

PPP-Project:
Sustainable Coffee production
and Support of Community Development
in San Juan, Intibucá - Honduras



Project Final Report
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1	Key Characteristics	1
2	Project Background.....	1
3	Objective and Structure.....	2
4	Goals, Results and Activities.....	3
4.1	Result 1	3
4.2	Result 2.....	4
4.3	Result 3.....	4
4.4	Result 4.....	5
4.5	Result 5:.....	5
4.6	Result 6.....	5
5	Impact.....	6
6	Environmental Impact	6
7	Social Impact	6
8	Economic Impact.....	7
8.1	Quality Improvement	7
8.2	Marketing	7
8.3	Organisational Development	8
9	Budget	8
10	Discussion	8
10.1	Project Strengths	8
10.2	Project Weaknesses	9
11	Outlook.....	10

1 Key Characteristics

Project Location:	San Juan, Intibucá
Altitude:	1,150m
Type of Coffee:	Arabica, 100% strictly high grown
Target Community:	San Juan community consisting of 8,600 habitants living in 1,400 families
Project Beneficiaries:	Direct beneficiaries are 160 farmers and their families, indirect beneficiaries about 1000 farm workers and their families

2 Project Background

Traditionally, Honduras has been a Banana producing and exporting country. Although coffee has been cultivated since the beginning of the century, it was only after the 2nd world war that coffee cultivation expanded to levels of economic importance. The coffee industry was strongly pushed during the high price phases in the 70s when coffee achieved higher export earnings than Bananas. Since that time, coffee got increasingly more important as a cash crop in Honduras and became by the 90s the most important export product with approximately 20% of total export value. Although Honduras has other products for export, it has been relying on coffee exports more than neighboring countries. In the years 2001 to 2003, Honduras was hit hard by the coffee crisis. Due to its structure with many families depending on small coffee farms, the socio economic impact of the low prices was devastating. Over 95 % of the sector consists of small farms with less than 200 qq each. Only 4,5% of total production comes from farms with a production of more than 1.000 qq, large farms produce less than 0,5%.

The coffee region in the west of the country including the departments of Intibucá, the project location, is a typical example of Honduran coffee growing regions dominated by smallholder farmers. The Human Development Index for San Juan in 2004 was at 0,541 and thus among the lowest category measured in Honduras.

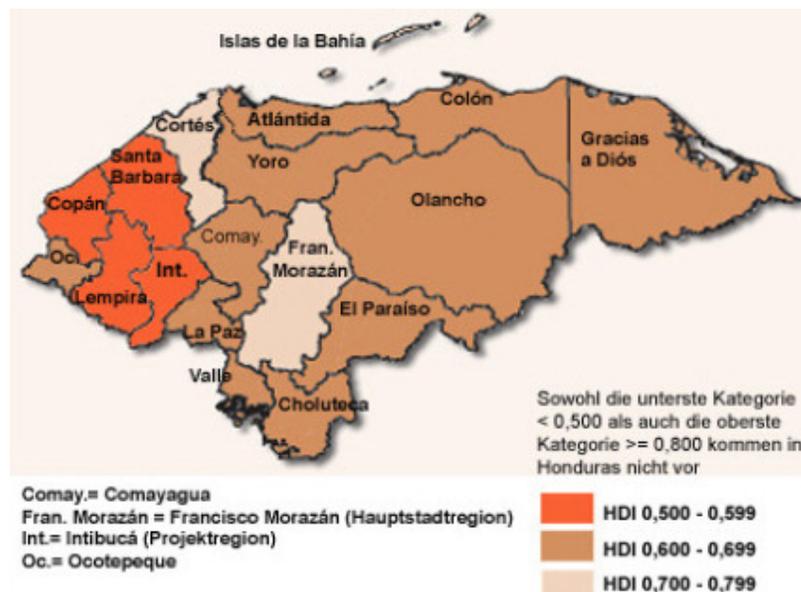


Figure 1: Human Development Index Honduras

Against this background, sustainable development is a key challenge in these areas: socio economic improvements need to be urgently addressed as well as environmental topics. The environment has been severely affected by Hurricane Mitch in 1998 and still today, some agro ecosystems have not yet fully recovered. Therefore, the Sustainable Coffee Project aimed to work intensively on a diversity of aspects integrating social, environmental and economic aspects in order to support local smallholder families, their living conditions and natural resources.

3 Objective and Structure

The overall objective of the project was to improve and help farmers to introduce sustainable practice in the coffee production of San Juan, Intibucá - Honduras. About 160 small and medium sized coffee producers and their families were involved in the project activities directly, whereas over 1000 people living and working on farms were affected indirectly. The total area of the project's coffee region exceeds 600 hectares, which are today mostly shade covered. Altitudes in the project area vary between 1100 and 1700 meters above sea level offering best conditions for high quality coffee.

The project started in September 2001 for a three year period with support from International Coffee Partners during which the focus was placed on supporting farmers to become organized and introduce integrated coffee production systems. In a prolongation phase of one year and a half, Tchibo agreed to provide further support in order to promote the concept of sustainable coffee production with the farmer organizations within a partnership approach.

The key components of the project were the following:

- Improvement and stabilization of coffee quality through a set up of activities
- Promotion of environmentally friendly production and processing
- Capacity building and preparation for certification of sustainable coffee production (Rainforest Alliance);
- Fostering of commercialization
- Strengthening of farmer organizations and their business based management capacities; and
- Improvement of the quality of life of farmer families and farm employees.

The project identified strategies for promoting sustainable development at farmer level by encouraging the cooperation of various relevant stakeholders' conducting effective know-how transfer to farmers and improving their economic and social situation with a long term vision.

Key project partners were Tchibo, Beneficio de Café Montecristo S.A. (BECAMO S.A.), Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), Instituto Hondureño del Café (Honduran Coffee Institute), Fondo Cafetero Nacional (National Coffee Fund), Secretaría de Agricultura y Ganadería – SAG (Ministry for Agriculture and Livestock), Asociación Hondureña de Productores de Café (Honduran Association of Coffee Producers), ICADE /Rainforest Alliance and International Coffee Partners (ICP).

On the side of the project farmers, a suitable and solid structure was defined in a participatory process. The umbrella structure, the foundation FUNDECASSA was established by the farmers and intensively strengthened by the project. It integrates twelve so called associative farmer companies (EACP) which are the basic organizational structure on the level of the member farmers. From the

beginning on, the vision of the farmers to improve their position and actively explore opportunities of economies of scale developed and generated a growing motivation for the farmers. See Figure 2 for structure of organisation.

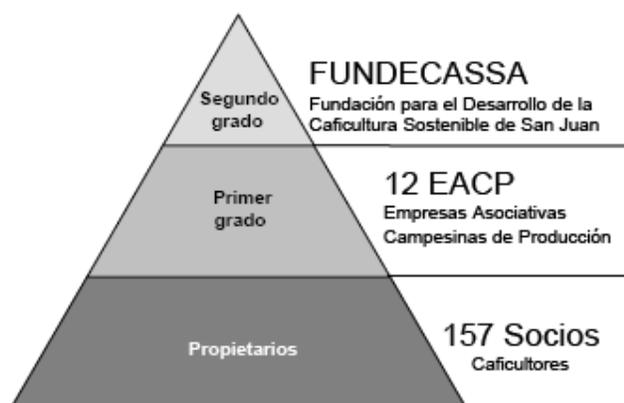


Figure 2: Structure of FUNDECASSA

4 Goals, Results and Activities

In a participatory process, the concept of the project with its objectives, results and activities was discussed and defined with the farmers and project partners. During project implementation, this concept was revised and adapted to changes and dynamics. While in the very beginning there was the intention to work towards the production of organic coffee, the outcome of a joint assessment was that the certification of sustainably produced coffee along an established certification system was preferred. Also, the acquisition of the processing infrastructure financed by the SAG with funds from the Inter American Development Bank was significantly delayed due to a complex tendering process. This made it necessary to revise more frequently the project schedule and operational plan while only minor changes in its context were made.

4.1 Result 1

The strategy for the development of the coffee sector has been agreed upon with the community and integrated into the project concept.

Indicators

- A strategy for the development of the coffee sector of the San Juan community jointly agreed upon exists until the end of 03/2003.

Activities

- Analyse the weak points of coffee production and identify possibilities for improvement
- Identify and disseminate coffee varieties adapted to the location
- Assess environmental impact of coffee production and processing and develop options for improvement
- Conduct a Workshop for the participative evaluation of the potential of the coffee sector in San Juan and develop strategies for the development of the sector

4.2 Result 2

Coffee farmers in San Juan apply sustainable methods in coffee production.

Indicators:

- Until 6/2002 a plan for agricultural extension in sustainable coffee production exists.
- Until 08/2002 at least 8, until 08/2003 at least 16 and until 08/2004 at least 26 courses or seminars on questions regarding sustainable coffee production and improvement of coffee quality have been conducted.
- 06/2004 at least 100 producers practice sustainable coffee production.
- Until 06/2003 three new environmentally friendly treatment plants are installed in San Juan and at least 10 individual coffee processing plants are improved; until 06/2004 at least 30 individual coffee treatment plants are improved.
- Until 06/2004 100 producers deliver parchment coffee with a moisture content of max. 13% and a max count of 23 physical defects in 300g

Activities:

- Realization of training courses for the improvement of agricultural production, processing and stock keeping of coffee
- Dissemination of methods of sustainable coffee production
- Education of traders of agricultural inputs in terms of advising farmers on the application of environmentally friendly substances
- Realization of training courses for the physical and organoleptical quality control
- Implementation of quality control systems on a local level
- Switch production to environmentally friendly technologies
- Support and promotion of investments in environmentally friendly technologies

4.3 Result 3

Marketing channels for coffee from the project are established and project information is being utilized by the project partners for public relations.

Indicators:

- Until 06/2002 a privately held organization of the coffee producers is founded in order to commercialize the coffee
- Until 06/2003 one and until 06/2004 three labels for coffee from San Juan have been registered
- During the harvest seasons 2001/02, 2002/03 and 2003/04 inspections for sustainable coffee production have been conducted
- Until 08/2004 50 producers have been certified as being in the process of transition towards sustainable production
- In the harvest season 2002/03 two containers and in the harvest season 2003/04 5 containers of sustainably produced coffee have been exported
- Coffee from San Juan has been presented on at least two international trade fairs until 08/2004

Activities:

- Assess feasibility of production and certification of sustainable coffee
- Set up of an internal control system
- Presentation of the coffee to international clients
- Establishment of a trademark „San Juan coffee“
- Certification of the sustainably produced coffee
- Participation in trade fairs

- Preparation of public relations material and provision of information
- Support of the coffee buying station in San Juan

4.4 Result 4

Income options are improved.

Indicators:

- Until 08/2002 an analysis regarding alternative products from the project area which have a promising economic potential has been conducted
- Until 08/2004 other products than coffee are being commercialized from the project area

Activities:

- Analysis of the potential which lies in the promotion of alternative products
- Support of the agricultural production of alternative products
- Training courses for the support and promotion of entrepreneurial skills especially in regard to smallholder farms.
- Support of self-help organizations which provide essential services to their members

4.5 Result 5:

Improved basic social services and physical infrastructure.

Indicators:

- Until 08/2004 the community has been connected to the electric grid.
- Until 08/2003 at least two micro-projects and until 08/2004 at least 6 micro projects have been implemented according to the demand of the target group in the areas of education, health services or infrastructure

Activities:

- Acquisition of materials and further contribution to the connection of the community to the electric grid
- Financial support of the local population in regard to the realization of micro-projects designed to improve the basic infrastructure
- Development of a concept and course material for the provision of environmental education; support of institutions conducting the implementation

Within the one-year extension period in addition to the already existing five results the following was deemed important to ensure achievement of objectives.

4.6 Result 6

The organization of coffee farmers promotes sustainable development in the region and conducts business operations efficiently.

Indicators

- Until 04/2005 a concept for the growth of the organization regarding the period 2005-2008 exists.

- In 07/05 an assessment of the farmer organization and of its management will show that both are developing positively and are geared towards efficiency and objectives.
- 08/05 a workshop was realized, in which Fundecassa realizes an evaluation of its business plan and formulated recommendations for its updating in view of 2006.

Activities:

- Comprehensive and hands on organisational development.
- Strengthening of the organization in view of its business management capacity
- Establish capacity for strategic and business planning as well as for self conducted monitoring
- Establish preconditions for a growth of the organization (legal, administrative, financial)

5 Impact

Through the regular reporting in the frameworks of SAI and GTZ, progress and impact were described while all key results were achieved; indicators defined together with GTZ were met according to the previous planning matrix. Sustainability monitoring indicators of SAI were not yet applied for the present project as they only came into existence when the project ended.

In the following all different dimensions of sustainability are addressed and their main impact listed as bullet points.

6 Environmental Impact

The environmental impact of the project has been noteworthy, and has been especially fuelled by the application of the Rainforest Alliance (RA) Standard. The implementation of the project led to national as well as international recognition in environmental management. The following key impact was achieved:

- 600 has have been certified under RA sustainability standards since 2003
- 350.000 trees of 12 different species have been planted during Project life time as shade trees, fruit trees and for sustainable wood production.
- 10% of these agro forestry systems are certified under the system AFE-COHDEFOR (a sustainable wood certification system)
- Project intervention lead to a reduction of ca. 50% of pollution due to treatment and reduction of waste water and processing residues.
- Comparing pre-project and post-project situation, total water use was reduced by 91% by way of collective wet processing plants
- Zero use of agrochemicals of the "dirty dozen"
- Diversification in production systems
- Visible stabilization of buffer zones towards protected areas

7 Social Impact

The target area of the project in San Juan is characterized by smallholder farmers who are among those with the lowest Human Development Index in the country. Therefore, social improvements were regarded as crucial to project success. Micro-projects were therefore defined under the leadership of the farmers and other members of the community. These were executed by the beneficiaries and

supported through inputs made available. Apart from directly improving the living conditions of the farmer families, these efforts served to significantly raise the community spirit and self-help potential of the farmers. As can be seen from the subsequent list, many different areas were successfully targeted with the following key impact:

- San Juan and 3 other villages were connected to the national electricity grid
- 100% of farmer homes were improved: roofs, floors, water access and sanitary facilities, kitchens
- 100% of the workers sleeping places of medium size farms were improved
- Fair treatment of workers is assured as well as minimum wages are paid
- 85,000 man days/year are remunerated with legal minimum wages and above
- 1 Internet centre has been installed with co financing of other entities
- 1 Computer Lab has been co financed in the local school
- The local convention hall was rehabilitated
- 1 local health post was restored, supported with installations and equipped

8 Economic Impact

The economic impact has been key for improving quality of life and especially raising available income in the local community. These improvements were achieved through a number of activities, including improvement of on farm practices raising yields, general quality improvement on farm level as well as in the processing. A very important component consisted in the establishment of a commercial partnership with a long-term perspective between FUNDECASSA and TCHIBO. Here it was key to build a solid supply chain from farmer to roaster as well as communicating the image of the project through specially established coffee brands in the super markets. Hence, the economic impact has been achieved by establishing high and stable quality, reducing costs, making processes more cost efficient on all levels of the supply chain and finally even receiving better prices.

8.1 Quality Improvement

- Practices have been adopted to selective picking of coffee cherries
- Pulping only done with clean water and pulped with stainless steel machinery
- Mechanical Classification and natural fermentation is applied
- Pre-drying using drying patios and final drying via mechanical driers result in less than 5% defects
- All coffees are clean cup and SHG.
- Increase of productivity from 26 to 40 qq dry parchment per ha on average
- Quality lab has been installed and 3 cuppers trained; these support sensitization on quality issues and management
- 4 modern wet mills have been constructed and one central drying centre

8.2 Marketing

- Since 03/04, differentials between \$ 8.00–12.00 per bag exported coffee was paid to FUNDECASSA
- FUNDECASSA commercializes 100% of the associates coffee in bulk
- FUNDECASSA buys all agricultural inputs for associates in bulk
- FUNDECASSA processes on average 80,000 qq cherry, worth \$ 67,300.00 USD
- Fundecassa commercializes annually around 12,000 qq green coffee, worth \$ 1,025,500.00

8.3 Organisational Development

- Legal constitution of 12 micro enterprises of first and one foundation of second grade (FUNDECASSA)
- FUNDECASSA was capitalized with more than \$1,000,000 USD at project end
- An amount of around 250,000 USD is managed by FUNDECASSA every year without a single time defaulting
- Base groups count on a capital of around 35,000 USD
- 2 years of operation of the wet mills with a yearly profitability of more than 125,000 USD.
- All farmers and their organizations are officially inscribed in the national coffee institute IHCAFE and therefore receive an additional benefit of \$9.00 USD per bag exported coffee, or in total USD 108,000
- Fundecassa has a well working transportation infrastructure with 2 trucks, 3 motorbikes and 1 Pick-Up 4x4

9 Project Budget

- ICP – NKG/BECAMO – GTZ: 750,000 USD
- SAG - TCHIBO – FUNDECASSA: 750,000 USD
- **Total: 1.500,000.00 USD**

10 Discussion

Considering the 5 years of total project duration, results were significant on all levels of sustainability. The most significant effect was generated through the grouping of otherwise unorganized farmers together with a comprehensive process of technical and management capacity building. The increased power of buying, selling, negotiating, using services together as well as manage environmental and social issues in groups were main elements for success. In the future it has to be ensured that this organization maintains its solidity and develops further. It has now the capability to attract more producers and integrate them.

The certification process in this case was very successful and structured the entire project with all activities of improvement towards a unique goal. The strategy of farmers and exporter assuming that Rainforest Alliance Coffee will find a good outlet was the right commercial judgment at that time and opened the door towards TCHIBO who only decided later on about its involvement with Rainforest Alliance certified coffee.

10.1 Project Strengths

The major component in the project was the clear marketing orientation which was even accentuated during the prolongation phase in which TCHIBO used the project coffee to create own products. Such activity can be seen as an extraordinary achievement and underlines the successful integration of a project and its beneficiaries into an existing or new supply chain.

Project activities were key to improve coffee quality as well as to establish a certification system for the coffee. In combination with the organization of base groups, larger quantities of better qualities, physically together with the characteristics of sustainable certified, were brought to the market where the exporter BECAMO channeled the coffee to the roaster. Such direct marketing and

a transparent supply chain has been key for success. The Rainforest Alliance seal proved to be a viable option for both marketing as well as to achieve and document tangible improvements of sustainability. The various prizes the Project won on national and international level emphasizes the viability and achievements of the process. (First Place: Premio Nacional del Ambiente Honduras 2006. First Place Premio Centroamericano/ Innovación Tecnológica Ambiental 2006).

The Figure 3 clearly shows the effect of coffee quality improvement in the project. At project start in 2001/02, 90% of the coffee was of low quality and with a relatively low average productivity. During project intervention, project activities led to a clear increase in productivity of coffee, measured on a quintales per manzana basis while at the same time quality consciousness and management was established. In the third year, a new quality of certified coffee entered into the product portfolio of FUNDECASSA, increasing even more the product value.

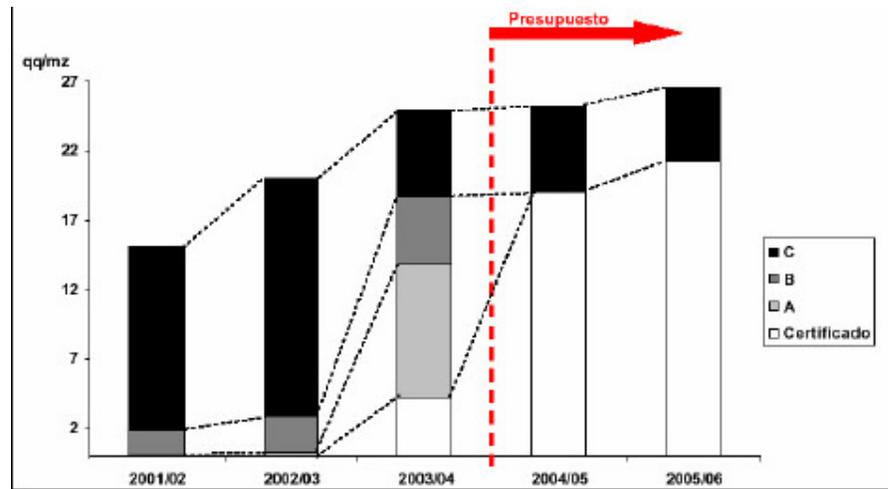


Figure 3: Development of quantities and qualities of FUNDECASSA coffee

10.2 Project weaknesses

There is always a discussion on how to design and conduct a project – either to include as many beneficiaries in the process and have the number of beneficiaries as a success indicator or apply from the beginning on strict controls and rules on participation while risking that beneficiaries leave the process. Looking at the ratio of investment and beneficiaries, the amount of funds invested appears enormous. However, a healthy selection process has been going on, boiling down the group to the most committed and professionals. This process was deemed necessary and helped a farmer organization to establish itself with the capacity to integrate and support more farmers in the area in the future.

While certainly a commercial partnership is a key element in such a project and should be targeted, it requires a tight cooperation by the partners on the spot. In this context, tight bounds between growers and the exporter sometimes faced criticism as being a closed environment. Further discussion on this balance of integrated and improved supply changes with a parallel empowerment of autonomous producer organizations has to take place to help define adequate structures and mechanisms.

SAG was a committed project partner who used BID funds to support the financing of the new processing infrastructure of the farmer organization. While this was a clear asset in this project, it has to be admitted that due to administrative and public tender procedures a significant delay was caused regarding the acquisition of the plants. Also in view of this component, it has to be assessed in which way such problems can be avoided in similar projects.

While good progress was made overall, the process of establishment in the market by the project farmers is still an ongoing process. There are certainly more obstacles still to overcome concerning organizational issues as well as business issues.

11 Outlook

The project can be seen as a light-house project for best practices in improvement of sustainable coffee production in the region. On the basis of the experiences, several other projects as well as NGOs, local governments in other Central American countries have been benefiting from the experiences made. Barriers between development organizations, public organizations and the private sector were broken so that a trustful cooperation along the chain could be established.

On the basis of this experience, further initiatives are growing in Honduras, such as partnerships formulated with the Dutch development organizations SNV, SOLIDARIDAD, Douwe Egberts Foundation and several local and regional organizations with local exporters are creating a network of coffee & sustainability activities. Many times the project in San Juan serves as a reference.

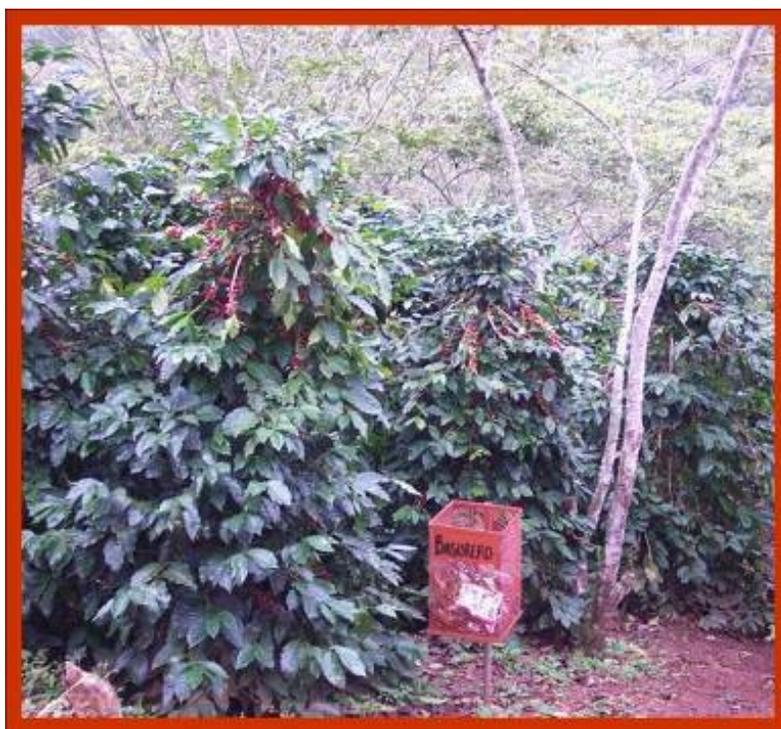
A direct continuation of activities in another zone is presently carried out with funds from ICP, local contributions including funding from IFAD, BID and GTZ in the region of Gracias in the area of the national park of Celaque. Also other organizations, such as the Trinational Commission of Trifinio in which Guatemala, Honduras and El Salvador are interested in pursuing the concepts of the ICP project.

The experience of FUNDECASSA is a good learning experience regarding a diversity of aspects of project design, implementation, farmer organizations and business related partnerships. It has developed into a broad based rural development project generating a series of activities and integrating several partners. Its lessons learnt should certainly be considered in view of the promotion of sustainable coffee production especially in other coffee areas of the region.

ANEXO



Latrines on the farm



Waste collection on farms



Processing facilities before project start



New Processing machines facilitated by project



Income Diversification



Biological Broca Control