



Responsible Sourcing Partnership Project

**Strategic Objective: Providing strategic trade-related technical assistance
to selected MSE industries**

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Acronyms:

BSD	Business Sustainability Development
CBD	Café Bom Dia
FLO	FairTrade Labelling Organization
FGV	Getúlio Vargas Foundation
GPS	Global Producer Services
M&E	Monitoring and Evaluation
RA	Rainforest Alliance
RSP	Responsible Sourcing Partnership
SCAA	Specialty Coffee Association of America
SEBRAE	Brazilian Small and Medium Enterprise Support Agency
SKU	Stock Keeping Unit
TFUSA	TransFair USA
UFLA	Universidade Federal de Lavras/ Federal University of Lavras
USAID	United States Agency for International Development

Executive Summary

Project Background

The 2007-2010 Responsible Sourcing Partnership (RSP) is an innovative public-private partnership between USAID, TransFair USA (TFUSA), Café Bom Dia (CBD), Sam's Club and Wal-Mart Stores that seeks to link Brazilian coffee farmers with mass market coffee consumers in the U.S. through Fair Trade Certified products. The RSP furthers USAID/Brazil's goal to promote participation of Micro and Small Enterprise Brazilian coffee producers, including small rural producers, in the global market, using the following three working components:

- Component One: Expanding and improving the quality of supply
- Component Two: Increasing producer capacity
- Component Three: Raising the marketing capacity of Brazilian coffee growers

With cash and in-kind contributions from all partners totaling US\$1.9 million, the RSP project provides technical training and investment in farm and cooperative infrastructure to benefit more than 4,500 smallholder farmers in Brazil. At the end of the three year project, farmers and cooperatives will have the advanced skills necessary to meet market demand for high volumes of Fair Trade Certified coffee.

Quarterly Report April 1, 2008 – June 30, 2008 (QIII 2008)

This QIII 2008 report covers the period from April to June 2008. Notable progress was made in each of the project components during this time period. During the third quarter the producer groups involved in the project made strong connections with important industry members working in the US market that resulted in significant sales growth. In close cooperation with SEBRAE Minas Gerais, TFUSA facilitated the travel of two SEBRAE representatives and eight producer representatives to participate in the annual Specialty Coffee Association of America (SCAA) conference in Minneapolis in early May. Their participation at SCAA not only created new, important relationships with potential buyers, but also gave the producer representatives valuable insight into the workings of the US coffee market. To augment the experience, producers attended an in-depth marketing training held by TFUSA and were given electronic copies of *The Guide to the US Coffee Market*, produced in English and in Portuguese.

At SCAA, producers were also able to learn about the efforts of Café Bom Dia to place their products in Wal-Mart and Sam's Club-stores in the United States. Producers spent time with Café Bom Dia executives and visited a Sam's Club retail location to observe marketing of their product in the store. CBD shared information with the producers about the product launch of the Fair Trade Certified coffee from Brazil in Wal-mart stores that began in April and has resulted in very encouraging sales figures for both Café Bom Dia and Wal-Mart. Fair Trade Certified's first appearance in Wal-mart, the largest retailer in the world, offers an unparalleled opportunity to reach a large number and broad

range of consumers. Preliminary feedback indicates that Wal-mart plans to expand into new products due to the success of the initial launch.

Another major achievement of this quarter was the awarding of infrastructure grants to producer groups through the project's *Infrastructure Grant Program*. The Grant Selection Committee received 10 proposals from 9 of the participating producer groups. The selection committee was pleased to award 5 of the 10 producer groups with infrastructure grants based on the quality of their proposals and the impact of their proposed projects. Two of the groups will use the grants to install additional drying patios which will have an immediate impact on the quality of their coffee. Two other groups will use the infrastructure grants to purchase mobile coffee hulling units designed to meet the needs of producing members within their communities. The fifth infrastructure project will help the final recipient group expand and strengthen their depulping capacity. All of these small grant projects will have an immediate impact on coffee harvested in the current season. To ensure the continuation of the grant program and allow for future proposals and infrastructure projects, RSP project partners came together and initiated activities to raise additional funds to support a 2009 program.

During the third quarter, the Federal University of Lavras (UFLA) became an implementing project partner through the participation of an UFLA representative in the Grant Selection Committee. UFLA is well positioned to assist the RSP on all aspects of coffee production and brings significant technical capacity to the project team. The addition of UFLA into the project is very positive as they have the potential to supply technical and institutional resources beyond the scope of the Selection Committee.

UFLA is participating in the RSP project in other ways as well. This quarter, post-harvest quality specialist Professor Flavio Borem from the university gave a post-harvest handling training to more than 150 producers from RSP program participant groups. This event was organized by UFLA in cooperation with SEBRAE, Café Bom Dia and TransFair USA. The training was held at a major agricultural exposition in Minas Gerais and offered producers relevant information on topics related to coffee quality improvement. At the event, producers also had the opportunity to receive technical consultations at the SEBRAE booth and were able to glimpse the newest coffee technologies at the exhibition. TFUSA visited UFLA on two occasions in QIII and initial consultations have been made about the possibilities of preparing a customized quality training for FY2009 administered by UFLA professors.

TFUSA is leading efforts to organize the first ever Fair Trade Certified Cupping Competition in October 2008 with participation from all the project partners. This landmark event will be launched in Brazil with the expectation that it will be duplicated in Fair Trade Certified coffee producing regions around the world. The planning phase is well underway; initial preparations have begun for a cupping training targeted toward producer groups that will prepare them to participate in the Cupping Competition. The training will be carried out during QIV and will focus on quality evaluation. Cuppers from each cooperative will receive additional quality evaluation training from Café Bom

Dia's Quality Control Supervisor and they will be taught the cupping rules and regulations in line with SCAA standards.

The Cupping Competition itself will be held in October 2008 and will be judged by an internationally known panel of expert cuppers. TransFair USA will leverage its relationship with prominent members of the coffee community in the United States to encourage a high level of international participation at a final awards event, tasting and auction that will be held to recognize the winning coffees. The producers were informed of the upcoming event at a producer meeting on June 19th in Varginha.

Based on the analysis of the diagnostic studies that were completed at the start of the project, it is now possible to monitor the key project indicators. This analysis has been combined with input from all participating producer groups and partner research to scope out tentative content for management trainings. In the upcoming quarter project staff will work to identify trainers to focus on areas of need that do not currently receive attention from other entities providing training to the groups, such as administrative training to the principally young, female staff members often charged with running the offices.

The third quarter steering committee meeting was held on June 18th at the Café Bom Dia offices in Varginha. Project partners validated ongoing activities and approved planned initiatives for the upcoming quarter. TFUSA also held a strategic meeting with producers to review project successes to date and to solicit input regarding the planning of upcoming project initiatives and activities.

Spending increased significantly in the third quarter, from \$51,751 to 200,337. This increase is indicative of a project that has reached a critical momentum and is in full implementation. Of the total spending for the quarter, more than US\$130,000 is RSP partner cost share contributed by CBD, SEBRAE, BSD and TFUSA. It is anticipated that the fourth quarter will see a similar level of spending and that year one targets will be met.

Activities and Deliverables

This third quarterly report concentrates on project activities and results achieved during the period of April to June 2008.

A. Activities related to Project Start up and Monitoring

The majority of project start up activities establishing the project management foundation were completed and reported on in the first and second quarters. Additional progress and results in the third quarter will allow us to officially close the Project Start Up portion of the work plan and focus on technical initiatives as listed in the following sections.

The Steering Committee conferred and has decided to forgo a formal launch event in favor of a press conference in association with other planned project activities. This press event is tentatively scheduled to take place at the Brazilian Fair Trade Certified Cupping Competition that will be implemented later this year. By combining the two events we can share the costs associated with a launch with pre-established project activities that would already unite the necessary stakeholders and ensure that there are significant project accomplishments to announce and celebrate.

A.6 Baseline and Diagnostic Survey

In the third quarter, TFUSA completed the final intensive diagnostic studies designed to create baseline information against which we can measure progress throughout the course of the project. The diagnostic results are also significant in establishing the necessary technical assistance programs for each cooperative.

In early April, local project manager Beat Grüninger visited the final two groups awaiting diagnostic studies in Espirito Santo. All of the information gathered during these visits and the previous visits conducted by SEBRAE consultant Vanusia Nogueira has been analyzed and consolidated into a single tool that will allow project staff to easily track advances during the project. This tool has been produced in both Portuguese and English to facilitate sharing amongst project partners. Follow-up informational studies to analyze cooperative evolution and track performance indicators will occur early in calendar year 2009.

B. Results of Project components

The following sections outline the three program components with main achievements in QIII 2008 summarized for each.

Component One: Expanding and improving the quality of supply

“Expanding and improving the quality of supply through investments in infrastructure and training and technical assistance in production, post-harvest handling and processing, especially related to organic conversion. Under this component, the team will focus on transferring best practices in production and quality evaluation techniques to producers and producer organizations through training and technical assistance. The team will achieve this goal through four key activities (1.1. to 1.4.).”

1.1. Upgrade Processing Methods and Infrastructure

The third quarter saw major advances in the *Infrastructure Grant Program* that rolled out a Request for Proposals in March, 2008. Participating producer groups showed great enthusiasm and impressive analytical skills in the proposals that were submitted. TFUSA received a total of ten proposals representing nine Fair Trade Certified producer cooperatives, as well as one additional proposal from a group undergoing the certification process. Groups were given four weeks to analyze the Request for Proposals, approach the local project manager with relevant questions, and submit detailed project plans and justifications, a timeline which they all met. All of the proposals were technically sound and focused on the specific challenges faced by each cooperative.

A *Grant Committee* was established to determine the winners of the grant awards and included representatives from TransFair USA, Café Bom Dia, SEBRAE, the Getúlio Vargas Foundation (FGV) and the Federal University of Lavras (UFLA). The committee members worked independently to apply the grant criteria and scoring sheet, evaluating and scoring each proposal on a matrix of common criteria (see summarized matrix in Appendix 2). *Grant Committee* members assessed the proposals based on applicability to specified program scope, justification for proposed projects, cost-benefit ratios and long-term project sustainability and efficacy. The group gathered in Varginha at the offices of Café Bom Dia on May 19th to compare their individual evaluations and reach consensus about award recipients.

The *Grant Committee* was pleased to find that the members’ individual conclusions on the proposal analysis were unanimous. Two of the ten grant proposals did not fall within the scope of the program terms of reference (which focuses exclusively on infrastructure improvements that attend to a significant population within the applicant cooperative)¹. These two proposals received composite scores of 212 and 150 out of a possible 500 on the scoring tool used by

¹ Eligibility for the grant program was established through three criteria: a. The producer group is a FLO approved applicant for certification with a producer ID or is FLO certified as a Brazilian Fair Trade Certified coffee group with a valid FLO certificate; b. The producer group completes a full written application in line with the terms of reference; c. Grant proposals must focus on infrastructure investments that have a demonstrable positive impact on coffee quality.

the committee. Two additional proposals were rejected due to inappropriate budgetary and target population scope, causing them to receive lower scores than the other proposals.

The remaining six proposals all fit securely into the scope of the program and were analytically sound, well-written, and effectively presented. Composite scores of the successful proposals ranged from 425 to 375, out of a possible 500, and all *Grant Committee* members agreed that those six proposals deserved awards. The groups were subsequently contacted to revise a few details that remained unclear to the evaluating committee, but all six were approved. Unfortunately, upon reviewing its proposal, one group decided that their proposed project was not the most apt for them at this time and subsequently withdrew from the grant program.

Summaries of all submitted grant proposals are presented in Appendix 3.

TFUSA worked with local legal council in Brazil to prepare applicable grant agreements that were signed with the groups. The first allocation of funds, 75% of the total of each grant, will be transferred to the awarded groups in mid July. The combined value of awards in the first round of small grants is approximately \$142,000. This round is funded completely by Café Bom Dia. Project work to implement the proposals will begin immediately upon receipt of the funds and project completion times vary greatly according to project scope. The majority are designed to be completed within a few months time, which will allow results of the projects to manifest in this first harvest season of 2008.

TFUSA is currently working to identify the proper technical experts to, where necessary, assist the group in implementing their infrastructure programs effectively meeting construction, installation and utilization best practices. This step is central to ensuring that grant program funds are properly used and that maximum value for the producer groups is guaranteed.

1.2. Production and Post-Harvest Processing

On June 18th, the RSP project partners and local partner SEBRAE hosted a producer training event focusing on proper post-harvest processing techniques at the Expocafé event in Três Pontas, Minas Gerais. Expocafé is known as the largest national coffee-related trade show in Brazil and annually unites over 30,000 participants including coffee producers, technical specialists, researchers, and students. In this eleventh annual show, nearly 150 different businesses and institutions were represented, displaying the latest in coffee technology and sustainability in the production system. In fact, the theme of this year's show was, "Coffee with Environmental Responsibility."

A total of 158 producers representing six different Fair Trade Certified producer groups were bussed to the event by SEBRAE to participate in the post-harvest practices training. Short presentations to introduce the topic were made by Juliano Cornelio from SEBRAE, Julia Delafield from TransFair USA and Sydney Marques de Paiva from Café Bom Dia. Professor Flavio Borem, a prominent Post-Harvest Coffee Quality expert from the University of Lavras, was the main speaker, presenting to the groups on over-arching coffee quality issues and practices affecting final product quality. The two hour talk addressed common questions among coffee producers, such as where to physically place a drying patio, the benefits of de-pulping coffee and differences in the processing methodology for natural versus de-pulped coffee. Prof. Borem tailored his talk to the producer audience, eliciting a high level of producer participation and eliciting questions.



**Producers participate in the
Post-Harvest Practices Training at Expocafé**

In light of this successful training and their participation in the *Grant Committee* to determine award winners of the *Infrastructure Grant Program*, it is obvious that the University of Lavras has become an important partner in the RSP project. Project staff visited Prof. Borem in his offices on June 20th to talk about training outcomes and feedback and to discuss possible future collaboration on more coop-specific trainings further into the project. All parties agree that this introductory training was very helpful on a theoretical level, but the producer groups need on-site, individually-focused assistance with smaller groups of farmer participants to cement the theoretical learning. With collaboration from SEBRAE, the RSP project hopes to engage Professor Borem for a series of on-site trainings during the 2009 harvest season that will support producer groups in identifying and resolving specific quality issues through improved post harvest processing techniques.

1.3. Quality Evaluation Practices

In QIII, the project team began preparations for a national Brazilian Fair Trade Certified Cupping Competition. See Section 3.1 for a full description of this initiative. As part of this event, the RSP project will host a training in QIV

focused on product quality evaluation in preparation for the Fair Trade Certified Cupping Competition in October. Much of the planning for the training was completed occurred in QIII. Project staff visited the Center of Excellence training facility in Machado, Minas Gerais in June to see if it would fit the needs of this particular initiative. During the visit the team met with the facility administrative staff to discuss availability, capacity and related costs after which they reached a preliminary agreement of terms of use for the cupping training. Facility administrators have agreed to donate the use of the cupping laboratory and the surrounding campus in solidarity with the RSP project objectives. Project partners met extensively and consulted with Brazilian cupping expert Silvio Leite to create the concept and general strategy for the training.

The quality evaluation training will be held in July. Groups will designate an already-trained cupping expert, when possible, from within their organization to attend a 2-day event at the training facility. Quality Control Supervisor Jack Robson Silva from Café Bom Dia will develop and present the technical content of the training to all groups participating in the RSP project. The first planning meeting between Silvio Leite and Jack Robson is scheduled for early July and will result in clearly defined strategy for the training event.

1.4. Organic Market Access

As a final step in the demand assessment of organic Fair Trade Certified coffee from Brazil conducted by TFUSA's Miguel Zamora in QII, the major organic buyers in the United States were invited to engage directly with producer groups attending the SCAA annual conference. In April TFUSA reached out to the largest importers expressing interest in Brazilian organic coffee and arranged for them to meet with the two Fair Trade Certified groups attending the conference that also hold organic certification. These two groups were in high demand at SCAA and interacted with many buyers on the basis of their organic certification.

Initial results from the conference show that successful market linkage occurred. Strong commercial ties were forged with these organic certified groups and at least two US importers have followed up through correspondence and visits to arrange future purchases. One major Fair Trade Certified importer has even planned a tentative visit to see all of the organic Fair Trade Certified groups in Brazil later in 2008.

Component Two: Increasing producer capacity

“Increasing producer capacity through organizational strengthening in key operational and strategic areas, including financial management, operations, and marketing (2.1-2.4).”

2.1. Business Management Capacity training

In QIII TFUSA worked to define business management needs and strategies among the participating groups, analyzing their current structure and constraints. This analysis was conducted by reviewing results from the diagnostic studies and combining information gathered during those studies with anecdotal evidence and producer group interviews in order to have a complete view of the business capacity of each group.

The maturity level of the groups varies widely and makes a generic response to business management needs difficult, but project staff identified a common theme that will be a focal area of the business management capacity training. All of the Fair Trade Certified producer groups in Brazil hire administrative personnel who often receive little to no training. Most of these employees are young women, often appointed because of their familial ties or the cooperative's scant resources. The cooperative presidents and managers are frequently invited to participate in trainings and capacity building activities, but the administrative staff rarely partakes in such events.

By the end of this fiscal year, TFUSA will identify a service provider who can provide instruction to all of the administrative staff members in an off-site, one-time training. The event will target basic financial, cooperative and sales administration. Participants will also work to establish basic information management systems designed to handle the needs of the groups, depending on their size and complexity. Upon completing the needs assessment, RSP project staff has resolved to hold the training in the first half of fiscal year 2009. After identifying the correct service provider, TFUSA will work with partner SEBRAE to establish the best means for implementation of this project component. Follow-up will be conducted throughout the 2009 calendar year to ensure implementation and correct application of training topics.

2.2. Governance and Board Development

During the third quarter the RSP project also advanced greatly in the area of governance and board development training. As mentioned in the QII 2008 report, TFUSA's strategic partnership with SEBRAE has been essential in completing this project component. Over the course of this calendar year, SEBRAE has been carrying out a series of trainings on governance, board development and cooperative culture. The trainings are being run by Andrea Salerno, a specialist in organizational development and group coaching. A total of six groups have already participated in SEBRAE's training course: Coopfam, Coocaminas, Coopervitae, Unicapfem, Unipasv and Associação dos Costas. Most of the meetings are conducted in an open, workshop style but Andrea also calls separate board meetings to cover important issues crucial for the functioning of Fair Trade Certified groups. The following topics are covered in the sessions: Increased awareness of the importance of collaboration in groups, leadership and

governance, networking, board planning and monitoring, and inclusion of women in leadership and cooperative meetings. The methodology used for this component consists of monthly workshops for each group, with customized topics to suit specific needs. Special emphasis has been placed on addressing challenges unique to some of the groups. For example, in the past quarter the group Sampaio officially disbanded and joined the already-existing Coopervitae (see section 2.4 for further detail). SEBRAE officials worked with Coopervitae administration to address potential challenges surrounding the fusion of the two cooperatives and to promote growth and common goals in the community.

Between January and June 2008, a total of 37 group meetings were conducted with a total of 1,209 participants (835 men and 374 women), with 75% of the training workshops or 28 sessions, conducted in the second quarter. The focus in the second phase of the training is to work on collaboration between all Fair Trade Certified coops in southern Minas Gerais including Coopool and Coocafe who have not yet received training, and to reach out to the two groups in Espirito Santo.

2.3. Supply Chain, Quality MIS and ICS Management capacity increased

No specific work was done under this project component in QIII. Preliminary analysis of the existing systems within participating groups showed a wide range of current intellectual and technological capacity designed to meet information management system needs. While TFUSA will work to research options for more in-depth participation in this area, the administrative training discussed above in 2.1, *Business Management Capacity*, was identified as a necessary first step toward establishing the basic knowledge and systems needed to proceed in this area. Therefore, more in-depth activities will be postponed until later in the project cycle.

2.4. Certification Compliance and Outreach

Fair Trade Certification Update

During the third quarter, two significant changes occurred in Fair Trade coffee Certification in Brazil. First, the certified group Sampaio opted to renounce its individual certification and join with another Fair Trade Certified group, Coopervitae. This change does not affect the overall number of producers participating in the RSP project, but is important to note nonetheless as the new management and reduced number of producer groups will need to be addressed in project planning.

Second, a new producer group gained Fair Trade Certification this quarter, União de Pequenos Produtores de Cafés Especiais dos Martins, or UNICAPFEM. This group has participated in some project initiatives because, since project initiation, they were far along the path toward certification. Now however, they represent 53

new producers in the Fair Trade system in Brazil. This new cooperative has the capacity to produce approximately 300 metric tons of export quality coffee a year, creating a significant addition to the country's overall Fair Trade Certified coffee supply, and it is known for its high quality standards.

Taking these changes into account, the RSP project is now working with a total of ten producer groups in Minas Gerais and Espirito Santo. A chart representing the updated composition of producers reached by this project can be found in Appendix 1.

Fair Trade-Rainforest Alliance Dual Certification

The third quarter also saw continued progress on the dual Fair Trade Certified, Rainforest Alliance (RA) certification of the participant group Coocafé. As mentioned in the QII report, RA's Brazilian implementing partner, Imaflora, began a series of trainings in Coocafé in February under their GEF/UNDP funded *Institutional Capacity Development Project for Socio-Environmentally Certified Coffee Cooperative Associations* project. The original week long visit by Imaflora technical specialists was followed up by another visit from the 26th through the 30th of May. Two technical experts from Imaflora's partners EcoSistemas and Ecoflora held a meeting on May 26th with the technical assistance team from Coocafé and 60 producers that had expressed interest in learning more about the RA certification process. As part of the meeting, the team visited farms in three different municipalities to ensure a complete overview of the diversity of Coocafe's farm types and geographical scope. Each farm was analyzed for eligibility under RA's certification system and the assembled team of technical specialists met repeatedly to discuss weaknesses and possible points of contention, thereby training the Coocafé technical assistants in preliminary diagnostic work.



RA Certification lecture to Coocafé producers

After the four days of field visits, Coocafé technical assistants felt prepared to analyze potential farms seeking RA certification and to give advice and technical assistance to farmers about how to reach certification standards. Coocafé is

working to identify the producers most able to successfully complete certification and is working with them using Imaflora's guidelines. They plan to start with the certification of just a few farms and gradually increase the number of participants in the program, as the criteria for RA certification are quite different on the farm level than those of Fair Trade and not many farmers are currently prepared to participate. Those that enter initially will serve as model properties and encourage wider participation within the coop. When all analysis and preparation has been completed, Coocafé will ask Imaflora to return for an on-farm inspection leading to certification.

Component Three: Raising the marketing capacity of Brazilian coffee growers

"Raising the marketing capacity of Brazilian coffee growers who will undertake to improve the reputation of Brazilian coffee and the awareness of Fair Trade's impact. These efforts will take place through producer-driven marketing initiatives that not only support the sale of their most lucrative products (Fair Trade and organic) but also educate consumers in Brazil, Japan, and the U.S. that Brazilian coffees can offer high quality and great value (3.1 – 3.3)."

3.1: Leveraging Partner Experience

Wal-Mart Fair Trade Certified Launch

On April 1, 2008, Wal-Mart launched a major sustainability campaign focusing on Fair Trade Certified coffee products in all of their over 4,000 Wal-Mart Supercenters and regular store locations in the United States. This new line of sustainable coffees features three Fair Trade Certified SKUs which source directly from Café Bom Dia and therefore draw solely from the Brazilian producer groups participating in the Responsible Sourcing Partnership.

Sam's Choice coffee, Wal-Mart's first privately labeled Fair Trade Certified product, was rolled out prominently in all stores. The new product was displayed in the sought-after end cap position in the stores, meaning that it was displayed in the noticeable aisle end area as well as in a typical product aisle grouped with similar items to increase visibility. The coffee's launch was also coordinated through campus events at the University of California, Berkeley and the University of Arkansas, a national media interview on Fox & Friends with Josh Dorfman, author of "The Lazy Environmentalist," local media exposure through satellite television and radio interviews, and interviews, and advertising on in-store radio and the magazine for associates, *Wal-Mart World*.



Fair Trade Brazilian coffee on Wal-Mart end cap displays

Following up on the Earth Month² launch, Wal-Mart and Café Bom Dia organized one-day tasting events inside 1,100 Wal-Mart stores during May and June. In these special displays, Fair Trade Certified coffee was presented with other environmentally-friendly and sustainably-focused products in front of select stores to highlight Wal-Mart's commitment to these issues. More than 275,000 Wal-Mart shoppers took the opportunity to sample the new Sam's Choice coffee and learn more about Fair Trade. All stores that participated in the tasting events experienced increased unit sales of Fair Trade Certified coffee.

The coffee is being sold at \$5.88 per pound, an extremely good price designed to put Fair Trade Certified products within the price reach of the mainstream consumers who shop at Wal-Mart. This monumental marketing and sales campaign represents the culmination of Café Bom Dia and TFUSA efforts over the course of years. The creation of the public private partnership behind the RSP project was a direct result of these efforts and this new and highly visible public event should drastically alter the scope and reach of Fair Trade in the United States. Wal-Mart's feedback to TransFair USA has been extremely positive. The coffee has been selling so well that they are looking to expand the scope of product offerings this calendar year.

Sam's Club Support for Fair Trade Certified

For the week leading up to Earth Day in April, Sam's Club featured Brazilian Fair Trade Certified coffee produced by Café Bom Dia under the Marques de Paiva line in a "cart rail" display highlighted at the entrance to the club. With much dedication from both Café Bom Dia staff and Sam's Club employees, unit sales of Fair Trade Certified coffee increased by 26 percent during the intensive marketing period.

² Earth Month refers to a celebration of the month in which Earth Day falls. Earth Day has been commemorated in the United States annually on April 22 since 1970 to raise awareness of environmental issues and to bring together activists searching for solutions to these issues.

Sam's Club also featured Fair Trade Certified coffee during a pilot promotion for sustainable products called "Play your Part." More than 5,000 club members learned about Fair Trade Certified coffee during one day sampling events at more than 20 clubs and the coffee was featured in prominent end cap displays.

TransFair's Guide to the US Market

This quarter TFUSA was also able to further another key area of the marketing component, providing media and marketing training to the cooperatives. Before the annual Specialty Coffee Association of America (SCAA) trade show and conference at the beginning of May, TransFair USA's marketing tool the *Guide to the US Market*³ was translated into Portuguese and burned onto discs also containing the Spanish and English versions of the tool. The CDs were handed out to all Brazilian producers that attended the SCAA conference and an overview of how to use the guide was given in a special producer meeting with TFUSA.

Farther along in this project, the market guide tool will be disseminated to a larger audience of participating producers during a series of market training modules at the cooperatives.

SEBRAE Market Training

On April 15th, SEBRAE held a marketing training at the Center of Excellence in Machado, Minas Gerais. Seventeen representatives of nine groups, including two women, participated and learned about exportation techniques and marketing methods. The goal of the training was to prepare the representatives for participation in the annual SCAA conference – the first visit to an international trade show for all producers involved. Participants focused on commercial representation and best practices for meetings and conversations with potential buyers. All of the groups were offered some form of financial support to assist them in attending the SCAA and of the nine groups participating in the training eight were able to attend SCAA in Minneapolis, Minnesota. One group did not make the show this year due to delays in obtaining travel documents.

Fair Trade Certified Cupping Competition

As mentioned briefly in the QII 2008 report, under the RSP project TFUSA is planning the first ever Fair Trade Certified Cupping Competition in Brazil. Project staff and members of other TFUSA strategic departments have engaged with a number of the most prominent coffee cupping and quality specialists in the world to create a strategy for this competition.

³ As mentioned in the QII 2008 report, TransFair is the proprietor of a comprehensive guide designed to introduce Fair Trade Certified cooperatives and cooperative members to the US coffee market.

At SCAA, in Brazil and in the TransFair USA offices, meetings have been held with such renowned professionals as Kenneth Davids, cupper, journalist and coffee specialist, Mané Alves from Coffee Lab International and Silvio Leite from AgriCoffee in Bahia. Café Bom Dia has offered the services of its quality specialist Jack Robson Silva. He will team up with Silvio Leite, founder of a number of well-known cupping events in Brazil, to prepare the details of this major event, which is planned for the second half of October.

Initial planning has been completed and the general timeline of events leading up to the Cupping Competition has been firmly established as part of the QIII project plan. As a first step, during the third quarter producers will receive training in coffee cupping and pre-selection of coffee samples so that they can internally narrow the pool of samples to be submitted to the competition. Gathered samples will then be screened and further narrowed by a team of national cuppers including the cooperative cuppers trained earlier in the process, allowing them to prove and refine their quality analysis abilities. In October, a team of international experts, including industry members from the United States and Brazil, will convene in Brazil to conduct the final judging of samples. RSP partners have solicited the use of the Centro de Excelência de Café (CEC) cupping and training facility in Machado, Minas Gerais, to host the final evaluation round. Project staff visited this facility during QIII and determined that it is an ideal location to hold this event, as it has all of the technology necessary and is in close proximity to the producers.

To showcase the results of the competition, an international business and media event will be held in Minas Gerais. Throughout the day prominent Fair Trade Certified buyers from the United States will meet to sample and bid on the winning coffees. A silent auction will be held with sealed envelope bids for the top twenty quality coffees. In the afternoon a press event will be held at the SEBRAE Minas Gerais offices in Belo Horizonte to announce competition winners and prizes and to present to date accomplishments of the RSP project. This press event will also allow an opportunity to announce key achievements of the RSP project during its first year of operation.

This event will be a major accomplishment for the RSP. Preparations are well underway to ensure that the event is successful and is acknowledged as meeting international standards. As mentioned, preliminary meetings were held with many stakeholders in QIII and the project team visited site possibilities for the judging round of the competition. A comprehensive budget and work plan were created for the event with input from consultant Silvio Leite and preliminary meetings were held between project partners to discuss roles and responsibilities. TFUSA has also begun to reach out to industry partners in the US to ensure their participation and garner additional support for the event, which promises to be important in the specialty coffee world on a global scale.

Café Bom Dia Project Materials

At the beginning of QIII Café Bom Dia assembled a one-page profile describing the project parameters, priorities, partners and benefactors. They use this tool both internally to raise understanding and awareness of the project, and externally with stakeholders to present the full scope of the RSP project. A copy of this document is attached in Appendix 4.

In an effort to boost consumer recognition and increase brand image, Café Bom Dia also undertook a project to profile Fair Trade Certified coffee producers that they source from in Brazil. Their effort included in-depth interviews with select representatives from each cooperative that participates in the RSP project, as well as extensive photo documentation. This quarter, information for six profiles was gathered and when the project is finished, a total of 12 to 14 producer profiles will be created, with at least one from each producer group involved in the RSP project.

Though graphically formatted profiles have not yet been completed, the end result will be a one to two page story on each producer interviewed that not only outlines the characteristics of the organization, but also brings a human interest element to the account, highlighting themes such as organic and Fair Trade certification and what they have meant to individual farmers within the system. The documents are owned solely by Café Bom Dia, who will use these stories in marketing materials, on the Café Bom Dia web site and in their corporate social responsibility materials to promote the cooperatives and tell their stories. The personal narratives and photos make the profiles accessible to consumers and stakeholders interested in learning where their coffee comes from. Below is a summary of one such story.



Jose Ferreira and Elza Castro of UNIPCAFEM in Santana de Vargem

UNIPCAFEM

Jose Ferreira and Elza Castro have been blessed not only by having spent a lifetime with the person they were made to be with – finishing each other’s sentences, rarely disagreeing – but they have also enjoyed the benefits of being part of a coffee cooperative that has helped them reap the fruits of their past 20 years of labor. Unipcafem has recently become Fair Trade Certified, raising the bar on transparency and best practices as well as the income its members will receive. The couple works together as a team to make the transition a success: “The environmental side was easy for him, the organizational side was more difficult. That side of things he sends to me,” said Elza, gently teasing her husband for his lack of administrative guile.

“I’ve had to stop making my cheese and cakes and bread in order to note everything down. And I love doing it. I want to give lessons to the other wives to get them away from the oven and help them understand.”

Jose is hopeful he will sell Fair Trade Certified coffee for the first time this year after securing certification in May, along with the other members of the Union of Small Specialized Coffee Producers of Martins, or Unipcafem. The association is located in Martins, a small community in the south of Minas that is blessed with fertile soil and a great climate for coffee. The association started just three years ago and already has 53 members farming plots that average around 15 hectares each. Although the first farmers have yet to sell Fair Trade Certified coffee, Unipcafem’s members have enthusiastically embraced the Fair Trade concept and the community services its premium can help provide. The co-op has already held talks to help its members understand Fair Trade and several participants have spoken on the importance of meeting the FLO guidelines. Not only that, the co-op’s organizing committee has also discussed how to spend their first Fair Trade premium. President Guido Reguim Filho said they plan to use their cash to build a warehouse so members can avoid having to rent space in neighboring barns. For a cost of 50,000 reais, they estimate their members will save 125,000 reais a year in rental charges.

Jose and Elza are also deciding how to spend their new-found wealth. With the approximately \$18,000 they plan to bring in this year, they hope to have enough money to satisfy Jose’s practical side by investing back in the business while at the same time fulfilling Elza’s life-long dream getting on a plane to Paris.

3.2: Impact Marketing

All target activities under this component were completed in full during the first half of fiscal year 2008. No further activity is planned until the next fiscal year.

In an unexpected outcome for the project, Brazilian media has shown a growing interest in the impact of the RSP project. The program “Small Enterprises – Big business” featured a segment about the project which aired July 22 on TV Globo, Brazil’s largest and most watched network. The report included interviews with producers participating in the project, representatives of project partner SEBRAE and local project manager Beat Gruninger. The program was seen nationally in Brazil and highlighted the producers, their opinions about the positive impact they experience from Fair Trade and the products launched by CBD in the US Fair Trade Certified market. The program can be viewed by following the web address below:

<http://pegntv.globo.com/Pegn/0,6993,LIR324031-5027,00.html>.

3.3: Marketing Missions

SEBRAE Visit to Oakland, California

In early April 2008 TransFair USA hosted a visit by SEBRAE representatives Osvaldo de Souza Júnior, Manager of the Market Access and International Relations Unit, and Juliano Cornelio, Manager for the Varginha micro-region. The goal of this meeting was for SEBRAE to broaden its understanding of and connection to the US coffee market in preparation for sponsoring Fair Trade Certified coffee producer groups’ participation in the 2008 SCAA annual conference,.

Juliano and Osvaldo met initially with key coffee-industry focused staff within TFUSA, learning about the role of Fair Trade Certified in the US market, growth, trends and different important players in the system. Project Manager Julia Delafield gave a presentation on Brazil’s role within the Fair Trade Certified world and presented information about ongoing project interventions and goals.



Oswaldo de Souza and Julia Delafield review marketing materials for the producer groups at the TFUSA office

Subsequently, TFUSA staff and the SEBRAE representatives met with a major Fair Trade Certified importer and a small-scale roaster in the Bay Area. These meetings, in conjunction with other meetings within TransFair USA, allowed the representatives to understand the full scope of the Fair Trade Certified coffee supply chain. SEBRAE presented the group-specific marketing materials that they had developed for each producer group and learned firsthand about the coffee market in the United States.

These business meetings laid the groundwork for follow-up meetings directly with the producers at the SCAA conference by first presenting them as a group with firm backing from SEBRAE, a respected business entity in Brazil. The goal of the trip was two-fold: both to increase SEBRAE's internal knowledge and understanding of the market, and to increase producer visibility and credibility by showcasing their strong partnerships with SEBRAE and TransFair USA. Finally, TFUSA and SEBRAE took advantage of the visit to conduct serious planning sessions designed to further define the role of each party in the partnership under the RSP project. The visit in general served to strengthen an already solid relationship between TFUSA and SEBRAE and provided a strong foundation for producer SCAA participation and other future activities.

Brazilian Coffee Producer Participation at SCAA

As a result of the visit to Oakland, TFUSA and SEBRAE reached an agreement to co-sponsor RSP participating coffee producer groups from Minas Gerais to show their products at TransFair USA's Fair Trade Certified booth in the 2008 SCAA trade show and conference in Minneapolis, Minnesota in early May.

TransFair USA has a ten year history representing Fair Trade Certified coffee producers at the event and in 2008 brought a staff of 30 to provide producer support, translation services, facilitate meetings between producers and industry and promote the Fair Trade Certified label in the specialty coffee market. In 2007 only two producer group representatives from Fair Trade Certified cooperatives in

Brazil were able to generate the resources necessary to participate in the show. Through project efforts, eight representatives from different producer groups were able to attend and take full advantage of the conference. For each of the Brazilian representatives, this business trip was their first time attending an exhibition like SCAA, and for some of them it was their first experience traveling abroad. Two SEBRAE representatives attended as well to guide the producers and ensure their full engagement in and understanding of all activities.

The Brazilian representatives participated in the large Fair Trade Certified booth, a landmark installation at the trade show which plays host annually to producers from around the world and draws thousands of specialty coffee enthusiasts and members of the US coffee industry. This year, TFUSA had producer representatives from 24 producer groups, including the Brazilians, from all coffee growing regions of the world.



Fair Trade Certified Booth at SCAA 2008

TFUSA worked to make the visit a profitable business venture for participating groups. Conference participants met with a total of eleven different current and potential buyers, and a well-known social lender that could provide potential capital and credit to the groups. The roasters and importers who met with the participants drew principally from what TransFair USA considers to be the core constituent of Fair Trade Certified buyers in the US. These are the US industries that, either because of ideological convictions or simple market pressure, have become the forerunners in the Fair Trade world, making the majority of international purchases but also serving as the thought providers that TFUSA reaches out to for stakeholder consultation whenever necessary.

Groups discussed concrete sales possibilities and reinforced relationships with buyers. In evidence of the success of these meeting, since SCAA producer groups report receiving follow up phone calls, emails and requests for samples from a large percentage of the buyers they met with. Relationships are building quickly and at least one Fair Trade Certified importer has arranged to personally visit the Brazilian groups in early July.



Producers and project staff meet with potential buyers at SCAA

In addition to the sales meetings, RSP project partners built an extra curriculum of activities for the Brazilian groups to maximize the impact of their visit. TFUSA staff led the group on a visit to Peace Coffee, a medium-sized coffee roaster based in Minneapolis that was able to give insight into the reality and creativity of the Fair Trade Certified market to the delegation. Peace Coffee has been consistently growing for more than ten years and they currently roast around 500,000 pounds of coffee per year, 100% organic and Fair Trade Certified. The producers enjoyed visiting an American roaster and they were especially interested in Peace Coffee's mode of distribution in Minneapolis, which is conducted entirely by bicycle.

RSP partner Café Bom Dia planned a special outing for the group to visit a Sam's Club store outside downtown Minneapolis in order to observe the Café Bom Dia Marques de Paiva brand coffee, Fair Trade Certified and derived directly from the participating groups, on the shelf. Café Bom Dia staff had arrived at the store early to mount a four-day special display that gave prominent aisle space to the product, making it highly visible to all shoppers. A temporary kiosk was also constructed and manned by two employees who brewed and served sample cups of the coffee to visitors in the store.



Fair Trade Certified Brazilian Marques de Paiva coffee on the shelf at Sam's Club in Minneapolis, MN

The producers all tasted a cup of their own coffee and were able to observe the marketing efforts of Café Bom Dia. Joe Alcantara, President of Café Bom Dia USA, and Sydney Marques de Paiva, CEO of the company, participated and took advantage of the opportunity to talk with the producers about special promotion techniques and the ways in which CBD concentrates on eye-catching packaging and prominent display of the Fair Trade logo to entice consumers. They also highlighted the efficiency of the store, pointing out how the low number of employees allowed the store to function without high costs, a lesson the Brazilian delegation appeared eager to try to implement in their own organizations. While the trade show represented an invaluable opportunity to expand their sales opportunities and pursue new leads, activities such as the Sam's Club visit also offered the chance to consolidate their relationship with current buyer Café Bom Dia and get to interact directly with company executives. This shows Fair Trade at its best – generating direct trade relationships between different sides of the supply chain.



Café Bom Dia USA President Joe Alcantara explains marketing techniques as the Brazilian Coffee producers enjoy a cup of their own coffee

At the end of the SCAA events, the Brazilian producers held a meeting with SEBRAE and TransFair USA representatives to discuss the outcomes and possible follow up. The producers were encouraged to share their feedback on the event and many important topics were discussed. The visit had reinforced in the minds of the producers the notion that quality is paramount in the US specialty coffee market. This realization led the groups to plan an awareness campaign with other producers that had been unable to attend the event in order to present their findings on international markets and Fair Trade and ensure dissemination of lessons learned. The groups also agreed on the importance of presenting a united front that could work together with buyers and attend to diverse needs and requirements instead of always acting individually.

“I would like to thank, in the name of UNIPASV, especially Mr. Beat Gruninger from TransFair for the great opportunity that has been given to the smallholder coffee producer groups in Brazil – the opportunity to deepen our relationships with businesses, buyers, exporters and consumers. The joy we felt in seeing our product on the shelves of the huge supermarkets was amazing, and even better was seeing the recognition and satisfaction on the face of the end consumer.”

– Wilson Pedroso Lima, UNIPASV

The overall evaluation of the event was extremely positive and producers were excited to apply all that they had learned to their cooperatives in Brazil.

As a result of the producer-industry contacts that were made, only one month after the event new sales have already taken place. Following the connection made at SCAA one of the groups sent samples to a renowned American roaster who will import the first batch of coffee during the current harvest season. Additionally, the most recently certified group, Unicapfem, has exported 400 bags from last harvest via a major international coffee importer. These new market relationships are a key outcome of participation in the SCAA event.

C. Results

In QIII the project successfully moved toward its goal of improving product quality and strengthening producers' market linkage through progress in the *Infrastructure Grant Program*, quality trainings and facilitating participation in SCAA along with carrying out a series of market related initiatives.

Important advances have been made on the *Infrastructure Grant Program*. Grant recipients have been identified and their projects have been approved. Because the process has advanced so quickly, the projects should be underway in time for the cooperatives to see the benefits in the upcoming harvest season.

This quarter has seen two other important milestones in quality improvement through the quality training at Expocafé and by laying the groundwork for the first ever Fair Trade Certified Cupping Competition. The quality training was well received and from the conversations which ensued, it was clear that the information had provoked interest. The cupping competition is also projected to increase quality as news of the event spreads. The event is an opportunity to link quality management practices to production results and demonstrate their effect on cup characteristics and ultimately the market value of the coffee. The effect on quality as a result of the activity is expected to be perceived the following year.

SEBRAE has played an important role in the final outcomes for the quarter, exceeding expectations by providing financial and logistical support for producers attending SCAA. As a result, a larger than anticipated number of producers were able to participate in the event and take from it the knowledge, tools and industry connections needed to strengthen their cooperative's marketing capabilities. SEBRAE has also contributed significantly to producer capacity building efforts; to date more than 25% of project participants have attended cooperative governance training.

This quarter has also seen an increase in collaborative efforts among the cooperatives, which helped to resolve the existing problems caused by geographic separation of the producer groups in the region Nova Resende. The positive change is attributed to common market activities at SCAA as well as other training activities. One such training

was the workshop on partnership and governance designed to raise awareness around the strengths and weaknesses each cooperative faces as an organization.

Budget

Expenditures for QIII 2008 totaled slightly over US\$200,000.00. This represents a four-fold increase in spending compared to the second quarter. The RSP project has gained significant momentum and this new rate of spending reflects the increased pace of project implementation. Of this total, US\$144,631.61 reflects partner cost share, both in-kind and cash contributions to operational and programmatic activities.

It is anticipated that this rate of spending will continue into the third quarter with training, technical assistance and marketing activities continuing around the Brazilian cupping competition. In preparation for the second year of project activities, the year two budget will also be reviewed and revised in the coming quarter.

2008 REPORT - Q3 EXPENSES VS BUDGET			
Activity	Total Program		
	3 Yr Budget	Actual QII 2008	Actual LOP
1. Expanding and Improving Quality of Supply	352,142.33	14,312.62	96,496.88
2. Increasing Producer Capacity	201,982.33	71,263.89	87,362.02
3. Raising Marketing Capacity	560,484.33	114,761.03	165,129.31
total	1,114,608.99	200,337.54	348,988.21

Outlook

The period from July through September 2008 represents the final quarter of the first year of the RSP project, QIV. The most significant project work during this period will focus on preparing the first ever Brazilian Fair Trade Certified Cupping Competition, to be held in October in Minas Gerais. It is important that the producer groups have the necessary capacity to participate in this event and evaluate their coffee to ensure that they hand in a small number of only the best samples. To this end, a cupping training will be held with the collaboration of Café Bom Dia staff at the Centro de Excelência in Machado to train cuppers from each group. TFUSA will leverage internal resources and relationships to solicit the participation of a range of members of the US coffee industry and community, preparing an auction among participants to bid on the best coffees. This event should draw significant attention and media press both to the project and to Brazilian Fair Trade Certified coffee in general.

The RSP project will also continue implementation of the *Infrastructure Grant Program* during the coming quarter, disbursing award money, providing technical assistance for **Responsible Sourcing Partnership Project** **QIII 2008 Apr-Jun 2008**

proper execution where necessary and monitoring implementation and results. Materials will be prepared to make a more concerted effort to attract additional funding for the *Infrastructure Grant Program* to support a 2009 round of awards.

Under the marketing component of the RSP project, in QIV at least one and possibly two prominent buyers will visit producers in Brazil. This should allow for a more solid understanding of the groups, and lead to better commercial relationships. Also, following up on an ongoing contest run by Café Bom Dia, a group of teachers that presented the best classroom curriculum about Fair Trade will visit the producer groups and learn about the RSP project.

The final quarter of the 2008 fiscal year will offer project staff both a chance to continue with important project implementation, and also to reflect on challenges and successes from the past year to incorporate these lessons learned into our planning for the upcoming year. By the end of QIV, TFUSA will submit to USAID a detailed work plan for the coming year in the form of a Gantt chart, spelling out weekly activity, and a narrative report to explain implementation procedure.

Appendices

1. Updated overview of participant groups
2. Summarized Scoring matrix for the *Infrastructure Grant Program*
3. *Infrastructure Grant Program* proposal submission summaries
4. Café Bom Dia project profile

Appendix 1:

Overview of Participant Groups

Grupo	Location	Members	Observations
Coocafé	Lajinha-MG	3690	
Coofaci	Luna-ES	97	
Pronova	Venda Nova-ES	290	
Unipasv	Santana da Vargem-MG	77	
Coopfam	Poço Fundo-MG	227	Organic certified
Coopervitae	Nova Resende-MG	201	Organic certified (incorporated Sampaio members)
Ass. Costas	Boa Esperança -MG	60	Certified Jan. 11, 2008
Coorpol	Caratinga-MG	40	Certified Jan. 25, 2008, Organic certified
Coocaminas	Poço Fundo-MG	55	Certified Feb. 26, 2008
Ùnicapfem	Varginha-MG	53	Certified May 15, 2008
TOTAL		4,790	Targeting a total of 22000 people

Appendix 2:

Summarized Scoring matrix for the Infrastructure Grant Program

GRANT PROGRAM RSP BRAZIL SELECTION				
PROPOSAL (TITLE)		GROUP	REMARKS	
0 - APPLICABILITY				
Include the proposal in the analysis?		Yes	No	
Feedback to producer in case of refusal:				
I - QUALITY EVALUATION				
BENEFITS	CLEARNESS		JUSTIFICATION	S C O R E
1	2	3	4	
Is the focus on quality improvement guaranteed?	Is the proposal clearly structured and understandable?	Is the budget understandable and realistic?	Does the proposal provide data that justify the selection of the proposed investment?	
1-10 points	1-10 points	1-10 points	1-10 points	
II - IMPACT EVALUATION				
BENEFICIARIES	SUSTAINABILITY	EFFECTIVENESS		S C O R E
1	2	3		
Does the investment result in significant growth of good quality coffee and a good ratio of impact per producer?	Does the proposal show clear perspective for sustainability of the investment?	Does the Investment have the potential to improve quality in a short time?		
1-20 points	1-20 points	1-20 points		
III - FINAL SCORE				
Maximum 100 Points				

Appendix 3:

Infrastructure Grant Program Proposal Submission Summaries:

Producer Group 1 (PG1):

PG1 is requesting a grant of R\$53,300 (approx. US\$34,000) for the purchase of all the components needed to set up a mobile coffee processing mill (including a used truck). Currently, PG1 farmers are using third-party processing mills. The use of third-party equipment presents several issues, including: (a) higher production costs, (b) quality is harder to control, and (c) long wait times for equipment during harvest. PG1 argues that having its own proprietary processing mill will result in the following benefits for farmers: (a) lower processing costs/independence from intermediaries, (b) reduction in broken beans and contamination, (c) increased efficiency, and (d) improved tracking of entire production value chain. Hence, PG1 expects the new mobile processing mill to result in improved quality and increased earning for farmers. PG1 will monitor the following indicators to ensure goals are being met: (a) number of farmers benefited, (b) waste differential between production with new equipment vs. all production, and (c) production cost with new equipment vs. third-party production cost. A fee that covers diesel and equipment operating expenses will be charged for use in order to ensure project sustainability. The new mobile processing mill is expected to impact 45 farmers and will be utilized only in the processing of certified product. Once the grant is received, new equipment operation is expected within three months.

Producer Group 2 (PG2)

PG2 is requesting a grant of R\$30,000 (approx. US\$19,000) for the purchase of a mobile coffee processing mill (including wheeled platform). The new equipment is expected to impact 49 farmers who currently must rely on equipment provided at a high cost by owners of large coffee plantations. The farmers face several difficulties when using third-party equipment, including: (a) high processing costs, (b) long storage/wait times and risk of contamination, (c) loss of parchment (which remains inside machine), and (d) use of basic/low quality equipment. The use of proprietary processing equipment is expected to yield the following benefits for farmers: (a) cost reduction (processing and transportation), (b) reduction in defective beans, (c) increased efficiency, and (d) ability to retain parchment and utilize as organic fertilizer. Once the grant is received, PG2 expects to start operating the new equipment within three months. To ensure project sustainability, PG2 will charge a fee of 1.5% of the value of a sack (vs. 3% using third-party equipment), which should cover all costs associated with operating the equipment, including two machine operators. PG2 will monitor the following indicators: (a) number of defective beans, (b) processing cost/sack, and (c) number of farmers using parchment as fertilizer. PG2 believes that a new proprietary processing mill will result in improved quality, lower costs, higher coffee prices and increased profits for farmers.

Producer Group 3 (PG3)

- A. PG3 is requesting a grant of R\$10,300 (approx. US\$6,500) for the construction of a coffee storage facility and an adjoining coffee drying patio. Currently, PG3 farmers do not have access to a safe storage unit at close distance to the main drying patio facility. Having a storage facility in the vicinity of the drying patios will facilitate the handling of coffee beans (from drying to storage) and is expected to reduce labor costs. Moreover, the addition of a safe storage unit is expected to result in improved bean quality. The proposed drying patio should provide additional quality drying infrastructure in a strategic location and is expected to result in increased efficiency of drying operations. While the storage facility and new drying patio will be located in a proprietor's private property, they will be accessible to all PG3 farmers. Once the grant has been received, PG3 expects to complete construction of both the storage facility and the drying patio within one month. Specific targets such as number of farmers to be benefited, details on cost reduction potential and specifics on ownership of storage facility and drying patio were not provided in the grant application.
- B. PG3 is requesting a grant of R\$46,860 (approx. US\$30,000) for professional technical training. PG3 plans to hire one agro-engineer and two agro-technicians to train its farmers in key Fair Trade Certified coffee production techniques, including harvest and post-harvest management, bean washing and sanitary controls, among others. The main goal of this project is to instill in PG3 farmers the principles of Fair Trade (including respect for the environment), as well as the benefits of participating in the Fair Trade market. PG3 believes this training will result in: (a) superior quality coffee, (b) higher prices and profits for farmers, (c) productivity improvements, and (d) overall increase in the supply of Fair Trade Certified product. Project targets include: (a) 200% increase in annual volume of high quality Fair Trade Certified coffee, (b) 300% increase in total volume of coffee commercialized by PG3, (c) 15% growth in Year 1 in the number of cooperative farmers, and (d) 60% of all PG3 farmers producing FairTrade coffee. The technical team will work with all PG3 members, helping them with all the 2008 post-harvest work and with the entire 2009 harvest/post-harvest process. The project is expected to directly benefit all 99 PG3 farmer families. PG3 estimates that an additional 450 people will indirectly benefit from this project. Once the grant is received, training is expected to commence immediately and be completed within 12 months.

Producer Group 4 (PG4)

PG4 is requesting a grant of R\$1,839,650 (approx. US\$1,173,000) to significantly expand coffee production in the regions where PG4 is currently present. PG4 argues that farmers in these regions lack coffee processing infrastructure and machinery, which negatively impacts production volume and quality. PG4 is proposing to set up ten new fully-equipped processing facilities in strategically located communities within its regions, with a focus on communities that have a large concentration of small coffee producers. Each facility would be equipped with depulping machines, washers, mucilage removers, dryers, processing mills, drying patios, etc. PG4 estimates that this project could result in additional annual production volume of 30,000 coffee sacks. In order to implement the project, PG4 will choose associations of small coffee growers, who will then be responsible for the operation and maintenance of their respective processing facilities and equipment. PG4 requires that these associations commit to setting aside a certain percentage return from the equipment investment in order to benefit new producers (by setting up additional processing facilities). The project's main targets include: (a) 65% increase in production volume vs. 2007, (b) 500 new Fair Trade Certified farmers, and (c) increased coffee prices (~20-30% higher)/improved profitability. Once the grant is received, PG4 estimates project implementation will take six months.

Producer Group 5 (PG5)

PG5 is requesting a grant of R\$33,500 (approx. US\$21,400) for the purchase of five mobile coffee drying machines. Studies conducted by PG5 show that the main obstacle to improvements in coffee quality is problems during the drying process. PG5 believes that using machines for part of its coffee drying process will reduce labor costs and result in better quality coffee. Drying equipment is expected to positively impact ~60% of the cooperative's volume, with a focus on small producers. PG5 plans to hold capacity-building and training talks in its different communities in order to explain the benefits and use of the new equipment. PG5 aims to keep abreast of new technologies in coffee production and believes the purchase of mobile drying machines is a step in that direction. PG5 will analyze the following indicators to evaluate the impact of the new equipment: (a) cost-reduction metrics, (b) quality improvements, and (c) transparency and efficiency. Specific targets and metrics were not provided. PG5 estimates it can purchase the equipment and implement this project immediately after receiving the requested grant.

Producer Group 6 (PG6)

PG6 is requesting a grant of R\$50,000 (approx. US\$32,000) for the construction of 10 cement drying patios. Currently, ~30 PG6 low-income families do not have access to paved drying patios, but instead must dry their coffee directly on dirt ground. Dirt patios are problematic because they allow for fermentation, negatively impacting coffee quality. Additionally, farmers working in dirt patios have been found to suffer from respiratory

problems caused by constant exposure to dirt and dust. PG6 believes that cement drying patios will result in improved coffee quality, as well as better quality of life for its farmers. The project is expected to benefit 10 low-income families initially. PG6 expects the project to then be extended (beyond this grant) to the remaining 20 families (project expansion to be financed by increased profits of 10 initial families). The project's main targets include: (a) commercialization of 100% of product dried in cement patios, (b) 80% of families to achieve sufficient profits for reinvestment, (c) increased sale prices, and (d) improvement in quality of life. Once the grant is received, the project is expected to be operational within 4-5 months.

Producer Group 7 (PG7)

PG7 is requesting a grant of R\$50,000 (approx. US\$32,000) for the construction of 20 cement drying patios. Currently, many PG7 farmers dry their coffee beans directly on dirt ground on plastic canvases. The current method is not ideal for coffee quality and creates large amounts of pollution (i.e., because the plastic canvases are replaced each year). PG7 believes that cement drying patios will result in better quality coffee and will allow farmers to obtain higher prices for their product. Specific targets of the project include: (a) increase in volume of higher quality coffee, (b) 6 containers of Fair Trade Certified coffee, and (c) increase in prices and family income. PG7 will conduct four 8-hour capacity-building events in order to train farmers in the benefit and use of cement drying patios. The project is expected to benefit 20 families (100 people). Farmers initially benefited are expected to pay back the value of the investment (without interest) in two years. This repayment will be used to create a rotating fund for the construction of additional cement drying patios for other farmers of the cooperative. Once the grant is received, PG7 estimates construction can be completed within one month.

Producer Group 8 (PG8)

PG8 is requesting a grant of R\$48,300 (approx. US\$31,000) for the purchase and installation of seven coffee depulping machines. Since 1999, PG8 has been commercializing coffee "cereja descascado", which employs depulping machines and results in high quality coffee. Currently, not all farmers in PG8 communities have access to depulping machines. PG8 believes that the use of depulping machines by more farmers will result in: (a) increased coffee prices and profits, (b) improvements in farmers' technological know-how, and (c) increase in number of cooperative farmers. PG8 cites potential price increases of R\$20/sack for Fair Trade Certified coffee produced using the new depulping machines. PG8 will conduct training sessions on the use of the new equipment, as well as technical visits during installation. The project will benefit 35 producers. After 3 years of using the new depulping equipment, benefited farmers are expected to pay back to PG8 half of the initial value of the equipment. This repayment will be used for the purchase of additional depulping equipment or other improvements. Once the grant is received, PG8 estimates full installation, including a final technical evaluation, will take approximately one year.

Producer Group 9 (PG9)

PG9 is requesting a grant of R\$83,000 (approx. US\$53,000) for the purchase of all components needed for a mobile coffee processing mill, including a truck. PG9 believes that the use of a proprietary mobile coffee processing mill will result in quality improvements and reduce the risk of product loss (resulting from processing delays and/or inadequate storage prior to third-party processing). Additionally, PG9 hopes that a proprietary processing mill will reduce farmers' dependence on costly third-party processing. The project's main objectives include: (a) reduction in processing costs, (b) reduction in product loss, (c) improvements in quality control, (d) better product tracking, and (e) ability to meet demand faster. Specific metrics to be tracked were not provided. The project is expected to benefit 80 families who currently do not own coffee processing equipment. Farmers will pay a fee (amount not specified) to the union for each sack processed with the new mill. Once the grant is received, processing using the new mill should be available within 6 months.

Appendix 4

Café Bom Dia project profile



RESPONSIBLE SOURCING PROGRAM

The Brazil Responsible Sourcing Program is the result of an innovative partnership between USAID, TransFair USA, Café Bom Dia, Sam's Club, and Wal-Mart Stores. By combining the resources and talents of these diverse stakeholders, the project will realize its important goal to significantly increase the incomes of small holder coffee farmers in Brazil. Through cash and in-kind contributions totaling \$1.9 million, the program will provide the technical training and investment in farm and cooperative capacity building and infrastructure needed to benefit more than 13,000 smallholder farmers and their family members. By working directly with retailers, our six partner cooperatives will be able to match increasing demand with improved quality and supply, insuring the project's ambitious goal of an addition \$8 million income for our partner farmers.

PROJECT PRIORITIES

- Expand and improve the quality of supply through investments in infrastructure, training and technical assistance in production, post-harvest handling and processing, especially related to organic conversion.
- Increase producer capacity through organizational strengthening, including financial management, operations, and marketing.
- Raise the marketing capacity of Brazilian coffee growers to improve the reputation of Brazilian coffee and the awareness of Fair Trade's impact.

PARTNER RESPONSIBILITIES

Under the management of TransFair USA, the project will combine its stakeholders' diverse resources to achieve the project's priorities. Through its cooperative agreement with TransFair, USAID Brazil is providing \$660,000 to launch the initiative and invest in coffee cooperative training, technical assistance, and infrastructure.

With \$300,000 of in-kind contributions, Café Bom Dia will share its expertise in coffee quality, cupping, and business best practices. Café Bom Dia's additional \$300,000 cash contribution will allow small holder farmers and cooperatives to invest in production and processing infrastructure.

Wal-Mart's \$250,000 of in-kind contributions will help partner cooperatives promote Fair Trade Certified™ coffee utilizing Wal-Mart's extensive marketing and merchandising.

Sam's Club will continue its current efforts promoting Fair Trade Certified™ coffee with an additional \$250,000 of in-kind resources.

Along with managing the project, TransFair USA will commit \$187,000 in financial resources to cover program support costs and ensure project results.