



UNDP Project Document

Rainforest Alliance

United Nations Development Programme

Global Environment Facility

**“Biodiversity Conservation in Coffee: transforming productive practices in the coffee sector by increasing market demand for certified sustainable coffee”
(PIMS 3083)**

Coffee is the second-largest traded commodity in the world after oil and employs 25 million people in the developing world. Coffee landscapes are very important for the world’s biodiversity. This project will result in conservation of biologically rich coffee areas through an increase in market demand for coffee produced under biodiversity-friendly, sustainable production practices. The project will work in Brazil, Colombia, El Salvador, Guatemala, Honduras and Peru and thereby deliver impacts in the Brazilian Atlantic Forest, Brazilian Cerrado, Mesoamerica, and in the Tropical Andes biomes. By increasing market demand for certified coffee from all origins, the project will also produce impact in other countries where certified sustainable coffee is produced. Providing market incentives through certification, the project will achieve transformation of the coffee sector, and ensure that it becomes a valuable complement to conservation efforts in protected areas. Results will include the direct conservation of 1,500,000 hectares of coffee, up from currently 93,000, with positive biodiversity impacts across coffee landscapes, representing approximately 10-15 million hectares. The project will foster an increase in the volume of sustainable coffee sold from 30,000 to 500,000 metric tons, with at least 100,000 of these metric tons coming from smallholders. The number of coffee companies (roasters) supporting biodiversity conservation by selling sustainable coffee will increase to more than 300. The project will work closely with governments in producer and consumer countries to make them partners in creating market-based solutions to conservation and development problems in coffee.

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Acronyms

BD	Biodiversity
BMPs	Best Management Practices
CABEI	Central American Bank for Economic Integration
CAMBio	Central American Markets for Biodiversity
CATIE	The Tropical Agronomic Centre for Research and Education
CBD	Convention on Biological Diversity
CCAD	Central American Commission on Environment and Development
CCCC	Common Code for the Coffee Community
CIMS	Center of Intelligence on Sustainable Markets
CIRAD	French Agricultural Research Centre for International Development
CoC	Chain of Custody
CMP	Conservation Measures Partnership
CQI	Coffee Quality Institute
CSAG	Coffee Sector Advisory Group
CSPA	Certified Sustainable Products Alliance
CSR	Corporate Social Responsibility
ECOM	ECOM Agroindustrial Corporation Ltd.
ExA	Executing Agency
FAO	Food and Agriculture Organization
FIIT	Fundación Interamericana de Investigación Tropical
FLO	Fairtrade Labeling Organization International
FOB	Free-on-board
FOS	Foundations of Success
FSC	Forest Stewardship Council
FT	Fairtrade
GEF	Global Environment Facility
GTZ	German Technical Cooperation Agency
IA	Implementing Agency
ICO	International Coffee Organization
ICS	Internal Control System
IDB	Interamerican Development Bank
IEM	Integrated Ecosystems Management
IFOAM	International Federation of Organic Agriculture Movements
IISD	International Institute of Sustainable Development
ISEAL	International Social and Environmental Labelling Alliance
IUCN	World Conservation Union
IICA	Interamerican Institute for Cooperation on Agriculture
MBC	Mesoamerican Biological Corridor
MDGs	Millennium Development Goals
NAFTA	North American Free Trade Agreement
NBSAPs	National Biodiversity Strategy and Action Plans
PCR	Project Coffee Region
PCU	Project Coordination Unit
PMG	Project Management Group

PSC	Project Steering Committee
PDF-B	Project Development Facility - B
PPPs	Public-Private Partnerships
RAC	Rainforest Alliance Certified
SAI	Sustainable Agriculture Initiative
SAN	Sustainable Agriculture Network
SCAA	Specialty Coffee Association of America
SMME	Small, Micro and Medium Enterprises
SME	Small and Medium Enterprises
SCAA	Specialty Coffee Association of America
TA	Technical Assistance
TM	Task Manager
TREES	Rainforest Alliance's forestry program
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Program
USAID	US Agency for International Development
WTO	World Trade Organization
WWF	World Wildlife Fund

Coffee Terminology

Audit: The process whereby an auditor or audit team visits an operation and evaluates its compliance with a set of standards.

Bags: In general, one coffee “bag” has 60 kilograms. In Central America, Mexico and Peru they have 69 kg bags and in Colombia and Bolivia bags of 70 hg. Large bags usually are used in consumer countries and usually are 1,000 kg. or less. In this way a roaster can blend several 60 kg bags into 1 large bag and do batch roasting. “Bulk bags”: when a container has a one huge bag inside and the coffee is loaded into that container as bulk.

Certification: The process in which an independent, third party organization confirms that a client, such as a farm, group of farms or operation, complies with a fixed set of standards.

Chain-of-Custody / Traceability: Chain of Custody (CoC) is the tracking of products throughout their processing and distribution. It is analogous to “traceability”, and is often used in quality control systems to identify where problems occur in processing facilities or services. Through Chain-of-Custody audits it is ensured that the certified coffee sold to consumers is the same as the coffee which was produced on the certified farm.

Cupping: A term used by coffee professionals to describe the activity of sipping brewed coffees to assess their qualities.

Economic traceability: The existence of transparency of how a price premium is divided among all the links in the supply chain.

Origin: Country or region from which a coffee originates. There are about 50 countries in the world that produce coffee

Point-of-sale: A business or place where a product or service can be purchased. For coffee, point-of-sale is typically supermarkets, convenience stores, or restaurants (see retailer)

Prices: In New York, washed Arabica beans are traded from 18 countries (Central America, Mexico, Kenya, Tanzania, Uganda, Papua New Guinea, Colombia, Peru, Venezuela, Burundi, India, Rwanda, Dominican Republic and Ecuador). The coffees out of these countries can be tendered against The New York Board of Trade. Samples of the tendered coffees are evaluated and certified by the Board, based upon color, screen size, green coffee odor, grade, roast uniformity and cup profiles. Since coffee is not a homogenous product (flavor and quality differ) it attracts a different price, hence the differentials. However coffee is traditionally treated as a homogeneous commodity and priced against the level established in one of the main terminal or future markets. Consequently the coffee is traded using a price differential. For example “GUATEMALAN SHB EP at NYC SEPTEMBER PLUS 17 US dollar cents PER LBS.” In this way the final coffee price fluctuates with the terminal market.

Quintal: A unit of 46 Kg: in some countries the term is used to indicate annual coffee production.

Retailer: A person or business that sells goods or merchandise to consumers (see point-of-sale).

Roaster: A company that heats green coffee to a temperature sufficient to produce physical and chemical changes in the bean. Roasting creates the flavor compounds of brewed coffee.

Sourcing: The act of purchasing goods (such as coffee) or materials from a supplier.

Trader: (1) A merchant involved in cash commodities; (2) a professional speculator who trades for his own account.

SECTION I : Elaboration of the Narrative

PART I: Situation Analysis

Context and global significance

COFFEE PRODUCTION AND BIODIVERSITY

1. Coffee is the world's second largest globally traded commodity, and the coffee industry generates annual retail sales of \$70 billion¹ and provides a livelihood for 25 million families worldwide. Virtually all coffee is grown within 13 of the world's biodiversity hotspots. According to FAO, coffee production occupies slightly more than 10 million hectares globally, all of it grown in conjunction with or in place of tropical forests, except for large coffee areas in the highly biodiverse Cerrado in Brazil.
2. The coffee plant, *Coffea arabica*, evolved in the rainforests of Eastern Africa as a thin understory tree. Even today, wild coffee is harvested from the few remaining old-growth forests in Ethiopia. For centuries, coffee was grown under a canopy of native trees or as part of a "forest garden" with a multiplicity of plants. A forest garden coffee farms may have up to 300 useful plant species; plants used for food, medicines, construction materials, decoration, trade, and religious ceremonies.
3. As coffee was introduced into the Neotropics, it was mostly planted in forested areas as an agro-forestry production system under an existing canopy. Coffee growth gradually replaced much of the old-growth humid and wet premontane forest in middle elevations (400-1600 meters above sea level), and shade coffee plantations often held the last remnants of these impressive forests. Shade was often provided to the coffee plants by old-growth majestic tree species now scarce or locally threatened.
4. The value of coffee farms to biodiversity has been known by naturalists, especially birdwatchers, for decades. In 1932, ornithologist Ludlow Griscom reported in the American Museum of Natural History bulletin that growers left strata of the native forest to shade their plants and that "in such growth, the avifauna was little, if any, different from its original condition." Shade-grown coffee is still the most biodiversity friendly crop in the middle elevations of the tropics, equaled only by traditional cocoa farms, but cocoa is grown at lower altitudes. In total, coffee production in Central and South America accounts for more than half of the world's coffee production, and covers a total of 5.8 million hectares. Of this, approximately 2 million hectares is estimated to be shade-coffee production.
5. As logging, cattle grazing, and more intensive agricultural production gradually ate up most of the original forests, many shade-coffee plantations have remained virtually intact for many decades and, together with relatively few natural protected areas, now represent sanctuaries of habitat containing important parts of original ecosystems. It is well recognized that remaining protected areas are too fragmented and too small to ensure survival of ecosystems and species, which is why conservation efforts

¹ Retail value, ICO August 2002.

are attempting to link remaining areas through connection of productive lands with biodiversity-friendly production methods. In this regard, sustainable coffee plantations now offer valuable contributions to conservation efforts in some of the most biologically diverse and most threatened ecosystems.

6. The conservation community has gradually recognized the importance of sustainable coffee production as coffee cultivation's role in conserving biodiversity has been increasingly studied by the scientific community. As a part of the design phase of this project, a comprehensive literature review was undertaken of the benefits to globally-important biodiversity provided by sustainable coffee plantations in the Neotropics. The review – carried out by biologist Oliver Komar of the Conservation Science Program at SalvaNATURA in El Salvador² - has been submitted for publication in a peer-reviewed journal. The review article summarizes the findings of almost 100 studies, and though some scientists point out that coffee production is an altered landscape, a substantial body of scientific literature points to high values for important biodiversity (including threatened, endemic, and migratory species) from sustainable coffee production.

7. According to different sources reviewed,³ the main global benefits of sustainable shade-coffee production can be summarized as: (a) *Sustainable coffee production maintains a complex ecosystem with diverse resources*. Studies have found that shade-coffee farms often harbor large numbers of tree species, sometimes over 100 on a single farm. Trees support large numbers of epiphytes, birds, and insects, making shaded farms substantially more biodiverse than full-sun coffee plantations. (b) *Sustainable coffee production provides habitat for restricted-range endemic species*. There are not many conclusive studies available but, reportedly, a high percentage of endemic birds can

be observed on shaded coffee plantations and it is assumed that these plantations play a positive role in their dispersal and gene flow between forest fragments. (c) *Habitat for migratory species*. A series of studies have concluded that many North American migratory bird species abundantly inhabit Central American shade-coffee plantations during the winter season, or use them as stopovers on their way to and from South America. Often, the density of migratory birds (individuals per hectare) in coffee areas rivals that of natural forests, and sometimes even surpasses it. (d) *Habitat for endangered species*. There are some examples of sustainable coffee farms having populations of globally threatened or endangered species, but these species are often rare (difficult to observe) and the value of coffee for them is not well

Coffee in Threatened Ecosystems

Coffee grows in the middle elevations, especially between 500 and 1,500 meters above sea level, in the *lower montane* or *premontane* forest, above the lowland rainforest and below the cloudforest. This lifezone is almost entirely deforested throughout the Neotropics – except for the remaining forested coffee farms.

In his book “Where Have All the Birds Gone,” eminent tropical ecologist John Terborgh writes: “Virtually throughout the tropics, the belt between 500 and 1,500 or 2,000 meters is under siege. It is almost entirely gone on the Pacific slope of Central America and is currently undergoing rapid development on the less desirable pluvial slopes of the Caribbean drainage. The central Andes of Colombia are entirely deforested within these elevations, and what areas remain in the western and eastern Andes are going fast. The pace of change has been a little slower in Ecuador and Peru, but the lapse of another generation will serve to close the gap. The zone of high (bird) migrant density between 500 and 1,500 meters is currently being deforested at a greater rate than any other environment we have considered. This is true in every mountainous country from Guatemala to Argentina. We appear to be heading for an emergency here.”

² SalvaNATURA is one of the most experienced local conservation NGO's with specialty in biodiversity conservation in coffee landscapes [0]

³ The PDF B commissioned a review of almost 100 scientific articles about biodiversity in sustainable coffee production. Please refer to Annex XIV for a complete list of references

documented in existing literature. Nonetheless, species like Black-eyed Tree Frog (critically endangered) and Cerulean Warbler (vulnerable) can be quite common in some Neotropical plantations. (e) *Landscape and biological corridor functions*. Although little studied, ecological theory and a few studies support the hypothesis that forest plantations can facilitate movement of local wildlife populations within a landscape. Plantations serve as movement corridors for seasonal migration, dispersal events, facilitation of gene-flow, and maintenance of meta-populations of forest animals in the landscape. Even exceedingly rare movements – one individual per generation, too rare for systematic observations – are sufficient to maintain genetic diversity. (f) *Environmental and social benefits of sustainable coffee provide indirect biodiversity benefits*. It is suggested that shade-coffee production provides a series of environmental and social benefits, which positively influence biodiversity. These include reduced pollution from wastes, reduced agrochemical use, reduced firewood collection and hunting, along with social improvements on sustainable coffee farms, such as improved education and awareness. All these factors help reduce direct pressures on wildlife and habitat.

8. Albeit an important habitat, coffee is not a panacea for biodiversity conservation. Coffee landscapes remain altered production landscapes, and while many species can survive in coffee habitat, some cannot. Coffee habitat cannot replace protection of remaining natural areas, and should be considered a complement to other conservation efforts. Though the value of coffee habitat for biodiversity protection should not be underestimated, it should also not be considered a substitute for effective protection of globally important ecosystems. When discussing habitat value, coffee landscapes should not be compared to remaining untouched areas, even if coffee plantations could rival natural areas in numbers of certain species. Coffee habitat should be compared to its potential alternative use, either alternative agricultural crops or non-agriculture use. It is through that comparison that the biodiversity value becomes clear.

9. Sustainable coffee production does not only benefit wildlife by reducing threats and protecting habitats. It also brings tangible benefits for local populations in terms of sustained income generation, improved health, and education. Development benefits are recognized by coffee producing countries and in most of these, sustainable coffee remains a high priority, both for the importance of securing export earnings, as well as to maintain jobs and livelihood of hundreds of thousands of rural dwellers and maintain the fabric of rural communities.

10. Central America alone is home of 700,000 small coffee producers, and coffee production in Peru is almost entirely done by small-holders organized into cooperatives. More than 80% of coffee farms worldwide are less than ten hectares in size and in the hands of smallholders. The combined potential of ensuring an improved livelihood for these local producers and the protection of globally important biodiversity has led to several industry and donor-led initiatives, including GEF projects. These initiatives which promote biodiversity-friendly production while providing increased benefits for producers, through efficiency gains on-farm and/or by increased benefits in the market place. The central assertion of the present project proposal is that any conservation strategy in coffee-rich tropical landscapes must take into consideration the ecological role of coffee and take advantage of the great potential inherent in promoting and maintaining sustainable coffee production.

COFFEE AND BIODIVERSITY IN PROJECT COUNTRIES

11. This project focuses on the six coffee producing countries in Latin America that are among the world's largest coffee producing countries, and therefore key suppliers to the world's coffee industry. These six Latin American countries also harbor some of the world's most diverse ecosystems. That combination makes them ideal as countries for this project, which aims to conserve globally important

biodiversity in coffee habitat. The countries are: Brazil, Colombia, El Salvador, Guatemala, Honduras, and Peru.

12. Coffee production in these countries occurs in 4 biomes which are among the world's most threatened hotspots, namely the Brazilian Atlantic Forest, Brazilian Cerrado, Mesoamerica, and Tropical Andes. While transformation from natural habitat to coffee production has mostly occurred decades, or even centuries ago, coffee has traditionally been produced in low-impact agro-ecosystems. As the surrounding natural habitat has disappeared, coffee production areas have maintained some characteristics of the original ecosystem and, together with the remaining protected areas, represent the best remaining habitat where biological diversity has survived relatively intact. Therefore, conservation of natural habitat features within coffee plantations is a top priority.

13. During the PDF B phase, different coffee regions were analyzed to determine their biodiversity conservation value, such as the richness of the local ecosystem and the value of coffee habitat for protected areas within or nearby the coffee regions. It was also determined to what extent the areas had potential for conservation of natural habitat through certification of farms that apply biodiversity-friendly and sustainable productive practices, and if the project would have a high likelihood of success in the particular area. A total of eight regions were chosen in the six countries, all of whose coffee is in high demand on international coffee markets. These areas will be the focus of the project intervention, but certification will also continue to occur outside these areas. Fairly large areas were chosen so as to produce significant conservation impacts within larger landscapes. Within these areas, coffee is a main activity, but not the only one. The selected regions are multiple land use areas. The eight Project Coffee Regions cover a total area of 312,310 km², or almost the size of Germany. For a more complete account of the selection process and criteria, please refer to Annex X.

14. The following section provides a brief overview of the biodiversity hotspots that will benefit from this project intervention,⁴ as well as the selected Project Coffee Regions.

Atlantic Forest

15. The Brazilian *Mata Atlântica*, or Atlantic Forest, stretching along the Atlantic coast of Brazil, is one of the highly diverse and endemic regions on Earth. Only about 8% of the original natural forest remains of an area which originally covered more than 1.2 million km².



16. Its high endemism is due to its isolation from other tropical forests by the savannas and woodlands of the Cerrado. Of the Atlantic Forest's 20,000 plant species, 8,000 are endemic, and more than half of the region's tree species are unique to the area. Several valuable timber species are very rare, including Brazil-wood (*Caesalpinia echinata*) and Brazilian rosewood (*Dalbergia nigra*). 930 bird species have been recorded, as well as 260 mammal species of which 70 are endemic. Amphibian biodiversity is also high with 450 species, of which more than half are endemic.

17. Whereas earlier threats included sugar production and coffee production, it is now under continued pressure from expansion of urban areas around Rio de Janeiro, Sao Paulo and Belo Horizonte.

Southeastern Brazil is not only home to approximately 70% of the country's population of 176 million

⁴ Unless otherwise noted, the information is cited from Conservation International's hotspot website: www.biodiversityhotspots.org. Also the hotspots maps have been borrowed from the CI website.

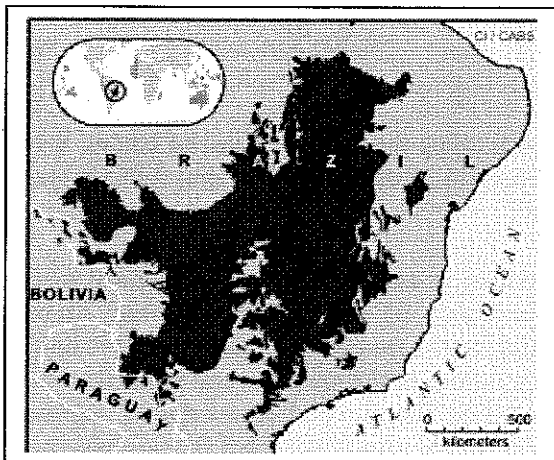
people, it is also a principal industrial center contributing to the pressures on the remaining tracts of natural forest.

18. Because of the serious degradation, the Atlantic Forest region is a highly fragmented landscape. As the remaining natural areas are too small to sustain populations of species, conservation efforts are concentrating on linking remaining fragments through biological corridors. These conservation corridors will link remaining natural areas through reforestation efforts and a matrix of biodiversity-friendly land use. For this, biodiversity-friendly coffee production, where farms engage in on-farm conservation efforts, is a key element.

19. The Project Coffee Region selected for this project lies within the state of Espírito Santo, and covers an area of 7,366,000 hectares. According to Brazilian Center of Technological Development of the Coffee (CETCAF), more than 0.5 million hectares of coffee is grown within this principal coffee region, which overlaps with the conservation area of the 'Central corridor of Atlantic Forest.' For a map showing coffee production and the selected Project Coffee Regions, please refer to Annex XV. Inside the Project Coffee region is the Caparaó National Park, and the Pedra Azul State Park of Espírito Santo, which will benefit from protection of the surrounding coffee landscape.

Cerrado

20. The Brazilian Cerrado covers 21% of the national territory, or about 2 million km². This is the most extensive woodland-Savanna in South America, and also the only hotspot that consists largely of savanna, though it also contains some dry forest. The region receives a rainfall of between 1,100 and 1,600 millimeters per year, which falls during the 6-7 months rainy season. The dry season is characterized by frequent droughts and plant species have adapted to drought as well as fire which is a natural characteristic of the area.



21. Large mammal species, such as the giant anteater, giant armadillo, jaguar, and the maned wolf can be found here. The Cerrado is one of the most diverse savanna areas anywhere and has a high degree of endemism. It has 10,000 plant species, of which 4,400 are endemic; bird diversity is considerable with 600 recorded species; there are 200 mammal species of which 15 are endemic; and reptile species amount to nearly 200 species. Additionally, almost 200 species of amphibians have been recorded, of which 25 are endemic. While more research is needed, preliminary findings suggest that a fourth of the 40,000 Neotropical butterfly and moth species can be found here, and nearly a third of the 400 Neotropical termites.

22. Accounting for 35% of Brazil's agricultural crop production, this unique area is under substantial threat of an expanding agricultural frontier. Soy and corn are the main crops, but cattle ranching is also big with almost 40 million cattle produced per year. Because of the importance of agricultural production to the country's economy, conservation efforts have been modest. It is paramount that increased emphasis on conservation considers the productive sector, and that producers transform their practices to make it compatible with the survival of the region's ecosystems.

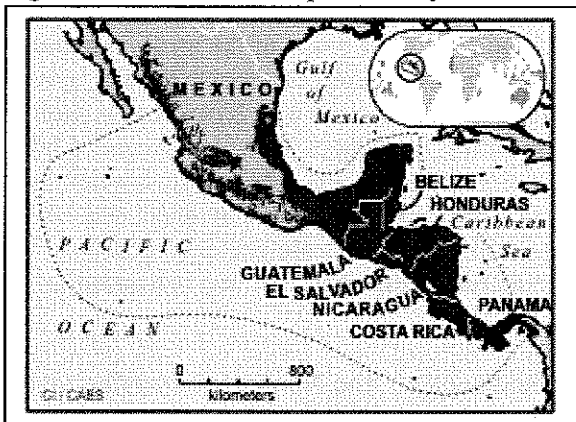
23. As the natural habitat of the Cerrado is not forest, coffee production takes place under full sun, but sustainable coffee production takes into consideration the characteristics of the natural habitat, and sets aside natural conservation areas on farms.

24. The selected Project Coffee Region is located in the southern part of the Minas Gerais state, and northern part of the São Paulo state, covering Cerrado, but also parts of Atlantic Forest. Total area of the Project Coffee Region is 11,265,000 hectares, of which coffee production covers slightly more than one million hectares. Important protected areas inside the Project Coffee Region are Serra da Canastra Park, Serra da Mantiqueira Protection Area, and Rebes Duas Bocas Biological Reserve.

25. The coffee growing areas selected for this project in the Cerrado, as well as the Atlantic Forest, described above, are two of the principal coffee growing regions of Brazil, and therefore the world. Brazil produces some 25% of the world's coffee, so biodiversity protection within coffee production in these unique hotspots is of the highest importance.

Mesoamerica

26. Stretching from Central Mexico to the Panama Canal, the Mesoamerican forests cover territories in eight countries. The hotspot entirely covers Guatemala, Belize, Honduras, El Salvador, Nicaragua and Costa Rica. Its major ecosystems include dry forests, lowland moist forest and montane forests, coastal swamps, and mangroves.



27. Mesoamerica's spectacular diversity is due to its location between the North American and South American continents. Three million years ago, the Central American isthmus rose from the sea and connected these two vast land masses, and the region became a corridor of transition and interaction between species from the north and south. Due to the mountains forming natural barriers, there are important differences between the ecosystems of the

Pacific and Atlantic coasts. Some of the most well-known species endemic to Mesoamerica are the resplendent quetzal (*Pharomachrus mocinno*), the black howler monkey (*Alouatta pigra*), and the Central American spider monkey (*Ateles geoffroyi*). Several other large mammals are important conservation symbols of the Central American forests, including the Baird's tapir (*Tapirus bairdii*) and the jaguar (*Panthera onca*).

28. Mesoamerica contains approximately 17,000 plant species, of which almost 3,000 are endemic to the region. The forests of the region harbor close to 1,120 bird species, of which more than 200 are endemic; some 440 species of mammals, of which 65 are endemic. There are more than 180 species of rodents alone. There is also a very high rate of reptile diversity and endemism with a total of more than 690 species, of which 35% are endemic. Amphibian diversity and endemism are outstanding with more than 550 species, with 350 unique to the region, which is nearly identical to the more than 500 freshwater fish species found, of which 350 are endemic.

29. Historically, logging and agricultural encroachment have eliminated huge parts of the Mesoamerican forests. Current high population growth rates and very high population density have ensured a continued pressure on remaining areas, which experience some of the largest annual deforestation rates in the world (estimated at 1.4% p.a. during the years between 1980 and 1990). It is estimated that 80% of the natural forests have disappeared.

30. About 13% of the region is under some kind of protective status, but much of this is low protection status or paper parks. Over the last decade, conservation efforts have centered on the integrated conservation effort of the Mesoamerican Biological Corridor (MBC), which has been heavily supported by the GEF. Through collaboration between eight countries, the MBC aimed to link remaining natural and protected areas with a series of corridors through plantation forests, biodiversity-friendly agroforestry systems, and private reserves. The regions' coffee producing areas form a key element of the corridor concept. In most of the countries, coffee is still produced under shade and many farms harbor an impressive number of species and boast majestic old-growth shade cover, some of which represent well over a hundred tree species per farm. In several countries, the proposed MBC areas are defined so they clearly overlap with remaining shade-coffee production. A map is provided in Annex XV which illustrates how the selected Project Coffee Regions in Guatemala, Honduras, and El Salvador overlap with the Mesoamerican Biological Corridor, as well as important parks and conservation areas.

31. The project selected four coffee regions in three countries, which will help conserve the biodiversity associated with mid-elevation forests and Central America's coffee park.

32. In *El Salvador*, the Central and Western coffee growing regions were chosen as one Project Coffee Region, covering 308,000 hectares, and with an estimated coffee coverage of 130,000 hectares. The region harbors some of the few significant national parks in El Salvador, such as Los Volcanes National Park and El Imposible National Park, one of the most important remaining tracts of the area's threatened mid-elevation tropical dry forest, and home to many rare species including the mountain lion (*puma concolor*). The Coffee Project Region will serve to connect El Imposible with Los Volcanes, as well as other smaller protected areas. Protection of biodiversity in coffee landscapes with this Project Coffee Region will also help protect the Barra de Santiago, an important estuary that receives freshwater from the El Imposible National Park and surrounding coffee areas. An additional reason to select this coffee region is that an early WB/GEF MSP aimed at protecting biodiversity in shade coffee production was executed in the area around El Imposible. In many ways, certification experience is very advanced in the area, and this project will build on lessons learned.

33. In *Guatemala*, two areas were chosen for their unique biodiversity. The Northwestern coffee region covering the departments of Huehuetenango and Quiché, is a relatively isolated area with many small, indigenous producers, most of whom speak their own local languages and dialects. The coffee produced here is in particular high demand in international coffee markets. The total area of this Project Coffee region is 1,597,000 hectares. Important protected areas that are benefiting from coffee conservation as buffer zone and biological corridors are Visis Caba Biosphere Reserve, and Sierra de los Cuchumatanes Special Protection Area.

34. The other Guatemalan area chosen as a Project Coffee Region is within the department of Sololá. The region is fairly small and covers only 242,000 hectares, but the coffee region includes several protected areas. In particular, Lake Atitlán Multiple Use Area, the Volcán Fuego, Volcanes Santo Tomás y Zunil and Volcán Lacandón, all classified as "zona de veda definida."

35. In *Honduras*, the Project Coffee Region is the Meseta Central area, covering 2,066,000 hectares, of which 93,000 hectares are used for coffee. The area will help protect and connect the following protected areas: Montecillos Biological Reserve, Montaña Santa Bárbara National Park, Cerro Azul de Meambar National Park, and Cusuco National Park.

Tropical Andes

36. This is the most diverse region in the world, harboring approximately one sixth of all plant life on less than one percent of the Earth's land area. The biome covers an area of 1,542,644 km², and stretches from western Venezuela along the tropical part of the Andes, to northern Chile and Argentina, and includes large portions of Colombia, Ecuador, Peru and Bolivia.

37. The region is home to endemic species such as the yellow-eared parrot, yellow-tailed woolly monkey and spectacled bear.

38. The hotspot holds numerous records of species diversity and endemism, as the following figures will show. An estimated 30-35,000 species of vascular plants (more than 10% of the world's species) can be found here, more than any other region in the world, and plant endemism is unsurpassed with more than half – perhaps substantially more – of its species unique to the region. The Tropical Andes has the largest number of amphibian species in the world, with a total of 980 registered, of which 670 are endemic and 450 are considered threatened by IUCN.



39. More than 1,700 bird species can be found in the hotspot, of which 600 species are endemic, another world record. The number of mammal species nearly reaches 570, with 75 endemic and nearly 70 threatened. More than 600 reptile species can be found, and 270 are endemic.

40. A quarter of this incredibly rich and diverse region's habitat is still intact, but pressures on remaining areas are high and include mining, timber extraction, cattle grazing, oil exploration, opium poppy cultivation and expansion of large cities.

41. In the Tropical Andes the project proposes two large coffee areas as Project Coffee Regions.

42. In *Colombia*, it focuses on the department of Santander, an area which contains the Guantiva-La Rusia-Iguaque Conservation Corridor. The Project Coffee Region covers some

2,999,000 hectares close to the border of Venezuela, of which the core conservation corridor covers slightly more than a million hectares. The area contains the following important protected areas: Serranía de los Yariques Nacional Park, the Flora y Fauna de Guanenta Alto Rio Fonce Sanctuary, and the Flora y Fauna de Iguaque Sanctuary

43. In *Peru*, the northern coffee region was chosen. Stretching close to the border with Ecuador, the area covers a total of 5,388,000 hectares of which coffee production areas cover 138,000 hectares. Several protected areas are within this zone, the largest ones being the Alto Mayo Protected Forest, Cordillera de Colan Reserve Zone, and Tabaconas-Namballe National Sanctuary, which among other rare species harbors the spectacled bear (*Tremarctos ornatos*) and the 'pinchaque' tapir (*Tapirus pinch*). This Project Coffee Region not only contains protected areas of major conservation value, but it also helps to connect large parks and conservation areas adjacent to the Project Coffee Region, such as the Santiago Comaina Reserve Zone along the border with Ecuador, the Cordillera Azul and the Rio Abiseo National Parks.

44. In the following table is a summary of the Project Coffee Regions, along with the hotspots they are within, and their geographical coverage. Maps of the project countries' coffee areas and the Project Coffee Regions are available in Annex XV.

Table A: Project Coffee Regions

<i>Project Coffee Regions</i>				
<i>Country</i>	<i>Region</i>	<i>Hotspot/ Biome</i>	<i>Area Size (ha)</i>	<i>Main parks and corridors in or close to PCR</i>
Brazil	Southern Minas Gerais State/Northern São Paulo State	Cerrado and Atlantic Forest	11,265,000	<ul style="list-style-type: none"> • Serra da Canastra Park • Serra da Mantiqueira Protection Area • Rebes Duas Bocas Biological Reserve
Brazil	State of Espírito Santo	Atlantic Forest	7,366,000	<ul style="list-style-type: none"> • Parque Nacional do Caparaó • Parque Estadual da Pedra Azul no Espírito Santo • Central corridor of Atlantic Forest
Colombia	Guantiva-La Rusia-Iguaque Conservation Corredor	Tropical Andes	2,999,000	<ul style="list-style-type: none"> • Parque Nacional Natural: Serranía de los Yariguies • Santuario de Flora y Fauna de Guanenta Alto Rio Fonce • Santuario de Flora y Fauna de Iguaque • Guantiva-La Rusia-Iguaque Conservation Corridor
El Salvador	Western and Central Coffee Regions	Mesoamerica	308,000	<ul style="list-style-type: none"> • El Imposible National Park • Los Volcanes National Park • “Complejo” San Marcelino (includes Las Lajas forest) • “Complejo” Barra de Santiago
Guatemala	Northwestern region (Huehuetenango, Quiche)	Mesoamerica	1,597,000	<ul style="list-style-type: none"> • Visis Caba Biosphere Reserve • Sierra de los Cuchumatanes Special Protection Area
Guatemala	Lake Atitlán (Sololá)	Mesoamerica	242,000	<ul style="list-style-type: none"> • Atitlán Multiple Use Area • Volcán Fuego, “Zona de veda definida” • Santo Tomás y Zunil “Zona de veda definida” • Lacandón “Zona de veda definida”
Honduras	Meseta Central Region	Mesoamerica	2,066,000	<ul style="list-style-type: none"> • Montecillos Biological Reserve • Montaña Santa Bárbara National Park • Cerro Azul de Meambar National Park • Cusuco National Park
Peru	Northern Region	Tropical Andes	5,388,000	<p><i>Protected Areas with the PCR</i></p> <ul style="list-style-type: none"> • Alto Mayo Protected Forest • Cordillera de Colan Reserve Zone • Tabaconas-Namballe National Sanctuar <p><i>Adjacent Protected Areas</i></p> <ul style="list-style-type: none"> • Santiago Comaina Reserve Zone • Cordillera Azul National Park

				• Rio Abiseo National Park
Total area:			31,231,000	

Threats, root causes and barriers analysis

THREATS AND ROOT CAUSES TO BIODIVERSITY-FRIENDLY COFFEE PRODUCTION

45. While maintaining and increasing Latin America's coffee shade is a high priority for biodiversity protection outside protected areas, the biodiversity-friendly coffee parks are currently under considerable threat, which could reduce or eliminate their value as habitat for wildlife and key species of fauna.

46. There are three main factors which directly threaten biodiversity-rich coffee plantations. First, the transformation of shade-coffee farms into other land use. Second, "technification" or conversion to intensive full-sun coffee production. The third major threat is increasing pressure from people living within or outside coffee farms, typically in the form of hunting, extraction of plants, collection of firewood, forest fires, and pollution. In the following, each main threat is analyzed along with its driving forces.

a) Conversion of coffee farms to other land uses

47. Like many commodity markets, the coffee market follows a boom to bust cycle. Coffee plants take several years to mature and changes in coffee supply resulting from new plantings lag behind price signals by several years, allowing planting to continue long after sufficient potential production has surpassed world demand. As supply increases, the market experiences a drop in prices. A surge in production following the dismantling in 1989 of the International Coffee Agreement's quota system, along with increased production in Brazil, and the entry of Vietnam as a leading producer, were some of the reasons behind the recent coffee crisis. Also, the technification of farms in Latin America contributed to the oversupply of coffee on international markets.

48. The oversupply resulted in a sharp drop in coffee prices. The composite indicator price of coffee in 2003 was just slightly more than 50 cents, significantly below production costs in the majority of producer countries. The crisis caused a significant decline in production in much of Latin America, especially in Central America, which affected local and national economies still heavily dependent on coffee exports and the hard currency they bring.

49. Blackman, et. al.⁵ compared LANDSAT images of the Oaxaca, Mexico, coffee producing areas from the recent pre-crisis (before 1993) and crisis (1993-2001) periods. They found a net loss in forest cover as the crisis worsened. Interviews with small farmers indicated a downward spiral in coffee farm maintenance that led to plantation abandonment. While one would think this would increase biodiversity (no pruning or application of pesticides), the farms were often cleared in patches for subsistence agriculture, and the timber sold. Similar trends have been observed in other Latin American countries, such as conversion to cattle ranching in Colombia, and to sugar cane in El Salvador.

⁵ Blackman, A., H. Albers, B. Avalos-Sartorio and L. Crooks. Deforestation and shade-coffee in Oaxaca, Mexico: key research findings. (Draft) Resources for the Future. 2004

50. Price movements during the first half of 2005 revealed a recovery in exporting countries following the long period of decline. Even with prices rising again, the coffee sector is not safe. Structural problems remain, and most coffee farms are vulnerable to the volatility of the international coffee market. Most market observers expect prices to decline again. To withstand future coffee crises, farmers must increase the economic sustainability of their farms, by increasing efficiency and quality in coffee production, which can then yield higher prices in international markets.

51. Even if farms increase economic sustainability, pressures to convert farms to other land use will continue. As urbanization spreads into rural regions, the value of coffee production land increases, and it may be more economically attractive to convert the farm to housing development or other land use.

b) Conversion of traditional agroforest coffee farms to intensive industrial monocultures

52. As part of rural development projects, banks and government and development agencies have often encouraged coffee growers to exchange their shade coffee systems for technified plantations. These systems involve the complete removal of the natural forest canopy in order to better control disease, and to increase production through the use of less hardy, less shade-tolerant coffee varieties. The full-sun system, however, requires more inputs – more pruning, chemical fertilizers, and regular applications of herbicides – as coffee is planted at a higher density, and has a shorter productive lifespan.

53. Full-sun, technified coffee plantations contain far less biodiversity than traditional systems. For example, one study showed that beetle diversity dropped from 126 species to 29 as farms were technified. Ant diversity declined from 30 to 8 species. Biologist Ivette Perfecto found 259 species of ants, wasps and beetles in one tree in a shaded Costa Rican coffee farm. She found 30 species of ants in one tree. (The entire British Isles have about 50 species of ants.) Many of these insects prey upon coffee pests. In El Salvador, a country with only 5% of its native forest remaining, a Rainforest Alliance certified (RAC) coffee cooperative was found to host 103 tree species. Most sun-coffee farms have between zero and three tree species.

54. Technified systems have other impacts on biodiversity and ecosystems that are less well documented. Weed competition must be kept to a minimum by applying herbicides. This reduces ground cover and the incorporation of organic matter into soils, making soils more susceptible to erosion, chemical runoff, and reduced fertility rates. The latter starts a vicious circle of more synthetic fertilizer use because the nutrient absorption capacity of soils has declined with decreased organic matter. Shade species, however, contribute to soil protection and fertilization, which is particularly critical when coffee prices drop and producers can no longer afford to buy fertilizers.

55. A decision to clear-cut a shade coffee farm in favor of intensive full-sun production or other land use, is often taken without full understanding of available alternatives. While markets increasingly start to reward farm sustainability in the form of premiums and other benefits in return for sustainable production, many farmers are not aware of this opportunity or how to achieve related benefits.

56. However, it is also true that markets – at least until fairly recently – have not rewarded, or given incentives to sustainability in coffee production. For much of the mainstream market, this still remains true. For many farmers, it has made more economic sense to transfer costs of environmental externalities to the surrounding environment and communities.

c) Threats from poor farm land-use practices and local resource use

57. There are also a series of direct threats to biodiversity that exist even on shaded coffee farms. Unsustainable practices on the farm itself pose threats to biodiversity on the farm, as well as to the people

on it and in the surrounding communities. Common threats include poor waste management systems for solid and liquid waste, which often end up either in the local river or as contamination scattered around the coffee farm. It should be noted that waste water from coffee production is highly toxic, so untreated discharge into the environment is a clear case of transfer of environmental costs to local environments and communities.

58. Poor pest management systems can also lead to toxic contamination of local environments and water bodies. Likewise, poor land use practices lead to soil erosion and chemical run-off, also resulting in contamination of local rivers and streams.

59. Root causes are often ignorance or unawareness with regard to best management practices or because farmers have no incentive to implement more rigorous, environmentally friendly management practices.

60. Threats from local populations are fairly similar to the common threats experienced in other natural resource-rich areas. The threats include hunting for wildlife; extraction of different plant species for consumption, sale, or medicinal use; firewood collection; forest fires, often resulting from poorly managed slash-and-burn agricultural techniques; and pollution from liquid and solid wastes.

61. Poverty in local populations is an important root cause behind the pressures. As wages are low and as many people in rural communities fail to participate fully in a formal economy, many supplement their income with a collection of different products from the forested areas.

62. Indiscriminate use of resources as well as thoughtless abuse – such as in the case of fire use and pollution with wastes – often happens because locals are not cognizant of the value of an intact ecosystem. Overuse and abuse of local ecosystems not only harm the owners of local coffee farms, but they also harm local communities because of the reduced quality of environmental services they receive as a reward of having an intact ecosystem, such as access to clean water.

OPPORTUNITIES FOR SUSTAINABLE PRODUCTION

63. As serious as the threats against biodiversity-friendly shade coffee production may seem, luckily there are proven sustainable and viable alternatives, both with regard to the problem of conversion as well as management of other threats against biodiversity.

64. First, it is very important to point out that most owners of shade-coffee plantations usually want to maintain their farms intact, including shade trees. Coffee farmers are traditionalist people who take great pride in their trade. Often farms have been in their families' possession for generations and coffee farming is a way of life which brings both self respect as well as prestige in the community. Old-growth shade-coffee farms are truly amazing places, as any visitor can testify to, and their owners care for and maintain them, much in the same way that one can see on ancient vineyards. Simple cost-benefit reasoning is not sufficient to explain coffee farmers' behavior.

65. It may be that other land uses make it more economically rewarding to terminate shade-coffee production, but many farmers will only make that change as a last resort, in the absence of any alternative. This is probably the reason shade-coffee farms still survive, even when producing on slim profit margins or – in bad times – a loss. But in times of crisis, if there are no alternatives, conversions of shade-coffee farms will continue to occur.

66. Governments in producer countries and donor institutions can provide help to farmers in building their economic sustainability and ensure environmental benefits. This can be done through rural

development programs, private sector business development programs, as well as specialized programs that provide credits under favorable conditions, technical assistance for coffee quality development etcetera. Such programs are in place in the majority of the project countries, and are typically planned by a government agency or one of the national coffee associations with donor financing.

67. Governments can also try to strengthen the resilience of coffee farmers through the provision of a favorable policy environment which reward farmers for maintaining valuable coffee habitat that bring tangible environmental services, as well as jobs, to the surrounding communities.

68. Too often, however, governments do not succeed in creating the necessary policy environment. Even ambitious initiatives, such as the Mesoamerican Biological Corridor, which for years has worked to improve policy environments in favor of conservation, has arguably had limited impact for coffee producers on the ground.

69. Rural development programs and other technical assistance programs, however large, tend not to reach sufficient amounts of farmers. Moreover, many of these programs struggle to guarantee sustainable results after project interventions end. They are often very expensive and put huge burdens on the budgets of government authorities.

70. This project proposal aims to catalyze a vast, and largely untapped potential for improving the sustainability of coffee farms, namely to capitalize on market forces to promote sustainability within the coffee industry. The coffee industry – dealing in the largest crop commodity market in the world – is an almost infinitely powerful source. Coffee represents a retail value of USD 70 billion per year, and the potential of transforming the coffee industry to internalize conservation and sustainability measures, can potentially dwarf any donor or government financed investments in coffee sustainability. Price premiums and other benefits are already paid for sustainable production in the market place, and little by little mainstream coffee markets start to recognize that sustainable coffee production should be rewarded.

71. Over the last 10-15 years, the coffee industry has been pioneer in piloting sustainability measures, and the very large actors, as well as countless smaller ones, are quickly moving towards sustainability. It is very likely that all the major actors in the coffee world will have some sort of sustainability standards and policies before the end of this proposed project intervention. For an account of the sustainability trends in the coffee industry, please refer to Annex VI.

72. For the coffee industry, there are several possible ways of promoting sustainability, almost all of them linked to some kind of standards and a corresponding certification scheme, which will verify that producers and coffee companies live up to the standards. Current amounts of certified coffee from different certification systems probably amount to less than 5% of global production per year, but experts predict substantial growth.

73. Several organizations were formed with the aim to promote coffee sustainability through certification. The fair-trade certification movement champions a fixed price to guarantee farmers a better price for their coffee, but until recently hasn't been concerned with environmental issues. The organic movement centers on abandoning agrochemicals, but fails to address social issues. The certification system Utz Kapeh has very little focus on biodiversity. Meanwhile, the coffee industry itself is trying to define common minimum sustainability standards, such as within the Common Code for the Coffee Community. A discussion of biodiversity benefits of different certification systems can be found in the Table B.

Certified Coffee Schemes and Movements

There are several certification programs for coffee. The oldest and best known is *organic*, which aims to eliminate synthetic chemicals and improve soil health. There are hundreds of organic organizations organized under the umbrella of the International Federation of Organic Agriculture Movements (IFOAM), based in Germany. There are *Certified Organic* coffee farms in nearly every producing country, producing a combined total of about 35,000 tons.

Max Havelaar, in the Netherlands, launched the first *fairtrade* consumer guarantee label in 1986 on coffee sourced from Mexico. Fairtrade aims to assist disadvantaged producers in developing countries. Today, there are 18 organizations in the Fairtrade Labeling Organization International (FLO). Fairtrade is an alternative marketing program that connects producers and consumers in a more equitable and direct way, working primarily with small farmers who are organized into cooperatives. In 2004, there were 360 *Fairtrade Certified* producer groups in 40 producer countries selling to hundreds of Fairtrade registered importers, licensees and retailers in 18 countries.

Since the organic movement has only recently begun to consider social issues, and fairtrade does not certify farms with hired labor, the farmers, biologists, rural development specialists and other stakeholders that developed the Sustainable Agriculture Network (SAN) standards (the international NGO Rainforest Alliance serves as Secretariat of the SAN) wanted a program that would benefit the millions of seasonal and permanent workers who depend on coffee.

This network of NGOs developed the first standard that encompassed all three pillars of sustainability – economic, ethical and environmental – in an integrated way that also includes protections and benefits for workers, wildlife, ecosystems and local communities. The standards use a “Rainforest Alliance Certified” seal on the product and the standards can be applied to farms of any size or management structure, so long as it meets the rigorous and comprehensive standards.

While the NGO certification groups (organic, fair-trade and more recently Rainforest Alliance) long held the field, private-sector verification initiatives are growing quickly. The European Retailers Association adopted the SAN concept of sustainability standards, creating the EurepGap code, which was first applied to fresh fruits and vegetables. A Dutch supermarket and EurepGap supporter -- AHOLD – sponsored the development of Utz Kapeh, an assurance mark that specialized in coffee.

The European and German coffee associations and GTZ are sponsoring the development of the Common Code for the Coffee Community (CCCC), a “baseline standard” that aims to provide a level of risk management for the coffee industry by ensuring that the worst environmental and labor practices are gradually eliminated from the sector.

Finally, there are a number of company codes that are similar to the SAN standards but without the expert, third-party verification element, including the Starbucks program CAFÉ Practices and the “Sustainability Index” of the Neumann Kaffee Gruppe.

74. The so-called “third-party” certification schemes are a powerful tool for change. As opposed to internal industry standards, third-party certification means that compliance of sustainability standards is verified independently through audits. While procedures vary from one system to the other, Rainforest Alliance Certification (RAC) implies an annual audit on all farms. Only if the audit shows that the producer meets the standards of the particular certification system, the producer has a right to use the certification system’s seal. The seal is a guarantee of compliance which can follow the coffee through the supply chain and eventually be put on the final product at the retail outlet. That the coffee which reaches the consumer is actually the same as the coffee which was produced under sustainable conditions on a certified farm is verified through chain-of-custody audits of companies that trade the product.

75. Third-party certification systems give coffee producers and companies a credibility which they would not have if they merely used their own standards and then claimed to follow them. This credibility and the

seal which backs it up can be used to leverage benefits in the market place. That companies are able to say that credible organizations guarantee that their product was produced under strict environmental and social standards translates into a value in the market place. The certification system therefore provides market incentives to comply with the standards. The market incentives can mobilize huge shifts in investments within the private sector. When preferences for products shift from products produced under non-sustainable conditions, to products produced under rigorous biodiversity conservation and social sustainability standards, the private sector can mobilize unrivaled levels of funding to catalyze on-the-ground change.

76. As will be explained thoroughly in later sections of this proposal, the expected leveraged change in private-sector investment in favor of sustainability resulting from this project intervention amounts to more than USD 4.5 billion, of which roughly USD 500 million represents farmers' own investments on their coffee farms to transform their productive practices to meet the standards.

77. The Rainforest Alliance, an international NGO based in New York and Costa Rica and founded in 1986, has emerged as a key player in the world of certification, currently certifying through a network of local NGOs, called the Sustainable Agriculture Network (SAN) almost 1 percent of global coffee producing area but sustaining growth rates of more than 100% per year over the last 3 years, and experiencing a continued strong increase in demand for certification from producers and coffee companies. The certification system is known as one of the most rigorous and complete sustainability standards in the coffee world, and one with demonstrated benefits for biodiversity.⁶ The ample benefits of the certification system – for biodiversity and the environment, for farmers, and for farm workers – are explained below in the following section.

78. As different certification systems with different standards and philosophies try to promote sustainability each in their way, there are important considerations which must be made in determining how to achieve the most impact for biodiversity. One is the degree to which the standards lead to conservation and sustainability benefits on farm. The other is the degree to which the coffee industry is likely to adopt the standards and mainstream them broadly within the sector. The two are trade-offs to a certain extent. The weaker the standards, the easier it will be for the industry to comply with them, but they will also bring about less change. Extremely rigorous standards, or standards which are not compatible with the mechanics of the coffee industry, can bring about great changes on coffee farm if they're followed, but will be doomed to remain as isolated, niche initiatives for small segments of the coffee companies and coffee consumers.

79. Industry standards such as the CCCC and the certification system Utz Kapeh promote entry-level, baseline standards, which are better than no standards, but will not bring about thorough change in the coffee sector, much less provide substantial benefits for biodiversity. At the other end of the spectrum are certification systems as Bird Friendly which bring substantial benefits for biodiversity but stand little chance of becoming widely adopted in the coffee industry. Certified organic also brings benefits for biodiversity, though perhaps focus is more on elimination of agrochemicals than other aspects of biodiversity-friendly production, such as canopy cover or soil protection measures. In addition, the system fails in addressing social issues in its standards. This might be the reason that Organic seems to have stagnated recently on international markets. The main certification systems emphasize different aspects of sustainability and use different philosophies to promote it. Fairtrade attempts to curb market forces by setting fixed prices, while most other schemes aim to capitalize on market forces by providing incentives for on-farm changes. Some schemes promote mostly social aspects of sustainability and others mostly

⁶ Several studies have confirmed the biodiversity value of shaded coffee farms that produce according to the sustainability standards. This project will establish a rigorous impact monitoring system to improve availability of systematic and credible data on impacts.

environmental aspects. Some schemes put primary emphasis on food safety and traceability issues. Rainforest Alliance Certified emphasizes all three pillars of sustainability: social, environmental, and economic. Some schemes appeal to an exclusive “sustainability-aware” group of consumers who is willing to pay a substantial sustainability premium for certified coffee, and other schemes are aimed at mainstream consumers on highly competitive coffee markets. For an introduction to the main coffee sustainability standards of system, please refer to Chemonics’ “Beyond the Bean: Redefining Coffee Quality,” which can be found on <http://marketstandards.chemonics.net>. The coffee world is extremely complex, and there is not on “fit-all” solution to sustainability problems in coffee production. Different certification schemes address different problems, appeal to different consumer groups, and fit the situations of different farms and producers. They should be regarded as complementary and not as being in competition with each other. This proposal does not support multiple certifications as a solution to most farmers, as this is likely to drive up costs of production. Rather each farmer should choose the certification scheme that best helps him improve sustainability on his farm. However, acknowledging that multiple certifications are already a reality for some producers, this project will help create synergies between existing certification programs by harmonization of audit procedures and standards, where possible.

80. In Table B below is a comparison between the three major certification schemes with environment profile, emphasizing the standards that determine benefits for biodiversity.

Table B – Comparison of Three Major Certification Schemes

<i>Requirements for Certification</i>	Utz Kapeh	Organic	RAC	Positive impacts for biodiversity in RAC coffee farms
1. Tree Cover	Native tree shade species desired, but without any specification; deforestation of primary and secondary forest is forbidden	(-) No requirements	(+) 10 different native tree species; two vegetation strata; minimum of 40% shade; conservation of riparian forests and other forest patches	<i>High shade tree diversity and higher wild plant biomass promotes higher insect abundance and diversity, as well as mammal, (migratory and resident) bird, reptile and amphibian species richness and abundance.</i>
2. Pesticide Reduction	Is not requiring pesticide reduction specifically, though asking for proper registers	(+) Most chemical/ synthetic pesticides forbidden	(+) Integrated Pest Management practices are a must; registers of pesticide use must show reduction over years; a program is required to eliminate class I and II pesticides	<i>Less fungicides and herbicides result in a cleaner aquatic environment and healthier soil fauna; fewer insecticides lead to less invertebrate mortality and bioaccumulation; the agroecosystem is more stable and the foodnet presents higher complexity.</i>
3. Water conservation	(+) 5 m protection zone of water bodies without pesticide application; waste water treatment	(-) No direct requirements	(+) 10 to 50 m protection zone of water bodies without pesticide application required; waste water treatment, water analysis (pesticide residues) and solid waste management required	<i>Less or absent fungicides and fertilizers in water lead to a healthier aquatic environment with more diverse macro-invertebrate and amphibian communities; waterfowl, snakes and mammals benefit from higher food abundance.</i>
4. Habitat regeneration	(-) Does not	(-) No requirements	(+) Farm areas that are not suitable for coffee	<i>More complex landscapes are created; forest cover increases;</i>

<i>Requirements for Certification</i>	<i>Utz Kapeh</i>	<i>Organic</i>	<i>RAC</i>	<i>Positive impacts for biodiversity in RAC coffee farms</i>
	specify actions to enhance the environment for the benefit of flora and fauna		(slope, risk of erosion, poor soils) should be reforested with native tree species; disturbed riparian forests must be recovered	<i>proximity between forest patches is higher; edge effect diminishes; mainly insect and insectivorous migratory and resident bird communities are benefited.</i>
5. Wildlife Education	(+) Hunting and commercial collection forbidden	(-) No requirements	(+) Environmental education program required; Hunting and cage-birding prohibited; no wildlife in captivity; extraction of epiphytes and vascular wild plants forbidden	<i>Bromeliads, orchids, passerine birds, toucans, parrots, monkeys and other vertebrates can reproduce successfully again to maintain or improve healthy populations without being affected by human disturbance.</i>

RAC COFFEE: *The On-Farm Benefits*

81. The RAC coffee contains the right mix of rigorous standards and market compatibility, covering the three pillars of sustainability: environmental/biodiversity, social/ethical, and economic. While standards are universally recognized as high, the system fits the needs of the international coffee community. Companies that are struggling with sustainability issues have embraced the system and demand is increasing substantially. Consequently, over 93,000 hectares of coffee farms in biodiversity-rich areas of Latin America have currently been protected through this system.

82. While fully recognizing the merits of other certification programs, RAC has been chosen as intervention strategy for this project for its effective impact on biodiversity guaranteed by its rigorous standards, as well as the benefits it brings to the farmer in terms of his improved ability to weather a future coffee crisis. It is an eminent tool to address the threats against shaded coffee farms, analyzed above. It will also bring social benefit for farm workers, which are key stakeholders in implementing sustainability measures on farms. As the standards prohibit felling of forest habitats for coffee production or other purposes, the certification system will also help curb encroachment in remaining natural areas. No certification is done of coffee planted as a result of encroachment in natural areas. When the system promotes “increased certified production” it refers to existing farms implementing sustainability measures on their farms and getting certified.

83. In the following is explained the main on-farm benefits that are brought about by the certification system. The standards of the certification system have ten principles:

- Social and environmental management system.
- Ecosystem conservation.
- Wildlife protection.
- Water conservation.
- Fair treatment and good working conditions for employees.
- Occupational health and safety.
- Community relations.
- Integrated crop management.
- Soil management and conservation.

- Integrated waste management.

84. The certification system is implemented by a network of independent, nonprofit, conservation organizations that promotes the social and environmental sustainability of agricultural activities through the development of standards, and by certifying farms that meet those standards. Network members provide certification services to the producers and agricultural companies in their countries, and contribute knowledge and experience to the development of the standards. The network uses the Rainforest Alliance Certified™ seal, which is awarded to those farms that meet certification requirements.

85. The standards specify criteria for best management practices and social and environmental performance for farms. The scope of the standards covers agronomic practices and integrated crop management; social, labor, and community relations; environmental management, and occupational health and safety.

86. The certification system is designed to drive continual improvement of social and environmental best management practices on farms. All farms are audited by teams of third-party auditors. The length and cost of the audit depend on many factors, among them farm size, the complexity of cropping or production systems, the existence of processing or packing facilities on the farm, and the number of farm workers.

87. All certified farms must undergo annual audits to evaluate compliance with the standards and to verify that previous non-compliance issues have been or are in the process of being rectified. Annual audits tend to focus more on previous non-compliance issues, but not at the expense of evaluating overall farm performance against the standards. Farms that do not demonstrate compliance or clear progress on improvements will be assigned corrective actions and will need to undergo a verification audit. The program can suspend or cancel the certification of any farm that does not demonstrate progress on corrective actions.

88. In short: the objective of a farm audit is to confirm the execution of best management practices according to their definition in the standards. Incidents of non-compliance are evaluated to determine whether they are an isolated incident or the result of the lack of a systematic approach to implementing best management practices.

89. A more thorough explanation of the certification system can be found in Annex VIII.

90. Table C below summarizes some of the biodiversity-related improvements that typically occur on a farm when it becomes certified. For more complete information on the wide range of social and environmental changes that occur, see Annex IX.

Table C: Biodiversity Related Improvements on a Certified Farm

Farm Aspects	Common Problems	Certified Farms	Benefits
Tree Cover (only for select crops like coffee and cocoa)	No shade trees or only scattered shade of a few tree species. Often exotic species of little value to wildlife are used.	At least 10 native species and 70 shade trees per hectare in two strata. Canopy cover is 40%.	<ul style="list-style-type: none"> • Increased environmental services: water yields, carbon sequestration, recreation opportunities and biodiversity. • Increased flora and fauna for better natural pest control. • Appropriate land uses: best lands for agriculture mean better yields and lower costs. • Increased natural fertility, decreased fertilization costs. • Reduced herbicide use. • Reduced water consumption and need for wastewater treatment. • Increased water yields from farm for internal consumption and use by neighbors
Forest Conservation	Completely deforested or with little natural forest. Existing forest unprotected.	Forests protected. Degraded and non-agricultural areas reforested	
Wildlife Protection	Hunting or extraction of flora and fauna common.	All natural ecosystems and their flora and fauna must be protected.	
Soil Resources	No soil conservation measures, heavy reliance on chemical fertilizers and herbicides	Soil and fertility conservation program and measures implemented. Abundant use of vegetative ground cover and natural fertilizers	
Water Resources	Excessive water use. Streams and rivers contaminated with processing and domestic wastewaters and garbage. Riverbanks and watersheds deforested	Water use is measured and conservation measures implemented. All wastewaters treated before release to environment. Riverbanks reforested, watersheds protected.	

Biodiversity conservation and environmental protection

91. In terms of biodiversity conservation, the on-farm benefits of this shift in investment is a farm which maintains its canopy cover in habitats that were originally forested, or – in other areas, such as the Brazilian Cerrado – sets aside large conservation areas to compensate for full-sun coffee growth. Tracts of forest on farms are protected and managed. Deforested farms can comply with certification requirements by reforesting according to the standards.

92. Pressures from outside population and farm workers on natural resources are eliminated through control, environmental education and awareness-raising. This includes a stop for hunting and extraction of plants and animals from forested farms.

93. Farms are expected to have a basic inventory over the biodiversity which can be found on their farm, and a good understanding of the value of species with particular conservation value.

94. Instead of indiscriminate fertilizer and agrochemical use, farmers must implement integrated pest management measures, including out-phasing of dangerous pesticides, application of organic fertilizer and strictly controlled use and storage of all agrochemicals. Farms implement rigorous soil protection measures including contour planting and abundance of vegetation ground cover, and vegetation cover in riparian habitats. The result is a drastic reduction of agrochemical run-off and sedimentation in local rivers and streams benefiting local aquatic biodiversity.

95. Farms also implement solid and liquid wastewater treatment. All wastewater is treated before it is released to the environment. Both wastewater treatment as well as soil conservation measures and pesticide use means providing environmental services to downstream water users.

Social benefits

96. In terms of social benefits, farmers start with paying at least minimum wages (which all too often is a significant improvement compared to non-certified farms) and observing other workers rights as specified in ILO conventions and legal stipulations in the particular country.

97. Occupational health and safety programs on farms reduce accidents, including intoxication from agrochemical use. Health care services and health and hygiene education is provided to workers and their families.

98. Worker housing, sanitary installations, cooking facilities and laundry areas are drastically improved.

99. Child labor is prohibited, and employment of young workers (15-17 years old) is carefully controlled. Young workers must not be involved in any dangerous tasks, and must not interfere with school. All children must attend school.

Economic sustainability

100. Certification is truly a powerful tool for changes on coffee farms. Because farmers aim for benefits in the market place they will voluntarily invest large amounts of their own funds in transforming productive practices so they promote sustainability and conservation of biodiversity. Coffee companies will reward this behavior by paying premiums for certified coffee, or by providing other benefits, such as preferential treatment, and long-term contracts. The coffee companies hope that consumers, in turn, will reward them by giving preference to their coffee. This system of market-based incentives has the potential to leverage a thorough shift in investment patterns in the coffee sector, and enormous investments in sustainability. A discussion of the power of leveraging such shifts in investments are provided in the discussions below concerning project strategy, cost efficiency, and Incremental Cost Assessment.

101. During the project's PDF B phase a study was conducted of the premiums typically paid to farmers in return for their efforts to implement environmental and social sustainability measures. The study concluded that farmers were paid an average of USD 12 cents per pound of coffee, or a premium of slightly more than 10%. While the use of the seal does not require the buyers to pay a price premium, it is certainly one of the benefits enjoyed by the farmers, which helps increase economic sustainability and therefore a factor which substantially reduces the threats of conversion of coffee farms in times of crisis.

102. However, farmers also enjoy typical benefits in terms of increased access to markets, and better terms of trade. Farmers report that they find a greater variety of potential buyers, and even if the buyers not always pay a premium, they are often able to offer other valuable benefit which makes the effort to get certified worthwhile.

103. Some of the most important benefits for certified farmers lie not in market benefits, but in efficiency gains and long-term savings on the production side. As farms prepare for certification, they typically engage in a substantial revision of all aspects of production, including registration of a wide variety of aspects of production, including improved accounting systems. Studies of on-farm costs and benefits related to certification, which were conducted during the PDF B phase, showed that farmers made a variety of investments on their farms that were not only to protect biodiversity, or improve social conditions on their farms, but also helped improve the farms as productive units. This is an important point, because although it is not a specific requirement of the standards that the farmer becomes more efficient, that is what often seems to happen as a consequence of certification. That farmers become better

farmers by getting certified is an important element of increasing the sustainability of their coffee farms. The issues implied in determining exactly the mechanics of costs and benefits from certification are very complex and will be studied and documented further during the execution of the full project.

RAC COFFEE: the market potential

104. Transformation of productive practices on coffee farms and protection of valuable habitat in coffee landscapes is of high priority in the conservation community. But for certification to be effective as a conservation tool, markets must demand and reward coffee production under biodiversity-friendly conditions, such as on RAC coffee farms. While the percentage of the world's coffee production certified according to the standards is still less than one percent, major coffee companies are in the midst of an ambitious attempt to increase the presence of certified coffee in the market place. These efforts are accompanied by efforts to market other RAC products, such as bananas.⁷

105. The last months of 2005 are a critical turning point in the availability of RAC products, with two global market leaders launching campaigns in several countries. Kraft is introducing certified coffee brands in the United Kingdom (Kenco), France (Jacques Vabre), Sweden and Denmark (Gevalia), the United States (Yuban), and Australia (Jacob's). Chiquita will put millions of bananas bearing the seal on store shelves in Austria, Belgium, Denmark, Finland, Germany, the Netherlands, Norway, Sweden and Switzerland. In addition to these product launches, certified products are already on the shelves in the US, Canada, Australia, UK, Switzerland, Germany, France, Italy, Belgium, the Netherlands, Japan, Mexico, Costa Rica, and Brazil.

106. Certified products are currently available in approximately 20,000 retail outlets across the globe and this figure is likely to increase sharply as new products become available on new markets.

107. New partnerships have been established with mainstream and key niche players, and these have been important to the growth of the certification program. Partnerships with Kraft, Procter & Gamble, Caribou Coffee, Gloria Jean's, UCC in Japan, and others have permitted the certification program to sustain growth rates of more than 100% per year for several years. Talks are underway with major coffee buyers, such as Dunkin' Donuts, McDonald's, and Starbucks, with the aim of concretizing their involvement in the certification program.

108. These companies are increasingly interested in the concept of sustainability and view the certification program as a central tool to achieve it. The fact that major multinational coffee companies actively seek partnerships with the program indicates the huge potential of a coffee industry-driven conservation and sustainability effort in producer countries. However, many companies still buy only a fraction of their total purchases as certified.

109. The certification program must grow dramatically to remain relevant. There is a risk that the emerging market interest will disappear if the program fails to become a market changing certification system, fulfilling its potential to transform the coffee sector. The encouraging support from major coffee companies clearly is based on the program's potential, but this potential must be realized.

110. A description of some of the partnerships between the certification program and prominent coffee companies can be found in Annex VII.

⁷ Chiquita Bananas entire production, or about 15% of the world's banana supply is RAC.

BARRIERS FOR EXPANSION OF SUSTAINABLE PRODUCTION

111. The huge opportunities for expansion of the certification system are good news for conservation efforts in threatened hotspots. But it is a challenge to fulfill the expectations and meet increases in demand and supply. A series of barriers must be overcome before growth can be ensured. Failure to overcome the barriers could mean that the program will remain a relatively niche certification system, without having really massive impact. It is also possible that the certification system could collapse if producers and coffee companies fail to see their high hopes and expectations fulfilled, and therefore seek other alternatives to sustainability. This, of course, would mostly hurt producer countries and their efforts to enlist consumers and companies in the north as allies in their efforts to protect their spectacular biodiversity.

112. The PDF B has analyzed the barriers to scaling up certified coffee production and sales, and have found the following main barriers:

Barrier 1: Limited demand for certified coffee on international coffee markets

Barrier 2: Limited consumer interest in certified coffee

Barrier 3: Capacity constraints in scaling up certification activities

Barrier 4: Weak economic sustainability on certified coffee farms

Barrier 5: Unfavorable policies limit production or trade of biodiversity-friendly coffee

Barrier 6: Information and knowledge is not systematically generated to inform decision-making and adaptive management in certification system

113. Each barrier exists because of a series of root causes. The project proposal aims to remove the barriers by addressing their root causes. For a graphic model showing the relationships between objective, barriers and root causes, please refer to Annex V.

Barrier 1: Limited demand for certified coffee on international coffee markets

114. The demand for certified coffee is still nascent in spite of the interest and support from leading coffee companies throughout the supply-chain. While demand has been growing fast (Kraft, for example, doubled its purchase of certified coffee in the last year, and the increase in seal-bearing coffee products that can now be found in over 20,000 outlets, is up from just a few hundred two years ago), and while industry-leading coffee companies have supported RAC coffee, the volume of certified coffee currently sold on international coffee markets only amounts to a fairly insignificant share of this massive business. While demand will continue to grow, the question is if it will grow fast enough to maintain the interest of actors in the market place.

115. Presently, production of RAC coffee from the 10 countries where certification activities exist (México, El Salvador, Guatemala, Honduras, Nicaragua, Costa Rica, Panama, Colombia, Peru, Brazil), amounts to 42,000 tons per year. Of this, an estimated 30,000 tons per year are sold with the RAC seal. Growing demand is needed to ensure that all certified coffee reaches a market that recognizes the value of the certification. Currently there is substantial interest on the part of the market in schemes that assure sustainability of coffee production. The project must take advantage of this current opportunity through swift, aggressive action or risk losing the market to industry based verification programs.

Root causes for Barrier 1

116. There are several reasons why many coffee companies have not yet fully embraced biodiversity-friendly coffee. Though the RAC seal has become close to universally recognized by companies in the

industry, there are *many companies who do not know enough about what the certification is, and what the sustainability standards are about*. The term ‘sustainability’ can mean different things to different people, and there are many organizations and certification systems which claim sustainability, even though their definitions of sustainability are much less rigorous than the sustainability standards of RAC coffee. Lack of awareness even exists in many companies which have started to commit to certified coffee. Often the sustainability issue is pushed by informed and visionary employees – sustainability champions – at the management levels in a company, but *the sustainability idea has not spread broadly throughout the organization*. At times, some companies have made a formal decision to commit to buying certified coffee, but the employees who do the actual purchasing are either not sufficiently aware, or do not have a real incentive to choose a certified product over another.

117. While the idea of sustainability in coffee production might sound attractive, all companies, most of which face fierce competition in the marketplace, are looking for a business case to venture into the world of sustainability. *Some companies do not think the certification seal on their product will add value to their brand* because consumers are not yet fully aware of what the seal represents, nor do they actively demand certified coffee. *It is often not fully understood that buying certified coffee can provide a whole series of other benefits to the company, beyond simple use of a seal*. Some of the other business benefits of certification are:

- *Product traceability*. Buying certified coffee gives the company knowledge of the origin of their product and adds transparency to business processes. Traceability is quickly becoming a key parameter of competitiveness in the coffee sector
- *Risk management*. Buying certified coffee gives companies a guarantee that their product was produced in accordance with rigorous sustainability standards guaranteeing environmental and social benefits in production.
- *Risk reduction linked to public image*. Companies have a stronger position vis-à-vis consumer groups, media, and activist NGOs in consumer countries and can effectively reduce the risk to their image by curbing negative attention to their sustainability track records.
- *Sourcing certified coffee can be a part of a broader company Corporate Social Responsibility policy*. A formal CSR policy can help the companies beyond simple image management. For example, job satisfaction and performance can grow if employees can identify with and feel proud of the product they are working with.
- *Improved supply-chain relationships*. Increased knowledge of the origins of purchased coffee can help forge stronger relationships among companies throughout the supply-chain, including more stable, transparent and fair contracting relationships, benefiting all parties.

118. Rainforest Alliance is making a major effort to inform companies and their employees about the nature and benefits of certification, but *the organization needs to expand growth opportunities of the coffee certification program*.

119. Some companies respond more positively towards certification if they can see that its credibility is confirmed by others. To date, the program has built credibility with a number of international groups specializing in sustainable development and environmental conservation, but *these groups have, for the most part, not yet publicly or actively endorsed the certification system as an effective tool for biodiversity conservation and sustainable development*. Once the impacts of coffee certification are better documented (please refer to Barrier 6 below) promotional partnerships will be more easily developed.

Rainforest Alliance has been successful in this approach in other areas. For example, Greenpeace U.K. currently has a goal of encouraging use of Forestry Stewardship Council certified wood products. Rainforest Alliance has partnered with Greenpeace to promote SmartWood – Rainforest Alliance’s FSC-accredited forestry certification program – and FSC certification in the U.K.

120. In the media, *newsworthy sustainability stories are often not told*. However, the certification program has received some very positive media coverage. Lack of staff and other resources has prevented the certification program from achieving more media placement about impacts.

121. In spite of the difficulties mentioned, many companies are already fully convinced of the advantage of buying certified coffee. Even if these companies are fully convinced of and knowledgeable about sustainability standards and their benefits, many companies find it *difficult to identify the coffee they need*. Coffee roasters blend coffees from different origins and with different characteristics to achieve just the right product in terms of flavor, acidity, and other characteristics. Therefore, most coffee companies buy coffee from a variety of different origins. Given that certified coffee is still a niche product in coffee production, it is difficult at times for the company to find the certified coffee they want, even if there happens to be a surplus production of it. This is a problem of *low integration of the coffee supply chain* for certified coffee. This is seen as a temporary problem which will disappear as increased amounts of certified coffee reaches the markets.

Barrier 2: Limited consumer interest in certified coffee

122. No precise measures exist for consumer interest in certified coffee, but based on feedback from partner coffee companies, consumer interest is present and growing in markets such as in the United States. In Japan, consumer interest is just beginning to emerge, but is growing rapidly. In many European markets there is still a very limited availability of certified coffee. In spite of the growing consumer interest, there is no question that the main driver behind the growth in the certification activities so far has been the companies involved along the supply chain. Companies’ awareness of sustainability problems in the coffee sector has been drastically increasing over the last decade. The companies have found that certification is a helpful way to address sustainability issues, and they have pushed certified coffee with the consumers. But for the coffee certification program to substantially expand and move from niche product to mainstream, consumers need to create a pull for certified coffee by requesting it in the supermarket and other retail outlets.

Root causes for Barrier 2

123. Root causes for this barrier include *low seal recognition by consumers*. Consumer seal recognition varies according to the exposure the consumers have had to certified products. In markets where consumers have not been exposed to the RAC seal, awareness is low. Consumer awareness levels are also influenced by *media coverage*, as explained above, as well as point-of-sale visibility. Presence of the product itself is not necessarily enough to raise visibility and awareness of certification. The certification program has had significant successes with high-visibility campaigns in collaboration with major companies. For example, Kraft is launching seal-bearing products, with corresponding marketing campaigns, in the US, UK, Sweden, Switzerland, France and Japan. Chiquita has promoted their commitment to RAC banana certification on supermarket carts in supermarkets throughout the US, and is now applying the seal next to the well-known Chiquita mark on bananas sold in Sweden and Switzerland. (See photos showing examples of these marketing efforts in Annex VII.) To substantially increase consumer awareness, this project needs to increase the work with companies to address *low visibility of sealed products at point-of-sale*.

124. The more than 20,000 sales outlets which carry certified products is a major success for the program, but in many important markets certified products are simply not available, or available only at a few outlets. Even if activities succeed in building consumer awareness and interest, *low distribution of sealed products* will prevent consumers from buying them.

125. An important sub-group of consumers are large institutions, which buy substantial amounts of coffee for internal consumption. Among these institutional consumers are major companies, universities, and government agencies. These consumers can be important for the certified coffee program not only because of the coffee they buy themselves, or because they can help raise awareness among millions of employees or students, but also because of the signal value it has when important institutions publicly commit to sustainability through their purchasing policies. There are good examples from work in the forest industry, where companies like JP Morgan, Citigroup, and Johnson & Johnson have committed to sourcing Forest Stewardship Council (FSC) certified paper. Citigroup is also now serving RAC coffee in their offices. Companies can take sustainability policies even further, as banks like JP Morgan and HSBC have done when they redefined their lending policies for the forest sector by requiring loan-seekers to be FSC certified. Currently *few companies have sustainable purchasing or business policies*. Changing this can have an impact for certified coffee.

Barrier 3: Capacity constraints in scaling up certification activities

126. As demand for certified coffee rapidly expands in international coffee markets, auditors who certify the farmers, and producers who are implementing changes, must both be ready to respond. This is not just a question of promoting the program and certifying numerous farms. Production levels of certified coffee must carefully be managed so the increasing demand can be satisfied, but also not to create too much supply. Oversupply of certified coffee will reduce the chance for farmers to get premium prices for their coffee, and may create false expectations about market opportunities. Nonetheless, the certification program will have to manage growth in certification and certify more farms in response to demand.

Root causes for Barrier 3

127. A root cause of constrained capacity in scaling up certification activities is that *farmers do not have the information or tools necessary to implement social and environmental best management practices that comply with the certification standards*. The certification standards prescribe general requirements that the farmer has to fulfill, but do not describe *how* to fulfill them in detail. For example, the standards prescribe protection zones between production areas and waterways, but do not indicate how to establish and maintain these zones. Likewise, the standards prescribe waste management plans, but farmers must determine the best ways to manage their wastes given the framework of their available resources, types of waste generated, and access to technology and services.

128. While the 2005 version of the standards includes indicators to help guide compliance, these are by no means complete. Nor are they exclusive. Innovative farmers and advisors can comply with a particular requirement in many different ways, and the standards must not limit farmers in finding the solution that works best on their farms. The certification system's staff and auditors can provide more formal guidance on best management practices that would greatly improve the efficiency and effectiveness of farmers' compliance efforts, and increase the number of farms that successfully obtain and maintain certification.

129. *The certification program has not been active in disseminating information and providing technical assistance on farm practices for certification* for two reasons. First, demand for certified coffee

has not been large enough to absorb the increased certified production that would have resulted from aggressive promotion and assistance efforts. This obstacle has been largely overcome by rapid growth in market demand. Second, efforts instead focused on certification auditing. The program has trained agronomy extensionists, internal auditors for cooperatives and large farms, national coffee institution staff, and other related professionals in how to implement the standards, evaluate farms and elaborate farm improvement plans to comply with the standards. The certification system now requires more focused and detailed guidance, which could and should be offered to farmers, processors and other actors on the supply chain, as well as consultants and professionals linked to traditional extension agencies, to facilitate the implementation of the standards.

130. In addition, experience has shown that farmers quickly respond to perceived market opportunities, and there is no question that many farmers will react to expanding market demand for certified coffee. The certification program must increase services – auditing, administration, and information transfer – in order to meet growth in demand for certification. This implies important changes for the non-profit organizations that implement the certification program, as they will need to manage growth in certification activities in a cost-efficient and self-sustaining manner.

131. *The cost of certification can be prohibitive, particularly for small producers.* The cost of audits is based on costs of fielding an audit team and writing the audit report. As there are minimum requirements for any audit, the cost per hectare or area unit is much higher for a small farm than for a much larger farm. A new system has been launched for the certification of groups of small farmers on a pilot basis. The group certification system allows a number of organized farmers, such as cooperatives, to certify as a group by establishing and managing an Internal Control System (ICS), through which a group administrator assumes the responsibility for verifying that the farms included in the group comply with certification standards. Auditors then evaluate the functioning of the ICS through an audit of the administrator and a sample of member farms.

132. The group certification system is by no means complete, but it has been field tested and feedback has been received from auditors and certified groups. This information will be used to improve the group certification standards, and to develop the guidance and technical assistance tools and processes to facilitate compliance with the standards, and subsequent certification.

Barrier 4: Weak economic sustainability on certified coffee farms

133. Certification itself requires coffee farmers to systematize and document many aspects of production and for many farmers the certification process is not only a journey towards sustainability, it is also a process where technical and administrative farm practices are improved. Therefore, a certified farm is often more organized than the average non-certified coffee farm. Having achieved the environmental and social sustainability necessary for certification, the certified producer, just as would any other farmer, faces challenges in achieving economic sustainability. Even with a certification certificate in hand, many farmers do not understand the psychology of foreign markets and cannot easily take advantage of their certified crop's distinctive status. They do not have market information or the basic business skills and experience to promote their product. They may lack information on improving product quality, consistency or volume; or lack the ability to negotiate a premium price. In a time of unstable coffee markets, a biodiversity conservation strategy which aims to promote biodiversity-friendly coffee production must consider the barrier of weak economic sustainability on the certified farms.

Root causes for Barrier 4

134. In finding ways to increase sustainability on farms, producers constantly invent more effective, including cost-effective, ways to improve productive practices. These innovative management practices are important tools for improving the economic sustainability of farms, because they simply make the farms better productive entities. To improve the sustainability of all certified farmers, it is important that these innovative management practices are widely adopted, but currently *farmers tend to not share their management practices with each other*. Typically this is because *many farmers consider their innovative practices competitive advantages* which should not be shared with their peers, but it is also because there is *no formalized system to identify, capture and share best management practices among farmers* (RAC farmers, in this case).

135. Just like some companies find it hard to identify the coffee they need, *many farmers have difficulty accessing markets for certified coffee* by establishing a connection with interested buyers. As in other business sectors, the producer's success depends not only on the quality of his product, but also on his talent and effort to market it and create business relationships. In the case of certified coffee, the *low integration of the supply-chain* at times prevents farmers from getting access to buyers.

136. Getting certified usually implies a series of investments on a coffee farm, and once the farm is certified it continues to require investments. Many farmers need external credit to realize the necessary changes to get certified, and also need credit, such as export credits, in order to access certain markets. While lack of access to financing is undoubtedly keeping interested farmers from getting certified, the PDF B activities have found that financing does not seem to be a limitation in getting *enough* farmers certified to cover demand. As the group certification system will make it cheaper to get certified for large segments of smallholders, lack of financing will not be a limitation for growth in certification. However, credit can certainly be a limitation for long-term economic sustainability on the farm. The certification program is committed to increase sustainability on certified coffee farms, including economic sustainability in a time of volatile coffee markets. Studies during the PDF B have shown that larger producers are often able to access credit through established banking channels, and that it is *mostly small producers who find it difficult to access finance for farm improvements and trade*. This is not because there are no available credit options, but typically small farmers do not know about them or do not now how to access the credit.

137. RAC coffee means that farm practices are in accordance with environmental and social sustainability standards. While circumstantial evidence exists that certified farms produce better coffee (perhaps because the farmer devotes increased attention to *all* farm practices and learn to eliminate practices which can harm the coffee in the production process), certification does not necessarily mean that the coffee is of a particularly high quality. *Some certified farms produce a coffee quality which is too low to achieve a price premium in the coffee market*. This is both because *geographic conditions may not support high-quality coffee production* (for example at low altitudes), and because *processing practices fail to produce the best possible coffee*. PDF B studies have confirmed that certified farmers regularly get paid a price premium for their coffee, and even though the benefits of certification are not only linked to price premiums, the possibility of earning a price premium is also a driver for the farmer to get certified, and important for the farmer to increase economic sustainability on the farm.

138. A major factor affecting economic sustainability on coffee farms is the farmers' ability to obtain fair terms of trade. This can include price premiums, but also the transparency and terms of the contracts and the degree of information which the buyer provides. Most farmers are not experts on the complicated and sophisticated international coffee markets, and too often *the farmers are not able to negotiate fair terms of trade because of inequitable power relationships with traders and because of opaque conditions surrounding the negotiations*. But *farmers are not aware of the possibilities of alternative and more equitable trade relationships*.

139. A final root cause behind weak economic farm sustainability is the under-developed producers' *business, marketing, and sales skills*. Every farm, regardless of its size, is a business, and no coffee farmer wants to lose money. The implementation of social and environmental best management practices leads to savings on the farm and long-term economic sustainability. But this is only part of the equation. Farmers need to learn how to be better business managers. This begins with learning how to record and analyze information about their spending and income, how to reduce costs through efficient farm management practices, how to evaluate the on-farm investments, and how to increase the productivity of their workers through improved relations. Beyond these basics, farmers need to better understand the intricacies of client relationships, and how to meet clients', including international clients', quality and delivery requirements.

Barrier 5: Unfavorable policies limit production or trade of biodiversity-friendly coffee

140. This project aims to use market forces and market actors to promote sustainability and the protection of biological diversity in coffee landscapes, as an alternative and complementary approach to governments' centrally planned conservation efforts. But through policy, regulation and taxation, governments also regulate conditions of trade, and thereby either provide incentives or disincentives to sustainable coffee production, trade, and sales, both in producer countries as well as in consumer countries. Therefore, a barrier to overcome is government policies, regulation and incentive mechanisms that put biodiversity-friendly coffee production at a disadvantage. Indeed, as all governments have an interest in protection of globally important biodiversity and sustainability of coffee producers in developing countries, governments should actively provide incentives and promote sustainable certified coffee production, trade, and sales, to secure maximum growth.

Root causes for Barrier 5

141. Too often, policy-defining entities in producer and consumer countries either *promote policies that create disincentives or barriers to sustainable coffee production and trade*, or they *fail to create positive incentives for coffee sustainability*. Failure to put in place policies and other instruments which secure fair conditions for sustainable products can be a serious problem for RAC coffee, as well as for other NGO-led certification efforts. For example, some policymakers could be tempted to define what the term "sustainability" should mean in a particular country, but they may do so without possessing sufficient knowledge of the particular sector involved, the impacts their policies will have at the producer level, or the participatory and transparent mechanism to define and refine the standards of sustainability based on constant and careful impact assessment.

142. There are several reasons for these types of policy failures. Policymakers are *influenced by representatives from other certification systems with less rigorous sustainability standards, and by industry representatives who may not advocate any sustainability standards at all*. Policymakers and industry leaders are also often *unaware of the sustainability standards and their benefits* for the environment, workers and farmers. While some NGOs implementing the certification system have been active in their countries to influence policy, generally the *sustainability standards are not effectively promoted at policy levels and policy threats are not monitored and responded to*.

Barrier 6: Information and knowledge is not systematically generated to inform decision-making and adaptive management in certification system

143. The sustainability standards have been defined in extensive participatory processes, which included producers, companies, communities, conservation groups, experts, and other stakeholders. The

sustainability standards represent a substantial body of knowledge which has been gathered from these stakeholders, then practically applied in coffee certification for more than a decade. Despite this rigorous process – or perhaps because of it – the certification program relies on a number of assumptions about causal relationships between changed practices on coffee farms, and their environmental and social impacts. While it is true that there is a substantial amount of circumstantial evidence regarding the impact of the coffee certification program, more systematic collection of information is necessary to inform decision-making and adaptive management of this program. The shortage of reliable information about impacts is a barrier for growth of the certification system.

Root causes for Barrier 6

144. Each year all certified coffee farms are audited by a team of experts. The auditors conduct a rigorous review of productive practices and administrative procedures on the farm, and make sure they live up to the sustainability standards. The standards are defined so that when followed they should lead to social and environmental sustainability. The standards are defined in such a way that when followed they should lead to social and environmental sustainability. In the quest for impact, the audits are an undisputable and remarkable strength. Whereas other conservation and development strategies attempt to work with stakeholders to train, give incentives, educate, and organize them to change behavior, the certification program systematically and rigorously checks if changes have been made and standards have been met. If not, a farmer will have to commit to improvements or leave the program altogether. Because farmers want to be in the certification program and voluntarily commit to adhere to the standards, there is an almost universal understanding of the needs to implement changes, and an almost full guarantee that the desired standards are being met.

145. While the certification system can almost guarantee that changes in behavior have occurred, the system *does not have a system that monitors that changes in behavior actually succeed in reducing threats to biodiversity and by how much, or that the desired reduction of threats actually leads to benefits for biodiversity* in coffee habitats. At the social level, improvements are easier to observe directly, but also in this area, information about impacts is not systematically collected. There is of course a lot of circumstantial evidence and ad-hoc, site-specific information available which shows that certification is having an impact, but *little systematic information on the benefits of certification is generated*. With little information available, there is no systematic adaptive management processes for the certification program.

146. The certification standards were originally defined in a multi-stakeholder process, but in terms of on-going adjustments of standards there is currently *no system that guarantees stakeholders a representation*. Certification program staff are aware of this problem and are interested in strengthening the participatory element in continued standard-setting.

147. Knowledge about conservation and social impacts are of course not only generated from within the certification program. Other organizations are generating valuable lessons learned about what works and what does not work in conservation and development. *Knowledge and best practices are not systematically exchanged between the certification program and other conservation organizations*, so presumably each organization is “re-inventing the wheel” and repeating the mistakes of others.

Institutional, sectoral and policy context

148. Since coffee is grown in 70 countries, has been traded and consumed around the world for two centuries, and is a pillar in many national and rural economies, it is not surprising that the institutional

and policy environment is extensive and complex. The trade channel itself can be seen as a simple, hourglass model, with 25 million producers at the top, funneling down through a handful of traders and less than ten main roasters, and then bulging out again to thousands of retail outlets and uncounted millions of consumers at the wide base.

149. Nearly all coffee is traded in its raw, unroasted form called “green” coffee. While producing countries tax the farmers, most importing countries welcome coffee imports tariff free. Since roasters in consuming countries must blend beans from many sources, there are few preferential bilateral trade agreements between producing and consuming countries. Coffee supply chains require flexibility at both ends, and the power in these chains is concentrated at the roaster/retailer link. This is one of the reasons why this project is structured to respond to supply chain demands rather than focus on one or more coffee markets or origins.

Global level

150. At the most macro level coffee is a subject of much discussion at the World Trade Organization and is part of the Doha Development Agenda. The US and European Union consider coffee at the highest levels, but note that the US only rejoined the International Coffee Organization this year. (Coffee is grown in one US state – Hawaii – and nowhere in the EU.)

151. The EU is developing policy on commodities that may affect coffee and promotes initiatives such as “Everything but Arms,” which is supposed to improve market access for the least developed countries. Coffee issues have been raised in a number of Parliamentary Questions and at least one European Parliament Resolution.

152. The EU and US development agencies have extensive programs to support coffee farmers and their rural communities and to conserve the natural resources and ecosystems on which these farmers and communities depend.

153. UN agencies such as UNDP, UNEP, UNCTAD and FAO all have coffee programs. The multilateral donors deserve special recognition for their dedication to addressing the problems in coffee production. The Inter-American Development Bank, USAID and the World Bank held a conference in April 2002 in Guatemala and a follow up in December 2004 in Nicaragua where most of the projects, programs and policy interventions on trial throughout the region were evaluated. This project’s executing agencies were key participants in both meetings and are involved in many of the projects.

154. The GEF has sponsored coffee projects in El Salvador and Mexico, where this project’s executing agencies were involved in the design and execution.

155. The International Coffee Organization (ICO) is a global, UN-affiliated, intergovernmental body, created in 1962, and representing coffee exporting and importing countries. Until 1989, the ICO used export quotas as a market control mechanism in a failed attempt to regulate supply and keep prices above 120 cents per pound. After the collapse of this system, the ICO has continued as a platform for discussion of world coffee issues and as a sponsor of drives to increase quality and consumption.

156. There are a number of international research and teaching organizations that have coffee programs, including the French CIRAD, the Latin American CATIE, and the Interamerican Institute for Cooperation on Agriculture (IICA). There are dozens of NGOs and agencies exploring the coffee trade issues, such as IISD, The Economic Commission for Latin America and the Caribbean, the World Economic Forum, the Centro Internacional de Politica Economica para el Desarrollo Sostenible and the Fundacion Futuro Latinoamericano.

157. Other international bodies or projects with an interest in coffee include: the Common Fund for Commodities, the World Bank risk reduction management project, the Sustainable Commodity Initiative of UNCTAD/IISD and of course the NGO-led conservation and certification programs.

Regional level

158. Most of the international parties and programs mentioned just above are especially active in Latin America and often focused on the target countries of this proposal, because these are leading producers, learning laboratories and innovators. In addition, there are several regional programs centered on coffee or affecting coffee.

159. A regional body of special importance is the Comision Centroamericano de Ambiente y Desarrollo, the CCAD, comprised of the Central American ministers of the environment with close ties to the ministers of agriculture. This unique coalition brings together the governments, NGOs, industry and other actors to plan collaborative ways to conserve shared resources. Since coffee is so important to the economies and environments of all the member countries, it is a subject of intense interest.

160. Other regional projects that affect coffee are the IDB sponsored Plan Puebla Panama, and an effort to create a regional coffee-farm tourism trail.

National level

161. Producing countries have national coffee boards, quasi governmental/industry associations, technical assistance and extension bodies, export promotion agencies and other entities that influence coffee policy and practices. The best known and perhaps most successful of these bodies is the Colombian Coffee Federation, which is the largest NGO in the country, a builder of roads and schools (before the recent price crisis) and a major coffee exporter.

162. State governments also often have counter-productive trade restrictions. In addition, they have lost their former rank as leaders in research and extension – with the notable exceptions of Brazil and Vietnam, the number one and two producers, where bounding coffee technology and efficiency development allowed these two countries to avoid the press of the price crisis.

163. In a document presented in February 2005, the European Coffee Federation summed up the state of coffee affairs in producing countries this way: “Liberalisation (in itself necessary to remove inefficient and stifling marketing boards and other institutions) has overshot, affecting essential services like research and extension. These will need to be rebuilt in close cooperation with the coffee sector to assist farmers to optimise their production and improve the quality produced.”⁸

Community level

164. Coffee growing communities, many of them indigenous, have their own policies and programs. The network of local NGOs that will be executing this project and have been implementing the certification program are comprised of local specialists with deep roots in the communities who are able to navigate these policies, strictures and customs. For example, before beginning a project with indigenous coffee producers in Huehuetenango, Guatemala, the local NGO, FIIT, (a network member that implements the certification program) met with community leaders for more than a year to build trust and understanding.

⁸ “A Positive Future for Coffee,” presented in Amsterdam, February 2005 as part of the ECF’s “Agenda for Action.”

Stakeholder analysis

165. This project intends to work with the coffee sector as a whole, from farmer to consumer, by selecting prime producing countries and supply chains.

International Stakeholders

166. At the macro and international level, this project's executing agencies are already participants and/or partners in the following entities or programs:

- International Coffee Organization (invited advisor)
- UNCTAD (partner in the Sustainable Coffee Initiative)
- International Institute for Sustainable Development and its Sustainable Coffee Initiative (steering committee)
- Common Code for the Coffee Community (steering committee)
- Sustainable Agriculture Initiative (advisor)
- EurepGap (member of technical committee)
- International Social and Environmental Accreditation and Labeling Alliance – ISEAL (full member, chairman of the board)
- IUCN Business and Biodiversity Programme (advisors, the executive director of SalvaNATURA is the elected, regional, IUCN representative)
- Centro de Inteligencia de Mercados Sostenibles – CIMS (founding board member)
- Committee on Standards Assessment – COSA (founding member along with CIMS, IISD and CIRAD)
- Specialty Coffee Association of America (member of sustainable coffee committee)
- Commission for Environmental Cooperation (advisor, field project partner)
- Centre de Cooperation Internationale en Recherche Agronomique pour le Developpement – CIRAD (collaboration on agroforestry project)
- Centro Agronomico Tropical de Investigacion y Enseñanza – CATIE (partners in coffee mapping and carbon/cocoa project)

International NGOs

167. Among the international NGOs active in sustainable coffee, this project has already established partnerships with: World Wildlife Fund, National Audubon Society, Conservation International, The Nature Conservancy, IUCN, BirdLife and the Royal Society for the Protection of Birds.

168. In addition, the Rainforest Alliance is closely tied to the national and international certification bodies of the organic and fairtrade movements as well as the Forest Stewardship Council.

Multilateral Donors

169. Among the multilateral donors active in sustainable coffee, this project's executing agencies have partnerships with:

- Interamerican Development Bank (Sustainable Tourism Program, coffee projects in the field)
- World Bank
- UNDP (PDF B coffee)
- UNEP (Sustainable Tourism Program)
- USAID (Certified Sustainable Products Alliance, Regional Coffee Quality Program)
- HIVOS (coffee certification module development)

- In addition, the local NGOs involved in the network that implements the certification program have managed projects with funding from the Swedish, Spanish, Norwegian, Canadian, US and Dutch governments.

Coffee Roasters, Manufacturers and Distributors

170. The certification system works actively with a wide range of coffee companies. Like the traders, these companies buy certified coffee, promote biodiversity-friendly coffee to consumers, support sustainable coffee projects at the farm level, lobby for policies that favor the production and trade of biodiversity-friendly coffee, underwrite certifications, are co-collaborators in initiatives such as the CCCC, and serve as advisors.

171. This project will enter into specific partnerships with several large and small coffee companies, including: Kraft Foods, Caribou, UCC Ueshima, Java City, Boyds, Lavazza, Proctor & Gamble, Drie Mollen, Diedrichs/Gloria Jean's, Colyrot, Family Mart, Simon Wakefield, Starbucks, Royal Cup.

Coffee Traders

172. The certification system has active partnerships with all the main coffee traders, including Neumann Kaffee Gruppe, Volcafe, ECOM- Atlantic, EFICO, Expocafe and the Colombia Coffee Federation. These merchants buy certified coffee, help promote certified coffee to roasters and retailers, support sustainable coffee projects at the farm level, underwrite certifications, are co-collaborators in initiatives such as the CCCC, and – as the ultimate insiders – serve as trusted advisors.

Production Level Stakeholders

173. The national NGOs that are the local executing agencies for this project include:

- Instituto de Manejo e Certificaco Florestal y Agricola – IMAFLORA (Brazil)
- Fundación Interamericana de Investigación Tropical – FIIT (Guatemala)
- SalvaNATURA (El Salvador)
- Instituto para la Cooperación y Autodesarrollo – ICADE (Honduras)
- Fundación Natura (Colombia)

174. There is no NGO partner in Peru, but the project will help identify a permanent network member there.

175. One of the hallmarks of the certification program is that its implementors are local NGOs that engage farmers closely and continuously. Unlike some certification programs that are only quick, annual audits, the NGOs have local representatives who are there year-round to help farmers. The NGO network members meet frequently with the national coffee associations, the relevant government agencies, farmer cooperative associations, and individual farmers.

176. The program involves thousands of coffee farmers, and they are very much the grassroots partners in this proposal.

Baseline analysis

177. Sustainability has been a hot topic in the coffee sector for more than a decade, and awareness has increased particularly as a result of the recent severe coffee crisis. Many companies have experimented with measures that might improve sustainability, and the coffee industry is discussing industry standards.

Several NGO-led certification organizations are promoting coffee sustainability each in their way and according to their definition of sustainability. Donor agencies have been involved and continue to show a strong interest in sustainable agriculture, including coffee. In the following section, ongoing activities by a variety of actors are stated to give an understanding of the baseline of activities that currently are in place to address the barriers to sustainability in the coffee sector.

178. The baseline activities are not by themselves enough to guarantee sufficient impact to thoroughly mainstream sustainability within the coffee sector. But these ongoing activities are an invaluable base which will support the delivery of this project's objectives.

179. The activities are as follows:

Barrier 1: Limited demand for certified coffee on international coffee markets

180. Most larger and many small companies are engaged in promoting sustainable coffee on international markets, as well as internally in their organizations. Many companies have retained specialized staff to promote sustainability issues in company operations. Some companies have established their own sustainability standards and others are buying Fairtrade, Organic, Utz Kapeh or Rainforest Alliance certified coffee. While these programs will not all bring benefits to biodiversity, companies commitment to sustainability issues is encouraging and will be a key factor for the success of this project.

181. The coffee industry as such is also promoting sustainability issues. The Common Code for the Coffee Community is a joint initiative of coffee producers, trade & industry, as well as civil society groups aiming to develop a global code of conduct for the coffee industry. The Common Code is supported by the European Coffee Federation and the GTZ.

182. The Rainforest Alliance certification system currently works to increase demand for certified coffee through its three-person NY based marketing team. The main focus of work has revolved around creating relationships with companies through individual meetings, and attending and presenting at conferences and tradeshow.

Barrier 2: Limited consumer interest in certified coffee

183. Many coffee companies are investing large sums in promoting certified sustainable coffee on international markets. For companies who invest in promoting coffee with the RAC seal, visual examples of company promotion materials can be accessed through the following link http://www.rainforest-alliance.org/gef/cert_promo_campaigns.pdf

184. The companies that currently sell RAC coffee use a variety of techniques to promote sustainable coffee with consumers. The largest companies, such as Kraft, are launching products in new markets with media and stakeholder outreach events. Smaller companies create their own promotional materials for point of sale in stores or coffee shops, with input from the certification program's marketing staff on the use of the certified seal. There are only limited materials available to companies to help them promote their certified product at the retail level.

185. Successful, yet limited media outreach to promote the certification concept in the United States and select European countries has occurred. The lack of specific outreach to the general public through the media has led to misunderstanding and confusion between RAC and other certification programs such as fairtrade.

Barrier 3: Capacity constraints in scaling up certification activities

186. Several companies and organizations have been working actively to increase certification of biodiversity-friendly coffee farms. In the coffee sector, for instance, coffee roaster Lavazza and coffee trader Volcafe have collaborated with cooperatives to drastically improve their management practices and enable them to certify. Other coffee companies have done similar activities.

187. The GEF itself has invested in coffee sustainability before, such as the World Bank implemented shade coffee project in El Salvador. This project builds on key lessons learned from that project.

188. Within RAC, a range of specific activities have been undertaken to expand certification. An auditor training curriculum has been developed and both basic and advanced auditor training workshops have taken place, as well as “train the trainer” workshops for the NGO network partners to enable them to train local auditors. “Extensionist,” or “internal auditor” training workshops are provided to local technical assistance providers and technical staff from cooperatives or larger companies. These workshops provide a basic technical orientation to the certification standards. The certification program is currently working to improve internal systems to enable future accreditation under the ISO 65 standards for certification bodies.

Barrier 4: Weak economic sustainability on certified coffee farms

189. There have been a wide range of efforts to improve the economic sustainability of coffee farmers. Few of these, however, have specifically been aimed at certified farmers.

190. Within the RAC program, a Supply Chain Coordinator was retained in 2005 to help improve market linkages between interested buyers and appropriate supply, and to help educate farmers about how to access markets for certified products.

191. On promotion of general sustainability on coffee farms, a long series of organizations and companies are involved. Not least national coffee associations in producer countries are active in promoting sustainability in the coffee sector. A good example is the Colombian Coffee Federation, which helps coffee producers implement best management practices on their farms.

192. On coffee quality: The Interamerican Development Bank is supporting several pilot projects in Central America with the objective of improving producer ability to produce high quality coffee.

193. Chemonics, funded by USAID, is working with producers in Central America to improve harvesting and milling techniques and to increase market access for quality coffee.

194. The Coffee Quality Institute (CQI) developed and manages the Q-auction, an online auctioning of quality coffee that delivers 75% of revenues back to producers, and 2% to a national fund for community development. Q-coffee meets specified standards of high quality determined by CQI. RAC coffees have performed well in recent Q-auctions. Another CQI program is the Coffee Corps. Coffee Corps recruits highly qualified professionals from within the coffee industry who are willing to volunteer their time and expertise to assist coffee producers and cooperatives to meet quality grades and standards. CQI works in both Central and South America.

195. On financing: Ecologic Finance, with USAID and private sector funds, is providing access to trade financing for farmers who implement sustainable coffee growing practices. In 2003 and 2004, EcoLogic Finance made available 5.7 million in trade credit to over 24 different coffee farmer organizations in Mexico, Guatemala, Nicaragua, Costa Rica and Peru.

196. Another financing programs that have been providing financing to producers is Conservation International's Verde Ventures, a fund capitalized by the International Finance Corporation, the Overseas Private Investment Corporation and Starbucks Coffee Company. The fund invests in businesses that are strategically important to biodiversity conservation in hotspots, high-biodiversity wilderness areas and key marine regions.

Barrier 5: Unfavorable policies limit production or trade of biodiversity-friendly coffee

197. The GEF and GTZ have supported the ambitious initiative of the Mesoamerican Biological Corridor which aims to increase collaboration of the eight countries in Mesoamerica, from Mexico to Panama. The MBC has promoted sustainability in agriculture production through collaboration within the Central American Council for Environment and Development, the CCAD.

198. Several NGO partners implementing the RAC certification program in their countries engage regularly with local policy makers.

199. On an international level, the Rainforest Alliance serves as board chairman for the ISEAL Alliance, which actively monitors and engages in international policy discussions. The ISEAL Alliance produces a quarterly "policy watch" for members that outlines current policy threats and opportunities

200. Some of the larger companies involved in sustainable coffee, such as Kraft Foods, also monitor policy developments, particularly in Europe.

Barrier 6: Information and knowledge is not systematically generated to inform decision-making and adaptive management in certification system

201. A significant amount of study has been done on the impact of sustainable coffee on biodiversity. Almost 300 studies were summarized as a part of this project's PDF B phase. The studies represent a significant amount of baseline activity, but they do not focus in a targeted way on certification programs and their standards and impacts, so they are difficult to use as a base for adaptive management.

202. Some of this project's executing partners have been involved in scientific activity to generate information and knowledge on certification. FIIT in Guatemala was one of the first organizations to establish criteria for sustainable production. Also SalvaNATURA of El Salvador has a science program that proactively seeks to improve the information base for decision making.

203. A number of other institutions are interested in studying the benefits of sustainable coffee. Smithsonian Migratory Bird Center has studied the benefits of shade coffee for a decade. Several of the new coffee industry initiatives, such as the CCCC and the Sustainable Agriculture Initiative, are interested in better understanding the impacts of sustainable projection.

204. Under the **baseline scenario** investments in promoting sustainable coffee production and sales are present, even significant in certain areas, yet too limited and disperse to have a thorough impact on sustainability in the coffee sector. Current investment levels will not result in a transformation of the sector through mainstreaming of sustainability practices. Many production-level interventions to promote sustainable and biodiversity-friendly production fail because farmers do not receive incentives in the market place to continue efforts. Under the baseline scenario, markets will only to a very limited degree reward sustainability and biodiversity protection in coffee production. Existing coffee certification schemes with standards that promote biodiversity conservation stand little chance of becoming widely adopted in the coffee industry. Without mainstreaming of sustainability principles and biodiversity

concerns within the coffee industry, valuable coffee habitat will continue to be lost, and coffee production will fail to live up to its potential as the most important crop in the tropics for conservation of valuable biodiversity in threatened hotspots.

PART II: Strategy

Project Rationale

205. Traditional coffee farms, in harmony with original ecosystems, are excellent habitat and harbor a large amount of species. The sustainable shade coffee production model is under threat from conversion to other crops or other land use, or to intensive and mechanized, full-sun grown coffee – all alternatives which thoroughly reduce their value as habitat for biodiversity.

DESIGN PRINCIPLES AND STRATEGIC CONSIDERATIONS

206. The following project intervention strategy has been defined based on a series of strategic considerations. The following section summarizes the key principles of the project design:

- *Avoid transformation of coffee farms* to other uses with less value as biodiversity habitat, and reduce other threats to biodiversity on coffee farms. This will be achieved by *providing farmers with an alternative to conversion* to other crops and land use, to conversion to intensive, mechanized coffee monoculture, and to continued overexploitation of biodiversity and habitat on coffee farms. The alternative is to become certified by transforming productive practices and implementing sustainability measures on coffee farms, and thereby reap a series of benefits in production as well as in the marketplace.
- Use of a *strong market approach to conservation in a productive landscape*. A driving force behind the certification idea and the present project proposal is that private-sector actors, who operate in a market place, must have incentives to engage in conservation activities. Conservation and sustainability must be compatible with doing good business. By *aligning conservation interests with private, market-driven forces*, this project will catalyze enormous shifts in private investments from non-sustainable products to coffee produced under sustainable production methods in habitats with very high biodiversity value. The value of this leveraged change in investment will amount to USD 3.723 billion within the lifetime of the project. For a full discussion, please refer to Section III (budget). The project will *not in any way* subsidize the operations of private companies or in any way provide exclusive services that will give some companies a competitive advantage over others. Rather, the advantages for coffee companies in engaging in RAC certification and sustainability are equal for all companies. The project will help remove barriers to market expansion, which will be in the interest of all coffee companies, producers, workers, and the global environment. The project will extend itself to as many companies as possible, to be inclusive and to expand the market demand for RAC coffee.
- *Market incentives to drive continued certification activities*. Earlier efforts to use certification as a conservation tool have failed because there were insufficient markets for certified products. If farmers do not see market benefits as a reward for their efforts to transform farm practices, they will have no incentive to get certified, or will often leave the certification program if they are

already certified. Therefore, certification as a conservation tool must adopt as a main strategy the expansion of markets for biodiversity-friendly products.

- The project will use a *partnership strategy to involve both companies and producers in sustainability and biodiversity protection*, through their dedication to produce, buy and sell RAC coffee. Producers invest large amounts of money on their farms to implement sustainability and biodiversity conservation measures so that they can qualify for certification. The amount of producer on-farm investments leveraged by the project intervention amounts to 494 million. Likewise, private companies, from small coffee shops to the largest multinational food conglomerates invest in promoting the certification system with consumers, and often pay a premium for certified coffee. As consumers increasingly demand biodiversity-friendly coffee, developing world producers will get rewarded for their efforts to conserve biodiversity, equivalent to payment for environmental services. The price premiums paid to farmers as a result of this project intervention will amount to USD 363 million (See Section III)
- The project has selected large coffee landscapes as Project Coffee Regions. Almost all coffee is produced in globally important hotspots, but the Project Coffee Regions have been selected because they are *particularly biodiversity-rich, because the coffee from that region is in high demand, and because the certification program there has a high chance of success*. Because the project has a strong market-oriented focus, and not a centrally planned focus, the regions are large and include some of the world's principal coffee landscapes.
- The project is focusing and will *capitalize on an existing and well-functioning tool* – Rainforest Alliance's certification program – *with installed capacity, more than a decade of experience in coffee habitat conservation*, and with a network of respected partner organizations in producer countries. While scaling up the certification system to the stated targets is a challenge, the certification system as a tool for changes of productive practices on farms is solid and thoroughly tested. The project will help refine the certification tool to maximize impact, but it will not require an experimental approach to conservation. Through annual audits, compliance with the rigorous sustainability standards is guaranteed, or the farmer will have to leave the program. Whereas typical biodiversity conservation projects try to engage locals in conservation efforts, often with mixed success, the certification tool can promise that each hectare certified is a hectare which lives up to the standards.

Policy Conformity

207. The project represents an important contribution to the goals and objectives of the Convention on Biological Diversity. It furthers an important interest expressed repeatedly by the Conference of the Parties to increase the involvement and responsibility of the private sector in achieving the overall goals of the Convention. This project is particularly contributing to the Convention objective of sustainable use of biological diversity. The proposal has been formulated in close harmony with the Addis Ababa Principles and Guidelines for the Sustainable use of Biodiversity, both with regard to the underlying conditions and practical principles for sustainable use, as adopted in decision VII/12 at the Conference of the Parties.

208. The project is in harmony with key principles of Article 10 (on Sustainable Use) of the Convention. In particular:

- Adopt measures relating to the use of biological resources to avoid or minimize adverse impacts on biological diversity;
- Protect and encourage customary use of biological resources in accordance with traditional cultural practices that are compatible with conservation or sustainable use requirements;
- Support local populations to develop and implement remedial action in degraded areas where biological diversity has been reduced; and
- Encourage cooperation between its governmental authorities and its private sector in developing methods for sustainable use of biological resources.

209. The project is also an important contribution to the Convention efforts to eliminate perverse incentives and guarantee positive incentives for the conservation and sustainable use of biological resources, as defined in decision VII/18. A certification system is a market-driven incentive system which is a compliment to the Convention's focus on good governance and incentive-enhancing public policies. It is foreseen that this project might provide valuable case studies for consideration of future meetings of the Conference of the Parties.

210. Finally, the project supports the aims of the Convention's Strategic Plan and its 2010 Biodiversity Target decided at the seventh Conference of the Parties. In particular the project would help further the work in the following focal areas:

- Reducing the rate of loss of the components of biodiversity, including: (i) biomes, habitats and ecosystems; (ii) species and populations; and (iii) genetic diversity;
- Promoting sustainable use of biodiversity;
- Addressing the major threats to biodiversity, including those arising from invasive alien species, climate change, pollution, and habitat change;
- Maintaining ecosystem integrity, and the provision of goods and services provided by biodiversity in ecosystems, in support of human well-being;

211. The project relates to GEF priorities as follows:

212. The proposed project is consistent with the *Operational Program for Forest Ecosystems (OP#3)* and the *Operational Program for Mountain Ecosystems (OP#4)* in the GEF Biodiversity Focal Area.

213. For OP#3, this project's focus on coffee landscapes within tropical forests is consistent with the ecosystem approach of the GEF. This project supports the belief that forests play a critical role in biodiversity conservation and hold the majority of biodiversity within them, with ramifications well beyond their boundaries in the form of ecosystem services and livelihoods for millions of people. The combination of biodiversity, production and socio-economic goals is again consistent with the GEF approach, and focus on coffee production in forests in areas at risk is also supportive of the GEF objectives. This project's focus on growers in the middle elevations, or the *lower montane* or *premontane* forest, above the lowland rainforest and below the cloudforest, is consistent with the focus of the GEF in OP#4. The coffee farms the project will work with represent some of the only remaining forested areas in these elevations.

214. In addition, the proposed project is consistent with *Strategic Priority 2* of the Biodiversity Focal Area: "Mainstreaming Biodiversity in Production Landscapes and Sectors." The central aim of this project is to catalyze change in the coffee sector to internalize biodiversity concerns and practices. This will be achieved through certification of sustainable practices, whereby markets will reward producers' efforts to protect biodiversity. By doing this, it will achieve mainstreaming of conservation concerns into productive coffee landscapes.

215. The project will measure the following indicators to support the GEF Business Plan:

- Promoting best management practices and certification to coffee farmers.
- The incorporation of biodiversity conservation into farm management (through the implementation of sustainability standards).

Project Goal, Objective, Outcomes and Outputs/Activities

216. Increasing the market demand for certified coffee on international coffee markets is the single most important challenge to expanding certification activities in producer countries and thereby expanding coffee production area under sustainable management. There is a direct link between growth in market demand and the global benefits which can be generated through sustainable coffee production.

217. This project intervention strategy is therefore founded on the need to build market incentives for farmers. These incentives will come from a dramatic expansion in market demand for biodiversity-friendly coffee. The demand side component of this project strategy will work to expand market demand for biodiversity-friendly coffee. The supply side component will help prepare producers in project countries to respond to the growth in demand

218. This project will support the promotion of biodiversity-friendly coffee in international coffee markets, and will generate biodiversity benefits by transforming productive practices on certified farms in biodiversity-rich coffee landscapes wherever RAC coffee is produced. The project will particularly promote growth in sustainable production in Brazil, Colombia, Guatemala, Honduras, El Salvador and Peru. The project will work closely with coffee producers in these countries to promote certification of coffee farms in particularly biodiversity-rich coffee landscapes as a strategy to maximize biodiversity conservation benefits in the coffee landscape, and to respond to a growing market demand on coffee markets.

219. It will partner with coffee companies throughout the supply chain, who already source biodiversity-friendly coffee, to deepen their commitment to sustainability in coffee production and help them promote certified coffee in the market place; and it will help increase the number of coffee companies which actively engage in the certification program by incorporating biodiversity-friendly coffee in their coffee brands.

220. It will dialogue with governments, trade agencies and coffee organizations in producer and consumer countries to promote biodiversity-friendly coffee production, trade, and sales, through improvement of policy and regulation to create incentives for sustainable production, or by removal of policy and incentive barriers.

221. Finally, it will collaborate with other development and conservation NGOs, and other institutions which possess relevant knowledge, to improve certification practices and increase learning of how to achieve maximum biodiversity impact in coffee landscapes.

222. The GEF will finance barrier removal to allow mainstreaming of sustainability principles within the coffee sector, and expansion of the certification system which guarantees that coffee farmers, coffee companies, and coffee consumers voluntarily and perpetually invest in sustainability, for the benefit of the global environment, as well as themselves.

223. The project is highly innovative because it strengthens a direct linkage between market forces on one hand, and conservation interests on the other. By expanding the certification model, the project forges a powerful, direct relationship between consumer interest and market demand for certified coffee on the world coffee market – the largest commodity crop market in the world – and conservation benefits in biodiversity-rich coffee landscapes. To do that, the GEF will support both scale-up of certified production to meet demand, as well as market-enhancing investments in consumer countries, in collaboration with some of the world’s most powerful and innovative companies.

224. The project Goal is therefore defined as follows:

Goal: Increased conservation of globally important biodiversity in coffee landscapes by transformation of the coffee market in support of sustainable productive practices on coffee farms

225. The project Objective is defined as:

Objective: Demand and sales of certified coffee increases from niche to mainstream products allowing a significant growth in farms adopting biodiversity-friendly, sustainable productive practices and showing on-farm BD benefits

PROJECT OUTCOMES, OUTPUTS, AND ACTIVITIES

226. The objective will be achieved through six project outcomes, each designed so it will remove a central barrier for expansion of the certification system.

227. The six outcomes are as follows:

- Outcome One: Demand for biodiversity-friendly coffee on international coffee markets has increased
- Outcome Two: Consumer interest to purchase certified coffee has increased
- Outcome Three: National capacities to certify all sizes of coffee farms in biologically rich production landscapes has increased
- Outcome Four: Economic sustainability of certified coffee farms has increased
- Outcome Five: Increased capacity to engage policy makers in coffee-producing and consuming countries in promoting sustainable coffee practices and to monitor and respond to policy initiatives/threats to sustainable coffee.
- Outcome Six: Increased learning and adaptive management

228. In the following each outcome is described, as well as the outputs and main activities which will achieve it:

Outcome 1: Demand for biodiversity-friendly coffee on international coffee markets has increased (GEF contribution: USD 3,804,925; Co-financing: USD 9,627,252)

229. Earlier GEF financed experiences have shown that certification as a conservation tool will fail unless there is a market for the farm products⁹. Farmers can be convinced of the benefits of certification on their farms, but will expect a return on their investment, and most will reject the program if they do not see benefits in the marketplace. The project will substantially increase demand for certified coffee, increasing annual volume sold from the baseline of 30,000 metric tons to 500,000 metric tons, or 10% of the total global export market. The project also aims to certify 10% of global production (the global export market represents approximate three-quarters of global production). Not all RAC coffee will eventually be sold with the seal on global export markets. A large proportion of the RAC coffee that will not be sold with the RAC seal is likely to be sold under other sustainability seals, such as Organic or Starbuck's C.A.F.E. Practices, because some RAC certified producers also hold other seals. In addition to tons of RAC coffee sold, certified coffee will be sold in 200,000 to 300,000 retail outlets, increasing from a baseline of 20,000 outlets. For a discussion on growth potential and –targets, please see Annex VIII-A.

230. Increased demand for certified coffee is mainly determined by companies through the supply chain. While consumer interest is certainly important (see below), it is the coffee industry itself which has championed the certification scheme, and promoted it with consumers. To a large extent, coffee companies can influence what consumers buy, and coffee companies' commitment to sustainability is absolutely essential in mainstreaming the certified coffee program. For implementation, this project will partner with a range of coffee companies. These partners are expected to increase from an initial core set of twelve over the course of the project. Partners will not just buy certified coffee, but will actively engage in project activities, thereby helping to further the desired project outcomes. Sample partner activities include conducting joint consumer campaigns around the certification message, receiving training for sales, management and/or pr staff on the certification program, conducting buyers or other staff tours to producing countries, helping producers in their supply chain achieve certification, and committing to purchase certain levels of certified coffee. The project will not in any way subsidize coffee companies. The advantages that a company can get from engaging in sustainable sourcing are open for all companies to access.

231. The situation analysis pointed out a series of root causes behind the still limited demand in the coffee sector. The outcome has been designed to address these root causes and overcome the barrier of limited demand for certified coffee:

232. To achieve Outcome 1, the following outputs have been identified:

Output 1.1 Existing markets and market segments expanded

233. Many coffee companies who are engaging in sustainable coffee need assistance in marketing the sustainability aspect to their clients and consumers. Rainforest Alliance has had considerable success with helping some coffee companies sell certified coffee on international markets, and the companies are highly appreciative of the assistance. A major factor behind the growth of the coffee certification program must be attributed to the value-added which the certification program's marketing team creates for its partner companies. The assistance has been in terms of shaping of the sustainability message, message training for corporate staff, developing special materials, providing stories from the farms, and presenting partnerships in consequential meetings or events. But capacity constraints prevent support of a rapidly growing program. The project will address this problem by building additional capacity to support companies in their marketing efforts, such as at launching events, as well as the development of a series of standard and adaptable sales tools which the companies can use to shape their sustainability message and support their marketing efforts. The sales tools will be targeted to different types of companies, such

⁹ Kibale Forest Wild Coffee Project, Uganda (World Bank/GEF); and Promotion of Biodiversity Conservation within Coffee Landscapes, El Salvador (World Bank/GEF)

as importers, roasters, and retailers, and they will be available to registered companies on our business-to-business web portal in a number of different languages. The project will guarantee the sustainability of the marketing support program efforts by gradually making it self-sustaining through cost-recovery from companies that use the service.

234. Many companies that are already convinced of the benefits of sourcing certified coffee still buy limited amounts of coffee, or have potential capacity to buy much larger amounts. Commitment to certification is a gradual process, where companies learn along the way, become increasingly familiar with sustainability concepts, gather experiences from marketing sustainable products, and build ever stronger relationships with other companies in the supply chain that trade certified coffee, or directly with certified producers.

235. The project will help these companies by creating additional value for companies to become further involved and deepen commitment to sustainability. Ultimately this will lead them to buy more certified coffee. The project will help create joint events with companies, whereby the company can raise its sustainability profile. This can be joint press conferences and other media work, co-branding activities, where the certification system and the company jointly promote the certified seal and the company's certified product, and product launch events.

Output 1.2 Efficient information management enables scaling up number of certified coffee buyers

236. A growing certification program must be accompanied by adequate information management systems to keep track of partner companies and communications, and track sales and certified products. The project will design these systems with a view to serve large numbers of clients efficiently, as well as to operate and maintain the systems. While the bulk of project investment will go towards designing the initial systems and training staff in their operations, there will also be continuous development of information management systems as new technologies become available.

237. The project will support the design and set-up of a sales tracking and product traceability database, business-to-business web portal (see output 1.1), client relationship management software, and consumer web portal including interactive maps. It will also support seal management systems and guidance tools. Finally, the project will elaborate bi-annually updated marketing plans to incorporate newest trends into strategic planning frameworks.

Output 1.3 New markets and new companies sell certified coffee.

238. Although the coffee certification program has become fairly well-known in the coffee industry over the recent years, many companies still do not know enough about the program and what the sustainability standards entail. The program has had considerable success over the last years with promoting coffee certification with new companies. The promotion has been to engage new coffee companies in certification, and increase certification presence on new markets and in new market sectors (such as coffee shops and in the restaurant sector). A continued growth of the certification program will require a continued and targeted promotional effort to promote the program within the coffee industry.

239. The project will promote the program with new companies, on new markets and in new sectors by elaborating information tools that explain the certification program and its benefits to companies, which will be made available on a new business-to-business web portal, an on-line resource for companies interested in learning of the certification program and coffee sustainability. The project will also help expose the certification program at coffee conferences and trade shows and provide specially

trained staff to reach out to new companies. Media outreach to specialized industry publications will ensure better familiarity with the certification program throughout the coffee industry.

240. By the end of the project, the bulk of the coffee sector will be familiar with the certification program and the sustainability principles behind it, so promotional activities can be reduced to a more modest level.

Output 1.4 Coffee companies made aware of full range of benefits from engaging with certification

241. A particular communications effort must be made to inform coffee companies of the broad range of benefits related to buying biodiversity-friendly coffee. Some companies that are well familiar with the certification seal see the business value only in terms of potential seal use on their product. But the business case for certified coffee is much stronger than that. It includes product traceability benefits, which provides the company with information regarding the origins of their product and adds transparency to the business processes, as well as risk management benefits by guaranteeing the standards under which the product was produced. It helps manage the company's public image with consumers and media, and can be a part of a broader company CSR policy. Not least, it can improve supply-chain relationships leading to more stable, transparent and fair relationships in trade.

242. The project will help gather the information required for supporting the arguments, and help inform companies of the full range of benefits of buying certified coffee as a means to engaging new companies and deepen companies' involvement in the program.

Output 1.5 Company employees embrace biodiversity-friendly coffee

243. The project will work with companies to increase employees' awareness, motivation and loyalty towards certification in order to broaden and strengthen coffee companies' commitment to sustainability. Companies' success in achieving their stated goals of buying and selling certified coffee will depend on their employees' ability to make it happen. If buyers in coffee companies are not convinced of the attractiveness of certified coffee they are unlikely to make the extra effort to find it in the market, or even pay a premium for it, and if salespeople do not know what makes this certified coffee special, they will not be as effective in selling it to the next link in the supply chain.

244. The project will develop coffee company employee training programs and materials, and provide staff training for companies at different points in the supply chain. It will also establish incentive-enhancing measures, such as a coffee farm visitation program where employees can win or get awarded trips to a certified coffee farm. Coffee companies will pay their employees' travel expenses, but the project would arrange the farm visits. Employees who get a chance to see what sustainability means in practice will become the companies' foremost internal sustainability spokespeople and promoters.

Outcome 2: Consumer interest to purchase certified coffee has increased (GEF contribution: USD 1,274,086; Co-financing: USD 10,142,106)

245. Coffee companies have increasingly become aware of the need to address sustainability problems in the coffee sector, and have largely been driving the promotion of the coffee certification program. But coffee companies are by nature extremely attentive to consumer interest. There are many examples of even large companies that have been pushed to engage in sustainability issues by activist consumer groups. Increased consumer interest is a key strategy for this project to expand the certification program.

While initially companies may choose to carry certified products to fill a need for a socially responsible product, over time they may choose a different solution to that need if consumers do not express interest in the seal through their purchases.

246. Consumer awareness is difficult and expensive to measure. Project partner Kraft Foods has offered to assist the project in measuring consumer awareness as part of its own efforts to measure the success of its certified brands. The project has a consumer awareness target of 20% of coffee drinkers in key markets.

247. The outputs under this outcome will bring about an increased consumer interest for certified coffee, which will give incentives for coffee companies to increase their engagement in certified coffee.

Output 2.1 Roasters and retailers increase promotion of certified coffee to consumers

248. An important part of increasing consumer interest for certified coffee is to increase the consumer's awareness of the seal and what it stands for. Companies that are closest to the consumer – roasters and retailers – share the certification program's interest in educating the consumer so she will appreciate the efforts put into producing the certified products, and the benefits that they bring to the environment and workers in development countries.

249. The project will help companies increase the visibility of certified coffee at point-of-sale, by making sure the seal is prominently displayed and materials are available for the consumer which explain the special characteristics of sustainable production to consumers. These materials will be elaborated with assistance from the project (see output 1.3) and be available to the companies through an on-line store, or through individualized marketing support. Visibility of certified coffee will also be increased through in-store tastings, which gives an opportunity to explain to the customer what the seal represents, and through contests and giveaways ("win a trip to the rainforest and a certified coffee farm") the consumer will better understand the linkage between the product which they are about to buy and sustainability issues in the products' origin. As the certification program grows, the certification program's marketing departments will elaborate consumer loyalty programs which will promote more ways to increase consumer awareness and build loyalty to the program.

Output 2.2 Media in key markets writes stories about the benefits of biodiversity-friendly agriculture and certification.

250. Media is critical to increase the focus on sustainability and awareness of consumers, but too often sustainability issues do not make the news. Rainforest Alliance has considerable experience in how to get the sustainability message through to the media and get media exposure for the benefits of biodiversity-friendly production (for example, recent articles have appeared in mainstream media such as the Wall Street Journal and the Financial Times), and the project will help achieve increased media coverage for sustainable coffee. The project will arrange media tours to make journalists understand the linkage between third world problems and the enormous power of the environmentally and ethically aware consumer, and develop support materials (newsletters, public service announcements, website articles, farm profiles and fact sheets) for journalists and other media people to use in their work. The project will establish solid media outreach activities in new markets, and in multiple languages.

251. The project will help expand media outreach by developing solid media contacts and relationships in new markets, and will write and send out press releases, hold press conferences and media events in consuming countries. It will also work to increase use of new media and internet related work over time, such as streaming video from certified farms into coffee shops, coffee blogs, viral marketing, video press conferencing and an increasingly interactive website.

252. In a time with fast changing media world, the project will help the certification program to stay at the forefront and use the new opportunities to increase consumer awareness of sustainability and conservation values of buying certified products. It is becoming increasingly confusing to be a consumer in a modern world, and it is paramount to reach consumers with the message that – as far as biodiversity-friendly products are concerned – the choice is easy.

Output 2.3 Key stakeholders support biodiversity-friendly agriculture.

253. Both to reassure consumers, as well as coffee companies of the merits of the certification program, the project will build partnerships with environmental, development, and other civil society groups that are respected public opinion leaders. These groups will bring recognition to the certification program as a strategy for environmental and biodiversity protection, and for social and economic sustainability in third world producer countries. The role of the partner organization is to actively promote certification as a sustainability tool and explain it to the broader public. Some of the organizations have the ability to reach large audiences with their messages. The organizations will help defend the certification program and participating companies against unfair attacks from anti-globalist groups in consumer countries, which per se are against all forms of transnational company activity. The endorsement of these prominent opinion leaders of biodiversity-friendly coffee production will help convince coffee companies of the benefits of buying RAC coffee, as well as increase consumer interest in certified products. A particular set of activities will relate to the strengthening of the relationships with other certification organizations. The project will facilitate dialogue between certification schemes through regular meetings to identify possibilities for synergies and avoid overlaps, for example in harmonization of standards and audit procedures. Also, through relationship building activities the project will further a joint approach between certification schemes, coffee industry platforms, and donor organizations with regard to the provision of technical assistance to farmers.

Output 2.4 Large institutional consumers (such as Fortune 500 companies, large universities, government institutions) have sustainable procurement policies and source certified coffee, FSC paper and other sustainable products

254. The Rainforest Alliance has had considerable initial success with promoting sustainable procurement policies with large institutional consumers. These institutions fill the needs of tens of thousands of coffee drinkers, paper product consumers, and packaging users; and they procure building materials and wood furniture for their office buildings and campuses. The potential of securing the commitment of these institutions to sustainable procurement policies is not only that they buy large amounts of coffee, paper, and certified wood products, but also that they signal to their employees and students that their institutions actively support sustainability. Indeed, the signal value goes beyond this – it is a strong statement to the world when well-known and respected institutions actively and publicly commit to sustainability.

255. The project will expand activities to convince institutional consumers of the benefits of implementing sustainable procurement policies, including the use of ‘SmartSource’ – the Rainforest Alliance program which helps buyers identify products from particular producers to meet their sourcing needs. Particular for universities, the project will elaborate a student toolkit to support student campaigns for sustainable university sourcing policies. The efforts will be done in collaboration with, and co-financed by, the Rainforest Alliance ‘TREES’ program, and will initially target North American and European institutional consumers and later expand to Japan.

Outcome 3: National capacities to certify all sizes of coffee farms in biologically rich production landscapes has increased (GEF contribution: USD 3,141,352; Co-financing: USD 14,504,346)

256. A serious challenge to the certification program is to balance production of certified coffee with the growing demand. Farmers are quick to react to a perceived market potential and seek certification because they expect a benefit in the marketplace. A farmer invests substantial sums in implementing sustainability measures on his farm to qualify for certification, and disappointment with the program quickly manifests if the farmer fails to enjoy expected benefits. Therefore, the certification program must be careful to increase activities in response to growing demand. The project will work in each project country to certify growing amounts of coffee, including building capacity of producers to understand certification standards and requirements, building capacity for technical assistance (extension) services, and increasing certification audits.

257. Special emphasis will be placed on certifying farmers in groups, thereby making the process less expensive for each individual farmer. This is particularly attractive for small farmers, who are organized in associations or cooperatives. By certifying in groups, the project will help achieve a higher percentage of smaller farms certified as a percentage of total farms certified. In Brazil, the project will focus exclusively on helping small producers to certify.

Output 3.1 Producers implement changes required to get certified.

258. As demand for certified coffee grows on international coffee markets, farmers' interest in certification will increase in all origins. To satisfy the growing demand, the project will promote the certification system with producers in the selected Project Coffee Regions to achieve a higher coverage of certified farms. As the Project Coffee Regions have been chosen for their high biodiversity value and because the coffees from the regions are in high demand on international coffee markets, increased certification will produce global benefits for biodiversity.

259. Many interested farmers have insufficient knowledge of the sustainability criteria and what these criteria mean in terms of changes on the farms. The project will provide local farmers will have better access to information about the sustainability standards and about the changes which farmers need to undertake on their farms to qualify for certification. This include guidance on how the farm can maximize biodiversity benefits, for instance with regard to ideal native species of shade trees, species to use for riparian habitat protection etcetera. The project will provide farmers with information about the broad range of benefits which can be expected in return for the investment it will take to reach certification.

260. Through a series of workshops and information meetings in local coffee communities within the Project Coffee Regions, the project will engage farmers potentially interested in certification. The project will produce brochures and toolkits on CD-ROM and DVD showing what certification means in practice on coffee farms, as well as a series of other useful information for the farmer interested in certification and sustainability.

Output 3.2 Biodiversity threats are reduced due to changes implemented by producers involved in program

261. The project will conduct an initial strategic planning workshop in each country to determine biodiversity conservation needs in coffee landscapes and key landscape level threats to biodiversity in the Project Coffee Regions, and identify the ways to best address these threats through planned project training activities and other project interventions. Training workshops mentioned in output 3.1 will include these specific threat reduction elements. Through the project adaptive management system each

country will examine the changing needs through an annual strategic planning process, and adapt training activities based on this feedback.

262. This output is specifically designed to maximize the biodiversity impact of the certification tool, as well as of the project activities in the Project Coffee Regions.

Output 3.3 Capacity has been built to manage growth in certification

263. The organizations that implement the certification program are innovative and respected NGOs in their countries, and very experienced in conservation and environment issues. The NGOs are also highly experienced in certification of a variety of different crops, including coffee, and have been an important force behind the program's success thus far. As the market for certified products grows, the NGOs must perform certification and audit activities in an increasingly efficient and cost-effective manner. Managing growth is a challenge in any organization, but particularly non-profit organizations meet considerable challenges in developing certification activities in a businesslike manner.

264. During the PDF B, the NGO partners from the participating countries have engaged in the first steps of a business planning process, to assess their response to anticipated substantial growth in certification activities. This business planning process will be taken further during the first years of the full-size project. Strengths and weaknesses of each partner will be identified and the project will prepare the organizations for a much larger, lean and efficient certification program. In Peru, where there is not yet an NGO partner, the project will help install local capacity to certify coffee.

265. Long-term development of the network of NGOs is a critical element for expansion of the certification system, and in the longer run this will imply a revision of the financial structure of the system, which is currently based on audit fees. The project will help the network assess alternative financial structures and set in place a system which will best enable continued growth and cost-effective operation, and long-term financial sustainability of the certification system.

Output 3.4 Local capacity created for technical extension service in implementation of standards

266. As farmers decide to seize market opportunities for certified coffee they need to implement a series of changes on their farms. But the path to sustainability is often difficult and the standards do not prescribe specific ways to achieve it. Particularly dedicated and innovative farmers have experimented and found their own ways to implement sustainability practices on their farms in order to qualify for certification. As the demand for certification increases, however, it will be necessary to build local capacity so that producers who are interested in getting certified can access qualified technical assistance and extension services to help implement changes on their farm.

267. The NGOs that implement the certification system have so far almost exclusively focused on certification and auditing services. Technical assistance services to farmers have largely been avoided, not least because of fear of conflict of interest between the advisory role and the auditor role. The project will help build capacity to provide technical assistance to farmers in ways which eliminates conflicts of interest as prescribed by the ISO 65 standards which guides the work of certification organizations. The increased capacity will make it easier for producers to access qualified help to implement changes.

268. In project countries agronomic technical assistance is often provided by government agricultural agencies, or by technical departments of national coffee institutions. The project will work wherever possible to establish partnerships with local institutions, and train staff to be able to provide guidance on

sustainability practices. It is possible that some of these local institutions will be subcontracted to execute particular project activities with farmer groups.

269. In addition to the formal institutions, most countries have private agronomists who provide technical assistance to farmers, and cover a broad variety of issues. The project will identify these independent agronomists, to train them in providing extension services to farmers on sustainable practices so that these can become certified.

270. The project will also build farmer's capacity to implement sustainable management practices through open workshops and training activities.

271. The project will organize annual train-the-trainers workshops to continually increase the knowledge of the best farm practices leading to sustainability. This includes capacity to provide biodiversity advice to farmers to maximize their possibility of producing conservation impact. These project activities have the important added benefit that the sustainability practices will become more commonly known and accepted, even with farmers who are not certified.

Output 3.5 A group certification system developed and applied

272. The majority of the world's coffee producers are smallholders. Small producers are still underrepresented in the certification program because it is too expensive for small farmers to certify individually (it is proportionately more expensive to audit a smaller farm). There exists initial capacity to certify small (and in principle also larger) producers in groups. Group certification is less expensive for the individual producer, because audit costs are shared. Group certification requires that the group of farmers implement an Internal Control System, which allows the group to control the practices of the individual members of the group. During group audit, focus is on the well function of the ICS, as well as on a randomly selected sample of individual farms.

273. Whereas there have been preliminary experiences with group certification, further development of the system is necessary. The project will help further develop the system, including the development of training programs for farmer groups, such as cooperatives, in how to implement ICS. It will also help train auditors in group certification and help to promote group certification with groups with high potential of becoming certified.

274. While habitat protection and global biodiversity benefits can be produced on large coffee farms as well as on small farms, the program's sustainability philosophy insists that also smallholders can and should benefit from the advantages of certification, and that any coffee sustainability program should address sustainability problems among small farmers where poverty and subsistence farming is widespread. The activities under this output will guarantee that more small farmers get certified and that the overall percentage of small producers to large ones will increase.

Outcome 4: Economic sustainability of certified coffee farms has increased (GEF contribution: USD 1,898,735; Co-financing: USD 71,539,735)

275. This outcome will respond to a series of factors which – while not barriers to certification and to satisfying demand for certified coffee – are vital to increasing economic sustainability of already certified farms. To get certified, a producer must implement environmental and social sustainability measures on his farm. While this usually has some costs, there are benefits related to certification which will improve economic sustainability. Nevertheless, a series of factors which are not themselves part of the certification scheme can put the farmers' economic sustainability in jeopardy, particularly in times of a highly volatile

coffee market and continued risk of a new coffee crisis. The certification system promotes the three pillars of sustainability: environmental, social, and economic, and to the extent that economic sustainability must be improved, the project will help facilitate measures which can enhance it. The project intervention will focus particularly on strengthening the economic sustainability of smallholders and low-income farms, in order to improve livelihoods and avoid conversion to other land use. In Brazil, project activities with farmers will entirely be aimed at small producers

276. Many of these thematic areas could merit a project itself, and several could even deserve a project in each of the project countries. This project's capacity to address all economic sustainability issues is limited. However, the project can maximize its impact through specific targeted efforts, and through partnerships with other institutions.

Output 4.1 Best Management Practices collected and promoted among certified farmers

277. The certification standards require the farmer to implement environmentally friendly production practices on their farms, but they do not require specific practices, nor tell the farmer how he should go about the improvements. As long as a farmer achieves the prescribed standards, the farmer is free to experiment with new and innovative methods of achieving the results. Whereas all farmers live up to the certification standards, some farmers find particularly innovative, cheap, efficient, or effective ways to improve farm practices. These practices not only make certification easier, but can also improve economic sustainability on the farms.

278. The creative innovations developed by the pool of certified farmers currently do not get collected and in many cases are protected by farmers who consider them competitive advantages over fellow farmers. It is possible to give farmers incentives to share their best management practices with their peers. The project will provide opportunities for farmers to share their best practices. Exchange programs will help further innovative developments and collection of BMPs while simultaneously helping the farmers become even better. The project will collect BMPs, award the best new practices, and develop specialized publications and manuals which acknowledge the efforts of individual farmers. While sharing of the practices will help the collective body of certified farmers, it will also help contributing farmers in the market place by documenting the farmers' prominent status to buyers, a very important farm-level marketing tool. The project will establish farmer-to-farmer BMP training programs, as well as formalized BMP training courses.

Output 4.2 Access to markets for certified products improved for certified farmers

279. The certification system itself is an important way for the farmer to achieve access to new markets, by offering a certification seal in addition to the coffee's other characteristics. But as with all farmers, the certified farmer will need to bring himself to the attention of buyers who might pay good prices for his coffee. As the market for certified coffee is still relatively small, it can be a challenge to the certified farmers to connect precisely with the buyers who are interested in the specific type of certified coffee that they offer.

280. A number of project interventions can guarantee better market access for the producer, and help him optimize the return on the investment he made to implement sustainability measures on his farm. The project will offer the farmer the opportunity to list his product with its characteristics on a traceability database to make it easier for potential buyers to find it. It will also arrange local cupping events where producers and buyers meet to test the quality of certified coffees. National and international cupping events have already been piloted with great success, and the events have improved the farmers' ability to promote his product to attractive buyers. Finally, the project will help producers by helping educate them in how to present their product samples in the best possible way to make them attractive to buyers.

281. In different parts of the world consumer preferences vary, and most coffee roasters blend different types of coffee from different origins and with different characteristics to obtain exactly the desired blends for particular markets. It can be a challenge for a coffee company to identify the desired coffee for their blends, and particularly so if the company is demanding certified coffee. The project will help improve integration of the supply chain for certified coffee to better enable coffee companies to find the coffee quality and types they need. This will be done through web-based sales tracking and product traceability tool where producers will list their available products. Linkages between producers and coffee companies will also be strengthened through cupping events and at special meetings during trade shows, including the annual supply chain meeting and sustainable coffee breakfast at the SCAA conference. These activities are crucial for the efforts to match supply with demand throughout the supply chain. Beyond certification itself, one of the most important roles of Rainforest Alliance is to facilitate contacts for actors in the market. The value-added of helping companies satisfy their needs for certified coffee and connect producers with companies that want to reward sustainability cannot be overstated, and the project's support in this regard is indispensable for increasing certification activities on the ground and thereby generating global environmental benefits.

Output 4.3 Farmers' access to financing (particularly for small producers) has been improved through partnerships with financing institutions and programs

282. Generally speaking, financing has not been a barrier for expanding the supply of certified coffee. While financing needs have been a hindrance for small farmers to certify, the group certification program (see output 3.4) is aimed particularly at making low-cost certification available to this segment of farmers. It is beyond doubt, however, that coffee farmers like other actors in the private sector need credit to optimize operations, and to increase economic sustainability and better withstand fluctuations on the international coffee markets. Studies during the PDF B have shown that most larger producers already have access to established financing channels, but many small farmers have difficulty in identifying or accessing credit aimed at their particular situation. This is not because credit opportunities do not exist. A number of credit providers are already operating in all the project countries, some of these run by donor-assisted micro-credit programs, other by commercial banks or development banks, and others again by national government SME development programs.

283. The NGOs implementing the certification program are not financing experts, nor do they have intention of becoming intimately involved in financing issues, but to the extent where farmer sustainability can be improved by improving access to already established financing options, this will be promoted. The project will help establish formalized relationships with established financing institutions and programs and guide farmers on what to do and where to go if they need financial assistance. A close working relationship will be established with the newly approved UNDP/GEF project "CAMBio", with the Central American Bank of Economic Integration, CABI, which covers three of the this project's countries. The project will also seek to establish partnership with funding mechanisms such as EcoLogic and Conservation International's Verde Ventures

Output 4.4 Coffee quality improvement techniques promoted with producers

284. Certification is a value-added to coffee sold in the market place. There is circumstantial evidence which suggests that by certifying production, the typical farmer is able to improve the quality of his coffee, simply by improving management techniques on farm, and get more organized, something which typically follows from certification. It could also be generally true that more dynamic and ambitious farmers seek certification as a way to improve their production, and because they are better farmers they also produce better coffee. It is certainly a fact that the first independent, international coffee cupping

events have rated RAC coffees as being of a very high quality. But certification itself is not a guarantee of quality. Coffee quality depends – among other things – of biophysical and geographic factors, and of processing methods. While environmental sustainability is good for biodiversity even if the coffee quality is bad, a mediocre coffee will most often fail in fetching good prices in the market place, which again will result in poor economic sustainability on the farm. Therefore it is important that the farmers produce the best coffee they can under the physical circumstances they are in.

285. The project will help determine how coffee quality-enhancing farm practices can be included in the sustainability standards. While not certifying quality of the coffee itself, quality-enhancing practices will increase the chance that all certified coffee will get the best prices it can possibly get on the market. Certified coffee will gain increased prestige, be more sought after, be sold faster, and generate higher prices, all to the benefit of the producer, as well as for the certification system.

286. While quality-enhancing farm practices could be made a part of the sustainability standards, the NGOs implementing certification do not specialize in training farmers in quality improvement. In each country, there are coffee quality institutes and agencies which provide consulting expertise to farmers in how to improve coffee quality. Instead of duplicating efforts, the project will help establish alliances between specialized coffee quality experts and certified farmers and make sure certified farmers have access to adequate training, be it free of charge as a part of donor-financed development projects or through paid consultancy services to the farmer. The project will also search for complementary efforts to increase farmers' knowledge of means and ways to improve the quality of their coffee, including publishing or otherwise making available self-help manuals and DVDs with instructions the farmers can apply on their farms.

287. The NGOs will continue to put increased emphasis on coffee quality, and the project will support this effort by financing cupping events that highlight the good quality of certified coffees, as well as encourage the coffee farmers to continually improve coffee quality. This is a very important strategy for improving both the economic sustainability of coffee farms, as well as to expand the market for certified coffee.

Output 4.5 Sustainable terms of trade promoted throughout the supply chain

288. Many focus on a price premium as a tangible benefit of sustainability, but it is far from the only benefit, and in many ways it is problematic to regard the price premium as farmers' main sustainability benefit. Certified coffees which include a substantial price premium – though aggressively promoted in the market place over the last fifteen years – have only succeeded in generating a small niche market, and it stands little chance of receiving broader acceptance in the coffee industry. The coffee certification program aims at a broad penetration of the international coffee market, and believes it is paramount that sustainability issues become widespread throughout the coffee industry, instead of limited to products exclusively for a “sustainability elite” consumer.

289. Studies during the PDF B have shown that though price premiums for RAC coffee vary a great deal, the seal typically generates a 10% price premium in the market place. But over time, as certified coffee becomes more common, the price premium could very well be reduced. While the program will continue to recommend that coffee companies reward sustainability in coffee production by paying a premium, there are many other factors in the trading situation that can bring increased economic sustainability to the farmer. These can be preferential contracts, long-term contracts, shared-risk relationships, transparency and market information, contractually linked financing schemes, revenue sharing schemes between buyers and sellers, among others.

290. Many farmers are not fully aware of the option they have when they negotiate with buyers. The farmer typically does not have insight into technical contract issues, or information about the sophisticated coffee markets, which influences his opportunities in the trading situation. The information disadvantage farmers have at the moment of trade often prevents them from negotiating the mentioned sustainable terms of trade. The project will work to identify current best-practices in sustainable terms of trade, and help make sure that a series of recommended practices be applied throughout the supply chain. The project will help elaborate guidelines for farmers and coffee companies of how they can ensure sustainability in the trading relationship. Informing farmers about their options, and recommending sustainable terms of trade to all actors through the supply chain can greatly enhance the adoption of the measures, even if the program does not make them obligatory or otherwise interfere in the trading relationships.

Output 4.6 Good business, marketing and sales practices promoted with producers

291. The final element of the project's strategy to enhance economic sustainability of certified coffee farms is to ensure that the farmers become the best businessmen they can be. A farmer can produce superior coffee quality, boast of impeccable environmental and social sustainability, but fail to be economically sustainable because he fails to control expenses, keep his books, or other fundamental business practices. This problem is of course not unique to coffee farmers, but applies to a great deal of SMMEs, and virtually all developing countries have experienced government- and donor-financed programs to ensure a better economic sustainability of their SMMEs.

292. It is not the project's strategy to replicate the work of these competent institutions and programs. As under the outputs related to financing and quality improvement, the project will pursue a partnership strategy with specialized SMME development programs and institutions. In Central America, the project will collaborate with CABEI and its GEF-supported CAMBio program, which has significant capacity to support SMME-strengthening. In all project countries, the project will identify and ensure collaboration with such institutions and programs to make sure services and training programs are available for the certified farmers.

Outcome 5: Increased capacity to engage policy makers in coffee-producing and consuming countries in promoting sustainable coffee practices and to monitor and respond to policy initiatives/threats to sustainable coffee (GEF contribution: USD 539,621; Co-financing: USD 4,038,142)

293. This project is an important complement to government's centrally planned conservation and sustainability programs because it enlists powerful private sector interests and investments in support of sustainable coffee, arguably the single developing country crop with biggest potential for biodiversity conservation benefits. The extent to which these market forces are able to contribute to governments' conservation efforts depend to a large extent on legislature and policy frameworks which regulate production, trade and sales of coffee. Both in producer and consumer countries, it is important that legislation and policy environment actively support sustainable coffee, or at least not put it at a disadvantage.

294. Most producer countries have stated policies for sustainability and many include shade coffee in their biodiversity strategies and action plans. As an example, the Mesoamerican Biological Corridor to a large extent follows coffee landscapes. Yet regulatory framework and fiscal policies often do not actively promote sustainability in production. Because farmers have to invest substantial sums on their farms to protect common environmental goods, this puts the certified farmers at a disadvantage, compared with farmers who externalizes environmental costs to their environment. In consumer countries, the main

threat is governments' attempts to define, limit and/or control independent sustainability certification programs.

295. The project will actively involve governments in producer and consumer countries in the work to create market-based solutions to sustainability challenges in the coffee sector. Governments will be involved in project activities and appraised of project progress. A continuous dialogue will be kept with key government institutions so they will be able to provide inputs into the project process, but also so they can internalize products and lessons learned generated by the project, and disseminate it more broadly within government institutions. While this project promotes a market-based instrument, it is paramount that governments support the efforts, coordinate efforts in national coffee sector plans and strategies, as well as promote market-based approaches to sustainability in coffee. In this regard, local NGOs play a key role as local execution agencies in project countries. Their local presence will considerably strengthen the project's possibility of engaging local governments in dialogue.

296. The project will monitor policy trends which can influence the certification program, and better enable them to participate in policy dialogue with governments and other policy-formulating entities. It will also enable them to effectively respond to policy threats and opportunities to place the certification program in the best possible policy environment. The outcome will be achieved through the following outputs:

Output 5.1 Policies implemented and policy threats mitigated in producing countries

297. Several NGO partners in the network have been deeply involved in local policy dialogue over many years, and tangible results in favor of sustainability in coffee production have been modest.

298. While this project is not in a position to promise that given policies will change, it will develop tools and information to advocate policy change. This will include comparative overviews of policies and recommendations of international best-practices in sustainability enhancing policies – including fiscal policies. It will also include compilation of information regarding impacts of sustainable coffee to improve the basis of policy-makers' decisions. These inputs will be thoroughly discussed with government officials to increase the chance of influencing the policy formulation process.

299. National Coordinators will create local "policy working groups," incorporating relevant public, private and research institutions to explore opportunities for effecting change.

Output 5.2 Fiscal incentives implemented by project country governments

300. Governments in producing countries must encourage sustainable coffee production by providing fiscal incentives to producers that implement sustainable practices. Government support for organic producers in some countries has provided a boost to organic production and producers should enjoy similar incentives to certify with the RAC system. The project will conduct a baseline study of existing fiscal incentives, and then promote appropriate policies to local governments.

Output 5.3 Policies implemented and policy threats mitigated in consuming countries

301. The international regulatory environment around independent, third party standard setting and labeling is rapidly changing. Individual European governments, the EU, and agencies such as the FAO regularly discuss policies which can potentially negatively impact independent standards setting and certification programs. At the same time, there is tremendous support for social and environmental labeling in some European governments, which presents an opportunity for the project.

302. Larger coffee companies that are engaged in sustainability have long been aware of the importance of providing inputs to the policy processes which are attempting to define policy and regulatory frameworks, which can shape and even entirely determine the future of sustainability in coffee. These companies are already monitoring and participating in policy dialogue. In addition, organizations such as the International Social and Environmental Accreditation and Labeling (ISEAL) Alliance, and the International Institute for Sustainable Development (IISD) monitor and participate in international policy fora. The project will establish partnerships with companies and organizations to increase availability of information on policy trends, as well as to increase influence in policy processes.

Outcome 6: Increased learning and adaptive management (GEF contribution: USD 1,341,281; Co-financing, USD 225,000)

303. There is a need to continually improve the coffee certification program, maximize its impacts, and increase cost-efficiency. In order to do that, the project will help create a learning and adaptive management system, which will document the impact of the certification program, and explicitly test its assumptions, as well as provide access to inputs, and knowledge from outside groups and stakeholders. The insights generated by these activities will serve to make continual adjustments to the certification program strategy, its sustainability standards, and audit practices.

304. By making a formal commitment to a learning and adaptive management system, the project will adopt an explicitly experimental approach to its program activities, in which learning and change will become integral elements of the system. During the proposal preparation stage, the project worked with the Washington DC-based not-for-profit organization 'Foundations of Success' which is working with a number of international conservation organizations to improve design, implementation and measurement of impact of conservation activities. FOS is participating in the collaborative initiative 'Conservation Measures Partnership' (CMP) with prominent conservation organizations such as Conservation International, The Nature Conservancy, Wildlife Conservation Society and World Wildlife Fund to formulate best practices and standards for monitoring impact and adaptive management. The project expects to establish a state-of-the-art adaptive management system by capitalizing on the most innovative thinking in the conservation world.

305. The project will capitalize on the knowledge generated by other conservation organizations, and the project will help establish information- and knowledge-sharing channels with peer institutions which will formalize exchange. Formalized sharing of knowledge between relevant organizations is another element of the learning and adaptive management strategy. In particular, during its inception phase the project will formalize information-sharing agreements with project country governments to ensure that knowledge generated about biodiversity in coffee landscapes, recommended coffee landscapes conservation measures, on-farm biodiversity farm management practices and other relevant information will reach the governments and help them in their work to promote sustainability in agriculture and the fulfillment of their sustainability- and biodiversity conservation action plans.

306. Finally, the project will help improve the participatory nature of the certification standard development. While the standards have always been developed through a multi-stakeholder participatory process, there has not been a formalized process in place which guarantees in-depth local producing country stakeholder inputs to standards development beyond the local NGOs in the network. As the certification program grows and is adopted more broadly in the coffee industry, it becomes increasingly important to expand and improve the standards setting processes.

Output 6.1 Monitoring program established in all project countries

307. The project will help establish an advanced impact monitoring program to document the biodiversity and environmental, as well as social and economic impacts of the coffee certification program. As this GEF project will help expand the certification program, the impact monitoring program will produce evidence to the GEF, to the coffee world, to the conservation community and to the coffee consumers in general that biodiversity-friendly coffee is a highly attractive conservation strategy in tropical coffee producing countries, as a complement to centrally planned conservation strategies, such as protected area systems. Beyond documentation, the impact monitoring system will generate information to inform the Adaptive Management program, and thereby ensure a continuing series of improvement to the program, including maximizing conservation impacts.

308. The certified coffee impact monitoring system is a part of, but not identical to a project monitoring system. The *project* will use a variety of indicators – including market indicators – to document project impact as defined in the project’s logical framework matrix, whereas the coffee *program* impact monitoring system is a specific deliverable of this project and focuses on the impacts of all coffee certification activities on the ground. This program impact monitoring system will not focus on how the GEF project reaches its targets, but on determining the certification tool’s impacts, and on how to maximize them. The review of scientific literature which was performed during the PDF B does indicate a tremendous value of sustainable coffee for biodiversity, but the impact monitoring system will be specifically aimed at providing systematic data for the certification system.

309. Biodiversity benefits will be measured in a number of ways: through population increase of keystone species, through aerial photos to determine canopy cover, through threat reduction and so on. A preliminary set of indicators are given in the draft monitoring plan in Annex XIII. The indicators will be adjusted and refined during the project inception phase.

310. The project commits to produce on-farm biodiversity benefits, because the certified farm is the unit for which the certification can guarantee changes to sustainable production methods. The coffee program impact monitoring system will measure on-farm biodiversity benefits in all six project countries. However, as discussed above, depending on density of certification activities and threats from surrounding areas (which of course contain many other activities than coffee), it is estimated that certification can have a substantial benefit in the wider coffee landscape.

Output 6.2 Landscape level planning and monitoring established in two pilot countries

311. During the PDF B process, the project worked with FOS to produce a conceptual model of the threats toward biodiversity in a pilot coffee area, and to spell out the causal relationships between farm changes resulting from implementing the certification standards, threat mitigation, and habitat protection. This work serves to identify assumptions regarding causality between the standards implementation and biodiversity impact, which will then be tested by the monitoring system. A draft monitoring plan was produced for the pilot area, the Apaneca corridor in El Salvador. Some of the monitoring activities will be incorporated in the audits which are performed yearly on all certified farms, and other monitoring activities will be done through more specialized monitoring techniques. A more thorough description of the methodology used and the draft monitoring plan can be found in Annex XIII. At project inception, baseline values will be determined for all indicators in the monitoring plan, and realistic targets will be defined for threat mitigation levels and habitat impact. At the same time, the pilot experience will be repeated in the other five project countries, so that by the end of the first project year a full-scale impact monitoring system is in place covering coffee regions in all project countries, complete with baseline values, targets and final country-specific monitoring plans.

312. In two countries (El Salvador and Colombia) the project will perform landscape level monitoring activities, to demonstrate the relationship between certified coffee production and biodiversity benefits in

the wider coffee landscape. The landscape-level monitoring activities are the first step towards a possible future landscape strategy for certification. The project will work with conservation experts and organizations to analyze the possibility of strengthening landscape-level impact through target use of the certification tool.

Output 6.3 Adaptive management and strategic planning system established at project and certification system levels

313. As the certified coffee impact monitoring system – and other sources of information – generates knowledge and lessons learned about the impacts of certification activities and improved understanding of necessary changes, this output will establish formalized procedures within the certification program to incorporate changes and implement adjustments in the program. That will happen at annual planning events, which the project will help design and carry out. Once the procedures have been implemented and institutionalized over a period of several years, they will be able to continue without the help of the project or other external support.

314. Within the project itself, a similar process will be established with periodic review of the project's performance and systematic adjustments of the implementation strategy when needed.

315. For more information on the adaptive management program, please refer to Annex XII.

Output 6.4 Lessons learned and impact data are gathered, documented and disseminated to key internal and external audiences.

316. Once information is gathered and lessons learned are generated in a systematic way, the project will help disseminate the knowledge to a number of different audiences. The project's information and knowledge dissemination activities will target the projects stakeholders including government institutions, decision makers and local NGOs; the broader coffee industry including other coffee certification programs and organizations; biodiversity conservation and development organization which work in coffee areas or otherwise promote sustainable agriculture, as well as the broader public through media organizations.

317. These activities will have multiple benefits of guaranteeing transparency, increase learning and replication outside the certification system (see section on Replicability), as well as promote a healthy exchange of opinions and knowledge.

318. The project will utilize a range of communication means to share information and knowledge. The project will publish a series of working papers on technical issues for specialized audiences, as well as guidebooks for producers and coffee companies on how best to promote sustainability in production and trade. It will also publish articles about lessons learned, both for the broader public as well as for the coffee producing and conservation communities. A broad range of resources will be made available on an increasingly advanced and sophisticated Sustainable Agriculture section of the Rainforest Alliance's public website. Finally the project will gather and disseminate information through thematic workshops in years 3 and 6 for select audiences.

Output 6.5 Multi-stakeholder consultation and involvement at country and international levels secures inputs in certification program and standard setting process.

319. The certification standards were originally set through a series of stakeholder workshops, and have since been updated in a process involving multiple stakeholders participating by electronic mail. The project will help to formalize a multi-stakeholder consultation and involvement process, both at country

and international levels, to secure necessary inputs to the on-going improvement of certification standards. This will be done by establishing local and international standards advisory groups that provide general input, technical expertise and guidance regarding standards content and related policies. The formalization of the participatory process is a necessary and integral part of the development of a certification system which before the end of the project will be certifying a substantial share of the world's coffee production.

Project Indicators, Risks and Assumptions

320. A measure for the project's overall success at the *Objective* level is that coffee habitat area with high biodiversity value certified by the program has drastically increased by the end of the project's seven-year lifetime. The indicator for habitat extension is growth of habitat area under sustainable management on coffee farms as a result of certification, and the indicator for the quality of the coffee habitat and the biodiversity benefits is increased populations of keystone species on certified farms.

321. The chances of success depend on the following assumptions: (a) that market fluctuations will not severely limit the interest of farmers in getting and staying certified. The risk that this assumption will not hold true is estimated to be **low**, as there historically has been detected growing interest in certification among farmers both in times of crisis as well in times with good coffee prices. (b) It is assumed that consumers and coffee companies will maintain interest in sustainability issues. The risk of this not holding true is estimated as **low**, as awareness of sustainability issues among consumers and in the coffee sector has been steadily growing over many years.

322. At the project Outcome level, the success of *Outcome 1* (increased market demand) will be measured by increase in amounts (measured in metric tons) of coffee sold as certified on international coffee markets and the width of penetration in the coffee sector by the increase in number of roasters that buy certified coffee and the number of outlets carrying certified products.

323. An assumption for Outcome 1 is that companies find increased reasons to promote responsible sourcing policies. The risk associated with this assumption is thought to be **low**, as all tendencies in the coffee world point to increased company interest in responsible sourcing policies.

324. The success of *Outcome 2* (consumer interest) will be measured by increase in consumer recognition of the seal and awareness of what it means, which is to be measured in key markets during the project's lifetime.

325. It is assumed that consumers increasingly will find certified products a credible way for them to support sustainability and conservation of biodiversity. The risk of this not holding true is viewed as **low**, as consumers reportedly show increasing interest in certification as a tool to promote sustainability and environmental protection. The project will help the coffee certification system in limiting this risk by clearly communicating the impacts of the certification activities. To be able to document impact on consumer interest for certified coffee, it is assumed that corporations will conduct consumer surveys and share information with the coffee certification program. Due to excellent working relationships between the certification program and coffee companies, which have been consolidated over the last few years, the risk of this assumption not holding true is seen as **low**.

326. Achievement of *Outcome 3* (national capacities to certify) will be indicated by number of auditors, ISO 65 certification for RAC, producer satisfaction levels, and increased amounts of coffee certified from smallholders

327. It is assumed that local TA providers are willing to receive training in certification standards and provide TA to producers, and the risk of this assumption not holding true is seen as **low**.

328. Realization of *Outcome 4* (economic sustainability of certified farms) will be measured by the better prices earned by certified farmers compared to non-certified farmers, as well as the degree to which certified farmers feel that certification has helped improve their ability to survive a future coffee crisis.

329. In order to document improvement in economic sustainability, it is assumed that certified farms will be willing to share price and cost information with the project's executing NGOs, perhaps in a confidential manner. The risk is seen as **medium to low**. This type of sensitive information is normally hard to get, but most certified farmers are very loyal to the program and eager to help the program advance. It is also assumed that the coffee industry is willing to continue to reward certified sustainable coffee. The related risk is seen as **low**, as all trends point toward increased engagement of the coffee sector.

330. Achievement of *Outcome 5* (policy threats and opportunities) will be measured by the number of policy initiatives/threats which have been addressed, and partners in major coffee producing and coffee consuming countries, as well as the success in addressing these. It will also be measured by the establishment of policy working groups formed with relevant public, private and research organizations in each of the 6 project countries

331. The assumption, on which achievement of Outcome 5 depends, is that policy makers will be willing to engage with the project and its strategic partners in the various countries or markets. The risk that the assumption will not hold true is seen as **medium**. On the one hand, policy makers are usually interested in getting inputs from stakeholders in the industry, but on the other hand it has been shown to be very difficult to change given policies in favor of sustainability.

332. The success of *Outcome 6* (increased learning and adaptive management) will be measured by the degree to which systematic information is available to document the impact of certification on biodiversity and socio-economic conditions, and that learning generated enables improved strategic planning and coffee certification program design and implementation.

333. There are no particular assumptions about this outcome which are vital for its success.

334. The project will continually monitor if the assumptions continue to hold true and assess the risk of them not holding true. If factors or developments outside the control of the project will render the risk of the assumptions not holding true **high**, the project will be analyzing alternatives to adopt modified strategies to reduce dependency of the particular assumption. For more detail, please refer to the Logical Framework Matrix: Annex B of the Executive Summary.

COST EFFECTIVENESS

335. *Securing cost effectiveness* has been a key priority in the design of this project. The strategic considerations mentioned above illustrate the principles of a cost-efficient project design, such as building on installed capacity, capitalizing on market forces and partnering with institutions which have better or more specialized capacities in certain areas, instead of trying to create these capacities themselves. In particular, the cost efficiency of the project consists in a highly catalytic project intervention, where the GEF investment will be replicated in large areas, and generate high amounts of co-financing and leveraged financing. The following figures show that the proposed GEF alternative is highly catalytic:

336. The GEF alternative will help increase the number of certified hectares more than fifteen times, from 93,000 hectares in August of 2005 to 1.5 million hectares by the end of the project. This equals 1 million hectares of productive land, or 10% of the world's productive coffee area, and an additional 500,000 hectares of conservation areas set aside on certified farms. This target has been determined after careful projection of 70 current and prospective coffee company partners surveyed during the PDF B. A discussion of the targets can be found in Annex VIII-A. With a GEF investment in this project of USD 12 million, the incremental part of the cost of conservation will be **USD 8 per hectare**, for each additional hectare certified during the project's lifetime. As a comparison to illustrate cost-efficiency, the Costa Rican National Forestry Financing Fund (FONAFIFO) rewards farmers to maintain their forests by paying them USD 45 per hectare per year over five years, or USD 226.

337. The biodiversity value of certified farms in a coffee landscape is likely to reach well beyond the certified farms themselves, depending on the certification activity and the threats against biodiversity in the surrounding area, because species typical for much larger ecosystems can survive on sustainable coffee farms in conjunction with remaining tracts of intact habitat, even if the larger ecosystem is degraded. On average, the larger multiple-use area which will benefit from coffee certification could be as large as 7-10 times the size of the certified farms themselves, between 10-15 million hectares by the end of the project, equivalent to a GEF investment of **USD 0.8 to 1.2 per hectare**.

338. Driven by market incentives created by this project, farmers will undertake investments on their farms to become eligible for certification. Farmers will spend an average of USD 545 per hectare of coffee production to implement sustainability measures, which will yield a total investment of **USD 494 million** in on-farm investments – or more than 40 times the GEF investment. For more detail, see the discussion on co-financing and leveraging potential in Section III.

339. Companies will pay premiums to producers in return for sustainability measures taken on farm, equalling a payment for environmental services. During the PDF-B, a survey of coffee companies established that a majority of companies expected the premium to remain at current levels. Assuming the size of this “sustainability differential” is USD 10 cents per pound of coffee sold¹⁰ the total amounts of premiums will amount to **USD 363 million**. This amount is based on cumulative sales over the lifetime of the project, increasing from currently 30,000 tons per year to a total of 500,000 tons by the end of the project. This amount represents 10% of global export markets. Some of the RA Certified coffee will not be sold with the RA seal. This is because some RAC certified producers will sell their coffee to buyers who are not interested in the RAC seal, or – for producers who hold several certifications – will sell it under other sustainability seals and systems, such as Organic or Starbuck's C.A.F.E. Practices.

340. The price that will be paid to farmers for certified sustainable coffee during the project's lifetime amounts to **USD 3.723 billion**. This represents the shift in coffee company purchases from non-sustainable products to certified sustainable coffee. The value is calculated using the average New York Board of Trade average coffee price over the last ten years.

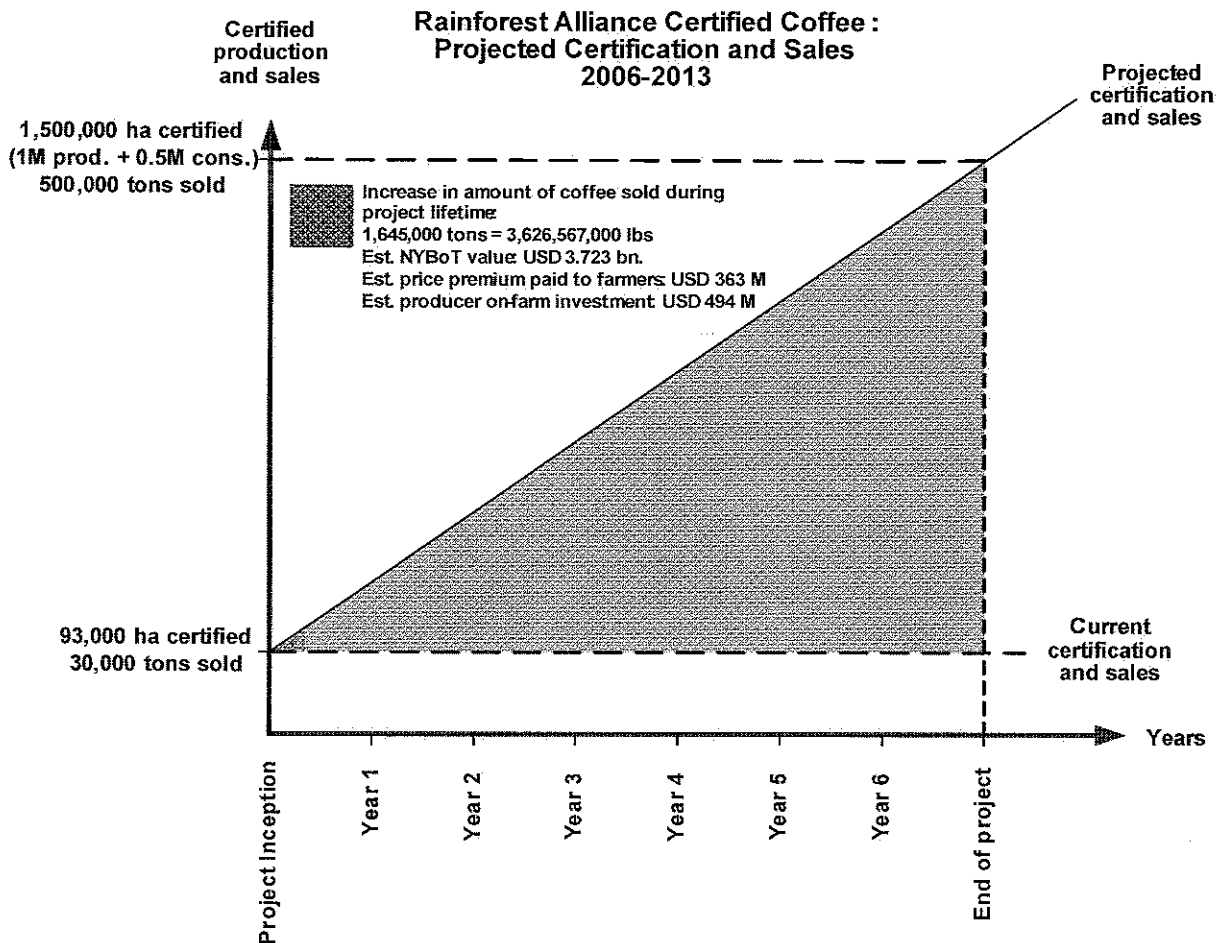
341. The above estimates are based on projected increase in certified area and production during the project's lifetime. However, as Rainforest Alliance believes its coffee certification activities will reach a tipping point beyond which the certification activities and sales will continue to grow¹¹, numbers are likely to be even larger in the years following the project's conclusion. Details on the estimated cofinancing and leveraged financing can be found in Section II, Part I Incremental Cost Analysis, and in Section III of the project document.

¹⁰ See discussions on this in the Co-financing and Leverage Potential discussion in project document, Section III.

¹¹ See discussion on this in sustainability section of project document.

342. The following model illustrates projected growth in RAC production areas and coffee sales during the project's lifetime.

Table D – Growth in Rainforest Alliance Certified Production and Sales during the Project



Alternatives Considered

343. A number of design options were considered and rejected during the design phase because they were found to be unrealistic, less effective, or less cost-efficient.

344. In particular, the project design team considered *alternatives to market-based interventions*. It was considered to adopt non-market-based, centrally planned approaches in the coffee landscape to increase impact in certain areas, because it was recognized that transformation of a single productive sector will only remove some of the threats to biodiversity in a multiple-use coffee landscape. But it was found that an approach where this project would commit to remove *all* threats at a landscape level (from pollution to land planning to cattle ranching and much more) would be extremely expensive, it would duplicate the efforts of many other actors, and it would require Rainforest Alliance to abandon its comparative strength, which is coffee certification. It would move the project intervention away from its primary focus: to transform the means and ways of a productive sector through expansion of international markets for coffee grown under sustainable and biodiversity-friendly conditions. It was reckoned that other institutions and actors were better placed to implement a comprehensive landscape-specific conservation approach. Instead, Rainforest Alliance and its partner NGOs would do what it does best, and

do what few – if any – others can do: transform coffee farming practices thoroughly in biodiversity-rich coffee landscapes, in complement to other important efforts.

345. It was decided that the coffee program impact monitoring system, established by the project, would try to determine how coffee certification strategies could have most impact at the landscape level. The project is open for a future change in strategy if new information will point to better ways to increase impact at the landscape level.

346. *Institutional alternatives* were considered, such as with whom to work in the producing countries and the extent to which the project would work with policy makers. It was decided that an overwhelming strength of the certification program is network of local NGOs, and that the project activities at the production side, when possible, should be executed in collaboration with the local partners. But the project will also engage a broad series of other stakeholders, as outlined in the Stakeholder Participation Plan. Please refer to Section IV, Part IV for more information. Collaboration with policy makers was regarded as extremely difficult, because of disappointing results in earlier efforts to change producer country and consumer country policies. But it was agreed that the project would make an effort to participate in policy processes to promote sustainability in coffee production and trade.

347. It was considered how best to engage coffee companies in project activities. The certification program has a working relationship with many companies, ranging from limited and ad-hoc support to intimate working relationships to promote certified coffee on international markets. It was decided to approach twelve of the most engaged companies to formalize a working relationship with them by involving them in project activities and increase their commitment to certified coffee. As the project begins implementation, this core group of partner companies will gradually be expanded.

348. With regard to participation of different producer countries, several *geographical alternatives* were considered. The PDF B had listed five producer countries, but after consultations in Colombia it was decided to include that country and expand the number of project countries to six. It was also considered to expand the project scope and include African and Asian producer countries, as it is a key priority to be able to certify coffee production in all origins. But this option was finally abandoned, partly because it would imply a highly differentiated implementation strategy, with hugely different project activities required to establish capacity in the new origins, compared with the needs of the more established and mature certification programs in the selected Latin American countries.

349. Finally, several *alternatives were considered with regard to the costs of the proposed project intervention*. After much analysis and deliberation, it was agreed that a project objective which aims to transform the coffee sector by becoming a mainstream program in the coffee industry, rather than a niche initiative, would require a much more solid intervention than what would be possible with the amount previously envisaged. The growth potential of the coffee certification program is truly remarkable, and it was concluded that a more modest project intervention – while still welcome – would fail to reap the potential benefits outlined above, fail in bringing the program to the “tipping point,” where its size and recognition would allow it to continue to grow, and where consolidation of the certification program would ensure sustainability of the project intervention. The coffee industry is very large – according to ICO amounting to USD 70 billion/yr in retail value – and the coffee world is exceedingly complex; transforming it is no easy feat. The project proposes to transform international coffee markets and increase certification in six project countries. Arguably there is no other crop in the tropical world which is as important for the conservation of biodiversity as coffee, and no better tool to guarantee the conservation value of coffee production than certification. And there are few or no other systems which potentially can transform the industry and catalyze changes in coffee sector investments as outlined above. It was therefore found that the cost of the proposed investment was justified. Please refer to Section III for a further discussion on budgets.

Expected Global, National and Local Benefits

350. *At the Global level*, the project will result in the conservation of coffee habitat in eight biodiversity-rich Project Coffee Regions in Brazil, Colombia El Salvador, Guatemala, Honduras and Peru. All selected coffee landscapes are within the Conservation International hotspots of Mesoamerica, Tropical Andes, Brazilian Cerrado and Brazilian Atlantic Forest. The selected Project Coffee Regions cover a total area of 312,231 km² of coffee production and other land uses. The project will allow the area of certified coffee to grow from a current 93,000 hectares to a total of 1 million hectares of productive coffee area and 0.5 million hectares of conservation areas. A million hectares is equivalent to ten percent of world's coffee production area¹². Each hectare certified is guaranteed to produce coffee through biodiversity-friendly practices and in harmony with the local ecosystem, as prescribed by the sustainability standards (see Annexes VIII and IX), and provide habitat and biodiversity benefits for species of global importance (see Annex X). The conservation of biodiversity-rich coffee farms will provide habitat protection value for a much larger area, estimated between 10-15 million hectares.

351. Traditional shade coffee production grown under a diverse canopy cover, which bears resemblance to a natural forest ecosystem, is most often the least disruptive production alternative that has occurred in a naturally forested ecosystem, but farms that apply traditional low-impact production methods are under threat from conversion to other crops or other land use, or from conversion to intensive, mechanized coffee monoculture. Farm conversion invariably represents a significant reduction, or total loss, of biodiversity value. The project strategy is to conserve diverse coffee production landscapes by giving farmers an alternative to conversion or transformation to intensive production, while at the same time improving the conservation value of existing coffee farms by requiring specific changes in production measures. By doing that, the project will help to maintain and even improve complex agroforestry ecosystems.

352. Coffee production activities which are a result of illegal encroachment in natural areas cannot be certified under the standards. On the other hand, legal coffee production is often found inside areas of high conservation value, and its certification will have tremendous value for the sustainability of these areas.

353. The value of certified, forested coffee farms for globally important biodiversity is multi-faceted. According to a comprehensive review of scientific literature of biodiversity benefits in sustainable coffee production done during the project's PDF B phase, and which has been submitted for publication in a peer reviewed journal (See Annex XIV for a reproduction of the review article), coffee agroforests are complex ecosystems in their own right. They provide habitat for restricted-range endemic species of importance to global biodiversity conservation. They provide habitat for long-distance migratory species. They provide habitat for some globally threatened species and habitat buffering for others. They contribute to the functionality of landscapes and their biological corridors. Often, species density is much higher on sustainable coffee farms than in forested areas nearby. In addition to this, sustainable coffee farms produce a series of indirect benefits for global biodiversity, like reduced pollution – including pollution from Persistent Organic Pollutants – soil conservation, climate regulation, and favorable social attitudes towards biodiversity.

¹² As certification is a market-based tool, the system cannot control where certification is going to occur. The target of 1.5 million hectares certified is likely to cover all the world's coffee regions, but the project will particularly promote certification in the Project Coffee Regions selected for this project. Also, the target of 1.5 million ha. also includes 500,000 hectares of non-productive areas on coffee farms, such as tracts of forested lands which is being protected as private reserves.