



Fair Trade Fund Support of Nicaraguan Coffee Farmers: A Case Study

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Photo: Rick D'Elia for Catholic Relief Services

This purpose of this case study is to detail the impact of Catholic Relief Services' (CRS) Fair Trade Fund grants on Nicaraguan coffee farmers. The case study is organized into four main sections. The first section describes the context of Nicaragua coffee crisis, summarizes CRS' work in Nicaragua pertaining to the coffee crisis, and introduces the Fair Trade Fund grant mechanism. The second section details, more in depth, the specific topics the impact evaluation sought to assess as well as the methodology employed for gathering and analyzing data. The third section presents the evaluation findings. Finally, the fourth section describes the lessons learned, best practices, and recommendations for next steps.

I. Introduction

Since the decline of world coffee prices in the late 1990s, Nicaragua, an economy largely dependent on coffee, has witnessed reduced income, employment and food security for families in the coffee industry. In 2003 alone, the percentage of national export declined by more than 50 percent due to falling coffee prices on the international market.¹ Today, the majority of Nicaraguan smallholder coffee farmers are price-takers with limited access to services and credit and few opportunities to create and capture added value. As a consequence, they sell their undifferentiated coffee into low-value commodity chains, earn just a tiny fraction of its retail value, and expose themselves to extreme price volatility. To support Nicaraguan coffee farmers spiraling into abject poverty, for nearly 15 years international development agencies and non-governmental organizations (NGOs) have supported the farmers by helping them produce higher quality coffee and access fair trade markets.

In 2003 Catholic Relief Services began working with the coffee farmers to help them increase the value of their coffee by promoting improved quality and increased access to high-value markets. Funded by the United States Agency for International Development (USAID) and working under the auspices of USAID's Quality Improvement and Fair Trade Coffee Project, CRS issued grants to smallholder coffee farmers from 2003-2007. The primary goal of the program was to create a fair trade business model rooted in principles of social, economic and ecological sustainability.² The specific objectives of the program were to: 1) strengthen the organizational development of coffee cooperatives; 2) increase value-added through improved process upgrades; 3) increase value-added through improved product quality; and 4) improve market access by developing strategic alliances along the value chain, including access to US markets. CRS worked with 316 smallholder farmers who were not members of any community-based coffee cooperatives nor had any previous experience working in a cooperative setting.

In 2005 CRS established a Fair Trade Fund, a grant-making mechanism that disburses high-impact grants to organizations and projects that promote and expand the fair trade model. In support of the ongoing efforts of CRS's work in Nicaragua, in August 2005 CRS' Fair Trade Fund contributed two small grants to two of its local partners, *Cáritas of Matagalpa* and the Association for Agricultural Diversification and Development (in Spanish, *Asociación para la Diversificación y Desarrollo Agrícola* or ADDAC). *Caritas of Matagalpa*, a national NGO and Catholic diocese, received a grant for USD \$7,500 to build the organizational capacity of the members of seven cooperatives, including newly founded cooperative, *Central de Cooperativas de Servicios Múltiples Aroma de Café de Matagalpa* (CECOSEMAC). ADDAC, a national

¹ Food and Agriculture. Organization. Newsroom. Coffee Crisis: FAO Helps Nicaragua's Small-scale Growers. <http://www.fao.org/newsroom/EN/news/2004/35687/index.html> (Accessed April 25, 2009).

² Fair Trade is an approach that guarantees farmers and artisans a fair price for their products and safe working conditions, and builds stable, long-term relationships between producers in developing countries and Fair Trade companies in the U.S.

NGO supporting three cooperatives, received a grant for USD \$3,500 to help construct and equip a coffee cupping laboratory.

II. Purpose of Impact Evaluation

The purpose of this evaluation was to assess the impact of CRS' Fair Trade Fund grants on Nicaraguan coffee farmers involved in CRS' work. Using a case study format, the evaluation discusses some of the unique activities of the program; describes how activities intervened with Nicaraguan coffee farmers and how Fair Trade Fund grants, made possible through the purchase of fair trade products from US consumers, contributed to this effort, and points to lessons were learned and best practices during and after the distribution of funds. The impact evaluation seeks to hone in on the utilization of the Fair Trade Fund grants; therefore, key informants were asked to specifically address the usage of these grants rather than comment on the overall impact of CRS' work in Nicaragua. In some cases, it was difficult to separate the impact of the Fair Trade Fund grants from other project activities. In instances where project achievements are not solely attributable to the Fair Trade Fund grants, this is explicitly stated.

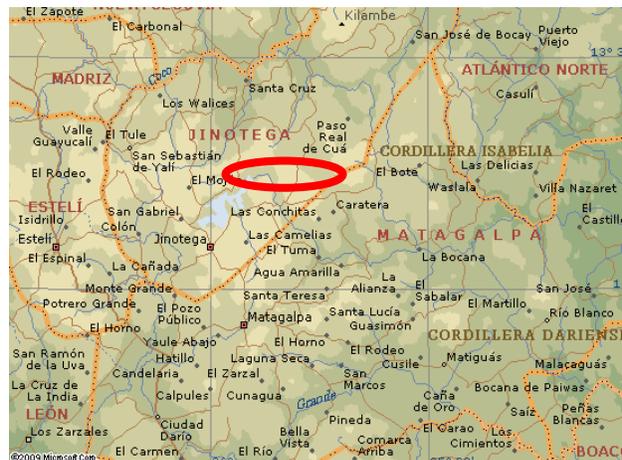
The research methodology employed for constructing the case study included qualitative research methods. In large part, the case study is based on a compilation of project documents and a literature review as well as several key informant interviews (see Annex A for a complete listing of interviewees). Using thick description, the case study captures the essence of the grant-making process, the utilization of funds by CRS local partners, and the impact of funds. To analyze the data, a comparison was made between the stated objective of the grants and the actual utilization of the grants. Using methods of triangulation, project documents and interview notes were compared to cross-check the data and ensure overall data quality.

III. Findings

Caritas of Matagalpa – Capacity Building

A. Background

Caritas of Matagalpa (henceforth referred to as “Caritas”) has worked in partnership with CRS since 1998, implementing an array of development projects in the technical areas of



health, housing, and agriculture, to name a few. When CRS began working with Caritas on the Nicaragua Coffee Project in 2003, Caritas was already working with farmers in marginalized areas, such as El Tuma and La Dalia.

When CRS began to engage these farmers, there were challenges on many fronts. First, there was no culture of organization, and the farmers had essentially no capacity to be able to organize themselves. Farmers were located in disparate locations, and CRS needed to bring them together. CRS knew that US, coffee companies like to do business with one entity and not many individuals. Furthermore, CRS knew the small farmers operating alone would not be able to fill the large orders US companies would demand. The farmers would need to pool together their resources. It became imperative that CRS help the farmers form a cooperative that would be able to adequately respond to market demand. Second, farmers shied away from associating themselves with cooperatives, because the Sandinistas use of the word “*cooperativismo*” carried various negative connotations. Third, CRS needed to identify farmers who met a specific profile. For example, if farmers already belonged to another cooperative, they could not participate in CRS’ project because Nicaraguan law dictates that an individual cannot belong to more than one cooperative. Also farmers had to meet the minimum qualifications to become members, including, owning at least 0.43 acres of land, issuing a formal request to become a member, paying a USD \$6.00 (in 2005 real terms) registration fee and a USD \$50.00 savings deposit that earns credit and that the farmer can use when needed.

Despite these challenges, CRS was able to identify and engage several farmers, and in early 2003 began the lengthy process of organizing the communities and formalizing the creation of a cooperative. It took about one year to formalize the registration process and to create the first-tier cooperative, which consisted of a group of six or seven farmers from different communities. It took CRS six more months to help the first-tier cooperative build and formalize a second-tier cooperative (defined as a cooperative whose members are comprised of other small cooperatives). The name of the second-tier cooperative was called CECOSEMAC.

The registration process of CECOSEMAC was not an easy one, and CRS’ assistance was crucial for helping the farmers complete the registration of the first- and second-tier cooperatives. As noted above, there were several challenges that had to be overcome before the farmers could even get somewhat organized. After a core group of farmers were identified, CRS then could proceed with helping them through the formal registration process. Some of the specific tasks carried out by CRS are as follows:

- CRS held several meetings with cooperative members to assist them in defining the purpose and operational functions of the cooperative. This included defining the number and roles of the leadership positions; how the leaders would be elected; and the overall organizational structure.
- CRS hired a local lawyer and helped facilitate the registration process. The Government of Nicaragua recognizes cooperatives as legally entities; therefore the cooperative had to go through all the required regulatory steps. CRS also helped pay for the initial registration.
- CRS helped the cooperative open its own bank account. In order to do this, the cooperative had to have their leadership elected and each founding member had to sign off on the account. The cooperative used their members’ first due payments to open the account.
- Each cooperative member had to complete 40 hours of training on the responsibilities of a cooperative member. CRS helped the farmers develop and deliver the training

materials and courses, respectively. This was a monumental task given that the first-tier cooperatives were located in 15 different communities and 4 different municipalities.

B. Need

In August 2005, CRS' Fair Trade Fund Program received a grant request from Caritas for funding to help strengthen the organizational capacity of CECOSEMAC. At the time of the grant request, CECOSEMAC had been operating for nearly one year; however, it still required a lot of assistance from CRS partner personnel to carry out some of the basic administrative tasks. CECOSEMAC needed to become a more efficient and sustainable entity, where its members could carry out the basic functions and requirements of the cooperative.

C. Utilization of Fair Trade Fund Grant

The Fair Trade Fund grant was effectively used to strengthen the organizational capacity of CECOSEMAC. Specifically, the funds were used to build financial management skills and technical capacity of CECOSEMAC members. In the following section, the unique activities the grants are described in depth.

Financial Management Capacity Increased

The sound financial management of the cooperative is imperative for the sustainability of the organization. To ensure membership retention, members need to know that their funds are being managed wisely. In 2005, CRS was still playing the leading role in helping CECOSEMAC keep their books up to date and accurate. Due to the high levels of illiteracy amongst CECOSEMAC members, CRS had to take a new approach for ensuring the financial management of the cooperative would be in good hands for years to come. With the CRS Fair Trade Fund grant provided by CRS, Caritas would help build the financial management capacity of CECOSEMAC. Specific activities included are described as follows:

- Caritas provided CECOSEMAC members with basic accounting, administration of funds, bookkeeping, and note-taking. To overcome the problem of illiteracy, Caritas targeted the younger, literate members of the cooperative. Caritas also placed a renewed emphasis on ensuring that the members rotated in their positions, so that several members became skilled in managing the financial resources of the cooperative.
- One of the services CECOSEMAC offers its members is access to credit. Before the cooperative was founded, small farmers did not have access to credit from formal banking institutions. Now that the cooperative is recognized as a legal entity, it can access credit from commercial banks. Unfortunately, due to poor record keeping, CECOSEMAC had great difficulty issuing credit to its individual members as well as recovering payment in a timely manner. Caritas helped to strengthen the credit committee that manages and monitors the loan portfolio. Now with the proper oversight, farmers are able to access credit more easily, and the cooperative is less at risk for defaulting on its commercial loans, because it has improved the management of its internal lending processes and oversight of cash flow.
- Caritas helped to create conditions for ensuring the traceability of coffee, so that later on the distribution of the financial benefits of organic and fair trade certification was fair amongst all cooperative members.

Technical Capacity Improved

The Fair Trade Fund grant not only helped CECOSEMAC on the administrative front, but also on the technical front. When the Fair Trade Fund grants were disbursed to Caritas, CECOSEMAC was at a critical juncture. Farmers were applying for their third-party organic coffee certifications and had begun selling their specialty coffee to fair trade markets for the first time. CECOSEMAC needed to ensure that their coffee qualified for the certifications and that their first coffee exports were well received by their international buyer, Cooperatives Coffee. As such, Caritas would also use the grant to improve CECOSEMAC's coffee quality to acquire organic certification. Caritas carried out the following activities:

- Caritas helped the first tier cooperative and CECOSEMAC develop annual business plans. Unfortunately the business plans did not work well at the first-tier level because its members were illiterate and did not have the capacity to execute the plans. CECOSEMAC, however, was able to successfully develop and execute the business plans, which helped its members set goals for the overall administrative and financial management of the organization.
- Coffee producers received training in coffee storage and marketing.
- The idea of developing a cupping lab developed organically from CECOSEMAC members. Although ADDAC would be the organization directly involved in the construction of the cupping lab, Caritas trained a specialized group of 12 young men who called themselves “producer’s sons” (*hijos de productores*, in Spanish) to cup coffee. For three months, these young men attended training four to five training sessions per month where they learned the vocabulary for identifying the different aromas, colors, and tastes of coffee, and how to grind coffee and to detect imperfections. Two of the twelve participants became official coffee cuppers, and one was selected as a judge in the annual Cup of Excellence auctions.
- To help the coffee farmers obtain organic certification, Caritas trained the community inspectors on their roles and responsibilities, taught the inspectors how to apply the norms for organic certification and fair trade compliance, and accompanied them on farm visits as a part of the practical exercises during the training.

Sustainability Achieved

Nicaraguan coffee farmers and CECOSEMAC have come a long way since 2002. On the administrative front, the cooperative has seen a tremendous improvement. CRS' Technical Director of the Nicaragua Coffee Program, Jorge Castellon, stated, “The cooperative’s ability to organize moved from incapable in 2002 to very capable in 2007. CECOSEMAC truly benefited from CRS support. The farmers were so dispersed, and emotionally and financially downtrodden by the coffee crisis that CRS’ initiative became their salvation.” As of June 2009, CECOSEMAC’s members span 6 municipalities and 25 communities, and its membership is still growing. Today women represent about 11 percent of the first-tier cooperative members and 26 percent of CECOSEMAC’s members. The training has helped enable CECOSEMAC to manage a viable organization where members assume their responsibilities, are informed of the bylaws and act accordingly, and show ownership (as demonstrated by the well-attended meetings). Also by being able to provide credit, CECOSEMAC producers can increase coffee production on their current plots as well as diversify their crops. With the help of the Fair Trade Fund grant, the cooperative now has the requisite skills to move ahead by themselves, if needed.

On the technical front there have also been significant achievements. During its first two years, CECOSEMAC sold all its coffee through a third-tier cooperative in Matagalpa called CECOCAFEN. Now the cooperative has established a lasting relationship with Cooperative

Coffees, comprised of about two dozen small US roasters/distributors that buy 100 percent fair trade coffee. While the Fair Trade Fund grant did not directly link producers and markets, we can say that indirectly it did contribute. The strengthening of the cooperative was essential and the prerequisite for sustainability. By making the organization more viable, it created opportunities for CECOSEMAM to be a part of the market. The link under the fair trade concept would not have been possible without the strengthening of the organization.

Association for Agricultural Diversification and Development (ADDAC) – Cupping Lab

A. Background

ADDAC is a Nicaraguan non-governmental organization that has been working in rural development in Matagalpa since 1989. When CRS began working with ADDAC on the Nicaraguan Coffee Project, ADDAC already had ample experience working with coffee cooperatives, and specifically seven years of experience working with cooperatives that were already producing and selling organic coffee.

B. Need

While CRS trained farmers to improve their production processes and techniques that in turn improved coffee quality CECOSEMAM still remained dependent on CECOCAFEN and other cooperatives to test the quality of their coffee using the formal coffee cupping technique. Coffee cupping is a technique used by cuppers to evaluate the quality of their coffee, including its aroma and flavor. In August 2005, ADDAC requested a Fair Trade Fund grant to construct and equip a coffee cupping laboratory in a centrally located community of El Tuma. In line with CRS' vision of improving coffee quality; the grant was approved.

C. Utilization of Fair Trade Fund Grant

The Fair Trade Fund grant was utilized to construct and equip a functional coffee cupping lab. The lab benefits three cooperatives and more than 200 families. Adrian Arauz's story is a compelling one, which demonstrates the impact improved quality coffee has had in the life of one farmer. Adrian is one of the founding members of CECOSEMAM. Since CRS' engagement in the region in 2002, Adrian has seen marked improvement in the quality of his coffee. In 2002, Adrian's coffee neither qualified for organic or fair trade certification. He produced 11-20 of hectares of coffee and sold his coffee to local buyers. Today, Adrian's coffee is not only certified as organic and fair trade, but he also has increased his yield, now producing between 21 and 40 hectares of coffee. In improving his coffee quality, Adrian has incorporated better production techniques, such as shade farming. Whereas before Adrian did not even know how to measure the quality of his coffee, using the coffee lab and the local cuppers he can now know with assurance the value his coffee beans should bring in the market. Adrian's coffee beans now consistently score between 80 and 89 points on a 0-100 point scale.

Adrian no longer sells his coffee to local buyers, where prices tend to be much lower given the number of middlemen, but rather sells 100 percent of his coffee to CECOSEMAM. Adrian asserts that his income is significantly more than it used to be because he receives a better price for his specialty coffee. Through CRS support, he has established contact with many new buyers and actively looks for new markets where CECOSEMAM can sell its coffee. The Fair Trade Fund investment in ADDAC gave farmers the ability to monitor the quality of their coffee and produce coffee that meets the demand of US consumers.

IV. Conclusions

As a result of the grant-making process to Caritas and ADDAC, there are several lessons learned and best practices. First, we find in both cases explored above, the fact that the Fair Trade Fund issued *small, stand-alone grants enabled CRS to respond directly to the self-identified needs of smallholder Nicaraguan farmers* in Matagalpa. The Fair Trade Fund has certainly demonstrated that its utility can have significant impact when used to support targeted, small-scale projects. However, Fair Trade Fund grants can also be effective at supporting larger project activities. While small-grant making facilitates the monitoring and evaluation of the utilization of funds and making the direct link between its contribution to project-specific results, this should not hinder CRS from using small grants to contribute to big efforts. The Fair Trade Fund can also support large-scale and/or long-term projects where attribution of results cannot be captured dollar-for-dollar. By having a seat at the table when new projects are being designed or when existing projects are under implementation, CRS' financial contribution using the Fair Trade Fund can be a valuable investment for helping projects get off the ground or *for driving momentum during a critical stage in a process*. These types of investments and strategic partnerships can allow the Fair Trade Fund to be involved in substantial, innovative efforts .

Second, the Fair Trade Fund has learned of the importance of investment in technology and large infrastructure projects for smallholder farmers. CECOSEMAM farmers would still be heavily dependent on other cooperatives if they could not assess the quality of their coffee. Before the Fair Trade Fund was granted there was a great deal of discussion on whether or not the funds should be used for such large-scale infrastructure projects. The maximum grant amount disbursed under the Fair Trade Fund is USD \$25,000 each. Infrastructure and technology usually require a more significant investment; however, both still remain at the top of the farmers' list, especially for those in agro-enterprise. The Fair Trade Fund should *continue to make contributions towards these large infrastructure and technology enhancement projects* when possible.

Third, Fair Trade Fund grants should not be disbursed unless the receiving organization demonstrates an ability to effectively monitor the utilization of funds. If CRS wishes to accurately capture the impact the grant has had, it must hold the grantee accountability for reporting on the utilization of funds. For contributions to large-scale projects, CRS should ensure that the existing monitoring and evaluation system has clear indicators and methods for capturing results and impact.

Fourth, while invisible to the farmers, US consumers were able to take an important and innovative role in the value chain. The Fair Trade Fund is resourced through the commissions CRS receives when coffee (and chocolate and crafts) is purchased through a network of US based partners. They may also give cash contributions directly as donors. *Although usually relegated to the end of the value chain, consumers are in a way making interventions along the chain via donations to the Fund*. Fund donations are effectively recycled to farmers, as was the case with CECOSEMAM and ADDAC, thus linking consumers with producers in a unique interplay of resources.

It is also important to note that participation in the Fair Trade marketplace, regardless of Fair Trade Fund support, helped CRS learn the importance of working with existing cooperatives and providing targeted assistance. CRS made a significant investment--including using US partner contributions via the Fair Trade Fund--to build up a fledgling cooperative, CECOSEMAM, from nothing to a sustainable organization that provides hundred of farming families with greater opportunities for economic and social improvement. It is interesting to note

that in the original design of the project, CRS planned to build the capacity of the farmers so that they could join an existing cooperative. However, after CRS began working with the beneficiaries, they wanted to start their own cooperative. While CECOSEMAC is now operating on its own, the breadth of the impact of CRS work and resources would have been greater if the farmers were incorporated into existing organizations. For future projects with limited funding, short project cycles, and ambitious objectives, CRS has learned that it can be more productive to work within existing frameworks.

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Kelly Miller is an international development professional with six years of experience managing international development projects. Ms. Miller holds a Bachelor's degree in Government and Latin American Studies from Colby College, and a Master's degree in Development Management from American University. Ms. Miller currently serves as a project manager in the Latin American and Caribbean region at Chemonics International, where she manages a large portfolio of development projects ranging technical areas from microfinance and economic development to democracy and governance. A native of Maine, Ms. Miller is also fluent in Spanish and Portuguese.

APPENDIX A. Interviews

Jorge Castellon
Technical Advisor and Project Director, CRS/Nicaragua
Date of Interview: June 10, 2009

Adrian Arauz Martinez
Member of CECOSEMAC, Matagalpa, Nicaragua
Date of Interview: June 10, 2009

Lara Puglielli
Senior Technical Advisor, Overseas Support Department
CRS Country Representative (former 2001-2005)
Date of Interview: June 11, 2009

Michael Sheridan
Regional Technical Advisor, Guatemala, Guatemala (current)
Fair Trade Fund manager (former, 2005-2007)
Date of Interview: June 11, 2009