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MULTILATERAL INVESTMENT FUND

BRAZIL

**Empowering small scale coffee farmers for global markets and
climate change resilience in Minas Gerais**

(BR-M1113)

Donors Memorandum

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ABBREVIATIONS

Whenever reference is made in the document to any of the terms mentioned below, the same will be understood to mean the following:

Term	Meaning
AC	Administrative Council
AD	Administrative Director
AHRNSB	Associação Hanns R. Neumann Stiftung do Brasil
Bank or IDB	Inter-American Development Bank.
CABI	Commonwealth Agriculture Bureau International
CCS	Climate Change and Sustainability Unit of the IDB
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH (German investment and development company)
EMATER-MG	Empresa de Assistência Técnica e Extensão Rural do Estado de Minas Gerais
EMBRAPA	Empresa Brasileira de Pesquisa Agropecuária na área do café
EPAMIG	Empresa de Pesquisa Agropecuária de Minas Gerais
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit, German Agency for International Cooperation
HRNS	Hanns R. Neumann Stiftung, German not-for-profit foundation
LAC	Latin America and the Caribbean
MCC	Marketing and Commercialization Coordinator
MEC	Monitoring and Evaluation Coordinator
MIF/FOMIN	Multilateral Investment Fund
MOU	Memorandum of Understanding
MSME	Micro, Small, and Medium-sized Enterprises
NKG	Neumann Kaffee Gruppe
ODC	Organizational Development Coordinator
PD	Program Director
PSR	Project Status Reports
RND	Environment, Rural Development and Disaster Risk Management Division of the IDB
SEBRAE	Serviço Brasileiro de Apoio às Micros e Pequenas Empresas

Term	Meaning
SENAR-MG	Serviço Nacional de Aprendizagem Rural de Minas Gerais
TD	Technical Director
UFLA	Universidade Federal de Lavras

**EMPOWERING SMALL SCALE COFFEE FARMERS FOR GLOBAL MARKETS AND CLIMATE CHANGE
RESILIENCE IN MINAS GERAIS**

(BR-M1113)

I. EXECUTIVE SUMMARY

Beneficiary Countries:	Brazil	
Executing Agency:	Associação Hanns R. Neumann Stiftung do Brasil (AHRNSB)	
Target Beneficiaries:	The Project beneficiaries will be: 4,000 small scale coffee farmers in the state of Minas Gerais (average 3 hectares under coffee cultivation)	
Financing:	Modality:	Non-reimbursable
	MIF:	US\$ 1,912,800 (45%)
	Counterpart	US\$ 2,313,552 (55%)
	TOTAL:	US\$ 4,226,352
Objectives	The project's general objective is to contribute to increase the incomes of small scale coffee farmers in Minas Gerais. The specific objective is to improve market access and support climate change adaptation for small-scale coffee farmers in Southern and Eastern Minas Gerais.	
Execution Timetable	42 months for project execution and 48 months for disbursement.	
Special Contractual Conditions	As conditions precedent to the first disbursement of funds, AHRNSB will submit, to the Bank's satisfaction, evidence that: (i) operating guidelines for the project were approved; (ii) MOUs or written agreements have been signed with the various partners who will participate in the project both private and public; and (iii) a Project Director has been selected.	
Exceptions to Bank Policies:	None.	
Environmental and Social Review	The Committee on Environment and Social Impact reviewed the Project abstract on March 27, 2012, and assigned it classification C.	
Coordination with other donors:	The following partners have confirmed their financial and in-kind contributions to the Project: Tim Horton's (Canadian coffee roaster), International Coffee Partners (a consortium of 6 European coffee companies), Lavazza S.p.A. (Italian coffee roaster), Fundação Banco do Brasil, and the Initiative for Coffee and Climate (a multistakeholder project funded by several public and private-sector organizations).	

II. BACKGROUND AND JUSTIFICATION

A. COFFEE PRODUCTION BY SMALL SCALE FARMERS IN BRAZIL

- 2.1 Brazil is the world's largest coffee producing country, accounting for over 35% of global coffee production in 2011. Large- and medium-scale producers in Brazil have well-developed and technically advanced production systems and high yields and are estimated to account for 62% of total production¹. The country's small-scale family farmers (called *agricultores familiares*²), despite constituting over 75% of all Brazilian coffee producers, only produce 38% of its coffee via basic, low-technology, and under-performing production systems. 50% of Brazil's coffee production comes from Minas Gerais, a state in which there is a large population of small-scale family farmers and communities that depend heavily on coffee production. In 2005, 74% of the income from agricultural activity in Minas Gerais came from coffee sales.³ Unlike shade-grown coffee plantations in other areas of Latin America where coffee trees are planted under at least minimal forest cover, coffee in most parts of Brazil – and especially Minas Gerais – is grown in an intensive, high-input, full-sun production system which, if not properly managed, can result in accelerated land degradation and soil fertility decline.
- 2.2 Small-scale coffee farmers in Minas Gerais have lower coffee yields and coffee quality, on average, than medium- to large-scale coffee farmers, and thus are less efficient, obtain lower prices, and earn lower income. Average yields for family farmers in Sul de Minas, an important producing region in Minas Gerais, are estimated at 19 bags/ha vs. a state average of 22 bags/ha and a yield potential of 30 bags/ha.⁴ Many small-scale farmers are unaware how to assess or improve the quality of their coffee, and are therefore unable to negotiate higher prices for higher quality. Their annual income from coffee production, which is their main activity, is about US\$8000. In addition, small-scale farmers act individually in their marketing activities, delivering small volumes of inconsistent quality to local buyers with substantially more market knowledge and negotiating power. Combined with the fact that they lack business acumen, have higher costs of production, have limited access to services and support structures, and are small-scale price takers in a large, competitive, and sophisticated commodity market, coffee production for small-scale family farmers is a relatively low-profit activity.

¹ Data from the 2006 agricultural census, as reported in MDA (2009), available here: <http://sistemas.mda.gov.br/portal/index/show/index/cod/1816/codInterno/22598> and here: http://www.ibge.gov.br/home/presidencia/noticias/noticia_impressao.php?id_noticia=1466.

² The legal definition of *agricultura familiar*, is here: http://legislacao.planalto.gov.br/legisla/legislacao.nsf/Viw_Identificacao/lei%2011.326-2006?OpenDocument

³ Watson, K, and Achinelli L. M., 2008. "Context and contingency: the coffee crisis for conventional small-scale coffee farmers in Brazil." *The Geographical Journal*. Vol. 174, No. 3, September 2008, pp223-234. available at: http://www.iracambi.com/v2/images/docs/Coffee_crisis.pdf

⁴ Coffee yields in Brazil are measured in terms of 60-kg bags of clean (i.e. hulled), processed, unsorted coffee per hectare – referred to locally as *bica corrida*. The statistics presented are for 2011 and come from AHRNSB project data for its project regions in Sul de Minas and from CONAB (2012): *Acompanhamento da Safra Brasileira: Café*, Safra 2012, Primeira estimativa, Janeiro 2012 (Brasília, Brasil: Companhia Nacional de Abastecimento, CONAB), available at: http://www.conab.gov.br/OlalaCMS/uploads/arquivos/12_01_10_10_54_22_boletim_cafe_1a_estimativa.pdf.

- 2.3 Cooperatives have been a successful way for smallholder farmers to overcome market barriers in the coffee sectors of other Latin American countries. However, the smallest family farmers in Brazil have not benefitted from that country's cooperative movement to the same extent as in other Latin American contexts as a result of the cooperative mismanagement common in all countries and the fact that many smallholders feel that Brazilian cooperatives only benefit medium-scale or larger producers. Consistent with one study of market impacts on small-scale coffee farmers in Minas Gerais, which argues that "smallholders would benefit considerably from the greater collective action and autonomy offered through membership in local and regional cooperatives,"⁵ market access, credit access, farm operations, and farm profitability for small-scale family coffee farmers could be sustainably improved if farmers were to join and actively participate in member-oriented and service-oriented cooperatives or other commercial organizations.

B. THE INTERNATIONAL COFFEE MARKET

- 2.4 The international coffee market is projected to suffer severe supply shortfalls within the next decade, the effects of which are already materializing as a result of recent supply shocks, long term trends in supply and demand, and short-term aberrations in market dynamics in some important producing countries. These volatile market conditions in the international coffee trade have caused unexpected changes in the Brazilian coffee sector over the past five to ten years. The widening of price differentials to unprecedented levels between higher and lower qualities of Brazilian coffees and commitments from important coffee roasting companies for large volumes of certified coffees has elicited a supply response from many Brazilian producers and traders – a supply response that has primarily materialized among large- and medium-scale producers, since they have better information, ready markets for differentiated coffee, ample resources to invest, and can generate the large volumes the market requires.

C. The Problem

- 2.5 Small-scale family farmers have been excluded from this market opportunity as a result of a lack of production and market knowledge, disorganization, their position at the lowest point in the value chain, a poor incentive structure, and the fact that they cannot generate large volumes and are thus not attractive to traders. At the same time, small-scale coffee producers in Minas Gerais are increasingly facing climate change challenges. A recent report by the international Coffee & Climate initiative⁶ summarizes the predictions for the region. Area suitable for arabica coffee production is likely to decrease by 33% in Sao Paulo and Minas Gerais due to climate change over the next several decades, due to rising temperatures, longer dry spells, increasing water scarcity, increasing extreme events,

⁵ Watson and Achinelli, 2008.

⁶ Hagggar, J, and Schepp, K. "Coffee and Climate Change: Impacts of Climate Change in Four Pilot Countries of the Coffee & Climate Initiative." June, 2011. Accessed February 24, 2012 at: <http://www.coffeeandclimate.org/research.html>

increased variability of precipitation, and increasing pest infestations (e.g. nematodes, leaf miner). Small-scale farmers interviewed on the mission confirmed that temperatures and rainfall patterns are already changing. Such farmers are vulnerable to climate change because they lack knowledge of future projected climate risks, lack the knowledge and skills to adjust their production systems to these changes, lack access to the advanced services and support structures available in Brazil, and lack formal networks with which to share experiences and identify appropriate responses. Despite scientific research on the likely impacts of climate change in the region, the Coffee & Climate Initiative found “no practical implementation of adaptation” measures in the coffee sector in Brazil. Adaptation mechanisms proposed for the region include no-regrets actions like vegetated soil cover to reduce soil temperature and conserve soil moisture levels, pest monitoring and prevention, and propagation of drought-resistance varieties, but can also extend to more aggressive approaches such as planting shade trees in a country where sun-grown coffee is the norm, since there is some evidence that trees protect coffee from damage due to extreme weather and maintain more constant moisture and temperatures in the understory.

D. RATIONALE FOR THE PROPOSED PROJECT

- 2.6 This Project is a first attempt to assess the vulnerability of small-scale farmers in the coffee sector, pilot *no-regret* adaptation mechanisms with them, and link them to experimental plots and practical research sites where higher risk adaptation mechanisms are being evaluated – all in the interest of informing future adaptation work in the sector. In addition, the Project will support the adoption of improved farming, harvest, and post-harvest practices to increase the profitability of Brazilian small-scale coffee farmers and complete requirements to achieve certification, organize themselves to achieve economies of scale and generate enough volume to increase their negotiating power.
- 2.7 In this regard, the Project contributes to two agendas: 1) Helping small farmers access higher value markets, and 2) Adaptation to Climate Change.
- 2.8 Higher value markets. The project contributes to the agenda of helping small farmers access higher value markets by (i) building and strengthening their organizational structures (both small-scale organizations and larger cooperatives) to create the essential conditions – bulked coffee volumes, consistent quality, and improved farmer negotiating power – for farmers to be able to access higher-value markets; (ii), increasing coffee quality and uniformity according to locally accepted and sought-after quality standards (e.g improving from *bebida riada* to *bebida dura*, or from *bebida dura* to *bebida apenas*⁷

⁷ *Bebida riada*, *bebida dura*, and *bebida apenas* are standard Brazilian quality classifications that refer to cup (i.e. organoleptic) quality. Cup quality (i.e. *bebida*) is classified into one of seven types (in ascending order from lowest to highest quality): *Rio Zona*; *Rio*; *Riado*; *Duro*; *Apenas Mole*; *Mole*; and *Estritamente Mole*. For more information on the official Brazilian coffee classification system see MAPA (2003): *Instrução Normativa No. 8, de 11 Junho de 2003* (Brasília, Brasil: Ministério de Estado da Agricultura, Pecuária e Abastecimento – MAPA), available at http://www.claspar.pr.gov.br/arquivos/File/pdf/cafebenef008_03.pdf.

which command higher prices on local and regional markets;⁸ (iii) increasing their yields of coffee at this higher quality; (iv) training farmers on certification initiatives and preparing at least 2,000 of them to satisfy standards of a market-ready certification;⁹ and (v) improving the commercial capacity of farmer organizations so they can recognize market opportunities, take advantage of those opportunities, and effectively represent farmers in the market.

- 2.9 Climate Change Adaptation. The project contributes to the Adaptation to Climate Change Agenda by helping MSMEs to identify, manage and adapt to the risks, threats and opportunities related to global climate change, and by developing new mechanisms to reduce vulnerabilities and losses associated with climate change. A subset of 1500 farmers will be incorporated into a pilot of the Initiative for Coffee & Climate in Brazil. The project will measure their vulnerability to climate change using a risk assessment tool the project will design, create a tool box of climate change adaptation strategies customized to the realities of Minas Gerais, pilot adaptation mechanisms from the tool box with farmers, evaluate the impact of individual practices and sets of practices, and widely disseminate lessons learned to the international coffee sector, state and federal actors in the Brazilian public sector, local and international non-governmental organizations, and international development agencies and institutions.

E. VALUE ADDED

- 2.10 The MIF's participation in the project will play an important role in mobilizing stakeholders among state and federal government agencies to participate actively in the project, and in creating stronger incentives for reform of these agencies and programs so that they better reach small-scale farmers. The MIF has worked with several Brazilian national and local government organizations such as SEBRAE in the past, and can leverage these relationships to benefit the project. The MIF's focus on knowledge and strategic communication will also increase the likelihood that lessons and experiences from the project will be effectively disseminated both within Brazil, to other coffee-growing regions in LAC, and to the international coffee and development communities.

III. OBJECTIVES AND DESCRIPTION

A. PROGRAM GOAL AND PURPOSE

⁸ Information from local commercial contacts in Sul de Minas (based on average monthly prices paid for different qualities from 2009 to 2012) reveal value addition potential for basic quality improvement (i.e. removing *rio* and *riado* defects from *bebida dura* coffee) in the range of 15-28% at the local level, with the potential for additional value addition of 5% if quality is further improved from *bebida dura* to *bebida apenas* (Source: Santa Maria Cafeeira e Armazéns Gerais Ltda. (2012): Personal communication.).

⁹ The certification chosen will depend on rapidly changing market conditions, but will most likely be 4C.

- 3.1 The project's general objective is to contribute to increase the incomes of small scale coffee farmers in Minas Gerais. The specific objective is to improve market access and support climate change adaptation for small-scale coffee farmers in Southern and Eastern Minas Gerais.
- 3.2 To achieve this purpose, the Project will include the following five (5) key components: (i) Improve productivity, efficiency, and environmental sustainability at farm level; (ii) Organize farmers into farmer organizations and strengthen and improve the governance, management, and operations of those organizations; (iii) Improve commercial capacity of organizations and improve farmer market access and value addition; (iv) Improve the capacity of farmers to adapt their livelihoods and production systems to climate change; and (v) Disseminate best practices in family coffee production in Brazil. A description of each component is provided in the following section. MIF funds will be used primarily in each of the components, to hire consultants and experts in each of the fields or work, to organize seminars and workshops, to facilitate exchange visits, and cover the costs of communication and dissemination of the results of the project. In addition to covering some of these costs, counterpart funding will also be used to cover the costs or transportation in the field, and overall management of the project.

B. DESCRIPTION OF COMPONENTS

Component 1: Improve productivity, efficiency, economic returns, and environmental sustainability at farm level (MIF: \$478,773; Counterpart: \$550,767)

- 3.3 The purpose of this component is to make coffee farming a more efficient, profitable, and environmentally sustainable livelihood activity for small-scale family farmers in Brazil. The Project will train 4,000 small-scale farmers on Good Agricultural Practices, such as proper plant nutrition, soil conservation, integrated pest management, etc.; on farm management, in such topics as record-keeping, assessing costs of production, and farm budgeting; on sustainable agriculture, in such topics as adequate use of fertilizers and pesticides and protection of watercourses and marginal land. The Project will also train and support farmers to implement improved practices in harvesting, post-harvest processing, and quality control, including local and national quality standards, quality assessment, and market opportunities for improved quality. Farmers and their organizations will be trained on the requirements, costs, and benefits of sustainability certifications such as the Common Code for the Coffee Community (4C), Rainforest Alliance, Utz Kapeh, and Fair Trade. Training will be delivered via a hands-on, participatory, farmer-led agricultural extension methodology based on the Farmer Field School approach. Group training will reduce per-farmer implementation costs, contribute to improved farmer-to-farmer learning, and will help build the trust and confidence necessary for organizational development (Component 2) to occur.
- 3.4 Results of this component include: 4,000 farmers trained in improved agricultural practices; at least 1,200 farmers increase coffee quality according to locally accepted coffee quality standards (e.g from *bebida riada* to *bebida dura*); 80 community groups receiving technical

assistance; 2,500 farmers receiving reports on the quality of their coffee; 600 farmers using Farmer Field Books.

Component 2: Organize farmers into farmer organizations and strengthen and improve the governance, management, and operations of those organizations (MIF: \$222,489; Counterpart: \$221,555)

- 3.5 The Project will address a principle constraint to farmers accessing higher value markets and benefiting from domestic and international market opportunities, by motivating farmers to form and join commercially- and service-oriented farmer organizations to increase their market power and enable them to obtain higher prices for their coffee. The Project will: (i) help farmers form new organizations or will identify and support existing organizations; (ii) train farmers on cooperativism and group operations and management; (iii) identify and train group leaders on how to effectively and efficiently operate, manage, and administer their organizations; and (iv) support new and existing organizations in improved administration, management, operations, and governance. The Project will also train farmer organizations on financial management and will work to reduce their perceived risk in front of financial service providers.
- 3.6 Results of this component include: 2,000 farmers trained on collective action and organizational development; 2,500 farmers are active members of legally established farmer organizations; 200 farmer leaders trained on management, operations, administration, and finance; 50 community groups purchasing inputs collectively; at least 3 farmer organizations with strategic plans and/or business plans; at least 3 farmer organizations reach level 'B' (strong) on HRNS' organizational matrix (an internal tool used by HRNS to rank cooperatives and farmer organizations).

Component 3: Improve commercial capacity of organizations and improve farmer market access and value addition (MIF: \$408,489; Counterpart: \$240,999)

- 3.7 The Project will strengthen the competitive position of farmers and enable them to access higher value markets by training farmers, their organizations, and the organization leaders to identify market opportunities, respond to those market opportunities, and become trustworthy and reliable suppliers of high quality products to higher value markets. Training topics will include marketing, commercialization, coffee quality analysis, value chain analysis, and opportunities for value addition (including quality improvement and certification schemes such as Fair Trade, Rainforest Alliance, Utz Kapeh, and 4C).
- 3.8 Results of this component include: 2,000 farmers trained on marketing and commercialization; 200 farmer leaders trained on marketing and commercialization; 30 farmer organizations, associations, and/or small groups of farmers offering and/or commercializing coffee collectively; 2,000 farmers satisfy standards of a market-recognized certification initiative; and 500 farmers selling coffee of differentiated quality into higher value markets (with some type of certification).

Component 4: Improve the capacity of farmers to adapt their livelihoods and production systems to climate change (MIF: \$364,089; Counterpart: \$353,143)

- 3.9 The Project will raise awareness among a subset of participating farmers on predicted climate change impacts, will pilot adaptation tools with them, and will conduct exchange visits to experimental sites and producing regions where more aggressive climate change adaptation practices have been implemented. The project will conduct climate change risk and opportunity assessments with farmers, assess farmer vulnerability to climate change through a proxy index to be developed during implementation, train farmers on predicted climate impacts on their regions, propose suitable tools and practices for each region based on research conducted as part of HRNS' Initiative for Coffee and Climate (C&C)¹⁰ [from no-regrets actions (green), to less proven actions (yellow), to higher risk actions (red)].¹¹ The Project will arrange exchange visits of farmers to experimental plots, model farms, and other producing regions where more drastic adaptation practices are being tested and/or implemented, and will closely coordinate activities with proposed practical research on climate change adaptation,¹² and arrange exchange visits of farmers to experimental plots, model farms, and other producing regions where more drastic adaptation practices are being tested and/or implemented.
- 3.10 Results of this component include: 1 climate change adaptation toolbox adapted to Minas Gerais; 1,500 farmers trained on predicted climate change impacts and possible tools for mitigating those impacts; yellow and/or red adaptation tools tested on 1 experimental plot linked to the project; 1,000 farmers have defined individual climate change adaptation strategies; and 8 exchange visits for project farmers have been carried out.

Component 5: Disseminate best practices in family coffee production in Brazil (MIF: \$172,978; Counterpart: \$181,529)

¹⁰ For more information on the Initiative for Coffee and Climate (C&C), implemented by HRNS, the German Agency for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit, GIZ), and the Commonwealth Agricultural Bureau International (CABI), see www.coffeeandclimate.org.

¹¹ The C&C project has generated a global climate change adaptation toolbox which classifies adaptation tools into three categories: green tools are "[tools] already in use by some coffee farmers, broadly acknowledged to be useful at least in some situations;" yellow tools are tools with "quite strong research evidence for usefulness in responding to one or more aspects of climate change, but little evidence of uptake in the field;" red tools are tools for which "some evidence exists that the concept could be useful, but insufficient research exists to make any judgment about whether a practical tool could be produced." Green tools are no-regrets measures – i.e. they are unlikely to negatively affect production systems and might be a recommended practice even without the threat of climate change. Yellow tools are more aggressive adaptation measures, for which it is unclear whether farming systems will be affected negatively by their adoption. Red tools are more aggressive theoretical tools for which there is little practical evidence of farmer adoption and the effects of which – positive or negative – are therefore unclear. See Baker, P. (2011): *Toolbox Development: candidate techniques and practices for adaptation to climate change for use by coffee farmers and extensionists*, Coffee & Climate Change Program (London, U.K.: CAB International).

¹² Pending approval by the parties involved, the project will cooperate closely with a proposed research partnership between the Neumann Kaffee Gruppe's Fazenda da Lagoa and the state research institute EPAMIG, where arborisation, shade-grown coffee, and other aggressive climate change adaptation strategies will be implemented under controlled experiments. Should this research partnership not go forward, AHRNSB and EPAMIG will seek out other opportunities to expose farmers to similarly aggressive adaptation tools.

- 3.11 This component will capture, document, and disseminate to key audiences the results, lessons learned and best practices based on the implementation and evaluation of the project. It will promote scaling up, replication, and adaptation of project experiences in Brazil and the Latin American region through communication with important stakeholders in the coffee industry, bilateral and multilateral donor agencies, state and national government ministries and agencies, and partner non-governmental organizations. For the lessons learned in how farmers reach higher value markets, such dissemination will include organizing, conducting, and/or participating in events, stakeholder forums, workshops, conferences, and strategic exchanges at the local, regional, and national levels; conducting internal and external studies and analyses of project experiences and generating visual and printed dissemination materials and information. For the lessons learned in the climate adaptation area, there will be evaluating and analysing of the economic, environmental, and social results of organizational development strategies and introduced climate change adaptation practices; identifying, describing, and publishing important lessons learned via case studies; and disseminating results of climate change adaptation activities within the coffee sector and policy sphere through the permanent, multi-stakeholder, self-financing platform to be established in the C&C initiative.
- 3.12 Results from this component include: 2 regional workshops (one on access to high value markets and one on climate change adaptation) conducted with 5 strategic partner organizations; 2 case studies completed on best practices in organizational development and climate change adaptation for small-scale coffee farmers; and the results and lessons learned from climate change adaptation activities have been incorporated into the permanent, pre-competitive, online dissemination platform of HRNS' Initiative for Coffee and Climate.

IV. COST, FINANCING AND SUSTAINABILITY

- 4.1 **Summary cost table.** The Project's estimated total cost is US \$4,226,352, with US\$1,912,800 in non-reimbursable funds coming from MIF, matched with US\$2,313,552 from AHNRSB. AHNRSB will administer the different funding allocations, provide technical expertise, and oversee the implementation of the project.

PROJECT BUDGET IN US\$

Description	MIF	Local Counterpart	Total
	Total		Budget
COMP 1 Improve productivity, efficiency, economic returns, and environmental sustainability at farm level	478,733	550,767	1,029,500
COMP 2 Organize farmers into farmer organizations (SMEs) and strengthen and improve the governance, management, and operations of those organizations	222,489	221,555	444,044
COMP 3 Improve commercial capacity of organizations and improve farmer market access and value addition	408,489	240,999	649,488
COMP 4 Improve the capacity of farmers to adapt their livelihoods and production systems to climate change	364,089	353,143	717,232
COMP 5 Disseminate best practices in family coffee production in Brazil	172,978	181,529	354,506
Project Administration	0	720,342	720,342
Baseline Monitoring and Evaluation	53,000	45,218	98,218
Ex Post Reviews (Disbursements and procurement processes review)	30,000		30,000
Contingencies	50,032		50,032
SUB TOTAL	1,779,810	2,313,552	4,093,362
Financial Management and Procurement Training	4,000		4,000
Agenda Account (50% climate change 50% high value markets)	40,000		40,000
Impact Evaluation 5%	88,990		88,990
GRAND TOTAL	1,912,800	2,313,552	4,226,352
	45%	55%	100%

- 4.2 **Sustainability.** The benefits that accrue to farmer participants and the services and support that the project provides them will be sustained over time through creation of self-sustaining farmer organizations, improved linkages of small-scale farmers to public and private services and support programs, and improved adaptive capacity of farmers and farmer production systems to climate change. The objective of the project is to create strong, self-financing farmer organizations that will continue to offer services and support to farmers after project completion. This should result in continued cost reductions, yield increases, improved access to services and support, improved market access, strengthened competitive position, and profitability for farmers in the long term. The Project will also work closely with public and private service providers and support programs and ensure that these programs are better targeted to small-scale family farmers and that farmers are capable of accessing them on a sustained basis after the project concludes. Last, by helping farmers increase their capacity to adapt to climate change, farmers will be able to maintain profitable coffee farming systems despite increasing climatic disturbances, preventing migration away from the coffee sector and the region. The knowledge and learning products generated will aid government, non-profit and private extension service providers on best practices to improve small coffee farmer efficiency and help them adapt to climate change, which will in turn help these organizations improve future service offerings to small-scale farmers. The knowledge products are intended to attract additional support for expansion of the project to other parts of Brazil or other coffee-growing regions.

V. EXECUTING AGENCY AND MECHANISM

A. Executing Agency

- 5.1 Associação Hanns R. Neumann Stiftung do Brasil (AHRNSB) forms part of the international structure of the German non-profit foundation Hanns R. Neumann Stiftung (HRNS) foundation. It draws on HRNS' twenty years of project implementation experience with smallholder coffee and cocoa farmers in Africa, Latin America, and Asia; its ability to draw on the global knowledge base and technical expertise of the Neumann Kaffee Gruppe and its operating companies; and its technical expertise in coffee production, post-harvest treatment, sustainable land management, organizational development, enterprise development, and market strengthening. AHRNSB began implementing sustainable economic development projects with small-scale coffee farmers in Brazil in 2007. It has used these projects to adapt HRNS' successful approach to the Brazilian context, and to the social, cultural, economic, environmental, and agricultural realities of Minas Gerais. As the core business of AHRNSB is the implementation of agricultural and economic development projects with smallholder coffee farmers, the Project fits exactly with AHRNSB's core capacity and expertise. On a global level, while HRNS has experience working with large bilateral donors including the EU, GIZ, Danida, and the Bill and Melinda Gates Foundation this will be HRNS' and AHRNSB's first direct implementation with funding from a multilateral development bank. AHRNSB's projects currently benefit approximately 1,500 family farmers in Brazil, and its parent organization HRNS's projects currently benefit a total of approximately 100,000 small-scale farmers worldwide.
- 5.2 AHRNSB will convene a Coordination Committee for the project that will be involved in oversight, monitoring, and evaluation, and in disseminating experiences and lessons learned. The Coordination Committee will include academics with expertise in agriculture, forestry, and climate change from the Universidade Federal do Lavras (UFLA) and the Commonwealth Agriculture Bureau International (CABI), representatives from important state and federal government stakeholders (EMATER-MG, EMBRAPA, EPAMIG, SEBRAE, and SENAR-MG), representatives from municipal governments in the project regions, and representatives from the project partners and donors (such as GIZ, DEG, the Fundação Banco do Brasil, and the coffee roasting companies Tim Horton's from Canada, Lavazza from Italy, Tchibo from Germany, Löffbergs from Norway, Paulig from Finland, Neumann Kaffee Gruppe from Germany, and Joh Johansson from Sweden). Via strategic dialogue with these agencies, organizations, and companies the Project will strive to scale up the impact and outreach and disseminate best practices and lessons learned so that the entire coffee sector of Minas Gerais can work in a more coordinated manner to make coffee farming a more viable livelihood for the small-scale family farmers that depend on it.

B. Executing Mechanism

- 5.3 AHRNSB will rely on its existing structure for project execution, under which the Program Director (PD) has overall responsibility for the management of the project, and who reports to the Administrative Council (AC), which will be constituted by the Board of Directors of AHRNSB. Under direct supervision of the PD are two Sub-Directors: (1) the Technical

Director (TD); and (2) the Administrative Director (AD). Other essential staff will be the the Marketing and Commercialization Coordinator (MCC), the Regional Coordinator for Sul de Minas, the Regional Coordinator for Matas de Minas, and the Monitoring and Evaluation Coordinator (MEC), all of whom will report to the TD.

- 5.4 The PD is responsible for overall management and coordination of the project, and must plan, organize, and oversee the project implementation activities of the TD and the administrative activities of the AD. The PD is also responsible for building institutional partnerships with national and international entities; coordinating with the global network of HRNS and its headquarters in Hamburg, Germany; and representation in New York, U.S.A; managing relationships with operating companies of the Neumann Kaffee Gruppe (NKG); seeking further partnerships with local, national, and international entities to support and strengthen the Project; and reporting on project progress and results to the AC, HRNS, and project donors. The PD has overall responsibility for decisions about operations, staff, and the allocation of resources, and for complying with Project Components and indicators laid out in the Logical Framework. The PD reports directly to the AC.
- 5.5 The TD is responsible for coordinating and executing the technical components of the project (Components 1-4); defining, introducing, monitoring, and coordinating the methodologies applied in the field; managing the technical field staff; monitoring and evaluating project progress; executing the operational plan in the field; and drafting and submitting technical reports. The TD will coordinate and supervise the activities of the regional coordinators and their teams, oversee activities of technical consultants and contractors, and will provide technical support to the implementing teams when necessary.
- 5.6 The AD is responsible for managing and coordinating the administrative component of the project, including human resources; legal representation; accounting; financial control; management of the project budget; internal communication and marketing; financial reporting; and coordination of financial audits. The AD will manage and coordinate the activities of the project's administrative staff and all consultants and contractors hired for financial, accounting, or administrative tasks.
- 5.7 AHRNSB will sign Memoranda of Understanding (MoUs) with all partner organizations that will provide cash and in-kind counterpart funding for the project. Each MoU will include, at a minimum, (a) the responsibilities of each party to the MoU related to implementation and satisfaction of the project objectives; and (b) the value of counterpart funding (cash or in-kind) that the partner organization will provide.
- 5.8 The Administrative Council of AHRNSB will be responsible for: (a) reviewing the progress of the project, as reported to it by the PD; (b) approving operational plans and budgets submitted annually by the PD; (c) reviewing and approving any changes to operational plans or implementation activities as recommended by the PD; and (d) approving operational and financial project progress reports submitted by the PD.
- 5.9 The project will be monitored on an ongoing basis by AHRNSB. Monitoring and evaluation will be managed by the Monitoring and Evaluation Coordinator under the direct

supervision of the TD. Improvements based on monitoring will be incorporated immediately into the project design and will be documented in the final report.

- 5.10 **Disbursement by Results.** Project disbursements will be contingent upon verification of achievement of milestones, which will be agreed upon between the Executing Agency and the MIF (see Annex III). Achievement of milestones does not exempt the Executing Agency from the responsibility of reaching the logical framework indicators and the Project's objectives.
- 5.11 According to the Performance and Risk-based Project Management approach, disbursement amounts will be based on the project's liquidity needs, for a maximum period of 6 months. These needs must be agreed upon between MIF and the Executing Agency and will reflect the activities and costs scheduled in the annual planning exercise. The first disbursement will be issued upon achievement of Milestone 0 (conditions prior) and subsequent disbursements will be issued as long as two conditions have been met: i) MIF has verified that milestones have been achieved, as agreed to in the annual plan; and, ii) that the Executing Agency has justified 80% of all cumulative advances.
- 5.12 **Procurement and Contracting.** For the procurement of goods and contracting of consulting services, the executing agency will apply IDB policies (GN-2349-9 and GN-2350-9). Given that the "Diagnostic of Executing Agency's Needs – DNA" (<http://mif.iadb.org/projects/prjrissummary.aspx?proj=BR-M1113>) generated a low level of need/risk classification, the project team has determined that as per Appendix 4 of the aforementioned policies, the Executing Agency, will use the private sector methods detailed in Annex 1 of the Operational Guidelines (OP-639). In addition, the review of procurement and contracting processes will be conducted ex post on an annual basis. Before engaging in procurement and contracting for the Project, the executing agency shall submit a Procurement Plan, which will be reviewed and updated as required on an annual basis to reflect changes for consideration by the IDB.

VI. MONITORING, EVALUATION, AND KNOWLEDGE RETURN

A. Monitoring and Evaluation

- 6.1 The MIF Country Specialist in Brazil will be responsible for technical supervision of the Project including processing of disbursements. AHRNSB will develop an Annual Operating Plan for each calendar year of Project execution, which will outline targeted results for the year derived from the Project logical framework, a schedule of planned activities including expected dates for achievement of the agreed milestones, and projected procurement and disbursements linked to the achievement of the Project's milestones.
- 6.2 **Project Status Reports:** AHRNSB will be responsible for presenting Project Status Reports (PSRs) to the MIF within thirty (30) days after the end of each semester, or more frequently and on such dates as the MIF shall determine, by providing at least sixty (60) days advance notice to the Executing Agency. The PSR will contain information on Project execution, achievement of milestones, and completion of Project objectives as stated in the logical framework and other operative planning instruments. The PSRs will

also describe Project issues encountered during execution and outline possible solutions. Within ninety (90) days after the end of the execution term, the Executing Agency will submit a Final Project Status Report to the MIF, which will highlight results achieved, project sustainability, evaluation findings, and lessons learned.

- 6.3 **Financial Supervision:** AHRNSB will establish and maintain adequate accounts of its finances, internal controls, and Project file systems, according to the financial management policy of the IDB/MIF. Given that the Diagnostic of Executing Agency Needs (DNA) generated a medium level of need/risk classification, the ex post review of supporting documentation for disbursements will be conducted on a semi-annual basis. In addition, with project resources, the IDB/MIF will contract a consultancy to train the Executing Agency in financial management areas that require further strengthening, identified through the DNA (<http://mif.iadb.org/projects/prjrissummary.aspx?proj=BR-M1113>).
- 6.4 The IDB/MIF will contract independent auditors to carry out the ex-post reviews of the procurement processes and of supporting documentation. The scope of these ex post reviews will include the revision of the financial statements that the Executing Agency shall prepare within the financial management practices. The associated costs will be financed with the MIF contribution to the Project according to the IDB procedures. The frequency of the ex-post reviews of procurement processes and supporting documentation for disbursements can be modified by the MIF based on the results presented in the auditor's reports during the Project execution.
- 6.5 **Evaluations.** The Bank will use resources from the MIF contribution to hire independent evaluators to conduct two project evaluations. A midterm evaluation will be conducted once 50% of the resources have been disbursed or half of the execution period has passed, whichever comes first. The midterm evaluation will consider the following aspects: (i) Project progress and overall performance, (ii) adequacy of the quantitative and qualitative indicators set in the logical framework and their positive evolution; (iii) status of implementation of cooperatives and agricultural practices; (iv) appropriate use of MIF funds; and (v) will include specific recommendations necessary to improve compliance with the program targets and objectives.
- 6.6 A final evaluation will be conducted within three months of the end of the execution period, or at 95% of the disbursement of resources. The final evaluation will review, among other aspects: (i) the extent to which activities were completed; (ii) level of achievement of Project objectives and corresponding indicators described in the logical framework, including the benefits achieved with the implementation of the project; (iii) executing agency performance; (iv) quality of consultations; (v) main obstacles encountered to increasing small farmer capacity to form cooperatives and adopt new agricultural practices and how obstacles were managed; (vi) level of satisfaction of final beneficiaries with the services received; and (vii) lessons learned and best practices identified.
- 6.7 AHRNSB will be responsible for developing a monitoring and evaluation system to capture progress with the logframe indicators. This system will also include the project's baseline to assess the changes in target beneficiaries before, during, and after project execution.
- 6.8 The results of each of the evaluations undertaken will be assessed by the Project team leader and AHRNSB, and relevant lessons learned with respect to the design of the Project

and other factors impacting implementation will be extracted for dissemination. Component 5 will finance much of the preparation and dissemination of the project's lessons learned.

- 6.9 **Closing Workshop.** At least four (4) months before the end of the execution period, a Closing Workshop will be organized with the participation of AHRNSB, the beneficiaries, IDB/MIF personnel, members of the Administrative Council, members of the Coordination Committee, sector representatives, and any other staff to be agreed upon by the IDB/MIF, to jointly evaluate Project outcomes, identify additional tasks to ensure the sustainability of actions initiated under the Project, and identify lessons learned.

B. Knowledge and Strategic Communications (KSC) Strategy

- 6.10 **Audiences:** The key audiences for the lessons and experiences generated in the project are four: (1) small scale coffee farmers in Minas Gerais, Brazil; (2) actors in the Brazilian local, state, and national governments; (3) the coffee industry, especially in consuming countries; and (4) the international aid and development sector, including bilateral donors, multilateral donors, international institutions, and NGOs. In addition, relevant internal audiences include other parts of the MIF, CCS, and RND within IDB.
- 6.11 **Knowledge return:** This project will generate learning for small scale farmers and their communities through the creation of sustainable farmer networks in each community. It will develop case studies to share project results with outside communities. It will also create distribution centers for information on climate change in 3 easy to access public locations, which will help raise general awareness about predicted changes in temperature and precipitation in the region among non-participants. Lessons learned in designing and implementing this project will be incorporated into the evolving adaptation agenda.
- 6.12 **How learning will be captured, measured, used to reach target audiences, and applied to future projects:** Learning will be captured and measured through: (i) evaluations of the project; (ii) collection of information and data through the baseline, (iii) selection of metrics to measure indicators; (iii) monitoring tools, such as surveys (iv) case studies generated, (v) information distribution centers installed and operational, (vi) 2 regional events held or attended presenting project results, and (vii) the international Coffee & Climate website that will incorporate results and products of the Project's climate change adaptation activities in Brazil. A knowledge and communication action plan will be designed to target the above mentioned audiences and to create effective initiatives and media outreach. Some of the means by which this learning may be disseminated to target strategic audiences are presentations at climate change conferences, articles, interviews, case studies, and publications. The learning gathered from this project will also be applied in the design of MIF future projects.

VII. PROGRAM BENEFITS AND RISKS

A. Program Benefits and Development Impact

- 7.1 In addition to the specific results of the project listed under each component, successful execution of the Project is expected to produce the following impacts:
- (i) 4,000 small scale coffee farmers in Minas Gerais, Brazil increase their incomes by 20% on average;

- (ii) 1,000 small scale farmers in Minas Gerais have increased their resilience to changes in climate.¹³

The main results to be achieved are:

- (iii) 30% of coffee production of 4,000 farmers in Minas Gerais is sold at a higher value¹⁴ than the local market; and
- (iv) 60% of coffee production positioned in high value markets

7.2 **Target Beneficiaries.** Beneficiaries of the Project will comprise 4,000 small scale coffee farmers in Minas Gerais. These farmers on average possess 8.5 total hectares of land, of which 2.98 hectares are in coffee. Farmers have an average family size of four, and approximately 75% reside in small rural communities, with the remaining 25% living in larger rural towns and service centers. The average small-scale farmer in the project region currently has yields of 19 bags/hectare and earns a net income from coffee of R\$855 per month (US\$458 at January 2012 exchange rates).¹⁵

7.3 **The indirect beneficiaries will be:** 12,000 individuals, family members and friends of project participants who will indirectly gain knowledge about improved agricultural practices, potential climate change impacts on the region, and proposed adaptation mechanisms. A number of small-scale coffee farmers will likely choose not to participate in the project at first, but will follow it as it progresses, and should farmer organizations prove successful in increasing prices and yields and decreasing input costs, will join at a later date.

B. Risks - The identified risks for the Project are: (i) Small-scale farmers may be resistant to join organizations based on the negative perception of coffee cooperatives in Brazil. This risk will be mitigated by the training and methodologies implemented by the executing agency which will focus on practical solutions for farmers based on organization and cooperation among them. (ii) Powerful actors in the local coffee markets who benefit from farmer disorganization may react aggressively and negatively to farmer empowerment. This risk will be mitigated by the executing agency's relation to other local partner organizations, such as the government agencies, the private sector players and the university. AHRNSB is a well-regarded organization in the local context, evidenced by the number of agreements and collaborative work with the organizations listed, and therefore commands a good level of leadership that could help mitigate this risk if needed.

¹³ AHRNSB will pilot a climate change vulnerability index to proxy farmer vulnerability and/or resilience to climate change.

¹⁴ AHRNSB defines 'higher value than the local market' as coffee commercialization that returns a higher net value to a farmer or farmers than a sale on the local market (i.e. ex-warehouse to a nearby commercial outlet) would have returned on the same day.

¹⁵ Data from current AHRNSB project data in Minas Gerais.

(iii) Short-term climate change benefits (e.g. decreased frost days) may convince farmers that longer run predicted changes in temperature and precipitation are not a significant threat worth preparing for now. Again, to mitigate this issue, the organization will work on training and education and demonstration of how these actions, can have a positive result in the long term. (iv) finally a risk that is with little control, is the international economics and coffee market volatility, which could have negative impacts in Brazil (e.g. volatility in coffee prices, input prices, labor rates, or dollar-real exchange rates) not only for small farmers but for the coffee sector as a whole.

VIII. ENVIRONMENTAL AND SOCIAL ASPECTS

- 8.1 Based on the IDB Environment and Safeguards Compliance Policy, the relevant CESI classification for this Project is Category 'C'. The Committee on Environmental and Social Impact (CESI) reviewed the operation on March 27, 2012 and gave its approval without further review or action needed. A recommendation that the team remove mention of incorporating agroforestry as a buffer to natural forests will be followed, to ensure that the project does not contribute to further conversion of natural *Mata Atlantica* forest to agricultural land.