

Cooperative Fair Trade Coffee: The U.S. Experience

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I. Background

The roots of alterative trade can be traced to churches in North America who provide relief for refugees and other poverty stricken groups by selling handicrafts.¹ It can also be traced to 1960s alternative trade organizations and cultures with both political and ethical agendas. The pioneers in alternative trade organizations offered higher or guaranteed returns to producers.

In 1988, world coffee prices began a sharp decline that resulted in the initiation of the Fair Trade movement. It began in the Netherlands and was branded “Max Haavelaar” after a fictional Dutch character.² The Max Haavelaar Foundation joined with TransFair International in Germany in 1998 as the Fairtrade Labeling Organizations International (FLO).³

In 1986, Equal Exchange, a workers cooperative in Boston, was formed for fair trade coffee. Major clients of Equal Exchange are the Lutherans and other religious groups. Equal Exchange coffees are now distributed by major grocery chains including Kroger, Safeway and Albertsons in some 1,800 mainstream stores.

TransFair USA opened its doors in late 1998 and began certification in 1999. TransFair is modeled on its European counterparts and is a member of FLO along with 17 other countries. Its founder, Paul Rice, worked for the Nicaraguan Ministry of Agriculture in

¹ One of these organizations, the Craft Center is now affiliated with CHF International and Ten Thousand Villages came out of early Mennonite projects.

² Redfern, Andy et al. “Creating Market Opportunities for Small Enterprises: Experiences of the Fair Trade Movement.” SEED Working Paper No. 30. International Labour Office (2002).

³ Ford Foundation. *Sustainable Solutions*, “Using Markets to Build Natural Assets and Financial Assets.”

1980. He decided the most effective way to help the poor was through helping them become smarter players in international markets.

The US is the world's largest importer of coffee, and coffee imports are second only to oil in terms of dollars in trade. Every day, Americans drink more than 300 million cups of coffee: 75% is home brewed. Last year, 13% of Americans enjoyed a daily cup of specialty coffee.⁴

Fair Trade certified coffee is the fastest growing segment of the specialty coffee market and about 2% of the world market. Specialty coffee comprises \$1.7 of the \$5 billion US coffee market (35%).⁵ In 2003, 18.5 million pounds of green coffee was Fair Trade certified with a value of \$208 million in retail sales. This represented a 90% increase in one year.⁶

In 2003, US coffee roasters selling Fair Trade certified coffee for at least 2 years saw an average of 125% increase in sales. For example, Green Mountain Coffee Roasters saw its Fair Trade sales grow by 92% in 2003. Currently, more than 300 US coffee roasters and importers are licensed to sell Fair Trade coffee in some 20,000 outlets.

Since April 2000, Starbucks Coffee has purchased more than 4 million pounds of Fair Trade coffee and 2.1 million pounds in fiscal year 2003, yet it represents only about one percent of their total purchases.

Transfair USA has certified some 65 cooperatives or cooperative networks for a total of 221 primary cooperatives in 19 countries. These cooperatives earn 3 to 5 times more than they would receive through traditional marketing channels. Licensed Fair Trade importers pay about \$1.26/lb (\$1.41/lb if organic) to Fair Trade coffee cooperatives.⁷

Importers make available up to 60% of the value of the contracts in pre-financing. It is estimated that Fair Trade coffee has provided \$34 million over five years in additional income to small producers.

⁴ Specialty Coffee Association of America. "press resources."

⁵ Specialty Coffee Association of America 2003 Report

⁶ TransFair USA

⁷ TransFair USA

II. U.S. Cooperatives involved in Fair Trade

Equal Exchange is a worker's cooperative founded in 1986 by activists from the food co-op movement who has the longest history and pioneered Fair Trade coffee. It was the first U.S. member of the Fair Trade Labeling Organization International. Equal Exchange provides a guaranteed minimum for purchases and buys directly from 17 small farmer-run co-ops in Latin America, Africa and Asia. Equal Exchange's success as the largest fair trade certified coffee company in North America derives from its dedication to quality specialty coffees and in providing certified organic and shade grown coffees.⁸

Cooperative Coffee is a green coffee importing cooperative that partners with 17 US and Canadian roasters and cooperatives in developing countries. The roasters share common interests and work together in order to provide a variety of specialty coffees to their clients and to import in sufficient volumes from at least 10 countries.⁹

Café Campesino, a member of Cooperative Coffee, started distributing coffee imported directly from farmers in 1998 and has grown to 14 cooperative members dealing with both green and roasted coffee, representing thousands of farmers in eight developing countries in Latin America and Africa.¹⁰

National Cooperative Bank provides working capital to Cooperative Coffee and Equal Exchange so that they can buy in bulk and cover the gap in their costs from shipment to consumer sales. Loan terms are usually a one year revolving line of credit between \$300,000 and \$1 million.¹¹

Eco Logic provides longer term working capital for up to two years for cooperatives in Fair Trade. It is a non-profit organization providing short and long term loans to community-based environmentally-friendly enterprises normally outside the formal financial market in Latin America, Africa and Asia. To ensure a successful loan, they provide credit and financial training to cooperatives and communities.¹²

⁸ Equal Exchange

⁹ Cooperative Coffee

¹⁰ Café Campesino

¹¹ National Cooperative Bank

¹² Eco Logic

Transfair USA is the only independent, third-party certifier of Fair Trade products in the United States. It has certified 41 million pounds of Fair Trade coffee since 1999.¹³

III. U.S. Cooperative Technical Assistance

A. Methodology

The National Cooperative Business Association (also known as CLUSA overseas) has a long history of working with Fair Trade cooperatives in El Salvador, Nicaragua, Indonesia and East Timor. In each of these countries, technical assistance has resulted in major expansions in organic production, increases in small farmer and cooperative incomes and direct market linkages to the US, Japan, England and Germany.

The NCBA methodology has been honed over 20 years and adapted to Fair Trade coffee cooperatives. It is based on five principles: (1) The immediate goal is to put money in the pockets of small-scale farmers; (2) the program must begin to work at the level where these farmers are; (3) the farmers must make the decisions so that they begin to understand business operations and the workings of the market place; (4) by working in groups, as part of member- or farmer-owned businesses, farmers learn about democratic economics; and (5) all activities and interventions work without regard to political affiliation.

The implementation is carried out in two basic modules:

Market Development - Access to Markets

The focus of technical assistance and training is to assist farmers and their organizations in acquiring the business and entrepreneurial skills needed to be effective domestic and export marketers. NCBA's advisors have solid experience in developing and maintaining good market linkages for non-traditional, high value products produced by small- and medium-scale farmers. From these experiences, a set of operational criteria has been established which are necessary to implement if an organization is to become an effective marketing entity. They include:

- Operate in a business-like and entrepreneurial way,

¹³ TransFair USA

- Develop and maintain market linkages; be totally customer-focused, providing good service in a timely manner,
- Operate in a competitive pro-active manner on behalf of members and clients including searching out good business deals, staying on top of market demands and alerting producers of potential market opportunities,
- Price services transparently and constantly work to reduce costs to drive the price for member services down.

Technology Transfer

NCBA has used and will continue to use a *market driven, highly focused, hands on, small farmer oriented, learn-by-doing* approach to technology transfer and training. Because the approach is market driven, NCBA understands that small-scale farmers seeking to compete in a market-oriented economy need to (1) learn and understand the requirements of the market and how to produce effectively for the market and (2) develop the managerial capability to operate their farm production operations as a profitable business. Market and business concepts are often foreign to them, because subsistence production or production for local sale does not make the same kinds of demands such as:

- Product quality as contracted;
- Acceptable condition of the product on arrival;
- Consistency of supply (the fewer the spikes in volume, the larger the average volume, and the longer the supply period, the better);
- Competitive landed cost; and
- Good service (i.e. timely and complete communications).¹⁴

ACDI/VOCA follows similar methodologies, but they will vary from country to country. In some countries, the focus is on high quality, limited exports through “Cups of Excellence” where the highest quality coffee is sampled, judged and auctioned to exporters. More broad-based methodologies are used in other countries where the goal is more focused on increasing overall quantities, especially where the coffees are unique or conditions are most favorable.

¹⁴ Interview with Stanley Kuehn, NCBA Director of Programs in Nicaragua

B. Nicaragua¹⁵

Since 1995, NCBA has been helping small farmers to produce organic coffee with environmentally sustainable technology. The primary objective is to train small farmer organizations on how to reduce their input costs and generate income. Coffee is the primary agricultural export of Nicaragua and there are two key players involved in the harvesting process: the private coffee producers (individual farmers and farm cooperatives) and the field workers. The Small Farmer project's mission is to create stable socio-economic conditions on the coffee plantations through organic sustainable production techniques. Today around 2,000 families benefit directly from this project and another 2,000 indirectly. Specialty and quality coffee is sold unroasted to the United States, Canada and Europe.

With the drop of the international coffee prices, NCBA started the "Farm Direct" marketing model to establish alternative markets for the beans. In this model the coffee is roasted and packed at origin to give Nicaragua a larger share of the value. With very strict quality control, NCBA technicians select the best coffee beans harvested in the high mountains of Nicaragua.

The small farmer roasts the coffee grown on the farm and sells directly to the consumer. The middleman is eliminated and the coffee grower earns a premium price per pound that is significantly more than for unroasted coffee. The coffee is then brought to Managua, roasted, marketed and distributed to the consumer. The roasted high-quality Arabica Organic coffee beans have a unique aroma, fragrance and flavor found only in Nicaragua.

NCBA has helped form and organize 260 small farmer groups to start the production of organic coffee, and contracted with Taylors & Harrogate of London for the first container of Certified Green Organic in 1999.

In 2000, 174 producers formed the Cooperative of Organic Coffee Producers of Matagalpa. Today the Cooperative sells two to three containers a year to Taylors & Harrogate.

The Fair Trade Organic coffee carries the Soil Association symbol. It comes from a small farmers' co-operative in Nicaragua where it is grown without the use of artificial pesticides and fertilizers. The coffee bushes grow in a natural forest environment under

¹⁵ Interview with Stanley Kuehn, NCBA Director of Programs in Nicaragua

the shade of indigenous trees that not only helps protect the young cherries from the scorching tropical sunshine, but are also home to many birds, insects and snakes.

C. El Salvador

NCBA has a 16 year history of providing technical assistance to small scale coffee farmers and cooperatives in El Salvador and has achieved significant success in improving product quality and establishing niche market links. Through these successes, a group of Salvadoran professionals have gained extensive production, marketing, and administrative experience. These professionals will be carrying out a Cup of Excellence (COE) competition and auction in El Salvador in 2005.¹⁶

NCBA, the Salvadoran Coffee Council and PROCAFE are helping to improve coffee quality from cooperatives, and small and medium producers that will participate in the 2005 COE competition. They are trained in (1) how to harvest for quality, (2) proper transport and storage of coffee once harvested, and (3) sample selection and preparation.

NCBA is installing four Quality Coffee Mini Labs with the potential to revolutionize small producer education and coffee quality improvement in this increasingly competitive and demanding world. NCBA is also training cooperatives, as well as small and medium producers on the rules and requirements of the 2005 Cup of Excellence Competition. There are very specific conditions under which producers can participate in this event and efforts will be made to increase the knowledge of these conditions and ensure participation. Over 20 cooperatives and 300 small and medium producers will be trained in five departments of El Salvador (Santa Ana, Ahuachapán, La Libertad, Sonsonante and Chalatenango).

NCBA is supporting the Salvadoran Coffee Council in the organization of the event. This will be the third year that El Salvador has hosted the Cup of Excellence competition through training POCAFE Technicians, engaging local coops and NGOs and serving as an advisor to the event, providing instruction and guidance for the coffee sample preparation, receiving and processing, cupping and judging, the Internet auction, and the administration of payments to winning producers.

Technical assistance to cooperatives for production of quality coffees includes:

¹⁶ Cup of Excellence

- Successfully achieving good quality coffee depends on picking ripe coffee cherries and following the correct processing steps. Train the producers so that they will implement the following steps: (1) Proper Plant Selection, (2) Layout and spacing, and (3) Depulping cherries on the same day as harvested
- Carefully transporting the product to the mill.
- Before collecting the coffee berries, the wet mill should be prepared and kept in good condition so that it will perform the necessary tasks
- The producers must remove any leaves or sticks from the coffee and coffee should be depulped the same day it is picked, washing the depulper after using it.
- Make sure that the coffee is fermented for the correct length of time.
- The producers should use very clean water and remove any sand, rocks, sticks, and leaves that may be in the water.
- Coffee should be as dry as possible before it is sent to the dry mill to keep it from fermenting in the bags
- The beans should be inspected and selected. Damaged beans such as those mottled, eaten by insects, broken, black, or moldy, etc. should be discarded.
- The technical team will visit each of the mills that will process the Cup of Excellence coffee, to ensure that the coffee is being processed according to the COE requirements, and that they are ready in time for the competition dates.

D. Indonesia

NCBA has a long history of successful development work in Indonesia. Over the 27 years, NCBA has conducted cooperative development with impressive results. In past projects have provided assistance to cooperatives in Java, Bali, Sumatra and South Sulawesi in the production and export of organic and specialty coffees as well as shrimp, fish, spices, furniture, mushrooms, baby corn and other items. Over \$600 million worth of these products have been exported to the United States, Europe, Japan, Australia and New Zealand over the last 14 years. Farmer incomes have increased significantly and over 16,000 jobs have been created.

NCBA and its colleague cooperative, Cooperative Business International (CBI), an international trading cooperative, continue to help these cooperatives export commodities such as coffee, pepper, vanilla, cinnamon and furniture, etc. For example, NCBA has helped cooperatives in South Sulawesi to produce and export over \$5.3 million of specialty coffee over the past five years.

The agribusiness development component focuses on financing economic activities at farm level to provide new and/or enhanced employment and income-generating opportunities. The enterprise development component focuses on assisting and strengthening small- and medium-sized businesses, and helps them develop value-added processing activities and sustainable domestic and international market linkages.

Three types of project financing support new and existing farmer-owned ventures:

- Equity capitalization for high-risk start-up ventures with maturity periods lasting up to three years;
- Short-term bridge financing, primarily for seasonal agricultural procurement requirements with an average maturity of approximately six months; and
- Grant financing, primarily to finance the soft capital requirements of ventures that, in the near -to medium term, will not have positive cash flows. Repaid principal remains available for additional lending.

NCBA also provides in-country training, including on farm training in specific production, harvesting and post harvesting activities, appropriate transport strategies, primary and secondary processing techniques, and management skills.

NCBA provides skills training for the workers and technical staff of the enterprises, and helps develop management and marketing skills at the businesses. NCBA organizes a corps of Indonesian personnel into a management team to provide on-the-job technical and managerial assistance. The team may work with an enterprise for several months to ensure that it is being effectively managed and operated, and upon leaving, will return periodically to monitor its progress and provide any needed additional guidance and/or training.

E. East Timor

NCBA was active in East Timor in supporting coffee exports prior to its independence from Indonesia. After the 1999 referendum for independence, the Indonesian army and its militias devastated East Timor's coffee industry by killing and displacing farmers and their families, stealing and destroying most of the coffee crop, and destroying roads, warehouses, and other infrastructure vital to the industry.

East Timor coffee production is small in the global coffee context, less than one percent of the world. Nevertheless, coffee is crucial to the country's overall economy. It is the most important source of foreign exchange and the primary source of income for about one-fourth of the country's population, or some 44,000 families.¹⁷

With support from NCBA since 1994, some 20,000 small-scale coffee farmers have organized into 16 organic cooperatives and 493 producer groups to create a national cooperative structure known as the Cooperativa Café Timor. Since the 1999 referendum, NCBA has worked quickly and under difficult conditions, in order to help East Timor farmers export their crop.

Café Timor is the only independent producer of wet-milled coffee, which significantly increases its quality and market value. In September 2003, NCBA assisted Cooperative Café in signing an agreement with Starbucks to sell organically grown, Fair Trade certified coffees to Australia and New Zealand under the brand of Timor Lorosa'e. Eventually, the coffee will be made available to 8,000 Starbucks branches worldwide. Previously, Starbucks had purchased the coffee for regional blends and now will sell East Timor coffee as a "single origin" product. Starbucks will be paying between \$1.26 and \$1.41 a pound. East Timor coffee ranks in the top one percent in the world in terms of quality.¹⁸

NCBA funds and coffee premiums have also helped Café Timor set up a network of eight fully operational clinics and 24 mobile clinics, making them the largest provider of rural health care in the country. An example of how business and solidarity can work together, Cooperative Coffees member Just Coffee has partnered with the Madison-based East Timor Action Network (ETAN). Together they are offering organically grown, Fair Trade coffee, while at the same time, educating consumers about how they can help East Timor re-build its coffee economy - a core component in the survival of this new nation.

Project implementation has been difficult because of the civil conflicts, vandalized facilities, brief evacuation of project staff and need to take over administrative functions previously done by the Indonesian government. Lessons-learned include:

¹⁷ Café Compesino, "Meet the Producers"

¹⁸ "Starbucks Gives Big Boost to East Timor Coffee Cooperative." *Cooperative Business Journal* (Nov 2004): 4.

Co-ops in a Post Conflict Environment: While NCBA normally tends to work as far from Government as possible – in the East Timor post-conflict environment it was extremely important to coordinate closely with various official channels, including the UN Administration, the emerging government, and US Government officials. This was primarily because each set of officials had their own ideas about how economic development should proceed – often official ideas were in conflict with one another – and bore little resemblance to East Timor’s needs. Project leaders/managers needed close contact with officials to keep them briefed on project activities and objectives to educate the officials and protect the integrity of the project.

Development of Indigenous Staff: As a province of Indonesia, East Timor met its human resource requirements with Indonesians – most of the educated Timorese fled. After independence, local educated Timorese and returning educated Timorese were snapped up into the emerging government, the various UN administrative units, the rapidly growing aid community – leaving little educated trained human resource for emerging Timorese businesses.

While NCBA’s approach of on-the-job training was able to meet some needs – it was inadequate to developing a class of entrepreneurial business managers. People needed more formal business training but no institutions existed to meet this need. The project had to create a formal training institute that offered: (1) ad hoc seminars on various business topics, (2) regularly scheduled sessions on accounting, budgeting, computers, language classes, etc, and (3) two-year courses leading to a degree/certificate in business management and financial management.

Building Confidence – in the Co-op and in the Farmer Members: After coming thru a period dominated by the Indonesians, Timorese had little confidence in their own abilities to produce and market quality products or successfully manage a business. During Indonesian stewardship of the coffee sector, East Timorese coffee quality declined rapidly, giving it a poor reputation on the world market

In addition to addressing the technical aspects of quality, volume and consistent production to regain recognition in the marketplace, project activities had to focus on building both human capital and confidence.

Capital Formation: The co-ops with which NCBA worked are, in essence, start up businesses – and like in the US, the failure rate for start up businesses is high. Start up business failure with co-ops serving very poor members is directly related to inadequate capital formation. The co-op businesses remain undercapitalized.

Economic Recovery/Rehabilitation: The cooperative business structure contributed quickly and extensively to a recovering economy in serving 20,000 farm families (120,000 people), marketed a significant portion of the national coffee harvest 35-50%; employed 300 full-time and 4,200 seasonal staff, played a major role in the adoption of a new currency in the economy, and provided primary health care to rural populations.

F. Ethiopia

Historically, Ethiopia is the oldest recognized country of origin and genetic diversity. Many different species are found in a wild state under spontaneous condition in the southwest rainforest. The growing regions (equatorial zone at an altitude between 1,500 and 2,000 meters) typically offer moderate sunshine and rain, steady temperatures with 60 to 70 percent humidity, and rich, porous soil. Coffee in this southwest region is known as Highland Coffee as the average altitude is 1,750 meters.

Ethiopia possesses one of the largest and most complex self-perpetuating ecosystems comprising the most varied plant species. Three major farming systems are recognized and practiced:

- Forest Coffee: This coffee grows as it has historically, under a forest canopy with very little human interference. It is part of a balanced ecosystem and grows with natural genetic diversity. These shade-grown coffees occur mainly in the south and southwest of the country.
- Small Farm/Cottage Coffee: Very representative of the specialty coffee and smallholder production. The majority of this coffee comes from small farms and is shade grown and often intercropped. There are about 700,000 coffee smallholders in Ethiopia, of which 54 percent are in semi forest areas, responsible for about 94 percent of coffee production.
- Plantation Coffee: This system utilizes modern planting practices and processing of the coffee. Plantation coffee accounts for 6 percent of total production.

Agronomic Practices

Coffee trees are treated with farmyard manure and compost; hand weeded and protected from pests with ashes. The trees are hand pruned and stumped to rejuvenate old coffee and spread the branches. A year before planting coffee, temporary and permanent leguminous shade trees (nitrogen fixers) are planted within the recommended light needs for coffee, about 50 percent.

Coffee growing regions and all cottage coffee remain organic under traditional practices. Red cherries are hand picked from late September to December. Only the ripe berries are taken for processing, therefore several passes are made among coffee trees at intervals of eight to ten days. Handpicked and sorted cherries are sold to cooperative washing stations.

Processing

- Dry Method: The harvested cherries are spread over a matting surface and raked at regular intervals to prevent fermentation. Cherries are covered for protection from rain and drop in temperature. Dried cherries are stored in warehouses, where they continue to lose moisture, before they are bagged and transported to a hulling facility at the locality.

- **Wet Processing:** Red cherries are pulped, fermented for twelve to forty-eight hours then dried to retain about 11.5% moisture content. Drying parchments are stored in warehouses, where they continue to lose moisture, before they are bagged and transported to a hulling facility in Addis Ababa.

Hulling

Parchment/husk is removed and the beans are packaged in labeled bags for export.

Quality Control

Quality is of prime importance to the Ethiopian coffee industry. Coffee is inspected for quality at every stage from harvesting cherries to processing to cleaning. Coffee collected for sale goes through another rigorous inspection by the Ethiopian Coffee and Tea Authority. Samples from each truck are checked for raw and roast physical appearance and for liquor taste.

Grading and Sorting

Although coffee beans are fairly uniform in size, they are graded by the CTA first by size and then by density. Beans are also sorted by using an air jet to separate heavy and light beans. In addition, over fermented and unhulled beans are sorted and removed by hand. Grading is also based on raw, roast and cup quality. Below are the two types of coffee produced:

1. **Yirgacheffe:** A rich coffee with a pleasant finish and lingering aftertaste. Real mocha, medium-bodied with tart acidity. With a flavor reminiscent of a burgundy wine, it produces a floral aroma.
2. **Limu:** An excellent balanced flavor with good acidity and medium body. It shares the winey characteristics of Harrar (another type of Ethiopian coffee) but the flavor is not as pronounced. Limu has a richer, more balanced flavor.¹⁹

The Coffee Farmers Cooperative Union was founded in June 1, 1999 and is comprised of 34 cooperatives with 22,734 smallholder farmer members. The union produces the following specialty coffees: Yirgacheffe, Limu, Harrar, Sidamo, Jima, and Lekempti over about 86,000 acres with annual production of 16,507 tons.

¹⁹ Myers, Alisha. "Old Concepts Revisited: Are Cooperative the Way Forward for Smallholder Farmers to Engage in International Trade?" London School of Economics & Political Science, University of London.

The union offers its members assistance in marketing and exporting, coffee processing, warehouse storage, transportation, training on quality production and on coffee extension, coffee by-products, and savings and credit.

Technical assistance has been provided by ACDI/VOCA to increase its member cooperatives' competitiveness and responsiveness to the market. The union serves community needs while also liaising between members, the state and international markets. It assists with the export of their coffee and providing services such as warehousing, market information, processing, transport, inputs, credit and export of coffee to international markets and representation for members.

A major accomplishment of the union is its central role in the coffee marketing chain. Previously, the government had closely regulated coffee marketing. Recently, the process was simplified to allow for greater participation from cooperatives. Earlier the law required farmers to channel all coffee sales through local traders, known as 'akrabis' and 'sebsabis'. In addition, until recently, exporters and international buyers were prohibited from buying from farmers directly. All coffee had to pass through one of two auction centres in Addis Ababa or Dire Dawa. Cooperatives were only recently granted permission to bypass the local traders and the coffee auction to sell directly to international buyers, eliminating the middlemen. This streamlined marketing chain empowers farmers with far more control over coffee processing and distribution than previously.

Inefficient marketing was one of the reasons why some farmers received between 27 percent and 54 percent of the coffee export price. The coffee union has increased the amount paid to members from export sales to about 70 percent through Fair trade and organic certification and directly managing coffee sales.

At present, members of primary cooperatives receive dividends based on the volume of coffee they sell. Farmers report that dividends are used for short-term credit, health, food, and agricultural inputs. For example, the Ferro coffee cooperative paid USD 146 in dividends to members in 2001. Profits are also used to build schools in the community, and improve infrastructure such as roads and electricity. The cooperative also offers savings and credit facilities to farmers during the growing season when their income is low.

ACDI/VOCA is building the capacity of cooperatives to function as rural businesses that are 'profit-oriented, professionally managed' cooperatives through organizational, management and business skills training to enable them to be institutionally and financially self-sustaining.

In its five-year existence, the Oromiya Coffee Farmers Cooperative (OCFCU) has achieved remarkable success in facilitating smallholder farmers' direct engagement in international trade. The cooperative has built a closer link between farmers and international markets. Building local, national and international relationships with

roasters and importers has paved the way to niche and specialty marketing opportunities for farmers, providing them with a living wage to improve their quality of life. ACDI/VOCA assisted in this niche building by introducing OCFCU to the Specialty Coffee Association of America resulting in increased exports to the US and Europe.²⁰ As a result of policy changes regulating the marketing chain and the cooperative's engagement in the international arena, farmers now receive increased profits from elimination of middlemen and Fair trade and organic certification. The economies of scale created by the union and social capital linkages at the local, national and international levels have enable the OCFCU to build and manage external relations beyond the scope of individual smallholder farmers, while still representing their interests and priorities. The OCFCU offers an example of the potential gains coffee cooperatives can achieve locally, nationally and internationally with significant investment and training.

Achievements include:

- Exported 54 tons of coffee valued at \$120,000 to the US and France in 2000.
- Acquired a \$650,000 line of credit from the Bank of Abyssinia in 2001 with USAID Guarantees and secured Fair Trade certification for eight cooperatives. (Fair Trade certified farmers are guaranteed \$1.26/lb versus the conventional market price of \$0.50-.70/lb)
- Dividends distributed to 23 primary cooperatives were USD 479,203.00 in 2003 with sales of USD .5 million.
- Credit line increased to 1.2 million USD with a 100% loan repayment rate in 2004.
- Granted permission by the GOE to become a direct exporter of coffee to roasters and importers, and began selling only organically certified Arabica coffee in Africa.
- Established business relationships with international companies like VOLCAFE based in Switzerland, Allois Dallamayr in Germany, Nestle-Japan, Nestle Espressos (Capsule Coffee) in Europe and Starbucks.

²⁰ Assefa, Tesfaye. "Revitalizing Market-Orientated Agricultural Cooperative in Ethiopia."

G. Colombia²¹

ACDI/VOCA, the Coffee Quality Institute (CQI) and the National Federation of Coffee Growers of Colombia (FEDERACAFE) are carrying out the "Colombia Specialty Coffee Program." Begun in 2002, the five year USAID project works at the producer level in the Departments of Cauca, Nariño, Huila, Tolima and Caldas for improving the socioeconomic situation of small coffee producers and their families. The goal is to increase the production of exportable specialty coffees as part of the Alternative Development Program with Plan Colombia.²² It supports:

- Renovation of Coffee Plantations: Small producers are being assisted in planting and caring for recommended varieties of specialty coffees by the Coffee Committees within the FEDERACAFE system. Appropriate agricultural practices will be followed.
- Improvement of Production and Processing Infrastructure: The Coffee Committees have the responsibility of transferring technology to the coffee farmers in their regions, with the specific objective of promoting the production of exportable specialty coffees through the introduction or reinforcement of recommended production, processing, storage and handling practices. The Program provides for the purchase of processing equipment and adequate facilities.
- Family Food Security: The Coffee Committees transfer to the small coffee farmers the appropriate technology for the production and post-harvest handling of local subsistence and cash crops. This activity will help cover household consumption needs and generate small surpluses for sale in local or regional markets and reduce the need to purchase food for family requirements.
- Quality Improvement: The Program promotes awareness of market-driven quality issues related to specialty coffees, such as cupping training, regional cupping contests, use of laboratories, and rules and procedures of processing and handling. CQI advises the Program on the appropriate methods to transfer these technologies, knowledge and rules to the producers, and the quality requirements for the specialty coffees markets.
- Marketing Promotion and Exports: The Program designed and implements an international marketing strategies program for specialty coffees through different

²¹ McNulty, Michael. "Columbia: Columbia Specialty Coffee Program Profile." ACDI/VOCA

²² ACDI/VOCA, Colombian Specialty Coffee

activities such as participation in specialized fairs, trade shows and exhibitions, commercial missions, research of external markets, distribution and follow-up of samples abroad, training in marketing at the local and international level, preparing reports and marketing materials, creating brand names and origin names, activities of penetration of market niches, and creating the Program's webpage.

The program works with twenty-four existing producer groups. Additional participants were organized into twenty-five new groups as a means to increase their purchasing power, differentiate their coffee, create sustainable products and develop brand names where applicable. These groups were also set up as a medium to receive technical assistance and services via the various components of the program and are now being legally registered and trained as self-reliant business entities.

FEDERACAFE and its cooperatives identify priority areas and subsequent aid and inputs for the different groups, such as de-pulping machines, drying patios, coffee tree nursery supplies, plant material, and fertilizers. The program has trained approximately thirty producers, cooperative representatives and FEDERACAFE technicians in state-of-the-art coffee-cupping/grading techniques at the SCAA/CQI headquarters in California. This training enables all links within the value chain to assess the coffees, their respective qualities, defects and also helps identify critical points, at all levels, where either technological intervention or processes can be changed or increased.

The program then identifies appropriate in-country coffee exporters and outside clients for the various groups. Myriad roasters and importers have traveled to the coffee origin to meet with the Program's beneficiaries, cup coffees and have provided invaluable feedback to the farmers, groups and cooperatives on product differentiation, quality control and strategic marketing approaches to enter U.S. and EU niche markets. The program created a rotating marketing fund which purchases the beneficiary groups' coffees and also works with the larger "umbrella" cooperatives which process and stores the coffee until they are shipped overseas.

H. Mexico

The communities linked to Mut Vitz are located in the Northern Highlands of Chiapas, in six municipalities: El Bosque, Simojovel, Bochil, Jitotol, San Andres Larrainzar, and Chenalho. The number of producers associated with the cooperative at this point is approximately 1,000. However, as this group is still "in formation", that number continues to grow. Nevertheless, based upon conservative "most likely" membership estimation, the potential for total production this year is calculated to exceed 15,000 quintales (100-pound bags) of high-altitude coffee.

The cooperative Mut Vitz is primarily comprised of Tzotzil Indigenous campesino farmers. The cooperative has been "self-organized" by its members. It is now legally recognized under Mexican law, and the cooperative is in the process of acquiring its export license. The producers themselves are currently in a transition period from

"natural production" to "certifiable organic" production methods and are paying particular attention to all appropriate practices for sustainable, shade-grown coffee.

Mut Vitz coordinates a network of some 48 organic promoters working in their 24 communities to consolidate their own participative process for the transfer of technology and practical know-how for the organic production of coffee. They have already made great strides towards fortifying their own organizational structures and local leadership.

Because of the lack of government support for people living in this zone, producers have been searching for autonomous economic and social alternatives to support development in their communities. One critical aspect is the creation of alternative, economic models, supportive of social advancement and the consolidation of the Indigenous communities as focal points for the promotion of democracy, self-management and sustainability, as well as covering the people's basic needs of food, health care and local infrastructure.

Through its Farmer-to-Farmer Project, Land O'Lakes provided technical assistance through six interventions to Mut Vits cooperative in 1998 and 99 in organizational strengthening, marketing, proposal development, sales and coffee processing. Assistance included:

- Holding general workshops on organic coffee, strengthening cooperative management and quality controls.
- Putting in place collection systems in order to have sufficient volumes for export.
- Facilitating Mut Vits with inscription into the "International Coffee Register", and outreach to the Fair Trade movement including sending samples and arrangement for containers to Café Campesino and other importers in Europe and the U.S.
- Training cooperative leaders in management, communications and technical know how.

Results included:

- Development of internal inspection system for organic production
- Opening of bank accounts and administration of donations for critical investments such as fees paid for organic certification
- Substantial increase in coffee sales with various buyers in local, regional and international markets
- Increased net profits for the cooperative to \$86,000 which resulted in families gaining significant increases in incomes
- Improved the social and economic health of this conflict riddled area.

In conclusion, Land O'Lakes supported volunteers from the very beginning of the cooperative which now has a solid foundation and is a major specialty and fair trade exporter for the region.

I. Rwanda

Following the civil war and genocide of the 1990s, Rwanda faced destabilization and severe food shortages created by systemic deficiencies in agricultural production,

distribution and marketing. In response, ACDI/VOCA implemented an emergency food monetization program in 1998 and a five-year USAID P.L. 480 Title II development program in 2000. Only recently has Rwanda entered the Fair Trade market.

Rwanda has the highest population density in Africa, and approximately 87 percent of the population is engaged in agriculture. Per capita food production is low; approximately 60 percent of households live below the poverty line and have insufficient dietary diversity. There are few large landowners and most Rwandan farmers cultivate less than a hectare of hillside land to which they possess traditional title. Most productive agriculture has gradually descended to the marshlands in valleys where the government allocates land on an annual basis to farmer associations.²³

ACDI/VOCA supports local initiatives in commercial agriculture and agribusiness development through its Food Security Grant Fund. The fund awards grants to rural associations and cooperatives who have submitted viable proposals for agribusiness activities. Grantees have included cooperatives involved in coffee processing such as cherry washing stations for coffee exports.

ACDI/VOCA helps cooperatives and smallholder groups strengthen their business skills and respond more effectively to changes in the market including increasing the quality of coffee that is frequently cultivated on steep slopes. If the costs of growing coffee outweigh revenues, there is a risk that the farmers will uproot their coffee trees, thereby aggravating soil erosion. In an effort to prevent this and to make coffee production a more viable livelihood, ACDI/VOCA initiated a program emphasizing the importance of the links in the production and marketing chain—coffee agronomy, harvesting, processing and marketing—in an effort to produce a superior product that can be sold in specialty markets.

ACDI/VOCA works with two FairTrade cooperatives, Abahuzamugambi in Maraba district and COOPAC in Gisenyi district which were certified in 2003. As a result, Abahuzamugambi, with about 450 members, recently sold 13 tons of its coffee for \$1.33/lb to a London specialty roaster and 18 tons for \$1.36/lb to Community Coffee. Coopérative pour la Promotion des Activités-Café (COOPAC) with 540 members was able to sell all of its 2004 production (about 44 tons) at the FairTrade floor price of \$1.26/lb to roasters in Europe and the US.

²³ “Coffee crops unite Hutu, Tutsi farmers.” *The Miami Herald*. (Monday, Nov 29, 2004).

Several organizations are promoting Fair Trade Coffee in Rwanda, such as Union Coffee Roasters, EcoLogic, Green Mountain and the Gorilla Fund Coffee, the latter to sustain livelihoods in habitats where these animals live. Green Mountain Coffee Roasters, which sells more than 20% of their coffee under the certified Fair Trade label, recently purchased 37,500 pounds of coffee at \$1.34 a pound from the Karaba Cooperative.

H. Crafts Center

In addition to Fair Trade coffee, The Crafts Center at CHF International is a member of Co-op America's Fair Trade Alliance with fair trade as its *raison d'être*. The Center is an international network dedicated to assisting low-income artisans and preserving cultural heritage. Its objectives are to:

- Support CHF International's goal of fostering more peaceful communities through the stimulation of local economies and the promotion of international trade and cultural exchange.
- Help artisans and businesses to understand and respect fair trade and labor practices, cultural traditions, and the environment.
- Provide opportunities for self-empowerment through the development and promotion of effective and appropriate business tools for artisans.
- Emphasize opportunities for women and indigenous groups in areas where they have been under-represented.²⁴

Each year the Crafts Center assists hundreds of member cooperatives who develop handmade products, supporting the cooperatives with information, training, and networking, and by raising awareness of fair trade and related issues. These member cooperatives work in mediums as diverse as glass, beads, clay, textiles, leather, metal, stone, wax, and wood.

As an example, CHF International has developed a 400-member handicraft cooperative called the Karvan Handicrafts Association in Azerbaijan. It is comprised primarily of displaced women living in camps. The Karvan Handicrafts Association offers a wide range of weaved and knitted products of various sizes and designs, such as handmade carpets, rugs, knitting, carving, embroidery, socks, souvenirs and other marketable handicraft products by using natural dye to yarns. CHF International has worked with the

²⁴ Interview with Heather Bowen, Crafts Center Manager, The Crafts Center at CHF International

Association to restore the ancient Karabakh designs of Azerbaijan, allowing the art to be passed on to succeeding generations.

IV. Conclusions

It should be emphasized that not all coffees from developing countries will be able to penetrate the Fair Trade (FT) market. The majority of the coffee origins will not have access simply due their flavor profile. The Specialty Coffee sector has their favorites, again mainly due flavor profiles. There are many cooperatives that have received Fair Trade certification but have never been able to sell their coffee at Fair Trade prices. Now, FLO will only certify cooperatives if they are able to prove that they would be able to sell their coffee at FT prices.

If technical assistance organizations are working in coffee regions or local cooperatives are trying to get certified in countries where there is an established specialty flavor profiles, they will need technical assistance in producing perfect and consistent quality. No FT buyers in the market will procure anything less than perfect quality coffee.

At today's Arabica and specialty Arabica price levels, Fair Trade prices are losing their relevance. The New York coffee exchange indicator price, which sunk to 42 cents/lb in 2001, closed at \$1.10/lb in January 2004. Regular quality Sumatera and Sulawesi coffees are now selling at \$1.78/lb-much higher than Fair Trade (\$1.26/lb) and Fair Trade Organic (\$1.41/lb) prices.

However, Fair Trade was been extremely essential the last three years for the NCBA project with coffee coops in East Timor. For example, it resulted in over \$1 million in premiums that were used for (a) higher prices to farmers; (b) health services to coffee farmers; and (c) processing infrastructure.²⁵

Similarly, U.S. buyers, such as Campesino Café, are currently negotiating prices and shipments from FT cooperatives for the U.S. market. They have indicated that 2005 will be test of the specialty market since cooperatives will be able to obtain similar prices on the regular market, rather than through FT.

²⁵ Sam Filiaci, NCBA County Manager in Indonesia

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