

Does fair trade make a difference? The case of small coffee producers in Nicaragua

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Fair trade represents an innovative approach to make the rules of global trade work for disadvantaged producers in the South and for sustainable development. But who are the real beneficiaries of fair trade? Has fair trade resulted in any discernible improvements in the lives of small coffee producers and their communities? This paper examines the effectiveness of fair trade as a development tool and the extent of its contribution to the alleviation of poverty in coffee-producing regions of Nicaragua. The paper argues that it is crucial to analyse the experiences and problems of small coffee producers and producer organisations involved in the fair trade market to ensure that the objectives and claims of fair trade are achieved in practice. The study concludes that there are limits to the extent to which fair trade can significantly raise the standard of living of small coffee producers because of factors such as the debt problems faced by cooperatives, lack of government support, and volatile international coffee prices.

Coffee and the global market

The collapse of world coffee prices, chronic oversupply of coffee, and corporate control of international production and trade are damaging rural economies in many developing countries. The second most traded commodity after petroleum, coffee not only provides the economic backbone of many countries in Latin America, Asia, and Africa but it also determines the livelihoods of 25 million poor families (Gresser and Tickell 2002). Coffee is one of the few internationally traded commodities that is still produced mainly on smallholdings farmed by peasant households, with almost 70 per cent of production coming from producers who farm less than ten acres of land. The global trading system, geared partly towards the exploitation of cheap labour in the South and the maintenance of low consumer prices, has constituted a difficult economic environment for many small coffee producers. In recent years, farmers' incomes have fallen dramatically and many receive prices for their coffee that are less than the cost of production (Brown et al. 2001). This trend is not only causing economic jitters among coffee farmers, but also increasing threats to the land and wildlife where coffee is grown.

International action to help small coffee farmers raise their standards of living is critical as it can assist developing countries escape from the poverty trap and contribute to the overall alleviation of world poverty. However, if price stabilisation mechanisms or policy changes are to have any real impact on farmers' welfare, they need to lead to higher as well as more stable

incomes for small farmers. Also, such interventions should aim to improve the social infrastructure and environmental conditions of the area in which these farmers reside if the outcome is to be socially responsible.

Fair trade and small coffee producers

Fair trade has come to represent an important approach to correcting the imbalance between coffee supply and demand, the disparity between international coffee prices and producers' wages, and the discrepancy between global trade rules and sustainable development. Although constituting only a fraction of world trade, sales of fair trade-labelled products are currently valued at US\$500 million and are growing at 30 per cent per year (Moore 2003; Raynolds 2002). Europe holds the largest market share of all fair trade commodities, while the North American market for fair trade coffee has been fuelling the market's rapid growth in recent years (Raynolds 2002).

The most widely used definition of fair trade, established by the fair trade umbrella organisation FINE,¹ is:

Fair trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers, especially in the South. Fair trade organisations are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade. (www.ifat.org, accessed 27 July 2004)

Fair trade is an 'alternative trade' initiative promoting a different approach both to the conventional global trading system (free trade) and to development systems (protectionism and development aid) through the central philosophy of 'trade-not-aid' (Rice 2001; Raynolds 2002). It is a non-charity concept that 'challenges the orthodoxy of business practices ... not simply by campaigning but by offering this alternative working model as an example' (Moore 2003:74). Fair trade is important to today's world because it proposes a new form of rural development intervention that links the local with the global through trade.

The model facilitates access to a profitable trading system wherein small producers can establish direct links with consumers in the North and obtain higher prices for their commodities (Lewis 2000). With the help of Alternative Trade Organisations (ATOs) in the North, fair trade coffee has caught the attention of millions of socially and ecologically aware consumers around the world (EFTA 2003). These consumers are crucial to the fair trade movement as the extra price charged for a bag of coffee in Northern retail shops and supermarkets determines the higher prices received by fair trade producers at the farm gate. Fair trade is gaining prominence, particularly because of its 'trading ideology' (Tallontire 2002:1) and 'development rationale' (Lewis 2000:1), which have proved attractive not only to consumers but also to development practitioners.

Thus, fair trade attempts to level the playing field for small farmers through two important principles:

- paying farmers a 'fair price', that is, one that covers costs and is stable; and
- offering them and their organisations² varying levels of support services.

The 'fair price' constitutes a 'price floor' of US\$1.26/lb green beans guaranteed by Fair Trade Organisations (FTOs), regardless of how low the market price goes.³ Of this price, producer organisations are entitled to invest US\$0.5/lb for community development purposes. If the

world price exceeds US\$1.26/lb, FTOs are required to pay their farmer-partners US\$0.5/lb above that price (Rice 2001).

A global consensus seems to be emerging around the advantages of fair trade and its potential to bring discernible benefits to small producers and the environment. As Raynolds (2002) acknowledges, however, there is currently little evidence on the effectiveness of fair trade as a development tool. Only recently has research begun to focus on the impacts of fair trade schemes and hence little scholarly material and independent analysis is available on the topic. As a result, experiences of fair trade practices remain scantily documented with inconsistent data acting as a barrier to further analysis of trends. More research is crucial in order to know for certain the extent to which fair trade constitutes a 'fair' and 'sustainable' system and an avenue for empowering producers and alleviating poverty (Raynolds 2002).

Outline of case study

Based on fieldwork undertaken in July 2003 in northern Nicaragua, this paper examines the extent to which fair trade has helped small coffee producers and their communities improve their standard of living in the midst of the international coffee crisis. It aims to identify the impacts of fair trade in relation to five goals established by the Fair Trade Labelling Organisation International's (FLO) standards and procedures, namely: improved livelihoods of small coffee producers and their families, stronger producer organisations, rural community development, gender equity, and environmental protection. Opening with a brief account of the effects of the coffee crisis on small farmers in Nicaragua and the emergence and consolidation of the fair trade network in that country, the paper then summarises the research findings and identifies the challenges that confront fair trade as a development tool, concluding with recommendations for ways in which to address existing problems.

Nicaraguan coffee crisis and small farmers' livelihoods

Coffee has become Nicaragua's most valuable agricultural crop, comprising 30 per cent of total export income (Bendaña and Allgood 2001). Coffee is the engine of development and a primary source of employment for many rural communities. There are approximately 30,400 coffee producers in Nicaragua, 80 per cent of whom are smallholders with less than 5 ha of land (Bacon 2002b). In recent years, coffee production in Nicaragua has been affected by the rigours of the free market, including the implementation of poorly designed market liberalisation reforms, the establishment of a new coffee industry in Vietnam, and the expansion of coffee production in Brazil (Bendaña and Allgood 2001). Moreover, the breakdown of the International Coffee Agreement (ICA) in 1989 and the subsequent collapse of world coffee prices⁴ have left many coffee producers without access to credit, inputs, or markets, and clearly unable to compete with bigger plantations (Varangis et al. 2003).

The 'coffee crisis' has had severe consequences for the social and economic conditions of small farmers and agricultural workers, especially farm labourers who live and work in the country's largest plantations. In the mountains of northern Nicaragua, near the city of Matagalpa, thousands of coffee workers and their families are now grouped together in what they call *plantones*. At the time of the research, thousands of landless workers were found squatting along roadsides, living in miserable conditions and demanding help and solidarity from the government and from passers-by. For the first time in Nicaraguan history, there is a significant group of workers experiencing real hunger in the coffee fields.

The situation of small-scale coffee farmers has also been difficult. Smallholders have been forced to sell their coffee beans for much less than the cost of production,⁵ which has meant

that they have had to pull their children out of school, and that they cannot afford essential medicines, food, and the necessary inputs to their coffee farms. The price drop has also resulted in the loss of employment and increased rural–urban migration, as well as in the threat of property foreclosure for thousands of small farmers. Moreover, three banks with high investment in the coffee sector folded and a debt of US\$100 million remains. The money that had been invested by coffee growers in order to bale them out during an economic crisis became inaccessible to them. This phenomenon was exacerbated by the high levels of corruption in the former government of President Alemán (1995–2000), and an agreement signed with the IMF to maintain a minimum balance of international reserves (Bacon 2002a).

As Bacon (2002a:11) points out, ‘people’s vulnerability to the falling prices depends upon their location in the coffee commodity chain and their access to resources such as land, credit, diversified income sources and social networks’. The research for this paper showed that while the crisis severely affected landless rural workers, small farmers were able to adopt more effective ‘coping’ strategies.

The fair trade movement in Nicaragua played an important role in providing small coffee farmers with an alternative economic approach, enabling them to sell their coffee beans to a niche market at higher prices. The fact that fair trade in Nicaragua ignores the needs of landless coffee workers, owing to the lack of necessary resources and limited market for fair trade products, has proved a major limitation. Nevertheless, the focus of this paper is to identify problems and benefits associated with the fair trade movement on the livelihoods of small coffee producers.

Fair trade in Nicaragua

Realising the enormous potential of Nicaraguan coffee growers to compete in alternative markets (for example, organic, fair trade, and speciality coffee), a growing band of grassroots organisations and donors have worked with Nicaraguan farmers to increase their participation.⁶ The fair trade coffee industry requires small farmers, organised in democratically run cooperatives,⁷ to grow and roast quality coffee cultivated under traditional and environmentally sound agricultural conditions. In Nicaragua, almost all coffee (95 per cent) is shade-grown on fertile mountain soils, under suitable climatic conditions and with low chemical and mechanical inputs (Bacon 2002a). These factors, as well as the emergence of a cooperative movement from a national land reform programme in the 1980s, facilitated small farmers’ entry into the fair trade market. Thus, the broadening of support by grassroots organisations, apt environmental conditions, and the emergence of a cooperative system have been essential factors contributing to the success of the fair trade movement in Nicaragua.

Nicaragua’s first farmer-owned coffee export company, the Promoter of Cooperative Development in the Segovias (PRODECOOP), was founded by Paul Rice in the late 1980s. It became one of the world’s largest organic and fair trade coffee exporters, with annual earnings of over US\$5 million (Herbst 2001). Other associations of cooperatives, including SOPPEXCCA and CECOCAFEN,⁸ were later established as farmers recognised the benefits of niche markets and collective marketing (Bacon 2002b). These producer organisations now sell certified⁹ quality coffee to the fair trade market through a number of North American organisations and companies,¹⁰ and they pay their farmers prices significantly above those offered by intermediaries and commercial houses that sell conventional coffee at market prices (Bacon 2002a).

Improving production and roasting practices to obtain higher quality coffee is at the heart of the fair trade business in Nicaragua, a business strategy which aims to expand markets in the North by attracting a larger number of consumers to buy fair trade coffee not only for its ‘ethical value’ and for solidarity reasons but also because it tastes better. The new

quality-control measures (e.g. cupping laboratories, new methods of production) that are being developed, strengthened, and communicated by producer organisations are having a major market impact. For example, since the introduction of TransFair-labelled coffee¹¹ in the USA in 1999, the fair trade coffee market has acquired a reputation for quality, which in turn has contributed to the rapid growth rate of the North American fair trade market (5–10 per cent annually) (Bacon 2002a; Raynolds 2002).

Grassroots organisations and ATOs are currently enjoying a wave of success in raising awareness about both the vulnerability of small farmers' livelihoods in a free trade economy and about the higher quality of their product. Raising awareness is crucial if the fair trade movement is to increase and sustain market growth and allow a greater number of small farmers to become part of what seems to be a more favourable and profitable trading system. Estimates suggest that the fair trade coffee market is not only poised to expand but that more small farmers in Nicaragua will become involved.¹² Undoubtedly, this growth will pose new opportunities and problems for these small producers. Understanding what lessons they have learned to date will help ensure that the benefits of fair trade in Nicaragua are maximised and extended as effectively as possible (Raynolds 2002). Moreover, it is important to communicate these experiences to foster a greater degree of trust in the fair trade label among consumers in the North.

Fair trade impacts

The impact of fair trade will be assessed in relation to five dimensions:

- the impact of a payment of a 'fair price' on coffee producers' well-being and other disbursements of the fair trade premium;
- support given by larger producer organisations (CECOFEN and SOPPEXCCA) to cooperatives of small producers;
- the impact of the premium price on community development;
- the role of fair trade in the promotion of gender equity;
- environmental protection.

To carry out this study, qualitative (interviews with small producers, landless workers, and key informants) and participatory (both rapid and participatory rural appraisal) research methods were used to obtain information and explore the five types of impact mentioned above. Information was collected during fieldwork conducted in July 2003 in northern Nicaragua. All quotations are taken from interviews conducted during the fieldwork, unless stated otherwise.

The impact of fair trade: impact on producers

Income and stability

Fair trade offers a means of strengthening the livelihood system of many small producers in the northern regions of Nicaragua by generating a new source of income and employment. Many of the small producers interviewed entered the fair trade market in 2000 when international coffee prices fell to US\$0.60/lb, or a few years earlier when they saw their living conditions deteriorating due to the unstable and low income obtained from the conventional coffee trade.

Producers' general understanding of fair trade is that a better price can be obtained for higher quality coffee. Producers were eager to learn new production methods to improve quality even though this initial transition could result in significantly lower coffee yields and increase the time spent on farming activities. Members of producer cooperatives selling coffee to the fair trade market through CECOFAFEN or SOPPEXCCA received a stable and higher price for

every *quintal* (100 lb) of coffee brought to their cooperative (see Figure 1). These primary-level cooperatives are run by a committee whose president or vice-president manages the relationship with CECOCAFEN or SOPPEXCCA. Cooperatives are key organisations encouraging farmers to work together to share knowledge and transportation, and they facilitate access to certified markets. The cooperatives are responsible for establishing an internal price structure that determines prices received by their members at the farm gate (Bacon 2002a). The larger producer organisations deal with external contacts that export small producers' coffee to the fair trade market in the North and also invest in development projects.

This study found that debts held by cooperatives and larger producer organisations constitute the main reason why small producers receive a lower price at the farm gate than the expected fair trade price of US\$126 per *quintal*. For example, the Denis Gutiérrez cooperative may use up to half of the fair trade price to pay past debts. Until this debt is repaid, its members will not receive the expected 'fair price'. Other reasons for lower returns include the payment of a fixed price to a dry-processing plant (US\$10/*quintal*) and export costs (US\$18/*quintal*). Also, a share of the fair trade premium received by SOPPEXCCA and CECOCAFEN is invested in a Capitalisation Fund.¹³ The remaining share is allocated to a Producer Fund¹⁴ for distribution to small producers by the primary-level cooperatives. Figure 2 illustrates the distribution of the fair trade price in Nicaragua.

The study found that SOPPEXCCA is still repaying a debt of some US\$720,000 inherited by small coffee farmers when a former producer organisation went bankrupt in 1985. Consequently, SOPPEXCCA is deducting US\$31/*quintal* from all members until the debt is cancelled. The vice-president of SOPPEXCCA explained:

The aim was to pay back this debt by commercialising small producers' coffee through the fair trade market. It was a difficult task because we had to gain the trust of the small producers, recover credibility at a national level with other organisations and attain international reputation [...]. We have already paid back US\$400,000 since 1997, and we

'Last year they paid us 842 córdobas [US\$56.1] per quintal. Now they pay us 927 córdobas [US\$61.8]', small coffee producer affiliated to SOPPEXCCA

'The UCA pays us a little more than the local market. I now receive a stable price of 600 córdobas [US\$40] per quintal; everyone in my cooperative gets the same price and we are all able to borrow money from the UCA', small coffee producer affiliated to UCA San Ramón and CECOCAFEN

How much do you get for a quintal of fair trade coffee

'Our cooperative gets paid US\$85/quintal of fair trade coffee but we don't see that money because of our debt. Paying our debt is our main priority now so we can see this price as soon as possible', vice-president of the Denis Gutiérrez cooperative affiliated to UCA San Ramón and CECOCAFEN

Figure 1: Prices received by fair trade producers or cooperatives

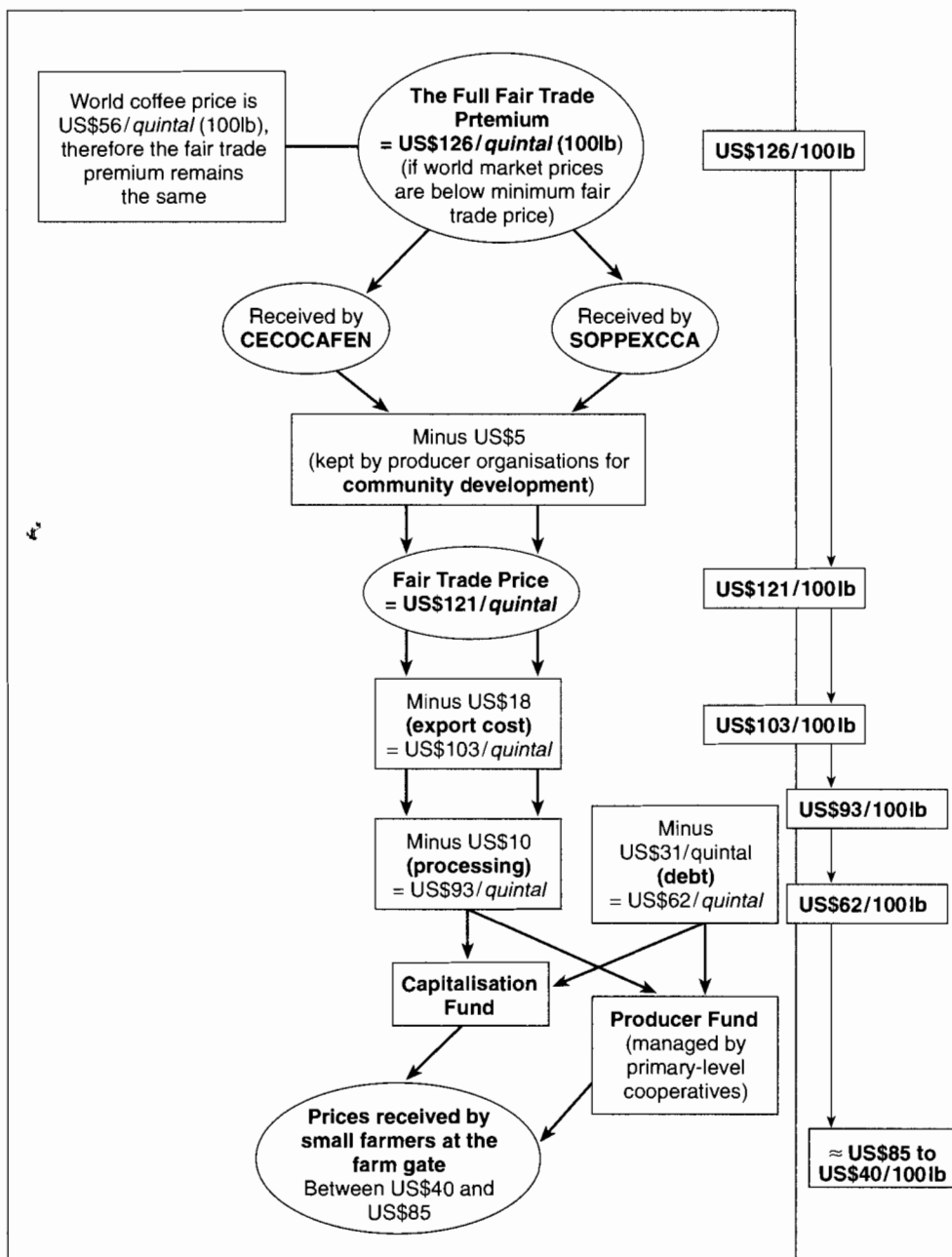


Figure 2: Tracing the fair trade price to the farm gate

hope to pay the whole debt in four more years. ... If this debt had not existed, fair trade would already have had a big impact on small producers' lives.

It is important to establish whether the prices received at the farm gate currently cover the cost of production and living. How significant have the changes been since producers became involved with the fair trade movement?

Changes in the standard of living

All the small producers who were asked if they witnessed any major change in their living conditions as a result of their involvement in fair trade confirmed an improvement. In the words of a member of SOPPEXCCA:

Our lives have changed a lot since becoming involved with SOPPEXCCA, we feel good because we never had enough money for the house and farm. Now [...] we are getting a higher price for our coffee,[and] we can afford things we could not afford before.

Many small producers illustrated changes in their lives by referring to greater economic stability and security, in addition to identifying material changes. Some significant improvements they reported included the following: the use of electricity instead of fuel wood, better nutrition, physical improvements to their home, the ability to pay for their children's education and to buy uniforms, shoes, and books, the ability to purchase a vehicle and install a telephone in their home, and the ability to improve the condition of their farm, including purchasing inputs such as organic fertiliser, machinery, and other equipment, and hiring help.

The study also found that the incomes of most small coffee producers had doubled since their entry into the fair trade market. Figure 3 compares the difference in profit that a small woman producer made between selling 700 lbs of coffee to the local market as opposed to the fair trade market. It shows that her income doubled since she stopped selling locally at prices below international market prices, from US\$210 in 2001 to US\$434 in 2003. This allows for more money to be invested in improvements aimed at increasing production and to cover essential household expenses, including education, medicines, and food.

Key informants involved in the coffee movement were also interviewed to gain a better understanding of the living conditions of fair trade farmers compared to those producing coffee for the conventional market. The administrative manager of CECOCAFEN suggested:

By looking at the difference in living conditions between these two types of farmers, it is easier to account for changes. Conventional producers usually have lower nutrition levels,

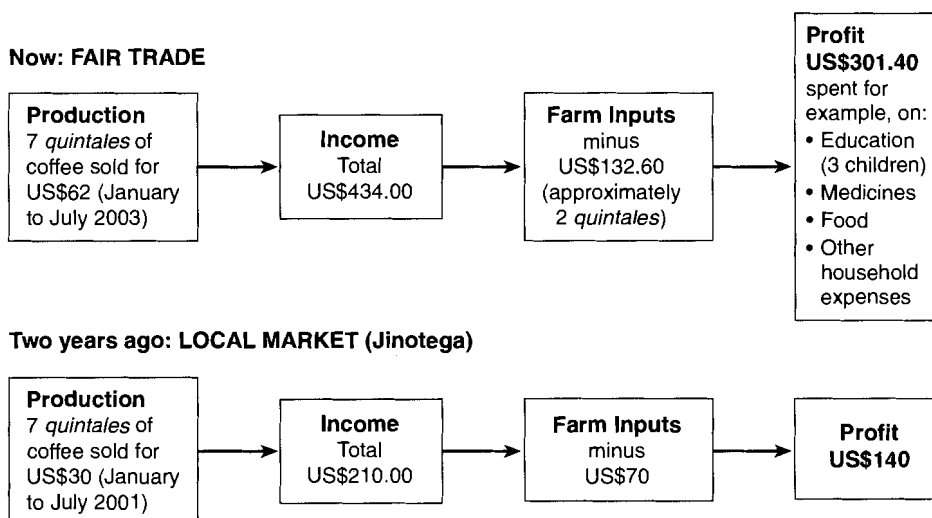


Figure 3: Changes in a small produce's income over two years

fewer children going to school, they invest less on their farms, and have lower levels of soil fertility.

Stability is also an important factor. Bacon (2002a) found that Nicaraguan coffee producers who belong to cooperatives linked only to conventional markets are four times more likely than those connected to one or more alternative markets to state that they risk losing their farm due to low coffee prices. Thus, in hard times, the higher price for fair trade coffee can mean the difference between survival and bankruptcy for many small producers in Nicaragua. As one such producer affiliated to SOPPEXCCA said:

Before I was involved with fair trade, [when] I was selling to the local market and receiving prices that would not cover the cost of production, our situation was very difficult. Whenever my husband took to drink I was at risk of losing the land, as he began selling large areas. I put a stop to it when I gained control of the land and eventually divorced him. I was scared that I could eventually lose everything.

The impact of fair trade on producer organisations

Since their inception, both SOPPEXCCA and CECOCAFEN have had a very strong social and development rationale. SOPPEXCCA was established with the ultimate aim of paying back a debt left to small producers by a previous organisation, while CECOCAFEN is not indebted but promotes various community development projects. Recently, it launched an eco-tourism project involving small producer families. The success of these organisations is clear from their growing number of members¹⁵ and the relationship of trust established between the members of SOPPEXCCA and CECOCAFEN and cooperative leaders.

However, it is difficult to determine whether fair trade has been the main reason behind their success in organisational capacity. This is because CECOCAFEN and SOPPEXCCA are not only involved in selling coffee for the fair trade market but also for organic and speciality (e.g. bird-friendly and shade-grown) coffee as well as conventional coffee markets. Nevertheless, this study detected important activities taking place, such as frequent workshops giving small producers the opportunity to learn about fair trade issues and new cultivation methods, community development projects, and effective marketing of their fair trade coffee brand. Figure 4 looks at some organisational aspects mentioned by small producers or witnessed by the author.

The increasing exports of high-quality coffee to the fair trade market by CECOCAFEN and SOPPEXCCA and the effective management of a capital and social fund are some of the positive impacts of fair trade. However, ongoing problems limit the extent of these impacts. As noted above, SOPPEXCCA remains heavily indebted. Furthermore, both organisations rely heavily on external support and aid. Another problem relates to communication. As pointed out by a technical adviser at CECOCAFEN:

Sometimes there is a lack of communication between the CECOCAFEN's leaders and the members of the cooperatives. At CECOCAFEN, the movement is big [...] but the information that flows here does not always reach the small farmers. Many small farmers are not familiar with certain opportunities and benefits.

Of concern is the long-term financial sustainability of these producer organisations. For example, if fair trade were introduced in Vietnam's coffee industry, how might this affect the Nicaraguan producers? The vice-president of SOPPEXCCA explained that if Vietnam

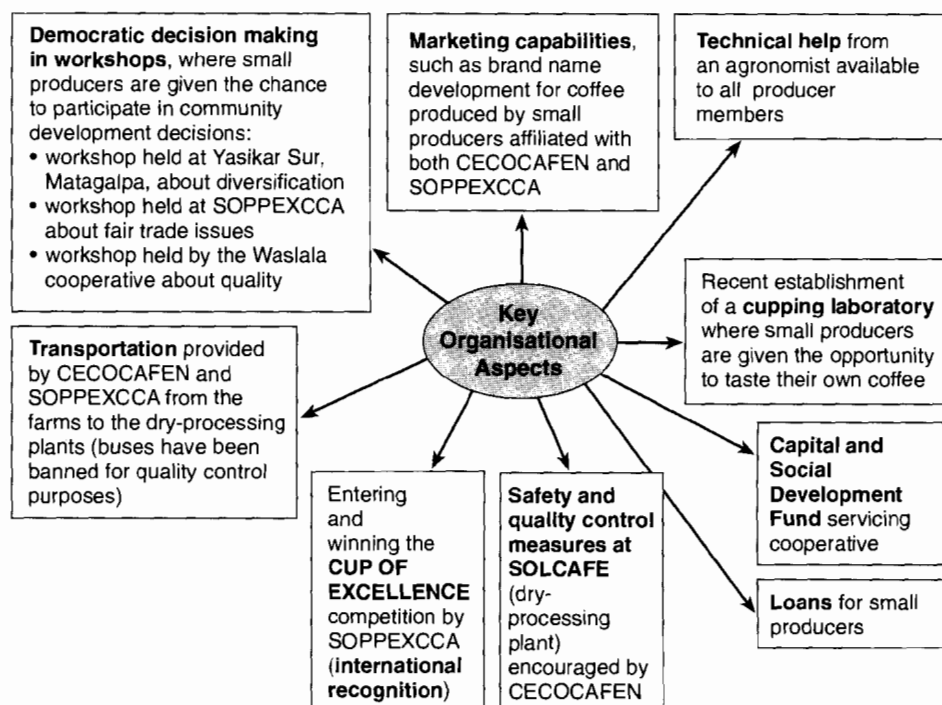


Figure 4: Key organisational aspects

introduces fair trade coffee, it will be disadvantaged by low quality because producers export large volumes of conventional green coffee without monitoring the defects of the coffee bean.

We are not worried about Vietnam because we have already established an image of quality and we are building up this image through promotion activities at an international level. We are at an advantage because of the established networks with companies and organisations in the North that are willing to buy our coffee do so not only because of quality but also because of the benefits received by Nicaraguan small producers. It will not be easy for Vietnam to match our accomplishments.

For SOPPEXCCA and CECOCAFEN issues of quality and coffee bean imperfections are important to address in terms of market differentiation. The quality-control laboratories have assisted in the overall improvement in the cooperatives' coffee production. Nicaragua's comparative advantage also involves political factors. Some key people involved in the promotion of fair trade in the USA and Europe had been involved in the solidarity networks that grew up around the 1979 Nicaraguan revolution and expanded in the 1980s (Barracough et al. 1988). As Orlando Nuñez, president of CIPRES, said:

Following the electoral defeat of the Sandinista government in 1990, some of these supporters continued their solidarity with the Nicaraguan people. Fair trade became one way of doing this.

The impact of fair trade on community development

The fair trade standard requires producer organisations like CECOCAFEN and SOPPEXCCA to retain US\$5/quintal for community development. Very few producers, however, reported having witnessed any improvements in their community, and those who could were unable to identify fair trade as the source. This indicates a problem of communication. In the case of CECOCAFEN, it was found that the fair trade premium was insignificant if it was divided among all producers. According to its administrative manager:

It is difficult for consumers as well as producers to see where the fair trade premium goes because the market of fair trade is relatively small here. It is not easy to promote big changes when we only export 10,000 quintales of fair trade coffee, which gives us approximately US\$50,000 per year.

However, he also suggested:

... you need to have good eyes to witness any results. One good indicator is migration. In the communities of our member producers we can see less migration from the coffee farms to the city, this is the result of greater stability in their farms and cooperatives, as well as better infrastructure and services found in their communities.

A cultural explanation was added by the technical advisers at CECOCAFEN, who argued that because fair trade is quite recent, many producers are unaware that part of the premium should be reinvested in the community with the support of their cooperatives. They only know they are getting a premium price for themselves. Also many do not realise that the extra money is to improve their living conditions and give their children an opportunity to study. Only those producers who participate in the training courses understand these issues, but what is learned is often not spread to the wider community. However, participatory research in small rural towns of Yasikar Sur and La Corona showed that some crucial changes were taking place (see Figure 5).

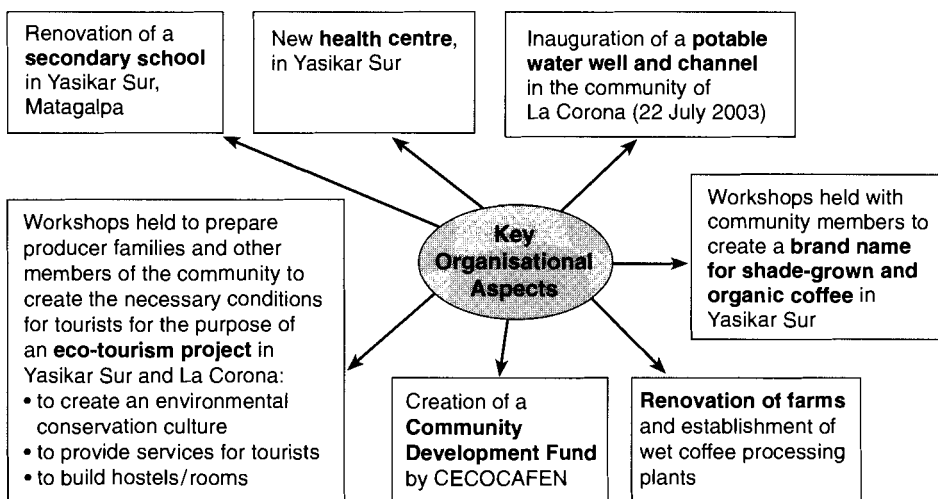


Figure 5: Community development in Yasikar Sur and La Corona

The impact of fair trade on environmental protection

All interviewees, including small producers and key informants, saw environmental protection as essential to sustainable production:

Protecting the environment should be everyone's priority. It is important not to cut the trees that can be used for coffee shading. The trees are not only useful to prevent soil deterioration and maintain our water supply but also to improving quality of coffee production. It is also important to know what trees provide better shade conditions. Now we are planting fruit trees such as oranges, lemons, and pitayas. (Member of the Organic Cooperative in Yasikar Sur, affiliated to CECOCAFEN)

Small producers are now adopting more environmentally friendly farming techniques to improve the quality of their coffee beans. Reasons for this have to do with demands made by Northern niche markets imposing stricter conditions on coffee production. For example, although certified organic and fair trade coffee sell to separate markets, cultivation methods are now very closely related. Also, some fair trade coffee brands require small farmers to protect birds on their farms. Improving the quality of production is also important for Nicaraguan producer organisations in terms of their comparative advantage over other coffee industries, particularly Vietnam.

The impact of fair trade on gender equity

The impact on gender equity is of interest because of its inclusion in the FLO objectives for fair trade. Women producers became involved in the fair trade movement more recently than men, indicating a new focus on gender equity on the part of producer organisations and cooperatives. However, participation in fair trade activities is very unequal, with men significantly outnumbering women. For example, only 2 of the 52 producer members in the Denis Gutiérrez cooperative are women, while only seven women belong to the 120-member Waslala cooperative. Of the 500 producers affiliated to SOPPEXCCA, 180 are women, while men outnumber women three to one in CECOCAFEN. The low level of participation, however, reveals very little about the true involvement of women in fair trade.

Evidence suggests that the position of women is changing and women producers are experiencing a certain degree of empowerment. SOPPEXCCA now actively promotes gender equity at the cooperative level, and has an all-female cooperative producing coffee for the fair trade market under their own brand name of 'women fair trade coffee'. From interviews, women indicated that they were content with their involvement in fair trade activities, despite a few complaints about the gender division of labour.

Changes have to do with building women's self-confidence, management capabilities, active participation in their cooperative's activities, and their ability to speak out and give their opinions in meetings and workshops held by SOPPEXCCA and CECOCAFEN. The opportunities offered by fair trade are indeed helping some women producers to take greater control of their lives, and not be afraid to participate in decision making both within their cooperative and household.

All these factors suggest that the status of women is improving within rural communities, giving them a greater sense of self-esteem and security. Nevertheless, *machismo* still prevails in many communities, restricting the participation of women in fair trade. Interview data emphasised the dominance of men in household decisions, women's lack of access to and control over key productive and financial resources, and the traditional role of women in the

community. Other factors included limited technical support and training, the submissiveness of rural women, and the community's Catholic background.

Conclusions and recommendations

Evidence from northern Nicaragua indicates that fair trade is having some positive impact and is an important element of the 'coping strategies' to reduce farmers' exposure or vulnerability to the conventional international coffee market, which has experienced a dramatic drop in prices. In recent years, the higher prices received for high-quality fair trade coffee have enabled many Nicaraguan small farmers to avoid the poverty trap in which a large number of landless coffee workers now find themselves. Small coffee farmers in northern Nicaragua can now obtain a living income through a more stable price system, which is enough to provide their families with basic levels of nutrition, education, and healthcare.

There are few signs, however, that fair trade has enabled small farmers to improve their standards of living significantly. It is also unclear how sustainable fair trade is. This remains somewhat of an open question as it depends partly on broader political and economic conditions in Nicaragua, as well as trends in consumer markets in the North. Further research is needed to determine adequately whether the prevailing economic and political conditions at a national level are inhibiting the potential capacity of fair trade. In addition, extensive and ongoing research is needed to assess the extent to which fair trade networks can continue to expand and whether the demand for fair trade coffee will continue to increase.

The two Nicaraguan producer organisations analysed in this study had undertaken significant capacity-building activities as a result of fair trade. This was demonstrated in terms of encouraging income generation through diversification (such as the eco-tourism initiative), helping farmers develop new skills and knowledge of quality production through workshops and technical assistance, the operation of the Capitalisation Fund, and increasing access to international markets by promotional activities. Nevertheless, the small share of coffee sold to the fair trade market in the North, the ongoing coffee debts of many cooperatives, the lack of credit provision from banks, and non-existent government support, are preventing producer organisations from making the benefits of fair trade more discernible to the large sector of small producers and rural communities as a whole. Paying back accumulated debts is a crucial challenge for this sector as banks are no longer providing the necessary credit and because of high interest rates. Also, it is important to encourage cooperatives to sell to different markets and diversify their farming practices in order to reduce the impact of major shifts in prices in the conventional or certified markets (Bacon 2002b).

Another crucial issue is that of producer empowerment and organisational capacity at the primary level of cooperatives. According to Tallontire (2002), if fair trade relationships are to be authentic partnerships, it is vital that producers are empowered to participate fully in the relationship rather than being passive suppliers of a product. The research showed that producer groups are highly dependent on SOPPEXCCA and CECOCAFEN and are still unable to handle product development and diversification practices on their own. Although SOPPEXCCA and CECOCAFEN are encouraging members to have a greater role in determining the objectives and structure of the partnership and to be involved in advocacy and marketing, the study suggests that a phasing-out process is not yet taking place. Arguably, as the international coffee prices increase, the fair trade movement will enable small producers to have higher levels of disposable income and, therefore, empower them to take development into their own hands. Currently, the challenge is not only to diversify and increase access to external markets but also to provide leaders with effective management skills and knowledge to adjust to the changing characteristics of the marketplace. Also, in order to empower producers, it is

crucial to create forums or advisory groups between the cooperatives' leaders and the producer members to pass on knowledge of the critical issues confronting the fair trade movement.

The study found that while some small producers may be eligible to enter the fair trade movement, the capacity of producer organisations to broaden the membership base, as pointed out by a member of CECOCAFEN, 'is determined by the nature of demand in the North, particularly the USA'. Inequalities may be produced in different communities and between smallholders and landless coffee workers. The conditions of some rural communities indicate that many essential services are still lacking and rural–urban migration continues. However, others had experienced a degree of development from fair trade interventions (for example, in the community of Yasikar Sur), signalling that while some communities may be benefiting others may be neglected. It is difficult for conditions to change in every community when the fair trade premium used for community development is so small. Thus, there is a greater need for producer organisations to build closer relationships with various actors supporting fair trade activities in Nicaragua (such as NGOs, international organisations, the private sector, local government, and national government agencies) and to consolidate more standardised mechanisms to improve the services to rural communities.

If fair trade is to have a discernible impact on rural communities in northern Nicaragua it must engage with key local development issues. For example, migration to the cities and abroad is a major trend, in particular as young people seek alternative sources of employment and an escape from rural poverty. Rural areas are becoming depopulated and are losing skilled and experienced labour. It is essential, therefore, to promote training and education of young people in relation to fair trade activities in general, as well as related projects. CECOCAFEN is looking into this issue by encouraging young adults to develop 'guidance skills' for an eco-tourism project, which include learning English.

The impact of fair trade on gender equity was quite positive. In recent years, participation of women in fair trade activities has been increasing and gender relations within cooperatives were found to be improving. SOPPEXCCA has been promoting the status of women through the marketing of 'women fair trade coffee' and increased training on gender issues. However, gender inequalities persist at the community level. Women's participation in fair trade is limited mainly because of traditional cultural factors. There is a need for producer organisations to develop further training activities at the community level in order to encourage the participation of more women producers in the fair trade movement.

A positive impact was the increased awareness of environmental protection. However, in a context in which the environmental standards associated with fair trade are becoming ever more stringent, there is a danger that small farmers may not have the knowledge or resources to meet them. Greater support, therefore, is needed by producer organisations, as well as more technical assistance to help small farmers adapt to Northern demands.

Fair trade is having some positive impacts on the lives and livelihoods of small producers, the capacity of producer organisations, and in terms of community development, gender equity, and environmental protection. However, important challenges still persist and must be dealt with if fair trade is to become an effective development tool. Communicating the experiences of small producers is a first step in understanding how fair trade can increase its effectiveness as a means of alleviating poverty and promoting sustainable development.

Notes

- 1 FINE is a network of organisations including Fair Trade Labelling Organisations International (FLO International), the International Federation for Alternative Trade (IFAT), the Network of European World Shops (NEWS!), and the European Fair Trade Association (EFTA).

- 2 FLO explicitly requires that small producers form democratic organisations as primary-level cooperatives and secondary-level producer organisations.
- 3 On a global scale, green coffee prices fell from US\$1.20/lb to US\$0.56/lb between 1999 and 2003, but the fair trade price has remained at US\$1.26/lb.
- 4 In Nicaragua, the wholesale price for green coffee fell from US\$1.44/lb in 1999 to US\$0.51/lb in 2003, a 70 per cent drop (Nicanet 2003).
- 5 Varangis et al. (2003) suggest that the cost of coffee production in Nicaragua is US\$67/*quintal*.
- 6 The broadening of support for fair trade can be seen by the different types of organisations, other than those directly involved, promoting fair trade coffee, e.g. local organisations such as UNAG and CIPRES, international NGOs such as LWR and Oxfam, and official aid agencies such as UNDP and USAID.
- 7 Cooperatives are locally rooted organisations that adopt certain democratic and participatory practices and provide their members with commercial and other services.
- 8 The Northern Coffee Cooperative Centre (CECOCAFEN) and the Society of Small Producers, Exporters and Marketers (SOPPEXCCA) are specialised coffee producer organisations that provide export services, credit, storage facilities, training and technical assistance to member cooperatives.
- 9 The main certification body of fair trade and organic coffee in Nicaragua is Bio-Latina S.A.C.
- 10 For example, Canadian and USA TransFair, US Thanksgiving Coffee Company, and Equal Exchange. These purchasing organisations act as importers for industrialised or Northern countries.
- 11 TransFair USA is one of the main promoters of the market for Nicaraguan fair trade products. It does this by working with coffee importers, roasters/wholesalers, and retailers. They are not, however, directly involved with commodity production (Raynolds 2002).
- 12 See the study by CLUSA (2002) cited in Bacon (2002a).
- 13 A Capitalisation Fund is an account managed by producer organisations that uses a percentage of the fair trade premium to improve infrastructure, pay for transportation costs, provide technical assistance, cover administrative and certification costs, provide credit, and fund housing and education projects in farming communities.
- 14 A Producer Fund is managed by primary-level cooperatives to, for example, pay debts, renovate farms, and provide credit for and labour within the farm.
- 15 For example, while in 1997 SOPPEXCCA had only 68 member producers, by 2002 there were 450 members, and it hoped to extend its membership to 500 by the end of 2003. CECOCAFEN had 1200 small-producer members in 2002 and had by the time of the research extended its membership to 1500 producer members.

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