

The Coffee Crisis Continues

Situation Assessment and Policy Recommendations for Reducing Poverty in the Coffee Sector

Though recent improvements in the international price of coffee provide some relief to small-scale coffee farmers and farm workers, the dynamics of the coffee market have not shifted in ways that guarantee long-term stability for those at the bottom of the supply chain. With a seat at the table in the International Coffee Organization and a commitment to further incorporate coffee-related programs into its development agenda, the US has the opportunity to take a leadership role in addressing the continuing coffee crisis. By expanding its commitment to rural finance and technical assistance programs, and facilitating farmer and farm worker participation in international debate, the US government can empower small-scale farmers and farm workers to take full advantage of the improved market conditions, leaving them less vulnerable to the boom and bust cycles of the market.

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Executive summary

Oxfam America launched its coffee campaign on the steps of the US Capitol in September 2002. At that time, the international price of coffee had dropped to a 30-year low, placing already vulnerable small-scale coffee farmers and farm workers at the brink of a humanitarian crisis. Two and a half years later, the context of the coffee crisis has changed. The international coffee market has begun to recover, as reflected in higher international prices for coffee. But a few extra cents does not signal the end of the coffee crisis. Small-scale coffee farmers and farm workers remain extremely vulnerable to the coffee market's price swings and the disproportionate market power of local buyers, international traders, and multinational coffee companies.

After two years of campaigning for change, Oxfam America welcomed the State Department's September 2004 announcement that the US would rejoin the International Coffee Organization (ICO). US membership in the ICO became official in February 2005. Meanwhile, the US Administration has shown encouraging signs of its commitment to addressing the coffee crisis. As part of its development policy, the US Trade Representative's office has convened an interagency task force to address the crisis.

As the US builds upon its commitment, it is crucial that the Administration and Congress advocate for programs that benefit small-scale farmers and farm workers. The US must work together with international policy makers, the coffee industry, and non-governmental organizations (NGOs) to implement market-based strategies that stabilize prices, provide access to farm credit, provide technical assistance, finance, and market information, create meaningful diversification options, and promote farmer and farm worker representation in international debate.

This paper has two purposes. It represents Oxfam America's situation assessment of the most pressing issues facing small-scale coffee farmers and farm workers today. And it provides recommendations to the US government about how these needs can be addressed.

Oxfam America urges the US government to focus its attention to the coffee sector on three priority areas: price stability, development assistance for small-scale farmers and farm workers, and small-scale farmer and farm worker representation within the international debate.

Situation Assessment: Small-Scale Farmer Priorities

Oxfam identified the six most pressing needs of small-scale farmers: price stability, access to finance, market access, technical assistance in quality improvement and diversification, organizational strengthening, and participation in international debate.

Despite the recent increase in the international price of coffee, an adequate, sustainable, and stable price of coffee is a priority concern for small-scale farmers. Farmers' core demand is a coffee price that covers the costs of production and some level of investment and savings. Niche markets deliver higher prices but these may disappear as supply increases without premium guarantees. High transaction costs, such as taxes, technical assistance fees and

certification, can make a farm or organization unprofitable when combined with low prices.

Farmers and their organizations face the continual challenge of finding affordable credit. Farmers need credit to cover farm maintenance, quality investments and debt refinancing. Farms are being seized due to extreme indebtedness. The recent rise in the international price of coffee has increased marketing cooperatives' need for working capital to finance purchases from their members. Independent of what the price on the market might be in a given moment, marketing cooperatives need financing to invest in capital improvements. These improvements are essential for quality production and making pre-harvest farm credit available to farmers so that they can make investments that increase yields and improve quality.

More and more, farmer organizations are making direct links with buyers in consuming countries. A need exists for developing wider market access for emerging cooperatives and easing travel restrictions for sales trips. A system for relaying reliable information on markets and production trends should be created. Much of the information comes from under-funded coffee institutes and ad hoc market contacts. Small-scale farmers have little access to the best information, unlike large traders.

Many farmer organizations have made considerable strides in quality improvement. Farmers, especially those in very remote areas, need training on harvesting properly and managing their farms so that they maximize quality. Many farmers have never tasted their coffee and do not understand how to control taste and off-flavors. Basic cupping technology should be disseminated to small-holder organizations.

Farmers and farm workers need more long-term financial and institutional resources in order to form and strengthen basic organizations. Rural organizations face challenges finding and retaining skilled staff. Farmer organizations need financial and organizational management capacity to operate as successful businesses in the competitive and marginally profitable world of green coffee exporting.

Livelihood diversification provides one answer to low commodity prices. Finding profitable alternatives to cash crops like coffee, however, is exceedingly difficult. In lieu of profitable legal options, farmers are diversifying into illegal crops like coca and poppies, which can deliver three to 10 times the price of coffee. Farmers that lose their land often migrate to find work in cities or other countries. Women and children are increasing their workloads to cut costs. There are many diversification projects, but they have achieved little success relative to the overwhelming need.

Situation Assessment: Farm Worker Priorities

Coffee farm workers are among the hardest hit by the coffee crisis. Even when the price of coffee rises, many farm workers face poor working conditions, low wages, and contractual abuses. The coffee crisis has exacerbated these problems through widespread layoffs and cost cutting by plantation owners. Coffee buyers and national governments must take strong action to make sure the concerns of farm workers are a high priority.

Advocates must help improve conditions and benefits for both temporary and permanent workers, seek fair treatment in disputes and above all, encourage economic development for those unemployed by the crisis. In some cases, there are national laws that support the rights of workers. But they are not enforced. Because few options exist, farmers and farm workers turn to migration, increased dependence on remittances from family members abroad, and involvement in the informal economy.

Farm worker exploitation can be linked to concerns about food security. Some workers have plots of land for subsistence, but many are dependent on other income sources, community support networks, or food assistance. Women and children are the most vulnerable populations in situations where food security is not guaranteed. Given the central place of coffee in many economies, the amount of research done on working conditions on plantations is proportionately very low. This is due in part to the difficulty finding farm workers in coffee countries who feel secure enough to talk openly about their situations, as well as researchers who feel secure accessing pertinent information.

Policy Recommendations

The US Administration can take great strides in addressing the coffee crisis by pushing these priority issues at the ICO and leading by example through US government programs and policy. As the agency charged with executing many US development programs, the US Agency for International Development (USAID) is positioned to play an important role in the administration's support of small-scale coffee farmers and farm workers. It is crucial that USAID, along with other agencies, continually monitors the needs of small-scale producers and farm workers as the context of the coffee crisis evolves. The agency must debunk the notion that the crisis is over so that coffee does not drop to a low priority.

Based on its situation assessment of the new context of the coffee crisis, Oxfam America urges the US government to focus its attention on the coffee sector on three priority areas: price sustainability, development assistance for small-scale, family farmers, and farmer and farm worker representation in international debate.

Price sustainability

More than any other factor, sustainable, stable pricing at the farm level most directly affects the incomes of small-scale farmers. It is therefore crucial that price and price stability form a key component of the US government's response to the coffee crisis. The ICO is one forum for debate on sustainability initiatives. The US delegation to the ICO must stress the need for market-based price mechanisms for rewarding farmers for adding 'sustainable value'.

Small-scale farmers lack the market information they need to make informed decisions about production. This includes information about global production trends as well as nuanced and accurate information about consumer demand for organic and specialty quality coffee. Without such information and the understanding of how to employ it, farmers and farmer organizations are unable to plan for price volatility. The US can help standardize information systems in the coffee sector to aid supply management and market stabilization.

Sustainable coffee certifications, including organic, Fair Trade, and Rainforest Alliance certification, are market-based initiatives that leverage consumer demand to add value to coffees produced 'sustainably.' The argument that increased sales opportunities will make certification cost-effective over time glosses over the ability of producers to cover the cost of implementation and management of certification standards. Without a structurally guaranteed price incentive, these programs will result in profit incentives for buyers and marginal benefits for farmers given the added costs and requirements. Farmers and development aid are flocking to niche markets. As supplies of certified coffee rise, so will premiums fall unless held to a floor price or minimum differential.

While not a panacea for the need for sustainable pricing across the coffee sector, Fair Trade certification is an important development tool that should be embraced and supported by US agencies. USAID can support Fair Trade by incorporating it into its direct support of farmer marketing organizations, as well as collaborative projects with private-sector importers and roasters, both large and small.

Development Assistance for small-scale farmers

Many small-scale farmers entered into the coffee crisis shouldering significant debt at above market rates. Those who survived through the lowest prices continue to bear the heavy burden of this obligation. Meanwhile, higher prices have increased the farmer-owned marketing cooperatives' need for working capital to buy coffee from farmers. The US government should increase support for organizations which have partnered with the public and private sectors to deliver much needed credit to small-holder coffee farmers. USAID has noted the importance of making finance available for small to medium sized enterprises (SMEs) in developing countries and has made funds available to support access to financial services for small-holder coffee farmers. USAID and other agencies should increase the level of support for SME financing in the coffee sector through facilities like USAID's Development Credit Authority.

Family farmers who count on coffee as their main source of income fail to reach their potential because of lack of know-how. Intensive and long-term training programs can help small-scale farmers overcome this barrier. Technical assistance and other commercial-oriented support must include quality improvement training, sales and marketing skill building, English training for sales and marketing managers, support of participation in trade shows (including visa assistance for travel) and farmer and cooperative management exchanges. State Trading Enterprises (STEs) or national marketing boards can provide vital farmer services such as price stabilization, credit and technical assistance. Regulation of STEs is being discussed in the WTO Agricultural framework and efforts should be made to ensure that producing country governments are able to maintain or strengthen STEs if deemed their best option.

While many small-scale coffee farmers have found other sources of income to augment coffee sales, few have the training, technical assistance, financing or market access to take these alternative income sources to the scale needed to generate significant income. USAID should prioritize economic diversification to address the broader problems of unsustainable agriculture and unemployment in coffee-based economies. In Congress, support for diversification programs can

come in part from appropriations for USDA's Alternative Crops program and Plan Colombia. International organizations also provide an important arena in which to address diversification. The US can provide monetary and technical support for diversification programs within the ICO and Common Fund for Commodities.

Participation in International Debate

While representative organizations like the Global Alliance on Coffee and Commodities (GLACC) do exist, legitimate small-scale farmer and farm worker organizations typically have limited participation in the international forums for addressing the coffee crisis. Barriers to participation in international debate include language, ability to travel to international meetings, and human resources necessary to monitor the situational developments. In addition to support through capacity and technical assistance programs, the US government can support producer and farm worker participation in international debate by supporting organizations that provide those forums and insisting that other institutions, including the ICO, provide such opportunities.

Introduction

Oxfam America launched its coffee campaign on the steps of the US Capitol in September 2002. At that time, the international price of coffee had dropped to a 30-year low, placing already vulnerable small-scale coffee farmers and farm workers at the brink of a humanitarian crisis. As Oxfam's *Mugged* report detailed, in countries like Mexico, farmers left their coffee farms for big cities or the United States in search of employment that would provide a decent livelihood. Throughout Central America, hundreds of thousands of jobs on coffee farms were lost. In countries like Ethiopia and Uganda, farming families were unable to pay for education and health care as a result of the crisis.

In Washington, DC, Oxfam, along with Congressional and private sector allies, worked to bring attention to the devastating effects of the coffee crisis. A bi-partisan coalition of legislators showed leadership by incorporating measures to address the coffee crisis into foreign operations appropriations bills in 2003 and 2004, including calls for the US Administration to assemble an interagency strategy to address the coffee crisis. Many of these legislators also joined Oxfam in its call for the US Administration to rejoin the ICO, the international forum where coffee producing and consuming countries meet to address issues of international coffee trade, including sustainability and quality of life in coffee producing countries.

After two years of campaigning for change, Oxfam America welcomed the State Department's September 2004 announcement that the US would rejoin the International Coffee Organization (ICO). US membership in the ICO became official in February 2005. Meanwhile, the US federal government has shown encouraging signs of its commitment to addressing the coffee crisis. And the US Trade Representative's office has formed the interagency task force to address the crisis.

In recent months, however, the context of the coffee crisis has changed. The international coffee market has begun to recover, as reflected in higher international prices for coffee. But a few extra cents alone does not signal the end of the coffee crisis. Small-scale coffee farmers and farm workers are still extremely vulnerable to the coffee market's price swings and the disproportionate market power of local buyers, international traders, and multinational coffee companies.

As the US builds upon its commitment, it is crucial that the Administration and Congress advocate for programs that benefit small-scale farmers and farm workers. The US must work together with international policy makers, the coffee industry, and non-governmental

organizations, to implement market-based strategies that stabilize prices, provide access to farm credit, provide technical assistance, finance, and market information, create meaningful diversification options, and promote farmer and farm worker representation in international debate. Oxfam America urges the US government to focus its attention to the coffee sector on three areas: price stability, development assistance for small-scale, family farmers, and farmer and farm worker representation in international debate.

Methodology

Priorities arising within policy-making circles do not always reflect the needs of the intended beneficiaries. Oxfam America designed this research to consult coffee farmer and development organizations, as well as the specialty and mainstream coffee industries, to identify the priorities of small-scale farmers and farm workers.

The information and ideas in this report come primarily from interviews with farmer cooperatives, industry, governmental and non-governmental organizations. Nearly forty interviews were done in total. Interviewees were chosen according to their knowledge and reputation in their respective sector and an effort was made to recognize the diversity within each sector. For example, included in the small-scale farmer organizations interviews were local level organizations as well as larger federations; NGOs interviewed included USAID contractors, certifiers, and origin country organizations; large and small-scale coffee traders and roasters were included. In place of references to specific statements made during interviews, citations have been substituted with a list of interviewees at the paper's end.

1. Small-scale farmer priorities

Price and Price Stability

Despite the recent increase in the international price of coffee, an adequate, sustainable, and stable price of coffee is a priority concern for small-scale farmers. Their core demand is to receive a price for their coffee that covers production costs and some level of investment and savings. Beyond that, they stress the need to be compensated for the added cost of compliance with sustainability certification programs like organic, Rainforest Alliance, shade-grown, Utz Kapeh and others. Small-scale farmer organizations are striving to locate financing to increase their processing and exporting capacity so that they can increase their share of the price international traders and buyers pay.

There is concern that the premiums now paid in the specialty markets may erode over time as supply outpaces demand. Quality improvement projects abound, and should continue, and the US specialty industry views the demand to be rising steadily indefinitely. Several industry traders raise the specter of large specialty roasters siphoning off the best quality coffee around the world as smaller specialty buyers fight to compete. Long-term premium decline will most likely occur in the certified niche markets (such as organic) where premiums shift with supply, and as more farmers become certified, traders can play them off each other to drive prices down.¹

Access to Finance

“The principal challenge of the coffee producers of La Central is access to financing. This includes short term credit for farm maintenance, fertilization, and harvest; medium and long term financing for investment in productive and commercial infrastructure, diversification projects, and land purchases.”

–Dagoberto Suazo, La Central, Honduras

Much attention has been paid to credit and financing for micro-enterprises in the developing world. However, coffee farmer marketing cooperatives are typically too large to qualify for micro-credit and are overlooked by commercial lenders. Marketing cooperatives and associations play an integral role in providing small-scale coffee farmers with direct access to international markets. But a lack of access to capital

¹ Oxfam International Briefing Paper 44. “Walk the Talk: A Call to Action to Restore Coffee Farmers’ Livelihoods.” May 2003. P8.

has limited the potential of the cooperative business model and thus its ability to function as a means to increase direct market access and the higher incomes associated with it. The recent rise in the international price of coffee has increased marketing cooperatives' need for working capital to finance purchases from their members. Independent of price fluctuation, marketing cooperatives need financing to invest in capital improvements essential for quality production and to make pre-harvest farm credit available to farmers for investment that increases yields and improves quality.

Working capital/pre-harvest credit

Small-scale farmer organizations are in constant need of low interest working capital to finance the purchase, processing, and sale of coffee. This financing allows the cooperative to maintain a positive cash flow, maintain high quality, and meet contract terms. Several people interviewed mentioned the value of flexible funds, like those provided by Ecologic Finance, as well as the need for similar funds that exist on a longer term basis.

Infrastructure

Financing for on-farm infrastructure is used for construction of small mills and drying patios and can come from informal lenders, development project budgets or cooperative credit funds. Financing for centralized infrastructure is used for cooperative level mills, transport vehicles, quality equipment, or drying patios.

Financing for diversification transition

Farmers who are encouraged to diversify cannot do so successfully without transitional financing for investment in the new activity or crop, income substitution for basic needs, debt payments prior to generation of new income sources, and support for required training. There is a general shortage of this type of funding.

Debt refinancing

Many farmers struggling to maintain financial stability through the coffee crisis have increased their debt load. In El Salvador, this translated to widespread farm seizures when farmers were forced to default.

“This is an extremely severe problem to have this debt, because it isn’t only a problem of credit. Because of the crisis, profitability isn’t possible so there aren’t resources to continue investing in their farms. Practically, the farmers are just waiting for this period to pass. There’s nothing they can do, except hope their land isn’t taken.”

-Rene Rivera Magaña, FUNDE, El Salvador

The Foro de Café has successfully negotiated with the Salvadoran government to reduce the total amount owed and allow a grace period on repayment. This has stemmed the tide of land seizures somewhat. However, debt refinancing and forgiveness remain priorities for small-scale farmers.² Often small-holders owe less in terms of total debt, but they have far more to lose than medium and large farmers.

Costa Rica, El Salvador, and Honduras instituted emergency funds for farmers when the price dropped. The repayment of these funds depends on the recovery of coffee prices. If the price does not recover over a sustained period of time, farmers will fall further into debt and may lose their land as a result. Several countries are also restructuring the debt of farmers, although these usually reach only the medium and large-scale farmers who receive formal credit.³

Credit for risk management

Long-term lines of credit have also been mentioned as required for cooperatives to use risk management tools such as price insurance and hedging. The International Task Force on Risk Management, housed at the World Bank, is actively campaigning with local and national banks to ensure the availability of this type of credit. But it is not widely available now.

Marketing and Market Access

Overcoming market concentration

One of the central challenges of small-scale farmer organizations is competition with exporters who have financing, infrastructure, risk management tools, extensive market knowledge, and existing contracts. This combination of capital, infrastructure, and experience allows exporters to reduce their cost of goods and achieve economies of scale. Add to this dishonest, unaccountable traders and the result is a highly

² Rivera et.al. 2003. *El Impacto de la Crisis de Café en El Salvador*. San Salvador: FUNDE. P70-72.

³ Varangis, et. al. 2003. *Dealing with the Coffee Crisis in Central America: Impacts and Strategies*.

competitive and unfavorable environment for small-holder organizations, especially emerging ones.

Achieving economies of scale can be virtually impossible for small-scale farmer organizations when they are competing with large exporters with consolidated processing and established relationships with international buyers.

Improving direct market links

Farmer organizations want to export their products directly and are increasingly making direct links with buyers in consuming countries. A certain level of organizational development is required to meet the legal, quality, and volume requirements of exporting.⁴

The difficulty in obtaining travel visas to the US is also a barrier to independent direct marketing. The visa process is eased by invitation by a buyer or non-governmental organization, but is an obstacle for independent sales trips. USAID sponsors travel visas for organizations they fund. However, the process is non-standardized and happens on a case-by-case basis at each consulate.

There is also a concern that direct coffee buying by transnational companies is increasing in producing countries. Rather than bringing increased benefits to producers, roasting companies are using this as a way to sidestep intermediaries and cut their own costs by paying the same prices as the local buyers. This is not 'market access' that is beneficial to small-holders.

Strategic market information

Farmers require consistent and reliable information on the coffee market and worldwide production trends to plan accordingly. Currently no dependable system exists, and much of the information comes from national coffee institutes and ad hoc information gleaned from market contacts. Trade fairs and conferences are opportunities for information gathering. However, they can present a skewed version of the market depending on how representative the trade fair is of actual commerce. Much of the best information is held by large traders and thus inaccessible to farmer cooperatives.⁵

TransFair USA and other NGOs offer farmers promotional sales packages that include airfare, hotel, trade fair expenses and promotional assistance, however, funds are limited relative to the need in producing countries.

⁴ López, Ovidio. Frente Solidario. *Informe de Reunión del Comité Ejecutivo del Código Común de la Comunidad del Café "4C o CCCC"*. Sept 2004.

⁵ Lewin et. al. 2004. *Coffee Markets: New Paradigms in Global Supply and Demand*. P36.

Few producer organizations are solvent enough to have adequate sales and marketing budgets. Sales contacts can be made at trade fairs but consistent customers come more frequently from direct sales tours. TransFair and others do not have the resources to support these types of trips for many farmer organizations.

Information on the market potential, advantages and disadvantages of the various certification programs is needed by small-holder organizations with limited investment resources.

Excessive transaction costs

Along with low prices, small-scale farmers noted high transaction costs for themselves and their organizations as a barrier in El Salvador and elsewhere in Central America. These costs include taxes and technical assistance fees to various national agencies. The Salvadoran Foro del Café has successfully campaigned with the government to reduce these fees by approximately 60%. Transaction costs also refer to the costs of entry to specialty markets (certification, administrative, and quality control costs) and export-related fees.

Quality Improvement

Farmers recognize the advantages and opportunities available with a higher quality coffee. Many farmer organizations have made considerable strides towards achieving this. Farmers from small-holder marketing cooperatives in Nicaragua and Bolivia recently won the Cup of Excellence competition, Oxfam is a partner in a comprehensive quality improvement project with CEPCO in Mexico, and there is excellent quality coming out of the PEARL project in Rwanda, just to name a few of many examples. This work needs to continue to expand the opportunities of the growing demand in the specialty market to more small-holders. Specialty traders note the growing demand for high quality coffee given both the increasing consumer demand and expansion of specialty giant Starbucks.

Production assistance

Small-scale farmers, especially those in very remote areas, need assistance with proper harvesting and farm management to maximize their quality and minimize defects. These are the first stages where quality can be maintained, improved, or damaged.

Post-harvest processing

“A priority for us is to improve the quality of our coffee because the market for high quality coffee is growing. Without the infrastructure to process coffee it is difficult for a cooperative to achieve this goal.”

-Lucas Silvestre, Asociación Guaya'b, Guatemala

Farmer organizations need centralized infrastructure to process the coffee that comes from their many small-scale members. Centralized processing allows these organizations to maintain the standard and consistent quality necessary for sales to the specialty market. There are other farmers who live too far from a centralized buying/processing station and thus need affordable, efficient on-farm processing methods along with training on quality control.

“There is a great need to standardize processing criteria on the level of the farm. If a farmer organization has thousands of farmers processing their coffee in different ways, that is no way to get good, consistent quality. Centralization of processing is not really an option because of the poor roads and difficulties in transporting coffee to a central location. Rain can come in the middle of the harvest and stay for a month, which can ruin the coffee. It needs to be processed on farm.

– Miguel Paz, CECOVASA, Peru

The Guatemalan business development association CRECER is considering a micro-mill project to confront this challenge of farm level processing. It presents considerable organizational and training challenges but also considerable potential in knowledge dissemination and long term farm level sustainability.

Mentioned frequently are criticisms of the position that farmers growing coffee below 900 meters are considered noncompetitive. There is a case to be made that Central American farmers at these altitudes are producing coffee of better quality than the Robustas of Brazil and Vietnam and should not be abandoned by technical assistance programs. More serious are concerns of African producers who may not be able to grow Arabica coffee, but face stiffer challenges to diversification than Latin American producers.

Cupping labs and training

The training in cupping and quality control is a continued need at small-holder organizations. Many large farms and plantations will have on staff a professional cupper, often trained to international standards, but

only the most organized of cooperatives have this capacity. Many farmers have never tasted their coffee and do not understand the ways to control taste and reduce off-flavor. Finding a way of disseminating basic cupping technology is a need for those organizations which are looking to the specialty market. The NGO CLUSA has been very successful with the installation of 'mini-labs' in farmer cooperatives in Nicaragua.⁶

Organizational Strengthening

Formation of farmer organizations and alliances

Many small-scale producers are still unorganized or associated only with small cooperatives that have relatively little economic or political power. These organizations need more long-term financial and institutional resources for basic organizational formation and strengthening. The farmers who belong to these organizations face the most intractable obstacles of remote areas. They lack transport and communication infrastructure, education, and experience in business practices. Some may have rich community traditions of cooperation that can be strong foundations of collective action. Coffee marketing may not be the best long-term livelihood option for them. However, organizational strengthening and alliance building is needed.

After local area organizations are established, there is a need for regional alliances among farmer organizations. Alliances can be effective for commercial consolidation, as small organizations find it difficult to fill minimum volume requirements in a consistent manner. They can also function for advocacy work with government officials or negotiations with development agencies.

Alliance building is not only dependent on the resources to fund meetings and exchanges, but also on the farmers' belief in the benefits of association. The desire for organizations to go it alone, or intra-organizational animosity, can be substantial barriers in and of themselves.

Financial and organizational management training

Farmer organizations need financial and organizational management capacity to operate as successful businesses in the competitive and marginally profitable world of green coffee exporting. Farmer organizations, especially emerging ones, need methods to reduce high operational costs, maximize efficiency, and achieve economies of scale in post-harvest processing. They need to develop dependable internal control systems (ICS) for information management. ICS are required for

⁶ Kenney, J. "Nicaraguan Co-ops Seek Growing Markets". *Cooperative Business Journal*. Nov 2002.

certification in quality or sustainability programs such as Fair Trade or organic.

Organizations in poor rural areas are hard pressed to find and retain skilled management and technical staff. They often need but do not have at least one person who can read English if a fax or email is received from a buyer in English.

“The principle challenge to improving the situations in these cooperatives is to find skilled human resources. Many cooperatives have been recipients of assistance from aid agencies and the government over a long period of time, but they haven’t been able to capitalize on this. There is a high turnover rate of personnel in these cooperatives because first, it is difficult to find qualified people and second, the ability of small cooperatives to pay attractive salaries is also a problem. When a skilled person finds a better employment opportunity, they leave. We also have the problem that many technicians leave for the US looking for better work.”

—Antonio Cerdón, CRECER, Guatemala

The managerial component is often overlooked in development projects and it is central to the success of small-holder organizations. Cooperatives and federations with developed management capacity are resources for new organizations. Although there can be exporting competition between these organizations, cooperation would benefit them more than isolation. Management team exchanges have been suggested as a possible resource for effective skill and information transfer. Reports from an exchange between Rwandan and Nicaraguan farmers facilitated by the Thanksgiving Coffee Company and USAID were reported as positive.

Risk management mechanisms

Traders regularly use tools to manage the inherent risk in commodity trading. These tools have generally not been used by small-holder organizations due to lack of access, information and training. Farmer organizations that are aware of these tools are interested in using them and having access to appropriate training and credit.⁷ The World Bank is supporting pilot projects to train small-holder organizations to use tools such as hedging and price and weather insurance. There has been considerable learning in this area over the last few years and several organizations are successfully using the risk management tools. The emphasis now is on dissemination of information both to small-holders and national banks to educate both sectors. Many small-holder

⁷ World Bank ITF pilot project reports <http://www.itf-commrisk.org/DisplayContent.asp?ID=211>

organizations have heard about risk management. However, many express lack of understanding of how the tools can be used, which provides an obstacle to gaining access to them.

Livelihood Diversification

Diversification is often cited as the answer to low commodity prices. However, finding alternatives to cash crops like coffee that can deliver equal benefits is exceedingly difficult. Farmer leaders mention diversification as a priority, but emphasize the difficulty in finding legal, profitable alternatives to coffee.

“Our members have had some success in diversification programs, but on a very small scale. Examples are honey, pigs, cattle, vegetables, basic grains, roasted and ground coffee, and plantain. To expand and promote rural diversification, the following services and/or programs are needed:

- *Assistance in feasibility studies*
- *Long-term lines of credit*
- *Market studies and access to national and international markets*
- *Brand design and development*
- *Design and development of marketing strategies*
- *Technical assistance (quality control, knowledge of the final consumer, etc)*
- *Exchange of experience and information”*

—Dagoberto Suazo, La Central, Honduras

Horizontal diversification

“Our second priority [after increasing price through quality] is diversification of production. At Manos Campesinas we understand the concept of diversification to be the amplification of the range of products grown in association with coffee. It is not the change of one monoculture (coffee) to another. Through diversification, producers continue working their coffee and at the same time cultivate other products, such as avocado, citrus, and local fruits. Diversification in association with coffee is able to partially alleviate the crisis caused by low prices, improve the family diet and provide possibilities of generating new and better sources of income for rural families.”

-Jerónimo Bollen, Manos Campesinas, Guatemala

Diversification in addition to or out of coffee into alternative crops is particularly important for those farmers who are unable to produce coffee for specialty markets due to low altitude or other factors.⁸ Coffee farmers have been diversified for some time, but the challenge is in finding markets.

“Diversification is a theme that I don’t like very much. And not because I don’t think it’s necessary. The small producers have diversification on their farms -beans, bananas, oranges, and a little coffee- but their farms are so small that they basically produce for their own consumption, with just a little for sale internally. Coffee is what generates the income to buy clothes, for school, for health.”

-Merling Preza, PRODECOOP, Nicaragua⁹

Farmers with organic and/or Fair Trade certification have a commercial advantage in that their other crops can also be sold under these terms. A leading diversification option for coffee farmers is the production of illegal drug crops like coca and poppies in South America or chat in Ethiopia, which can deliver three to ten times the price of coffee.¹⁰ Some farmers have replaced coffee with environmentally damaging activities

⁸ Some low altitude coffee can be sold for decent prices in the mainstream market, Central American coffee being an example.

⁹ Wisconsin Coordinating Council on Nicaragua. *PRODECOOP: Quality coffee and women’s leadership*. P2-3.

¹⁰ In 2003, Peruvian farmers received \$3/lb for coca and \$0.65/lb for coffee; Ethiopian farmers received \$9/kg for chat as compared with coffee at \$0.86/kg. Oxfam. *“Coffee Collapse is Leading to Global Drug Boom.”* Dec 2003.; Crabtree 2002. P4.

such as cattle grazing. Farms are being subdivided and sold, sometimes through land seizures due to debt default. There are many projects dedicated to diversification, however, they have achieved little success relative to the overwhelming need.

Vertical diversification

Farmers can increase their incomes by diversifying their coffee-related activities. This is achieved through quality differentiation and adding value to capture upstream margins.

“Producers’ share of total value has declined considerably: from approximately 30% to less than 10% in the last two decades. To increase their share of the total value and to add value, producers need to simultaneously develop downstream supply chain linkages and pursue promotion strategies that feature their coffee’s comparative advantages.”

—Panos Varangis et. al. *Dealing with the Coffee Crisis in Central America*¹¹

The reasons for the decrease in producer value include roasting technology improvements, processing efficiency and the combined leverage of cash and knowledge of roasters to add value and reduce costs of raw materials. Thus roaster profit margins have increased as producers’ have fallen.

Adding value in coffee products (such as roasting and grinding) in the countries of origin is quite difficult. The process of developing supply chain linkages and promotion strategies is a considerable challenge for small-holder organizations. It presents new and often more complex challenges for small-holder organizations than exporting.

Brazil has successfully increased its domestic coffee consumption and created a vibrant internal market for its producers. A promotional campaign in the 1990s helped boost internal consumption 7 to 14 million bags in the 1990s and now almost 50% of Brazilian coffee is consumed nationally.¹² Other producing countries, such as Colombia and Mexico, are exploring possibilities of diversifying up the value chain, but it is unlikely that less developed countries in Latin America, Asia, and Africa will be able to follow their example in the near future.

¹¹ Varangis et. al. 2003. *Dealing with the Coffee Crisis in Central America: Impacts and Strategies*. P26.

¹² ICO. *Colombia launches a campaign to increase domestic consumption of coffee*. www.ico.org/ed/colombia.htm

Non-agricultural options

In an Oxfam field report, John Crabtree found that Peruvian farmers are diversifying their activities through changing the gendered division of labor. Women and children are increasingly providing the majority of the farm labor. Women and children in the family make up for labor shortfalls when men migrate for work or there is no income to hire casual farm labor. Children working on farms generally attend school less.¹³

Migration

Migration is a common diversification option for struggling farmers. In some Mexican coffee-producing communities, over 70% of the population has left in search of better incomes in the north.¹⁴

The relationship between coffee and migration has undergone a fundamental change since the crisis in international coffee prices in 1989. Today there is a new coffee migration. This time it isn't related to the productive cycle of the plant. The new migration is fleeing the coffee fields and the enforced poverty of low prices. This migration heads north, to the United States, and stays there.

-Luis Hernández Navarro, *To Die a Little: Migration and Coffee in Mexico and Central America*¹⁵

Participation in International Debate

"The post-International Coffee Agreement regime exhibits many of the characteristics of a 'buyer-driven chain'...[in which] the institutional framework is moving away from a formal and relatively stable system where producers had an established 'voice' towards one that is more informal, inherently unstable and buyer-dominated".

-Stefano Ponte, *Standards and Sustainability in the Coffee Sector*¹⁶

The fact that small-scale farmers produce most of the coffee globally could be leveraged for significant political power if farmers have effective international representation. While farmer representatives realize the difficulty in this, it remains one of their high priorities. Regardless of the difficulties, without effective representation, small-scale producers will

¹³ Crabtree, John. *Visit to Peru*, Oxfam Coffee Campaign. Jan/Feb 2002.

¹⁴ Hernández Navarro, L. *To Die a Little: Migration and Coffee in Mexico and Central America*. Dec 13, 2004. P1.

¹⁵ Hernández Navarro, L. *To Die a Little: Migration and Coffee in Mexico and Central America*. 12/13/04.P1.

¹⁶ Ponte, S. 2004. *Standards and Sustainability in the Coffee Sector: A Global Value chain Approach*. P4.

continue to draw the short straw in international negotiations. Oxfam has been pivotal in establishing the Global Alliance on Coffee and Commodities, which plays a representative role for farmers. There is a need for sustained institutional and financial support for GLACC's long-term development and sustainability as an effective alliance and representative body. The Coordinadora de Pequeños Productores de Comercio Justo also serves this role, although only for organizations on the Fair Trade register.

2. Farm worker priorities

“For years, U.S. companies have sold us coffee picked by workers who are paid such miserable wages that they can’t afford an adequate diet, basic health care, or an extra change of clothes for their children.”

—Justice for Coffee Workers Campaign, US/Guatemala Labor Education Project

Coffee farm workers are perhaps the population hardest hit by the coffee crisis. The World Bank estimates that since 2003, seasonal employment in Central American coffee cultivation has fallen by more than 20 percent and permanent employment by more than 50 percent. Lost salaries for coffee farm workers across the region are estimated at \$140 million.¹⁷ Even when coffee prices were higher, many farm workers suffered from poor working conditions, low wages, and contractual abuses. The coffee crisis has exacerbated these problems through widespread layoffs or cost-cutting by plantation owners. Coffee prices are currently rising and there is the real threat that the need for action may be seen as less urgent. Concerns of farm workers will continue to be ignored without strong action by coffee buyers and national governments.

Advocacy is needed for improved conditions and benefits for both temporary and permanent workers, fair treatment in labor disputes and above all, economic development for those unemployed by the coffee crisis. It is an immediate and pressing need to increase and improve the assistance for these people.

Unemployment / Enterprise Development

Both small-holders and farm workers are in desperate need of alternative income options. Migration, increased dependence on remittances from family members abroad, and involvement in the informal economy are common diversification options now as other opportunities do not exist.

The Salvadoran Central Reserve Bank reported that remittances sent from outside the country, primarily from the U.S., have gone up 47 percent to exceed \$2.1 billion annually. The values and fluctuations of remittances are viewed as a reliable statistical method of estimating nationals living outside the country.¹⁸

¹⁷ Varangis et. al. 2003. *Dealing with the Coffee Crisis in Central America: Impacts and Strategies*. P9.

¹⁸ Harris, B. Coffee market perking up, but growers still smarting and cautious. *Miami Herald*. 11/22/04.

Enforcement of Labor Standards and Laws

Workers require fair wages to cover basic costs of living. Some coffee-producing countries have minimum wage laws, but few are enforced. The US/Guatemala Labor Education Project's case study of Guatemalan coffee workers states that Guatemala's minimum wage is approximately \$5.40 *below* the cost of basic living expenses. There is research verifying that between 60 and 80% of coffee plantations do not pay minimum wages.¹⁹

Guatemalan coffee farm workers recently raised the profile of their struggle by seeking political asylum in Mexico. They say there are owed "nearly \$1 million in wages and severance pay, that their lawsuits languish unresolved in the courts, and that they want to leave because they don't believe that their rights are respected".²⁰

Food Security

Farm worker exploitation and related poverty is linked to concerns about food security in rural areas. Some farm workers have plots of land that they depend on for subsistence needs, but few of these families are able to keep food reserves. Those without land are dependent on other income sources, community support networks, or food assistance when there is no work on coffee farms. A 2003 World Food Program study in El Salvador found that 72% of families in major coffee producing areas do not cultivate basic grains and are dependent on 'other income'.²¹

Women and children are the most vulnerable populations in food insecure situations.²² Over 45% of Salvadoran and 70% of Guatemalan children in coffee-producing areas are malnourished.²³

These statistics highlight the immediate need for emergency relief programs as well as long-term employment and income generating projects.

Need for Research

Given the central place of coffee in many countries' economies, the amount of research done on working conditions on farms that hire laborers is proportionately very low. This is in part due to the difficulty in

¹⁹ U.S./GLEP. 1996. *Justice for Coffee Workers Campaign*. www.usleap.org.

²⁰ Elton, C. "Guatemalan labor disputes fueling violent stand-offs." *Miami Herald*: Posted Dec. 1, 2004.

²¹ WFP, UNICEF and the Ministry of Public Health. 2003, as quoted in Rivera, R. et.al. 2003. *El Impacto de la Crisis de Café en El Salvador*. FUNDE. P83.

²² Rivera, R. et.al. 2003. *El Impacto de la Crisis de Café en El Salvador*. FUNDE. P81-4.

²³ U.S./GLEP. 1996. *Justice for Coffee Workers Campaign*. www.usleap.org; Rivera, R. et.al. 2003. *El Impacto de la Crisis de Café en El Salvador*. FUNDE. P81.

finding farm workers in coffee countries who feel secure enough to talk openly about their situations, as well as researchers who feel secure accessing pertinent information. As a result, it was difficult to find conclusive information on coffee farm workers for this report.

“We were surprised at how little research and serious analysis we were able to find on the role of coffee in Guatemalan society. This multi-million dollar industry has been a cornerstone of Guatemala’s economy for more than a century, yet our study is one of the first that systematically documents the working and living conditions of coffee workers.”

– Commission for the Verification of Codes of Conduct (COVERCO)

The above comment was made by COVERCO in the findings of their 2000 study on coffee farm workers in three regions of Guatemala. The same organization conducted a USAID-funded study in 2002 on the conditions of Guatemalan women and children in coffee cultivation.²⁴

²⁴ COVERCO. 2002. *Women and Children: The Precarious Lives behind the Grains of Coffee*. Guatemala.

3. Policy recommendations

While the recent market improvements are providing needed relief from the most immediate effects of the crisis, family farmers and farm workers face the short end of structural imbalances within the coffee industry. As a result of disproportionate lack of access to market information and direct markets, technical capacity, farm credit, and voice in the international forums where the coffee crisis is debated, family farmers and farm workers are relegated to destitution in a boom and bust market.

The US Administration can help take great strides in addressing the coffee crisis by addressing these issues at the ICO and leading by example through US government programs and policy. As the agency charged with executing many of the US' development programs, USAID, is positioned to play an important role in the administration's support of small-scale coffee farmers and farm workers. According to its own press release, USAID has invested approximately \$57 million on coffee projects since 2002 in more than 18 countries in Latin America, East Africa and Asia.²⁵ There is clear institutional commitment to work in the coffee sector. However, as the context of the coffee crisis evolves with the recent price increase, it is crucial that USAID, along with other agencies, continually monitors the needs of small-scale producers and farm workers and debunks the false perception that the 'crisis' is over so that coffee does not drop to a low priority. As the awareness of the complexity of the coffee crisis grows, there is increased need for collaboration between USAID missions and agencies like the US Trade Representative's office, US Department of State, US Department of Agriculture, as well as Congressional support for assistance to small-scale farmers and farm workers.

Oxfam America urges the US government to focus its attention on the coffee sector on three priority areas: price sustainability, development assistance for small-scale, family farmers, and farmer and farm worker representation in international debate.

Price Sustainability

More than any other factor, sustainable, stable pricing at the farm level most directly affects incomes of small-scale farmers. The effects of the recent improvement in the international price of coffee vary from country to country. However, the full benefits of higher prices do not always trickle down to small-scale farmers, particularly those that sell through

²⁵ "USAID Supports Coffee Growers Around the Globe". *USAID Press Release*. Sep 15, 2004.

intermediaries. Further, the effects of a 30-year price low felt in 2001 and 2002 are still being felt in farming communities despite current prices. In Central America and Mexico, a fall in coffee production caused in part by the migration of coffee workers who could not find work when prices crashed has tempered effects of rising prices. For example, farmers interviewed in El Salvador in January 2005 reported that members of their marketing cooperative expect to earn between \$350-\$1,500 gross from coffee sales this year. Even in countries where on-farm prices do reflect international market trends, the market's recent volatility has left many farmers uncertain about their future and reluctant to make long term investment in their crop. History shows that higher prices are far from permanent. It is therefore crucial that price and price stability form a key component of the US government's response to the coffee crisis.

The Debate on Sustainable Pricing at the ICO

The ICO is one forum for debate on sustainability initiatives. The US delegation to the ICO must stress the need for market-based price mechanisms that reward farmers for adding 'sustainable value'. A price premium attached to sustainable quality is one crucial aspect of addressing the market distortions at the base of the coffee crisis. Premiums that ensure farmers can cover minimum production costs would create a sector-wide incentive towards social responsibility.

A sustainable price differential, a premium that does not fluctuate with supply, must be linked to a strict verification system to build accountability and transparency into coffee trading. This is akin to traceability programs for food safety. Just as consumers trust food companies that say their food is free of pathogens, so must they trust that it is free of economic exploitation.

Information Management

Small-scale farmers lack the market information they need to make informed decisions about production. This includes information about global production trends as well as nuanced and accurate information about consumer demand for organic and specialty quality coffee. Without such information and the understanding of how to employ it, farmers and farmer organizations are unable to plan for price volatility. The US can help standardize information systems in the coffee sector to aid supply management and market stabilization. The technology exists to communicate and disseminate accurate production data. Both producing and consuming countries lack consistent and reliable data on the volume of plantings and expected outputs to manage supply.

The USDA's Foreign Agriculture Service has historically published some of the most reliable data on the bellwether Brazil crop. Production data

from Brazilian authorities is unreliable and tends to be underestimated given that markets respond to low projections. If Brazil projects a drop in supply, the market price rises in concert, as can be seen in current futures prices. Farmer planting, financial sector credit assessment, and industry projections would be more reliable with a flow of regular, reliable information on how much coffee is being planted, projected harvests, etc. This would help reduce the drastic fluctuations in output and market price.

An information system is particularly important for new producers like Vietnam and the Philippines where data management is less established, but also for large producers like Colombia, Mexico, and the Central American region. The ICO has invested in statistical information projects in Ethiopia, Indonesia, India, and Uganda.²⁶ The institutional learning from these projects combined with US statistical technology can be combined to develop a reliable sector-wide information system.

Support for Coffee Certification Programs that Address Price Sustainability

Sustainable coffee certifications, including organic, Fair Trade, and Rainforest Alliance certification, are market-based initiatives that leverage consumer demand to add value to coffees produced 'sustainably.' The notion that product differentiation in consumer markets has the power to add value at the bottom of the supply chain has been noted by business strategists and agricultural economists. Through guarantees that coffees labeled with certification seals meet specific social and environmental criteria, sustainable coffee certification adds value to coffee which is ostensibly realized at the farm level.²⁷

All of the leading sustainability initiatives address the triangular notion of economic, social, and environmental sustainability, but some stress one aspect more than others. Some include quality and organizational aspects as additional legs of the sustainability stool.

Economic sustainability is part of most initiatives but none, other than Fair Trade certification, have mechanisms to *guarantee* a premium or track its payment and disbursement.²⁸ Some suggest that the market will generate higher prices for certified coffees as industry and consumers recognize its greater value, not because of a mandated minimum price.²⁹

²⁶ ICO. May 8, 2002. *Diversification in coffee exporting countries*.

²⁷ Petchers, Seth and Christopher Bacon. May 2004. *Assessing the Impacts of Fair Trade at the Farmgate: Does Access to the Fair Trade Market in Nicaragua Impact the Income of Coffee Farmers?* Unpublished.

²⁸ Utz Kapeh's proposed premium structure has not been implemented yet. Ponte. 2004,P29.

²⁹ Stecklow and White. Wall Street Journal. June 8, 2004.

However, the lack of a guaranteed economic incentive to these programs risks creating the following negative consequences:

- Increased costs to producers and their organizations (on-farm, certification, ongoing administrative management)
- Compounding effects of the crisis on most vulnerable producers³⁰
- Erosion of potential long term benefits to producers
- Widening the power imbalance between producers and buyers
- Consumer confusion around final product labeling
- Corporate misrepresentation of true commitment to sustainable sourcing

The ability of producers to cover the cost of implementation and management of certification standards gets glossed over in the argument that increased sales opportunities will make certification cost-effective over time. Without a structurally guaranteed price incentive, these programs will result in profit incentives for buyers and marginal benefits for farmers given the added costs and requirements. Farmers and development aid are flocking to niche markets. As supplies of certified coffee rise, so will premiums fall unless held to a floor price or minimum differential. The short-term exception may be the specialty market, which appears to have considerable room to grow and maintain high quality differentials.

“Entrance to the specialty markets is almost always linked to some type of certification, whether it be organic, Utz Kapeh, Rainforest, Bird-Friendly, etc. Obtaining these certifications requires a wide range of information management and that the producers and cooperatives have efficient administrative and informational systems, regardless of the costs, which are often much higher than what the market offers as a premium.”

—Dagoberto Suazo, Manager, La Central, Honduras

US Support for Fair Trade Certification

While not a panacea for the need for sustainable pricing across the coffee sector, Fair Trade certification is an important development tool that should be embraced and supported by US agencies. By associating a minimum price to the value proposition it offers to consumers, Fair Trade certification addresses the need for sustainable pricing through market-

³⁰ “Vulnerability” in terms of limited market access, financing and organizational support. These farmers are often unable to get certification and are excluded from quality improvement programs.

based incentives. By rewarding cooperative management, transparency, and creation of access to finance, Fair Trade certification helps ensure that value created through market differentiation actually reaches farmers.

Often overlooked is the multiplier effect of Fair Trade certification. Farmer organizations that are involved in Fair Trade certification receive training and experience in organizational management, democratic decision-making, and direct marketing. Fair Trade certification's direct marketing concept provides emerging farmer cooperatives the valuable opportunity to learn the mechanisms of export and commercial negotiation. This experience often leads to competence in conventional markets, an important complement to Fair Trade sales.

USAID can support Fair Trade by incorporating it into its direct support of farmer marketing organizations, as well as collaborative projects with large, private-sector importers and roasters, both large and small. The companies who are members of the USAID's Global Development Alliance (GDA) would provide an excellent starting point for such collaboration.

Development Assistance for Small-Scale, Family Farmers

Finance and Rural Credit

“If I were to pick one area that needs attention it is financing to growers. This is an area that gets far too little attention. We need many more facilities that can offer loans at low rates and fund on forward contracts.”

—David Griswold, Sustainable Harvest

Many small-scale farmers entered into the coffee crisis shouldering significant debt at above market rates. Those who survived through the lowest prices continue to bear the heavy burden of this obligation. Unable to refinance debt taken on before and during the crisis, many farmers risk losing their land and lack pre-harvest working capital to invest in their crop – all despite higher coffee prices. Meanwhile, higher prices have increased the farmer-owned marketing cooperatives' need for working capital to buy coffee from farmers. Without access to commercial credit, these organizations cannot provide farmers with direct market access and the increased profits that come with it.

The US government can work over the long-term to encourage national banks in producing countries to make financial services available to small-holder organizations. In the more immediate future, the US government should support the small number of organizations, which have partnered with the public and private sectors to deliver much needed credit to small-holder coffee farmers. Ecologic Finance, a

Cambridge, Massachusetts-based NGO, was mentioned in several interviews as an important model for flexible financing to small-scale growers. Green Development Foundation, based in Amsterdam, is also a model for delivery of financial services to small-holder organizations. USAID has noted the importance of making finance available for small to medium sized enterprises (SMEs) in developing countries and has made funds available to support access to financial services for small-holder coffee farmers.³¹ With an increase in coffee prices and the corresponding increase in need by farmer cooperatives for working capital, USAID and other agencies should increase the level of support for SME financing in the coffee sector through facilities like USAID's Development Credit Authority.

Technical Assistance in Quality Improvement, Marketing and Management

Many family farmers who count on coffee as their main source of income fail to reach their potential because of lack of know-how. Intensive and long-term training programs can help small-scale farmers overcome this barrier. Technical assistance and other commercial-oriented support must include quality improvement training, sales, and marketing skill building, English training for sales and marketing managers, support of participation in trade shows (including visa assistance for travel), and farmer and cooperative management exchanges.

Organizational Strengthening

As farmer organizations are strengthened, so is their ability to compete in the market place. This can lead, over time, to increased market influence for farmers as individual organizations enter into regional and international alliances. Sustained farmer and management team exchanges between producer organizations are needed to build relationships, cooperation, and a unified, powerful voice.

Many development projects attract criticism because they tend to create new farmer organizations rather than working with viable, existing groups. At the same time, a segment of small-scale farmer organizations is fast becoming the darling of international development agencies and industry pilot projects. It is crucial that US-sponsored programs develop ways of strengthening small organizations and build their capacity to work together in alliances with other like organizations. Efforts should be taken to avoid "picking the winners" by focusing on those organizations that are already professionalized and easy to work with, at the expense of more remote areas and weaker organizations which need the basic

³¹Freedman, P. 2004. *Designing Loan Guarantees to Spur Growth in Developing Countries*. p16.

building blocks of organizational management training and financing. Taking a longer term focus for project lifetimes would help make this a reality.

At the level of development projects, consistent monitoring and evaluation benchmarks should be included to measure whether farmer organizations involved in the project are being strengthened. Benchmarks can include: whether the organization is formally registered, has functioning of the Board of Directors, and can produce quality financial reporting. This is a long-term process that cannot be accomplished in a year or two. Mechanisms are needed to allow organizations to grow and develop over time and measure that process.

Organizational strengthening also includes the need for farmer representatives to build political skills to be able to influence the policies of their national governments. One example is by building small-holder voice in national coffee institutes. In Honduras and Ethiopia, local coffee campaigns supported by Oxfam have been successful in changing the balance of power at government levels where small producers now have more of a voice.

National Marketing Boards

State Trading Enterprises (STEs) or national marketing boards are seen as inefficient national monopolies by free trade advocates. However, they provide vital farmer services such as price stabilization, credit and technical assistance. They can be effective pro-farmer entities. Regulation of STEs is being discussed in the WTO Agricultural framework and efforts should be made to ensure that producing country governments are able to maintain or strengthen STEs if deemed their best option.³²

³² Green, Duncan. "Tropical Commodities and the WTO." *Bridges*. Yr 8, No10.Nov 2004. P4.; Murphy, S. *UNCTAD XI:Challenging the Commodity Crisis*. IATP. June 2004. P8.

Livelihood Diversification and Commodity Dependence

“A majority of the population in rural areas is directly or indirectly dependent on the commodity sector for its livelihood. It is estimated that worldwide, one billion people in developing countries earn a sizeable proportion of their incomes from the export of commodities and a large number of them live in the poorest countries. If the development objectives of reducing world poverty by half by 2015 are to be achieved, commodities must be placed at the centre of efforts to promote economic growth and fight poverty.”

–International Coffee Organization³³

While many small-scale coffee farmers have found other sources of income to augment coffee sales, few have the training, technical assistance, financing or market access to take these alternative income sources to the scale needed to generate significant income. This situation does not call for programs that switch coffee farmers to monocrop cultivation of other commodities with volatile prices. A better alternative is programs that help farmers create diverse income portfolios that best match their individual situations.

While difficult to achieve, diversification in coffee-producing areas is a vital economic development need. It is not the answer to low commodity prices but it must be an element of any development policy. In addition to the technical challenges of diversification, other barriers to successful diversification include scarce resources for investment in new activities, developed countries’ protectionism, which discourages investment in agricultural based processing or other export crops like sugar, and the difficulty in finding markets for new products.³⁴ Further, any economic diversification strategy should at minimum follow basic sustainability guidelines that ensure access to niche markets as well as avoiding the promotion of short term income generation at the expense of responsible natural resource management.

The World Bank did a comprehensive review of diversification efforts in Central America in 2003. It found that diversification must be demand-driven, because supply is not usually the problem. This is corroborated by interviews with farmer organizations where many of their members are producing several crops, but only have a market for coffee. The Bank

³³ International Coffee Organisation. *Diversification in coffee exporting countries.*

³⁴ Koning, N. et. al. June 2004. *Fair Trade in tropical crops is possible.* p10.

report identifies three elements of successful diversification: market orientation, organizational development and environmental awareness.³⁵

“The processes of increased competitiveness and diversification depend on linked activities in processing and adding value through quality improvement, improving financing and marketing arrangements, and post-harvest practices. As a process of change over time, in the short-term it is important to exploit the strengths of existing farming systems and introduce incremental changes before attempting to introduce far-reaching changes.”

-Varangis et al. *Dealing with the Coffee Crisis in Central America: Impacts and Strategies*³⁶

USAID is focusing its investments in coffee on increasing quality so that farmers can access the specialty market. These are important and needed investments. However, quality improvement alone cannot help all coffee farmers or laborers. USAID should also prioritize economic diversification to address the broader problems of unsustainable agriculture and unemployment in coffee-based economies. At a 2002 USAID-sponsored meeting in Guatemala, a Central American rural diversification project was agreed upon in principle. It was never implemented apparently because the Central American USAID country missions prefer to manage projects on a country level. In Congress, support for diversification programs can come in part from appropriations for USDA’s Alternative Crops program and Plan Colombia. About 20% of the Plan’s funds are dedicated to development and legislative reform, which could be used to promote livelihood diversification in the coffee sector.

International organizations also provide an important arena in which to address diversification. The US can provide monetary and technical support for diversification programs within the ICO and Common Fund for Commodities (CFC).³⁷ The CFC is an intergovernmental financial institution set up through the UN Conference on Trade and Development (UNCTAD) in 1989 to promote the development needs of commodity producers. The CFC funds projects that help improve the competitiveness of farmers in the less developed countries. Funds come from the 106 Member states and it is run through its secretariat in Amsterdam.³⁸

³⁵ Varangis et. al. 2003. *Dealing with the Coffee Crisis in Central America*. P34.

³⁶ Varangis et. al. 2003. *Dealing with the Coffee Crisis in Central America*.P21.

³⁷ The US is not a current member of the CFC.

³⁸ Common Fund for Commodities. *Partner in Sustainable Development: Basic Facts*. May 2004.

NGOs have also provided important models for diversification. An example is the successful diversification projects in Peru sponsored by Green Development Foundation. GDF's process for any diversification program is to identify the products farmers know, that have an existing export market, and that also include niche markets. Niche markets may not support the entire production but they provide an incentive to stimulate quality and sustainable production methods. GDF takes an integrated approach that includes pre-financing exports, developing a marketing and promotion program, and overall organizational development.

Trade Policy and Diversification

There is evidence that diversification will only deliver relief if low income countries have the flexibility to develop pro-development economic national policies. Producing country governments need a whole host of measures including tariffs and farm protections to create the enabling environment for successful diversification. Though coffee is not restricted by import tariffs into the US, the ability for coffee farmers to diversify into other products is limited by the constraints put on their governments to support and protect national agriculture. Fairer trade rules include: reduction of developed nations' hypocritical agricultural policies, closed markets, and dumping. Without these broader changes, diversification options in coffee producing areas will remain severely limited.

Participation in International Debate

"Building a representative organization for farmers is not a priority, it is the priority. There is nothing else that is more important for small-holders who want to be part of the market economy. The only way they achieve anything, at a market level, even at a social level, is when they gather together and make their voice heard. It's not just at the government or policy levels, it is also in negotiating with a buyer or broker. The ability for them to work together responsibly, be coherent, and get a message across effectively is what they need. Everything else follows from that. This should be the first priority of everyone working in development."

-Daniele Giovannucci, Sr. Consultant to International Organizations (UN & World Bank)³⁹

While international forums to address the coffee crisis exist, legitimate small-scale farmer and farm worker organizations typically have limited participation in the debates. Participation of coffee producing countries

³⁹ Giovannucci, Daniele. *Personal Conversation*. Dec 2004.

does not necessarily represent true small-scale farmer and farm worker participation. While representative organizations like GLACC do exist, barriers to participation in international debate include language, ability to travel to international meetings, and human resources necessary to monitor the situational developments.

Small-scale farmers and farm workers need political influence to shake loose real benefits from a commodity market that has historically worked against them. In addition to support through capacity and technical assistance programs, the US government can support producer and farm worker participation in international debate by supporting organizations that provide those forums and insisting that other institutions, including the ICO, provide such opportunities.

Sustainable Coffee Partnership

The Sustainable Coffee Partnership (SCP) is a multi-stakeholder forum initiated within the auspices of the Sustainable Commodity Initiative.⁴⁰ Its purpose is to build on the synergies of existing sustainability initiatives and develop a sector-wide strategic plan within a neutral, credible process. This is particularly important in the current political environment of industry-led programs in which producers are left out of the design process. USAID is supporting the initial meetings of the SCP and the US should wholeheartedly support its further development.

⁴⁰ See www.iisd.org for more information.

Conclusion

Though the recent improvements in the international price of coffee have provided some relief to small-scale coffee farmers and farm workers, the dynamics of the coffee market have not shifted in ways that guarantee long-term stability for those at the bottom of the supply chain. There is a real risk that as the price of coffee rises the sense of urgency for dealing with the crisis will wane. With a seat at the table in the ICO and a commitment to further incorporate coffee-related programs into its development agenda, the US has the opportunity to take a leadership role in addressing the continuing coffee crisis. By expanding its commitment to rural finance and technical assistance programs, and facilitating farmer and farm worker participation in international debate, the US government can empower farmers and farm workers to take full advantage of the improved market conditions. The US government can leave the poor less vulnerable to the market's boom and bust cycle in the future.

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List of interviewees

Walter Rodríguez Vargas
Asociación de Pequeños Productores
de Talamanca, Costa Rica

Lucas Silvestre García
Asociación Guaya'b, Guatemala

Miguel Paz
CECOVASA, Peru

Preston Motes
Chemonics, USA

Frank Hicks
Consultant, Costa Rica

Kari Hamerschlag
Consultant, USA

Bill Harris
Cooperative Coffees, USA

Antonio Cerdón
CRECER, Guatemala

Doug Hellinger
Development Group for Alternative
Policies, USA

Robert Mack
EARTH University, Costa Rica

William Foote
Ecologic Finance, USA

Eric Poncon
ECOM Trading, Mexico

Karen Cebreros
Elan Organic Coffees, USA

Guillermo Denaux, Sn.
Fairtrade Labelling Organisations, El
Salvador

Gerardo de León
FEDECOCAGUA, Guatemala

Sigfredo Benitez
FUNDACAFE, El Salvador

René Rivera Magaña
FUNDE, El Salvador

Rodney Nikkels
Green Development Foundation, The
Netherlands

Jason Potts
International Institute for Sustainable
Development, Canada

Jonathan Rosenthal
Just Works Consulting, USA

Ann Vaughn
Legislative Assistant, Office of
Congressman Sam Farr, USA

Dagoberto Suazo
La Central (CCCC), Honduras

Jerónimo Bollen
Manos Campesinas, Guatemala

Eli Landa
Oxfam America, El Salvador

Gawain Kripke
Oxfam America, USA

Katherine Daniels
Oxfam America, USA

Stephanie Weinberg
Oxfam America, USA

Sonia Cano
Oxfam International/ Global Alliance on
Coffee and Commodities, Honduras

Chris Wille
Rainforest Alliance, Costa Rica

Ernest Van Punhuys
Technoserve, Nicaragua

Kimberly Easson
TransFair USA, USA

Yamile Slebi
TransFair USA, USA

Muriel Calo
Tufts Global Development and
Environment Institute, USA

Tim Wise
Tufts Global Development and
Environment Institute, USA

Daniele Giovannucci
Sr. Consultant to International
Organizations (UN & World Bank), USA

David Griswold
Sustainable Harvest, USA

Ben Corey-Moran
Thanksgiving Coffee, USA

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For further information please email: info@oxfamamerica.org or visit www.oxfamamerica.org/coffee.