IMPLEMENTATION COMPLETION REPORT

Region: LCR
Country: El Salvador
Project ID: P056914
Grant No. TF020362

GEF Medium-Size Project:

Promotion of Biodiversity Conservation within Coffee Landscapes

March 2004

Central America and the Caribbean Country Management Unit
Environmentally and Socially Sustainable Development Sector Unit
Latin America and the Caribbean Region
The World Bank Group

MSP Completion Report

I. Basic Data

(1) Date of Preparation of Completion Report: March 2004

(2) Project Title: "Promotion of biodiversity conservation within coffee landscapes"
GEF – MSP - grant Nº TF 020362

(3) GEF Allocation: $ 725,000 US Dollars

(3a) Period of Project Implementation: June 1998 – December 2001

(4) Grant Recipient: Government of El Salvador (MARN/PROCAFE)

(5) World Bank Task Manager/Task Team: Paola Agostini, LCSES, Task Manager. Esteban Brenes, coordination assistant; Daniele Giovannucci, Sr. Consultant Market Development; Mario Castejon, Rural Development Specialist in Unidad Regional de Asistencia Tecnica (RUTA).

(6) Goals and Objectives (include any changes in the objectives) :

The national environmental strategy ("*El Desafío Salvadoreño: de la Paz al Desarrollo Sostenible"*) identifies biodiversity conservation, watershed protection, and erosion control as critical elements to achieve sustainable development. Within this strategy, the maintenance and improvement of forest cover is singled out as a high priority for the nation. A significant portion of the nation's forest cover occurs in and around its coffee plantations making them a critical component of the nation's environmental and biodiversity strategies. This project is one of the first to address the possibility of maintaining the productive landscape of coffee cultivation within a biodiverse forest setting as an economic anchor for the preservation of biodiversity. It also addresses more global environmental objectives through the maintenance of biodiversity-friendly habitats that are intricately connected to the region's biological corridors beyond El Salvador's national borders.

The project goals were consistent throughout project implementation. The objectives were to (i) stabilize and potentially increase the extent of coffee plantations under biodiversity-friendly shade-forest regimes to serve as habitats for globally significant biodiversity; (ii) initiate the establishment of a biological corridor of shade coffee habitats linking the *El Imposible and Los Volcanes (Cerro Verde)* protected areas; and (iii) foster a biodiversity friendly coffee export industry in El Salvador. Although some activities were national in focus, targeted research and other activities were focused in the corridor region mentioned above. When measured, the corridor would cover roughly 75,000 ha and has been identified as one of the most important

national corridors in terms of biodiversity, as well as a strategic link in the regional Mesoamerican Biological Corridor.

(7) Financial Information:

Financial management of GEF financed expenditures was efficient and transparent. Component 1 (Extension Services) used less resources than expected, since PROCAFE provided more co-financing for this than originally anticipated, paying 2 full time positions for biodiversity-friendly coffee extension agents. Savings were used to finance part of two new positions in the project coordination unit for a full-time coordinator and assistant. The fifth component (Biological and Socio-Economic Monitoring) absorbed the ecological study that was originally budgeted under the second component (Certification) thereby explaining the difference between original and actual expenditures.

CHANGES IN THE ORIGINAL FINANCING PLAN FOR THE COFFEE AND BIODIVERSITY PROJECT
CURRENCY: DOLLAR ($1.00=¢8.75colones)

PROCAFE - BM - GEF

COMPONENTS	ORIGINAL FINANCING PLAN	% Budget	ACTUAL FINANCING PLAN	% Budget
EXTENSION SERVICES	**186.250,00**	**26%**	**147.404,38**	**20%**
TECHNOLOGY TRANSFERENCE.			82.192,70	
AGRONOMIC RESEARCH			6.211,68	
ENVIRONMENTAL EDUCATION			30.000,00	
ADMINISTRATIVE COSTS			29.000,00	
CONSULTANT COORDINADOR	**n.a**	**n.a.**	**112.401,36**	**16%**
CERTIFICATION PROGRAM *	**308.750,00**	**43%**	**213.433,86**	**29%**
MARKET STUDY	**111.250,00**	**15%**	**87.088,13**	**12%**
BIOLOGICAL/SOCIOECONOMIC MONITORING	**118.750,00**	**16%**	**164.672,27**	**23%**
GEOGRAPHIC MONITORING			71.029,83	
ECOLOGICAL STUDY			68.519,66	
FINANCIAL ANALYSIS			5.122,78	
SOCIOECONOMIC STUDY			20.000,00	
SUB-TOTAL ANUAL	**725.000,00**	**100%**	**725.000,00**	**100%**

*The coordinator position and salary was agreed by PROCAFE and The World Bank aproved it.

**This component included the ecological study in the original plan. However, the ecological study was done as a part of the Biological/socioeconomic monitoring component.

Although it was estimated to be a bit below the original pre-project projections for total investment, the execution of this GEF Midsize Project resulted in a total investment in El Salvador of nearly US$ 2.8 million. The GEF contributed U.S. $750,000 (including PDF-A) while the final estimate of total co financing is approximately US$ 2 million as noted in the Co financing Table below.

Co financing Estimates Table* **(**US$ 000)

	Proposed Other Donors	Estimated Actual Other Donors	Actual GEF Increment	Estimated Financing TOTAL
Preparation (Block A, etc)	**10**	**10**	**25**	**35**
Field Coordinators			**112.40**	**112.40**
I. Strengthen extension services	**198**	**198**	**147.40**	**345.40**
II. Biodiversity Certification	**638**	**638**	**213.43**	**851.43**
Develop biodiversity certification	570	570	213.43	783.43
Train certifiers	68	68	0	68
III. Improve Marketing	**1,904**	**841**	**87.09**	**928.09**
Marketing Study	280	30	111.25	141.25
Domestic Campaign	750	0	0	-
International Campaign	874	811	0	811
IV. Biological and socio-economic monitoring	**335**	**335**	**164.67**	**499.67**
GIS Monitoring System	173	173	71.03	244.03
Ecological Study			68.52	68.52
Socio-economic analysis & Financial analysis	162	162	25.12	187.12
TOTALS	**3,085**	**2022**	**750**	**2772**

*At the time of preparation and implementation of this project tracking of co-financing was not emphasized as it is in current projects. The numbers above reflect the best possible estimate.

The project brought together a number of partners with often divergent missions. Its strength and ongoing sustainability 2 ½ years after closure of GEF participation is testament to the importance of incorporating all the relevant stakeholders to address the demands of a new approach to wide-scale issues such as biodiversity conservation.

II. Project Impact Analysis

(1) Project Impacts

The project's key goals did not change from project appraisal to closing. The project had established an indicator that 200 farms would be certified as eco-friendly producers by the end of the 3 year implementation period. However this indicator was changed to 200 farms "in process of certification" due to the actual field conditions during the implementation process. This was primarily because the development of certification procedures that was still in its infancy and largely tested during the course of the project. The project actually achieved 44 fully certified farms, with 180 in process of certification[1], for a total of 224 farms. PROCAFE extension agents completed a further 324 farm diagnostics, that were being directly followed up by the certifying partner (SALVANATURA) at the end of the project.

The original project area was planned in the El Imposible National Park in Ahuachapan state and the area of The Three Volcanoes in Santa Ana and Sonsonate States, which include 14 municipalities. However the project actually reached eight additional states with certification. Out of 14 Salvadoran states, the project was directly responsible for training and certification work done in 11 states, and 47 municipalities. The original plan was to influence change in approximately 4,000 hectares. The project actually covered a total of 8,623 hectares (1,008 certified and 7,615 in process of certification). Including the farm diagnostics that were conducted as a precursor to certification at the invitation of landowners (324 farms), a total of 11,809 hectares can be considered to have been directly influenced to change by the project.

Number and size of farms
(includes certified and in process)

FARM SIZE *(hectares)*	**TOTAL AREA**	**NUMBER OF FARMS**
0.1 to 7.0	247.77 Has	121 farms
7.1 to 21.0	457.65 Has	34 farms
1.1 to 70.0	1,917.37 Has	47 farms
above 70.1	6,000.18 Has	22 farms
TOTAL	**8,622.97 Has**	**224 farms**

Some farmers own more than one farm; one person owns nine farms and another owns six farms. Ownership of these farms is divided among 95 men, 55 women, and 26 cooperatives. The cooperatives are typically, but not exclusively, male dominated, with few female members.

In El Salvador, 50% of the farmers are small land holders. The project, with its partners, subsidized the certification process for the smaller farmers. As a result, the small farmers (0.1 to

[1] certification is a multiyear process requiring an initial and sometimes ongoing financial commitment. These 180 farms, having already made significant resource commitments, are considered very likely to participate in the benefits of certification

7.0 Has) have had relatively free access to the project. Of course, the costs of adaptation to the certification norms were all borne by the farmers.

(1a) To What Extent Have the Objectives Been Met

OBJECTIVES	OUTCOMES
1) Strengthening of **Extension Service** by training on the concept of shade-grown, biodiversity-friendly coffee.	This objective was fully met. Not only was the official PROCAFE extension service strengthened by direct training in this concept, but also a number of private extension agents and many farmers and cooperative members were also trained.
2) Development of **certification** for "biodiversity- friendly coffee" and training of the certifiers.	Fully met. The certification methodology and its indicators were developed and tested during the project. One measure of their success is that they are now in use in seven other countries throughout the region.
3) Marketing study for shade-grown, biodiversity - friendly coffee; domestic and public awareness campaign; and international promotion campaign for certified biodiversity-friendly coffee.	• Substantially but not completely met. • One market study was conducted in cooperation with a U.S. supermarket chain (Wild Oats Markets) with 80 stores in 30 states. The allotted funds were deemed insufficient for a national marketing study. U.S. regional promotions were conducted on the West Coast and in the Washington D.C. area. • Markets for "biodiversity-friendly" coffee were developed in Japan. • Project staff participated in the US Specialty Coffee Trade Shows. In San Francisco (2000) project objectives and implementation process were publicly presented and the project won second place in a contest for the sustainable category. In the other conference in Miami (2001) the project, together with seven certified coffee farmers, took part in the official Salvadoran stand to promote and sell "certified shade grown coffee in harmony with biodiversity". • Actual sales proved to be lower than the project's optimistic estimates but the project helped to generate considerable awareness as gauged by considerable media coverage. Its pioneering lessons helped a subsequent GEF project in Mexico to refine its approaches and enjoy considerable market success.
4) Biological and Socio-	• Substantially met.

economic monitoring, including but not limited to: • area cultivated with shade grown coffee; • value of different production regimes as biodiversity habitat; variation in yields, profits, employment opportunities by regime; • quantities of "biodiversity- friendly" coffee certified and exported.	• One ecological study completed. Species of conservation concern were documented utilizing shade coffee vs. sun coffee farms and the former were recognized as important habitat for a number of species • One socioeconomic study completed noting variations in different cultivation regimes. • One Map of the total area of the project (27,000 hectares) was digitized based on image interpretation showing the different shade gradients and production regimes. This SIG Program was established in PROCAFE's Farm Land Measure Office. GPS equipment was bought and used for field measurements. More than 100 farms requested this measurement service and all requests were fulfilled. • Through UNEX (private coffee exporter) and UCAPROBEX (cooperative coffee exporter) more than 7,600 bags (46 kgs) of "biodiversity-friendly" coffee were sold to Japan, with a premium that ranged from US$6 to US$13 per bag in the last 3 harvests.

(1b) The Performance Indicators Achieved

INDICATORS	OUTCOMES
1) Number and types of extension materials prepared; number of extension agents trained (20); number of farms reached by extension agents and environmental educators in the corridor.	• These indicators were fully met. • Nearly all of PROCAFE's 40 Extension Agents have been trained in cultivation methods of shade grown biodiversity friendly coffee. In addition 20 private extension agents have been briefed on these production concepts. More than 200 cooperative members have benefited from the same training. More than 600 farmers were briefed on the project and certification criteria. • "The Guide to Producing Biodiversity Friendly Coffee" (PROCAFÉ, 2001). and educational charts on "biodiversity-friendly shade grown coffee" were produced and disseminated among both farmers and extension agents. • Environmental educators reached 1,000 rural school children and nearly 1,000 adults with informal educational lectures on garbage and sewage disposal, certification criteria, environmental law, and flora and fauna protection.
2) Production of certification criteria; number	• These indicators were substantially met. • Certification criteria was produced and published.

of certifiers trained (10); number of farms in the process of certification within the corridor (200).	• Ten certification agents were trained by SALVANATURA and Rainforest Alliance. In addition, more than 20 private extension agents and more than 200 cooperative members have been taught the certification criteria. • The revised criterion (as mid-term) was 200 coffee farms in the process of certification. A total of 244 was achieved (44 certified farms and 180 farms in the process of certification). • Four coffee processing mills were certified as well.
3) Data from marketing study; of market test in the United States; distributor of coffee; number of advertisements; number of retail outlets offering the coffee for sale (40).	• These indicators were substantially met. • The market study was prepared with only modest data. • Product was promoted in U.S. by the "Wild Oats" supermarket chain in some of their 80 stores in 30 states • A substantial percentage of the certified green coffee was sold to Japanese buyers (7,600 bags) but resale data i.e. number of retail outlets in Japan was not available.
• **4)** Timely establishment of the GIS and other monitoring systems (data from 40 representative plantations); • number of species of conservation concern which utilize different regimes as important habitat; • number of migratory bird species present in shade coffee vs. sun coffee farms; • area cultivated by shade-coffee category; • variation in yields, profits, employment by regime; • quantities of "biodiversity-friendly" coffee certified and exported.	• These indicators were substantially met. • One Geographic Information system was established covering 27,445 hectares. • More than 100 farms monitored field data to help interpret the satellite images used for monitoring different shade regimes in the project area. • The project carried out studies on migratory and national bird species, amphibians, reptiles and small mammals for 19 coffee farms and 5 protected areas with an altitude between 900 to 1300 meters to identify which species are present in shade regimes. Certification criteria were updated to adjust them to field data collected in the Ecological Study. Farms using full sun production methods were not taken into consideration. • 8,623 hectares actually covered by project. • No differences were noted in either the employment rate or yields of the farms. Although the Socioeconomic report notes no significant immediate changes, project participants and farmers believe that improvements in social and health conditions for workers will be seen. The project has created better health and environmental awareness among both farmers and laborers since the certification criteria requires the development of a socially equitable and environmentally sound working plan for the farms. • The actual certified shade-grown eco-friendly coffee supply was about 20,000 bags. Exports reached up to 10,000 bags per year but averaged considerably less.

(2) Project Sustainability

A key factor in the sustainability of this project is that its practices have been adopted not only at the Ministerial level as part of a national strategy for the country but also at the level of business and civil society organizations. The Minister of Economy proposed a law that was subsequently passed to allow a substantial reduction in export taxes for biodiversity friendly coffee. Capacity was also created in PROCAFE with many extension agents trained on biodiversity-friendly coffee production methods, and two agents were dedicated to work full time on this practice. An extension manual now exists for biodiversity friendly coffee and it is part of the publications and instruments used by PROCAFE in its national extension and technology services.

Within civil society, a permanent office for certification of biodiversity friendly coffee has been created in Salvanatura, the nation's largest environmental organization, and it continues to operate 3 years after project closing. This project is a model for public-private sector collaboration and has been presented publicly by the organization in various fora. The international partner, Rainforest Alliance, has directly benefited from this experience and has applied the lessons in other countries and to strengthen its market visibility to better support the marketing of eco-friendly coffee.

A network and an association of exporters of biodiversity friendly coffee were established and continue to operate, advocating this kind of coffee production. The association is also managing the first national coffee park with a biodiversity focus, and there are even some experiences of budding eco-agro-tourism on coffee farms.

(3) Replicability

The project lends itself to replicability both in and out of El Salvador. The Bank has received a number of requests for scaling up and replication of this project model even before the project ended. Development of a **certification methodology** for "biodiversity- friendly coffee" and training certifiers was done to international standards and will be acceptable to many certifying agencies and buyers. The project required substantial efforts in terms of selecting and testing certification criteria, reaching remote farmers, and developing training materials. With these pioneering lessons learned, new projects should find it substantially easier to establish similar models. This model is now being used by the international partner (Rainforest Alliance) to expand eco-friendly certification work in a number of Latin American countries.

Replicating the component to **strengthen extension services** is likely to be more difficult in many countries because they typically lack the exceptional institutional structure of El Salvador's PROCAFE. However, the lessons learned and materials developed can serve as a useful model to develop different forms of field training on the concept of shade-grown, biodiversity-friendly coffee.

Biological and socio-economic monitoring were relatively straightforward components using well-known methodologies and should therefore be easily replicable.

A **marketing study** for shade-grown, biodiversity -friendly coffee is much more difficult to replicate. As a means of capturing and channeling consumer willingness to pay for conservation, shade-grown coffee is still a very new mechanism. The experience of the project shows very clearly that the operation of such projects requires a strong demand orientation and market expertise. An early shortcoming in project design was to assume that outsourcing support on the marketing side as needed would be sufficient. This was quickly corrected with the integration of a marketing professional to the World Bank team. A subsequent project (also GEF financed) in Chiapas, Mexico utilized the same marketing advisor and was able to apply El Salvador's lessons to its early project design thereby substantially improving both its execution and outcome.

A domestic and **public awareness campaign** is difficult but achievable where civil society is actively involved since they can to facilitate these efforts on a grass roots basis. An **international promotion campaign** it is probably not easy to replicate and the project had difficulty in achieving it. Efforts to convert the consumer willingness to pay into actual sales have only had limited success to date. Unlike the market for organic products, which is now much more mature, the market for shade-grown coffee is still relatively undeveloped. Eco-friendly certification is one of the fastest-growing standards but still has modest penetration in consumer markets. Farmers could not count on receiving fixed price premiums and sales prices were erratic. The resulting variations led to difficulty sustaining interest among producers.
By the end of 2003, there is evidence that both sales and price premiums for shade-grown coffee are much improved and the potential for expansion is quite significant. The most important potential is clearly in other coffee-producing areas and yet there are also other commodity production systems that can utilize relatively high levels of forest cover and biodiversity, and which could benefit from similar approaches. Several researchers have noted that shade-grown cocoa production has very similar characteristics to shade-grown coffee as do other nontimber forest products like decorative palms and nuts.

(4) Stakeholder Involvement

Integrating experienced stakeholders was a key to the project's success. A number of the project's components were executed by different NGOs, universities, private firms, research centers, and government agencies. The involvement and collaboration of various groups was initially difficult, given the novelty and unfamiliarity of the project, but the use of participatory methods and various face-to-face meetings eventually led to broad and multileveled collaboration. SALVANATURA, El Salvador's most prominent environmental group, and The Rainforest Alliance (an international NGO) served as key partners in the design, execution, and ultimately the sustainability of the project.

It received the recognition of being commissioned to write about the project for the Latin America and the Caribbean Civil Society Team's "Thinking Out Loud" publication[2] as an

[2] Giovannucci, Daniele, Peter Brandriss, Esteban Brenes, Ina-Marlene Ruthenberg, Paola Agostini. 2000. Engaging Civil Society to Create Sustainable Agricultural Systems: Environmentally-Friendly Coffee in El Salvador and Mexico. In Latin America and the Caribbean Civil Society Team, Eds. *Thinking Out Loud.* The World Bank: Washington D.C.

exemplary public-private effort incorporating different levels of civil society. For example, the Association of Women Biologists was asked to establish a pilot program of environmental education for resident and migrant farm workers. Other organizations such as FUSADES, RUTA, ProArca, CLUSA, FIAES, CATIE, University of Kansas, Consejo Salvadoreno del Cafe', Sustainable Harvest, and of course both the ministries of Agriculture and Environment all participated. On the market side, associations and exporters such as La Cafetalera, UCAFES, UCAPROBEX, ABECAFE, and UNEX were involved in the project's success. The local communities were involved directly through the Salvadoran Coffee Cluster group, individual farmers, farmers' cooperatives, local schools, and even park rangers that were trained to disseminate basic information about eco-friendly techniques.

Challenges and impacts of civil society participation

The complex challenges of combining conservation and economic development objectives clearly required the combination of private sector, civil society, and government participation. Civil society organizations (CSOs) played an integral role in risk mitigation and management of specific components as illustrated.

The Role of Civil Society Organizations in Risk Mitigation	
Risk	**Mitigation strategy**
Mistrust of lack of confidence Farmers worry that government-sponsored programs will not follow through on their promises, and are wary of community-based organizations that may have been created and used to further government or political control.	The project is administered and executed by CSOs and the private sector.
Access to credit Financial institutions might not extend credit for this unfamiliar, biodiversity-friendly production.	Models based on CSO and university research were prepared to demonstrate profitability and financial attractiveness and were respected by financial institutions.
Certification requirements Growers may have difficulty meeting certification requirements.	CSOs unite to provide a knowledgeable support system combining international experience, local experience, and access to remote areas.
Uncertain markets Growers risk producing and investing in certification for an untested new market. Exporters may have difficulty identifying and reaching premium markets for biodiversity-friendly coffee.	In El Salvador a newly formed CSO supported market analysis to determine supply chain constraints & help develop a distribution and marketing strategy.

The project forged collaboration with more than 15 different partners in the public, private, and nonprofit sectors. Unanimous support from the powerful cooperative groups facilitated the

working relationships with project beneficiaries. The project conducted an International Certification Congress during preparation to better identify the primary supply-side issues and consolidate participation. Another strong source of support was the government supported yet private Coffee Cluster, which helped to create a coordinated strategy for the coffee sector. Their early work and vision facilitated prompt acceptance and support for the project from the private sector.

Getting the growers on board required a well-designed and convincing strategy because they were making the investments and taking the risks. While the certification system requires initial institutional investments (establishing the certification agency, training extension agents, and developing a technical manual), ultimately the project fosters self-sustaining mechanisms such as the recovery of costs for certification services.

The project's impact, and its comprehensive and inclusionary approach to public-private cooperation, had established this as the official competitiveness strategy of the El Salvador Coffee Cluster and helped move this approach from a pilot project to a national strategy.

(5) Monitoring and Evaluation

To help ensure that all the stakeholders shared a common understanding of the project's goals and objectives, a Logical Framework was constructed with broad participation and disseminated among a number of the stakeholders. This included clear indicators that could be readily measured to improve the transparency and acceptance of the project's goals.

The project counterpart, particularly the dedicated coordinator, were responsible for the daily ongoing M & E. As a farmer herself, the coordinator facilitated both the credibility and the dissemination of the project's message among farmers and helped to ensure the private sector's own informal scrutiny and participation in the project. Regular review meetings among farmers, NGOs, government and other stakeholders – Especially through the Coffee Cluster – were useful sources of ongoing monitor. The World Bank team regularly supervised the project's procedures and steps taken toward the agreed-upon objectives. Specialists in marketing, ecology, natural resource management worked with the team to monitor ongoing processes and provide the local counterparts with regular feedback on their progress. These specialists included CSOs. This was supplemented by on-site World Bank team missions twice each year and also by two visits from the Bank's Washington-based accounting experts.

(6) Institutional Capacity / Partner Assessments

Coordination problems hampered initial progress on implementation. The project was approved in August 1998 but did not begin implementation until early 1999 because of difficulty forging cooperative and mutually supportive working relationships between the various partners. These delays might have been avoided by committing more resources at the preparation stage to an institutional analysis so that the capabilities of all the partners could be better assessed and their roles more clearly delineated. This would probably have significantly reduced the struggles that typified the first year and a half of the project. However, once these coordination difficulties abated the project quickly made substantial progress.

The primary counterpart, PROCAFE, was professional and diligent. Although supported by government tax on coffee exports, its management and methods are otherwise styled on private sector performance and efficiency. This enabled its quick adoption of the program goals and methodology. Nevertheless, creating long-term change in professional extension agents that have been trained and seasoned in high-intensity production methods utilizing many agrochemicals (and often trained by input suppliers) cannot be expected to occur in just two-three years. Nevertheless, a number of these professionals acknowledged the potential benefits of eco-friendly production and enthusiastically incorporated them in their work. A reasonable expectation is that these extension agents will adopt such methods to be at least one item in their menu of offerings to their clients (farmers). This, as confirmed in field visits, was substantially achieved.

The support, at the level of three Ministries, for the premises of this project cannot be underestimated for its help in opening doors and assuring that the implementing agencies and other stakeholders were amenable to adopting its approach.

III. Summary of Main Lessons Learned

1. Although the coffee plantations in El Salvador represent 8% of El Salvador's national territory, they cannot be reasonably considered as forests. The economic incentives are of primary importance for most stakeholders. **Coffee plantations must, first and foremost, be profitable** otherwise farmers will not grow coffee leading to probably less favorable use of the land i.e. grazing or slash/burn farming. Profits at a farm level are important to help and maintain the more than ten million shade trees planted in the coffee area in which many species of fauna and flora remain and live.

2. This project's success was market oriented and, as such learned that: a) the express willingness of a consumer to pay for environmental benefits did not necessarily translate into actual sales; and b) it is vital to first clearly understand the demands of the market. Issues like quality were not initially identified is critical but turned out to be so. The quality differentiation, although not initially contemplated, was adopted later into the project in order to respond to the market's demand. International caliber **advice on the market was a critical component** that was not conceived in the original project design. Developing sound market mechanisms and clear business channels is an important area of collaboration with the private sector and with supporting CSOs. These should be identified during evaluation and planning, and must be firmly established early in the project to assure economic viability.

3. Developing the capabilities of **local organizations** to deliver key inputs and manage the work program was a key factor. The project adopted decentralized approaches, with different agencies performing different functions, rather than attempting to create a single agency to undertake all project-related activities. Key lessons about the role of these organizations, particularly CSOs, have emerged:

- Early identification of supporting partners (especially Civil Society Organizations) and adoption of a deliberately inclusionary process not only can promote participation but also strengthen ownership, enhance project credibility, and improve project management.

Although this may cost more and take longer at the preliminary stage, early investments have strong potential for increasing efficiency and actually achieving much greater savings of time and resources. Furthermore, implementation of the project will clearly be more effective and its objectives are likely to be more sustainable as participants guide relevant choices and take ownership at the local level.

- One of the best reasons for inviting established CSOs to assume project ownership is their creativity and initiative. Their enthusiastic execution of project functions greatly enhances cost-effectiveness. CSOs, because of their ground level understanding, may be able to reduce supervision time and management efforts while avoiding potential pitfalls resulting from incomplete local or cultural knowledge.

- Another clear value is the added credibility that the project enjoys as a result of being implemented by well-respected CSOs. This in turn facilitates staff retention and satisfaction, acceptance in the target communities, the cooperation and support of other CSOs, and leveraging of additional participation and funding.

- Building trust through communication and even informal social contacts is a critical first step that can help prevent alliances from becoming strained during complex and demanding projects.

Our experience also highlights several prerequisites in planning CSO participation:

- Clear initial assessment of the technical, managerial and institutional capacities of the proposed CSO partners, as well their openness to collaboration with their peers.

- Professional training of all partners in participatory processes.

- Clearly defined project objectives and indicators that the participants and beneficiaries themselves help to develop.

- Adequate budgetary resources to manage the sometimes longer inclusionary processes

4. As with many agricultural activities, particularly new ones, an **amenable and effective extension system is necessary.** In this case, not only was extension vital in order to help farmers adapt their agricultural practices but also to publicize and explain criteria for certification and to provide technical assistance in meeting them. Such a system is particularly important if meeting the certification criteria requires changing a long-standing production system. Although calculations show that Salvadoran certification can be profitable even at current yields, it would clearly be advantageous to have an extension system with the technical capability to help farmers increase yields while remaining within the certification criteria, as that would magnify the impact of any price premium. Equally important, as noted earlier, is assistance in improving product quality.

Other useful lessons

As certification requires farmers to make a fixed investment in their farms, reasonably **secure property rights** are an important pre-requisite for the mechanism to work.

The availability of credit can also play an important role in allowing coffee producers to invest in certification, as well as in helping finance annual production costs. **Rural credit availability** is typically scarce, and what credit is available is often biased against the typically low intensity production of shade-grown coffee (CEC, 2000).

Biodiversity-friendly agricultural production system are economically, environmentally, and socially sustainable. Traditional farms that produce **coffee under shade also provide other economic benefits** firewood, construction materials, fence posts, fruits, medicinal plants and other non-timber forest products. Development of eco-tourism activities could provide additional revenues. These "non-coffee" products are an important source of additional income to small farmers, and can help mitigate the impact of often dramatic fluctuations in coffee production and prices.

Economic cost-benefit analysis needs to be clearly presented and available to decision makers. Although yields per hectare are lower for shade coffee than for sun coffee or monoculture plantations, production costs are also lower because shade coffee requires less fertilizer, pesticides, and fungicides. Lower production costs, the potential price premium for shade coffee, and the non-coffee products that can be harvested from the same land mean that net profits per hectare may be higher and the financial risks are typically lower for shade regimes than for sun plantations.

Broad **stakeholder adoption would be facilitated by the dissemination of studies** that show that monoculture practices create significantly higher soil erosion and are associated with unacceptable levels of pesticides and other agrochemicals that cause local soil and water contamination and can affect human health.

Generating government buy-in helps avoid bureaucratic snags. In the El Salvador project at least 11 government entities were kept apprised or directly involved in the project. The idea of eco-friendly coffee was seen as not only a good ecological idea but also as a valuable differentiator in the marketplace. The reduction of agrochemicals can often mean the increase of rural labor and this can help provide extra incomes for small farmers and laborers. Decides the commitment of government policy, eco-friendly methods can be well supported by government actions such as the suggestion of one project partner to set aside more protected areas for conservation as pristine forest and/or certified shade production.

IV. Financial Management Status

The annual audits for 1998 through 2001 were conducted by Murcia & Murcia y Asociados, the local firm in El Salvador contracted to audit PROCAFE. The firm issued unqualified (clean) opinions on: (i) The accounting statements; (ii) the documentation and eligibility of expenditures made under the Grant; and (iii) the Special Account Statement. These results were received by the task manager.

Audit reports were submitted for each year covering the project to Jeannette Ramírez, Operations Analyst ESSD Sector Management Unit LAC Region. The final audit was submitted to Ms. Ramirez on July 5th 2002. Manuel Vargas, LCOAA, on Oct. 21, 2001, conducted an internal Financial Management Review of the annual audit reports conducted by Murcia & Murcia y Asociados and found these to be acceptable.

Due date of statement of account and external audit: December, 2001.