



INTERNATIONAL COFFEE ORGANIZATION
ORGANIZACIÓN INTERNACIONAL DEL CAFÉ
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**Economic incentives for coffee
agroforestry systems in Costa Rica**

Background

1. This document, submitted by the United Nations Development Programme (UNDP), contains the summary of a new project proposal designed to improve the competitiveness of coffee produced in Costa Rica through the development of Payment for Environmental/Ecosystem Services (PES) for coffee agroforestry systems within Costa Rica's long established National Forestry Financing Fund (FONAFIFO).
2. The proposal will be forwarded to the Virtual Screening Subcommittee (VSS) for an evaluation and will be considered by the Projects Committee in March 2012.

Action

The Projects Committee is requested to consider this proposal as well as the recommendations of the VSS and, if appropriate, to recommend its approval by the Council.

PROJECT SUMMARY

- 1. Project title:** Economic incentives for coffee agroforestry systems in Costa Rica
- 2. Duration:** Two years
- 3. Location:** Costa Rica
- 4. Nature of Project:** This project aims to generate, manage and share knowledge about sustainable coffee production practices that can improve farmers' income.
- 5. Brief description:** The project goal is to improve the competitiveness of coffee produced under agroforestry systems in Costa Rica through the development of Payment for Environmental/Ecosystem Services (PES) for coffee agroforestry systems within Costa Rica's long established National Forestry Financing Fund (FONAFIFO). The project will also improve national capacities for economic valuation of ecosystem services and will also centre on the development of international partnerships to help fundraise for the new PES Scheme for coffee agroforestry ecosystem services, and to establish long lasting purchasing agreements incentivizing coffee production under agroforestry systems.
- 6. The estimated total cost:** US\$2,000,000
- 7. Financing sought from the Fund:** US\$800,000
- 8. Mode of financing:** Grant
- 9. Co-financing:** US\$1,000,000 (FONAFIFO)
- 10. Mode of co-financing (in cash):** GEF Grant implemented through UNDP

- 11. **Counterpart contribution:** US\$200,000 (ICAFFE)
- 12. **Project**
 - Executing Agency (PEA):** United Nations Development Programme (UNDP)
- 13. **Supervisory Body:** International Coffee Organization (ICO)
- 14. **Estimated starting date:** November 2012

Project Background

1. Traditionally coffee farming in Costa Rica was conducted under Agroforestry Systems (AFS); however, sun grown coffee rapidly replaced AFS. New varieties of coffee plants popularized since the 1980s were rapidly adopted by producers. These varieties produce three times as much coffee under direct sunlight, and now, therefore this practice has become widespread, with the big consequence that by doing so, each year AFS diminishes. Over 50% of the country's coffee has been converted to this high-yielding technified monocrop, with minimal shade cover and intensive application of agrochemicals. The switch to technified coffee has hastened soil erosion and contributed to such negative off-site externalities as the contamination and sedimentation of surface and groundwater.

2. Despite the important environmental services that coffee plantations have provided to the country, since 2001, about 3,898 hectares of coffee farms are replaced every year by other crops or land uses that contribute much less in terms of ecosystem services (ES) such as pineapple crops, pastures for livestock, vegetable plantations, as well as residential and urban development. Considering the ecosystem services provided by AFS in coffee, and the fact that the economic return of AFS coffee will not match the higher economic return of conventional systems that degrade ecosystems, there is a need for the country to develop new economic incentives that may stimulate adoption of AFS in coffee. PES provides one viable option for Costa Rica, as these have been long established and have adequate institutional backing.

3. **PES Schemes** were launched in 1997 by FONAFIFO to benefit small- and medium-sized farms through loans or other mechanisms, to: i) promote the management of forests, ii) encourage forest plantation and reforestation processes, iii) establish forest nurseries and agroforestry systems, iv) rehabilitate deforested areas, and v) use technological advances in the industrialization of forest resources. Today PES mobilizes funds to pay for the environmental services provided by forests, forest plantations and other activities that strengthen the development of the natural resources sector.

LOGICAL FRAMEWORK

Narrative summary	Objectively verifiable indicators	Means of verification	Assumptions
<p>Broad goal: Improve competitiveness of coffee produced under agroforestry systems in Costa Rica.</p>	<ul style="list-style-type: none"> ■ Reduced vulnerability to climatic variation of coffee farms and increased carbon capture and storage by the coffee sector in Costa Rica. ■ Increased diversity of income to coffee producers employing agroforestry systems, as a result of access to PES; price premiums paid for certified coffee, and new sources of income for small-scale coffee growers. 	<ul style="list-style-type: none"> ■ ICAFE Annual statistical reports. ■ FONAFIFO carbon storage statistics. ■ Ministry of Agriculture. ■ FONAFIFO reports. 	<ul style="list-style-type: none"> ■ Socio-economic stability prevails. ■ Political commitment to support coffee produced under agroforestry systems.
<p>Project Purpose: Develop PES for coffee agroforestry systems in Costa Rica.</p>	<ul style="list-style-type: none"> ■ National authority for PES Schemes (FONAFIFO) establishes new payment system benefiting coffee production under agroforestry systems. ■ Increased percentage of small producers undertaking practices boosting productivity and sustainability. 	<ul style="list-style-type: none"> ■ Annual project reports. ■ Certifying organizations (Rainforest Alliance Certified (RAC), UTZ, 4Cs, Fairtrade Labelling Organizations International (FLO), International Federation of Organic Agriculture Movements (IFOAM), US Organic) reports. ■ Mid-term evaluation and end of project report. 	<ul style="list-style-type: none"> ■ Prevailing conditions of the world coffee market remains stable or improves. ■ Consumers and large buyers maintain willingness to pay premiums for sustainable coffee. ■ Commitment of farmers and exporters to project. ■ Coffee production under agroforestry systems is adaptive to climate change.

Outputs	Objectively verifiable indicators	Means of verification	Assumptions
<p>1. National Agreement on method and implementation arrangements for PES schemes for coffee agroforestry systems.</p>	<ul style="list-style-type: none"> ■ A national inter-institutional and multi-stakeholder platform to define the methodology, institutional and financial arrangements for PES schemes for agroforestry systems. ■ Proposed methodologies, indicators, costing and financial estimates have been calibrated based on implementation of two pilot schemes within coffee productive landscapes in Costa Rica. PES is formally established within FONAFIFO. 	<ul style="list-style-type: none"> ■ FONAFIFO administrative resolution. ■ Pilot site methodology implementation report. 	<ul style="list-style-type: none"> ■ Political commitment to support development of PES for coffee produced under agroforestry systems.
<p>2. Economic valuation of ecosystem services provided by coffee agroforestry systems.</p>	<ul style="list-style-type: none"> ■ Number of FONAFIFO and ICAFE technical staff trained on Sectoral Scenario Analysis (SSA) approach for economic valuation of ecosystem services provided by coffee agroforestry systems. Published study: The cost and benefits of shifting to agroforestry coffee systems in Costa Rica: An Economic Valuation of Sustainable Practice in Coffee. 	<ul style="list-style-type: none"> ■ FONAFIFO & ICAFE technical reports. ■ UNDP publications register. 	<ul style="list-style-type: none"> ■ The designed methodology is validated by national scientific and technical community and the coffee sector.
<p>3. Coffee extension systems strengthened to support coffee agroforestry systems. 3.1 Review coffee extension systems to support PES from agroforestry systems. 3.2 Development of training materials for producers of coffee under agroforestry systems to achieve PES eligibility.</p>	<ul style="list-style-type: none"> ■ Number of extensionists trained to improve knowledge of producers about ecosystem benefits of agroforestry systems for coffee production, and on new opportunities stemming from new PES schemes developed. ■ Growers from selected pilot coffee landscapes trained on coffee agroforestry system adoption and eligibility criteria for new PES schemes. 	<ul style="list-style-type: none"> ■ ICAFE & MAG Extension Service Reports. ■ New training toolkits. ■ Training workshop reports. 	<ul style="list-style-type: none"> ■ Enlisted farmers adopt new technologies and practices that enable access to new PES scheme.
<p>4. Development of international partnerships to support agroforestry coffee systems sourcing. 4.1 Fundraising for PES for coffee agroforestry ecosystem services. 4.2 Long Lasting purchasing agreements incentivizing coffee production under agroforestry systems.</p>	<ul style="list-style-type: none"> ■ Amount of funds raised for the PES in coffee scheme. ■ Number of new roasters of varying sizes buying certified coffee from agroforestry systems. 	<ul style="list-style-type: none"> ■ FONAFIFO accounting. ■ Official trade data. ■ Purchasing reports by roasters. 	<ul style="list-style-type: none"> ■ Financial institutions and coffee buyers interested in funding PES to secure future sourcing coffee from agroforestry systems. ■ Consumers and large buyers maintain willingness to pay premiums for sustainable coffee.

BUDGET

Economic Incentives for coffee agroforestry systems in Costa Rica.		CFC Grant Request				
Activities	Input	Y1	Y2	Subtotal US\$	ICAFFE CC (In Kind)	FONAFIFO (PES FUND)
Component 1						
National Agreement on method and implementation arrangements for PES schemes for coffee agroforestry systems.						
Institutional, financial and market barrier analysis.	Consultancy Services	16,000	9,000	25,000		
Set up and facilitation of national platforms and task-forces.	Facilitators (2)	12,000	12,000	24,000		
	Cost of venues	7,000	7,000	14,000		
Socialization of PES for coffee from agroforestry systems.	Editing, publishing and communication services	10,000	5,000	15,000	30,000	
Component 2						
Economic valuation of ecosystem services provided by coffee agroforestry systems.						
Training on Sectoral Scenario Analysis (SSA) approach for economic valuation of ecosystem services provided by coffee agroforestry systems for FONAFIFO and ICAFFE technical staff.	Consultancy services	20,000	15,000	35,000		
The cost and benefits of shifting to agroforestry coffee systems in Costa Rica: An Economic Valuation of Sustainable Practice in Coffee.	Consultancy services	18,000	18,000	36,000		
Component 3						
Coffee extension systems strengthened to support coffee agroforestry systems.						
Review coffee extension systems to support PES from agroforestry systems.	Consultancy services	25,000	15,000	40,000		
Development of training materials for producers of coffee under agroforestry systems to achieve PES eligibility.	Consultancy services	25,000	15,000	40,000	50,000	
Component 4						
Development of international partnerships to support agroforestry coffee systems sourcing.						
Fundraising for PES for coffee agroforestry ecosystem services.	Consultancy services	85,000	85,000	170,000		1,000,000
Long-lasting purchasing agreements incentivizing coffee production under agroforestry systems.	Consultancy services	30,000	30,000	60,000	50,000	
Component 5						
Project Management						
Project coordinator	Consultancy services	54,000	54,000	108,000	50,000	
Administrative assistant	Consultancy services	24,000	24,000	48,000		
Technical advisor	Consultancy services	30,000	30,000	60,000		
Supplies & materials	Supplies & materials	5,000	5,000	10,000		
International & domestic travel	Travel services	10,000	10,000	20,000		
Evaluation & auditing	Consultancy services		10,000	10,000	20,000	
Subtotal		371,000	344,000	715,000		
GMS		44,120	40,880	85,000		
Subtotal US\$		415,120	384,880	800,000	200,000	1,000,000
TOTAL PROJECT COST US\$	2,000,000					