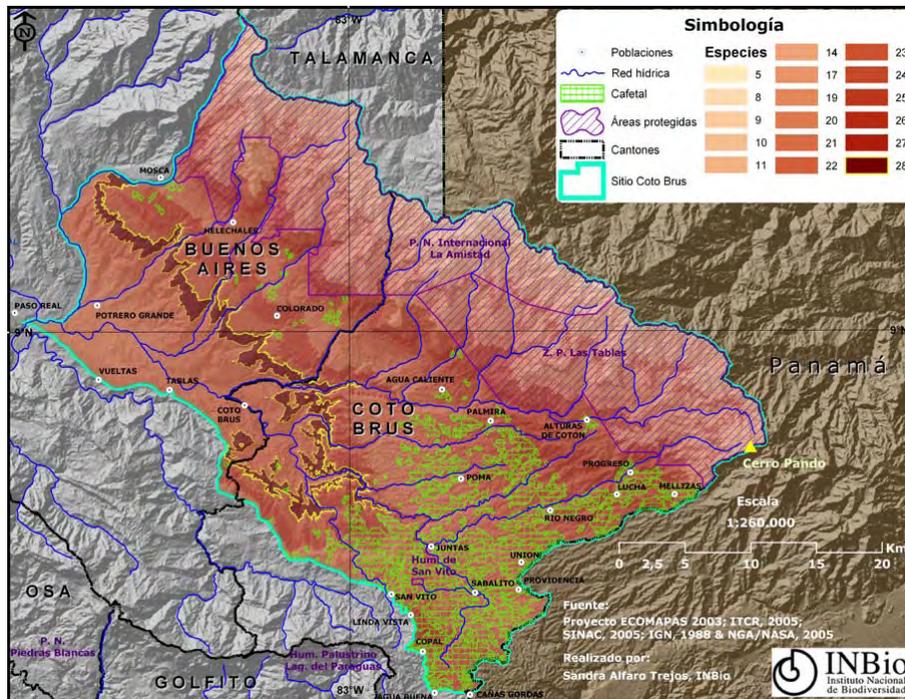
Through the life of the project in Costa Rica more than 700 farmers and their families have been exposed to CCBP's and the program and what it means through a variety of visits, workshops, seminars, and farm plans. Of those 700 for 118 farmers we have developed farm plans for 118 farmers with their input. And of those 118, 63 have reviewed the protocols and signed agreements that have been developed to assure there is a synergy to the project and all local partners are aware of their role and responsibility including the farmer, miller, exporter, Neotropica, and Conservation International personnel. CC field personnel created 118 farm plans with the input of the farmers. Currently 63 farmers are using the farm plans according to the assigned agreement. It is through these protocols and agreements we will strengthen the capacity of our local partners and begin the process of transition to support them as opposed to leading them through the commercial process and conservation efforts. They will become more aware of what the market demands are and how to satisfy its needs in quality, sustainability, transparency, and traceability. Fundacion Neotropica will continue to support the farmers efforts in implementing the CCBP within the 400 hectares of land in Valle de Coto Brus and San Isidro.

There are many species that are directly affected by the Conservation Coffee program found in or near the protected area. In the project there are many endemic species protected like: Birds Pajaro Campana Mammals like anteaters, tapirs, frogs, salamanders, racoons, Titi Monkey. An immediate goal is to see an increase in the population of these animals. Of the 194 species found endemic in Costa Rica 102 require the habitat found in the parks surrounded by coffee. While it is to early to truly measure the impacts, the farmers that have been involved in the project since the beginning and that have been implementing the practices have witnessed more frequent visits of those species we are trying to protect in their farms and in the protected areas.



This map 2 shows the endangered species habitats and their potential habitats in the San Isidro area.

Of the 181 endangered species found in Costa Rica 64 or 35% are or potentially could be found in this study zone of San Isidro around the coffee areas. Of these species 16 are amphibians, 4 are bird species, and 8 are mammals and 36 species of plants, each representing a significant percentage of each of their category in Costa Rica.



This map 3 demonstrates the altitude range every 100 meters and the number of endangered species present in each range.

There are no CCA indicators that include commercial statistics as to date the Conservation Coffee project in Costa Rica has yet to sell the coffee as Conservation Coffee. This has been a slow process considering the change in region and the non-commitment from Starbucks to buy the coffee. However, while the coffee has not been sold from the Perez Zeledon regions nor the Valle de Coto Brus it should be noted that the farmers that began with the project continue to implement the CCBP regardless of the coffee making it to market under the Conservation Coffee name. Despite this bottleneck in the market it did not hinder the work done in the field with the farmers. In both regions our field partners worked with each one of the farmers to develop farm evaluations and plans to implement the CCBP. In terms of conservation this is significant as the farmers continue to farm using the CCBP.

Costa Rica pioneered the Conservation Coffee Biodiversity Monitoring brochure that has been distributed to more than 300 farmers in Costa Rica and Panama. This pamphlet includes color pictures of the endemic and common species, their habitat and common routines, and a place in the book to note and document sightings of the animals and dates. Farmers have already commented on how useful this is and has helped them become more aware of the species in their area and the importance of protecting them and assistance in maintaining their habitat.

Commercialization and a Year in Transition

The Perez Zeledon region where the project began submitted samples from their chosen coffee sites in 2004-2005 to Starbucks. Due to the quality and unrepresentative samples Starbucks chose not to purchase the coffee. This triggered a complete reevaluation of the location where Conservation Coffee was working in (Perez Zeledon) and their partners for processing. The 2005/2006 harvest year was lost due to this restructuring and it was during this year that the interest in San Vito was solidified. However our export partner Delicafe along with the marketing and promotions consultant, Kelly Peltier, continue to create awareness in the market about the project and do research in the field to gather information about the coffees that could be available. The table below highlights the region, the altitude, the varietal, and the amount of coffee produced in region.

Potential Coffee Amounts by region					
Region	#of Farmers	Coffee Area (ha)	Altitude Avg. (msnm)	Volume (fanegas)	Varietals
Pérez Zeledon	87	106	1477	2488	Caturra, Catuái, Villalobos
San Vito	31	192.95	1305	4905	Caturra, Catuái

A general strategy was developed in 2006 to market the Conservation Coffee harvests with the input of the regional programs and the exporter Delicafe. As part of the strategy, it was determined to begin identifying coffees according to varietals seeing as the specialty coffee marketplace is requesting this information. In the marketplace we will include coffee tours and visits from potential buyers and educating them on the coffee projects in Costa Rica and responding to their detailed questions. Through CI's Japanese office and our marketing specialist, a dialogue has begun with the Japanese coffee industry.

In the Perez Zeledon region of the CI project there have been issues with finding a local miller for the coffee that can provide quality and representative samples, transparency and traceability. In June 2006 visits were made to CoopeAgri to revisit and determine their interest as well as Volcafe and Neumann to explore their new interest in getting involved in the project and proved the same

services that CoopeAgri could. At this moment CoopeAgri is willing and would reactivate their participation in the program as a partner once a buyer has been found. The CI-CR office together with Neotropica is developing these relationships with these potential partners. As a result of this visit in 2006/2007 CoopeAgri is now separating the coffees and implementing transparency and traceability systems. There is still opportunity for the 2006-2007 harvest to be purchased as Conservation Coffee. At any rate our export partner Delicafe is promoting the coffee in the market and it is almost certain that we will see the Costa Rica Conservation Coffee purchased in 2007-2008.

Technical Assistance

Our partner Fundacion Neotrópica has committed to hosting a series of workshops in the San Vito and Coto Brus regions. Once a quarter a 2-day intensive workshop is conducted that includes conservation and environmental education, review of the CCBP, coffee quality controls, and biodiversity monitoring. In general, the field staff makes frequent visits to the farmers usually twice a month to continue providing presence and technical assistance to the farmers and reviewing the farm plans and measuring progress with the CCBP being implemented.

2.3. Panama

CI does not have a separate office in Panama. It manages the program from Costa Rica under the same management structure. In November 2004, the project addressed this lack of presence by assigning a full-time position to coordinate activities, located in the office of CI's partner in Panama, Fundación Desarrollo Integral del Corregimiento de Cerro Punta (FUNDICCEP). This community-based organization is dedicated to promoting environmental education, sustainable agriculture and improved waste management in the villages that border La Amistad National Park. Damaris Sánchez took the coffee coordinator position. Additionally, FUNDICCEP is making its entire staff members available in order to support CI's activities.

Following the design workshop held in 2004, CI and FUNDICCEP visited all the institutions that participated to provide them with a final summary report and discuss progress in the production and commercialization processes. They also visited the project sites identified in 2004- Renacimiento, Volcan and Boquete- to enable an information exchange, allowing the producers an opportunity to raise questions and concerns to the technical staff.

CI undertook context assessments of the three sites prior to implementing activities. Conclusions were as follows:

Renacimiento. This site, situated close to the Panama/Costa Rica border, has a strong conservation benefit to CI, as it would strengthen presence in the border zone. A partner is available- the Hartmann family, who run an impressive and innovative processing plant. One of the Hartmann sons also conducts quality control measures and is willing to work with farmers to improve quality and possibly in the training of Best Practices.

Volcan. This site, located close to Renacimiento, has very good coffee quality and much of its coffee is under shade. However, there are relatively few farms and the project needs to resolve a willing processor to accept the coffee of the farmers, process it and prepare it for export that also implements transparency and traceability systems.

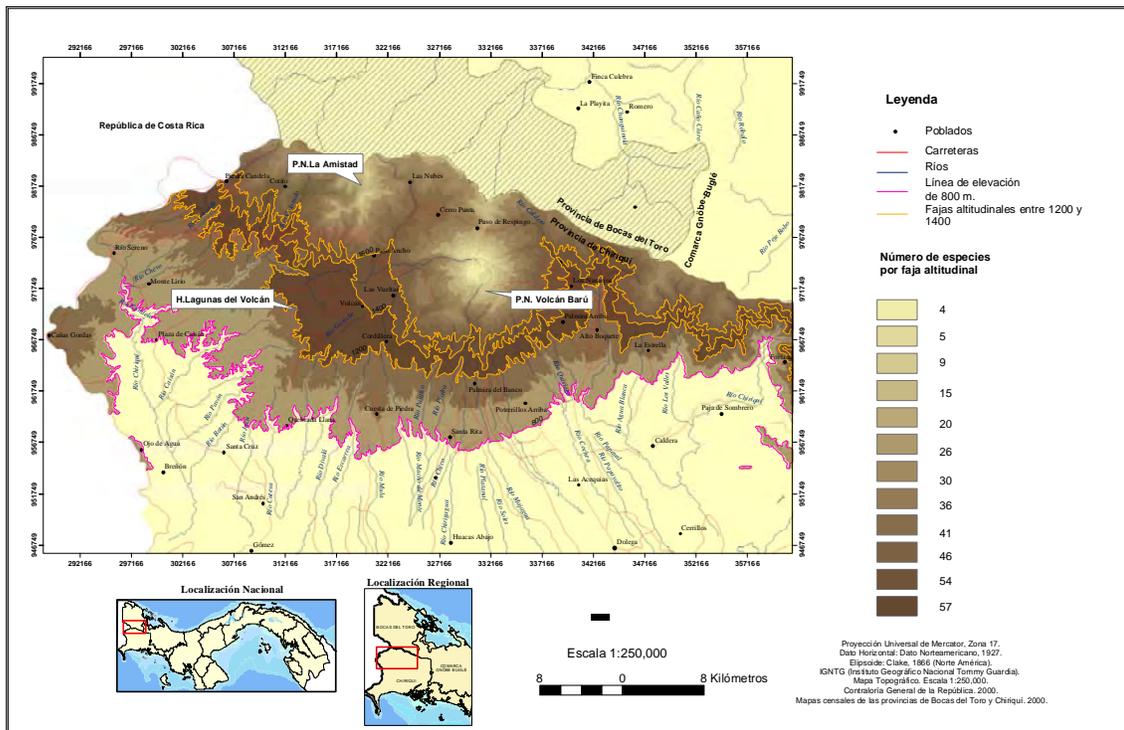
Boquete. The coffee quality is also good here. This site is quite distant from the other two, so it would not be feasible to work intensively at Boquete and another site, whereas it would be possible to work both at Volcan and Renacimiento. Also, the area is affected by urban expansion, land prices are going up, coffee farmers are being bought out of their land, and there is no long-term security of supply. In addition, there are already several initiatives for specialty coffee with which the project would have to either cooperate, if they were interested, or compete, which would be rather unproductive.

As mentioned the project has begun in the Renacimiento/Volcan area. In the last two years we have identified more than 36 farmers to work with and their land totals around 970 hectares ranging in altitude from 1280 – 1850 msnm. We have collected the production amount and varieties of each farm.

Local Partners

CI-Panama continues to reach out to potential partners in the region. Presentations and strategies have been shared with the Ministry of Agriculture, Agencia de Cooperacion Espanola, the Inter-American Foundation and Fundación Natura, the Nature Conservancy, Fundación Natura. In addition to these NGO’s partnerships the local farmers and their associations have reached out to FUNDICCEP to learn more about the Conservation Coffee program and the CCBP.

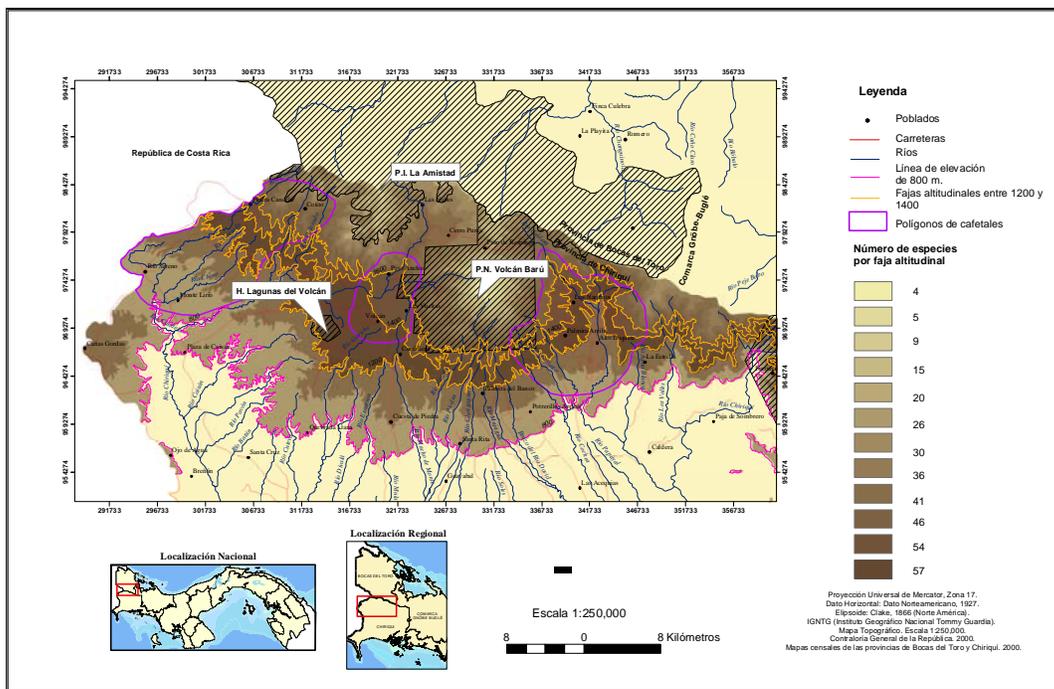
CCA Indicators and Conservation Coffee Best Practices



Map 4 Endangered Species abundance of flora and fauna according to altitude.

More than 36 farming families are involved in the Panama coffee program which contribute to the conservation of the Corridor of which 29% of the hotspot is occupied by Panama and 17% of the

country in general is located within the hotspot boundaries. Of the 279 defined endangered species for Panama, 83 or 30% are in the Panama focus zone for conservation coffee. The 83 species are made up of 34 plant species (41%), 36 amphibians (43%), 8 bird species (10%), 5 mammals (6%). There are many species that are directly affected by the Conservation Coffee program found in or near the protected area. In the Candela/Renacimiento/Volcan project there are many endemic species protected like: Birds Pink headed warblers, Black Polled Yellow Throat, Red Crowned Parrot, Escudo Hummingbird, Yellow Green Finch, Genoway’s Yellow Bat Mammals, Howler Monkeys, and many plant and amphibians. Through the Conservation Coffee monitoring guide distributed, the farmers and the communities have received environmental education in the role these species play in their surroundings. They are also actively involved in monitoring these species and recording their sightings. Most farmers to date have indicated impacts in terms of soil erosion and that the live barriers or planting shade trees in waterways has helped retain their soils. And as in Costa Rica, Panama farmers have expressed increased and frequent visits to their farms of those species they are trying to protect.



Map 5 Locations of the coffee farms in the biodiversity study:

Commercialization

CI has identified processing mills in each of the sites that give considerable attention to quality. CI and representatives of Starbucks conducted site visits in November 2004 to explain Starbucks approach and interest in acquiring coffee from Panama and to provide an overview of the objectives of the *Conservation Coffee* program. CI and FUNDICCEP then visited each producer that was pre-selected to provide coffee samples and collected the samples in December and January 2005. Nevertheless, Starbucks decided to not purchase from any of the three sites and has advocated seeking other markets for these coffees.

Likewise in Panama, CI is developing protocols and agreements with the supply chain members to have intact a thorough check on roles and responsibilities of each member and how it will support the demands of the market like, quality, sustainability, transparency and traceability. These documents have been developed in conjunction with the supply chain members in Panama.

The farmers who aligned themselves wanted to sell in the 2005/2006 harvest but coffee was not available or was already sold. In 2006/2007 farmers are more organized but confused as to who will take the lead as the exporters. Hartmann Estate mentioned they would lead this effort, but not aggressively sending samples. Delicafe on the other hand has actively sought buyers and resulted in two interests and one purchase. Coffee from the 2006/2007 harvest is only 1-2 containers, but samples have slowly been sent to potential buyers.

Finca Hartmann and Delicafe will play the role of exporter in Panama for this year's harvest. Delicafe already has good relationships with many farmers in Panama. CI is confident in its selected partners Delicafe and Finca Hartmann has done an evaluation of the companies and that they will be a good liason and exporter for the specialty coffee market, especially in the quality controls, transparency and traceability area. The farmers have decided as a group to not limit their access to the market via one exporter.

Through one of our export partners, Delicafe, we have identified a stellar coffee farm that produces a very high quality 100% typica varietal coffee. Sr. Lara's farm produces around 50 bags of coffee a year. In December Deli-café donated a wetmill to Sr. Lara to encourage Mr. Lara to process his coffee and not rely on a processor. They have also provided an incredible amount of technical assistance to Mr. Lara by hiring an extensionist to visit him weekly to help him process his coffee and maintain the quality of the coffee that is harvested from the 1850 msnm farm.

Technical Assistance

The project has held numerous trainings in the project sites to build farmers' capacity in the implementation of best practices and to facilitate information exchanges amongst participating farmers. In the site of Volcan, where no organized farmer groups exist, CI, with financial support from The Nature Conservancy has been working to establish coffee associations. CI will continue to provide support to build the capacity of these farmer-working groups. In the last two years the CI program has capacitated around 36 farmers in Panama in cupping skills, quality controls and traceability systems and the importance of each of these when providing a high quality product to the market.

CI has also identified institutions that may aid the project in the areas of future financial assistance, technical assistance and the implementation of Best Practices. CI has met with NATURA, a non-profit organization providing financial aid to environmental initiatives that support the maintenance and management of the country's protected areas. CI has also met The Nature Conservancy in Panama to discuss opportunities for collaboration.

The challenge throughout the project design phase has been the underlying feeling of frustration amongst producers in the delay of starting the project, especially after Starbucks decision to not buy their coffee. A lesson learned thus far was the error of assuming that Starbucks would buy the coffee. As a result, in 2006 FUNDICCEP designed a landscape level conservation project, in which coffee represents one of the elements in achieving this goal. CI, along with FUNDICCEP, is working to implement a project that includes agricultural activities other than coffee, as well as

ecotourism and investments to make cattle pasture less ecologically damaging. If successful, CI could thereby amplify the conservation benefits throughout the entire buffer zone of the La Amistad Biosphere Reserve.

2.4 Verde Ventures 2004-2007

Through *Verde Ventures*, USAID, Starbucks and CI seek to provide small-scale coffee producers with direct access to affordable credit. CI has used Starbucks financing for *Verde Ventures* to provide pre- and post-harvest loans and capital improvement financing to coffee producers.

Under the CCA alliance, *Verde Ventures'* goal is to provide affordable financial services to farmers and to invest the \$2.5 million line of credit provided by Starbucks in sustainable coffee and cocoa businesses within CI's priority areas. *Verde Ventures'* total investment to date with Starbucks funds totals \$4,176,400 to 14 partners located near key biodiversity areas, directly benefiting more than 6,029 people in five countries. Due to the timing of the harvests between Central and South America, *Verde Ventures* has been able to rotate funds from one area to another, which explains how the fund total exceeds \$4m. Other key data points include:

- Investments contributing to the conservation of more than 16,192 hectares of critical habitat and indirectly impacting 349,294 hectares in nearby protected areas; and
- Investments supporting the conservation of 35 IUCN Red List Species.

During FY2006, *Verde Ventures* invested \$2,235,633 of Starbucks funds in 10 partners. Since receiving the first Starbucks disbursement of \$2.5 million, *Verde Ventures* has disbursed a total of \$4,176,400 of Starbucks funds. *Verde Ventures* has been able to rotate approximately \$1.9 million of the Starbucks funds due to the cyclicity of the harvests in Central and South America. Funds disbursed to date have directly impacted an estimated 6,029 farmers in Mexico, El Salvador, Guatemala, Peru and Indonesia, directly impacting approximately 16,192 hectares within five key conservation corridors.

As a result of *Verde Ventures* outreach activities from the past fiscal year, 60 percent of *Verde Ventures* financing went to organizations participating in Starbucks C.A.F.E. Practices Program. *Verde Ventures* provided its first investments to coffee estates in FY2006. As a result, *Verde Ventures* invested 41 percent of its funds in estates and the remaining 59 percent of funds were invested in cooperatives.

In Mexico, *Verde Ventures* provided 70 percent of the financial loans needed for commercialization by the cooperatives participating in the Conservation Coffee program during the 2005-2006 harvest. *Verde Ventures* worked with two existing clients already participating in Starbucks' C.A.F.E. Practices Program, ICEEAC and Comon Yaj Noptic, providing a total financing of \$444,600 to 700 farmers. In addition to working with cooperatives, *Verde Ventures* started working with a group of sustainable coffee production estates in Chiapas. Due to their geographic proximity to each other and protected areas, these farms serve to connect the complex of biosphere reserves and terrestrial priority areas that contribute to the conservation of Sierra Madre de Chiapas. All of these coffee estates preserve remnants of intact forest in strategic sites and reforest buffer areas to contribute to watershed management and the protection of rivers and springs that cross the farms.

During October/November of 2005, Hurricane Stan caused major damage to many of *Verde Ventures'* clients in Central America. Funding from *Verde Ventures* was used to help urgently finance on-farm recovery efforts in the hardest areas of Chiapas. Without this rapid access to funding during the hurricane, this year's harvest and the resulting revenues would have been seriously impacted as funds went to help pay workers and purchase supplies needed to repair hurricane damage and ensure a productive harvest.

In other areas of work, *Verde Ventures* began its site-based biodiversity monitoring initiative in four coffee investments sites. The baselines for these projects are in progress and the project will be monitored over the lifetime of *Verde Ventures* investment to ensure biodiversity objectives are achieved.

Verde Ventures Annual Overview³	
Disbursed by VV since Starbucks disbursal in Dec. 2003	\$4,176,400
Current percentage of outstanding funds from Starbucks	72%
Amount of Starbucks funds rotated and reinvested	\$1,942,433
Number of entities invested W/Starbucks loan capital	10
Countries	Mexico, El Salvador, Indonesia, Peru, Guatemala
Number of Farmers Impacted (2005-2006)	
Mexico	1,154
Indonesia	1,800
Peru	1,440
El Salvador	500
Guatemala	1,135
Total	6,029
Number of Direct Hectares Impacted	
Mexico	5,663
Indonesia	6,258
Peru	3,209
El Salvador	172
Guatemala	890
Total	16,192

Verde Ventures has been successful in providing farmers with timely, needed access to funding in key regions of importance to USAID, Starbucks and CI. However, these successes have not come without challenges. A key challenge for this fiscal year was the farmers' need for financing before the harvest season and before coffee contracts were negotiated. This created a challenge to secure the loan and created an additional risk for the lender. In addition, there is an increasing need for financing for infrastructure improvements in estate farms and cooperatives. The lender is faced with a risk on how to secure longer term loans since most farms do not have multi-year coffee contracts and there is little collateral available. Multi-year coffee contracts would mitigate some risks and enable lenders to provide longer-term financing to coffee businesses. Other challenges include:

³ As of October 15, 2006

- The lack of management capacity by the cooperatives in Chiapas has hampered *Verde Ventures'* performance. Having a strong leader in cooperatives is important to the overall success of the cooperative and thus, our investment.
- The lack of crop insurance has proved to be an important issue this year due to the bad weather and hurricanes that hit, damaging many farms. Available crop insurance to the farmers would alleviate the risk of a partial or total loss of the harvest, thus alleviating default on a loan.
- Due to their size, coffee estate farms provide better benefits for conservation than most cooperative individual farms, since they provide more forest coverage and better connectivity between them. This provides an opportunity for the establishment of landscape conservation corridors between the farms and adjacent protected areas.

Verde Ventures will continue to work with its current clients and expand its pipeline by providing affordable and efficient financing to sustainable coffee growers with an increasing focus on C.A.F.E. Practices participants who overlap with CI's priority areas.

2.5 Case Study - Mexico

In 2005 CI completed a case study in the Mexico project and surrounding areas that proved that those farmers in the project had achieved a better price, became more organized farmers and cooperatives, better diet and living conditions for participants in the CCBP program. The location of this case study titled, *Sustainable Coffee: Increasing Income of Small-Scale Coffee Farmers in Mexico through Upgrading and Improved Transparency in the Value Chain*, can be found on the web at www.microlinks.org. This microREPORT tells about the Mexico Conservation Coffee Project and features a rural poor smallholder coffee farmers in Chiapas that achieved significant increases in their earnings as a result of sales into a higher value market channel established by the cooperation between the CCA partners. The report illustrates the importance of market leaders in linking micro service enterprises into higher value markets and in driving firm-level upgrading. It demonstrates that farmers living below the official poverty line will pay fees for services to upgrade in response to economic incentives; and identifies preconditions to private sector market leader investment in the value chain. It also shows that by developing a product with attributes derived from the place and method of production, the dynamics of the power relationship between the smallholder farmers and the buyer were changed in favor of the farmers, with a resultant increase in benefits to the farmers.

The case study demonstrates how within the project where the farmers are living below the official poverty line are willing to pay fees for services to upgrade in response to economic incentives, and that private service providers can enter the market to make impacts more sustainable. While the project made a sustained commitment to providing vital services that were unavailable, efforts were simultaneously made to build the service market. This case study identifies the following preconditions to private sector market leader investment in the value chain:

- The ability of the market leader to maintain some level of exclusivity in the market channel and a share of the consequent premiums. In this case, this was achieved by establishing a unique brand.
- The presence of a facilitating entity—in this case CI—able to take responsibility for strengthening the organizational capacity of participating smallholders and reduce the risk of noncompliance with established agreements.

By developing a product with attributes derived from the place and method of production, the dynamics of the power relationship between the smallholder farmers and the importer/roaster were changed in favor of the farmers. As a result, the benefit flow to the farmers also increased.

3. In the Supply Chain 2004-2007

The objective of the supply chain component is that vendors are providing economic benefits for Conservation Coffee. To achieve this requires cost-effective and transparent systems for documenting and verifying that investments made by companies participating in the supply chain pass down to farmers and thereby create the incentive for their adopting Best Practices.

CI's Center for Environmental Leadership in Business is responsible for the supply chain component, under the coordination of Justin Ward. During the course of the reporting period, John Buchanan joined the component to lead CI's work in implementing C.A.F.E. Practices.

Since 2000, Starbucks and CI have been working together to implement the Starbucks coffee sourcing guidelines within the Starbucks supply chain, including growers, importers, exporters, and processors. The November 2001 announcement of the Starbucks Green Coffee Purchasing Guidelines and Pilot Program for Preferred Suppliers was a significant achievement for the alliance. Following that announcement, Starbucks and CI have been working together to ensure the successful completion and evaluation of the pilot program and to achieve major progress toward establishing coffee production systems and supply chains that meet locally appropriate environmental, social and economic criteria. Specific areas of focus include:

- Design and implementation of a monitoring and independent verification framework for the program in consultation with growers, vendors and other stakeholders;
- Development of a long-term implementation strategy for the guidelines based on results of the pilot program, including the establishment of concrete goals and timetables for adoption of the guidelines throughout the Starbucks coffee supply chain systems; and
- Development of resources for good conservation practices in coffee farming and processing, created in consultation with growers, vendors and other stakeholders.

In the Supply Chain work has continued to make progress during the project. In 2004, Coffee and Farmer Equity (C.A.F.E.) Practices replaced the Preferred Supplier Program (PSP) as Starbucks sustainable green coffee purchasing program. Starbucks encouraged suppliers and verifiers that had been approved and trained under PSP to re-apply to the C.A.F.E. Practices program. By January 2005, 78 suppliers, representing 880 farms and 189 mills in nine countries, had applied to the program. Additionally, 95 inspectors had been trained by Scientific Certification Systems (SCS) to become approved C.A.F.E. Practices verifiers.

In total, during 2004, Starbucks purchased 42.5 million pounds of coffee from preferred suppliers, representing 14.5 percent of its total coffee purchases. Additional details of these developments are available in the January 25, 2005 edition of the Starbucks *C.A.F.E. Practices Program Update* and in the Fiscal 2004 Starbucks Corporate Social Responsibility Report, entitled *Striking a Balance*. Their total goal is 1,000,000lbs by end of 2007 to be certified CAFÉ Practices.

In May, 2005, Starbucks received the World Environment Center's (WEC) 2005 Gold Medal Award for Corporate Achievement in Sustainable Development. With acknowledgment of CI's significant role in the program, the prestigious award was presented to Starbucks in recognition of the company's supply chain leadership through C.A.F.E. Practices.

On several occasions during the award period Starbucks and CI have done joint presentations at major conferences to raise awareness throughout the wider coffee industry and among other business leaders on supply chain innovations for sustainability. These events have included:

- Specialty Coffee Association of America Annual Conference, Seattle, April 2005, Starbucks – CI presentation as part of *Cornerstones of Success* panel dealing with business – NGO alliances.
- World Environment Center Colloquium on “Multinationals in Developing Communities: How Leadership Companies Build Social Capital,” Washington, D.C., May 13, 2005, *An Introduction to Starbucks Coffee Company's Sustainable Coffee Guidelines: C.A.F.E. Practices 101*.
- Small Enterprise Education and Promotion (SEEP) Network, panelists at 20th Anniversary plenary discussion *Innovations in Enterprise Development*, October 2005
- National Coffee Association, 2005 Fall Educational Conference, New York City, November 2005, *C.A.F.E. Practices and the Starbucks – CI Alliance*.
- Verde Ventures participation in Starbucks partner dialogue on helping farmers access credit, Seattle, Washington, September 20th-21st, 2005.
- In April of 2006 CI presented at the SCAA highlighting the CCA alliance and as a *Case Study between NGO's and Roaster/Retailer Relationships*.
- CI-Japan and the Conservation Coffee team was invited to present at the SCAJ in August 2006 to educate the Japanese Market about *Conservation Coffee and the CCBP*.
- Conservation Coffee Team received a follow up invitation to present at SCAJ 2007 about *Sustainability in the Coffee Market – What does it mean?*

Conference participation included SCAA, SCAE, SCAJ, and Sintercafe to create awareness and educate buyers about Conservation Coffee. We have not exhibited but we have organized several important meetings with buyers in Japan, Europe and US markets.

Since 2000, Starbucks and CI have been working together to implement the Starbucks coffee sourcing guidelines within the Starbucks supply chain, including growers, importers, exporters and processors. The November 2001 announcement of the Starbucks Green Coffee Purchasing Guidelines and Pilot Program for Preferred Suppliers was a significant achievement for the alliance.

Over the past three years, USAID, Starbucks and CI have worked together to ensure the successful completion and evaluation of the pilot program and to achieve major progress toward establishing coffee production systems and supply chains that meet locally appropriate environmental, social and economic criteria. Specific areas of focus included:

- Design and implementation of a monitoring and independent verification framework for the program in consultation with growers, vendors and other stakeholders;

- Development of a long-term implementation strategy for the guidelines based on results of the pilot program, including the establishment of concrete goals and timetables for adoption of the guidelines throughout the Starbucks coffee supply chain systems, and

Development of resources for good conservation practices in coffee farming and processing, created in consultation with growers, vendors and other stakeholders

In the Supply Chain work has continued to make progress on the Best Practices program. As part of this commitment, CI participated in the August 2005 stakeholder meeting in Seattle to assess implementation of C.A.F.E. Practices to date, identify challenges moving forward and develop a strategy for overcoming these challenges. One of the challenges identified at this meeting was the difficulty associated with the interpretation and implementation of certain conservation elements within C.A.F.E. Practices, namely the requirements related to maintaining shade canopies that contribute to biodiversity conservation, and to identifying and conserving areas of high ecological value.

To address this, Starbucks, CI and other stakeholders agreed to develop Regional Guidance Documents (RGDs) for each of the Conserving Biodiversity guidelines and indicators included in C.A.F.E. Practices to provide further guidance to suppliers regarding the criteria and processes alluded to in the Generic Guidelines document. The RGDs were designed to supplement the small-holder guidelines and provide additional guidance to verifiers, extensionists and farmers on how to improve performance against the environmental principles, specifically those concerning the conservation of biodiversity, within C.A.F.E. Practices. The RGDs developed included information, such as recommended native shade tree species, as well as simple tools to help interpret and apply this information, and were tailored to include information for applying the standards to specific regions in order to account for local variations in coffee cultivation systems.

The development of the RGDs was an intensive process consisting of field visits, consultations with local experts, and literature reviews to identify those practices that provide the greatest biodiversity benefit within local contexts. Work completed in the development of the RGD consisted of:

- Survey developed and distributed to CI field staff requesting information on regional best practices for conservation in coffee production and the biodiversity benefits associated with the Conservation Coffee projects.
- Field visits conducted to each of the CI coffee programs to gather information on conservation criteria for coffee production appropriate to the local context, including: native tree species for the region; shade cover thresholds; shade tree diversity requirements; conservation set-aside requirements; and restoration planning methodologies.
 - In Costa Rica, meetings were held with CI field staff, researchers at the Centro Agronómico Tropical de Investigación y Enseñanza (CATIE) and an official from Instituto Nacional de Biodiversidad to gather information and gain expert advice on biodiversity criteria for shade coffee production in Costa Rica. CI staff also met with Carlos Mario Rodriguez from the Farmer Support Center and Ted Howes of Scientific Certification Systems to discuss the preliminary findings and discuss the format of the final product.
 - In Mexico, meetings were held with CI field staff in both Tuxtla Gutierrez and Jaltenango, as well as with experts from AMSA, and researchers at EcoSur. Site visits were also made to two farms within the El Triunfo Biosphere Reserve.

- In Peru, meetings were held with CI field staff from both the Puno and Santiago offices.
- In Colombia, meetings were held with CI field staff, a partner NGO (CIPAV), the Colombian Coffee Federation and researchers at the Instituto de Investigación de Recursos Biológicos Alexander von Humboldt.
- Final draft of the shade and conservation emphasis & restoration RGDs were developed and presented to Starbucks and Scientific Certification Systems staff. The RGDs provide additional information for growers, extensionists and verifiers on actions required to meet the criteria listed under the scoring indicators within the C.A.F.E. Practices guidelines, as well as detailed lists of native trees for each coffee growing region where CI is working and worksheets to guide producers through planning processes for identifying and conserving conservation emphasis areas. Also included is a comparison of the C.A.F.E. Practices criteria for each region with the Smithsonian Migratory Bird Center's Bird Friendly program and the Rainforest Alliance Eco-OK certification program.

In addition to this work on C.A.F.E. Practices, CI has also provided input and advice on the development of COCOA Practices guidelines to incorporate incentives for cocoa suppliers to adopt environmental and social best practices. COCOA Practices is the equivalent system being developed to address environmental and social sustainability issues in the cocoa supply chain. Throughout the year Goetz Schroth, John Buchanan and Bambi Semroc have participated in meetings discussing the concept and have provided written comments on the draft guidelines.

Additional key outcomes include:

- Documentation of the methodology undertaken to develop the regional guidance documents to ensure the ability to replicate the process in additional regions where Starbucks sources coffee.
- On several occasions this year, USAID, Starbucks and CI have done joint presentations at major conferences to raise awareness throughout the wider coffee industry and among other business leaders on supply chain innovations for sustainability. These events have included a Joint presentation by John Buchanan and Sue Mecklenburg on a panel at the Specialty Coffee Association of America's annual conference. In addition, CI's Justin Ward gave a panel presentation focused on the Starbucks – CI alliance and on C.A.F.E. Practices as an environmental leadership example at a major sustainability conference hosted by the Tuck School of Business at Dartmouth College.

Although the RGDs provide producers further guidance on meeting the Conserving Biodiversity criteria within C.A.F.E. practices and are based on the latest scientific understanding of coffee ecosystems, there is still work to be done in understanding the links between these biodiversity best practices and their impact on coffee production and quality. Further research is needed in this area to assess the impacts of these practices and how variations in shade tree species composition and canopy characteristics affect production to further inform the development of optimal thresholds for these criteria. Further work is also necessary to develop user friendly guides to the various tree species to assist farmers and verifiers in identifying the various native tree species.

Another challenge that we came across during this work was reconciling the need to set achievable thresholds on shade canopy cover for specific regions that take into account ecological, hydrological and historical contexts while maintaining the credibility of the C.A.F.E. Practices

system to reward and provide incentives for farmers to adopt global best practices. In the end we decided to set thresholds based on local context, but this is an issue that should be vetted internally and externally to ensure widespread acceptance.

The lack of available studies and data on these issues presented an additional challenge in this endeavor. There is still much work to be done in understanding the tradeoffs between sustained yields of high quality coffee and maintaining high levels of biodiversity on these farms, and identifying innovative approaches to maintain this species diversity by planting a wide range of tree species in buffer zones or on other parts of the farm.

Finally, the lack of capacity in coffee-growing regions to work with farmers on the implementation of the recommendations included in the regional guidance documents continues to present a challenge to Starbucks in the continued implementation of C.A.F.E. Practices. While the regional guidance documents provide information on the various practices and processes that are recommended for producers there is still a need to identify local agencies to raise awareness among producers and work with them to incorporate these issues into their management systems. There is still work to be done in identifying these types of agencies in each origin region.

Pending final comments and edits from Starbucks' team members, the regional guidance documents are ready for translation into Spanish for posting on the SCS website alongside the other C.A.F.E. Practices documents. Once these are piloted among suppliers, a key step will be to gather feedback from producers and cooperatives that have used the documents and incorporate this feedback into future revisions.

Market Development, Creating Awareness and Promotional Materials

Kelly Peltier represented CI in the Specialty Coffee Association of Japan trade fair, held in August 2006. For this visit and promotional activity Ms. Peltier with the support of CELB and CI edited and redesigned the Conservation Coffee Factsheets as well as developed a powerpoint presentation to accompany the visits made to roasters and importers to educate and create awareness in the market about Conservation Coffee. Ms. Peltier has enlightened the coffee industry about the Conservation Coffee concept in the USA, Europe, and Japan by attending the Specialty Coffee Association conferences of each of these markets as well as attending networking opportunities at the conferences and meeting with importers and roasters before and after the conferences.

Attending and presenting at the SCAJ resulted in very positive feedback and interest from roasters and importers in Japan. All asked for samples from the coming crop and would like to evaluate the quality and flavor profile of the CC project sites to consider them for purchase in the coming harvest season. The CI-Japan office as well as Ms. Peltier met with more than 20 Japanese roasters and importers and shared an informative dinner with the Sustainable Committee of SCAJ.

In preparation for future use of the Conservation Coffee mark in the marketplace through the CELB, CI-Japan, CI-Colombia, and Sustainable Landscapes team there have been several documents drafted to accompany the use of the mark in the marketplace as well as guidelines of its usage at origin and along the supply chain.

Additionally, the US market was explored through various phone conversations and various visits to their offices to identify those US roasters and importers that are interested in these coffees. The Costa Rica coffees do not seem to be as much of interest for the US market as do the Panamanian coffees. Perhaps because they are satisfied with their current Costa Rica suppliers and Panama

coffee is a fairly new origin for the roasters and importers spoken with. The US market is interested in the Conservation Coffee projects but not at the same level as are the Japanese. Meanwhile Japanese buyers generally tend to pay more. As harvest season comes to an end we will follow up with samples to the US market and revisit with them after they have tasted the coffees.

4. With Consumers 2004-2007

The CCA alliance has demonstrated positive impact and generated a variety of tangible customer relation benefits over the history of the relationship. Through the *With Consumers* element, the alliance has been committed to publicly communicating the connection between coffee production and biodiversity conservation to Starbucks consumers, CI supporters and the interested public. To accomplish this, CI and Starbucks have work together to develop and implement activities around:

WITH CONSUMERS:
CI and Starbucks are meeting the increasing demand for conservation coffee through developing products, raising public awareness about conservation, and promoting conservation coffee products in the marketplace.

- Exploring ways to feature Commitment to Origin products periodically within the Coffee of the Day line up;
- Creating in-store promotions around each Conservation Coffee™ product, including appropriate signage, inclusion on menu boards, a promotional feature as Coffee of the Day and partner information materials;
- Highlighting the CCA alliance through on-going communications avenues, such as on Starbucks cups and the creation of a new Starbucks – CI alliance informational brochure;
- Exploring merchandising tie-ins, such as local products from Conservation Coffee™ countries, a CI mug or tumbler and/or inclusion of Conservation Coffee™ products in Starbucks gift packs;
- Including CCA messaging in communications opportunities and materials from both organizations, including domestic and international media outreach, meetings and events, publications and websites;
- Utilizing communication channels from both organizations to announce important achievements of the alliance, and;
- Providing opportunities for Starbucks to participate in CI's fundraising dinners, including Starbucks providing Conservation Coffee™ products and CI providing complimentary tickets for a table at up to three major special events per year.

CI and Starbucks continued to collaborate on initiatives aimed at communicating the alliance's success both internally and externally in FY2006. The greatest success the alliance saw in efforts to excite external audience came in the form of the *Special Edition Conservation International Barista Bears*. The *Special Edition CI Barista Bears* were dressed as a frog or a jaguar, representative of the work we do to protect critical species and conserve the Earth's biodiversity. In addition to getting CI's message out through the Starbucks retail channel through a brief description of CI and our work with Starbucks that was included on the hangtag, it served as a fundraiser. More than 115,000 *Barista Bears* were made and the promotion sold out very quickly.

In addition to the success of the sales of the bears and communications efforts around the promotion, the collaboration encouraged additional interest from Starbucks category managers in promoting the Starbucks – CI connection through Starbucks retail channels. In August of 2006, CI began discussions with Christina Overgard, Lifestyles Category Manager, around a plush toy promotion for Starbucks spring in-store promotion. After several options were considered, with support from CI, USAID, Starbucks and CI agreed to collaborate on several plush toys depicting species from Latin America in support of interest to promote the region in spring of 2007. The plush toys will include a hang tag with a brief description of CI and the Starbucks – CI alliance with a portion of the proceeds going to support CI’s conservation efforts.

In addition, key outcomes under the *With Consumers* element included:

- Development of CI content for Starbucks www.whatmakescoffeegood.com project in collaboration with Wieden & Kennedy;
- Collaboration with USAID Global Development Alliance (GDA) Secretariat on source material covering the Starbucks-CI-USAID Alliance (appendix);
- Production and dissemination of the USAID published case study on the Starbucks – CI alliance efforts in Chiapas, Mexico (appendix).

In addition, several events also highlighted the alliance over the course of FY2006. CI worked with teams from Starbucks to highlight the CCA alliance and gain Starbucks involvement at CI’s Gala events in Washington D.C. and Los Angeles. Combined, these events during the project period drew more than 3300 consumers, business and policy leaders and journalists. CI and Starbucks also collaborated on the biannual CI event in Seattle. In addition to being recognized in all of the event materials, invitations, programs, evening signage and through the gift bag, Starbucks was highlighted as a leading partner of CI’s efforts from the podium. The Seattle event drew a highly influential crowd of over 600 participants including several Starbucks suppliers.

Finally, the CI team focused substantial efforts on internal coordination of important conversations and meetings to explore opportunities for continued alliance between USAID, Starbucks and CI. The submission of the Starbucks-CI alliance proposal in August of 2006 was the culmination of these internal conversations and discussion.

Other specific activities undertaken during this period include:

- CI provided a letter of support to the Starbucks nomination for the World Environment Center’s Gold Medal Award. A letter from CI’s Chairman, Peter Seligmann, highlighted Starbucks as an industry leader, and commended the company for its worldwide environmental performance and global sustainable development efforts. CI also supported submissions by Starbucks for consideration of the UN Global Compact Award, the Trust for the Americas Corporate Citizen Award, and the ICC/UNEP World Summit Business Awards for Sustainable Development Alliances.
- CI actively participated in the Annual Starbucks Global Leadership Forum, producing a Poster/DVD carrier for distribution to attendees. The piece, which was disseminated to over 2000 partners, enabled attendees to take the Starbucks – CI alliance message back to store partners who could not attend. The DVD contained three separate videos highlighting the

Conservation Coffee program, the Colombia Coffee project site and CI. CI's participation was well received by partners and managers at the Forum.

- In June 2005, CI supported a pilot program by Starbucks to create a new category of Coffee Educators with Starbucks Coffee CSR Diplomats. A selection of 30 Starbucks Coffee Masters, who were nominated to represent their organizational areas, including the Support Center, each US region, and several international markets, attended trainings in Seattle and at the Farmer Support Center in Costa Rica to prepare them to be "diplomats" for Coffee CSR for a two-year period. As part of the training in Seattle a CI representative gave a detailed presentation about the alliance. The goal was to provide information that the diplomats could use as they go out to present the alliance and other Starbucks CSR work to partners and groups outside of Starbucks.
- In July 2005, CI worked with Starbucks Communication Team and Cone Inc. to create a new fact sheet and update a Question and Answer document summarizing the Starbucks - CI alliance.
- In August 2005, CI and Starbucks worked to produce an Environmental Close-up on the CI - Starbucks alliance with a heavy focus on the environmental components of CI's Conservation Coffee project and Starbucks C.A.F.E. Practices that was published by McGraw Hill in the fall of 2005.
- In September 2005, CI supported Starbucks advertising agency, Wieden & Kennedy, in narrating the story of a coffee bean from seedling to harvest, tasting, processing, roasting, packaging, brewing, and drinking stages for a new website they were preparing (www.whatmakescoffeegood.com). Angela Prosek represented CI in a short interview highlighting how Starbucks is changing the coffee-growing model or economy of coffee with the C.A.F.E. Practices program and the Farmer Support Center.
- In late September 2005, CI sponsored a reception at the Society for Environmental Journalist's annual conference with the objective of creating awareness about conservation issues, as well as launching CI's new book "Transboundary Conservation". With the additional objective of increase awareness with environmental journalists from Canada, the United States and Mexico about Starbucks and CI's alliance focusing on Conservation Coffee, CI worked with Starbucks to organize a Starbucks Barista Bear serving Shade Grown Mexico coffee to the attendees.
- In September, following CI's *Hotspot Revisited* Symposium in Japan, CI's Japan office worked with Nikkei Ecology Magazine to highlight the CI - Starbucks alliance as part of an in-depth interview by CI's President, Russ Mittermeier. Nikkei Ecology's main target is Japanese companies and has a circulation of 16,625 volume/month.
- In October 2005, CI worked with members the USAID GDA Secretariat to produce a write-up of the Starbucks - CI relationship, and USAID's support of it, in a compendium of case studies of GDA funded activities.

- In March-April 2006 Starbucks created a Farmer's Story using the Conservation Coffee projects Mexico and Peru to be highlighted. This story will be viewed by consumers on the webpage as well as in stores.
- At the SCAA in 2006 CELB presented with Starbucks on a panel to highlight a case study and experience between an NGO and a roaster/retailer.
- In August 2006 CI presented Conservation Coffee Concept to the Japanese coffee market and will be followed up with an additional presentation at SCAJ2007. This presentation will include brochures and press releases with a description of the CCBP and the Conservation Coffee program and what makes it sustainable.
- Edward Millard did an interview in September 2006 for Starbucks Coffee Conversations series, which is broadcast as a podcast; it can be downloaded at: <http://www.starbucks.com/ourcoffees/coffeeconversations.asp?category%5Fname=Coffee+Conversations>

5. Building growth and sustainability and lessons learned 2004-2007

An analysis of the vision of the *Conservation Coffee* program and its major challenges leads CI to lessons learned during the life of the project, 2004-2007.

A) Growth – The CCA and the local partners in Mexico, Costa Rica and Panama all would have liked for the project expand into other Central American countries. The lessons learned from the growth aspect came initially from the Mexico project. While the project partners were actively seeking farmers and specific geographic locations that met the criteria of CI (environmental and social) and Starbucks (quality and transparency), with the purpose of expanding the best practices, there was often the reminder that the intentions of the project would not always be welcome amongst farmer partners. In some cases these farmers did not see the benefit of implementing these practices unless there was a large financial compensation involved or it simply was to labor intensive in their eyes. These were ambitious numbers and CI did not take into consideration the potential resistance found in the field. The lesson learned here is one that is common in development work, what many outsiders believe is better for a community is not always what the community believes is better for itself. The Mexico project rectified the situation by collecting the input of the farmers every year by participatory workshops with very qualified technical assistance to adapt the Conservation Best Practices and in the farmers Schools. Early involvement of the farmers in the definition of the best practices was eventually key to the success of the program and the lesson learned.

In Costa Rica and Panama there were other primary reasons for the decrease in growth that can be attributed to a conflict between conservation focus and quality coffee focus. Had this been resolved in a shorter period it is possible that the project could have expanded into other areas and grown the project to include more farmers. As a lesson learned from Mexico, from the beginning the field programs in Costa Rica and Panama constantly sought farmer input and comments while developing the project framework for these countries.

The process of selecting partners to grow the project is another lesson learned. In the selection process of processors and exporters in Costa Rica in 2004 it was assumed that these partners would be willing to immediately implement transparency and traceability systems. In the case of CoopeAgri in Costa Rica this was an uncommon procedure and would expose their lack of organization in the field and management of their thousands of farmers coffee's as well as their profit margins. Transparency and traceability are new concepts in the specialty coffee market. A few years ago, many exporters would not have agreed to these systems for two reasons: 1) traceability specifically defines where the coffees are supplied from including the farmer's name and location allowing an opportunity for the buyer to contact the farmer/mill directly and 2) transparency reveals the price and often the profit margin for the exporter, processor and farmer creating a sense of vulnerability to criticism for the amount that each party earns and is it a just price if one party is making an unbalanced portion of the final price to the buyer. These systems met great resistance to be adopted by CoopeAgri. Eventually due to market pressures and education about the systems by CI field staff and CI marketing liaison in the 2006/2007 harvest season CoopeAgri did implement a traceability system as well as has begun a transparency system. CoopeAgri should be recognized for this initiative and willingness to change.

B) Sustainability – In terms of sustainability all members of the CCA learned during the project period about long term success with respect to financial support, technical assistance, quality, supply chain relationships, and in the marketplace. Initially the concept for the project was through price premiums and increases in product sold by the project the CI team would be able to recuperate the initial investment and through these profits enough income would be generated for the program to eventually be able to support all the technical assistance and financial expenses and then CI's role would be turned over to a local partner with these income generation mechanisms. In Mexico this was achieved but not quite to the level to make the project sustainable. There was payback to the project by the farmers at certain points in the period. However, not enough to fully sustain and allow turnover to a local partner early on in the project as was the intent. As a result CI has had to maintain it's investment and support as technical assistance to the project longer than was anticipated. There are a few reasons why this happened, one is the international coffee price, the producers in the first year of the project were nervous by local buyers and intermediaries, other reasons are environmental like Hurricane Stan destroyed more than 30% of the crop, resulting in less product to sell for that harvest year; several of the farmers left halfway during the project decreasing the amount of product to collect from; quality issues did not allow the project to achieve the premium price as would have been anticipated. Thus, the project has been only partially successful in its financial sustainability.

In Costa Rica and Panama the project delays did not really allow the financial sustainability of the project to be tested. Regardless of lack of experience, these projects and the farmers involved have all agreed that a % of each coffee sale will go back to the in country partners (Fundacion Neotropica and FUNDICCEP) implementing and supporting the education of the CCBPs. In addition our export partner Deli-Café will contribute back to the project a significant portion financially so the project can sustain itself.

The technical assistance component of the project was by far the most successful attribute of the CCA and the award period. But the strong technical assistance component can be traced back to the financial support provided through the USAID funds. The intentions again were to turn over this component to a local partner. In all the participating countries each CI-office has found a willing partner to take over these roles. In order to transition these partners into sustainable technical

assistance providers and continue educating about the CCBP requires a financial commitment. Resources have been identified to support this transition period, and it is foreseen that this important aspect of the project will continue by our identified partners. It is uncertain but hopefully these partners will continue to support the project with the same enthusiasm as the CI-field staff demonstrated during 2004-2007.

Conflict in Conservation Focus Versus Coffee Quality/Cup Profile Focus – As a partnership and/or alliance each entity offers a certain skill set along with resources to achieve the general goals of the alliance. These goals are identified and assist the companies or organization in achieving their own company missions or objectives. In this case Starbucks being a coffee roaster/retailer and procuring coffee from various origins based on quality, price, and Conservation International seeking biodiversity conservation in specific areas. The lesson learned is that the priority area may not always be the same for each entity. In Costa Rica for their reasons of quality and cup profile Starbucks had focused on the Central Valley. Conservation International's priority area was not in the Central Valley and was found further south in the country in the Brunca Region near the San Isidro and Coto Brus valleys helping to protect the Chirripo and Amistad Parks and landscapes. Due to the conflict in priority areas between Starbucks and CI no true agreement was ever reached. In fact, in order to honor CI's mission in conservation the focus of the project began in the San Isidro area. Starbucks did review and evaluate coffee samples from the project the processors/exporters sent and considered purchasing the coffee from this region that did not fit the cup profile of Starbucks purchases out of Costa Rica. In the end there was no purchase offered or made and Starbucks lost interest in the coffees from the CI project area in Perez Zeledon. This set back the growth of the Costa Rica project and filtered into the development of the Panama project at least a year and a half. Regardless of the lost of opportunity to the market, from a conservation perspective, the project has been successful in educating and creating awareness in the Brunca region of the CCBP as well as implementing these practices in more than 150 farms. Despite their lack of purchase interest in the coffees from the Brunca regions Starbucks continuously has supported coffee sample evaluation and feedback about these coffees and graciously provided technical assistance and support on quality improvements to the farmers, processors and exporters in this coffee growing region.

Farmer Loyalty and Market Prices – After many years of market low coffee prices; in 2004-2005 the C market price rallied after CI-Mexico had already made the contract and price agreements with Starbucks. As farmers saw the coffee price rise and local processors and exporters were offering higher prices compared to those that were already agreed upon 4 of the farmer cooperatives left and sold their coffee to other exporters and eventually these same cooperatives formed their own export company and now are commercializing the coffee themselves. It would have been impossible at the beginning of the project to forecast such a large market rally and to be able to imagine that the market would sustain these higher prices during the buying season. While these high market prices were in the end beneficial to the farmers the CCA was not able to commercialize these coffees and deliver them to Starbucks. This affected volume supply, price premiums and the sustainability of the project. As is common in rural farming communities that rely on short term high price crops and quick cash flow the farmers did not honor their agreements and went where the price offered was higher than that in their contracts. In order to rectify this situation and prevent the same possibility from happening again, AMSA has improved their contract and price offerings to the farmer that includes a clause that triggers a renegotiation of contract and price once market prices have reached a certain amount. In addition, from a conservation perspective these farmers that left the project are

continuing to farm using the best practices. In this essence the farming methods and ecosystem conservation in their farm area has become sustainable.

A Quality Product is Critical in Private Sector Alliances – As described in earlier sections Starbucks has certain quality and cup profile criteria that must be met in order for them to purchase it and use it in their coffee blends. Brand loyalty and reputation in the consuming market and more specifically in the specialty coffee market is based on the quality product that a company consistently delivers to its consumers. Starbucks is known for its ability to deliver this quality product consistently throughout the global coffee market. As Starbucks developed the relationship with CI quality was and is a high priority such that the CCBP is limited to working with coffee farms above certain elevations due to the common knowledge that the higher the elevation of a coffee farm the higher quality coffee bean it will produce. As the project was implemented according to these elevation guidelines there were still issues that came up throughout the project in Mexico and Costa Rica about delivering a quality product. Hurricane Stan also affected this as roads were washed away, and much damage was done to the coffee farms limiting the development of the bean. Additionally, if the coffee is not closely monitored during processing by the farmer and or exporter the inherent quality of the coffee bean can be lost or damaged due to human error or oversight. There was a struggle in some harvest seasons to meet volume commitments with the same quality of the bean found amongst the lots. In the end Starbucks forfeited the volume amount and preferred to receive only the coffee that met their quality requirements. This began a sense of Starbucks losing faith in the reliability of the projects ability to deliver a quality product, annually and on a consistent basis. Starbucks has been very understanding in this respect and continues to buy the coffee from the Mexico project, but only that which meets their quality standards. This commitment to quality and cup profile is eventually what set back the Costa Rica project and slowed the growth of the Panama project. However, in Mexico while there were a few years that the quality suffered, recently the quality has improved especially in this last harvest season.

Assumptions Starbucks Would Buy All the Coffee – Following up the quality point comes the second part of any commercial transaction and that is the final purchase. As is true in any business situation if the quality criteria are not met product offerings get rejected or there is agreement amongst the parties to null the contract promise. In this project this aspect was not taken into consideration and it was assumed that the guidelines had captured all the variables in the delivery of a quality product. As the alliance later learned it is not an obligation by Starbucks to buy all the coffee that comes from the project sites and Starbucks has the valid argument that it did not fit their quality or cup profile standards. This event sent a clear message to the project field programs and as a result required them to restructure, reformat and review all the supply chain partners initially determined in the project sites. And in some cases caused project sites to be abandoned and explore new ones. A lesson learned is to assure you have optional outlets for your product (most of the time it can be sold locally) and it is important to diversify your commercial chains and have a constant education and awareness in the market. Because Starbucks was up to this point the only considered buyer for the coffee from these projects, there was a lack of continuous market awareness and education amongst the coffee industry members. Thus beginning late 2005 until the end of the project much networking, education, and creating market awareness activities have been implemented to reestablish the Conservation Coffee concept amongst importers and roasters in USA, Europe, and Japan. It has resulted in an increased interest in the projects, their status, and their potential in delivering coffee that has been rejected by Starbucks to alternative buyers. As a result during 2005 - 2007 the alliance has agreed to give the first option to Starbucks for coffee purchases and if they choose not to purchase the product or the price offering is not competitive it is

agreed that export partners can and should seek alternative buyers for that coffee. While the coffee industry is becoming more and more educated, it should be noted that there is much awareness amongst consumers about the success of the project.