

FAIR

A white ceramic coffee cup filled with dark coffee sits on a matching white saucer. The cup and saucer are placed on a light-colored wooden surface. A large, irregular spill of dark coffee has occurred on the table, extending from the base of the saucer towards the bottom of the frame. The background is a solid light blue color.

**A way out of
the coffee
crisis?**

PHOTOGRAPHY BY STROBOPHOTO

TRADE

Coffee prices have fallen to all-time lows.

The short-term outlook for a recovery is bleak, given the combination of overproduction, sluggish growth on the demand side and mounting global competition. As a result, hundreds of thousands of Latin Americans whose livelihood depends on this traditional crop have lost their main source of income. The crisis is already pushing migration in economically ravaged rural areas of Mexico, Central America and Andean nations such as Colombia and Peru. What to do?

**Social
entrepreneurs
offer
impoverished
growers an
alternative**



Central American Coffee

A movement of social entrepreneurs is actively promoting “fair trade” coffee as an alternative. This type of coffee is well known in Europe, where some 130 fair trade brands are sold in tens of thousands of supermarkets. The idea is quickly gaining ground in the United States, where consumers are usually more familiar with organic and “eco-friendly” coffees.

The fair trade economic model seeks to guarantee growers higher prices for their coffee by helping them establish more direct and equitable links with wholesalers, retailers and consumers. In many cases, fair trade advocates also assist farmers in securing credit and encourage them to adopt environmentally sound practices and diversify their production.

The movement’s roots can be traced to northern Europe. It started in the 1980s, largely as an effort by social activists to aid disfranchised farmers in distant tropical lands. One of their rallying cries was “cut out the middleman,” the intermediaries who traditionally buy coffee beans in remote farms and villages. In southern Mexico and many Central American countries, these businessmen are known derisively as coyotes. According to fair trade advocates, these middlemen pay farmers notoriously low prices for their output and charge them usurious interest rates on crop loans.

A typical fair trade agreement involves three parties: a coffee-growing cooperative, a non-governmental organization and a foreign roaster, importer or retailer. The NGO, like a broker, connects the buyer and the seller, who negotiate a long-term contract. The foreign firm agrees to pay the cooperative a fixed price above market levels for high-quality coffee. In turn, the NGO certifies that the growers are getting a better price than if they sold their crop to a middleman.

Fair trade organizations have set a floor price of US\$1.26 per pound,



Low prices mean big worries for coffee producers.

Nations at a Crossroads

According to a report issued earlier this year by the Inter-American Development Bank, the United States Agency for International Development and the World Bank on the outlook for Central American coffee-producing nations, the current crisis appears to be structural and will require new strategies based on sustainable rural development.

Although this region possesses competitive advantages to produce and export high-quality coffees, it has suffered a 44 percent drop in export revenue in a single year and faces a further decline this year. This decrease is hurting its balance of payments and sapping overall economic activity. Coffee debts hamper its financial sector, and some 600,000 people have lost their jobs in the coffee industry. The crisis has been especially harsh for small farmers living in remote areas and the even poorer rural laborers.

The joint report, which was presented at a regional conference held in Antigua, Guatemala, in April, described two potential lines of action. On one hand, countries might support regions capable of producing high-quality coffees—namely, those with the right combination of climate, soil and altitude. On the other, they might have to help less fortunate regions diversify into other activities.

Both courses of action will require effective public policies and investments, appropriate promotion and marketing strategies, and support from civil society groups and NGOs, the report added. Social safety nets and food security networks will have to be strengthened to assist the jobless and their families.

In those regions with stronger potential for growing coffee, the strategy stresses the importance of enhancing quality throughout the whole process, from choosing suitable geographical areas to guaranteeing the production of top-quality beans to building partnerships that will result in long-term links to high-end markets. A key tool for obtaining price premiums is market differentiation, the production of quality coffees that are not usually traded as a commodity.

Diversification should provide alternatives for growers who are not competitive in coffee but want to continue farming. This course of action would have to address, among other factors, credit, infrastructure, agricultural support services, research and extension in production, marketing and promotion, technical assistance and training.

To achieve sustainable results, the transition strategy must also protect the environment. While some eco-friendly practices can enhance coffee quality, productivity and profits, diversification could also lead to negative impacts if forests that once grew shade coffee are cut and water use changes.

Source: Managing the Competitive Transition of the Coffee Sector in Central America. IDB, USAID, World Bank discussion paper.

nearly three times the prevailing price in the international market, which has sagged under a surfeit of cheap coffees. Growers who practice environmentally friendly farming or refrain from using synthetic pesticides and herbicides can obtain even higher premiums for their beans.

As their movement expanded, fair trade groups sought to establish a credible system to monitor whether farmers were in fact receiving better



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prices. One of the leading international certification entities is Fairtrade Labeling Organisations International (FLO). Its seal of approval can be found on coffee, tea, cocoa, honey, sugar, orange juice and bananas. Retailers pay a fee to use FLO's black-and-white label on their products.

Worldwide sales of fair trade coffees totaled 30 million pounds in 2000, benefiting more than half a million farmers in 21 developing countries, according to TransFair USA, a leading nonprofit organization that introduced fair trade coffee in the



Will That Coffee Be Sustainable, Specialty or GIO?

Coffee lovers in industrialized nations and, increasingly, in developing countries can now pick from a bewildering variety of products that address different consumer concerns and preferences, ranging from social and environmental causes to taste and origin factors. These designer coffees can command substantial price premiums over the lowlier varieties used to make instant coffee.

The **sustainable** category includes organic, fair trade and eco-friendly coffees, which are generally produced by small producers and processed according to standards of environmental preservation or social equity. **Organic** coffees are usually grown using soil conservation techniques, non-synthetic fertilizers and pest control practices, and water-recycling and -management methods. **Fair trade** coffees are produced by cooperatives of small farmers. These growers are guaranteed better prices by purchasers, who often provide the farmers with credit as well as incentives to invest in community development projects and diversified economic activities. **Eco-friendly** coffee, also known as **shade** coffee, is grown under a forest canopy to ensure both biological diversity and environmental protection.

Specialty or gourmet coffees include flavored and espresso-based products and cold preparations. While the category suggests exclusivity, nowadays these products are available not only in special stores but also in supermarkets and coffee bar chains such as Starbucks. Although gourmet coffees experienced strong growth in sales over the past decade, experts still see room for expansion, especially in Europe.

Geographic Indication of Origin (GIO) coffees are produced in specific areas with distinct microclimate, soil and altitude conditions and are marketed to promote their unique characteristics. Just like wines from famous *terroirs*, GIO coffees have their own niches in the high-end market: Jamaica's Blue Mountain, Hawaii's Kona and Guatemala's Antigua are just a few examples of the most celebrated varieties. In fact, some have been so successful that unscrupulous traders have marketed more common coffees using the pricier GIO designations.

Such ruses have caused experts to warn the coffee industry that it should ensure that international certification standards and definitions are properly applied. World Bank senior consultant Daniele P. Giovannucci points out that failure to take action could jeopardize the value of differentiation and erode consumer confidence, destroying a valuable tool for coffee growers.

Source: How Markets Influence Poverty and the Environment: The Transformative Power of Coffee, Daniele P. Giovannucci, Ed.

United States in 1998. Since then, more than 100 companies have signed up to use its certification label, including Safeway supermarkets and the Starbucks chain of coffee bars. Clearly, the movement has outgrown its original base of socially conscious church, student and environmental groups.

"These are not old hippies who want to change reality. Starbucks does not do it because they are bleeding hearts," says William Fulbright Foote, president of EcoLogic Enterprise Ventures, Inc. (EEV), a Cambridge, Mass., "green" fund that provides affordable financing to eco-enterprises in Latin America.

Neither Foote, 33, nor his fellow panelists who took part in a session on fair trade and social entrepreneurship at the IV Inter-American Forum on Microenterprise could be described as old hippies. Foote is a former Lehman Bros. investment banker who studied at the Harvard Business School. Jorge Cuevas, 28, runs the Rainforest Trading Co., a specialty-coffee processing and export firm based in Oaxaca, Mexico, that works with cooperatives of small growers. Ileana Cordon, a young Guatemalan sociologist, founded Crecer, a fair trade business development NGO that operates in Mexico, Central America and the Caribbean.

Foote, Cuevas and Cordon represent a new generation of social entrepreneurs who are using market-based tools and business practices to help marginal Latin American rural communities improve living standards by increasing their productivity and their access to affordable credit and export markets.

Crecer, which provides consulting services to small producers in farming and non-farming sectors, has received support from the IDB's Multilateral Investment Fund to carry out a program to help artisan associations in the region use electronic commerce to expand into foreign markets.

Can coffee with a social conscience be relied upon as a sustainable solution? Fair trade advocates point to its strong growth in the United States, which they see as their most promising and least developed market.



Chiapas that holds the remnants of southern Mexico's cloud forests.

Evergreen's loans will serve several purposes: they will support sustainable farming and forest conservation, promote the production of high-quality coffee and encourage farmers to save part of their profits. If the growers fulfill their part of the deal, they will be able to apply for more financing to buy equipment, improve their processing, transport their beans and hire more workers.

Foote also seeks to prove to local commercial banks that small coffee growers can be good credit risks. In preparation for that day, he has held credit workshops in remote mountain villages to train cooperative members on how to negotiate loan terms.

Can coffee with a social conscience be relied upon as a sustainable solution? Fair trade advocates point to its strong growth in the United States, which they see as their most promising and least developed market. TransFair USA says it certified some 7 million pounds of coffee last year, up from 4.2 million pounds in 2000, which was more than double the amount it certified in 1999. Fair trade-labeled coffee can now be found at about 7,000 outlets in the United States.

RTC's Cuevas says fair trade coffee is a valid alternative for small growers but acknowledges that it has limits. Its consumers are motivated by the desire to help people who live thousands of miles away. Maintaining high standards will be essential to keep them as clients. However, he adds, Latin American farmers and microentrepreneurs have other possibilities. "Niche markets based on innovation, quality, purity and ecological attributes offer even bigger markets that can and should be tapped by Latin American microentrepreneurs," he says.

—PETER BATE

 For additional information, please visit the website: www.iadb.org/regions/re2/coffeeworkshop

Cuevas and Foote have worked together to overcome one of the greatest hurdles for small coffee growers: securing loans at reasonable interest rates to finance crops and investments that can boost their cooperatives' productivity. In Foote's view, small coffee growers have been shut off from credit even as microlending has flourished in the region. "The problem is that these cooperatives do not need [US]\$500 loans but rather loans up to \$150,000. And the financial sector is simply not providing them," he says.

Farmers hard-pressed to find pre- and post-harvest financing have traditionally turned to moneylenders and coyotes that demand as much as 20 percent a month in interest charges.

Enter Foote's EEV. A majority of the loans approved by his US\$1.3 million fund, which is supported by individual philanthropists, private foundations and social investment funds, have been granted to environmentally responsible coffee producers.

Last year EEV provided US\$77,700

in financing to La Unión Regional de Pequeños Productores de Café, a cooperative in Huatusco, Mexico, that works with Cuevas' trading company. La Unión, which has more than 1,000 members, grows shade coffee in the lush Sierra Madre range. The resources are helping the cooperative modernize its coffee-processing and -milling facilities in order to expand capacity and reduce water and fuel consumption.

Another cooperative, La Trinidad of Oaxaca, which grows organic coffee, received a US\$40,250 loan from EEV that used the upcoming crop as collateral and was serviced with payments for shipments to a California importer.

EEV also teamed up with Conservation International to establish the US\$400,000 Evergreen fund, with a loan guarantee provided by the Starbucks Coffee Company. The fund has supplied below-market-rate loans to small-scale farmers who grow shade coffee in communities surrounding El Triunfo, a biosphere reserve in