



LAC-IEE-04-011

ENVIRONMENTAL THRESHOLD DECISION

Activity Location : G-CAP Regional Program (Central America and Mexico)

Activity Title : Certified Sustainable Products Alliance GDA

Activity Number : 596-A-00-04-00048-00

Funding : \$ 8,615,633

Life of Activity : 36 months; November 2006

IEE Prepared by : Michael Donald
Carmen Aida Gonzalez

Recommended Threshold Decision : Categorical Exclusion
Negative Determination with Conditions
Positive Determination
Deferral

Bureau Threshold Decision : Concur with Recommendation

Comments:

Pursuant to 22 CFR 216.2(a) of AID environmental procedures, environmental analysis/evaluation is required for new projects, programs or activities authorized by AID. The attached information presents an analysis of the activities planned under the Certified Sustainable Products Alliance, proposed actions, and the environmental impacts of those actions. The Certified Sustainable Products Alliance receives funding from the Global Development Alliance (GDA) Secretariat, and two separate USAID/G-CAP Strategic Objectives: Improved Environmental Management in the Mesoamerican Biological Corridor (SO 6); and Increased Diversification of the Rural Economy Strategic Objective (SO 9). CTOs are responsible for making sure environmental requirements are met. It is the responsibility of the SO Team to ensure that SOAGs, MAARDs and implementing agreements contain specific instructions to this effect, especially for Deferred Environmental Review.

Based on the attached IEE, a **categorical exclusion** is issued, in accordance with 22 CFR 216.2 (c)(2)(i & iii) for education, technical assistance and training programs and studies in the commodity areas described below:

Timber

1. Building lasting partnerships between the private sector processors and their wood suppliers.

Bananas

1. Training to Chiquita staff and independent banana farmers in the development and management of farm improvement plans and monitoring systems.
2. Promoting the concept of sustainability through public information.
3. Preparing the Rainforest Alliance and the Sustainable Agriculture Network (SAN) partner groups to provide EurepGAP guidance.

Coffee

1. Further developing and harmonizing standards for sustainable coffee.
2. Facilitating technical assistance to smallholders and cooperatives, helping them make farms eco-friendly and socially responsible.
3. Promoting closer and longer-term trade relationships between farmers and buyers.
4. Improving the flow of market and quality information to farmers.

A Negative Determination with Conditions, Pursuant to 22 CFR 216.3(a)(3), is issued for the following activities (consistent with LAC-IEE-03-70 and LAC-IEE-03-45) which promote and support green market certifications.

Timber

1. Increasing the forest area that is Forestry Stewardship Council (FSC) certified.
2. Improving the economic viability of certified forestry operations.
3. Increasing the sales of certified wood products.
4. Improving forest management practices and efficiencies.
5. Expanding markets and developing products for NTS and lower grades of wood.

Bananas

1. Extending sustainable farm management to independent producers.

Coffee

1. Increasing the number of tons of certified sustainable coffee.
2. Further developing and harmonizing standards for sustainable coffee.
3. Developing and implementing protocols for certifying groups of small farms.

Conditions include: The Regional Environmental Advisor (REA) will review Rainforest Alliance certification protocols and Annual Work Plans as part of the approval process to determine whether planned interventions might lead to negative environmental impacts requiring further review, and recommending appropriate monitoring and mitigation actions. Within country work plans, partners should clearly state the potential negative environmental impacts of activities, and the measures and monitoring activities designed to mitigate these impacts. An example of a

model format, that is used in another program and which may be helpful, will be provided by the REA.

A **Positive Determination** is recommended for all forestry management activities throughout the region, including the purchase of processing equipment (portable sawmills, peelers, etc.), per 22 CFR 216.2(c)(3); 216.6(a) and FAA 118(c) (13&14) . A Programmatic Environmental Assessment with site-specific application to be approved by the LAC BEO shall be written for these activities prior to implementation. In promoting new species and products, laws such as CITES shall be followed and only native species shall be used.

Furthermore, the Mission will submit for REA approval yearly evaluations of environmental compliance for certification activities.

A specific person shall be designated by Rainforest Alliance as the individual responsible for compliance with AID environmental regulations, including monitoring and reporting of required conditions.

A **Deferral** is recommended for all activities involving pesticide purchase or use, including training, per 22 CFR 216.3(a)(1)(iii) and 22 CFR 216.3(b)(1)(i). A supplemental IEE evaluating the economic, social, and environmental risks and benefits of the planned pesticide use (commonly called Pesticide Environmental Report and Safer Use Action Plan or PERSUAP) needs to be submitted to and approved by the LAC BEO prior to commencing any assistance for the procurement or use of pesticides per 22 CFR 216.3(b)(1)(i). The PERSUAP will respond to each element (a-1) of this part of the regulation. If, after submission of the PERSUAP, the LAC BEO requests preparation of an Environmental Assessment or Environmental Impact Statement, such document shall also be submitted to and approved by the LAC BEO prior to commencing any assistance for the procurement or use of pesticides.

The underlined statements will be a condition of the agreement with the implementing agency.

Date _____
George R. Thompson, P.E.
Bureau Environmental Officer
Bureau for Latin America & the Caribbean

Clearance: GC: Jeff Lifur: cleared by email Date 3/17/04

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Copy to : Michael Donald, REA, Central America
Copy to : IEE File

Attachment: IEE

Initial Environmental Examination

Activity Location : G-CAP Regional Program (Central America and Mexico)

Activity Title : Certified Sustainable Products Alliance GDA

Activity Number : 596-A-00-04-00048-00

Funding : \$ 8,615,633

Life of Activity : 36 months; November 2006

IEE Prepared by : Michael Donald
Carmen Aida Gonzalez

Recommended Threshold Decision : Categorical Exclusion
Negative Determination with Conditions
Positive Determination
Deferral

I. Summary of Recommended Threshold Decision

Pursuant to 22 CFR 216.(2)(a) of AID environmental procedures, environmental analysis/evaluation is required for new projects, programs or activities authorized by AID. The attached information presents an analysis of the activities planned under the Certified Sustainable Products Alliance, proposed actions, and the environmental impacts of those actions. The Certified Sustainable Products Alliance receives funding from the Global Development Alliance (GDA) Secretariat, and two separate USAID/G-CAP Strategic Objectives: Improved Environmental Management in the Mesoamerican Biological Corridor (SO 6); and Increased Diversification of the Rural Economy Strategic Objective (SO 9). Beneficiaries of funds for mission management should be aware they are legally responsible for making sure environmental requirements are met.

A **categorical exclusion** is recommended, in accordance with 22 CFR 216.2 (c)(2)(i & iii) for education, technical assistance and training programs and studies in the commodity areas described below:

Timber

6. Building lasting partnerships between the private sector processors and their wood suppliers.

Bananas

4. Training to Chiquita staff and independent banana farmers in the development and management of farm improvement plans and monitoring systems.
5. Promoting the concept of sustainability through public information.
6. Preparing the Rainforest Alliance and the Sustainable Agriculture Network (SAN) partner groups to provide EurepGAP guidance.

Coffee

5. Further developing and harmonizing standards for sustainable coffee.
6. Facilitating technical assistance to smallholders and cooperatives, helping them make farms eco-friendly and socially responsible.
7. Promoting closer and longer-term trade relationships between farmers and buyers.
8. Improving the flow of market and quality information to farmers.

A Negative Determination with Conditions, Pursuant to 22 CFR 216.3(a)(3), is recommended for the following activities (consistent with LAC-IEE-03-70 and LAC-IEE-03-45) which promote and support green market certifications.

Timber

1. Increasing the forest area that is Forestry Stewardship Council (FSC) certified.
7. Improving the economic viability of certified forestry operations.
8. Increasing the sales of certified wood products.
9. Improving forest management practices and efficiencies.
10. Expanding markets and developing products for NTS and lower grades of wood.

Bananas

2. Extending sustainable farm management to independent producers.

Coffee

4. Increasing the number of tons of certified sustainable coffee.
5. Further developing and harmonizing standards for sustainable coffee.
6. Developing and implementing protocols for certifying groups of small farms.

Conditions include: The Regional Environmental Advisor (REA) will review Rainforest Alliance certification protocols and Annual Work Plans as part of the approval process to determine whether planned interventions might lead to negative environmental impacts requiring further review, and recommending appropriate monitoring and mitigation actions. Within country work plans, partners should clearly state the potential negative environmental impacts of activities, and the measures and monitoring activities designed to mitigate these impacts.

A Positive Determination is recommended for all forestry management activities throughout the region, including the purchase of processing equipment (portable sawmills, peelers, etc.), per 22 CFR 216.2(c)(3); 216.6(a) and FAA 118(c) (13&14) . A Programmatic Environmental Assessment with site-specific application to be approved by the LAC BEO shall be written for these activities prior to implementation. In promoting new species and products, laws such as CITES shall be followed and only native species shall be used.

Furthermore, the Mission will submit for REA approval yearly evaluations of environmental compliance for certification activities.

A specific person shall be designated by Rainforest Alliance as the individual responsible for compliance with AID environmental regulations, including monitoring and reporting of required conditions.

A **Deferral** is recommended for all activities involving pesticide purchase or use, including training, per 22 CFR 216.3(a)(1)(iii) and 22 CFR 216.3(b)(1)(i). A pesticide use plan needs to be submitted to the LAC BEO prior to commencing any assistance in procurement or use of pesticides per 22 CFR 216.3(b)(1)(i)(a-1).

II. Background

Institutional and Funding Setting

The Rainforest Alliance (RA) is an international nonprofit conservation organization with a mission to protect ecosystems and the people and wildlife that live within them by implementing better land-use and business practices for biodiversity conservation and sustainability. Participating companies, cooperatives, and landowners meet rigorous standards for protecting the environment, wildlife, workers, and local communities. RA has significant experience as an effective sub-grantee and subcontractor on a variety of grants and cooperative agreements with USAID and other agencies. In addition, the RA has received grants and subcontracts from several other government agencies, including the Environmental Protection Agency and the US Fish and Wildlife Service. The RA's work on IR2 of the USAID-funded PROARCA II has given it extensive experience managing USAID financial and administrative requirements. The RA is audited by an external auditor every year.

The Rainforest Alliance (RA) is a leader in developing best management practices for sustainable land use, and provides third-party certification and eco-labeling services to forests and farms managed in ways that reduce environmental impacts and increase social benefits. As the first organization in the world to utilize market forces to conserve tropical forests, RA launched its sustainable forestry division in 1989 and its sustainable agriculture division in 1991, pioneering the worldwide certification movement. Almost 30 million acres are now managed according to the highest standards through the RA's SmartWood program. RA has recruited over 1,000 companies in this effort and improved the quality of life of tens of thousands workers and their families. Over 700 of these companies are chain-of-custody forestry companies in the US, Europe and Canada. This network of companies provides strong market "linkage" capability in RA forestry programs. The RA sustainable agriculture certification program has certified almost 1,000 farms and has benefited over 40,000 farm families in the tropics. The RA is also leading a coalition of venerable tourism organizations to implement a Sustainable Tourism Stewardship Council, an accreditation body for tourism certifiers.

The Rainforest Alliance works to:

- ✓ Bring together industry, environmentalists, scientists, local communities, workers, and governments.
- ✓ Provide a common language of best management practices, and common goals of sustainable, productive operations.
- ✓ Provide structure for measurement and accountability; focusing on achievable, positive changes.

The Rainforest Alliance (RA) works to bring together industry, environmentalists, scientists, local communities, workers, and governments. It provides a common language of best

management practices and common goals of sustainable, productive operations, while offering established, practical measurement and accountability systems that focus on achievable, positive changes. Under the Certified Sustainable Products Alliance, RA brings a remarkable array of private sector, NGOs and government partners. Private sector partners include Pfizer, Gibson, Forest World Group, IKEA, Plywood de Nicaragua, S.A., Chiquita, Kraft, and Procter & Gamble among others.

The Rainforest Alliance (RA) is the international secretariat of the Sustainable Agriculture Network (SAN). The SAN is a coalition of leading, national NGOs in Latin America with diverse experience and full portfolios of conservation and rural development programs. The SAN is already combining their ten years of experience with the decades of experience of leading coffee companies and the generations of experience of farmers. For example, the SAN partner in Guatemala did the first significant research on how changing coffee farming practices affects biodiversity. With Global Environment Facility (GEF) support, the SAN partner in El Salvador showed how certified sustainable coffee farms can buffer parks, create biological corridors and protect watersheds. The RA explored the relationship between coffee farming and biodiversity in the first USAID-funded PROARCA project in Central America and is developing model farms, including coffee mills incorporating “clean technologies,” in the second PROARCA phase.

The Certified Sustainable Products Alliance builds on the Rainforest Alliance (RA) role in the regional quality coffee (Central America and the Dominican Republic) project funded by USAID and managed by Chemonics International, Inc. In this activity the RA will increase supply of certified sustainable coffee to meet growing demands and begin building local capacity for guiding farms toward certification, auditing farms according to standards, and begin testing new sourcing relationships. The various activities proposed under the Certified Sustainable Products Alliance will be complementary to and expand upon the initiatives that the RA and its partners are already implementing under the auspices of PROARCA and the regional quality coffee project managed by Chemonics.

Relationship with Other Programs, Projects and Organizations in the Region

Coffee, banana and timber certification are important tools for many if not most local and regional conservation initiatives in the region. Increasingly, sister NGOs, such as WWF, TNC and TechnoServe, are utilizing the motivational and monitoring benefits of certification to promote and guarantee progress toward sustainable agriculture and forestry. However, no other group deals with banana production.

The agriculture certification program is managed by a network of leading, national NGOs, all of whom are involved in setting the conservation priorities in their countries and implementing local, national and regional programs. Of the international and local NGOs working in agriculture conservation in the region, only RA/SAN certifies. So there is no competition with the other NGOs. They use RA certification as a conservation tool. Throughout the region, SAN partners work with other groups.

Nearly every group in the area has some projects dealing with the conservation and/or rural development aspects of coffee. Since coffee dominates so much land and involves so many

people, it is impossible to ignore. The RA/SAN offers sustainable farm management guidelines, improved access to credit and technical assistance, market incentives and other tools to help groups design and implement coffee interventions and monitor the results.

National and international NGOs also support two other mission-driven certification programs – Fair-Trade, and Organic – and a number of projects throughout the region employ these certification systems, sometimes together with RA certification. Until recently, some NGOs considered the three certification movements – Sustainable, Fair-Trade and Organic – to be competitors. But the NGOs have agreed to consensus principles for sustainable coffee production, joined together in ISEAL and come to the understanding that the competition is not among the NGO programs but between the NGO programs as a block and the onrush of industry standards, such as EurepGap.

Funding

The Rainforest Alliance will coordinate the Certified Sustainable Products Alliance, with more than **\$69,179,310 in leverage** provided through partnerships with the private sector and collaborating NGOs. The total request USAID is \$8,615,633 over three years. The principal use of USAID funding will be to support certification, facilitation of technical assistance towards certification, and market linkage and product development, and in the case of timber, technical assistance and training to improve product quality and competitiveness.

III. Summary Program Description

The Rainforest Alliance (RA) and its private sector partners in the Certified Sustainable Products Alliance (the “Alliance”) propose a three year project to promote and scale-up the sales of certified green products in the timber, banana and coffee sectors; and provide a stream of economic, social and conservation benefits to producers, workers and their families in Latin America. Through a set of complementary and cross-promoted supply-side and demand-side activities, the Alliance will strengthen the competitiveness and sustainability of agriculture and timber operations that supply private sector Alliance partners, and improve these operations’ access to international markets. The project will guide and reward continual improvements in farm and forest practices, linking sustainable management with product quality, and connecting responsible producers with responsible buyers. Alliance partners will bring new investment and trade to Latin America while supporting sustainable practices.

The project will be focused outside of protected areas (only in some cases, under the timber component, RA will work inside protected areas where forestry concessions already exist), in a number of demonstration sites and supply chains in Mexico, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and Panama that have been chosen for their market demand, and conservation and/or socioeconomic importance. The Rainforest Alliance will coordinate the Alliance, with more than **\$69,179,310 in leverage** provided through partnerships with the private sector and collaborating NGOs. The United States Agency for International Development (USAID) funding is \$8,615,633 over three years. The principal use of USAID funding will be to support certification, facilitation of technical assistance towards certification, and market linkage and product development, and in the case of timber, technical assistance and training to improve product quality and competitiveness.

Alliance partners include non-government organizations (NGOs) and numerous producers, as well as international manufacturers and retailers (e.g. IKEA, Gibson Musical Instruments, AMANCO, Kraft Foods, Sara Lee, and Chiquita Brands International), and various brokers and importers (e.g. Doug White Architect, North American Wood Products, International Wood Specialties, Forest World Group, Neumann Kaffee Gruppe, Volcafe, and ECOM). Private sector Alliance partners will commit to incorporating increasing amounts of certified sustainable products into the supply stream. Some partners have also committed to provide technical assistance to farms, support research into standards and the development of improved training services for producers and technical assistance personnel.

At the end of the project, a significant number of private sector companies will be purchasing certified sustainable products, and have direct sourcing contracts with farmers, producers and processors so that a new “steady state” has been achieved. The companies will have tested, proven and internalized these models for doing business sustainably, and will move forward to replicate the models with additional suppliers beyond the demonstration sites or partnerships, and into additional product lines. *The Alliance’s goal is to transform the way that the participating companies source products, establishing alternative ways of doing business that the companies can replicate after the completion of USAID-funded activities.*

During the project period, over **800,000 acres** of forest and farmland will be certified as sustainably managed. Over **20 million board feet** of certified timber, **90 million boxes** of certified bananas, and **13,000 metric tons** of sustainable coffee will be sold through valuable sourcing contracts provided to local operations. The value of certified wood products sold during the project will exceed **\$7 million**, and banana premiums will reach in excess of **\$3 million**. Communities and cooperatives will see increased income for their families through better access to markets and/or price premiums for their products.

Analysis of anticipated results and links to specific activities

Project Sites by commodity and by Country

The table below indicates the sites where the Rainforest Alliance expects to implement activities for the three commodities:

Country	Commodity	New Sites	Continued or Expanded Sites	Criteria for Additional Sites
Mexico				
	Timber	Oaxaca	Durango	Will work only with certified ejidos, general training offered to all certified ejidos within these states but in-depth technical assistance offered to a subset that demonstrates a willingness to undertake changes. Field diagnostics of interested ejidos undertaken to determine participating subset.
	Coffee	Oaxaca, Veracruz	Chiapas, initial focus on the Tapachula region	Demand by coffee companies for the type of coffee produced in the sites, the potential for expansion to include additional producers in the site, and producer

Country	Commodity	New Sites	Continued or Expanded Sites	Criteria for Additional Sites
				interest in meeting certification requirements.
Guatemala				
	Timber	Verapaces Zacapa (COC)	Peten	Will expand to other producer groups as dictated by supply needs of secondary processors and international buyers and brokers
	Coffee		Huehuetenango Santa Rosa San Marcos Quetzaltenango (Chuva Region) Atitlan	Demand by coffee companies for the type of coffee produced in the sites, the potential for expansion to include additional producers in the site, and the interest of the coffee producers in meeting certification requirements.
	Bananas		Puerto Barrios, Southern Pacific Coast	Chiquita's interest in purchasing certified bananas from independent banana farms in the area; the likelihood of independent farms achieving RA certification criteria
Honduras				
	Timber	Atlantida y Colon San Pedro Sula (COC)		Will expand to other producer groups as dictated by supply needs of secondary processors and international buyers and brokers
	Coffee	Intubuca, Danli, Santa Barbara, San Luis, Marcala, El Paraíso Olancho, Choluteca, Yoro, Cortez		Demand by coffee companies for the type of coffee produced in the sites, the potential for expansion to include additional producers in the site, and the interest of the coffee producers in meeting certification requirements.
	Bananas		Banana producing area from Tela Bay to La Ceiba	Chiquita's interest in purchasing certified bananas from independent banana farms in the area; the likelihood of independent farms achieving RA certification criteria
El Salvador				
	Coffee		Cordillera de Apaneca Ahuachapan Occidente, Samsonate Buffer zones of Parque Nacional El Imposible, Parque Nacional Montecristo, Parque Nacional Los Volcanes	Demand by coffee companies for the type of coffee produced in the sites, the potential for expansion to include additional producers in the site, and the interest of the coffee producers in meeting certification requirements.
Nicaragua				

Country	Commodity	New Sites	Continued or Expanded Sites	Criteria for Additional Sites
	Timber	Nueva Segovia, Estelí, Ocotal Managua (COC)		Will expand to other producer groups as dictated by supply needs of secondary processors and international buyers and brokers
	Coffee		Matagalpa and Jinotega departments, Buffer zone of Bosawas	Demand by coffee companies for the type of coffee produced in the sites, the potential for expansion to include additional producers in the site, and the interest of the coffee producers in meeting certification requirements.
	Bananas	North Pacific coast		Chiquita's interest in purchasing certified bananas from independent banana farms in the area; the likelihood of independent farms being able to achieve RA certification criteria
Costa Rica				
	Coffee	Palmares, Naranjo, San Ramon, Grecia, Atenas	Coto Brus Poas Turrialba	Demand by coffee companies for the type of coffee produced in the sites, the potential for expansion to include additional producers in the site, and the interest of the coffee producers in meeting certification requirements.
	Bananas		Entire banana production area along the Caribbean coast	Chiquita's interest in purchasing certified bananas from independent banana farms in the area; the likelihood of independent farms being able to achieve RA certification criteria
Panama				
	Coffee		Boquete, Chiriqui	Demand by coffee companies for the type of coffee produced in the sites, the potential for expansion to include additional producers in the site, and the interest of the coffee producers in meeting certification requirements.
	Bananas		Bocas del Toro (Changuinola) Armuelles	Chiquita's interest in purchasing certified bananas from independent banana farms in the area; the likelihood of independent farms being able to achieve RA certification criteria

It is important to note that while the RA has identified a number of departments and regions for the expansion of activities in the various countries for all three commodity sectors, the final selection of individual banana and coffee farms and forests and plantations will be market driven and based primarily on the interest of various buyers in sourcing from these sites. The location of these certified farms and timber operations will be projected in annual work plans.

Component 1: Timber

The range of activities that will take place within the links of the timber production chain include forest management, primary processing, brokering, secondary processing, distribution, and retail. These activities will be carried out by the Rainforest Alliance's TREES program, through sub-grants or agreements with local partners, and/or with private sector and community or cooperative partners.

The forestry activities will be driven by the needs and opportunities of each individual forest alliance in each country (alliance defined as processors and their supply chains) and coordinated with two key NGO partners: CATIE and Nepenthes. CATIE support comes through sharing of tools, technical assistance and costs through their IDB-FOMIN project "Improving the Competitiveness of Small and Medium Forest Enterprises in Central America (MIPYME)" and through direct technical assistance to Alliance forest management operations for forest inventory and management planning. Nepenthes supports come through sharing of costs and technical assistance through their COATLAHL – Nepenthes project which focuses on building community business and administrative skills and new product and market development activities.

Two forest alliances are proposed each in Mexico, Guatemala, Honduras, and Nicaragua. Each country has one well defined alliance identified (Guatemala has two) and Rainforest Alliance will identify another alliance in Mexico, Honduras, and Nicaragua during the project. Each individual alliance is likely to grow as new wood suppliers are brought into the process.

Creating Sustainable Timber Supplies

Illustrative activities include:

- Review, update and verify supply figures
- Training to increase forest mgt and production efficiencies
- Training in certification systems, benefits and implications
- Assessor Training
- Conduct scopings of forest management operations
- Certification assessments
- Conduct certification annual audits
- Compliance with certification pre-conditions and conditions

Forest Management Plan Updates and Monitoring Reduced Impact Harvesting and Extraction

Improving Costs and Efficiencies

Illustrative activities include:

Analysis and diagnostic of production (primary and secondary processing)

Training and technical assistance to improve efficiencies

Product development

NTS research

Product line development

Investments (equipment, new technologies)

Building Community Level Business and Administrative Skills

Illustrative activities include:

Production controls (define efficiencies and waste)

Cost controls and analysis

Defining pricing strategies

Cost accounting and administration

Creation of business units

Financial planning training

Promoting New Species and Products

Marketing Networks

Illustrative activities include:

Supply and production capacity analysis (across alliance)

Defining products for existing markets

Establish market information system

Market Research (identification of clients)

Define investments (equipment and technologies)

Market message training and sell sheets

Support for trade fair participation

Contracts with buyers

Recommendations for Environmental Action:

That a **Negative Determination with Conditions** be issued, pursuant to 22 CFR 216.3(a)(2)(iii) & (a)(3), with the stipulation that the Regional Environmental Advisor (REA) review Rainforest Alliance certification protocols and Annual Work Plans as part of the approval process to determine whether planned interventions might lead to negative environmental impacts requiring further review, and recommending appropriate monitoring and mitigation actions.

A **Positive Determination** is recommended for all forestry management activities throughout the region, including the purchase of processing equipment (portable sawmills, peelers, etc.), per 22 CFR 216.6(a) and FAA 118(c) (13&14). A Programmatic Environmental Assessment with site-specific application to be approved by the LAC BEO shall be written for these activities prior to implementation. In promoting new species and products, laws such as CITES shall be followed and only native species shall be used.

Component 2: Bananas

While the banana-related activities are complex and extensive, the partnerships in this alliance are concise: Chiquita, the independent farmers, the Rainforest Alliance, and the SAN. While any farmer can grow and sell coffee, producing bananas for the export market requires strict adherence to prescribed farm practices, quality control, a labor force, packing facilities and either a shipping business or contracts with a company that will ship the fruit. Bananas grow year round, so the farm must be managed every day without fail. Bananas are extremely delicate and can be easily damaged during growing, harvesting, packing, shipping, ripening or retail. They cannot be left to ripen on the stalk or stored; fruit must be picked and shipped on precise schedules. For these reasons and others, banana farming is controlled by a few, multinational, vertically integrated companies. Chiquita, Dole and Del Monte control 70% of the global business. These companies have their own plantations, shipping lines, and ripening and distribution facilities. They also buy fruit from independent growers, most of whom have smaller farms.

The Rainforest Alliance, SAN, other NGOs, fairtrade and organic certifiers and rural development agencies collaborate with small, independent banana producers. This is important work, but it will have only limited effect unless the major companies are involved. The Rainforest Alliance and SAN have worked with two industry leaders to date – Chiquita Brands and Favorita Fruit Company.

Chiquita has prioritized the independent farms to join the Alliance based on their production, quality, ability to meet the standards, location, historical contractual relationships and other factors. We will work on the most viable farms first and then move to Chiquita's "B List." The universe of farms that supply a large company like Chiquita grows, contracts and shifts due to competition with other multinationals, floods, hurricanes, labor and quality problems and market demands. In this Alliance, the grantee will work with 40 to 50 farms first and gradually expand the program to all 130 farms identified as candidates for certification (in Guatemala, Honduras, Nicaragua, Panama and Costa Rica), Chiquita will underwrite the certification of more farms

than is necessary to meet its demand in order to always have certified fruit available to meet shifting conditions.

Improving Certification Tools

Illustrative activities include:

- Small farmer tools
- Internal control systems
- Farm guidance manuals
- Systems and document templates

Training

Illustrative activities include:

- Basic and advanced auditor training
- Internal auditor and extension personnel training
- Train the trainer
- SA 8000 course

Certification

Illustrative activities include:

- Small farms/groups
- Medium to large independent producers
- EurepGAP preliminary audits
- Training involving the reduction and appropriate use of pesticides in accordance with EPA approved products

Supply chain analysis

Illustrative activities include:

- Analysis of the banana supply chain (farm to ship) to fine-tune protocols and determine critical control points.
- Diagnostic chain-of-custody audits at randomly selected segments of the supply chain in different countries.

Recommendations for Environmental Action:

That a **Negative Determination with Conditions** be issued, pursuant to 22 CFR 216.3(a)(2)(iii) & (a)(3), with the stipulation that the Regional Environmental Advisor (REA) review Rainforest Alliance certification protocols and Annual Work Plans as part of the approval process to determine whether planned interventions might lead to negative environmental impacts requiring further review, and recommending appropriate monitoring and mitigation actions.

A **Deferral** is recommended for all activities involving pesticide purchase or use, including training, per 22 CFR 216.3(a)(iii) and 22 CFR 216.3(b)(1)(i). A pesticide use plan needs to be submitted to the LAC BEO prior to commencing any assistance in procurement or use of pesticides per 22 CFR 216.3(b)(1)(i)(a-1).

Component 3: Coffee

The coffee-related activities are more extensive than those supporting the banana alliance; they include both marketing and supply side dimensions. The alliances are market-driven, not site based, and they vary in complexity. For example, a simple Alliance is a specialty roaster, a farmer, the Rainforest Alliance, and a SAN member NGO. A complex alliance includes a multinational roaster, hundreds of farmers in various countries, three international trading companies, a half dozen local agencies and allied NGOs such as TechnoServe, the Rainforest Alliance, and all SAN member NGOs in the project area.

The vast majority of coffee farmers the world over (estimates hover around 70%) are smallholders, including in this project's target areas. All of that coffee, 115 million 60 kg bags this year, is collected and funneled through a few roasting companies, and then distributed by pounds and cups to over 500 million coffee drinkers around the world.

Rainforest Alliance (RA) has recruited powerful partners at the narrow waist of the supply chain: the three transnational coffee roasters that buy and sell a significant portion of the world's coffee and the three exporters that trade one-third of the global coffee supply.

Even the tiniest alteration in the standard business practices of these companies can affect millions of farmers and millions of consumers. RA is asking the big roasters – Kraft, Procter & Gamble and Nestle – to commit to sourcing certified-sustainable coffee, starting with a small percentage of their overall supply and gradually increasing the amount in future years. For perspective, 4% of Nestlé's supply is about 500,000 bags, more than all the fair-trade coffee currently in the market.

In order to do this, the companies have to make groundbreaking and costly changes in their logistical operations, in their contractual arrangements all along the supply chain, in their storage and shipping facilities, and in their public messaging. Most difficult, they have to pay a "sustainable price," which will still be driven by the market but ensure profits for farmers. All the companies already privately admit it is the right thing to do for the farmers and for the industry's own future, but the costs are intimidating.

In order to make this unprecedented shift, the big roasters need help from Rainforest Alliance, the SAN, other NGOs and the major trading firms. Rainforest Alliance has signed MOUs with the three major traders – Volcafe, Neumann Kaffee Gruppe and ECOM - and is already working

with them in this project's target countries. The traders will provide essential services to the mix, including: identifying candidate farms, underwriting the costs of some farm improvements and certification services, providing harvest and other bridge financing to farmers, providing some technical assistance to farmers - especially on maintaining coffee quality, aggregating certified coffees, helping roasters find the right coffees to make their blends, guaranteeing traceability of the coffee, ensuring that the farmers get their fair share of the higher prices, and doing all this in a transparent and documented way.

The traders all have projects in coffee-growing areas, and this activity will prioritize them. For example, Neumann Kaffee Gruppe is working with farmers in western Honduras, near the border with El Salvador. Volcafe has a sustainability project in Coto Brus, Costa Rica. And ECOM is working with smallholders around the Bosawas Biosphere Reserve in Nicaragua.

While the transnational and mainstream companies will provide the strong support to make this project meet its goals, smaller, high-profile niche partners will give the project positive press and raise awareness among consumers. The Rainforest Alliance has already achieved considerable penetration with niche players. Ben & Jerry's just launched a new ice cream flavor called "Coffee for a Change," featuring Rainforest Alliance-certified coffee extract from southern Mexico. The Rainforest Alliance is certifying coffee purchased by Boyds, Dietrich's, Royal Cup, and several other smaller companies. A number of other specialty coffee roasters are also in discussions with the Rainforest Alliance about sourcing relationships. To interact with an array of the specialty companies in critical regional markets, the Rainforest Alliance works with three strategically positioned specialty coffee importers: Volcafe Specialty Coffee for the U.S. Pacific and Western states, Balzac Brothers for the East Coast, and D.R. Wakefield for the U.K.

The large roasters all have projects in select coffee-growing areas. For example, Nestle has a soluble coffee plant in Veracruz, Mexico, and buys directly from thousands of farmers there. Kraft has standing relationships with several cooperatives in the region. But for the most part, the large roasters do not know where their coffee comes from; they buy it on the commodity market. They would like to gradually change that and begin buying more directly from farmers. Buying certified coffee is a way for them to link to well-managed farms, receive information about the conditions on those farms, and be assured that a competent and independent third-party is monitoring the farms.

Choosing farms to certify for the gourmet market is putting pins on the map, allowing Rainforest Alliance to introduce communities to progressive farm management practices as neighboring farmers see the improvements and profits on the certified farm. For the multinational roasters, which are more interested in large volumes with consistent deliveries, prices and quality than in distinct flavors, RA can select big estates, cooperatives, and large groups of smallholders in entire regions. In other words, this Alliance can promote conservation at the landscape level. RA will make these selections in consultations with the traders, other partners and of course with the roasting companies themselves. While Rainforest Alliance can help traders lengthen their menus of certified sustainable coffee, decisions about which traders to use in any given region will be left up to the roasters.

Supply Side Activities

Illustrative activities include:

- Scopings and partnerships
- Assessment
- Engagement and guidance
- Audit and certify farms and cooperatives
- Training Promoter and Auditors
- Advanced Auditor training in specialties
- Audit quality control
- Pilot group-certification protocols
- Supply Chain Security
- Develop an Auditors Handbook

Demand Side Activities

- Conferences and tradeshow
- Coffee and food company meetings
- Buyer Tour
- Feedback from Partner Coffee Companies
- Materials
- Marketing training module
- Media campaign
- Support to companies for their marketing strategies and messaging

Recommendation for Environmental Action:

That a **Negative Determination with Conditions** be issued, pursuant to 22 CFR 216.3(a)(2)(iii) & (a)(3), with the stipulation that the Regional Environmental Advisor (REA) review Rainforest Alliance certification protocols and Annual Work Plans as part of the approval process to determine whether planned interventions might lead to negative environmental impacts requiring further review, and recommending appropriate monitoring and mitigation actions.

V. Recommendations

All cooperative agreements and contracts issued under this activity should contain a condition that states that: 'Funds shall not be used to support the procurement and/or use of pesticides (including organic mixtures that may not have EPA approval), except as specified in future documents approved by the LAC Bureau Environmental Officer, or for the purchase of equipment which could be used for timber harvesting, unless covered by an Environmental Assessment'.

In addition, all cooperative agreements and contracts issued under this activity should contain a condition that states that: 'No on the ground construction activities will commence under the cooperative agreement/contract (e.g. coffee staging areas or facilities to strengthen commercialization) or improvement of transportation systems (e.g. Road improvements) until guidelines and procedures for managing the potential environmental impacts of construction activities have been defined and approved by the LAC BEO. The grantee/contractor shall ensure that mitigation or other prescribed environmental management measures are in full compliance.

A year-end report shall be submitted by the program officer addressing these conditions and any other mitigation taken to minimize potential environmental impacts.

The following special covenant will be included in section 7 of the cooperative agreement. 'The grantee hereby covenants that all sub-grants or sub-contracts obligating funds, shall contain a condition precedent to disbursement establishing that: except for those activities qualifying for categorical exclusions or already covered by existing approved environmental evaluations, no funds will be disbursed prior to an environmental review, subject to approval by the grantor. Policy incentives that could provide perverse incentives must be approved by MEO in writing prior to recommending to host country governments or local counterparts.

Concurrence: _____ { fax on file }
Glenn Anders
Mission Director, USAID/G-CAP

Date: _____ 3/10/04 _____.

Clearances:

K.Rockeman, INR _____ s/

L.Gil, PDM _____ s/

C.Gonzalez, INR _____ s/

M.Donald, REA _____ s/