

THE IMPACT OF FAIR TRADE ON  
PRODUCERS AND THEIR ORGANISATIONS:

A CASE STUDY WITH COOCAFÉ IN COSTA RICA.

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## **Abstract**

Fair Trade attempts to address the poverty issues of small Southern producers through the payment of a 'fair price' for their goods and the provision of support services for producer organisations. Although Fair Trade is overwhelmingly identified with the 'fair price' paid by participating importers and buyers, sketching the possible avenues of impact reveal that many of the effects of Fair Trade on the quality of life of producers are felt through the organisational development supported by Fair Trade organisations. This study examines the impact of 10 years of Fair Trade in coffee in Costa Rica and reveals the importance of organisational development support for the stakeholders of the nine Costa Rican coffee co-operatives.

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## Preface

*“El comercio justo es mucho mas que comprar y vender café”.<sup>1</sup>*

This document is based on fieldwork conducted in 1999 in response to a rising interest in assessing the impacts of Fair Trade on its target groups. Fieldwork was conducted with Coocafé; the Fair Trade coffee consortium made up of nine primary-level coffee co-operatives in Costa Rica. This study followed a series of assessments commissioned by the Fair Trade Labelling Organisations (FLO) on the impact of fairly traded coffee in five countries: Tanzania, Bolivia, Peru, Mexico and Nicaragua (Schurmann and van Driel 1999). The present work is similar in focus to these studies, but was conducted independently from them.

Subsequent to an initial write-up of the study results, a feedback workshop was held in 2001 in Costa Rica with representatives from each of the co-operative members of Coocafé, to include their perspectives and reflections on the study's results. This document presents the outcome of that two-year process of exploring the impact Fair Trade has had on producers, in particular, via the growth and development of producer organisations.

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A special acknowledgement is due to the staff of Coocafé and of the four primary level co-operatives who participated in interviews. The producers who gave of their time to pilot the producer impact assessment are also gratefully acknowledged. The author retains responsibility for the material contained herein.

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<sup>1</sup>“Fair Trade is much more than buying and selling coffee”. Export Manager, Coocafé

## 1. Introduction

### 1.1 Fair Trade

The list of non-governmental organisations (NGOs), consumer groups, commercial units, Southern-based alternative trade organisations (ATOs) and Northern ATOs that constitute the 'Fair Trade movement' represent a great variety of organisations and products. They share, however, the overall objective of improving the quality of life for the Southern producer. Fair Trade attempts to do so through the activity of trade in which producers are paid a 'fair price' and they and their organisations are offered varying levels of support services<sup>2</sup>. This study examines the impact that 10 years of Fair Trade in coffee have had on the stakeholders of nine Costa Rican co-operatives. By exploring the various avenues of impact, the study traces the effects of financial and non-financial Fair Trade support on the individual co-operatives and the consortium they form. It also looks at how these effects impact upon the quality of life of the small-holder coffee producers that form the ultimate objective of the Fair Trade initiative.

The models used to improve producer quality of life differ across Fair Trade organisations. Fair Trade in the traditional food commodities, including coffee, is conducted under guidelines managed by the Fair Trade Labelling Organisations (FLO). The FLO model of Fair Trade stipulates certain minimum criteria that the trading process must fulfil in order for a product to be labelled and sold as 'Fair Trade'. When the production of commodities is not through the use of hired labour (e.g. workers on a tea plantation) the FLO model explicitly requires that producers form democratically controlled organisations. The FLO criteria also include<sup>3</sup>:

- ◆ minimum price that covers the cost of production,
- ◆ payment of a social premium for development purposes,
- ◆ for small farmers' co-operatives: a democratic, participative structure,
- ◆ partial payment in advance to avoid indebtedness ,
- ◆ long term trade relations that allow proper planning and sustainable production practices.

In addition to these requirements, many Fair Trade NGOs and ATOs provide further organisational support to producer organisations.

### 1.2 Fair Trade, Producer Organisations and Quality of Life

It is important to note from the above criteria that Fair Trade addresses the quality of life issue for producers via both support of producer organisations and via the payment of a 'fair price'. Nevertheless, the popular understanding of Fair Trade, most notably present in the media, focuses almost exclusively on the issue of 'fair price'. This is most likely due to the intuitive appeal to the consumer of the idea that 'we pay more/they get more'. This somewhat limited understanding of Fair Trade has tended to neglect the role of Fair Trade in the organisational development of producer groups.

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<sup>2</sup> For a more comprehensive account of basic Fair Trade principles, visit [www.ifat.org](http://www.ifat.org).

<sup>3</sup> For a detailed description of FLO and its policies, see [www.fairtrade.net](http://www.fairtrade.net)

It is undeniable that the timely payment of a 'fair price' is of primary importance to the producer. Any impact assessment must address the earning and distribution of the so-called Fair Trade 'premium' in order to begin to understand the impact of Fair Trade on the quality of life of producers. The issues of poverty and well being, however, have long been understood to entail more than simply a measure of income. The FLO model, in its emphasis on the democratic, and largely co-operative, nature of producer organisations, recognises the link between these organisations and sustainable development.

Since its early days, development economics has recognised the role of producer organisations in counteracting unequal distributions of market power (Mynt 1954 cited in Hunt 1989, p.59). Although anecdotal evidence abounds in Fair Trade, demonstrating abuses of market power remains an ongoing challenge. Nevertheless, where these abuses of market power might exist, there have been a number of studies (Haller 1993; Wills 1985) documenting the competition-inducing effects of co-operatives, mainly in the US. Furthermore, by increasing the returns for producer goods and enabling a reduction in the cost of inputs, either through a diminution of market power abuse or simply through economies of scale in purchase, the income component of quality of life is addressed by co-operative entities. The link to poverty alleviation and development, however, is not confined to the income element:

The relevance of co-operatives to Sustainable Development is apparent—and even more so when one considers the concept of Sustainable Human Development. As organisations of people, co-operatives are designed to help their members meet their economic and social needs and aspirations. As democratic and participatory organisations, they encourage equity and equality. As economic entities, they provide their members with commercial services. As locally rooted institutions, they reflect their communities' concern with social justice and the environment (International Co-operative Alliance 1995).

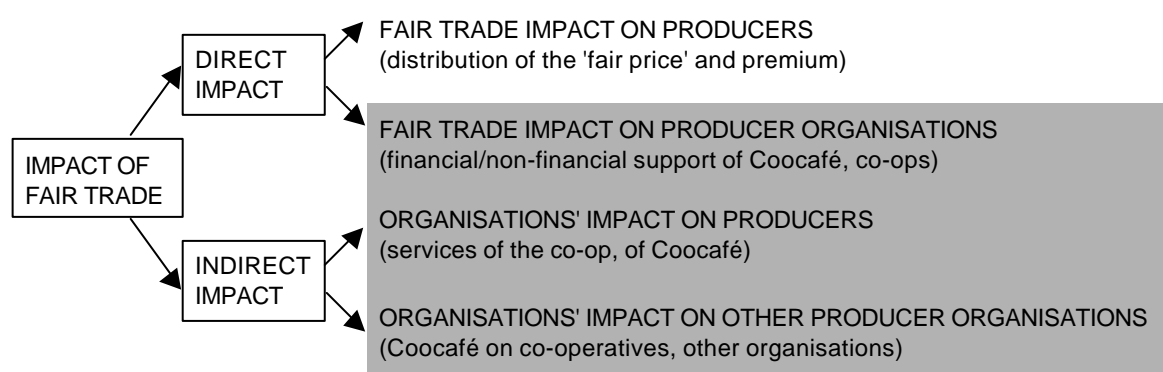
It is not the purpose of this paper to argue the effectiveness of co-operatives as instruments of development *per se*. Rather, the above discussion serves to sketch the foundation on which the FLO Fair Trade model has based its implicit association of improving the quality of life of the producers with the support of producer organisations. It is only logical, therefore, that if the Fair Trade model being studied relies on the payment of a 'fair price' *and* on the support of producer organisations, then any assessment of impact must include both of these elements.

Explicit attention to the development and support of producer organisations also permits the correct attribution of many of the impacts on producers. A distinction between direct and indirect impacts may illustrate this point. In the first instance, the *direct impact* of Fair Trade can be traced through the financial and institutional support factors that have ensured or impeded the survival and development of the co-operatives and of Coocafé as a co-operative consortium of producer organisations. Secondly the various services and programs offered by Coocafé and its members as a *result* of its existence and the consequent impacts of these services, are referred to as *indirect impacts*. The need to include Fair Trade support for producer organisations comes, therefore, not only from the need to paint a complete picture, but also from a need to properly attribute the ultimate impacts on producers to those who are responsible for bringing them about.

### 1.3 Outline of the Study

The study begins with a contextualisation of Fair Trade and coffee production in Costa Rica. After introducing the main stakeholders and methodology of the case study, impact is analysed over the period spanning the 10 years since the formation of Coocafé as a Fair Trade focus in 1989. Generally speaking, what is meant by ‘impact’ on the primary and secondary level organisations, include the effect of Fair Trade relations on their financial, organisational and institutional development. Impact of Fair Trade on producers considers financial and income indicators and, importantly, includes evidence on non-financial benefits as identified by producers. The impacts are measured through documentation and survey data collected during fieldwork. The impact analysis follows the distinction between direct and indirect impacts.

**Figure 1**



The total impact of Fair Trade can be traced down four avenues: (i) The financial impact of the payment of a ‘fair price’ on producers and other disbursements of the Fair Trade premium<sup>4</sup> and (ii) the financial and non-financial support given by Fair Trade organisations to producer organisations. These two avenues make up the ‘direct impact’ attributable to Fair Trade. The remaining two avenues look at what impact those producer organisations, in turn, have had on (iii) producers and on (iv) other organisations. The latter two avenues delineate those impacts that are correctly attributed to the Southern producer organisations themselves. They can be traced back to the overall impact of Fair Trade to the extent that (ii) the financial and non-financial support of Fair Trade ensured the development of these producer organisations. Included in the shaded grey area, then, are those avenues of impact which deal with the role of Fair Trade in supporting and developing producer organisations.

<sup>4</sup> The European use of the word ‘premium’ refers to, at the time of this study, the US5¢/lb. paid when the market price for coffee is above the minimum FLO price of US\$1.26/lb. In this paper, ‘premium’ will adopt the meaning used in the South, referring to the so-called ‘*sobreprecio*’. In what follows, it refers to the difference between the New York + differential FOB price registered with Icafé and the minimum FLO price of \$1.26/lb.

## 2. The Case Study

### 2.1 Coffee in Costa Rica

Since its first *quintale*<sup>5</sup> was exported in 1820, coffee has played an important role in Costa Rica. It was the sole export from 1840-1890 but has declined in importance since then: From 1980-89, coffee accounted for an average of 24% of export revenues only to fall further to 11% by 1995 (International Coffee Organisation 1996, p.5). Nevertheless, coffee still employs some 5% of the nation's labour force. Small producers dominate coffee production in Costa Rica: In 1996, 92% of producers had farms smaller than 5 ha, representing 44% of the total coffee produced. The marketing and processing of coffee is privatised, but is heavily regulated by the *Instituto de Café de Costa Rica* (Icafé).

Coffee in Costa Rica operates in a unique fashion whereby farmers deliver their coffee to collection points belonging to a coffee processing plant, or *beneficio*. The *beneficio* transforms the cherries into *pergamino* coffee, at which point it is stored until ready for further processing. Icafé specifies the commission on coffee transactions to which the *beneficio*, the exporter, the government and Icafé itself is entitled. This method of collection and processing allows for economies of scale in primary processing, and the fixed commissions are there to protect producers. The latter does not appear to be guaranteed, however, as there exists (especially in marginal areas) anecdotal evidence to the contrary. In theory, *beneficios* are also meant to "...provide various services for producers. These include the supply of inputs, technical assistance and agricultural credit," (International Coffee Organisation 1996, p.15). In practice, the smaller and more marginalised farmers are almost never serviced and this is often used to explain the presence of co-operative organisation among small coffee farmers. Each co-operative is usually equipped with their own Icafé-registered *beneficio*. Up to the mid-1990s, most co-operatives were members of the *Federación de Co-operativas de Caficultores R.L.* (FEDECOOP) which would undertake export on behalf of the co-operatives.

The period under study essentially covers the 1990s, a time of trade liberalisation and export diversification in Costa Rica. The early part of the 1990s witnessed a crisis in coffee that, in Costa Rica, due to high production costs, actually resulted in the liquidation prices paid to farmers falling below their production costs for two out of the five crisis years. The impact was large: The area under coffee cultivation fell from 115 000 ha in 1990 to 93 000 ha by 1996 (FAO, 2000). In 1990, the rural to urban ratio was 1.71. The situation at the end of the 1990s was reversed: More Costa Ricans lived in urban areas than in rural zones. This is not entirely due to the coffee crisis, of course, but there is evidence to suggest who the rural-to-urban migrants might be: "As a result of increased costs and low prices [during the time of crisis], many small and medium sized [coffee] farms have been abandoned," (International Coffee Organisation 1995, p.2).

### 2.2 Fair Trade in Costa Rica

The story of Fair Trade in Costa Rica began with coffee as a partnership between the ATO, S.O.S. Werelhandel, and the tiny COOPE CERRO AZUL. Today, the Costa Rican coffee fair trading partnership has expanded to include eight other co-operatives besides CERRO AZUL, forming a secondary level, service-rendering exporting association, *El*

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<sup>5</sup> Quintale (QQ) =46kg



*Consortio de Co-operativas de Caficultores de Guanacaste y Montes de Oro R.L.* (Coocafé). There are therefore two levels of producer organisations: Coocafé as a consortium and the nine primary level co-operatives<sup>6</sup> that own and control it.

Coocafé was founded in 1988 as the result of a series of *Consultoría Agro-económica* (Friedrich Ebert Foundation) workshops aimed towards improving the quality of life of small coffee producers in Guanacaste (Coocafé 1998b). After an initial period of seeking and extending administrative assistance and greater financial organisation to its six founding co-operatives, Coocafé, through the shared experience of COOPE CERRO AZUL, began fair trading in 1989. As the consortium expanded, the number of services it offered, its contacts with other NGOs, and its affiliation with other support organisations grew. The evolution of the fair trading relationship over the 1990s has been extensive. From 1992, with their first roasted coffee brand, contact with Fair Trade markets diversified with the export of final products, eventually including yucca and plantain chips. Trading relationships in green coffee with Fair Trade partners gradually formalised to include a fixed price mechanism<sup>7</sup> and, eventually, relations with the newly formed Europe-based directorate body, FLO. Fair Trade policy formation, contract regulation, lobbying, producer assemblies, and monitoring activities all fall under the aegis of FLO. All exports were effected through FEDECOOP until the establishment of Coocafé's own exporting arm in 1997. In its first year of operation, Coocafé's exporting arm ranked 11<sup>th</sup>, in terms of volume, among Costa Rica's 15 coffee exporting bodies (Icafé 1999), representing 1.2% of Costa Rica's total coffee exports for that year<sup>8</sup> (49% of which was destined to Fair Trade markets).

## **2.3 Methodology**

Information on the impacts of Fair Trade in coffee in Costa Rica, classified in the four avenues of impact outlined above, was collected during fieldwork in September and October 1999. The impact assessment was conducted through a combination of desk research and field interviews at each of the following three levels: the secondary level of Coocafé, the primary co-operatives, and with producers.

Research on the development of Coocafé was conducted in four sets of visits to Coocafé; at the beginning, middle and end of the fieldwork in 1999 and at a feedback workshop in 2001. In the first instance, research was undertaken through organisational documentation in the form of annual reports, independent audits, exportation records, self-assessments, publicity material and departmental reports. Data not obtained from these sources was then sought from the organisation's records with the assistance of department heads. Finally, interviews were conducted with heads of department, secretarial and administrative staff and the General Manager.

Impact at the primary level was assessed through field visits to four geographically dispersed co-operatives within the consortium: COOPELDOS, COOPE CERRO AZUL, COOPE SARAPIQUÍ, and COOPE LLANO BONITO. The selection of these co-

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<sup>6</sup> They are: Coope Cerro Azul, Coopetila, Coope Pilangosta, Coopeldos, Coope Montes de Oro, Coope Sarapiquí, Coope Santa Elena, Copabuena and most recently, Coope Llano Bonito.

<sup>7</sup> This includes a minimum price of US\$1.26/lb for times of low world price and a premium of US\$0.05/lb above the world price when the latter is greater than the minimum price.

<sup>8</sup> Growth in export volume is difficult to chart due the fact that FEDECOOP exported for the consortium from 1989 to 1997 and poor records have been maintained over that time period.

operatives was not random, but rather, made in an effort to build a representative sample in terms of geography, size and experience with the Fair Trade market:<sup>9</sup>

*La Co-operativa de Caficultores y Servicios Múltiples de El Dos de Tilarán R.L. (COOPELDOS)* in the province of Guanacaste was a founding member of Coocafé. At the time of this study, it had 529 members. It serves thirteen small communities with 15 coffee receptacles in an area of influence lying at altitudes of 700-1200 metres. Its nearest competition, a private *beneficio*, is at a 15 km distance. The second co-operative visited, COOPE CERRO AZUL, was also a founding member and is located in Guanacaste, though accessible only by very bad roads. With a membership of only 138 and an area of influence lying within a 15 km radius, COOPE CERRO AZUL is one of the consortium's smallest co-operatives, tucked away in one of its most infrastructurally challenged areas. The only other regional employer is a wood processing plant nearby and much seasonal employment is found in coastal banana plantations. Situated in the province of Heredia y Alajuela, COOPE SARAPIQUÍ was established in 1969 with the explicit objective of preventing the continued abuse of local private *beneficios*: At the time of founding, the zone was characterised by poor transport conditions between it and the Central Valley of the capital. SARAPIQUÍ now enjoys relatively good infrastructure. With 400 members within a 37 km radius of varying altitudes, producers are divided between those in Zone A (800 metres and above) and Zone B (400-800 metres). Working from a position of official bankruptcy in 1985, the co-operative joined Coocafé one year after the consortium's formation and has since diversified into the production of yucca chips for the Fair Trade market. Finally, with growing altitudes between 1200-1600 metres and a good quality strictly hard bean (SHB), LLANO BONITO serves 11 very marginalised communities within a radius of 8 km in the area of Los Santos. The co-operative has 509 members and receives 9% of their coffee from 47% of their members who contribute less than 20 double hectolitres per year. This is partly explained by the small size of many of its members, but also by the fact that only 50% of its members contribute 100% of their harvest: Although not exactly a sellers' market, the zone is characterised by very stiff competition for the internationally renowned quality SHB coffee.

The impact study necessarily focuses on the first of these three since the fourth, COOPE LLANO BONITO, had only been a member of the consortium for a matter of months at the time of the impact study. COOPE LLANO BONITO was included because it serves as a useful contrast in terms of the impact Fair Trade has had. Data for this section was collected from primary documents (including co-operative profiles, past *Actas de Asamblea*, policy documents, accounting figures, etc.) and from interviews with General Managers and members of staff.

Most of the fieldwork time was spent conducting a series of guided interviews with producers themselves. The indicators for quality of life improvements were mostly identified by producers in the course of discussion and then added to the guided interviews as the interviews progressed. The purpose was to have producers identify the impacts, negative and positive, they have felt *directly* (through the Fair Trade premium expenditure) and *indirectly* (through services offered by their co-operatives and by Coocafé). The sample chosen was small and non-random and any biases emerging from interviews with more experienced members are identified and accounted for in the

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<sup>9</sup> Two thirds of the Fair Trade co-operatives are located in the province of Guanacaste, with the remaining third dispersed elsewhere in the country.

analysis.<sup>10</sup> Results from the research conducted with producers are best viewed as an exploratory study on producer perceptions of any changes in the conditions of production and quality of life, rather than as a source of generalisable statistics. A total of 28 interviews were conducted from the four co-operatives under study. Percentages are used for a clear exposition of the findings, but the small size of the sample must be borne in mind at all times. The use of anecdotal evidence and expression of interviewees' personal views is more pervasive with producers as a quantitative approach was largely inappropriate.

### **3. Impact Analysis**

#### **3.1 Fair Trade Direct Impact on Producers**

##### *Tracing Avenues of Impact*

Producer members of the nine co-operatives selling to the Fair Trade market through Coocafé received a stable (and often higher) price for every *quintale* of coffee they brought to their co-operative. In addition to protecting producers from the volatility of the coffee market during the period under study, the world price fell below the minimum Fair Trade price for five out of the ten years examined. The difference in the price producers received and the prevailing market prices during this period was made up from a equitable division of the Fair Trade premium amongst the nine co-operatives: Half of the coffee destined to Fair Trade markets is divided into nine identical 'solidarity quotas'. In addition to their solidarity quota, the remaining half of the volume exported to the Fair Trade market is distributed to the co-operatives in ratios based on the average production of the last three harvests.

Of the Fair Trade premiums earned in this manner, 30% are invested in capitalisation funds and the remaining 70% are allocated to a Producers' Fund for distribution to producers by the primary level co-operatives. Over the ten years of operation, the producer's fund has distributed US\$ 1 260 000 of Fair Trade green coffee export revenues to some 4 000 affiliated small coffee producers and their families. Although this already represents a substantial supplement to producer incomes, the direct impact of Fair Trade on producers can be further traced via the financial support offered by the remaining 30% of premiums and by Fair Trade market activities other than green coffee export.

The individual co-operatives save one half of the 30% of Fair Trade premiums that are not distributed to the Producers Fund, into a Social Capital Fund for the co-operative. Although there are other sources of revenue for the Social Capital Fund, including interest earned on investments and the initial outlay of each member, the saved Fair Trade premiums make up the bulk of the principle. Producers have been the recipients of projects funded from this Social Capital Fund and to the extent that the fund is financed through Fair Trade, the direct impact on producers can be traced to these projects. For example, over the ten years of Fair Trade involvement, the Social Capital Fund has funded 63% of the US\$ 40 000 invested in facilities for the production of organic fertiliser.

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<sup>10</sup>Some 36% of interviewees had already served on a committee or administrative council for the co-operative. These producers tend to be better informed of services and opportunities than their peers and may also be drawn from higher socio-economic backgrounds.

The availability of high quality, low-cost fertiliser to producers has served as an implicit income bonus, which is at least financially traceable to Fair Trade.

In addition to the export of green coffee, the consortium also produce and market a number of finished products for the Fair Trade market, the proceeds of which fund activities impacting on producers. For example, in terms of educational support, the nine co-operatives in the consortium established a foundation in 1996 known as *Fundación Hijos del Campo*. The foundation runs three programs: Secondary School Scholarships, University Scholarships and an Educational Extension Fund aimed at bridging the enormous gap between the quality and accessibility of urban vs. rural education. Funding for the foundation comes from numerous national and international NGO sources including a European ATO and Coocafé itself. The consortium, wishing to stabilise and ensure the viability of the foundation, decided to allocate US\$ 0.50/QQ of coffee exported to the Fair Trade market, to *Hijos del Campo*. Furthermore, the foundation receives US\$ 0.60/kg sold of Coocafé's own roasted coffee brand, *Café Paz*. To a large degree, then, the successful programming of the foundation is financially traceable to the funds from the Fair Trade market. These funds are used to administer its three programs:

- ◆ The Educational Extension Fund aims to provide marginalised rural schools in the coffee-growing communities of the consortium with equipment, teaching materials and improved physical infrastructure. The situation is dire enough in light of the fact that 98.3% of the budget of the Ministry of Education is spent on salaries and only 1.1% on infrastructure and materials (Castro 1999, p.4), but the most neglected schools are invariably those in rural areas. From 1997-1999, the foundation has benefited 71 schools at an average donation of approximately \$US 360 per school, indirectly benefiting 5061 students.
- ◆ Since its inception in 1997, 574 students have benefited from the secondary school 'complimentary' scholarships, valued at US\$ 105. Although the scholarship is meant to supplement other sources, with only half of the scholarship amount being a donation whilst the other half is an interest-free loan, the anecdotal evidence suggests a significant impact:

*Esta beca me ha servido de mucho ya que los gastos de estudiar son muy altos. Yo considero que la Fundación Hijos del Campo debe mejorar tratando de invertir más dinero en los programas de becas. Conozco una compañera de Tronadora que por no tener dinero para la compra de uniforme y zapatos iba tener que retirarse del colegio..."<sup>11</sup>*

- ◆ The University scholarship is valued at US\$ 250 per year and is renewable. Since 1997, 96 students have received the scholarship. The selection process actively supports women, resulting in the fact that 54% of all scholarship winners are female.

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<sup>11</sup> "This scholarship has been very useful since the expenses of studying are so high. I think that the Foundation Hijos del Campo should double its efforts and try to invest more money in the scholarship program. I have a friend from Tronadora, who, for lack of money to pay for her uniform and shoes, had to quit the College..." Mileidy María Calvo Queasy. Age 17. (Castro 1999, p.4).

The financial support of Fair Trade markets for producer-orientated programs can be further traced via the independent NGO, *Fundación Café Forestal* (FCF). FCF was established in 1993 by Coocafé in order to “improve the standard of living of small, rural coffee farmers in harmony with nature, through economic support and follow-up of various projects which focus on sustainable production and environmental conservation,”(FCF). The FCF supports five types of projects (Table 1).

**Table 1: Fundación Café Forestal: Resources devoted to project types (1993-98)**

Program	Past Examples of Projects	%Resource
Environmental Management & AgroForestry Protection	Intercropping programs with trees, coffee produced under shade, forest restoration	42
Conservation & Development of Biological Diversity	Conservation management of the Trachemys scripta turtle	28
Sustainable Coffee Production & Processing	Organic coffee production techniques, conversion of processing plants to ‘Clean Technology’	15
Scientific & Technological Research	Solar energy seminar, organic coffee production seminar in El Salvador, Solar fruit drying research	8
Environmental Education	Education in appropriate management of solid waste	7
TOTAL		100%

**Data sources:** Coocafé 1999b; FCF 1996, p.25

Producers are the direct short-term beneficiaries of all FCF projects, with the exception of the conservation and development of biological diversity projects, which have a wider focus on bio-diversity. Any impacts felt by producers of FCF environmental projects are financially due to Fair Trade intervention: *Fundación Café Forestal* is funded by sales from Coocafé’s Café Forestal brand of roasted coffee to European Fair Trade markets. For each 1 kg sold, US\$1 is donated to the FCF who then spends it as delineated in Table 1.

#### *Producer Impact*

Having traced the avenues of direct Fair Trade impact, what has been the effect on producers? Although FLO, as a labelling organisation, monitors the observance of Fair Trade criteria on an annual basis, it does not have the monitoring of impact as an explicit mandate. This helps to explain why much of the FLO monitoring work, which is deemed by all parties to be thorough and conducted with a good understanding of Costa Rica (Nielsen, 1998), remains top-down in nature. In interviews, co-operative managers and members report very little contact with FLO as most of the monitoring work is done at the level of Coocafé. The resultant monitoring reports serve their intended purpose in a

professional manner, but cannot provide a grassroots perspective on the impact and activities of Fair Trade in coffee in Costa Rica. Only producer visits can confirm the importance or irrelevance of Fair Trade to the small farmer, which is difficult to assess from the capital of San José or Europe. A pilot study with producers was therefore conducted to attempt to provide this perspective. The responses from the exploratory study with producers cannot be generalised to all producers due to the non-random character of the sample. Knowing a little about the producers interviewed, however, may help guard against any false generalisations, while illuminating something about the nature of the impact.

The sample comprises of women (20%) and men (80%). Coffee formed the primary economic activity of almost all households interviewed. The small size of land-holdings preclude livestock raising and although small-scale diversification seems to be increasing with fruit-yielding shade trees, for many farmers,

*“Es lo unico que uno puede por mantener y para no ir a trabajar en la ciudad— donde hay muchos campesinos...demasiado”<sup>12</sup>*

The use of hired labour exists, but is not systematic: Most respondents rely entirely on family labour during the growing cycle, but 68% of them hire labour for harvest time.

Prior to interviewing farmers, desk research on income bonuses resulting from Fair Trade activities was undertaken to gain an understanding of how the situation for Fair Trade producers differed from that of their non-Fair Trade counterparts. The situation varied depending on the state of the world market. For example, in 1997, a time of peak world coffee prices, Fair Trade premiums accounted for only 1% of producer income. In contrast, in four harvests selected from the crisis period between 1988-1992, the prices paid by co-operatives exporting to Fair Trade markets averaged 3% higher than the national average even *without including the full Fair Trade premium*. Considering that the national average includes prices for the more expensive strictly hard bean (SHB), the prices paid by co-operatives are indeed superior. Once the premium is included, grower prices inflate even further. From 1989-95, the high zone farmers of COOPE SARAPIQUI received liquidation prices from 25% to 60% higher than the private *beneficio* acting as competition in the area (COOPE SARAPIQUI 1995). For these six harvests, SARAPIQUI farmers, through their participation in the Fair Trade market, enjoyed coffee incomes that were, on average, 39% *higher* than farmers in the area who were not involved in Fair Trade. This figure is drawn from the full population of the co-operative and does not suffer from the bias or problems of inference inherent in the smaller survey sample.

Many farmers, if unable to recall the exact harvest and price data since their co-operative's inception to Fair Trade, appear aware of better price conditions for the last 10 years. When asked if they witnessed any major changes in their financial positions over the last 10 years, of the two thirds who chose to respond, most confirmed an improvement: *“Para nosotros, fue una revolución: antes, la casa no era a nosotros, ahora sí.”<sup>13</sup>* Note that this reaction covers a period including the early nineties, a time of crisis in the coffee sector. Many of the farmers interviewed explicitly appreciate their continued participation in coffee whilst witnessing the disappearance of neighbouring

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<sup>12</sup> It is the only thing one can do to maintain oneself and to prevent one's emigration to the city— where there are many farmers...too many.

<sup>13</sup> For us, it was like a revolution. Before, this house was not ours, now it is.

communities and the emigration of family members and acquaintances. For example, despite the fact that both COPELDOS and COOPE CERRO AZUL come from areas of high seasonal and permanent migration,<sup>14</sup> only two of the families interviewed had seen any member of the family seasonally migrate in the last 10 years.

In having producers suggest indicators for changes in their economic situation, many interviewees refer to the improved stability and security they now feel, in addition to identifying material changes in their lives. An example of the latter is given by two respondents who reported that they have only had electricity since 1989, the year their co-operative paid out its first Fair Trade premium liquidation prices. Of the more structured responses, only 18% of respondents reported no change to their standard of living. In contrast, for the last 10 years (the approximate time of Fair Trade inception), just over half could identify improvements to the home, one third repaid long-standing debts and one third prolonged the time in education provided to their children. One third of respondents who now have cars to transport their coffee to the *recibidores* were transporting their harvest by horse or by foot five years earlier.

*“Antes, eran mas malos los precios y tenia que trabajar mucho. Ahora se puede descansar un poquito.”<sup>15</sup>*

Interestingly, however, very few producers could recognise Fair Trade as the source of the improvements they acknowledged, signalling a problem of communication in this regard.

The co-operatives in association with CooCafé have their marginality in common. They tend to serve remote and historically disadvantaged producers. When asked to explain their presence in coffee, 59% of interviewees responded that there were no other productive alternatives. Furthermore, their dependence on coffee is fundamental. Only two of the farmers interviewed received substantial income from sources other than coffee. One farmer summarises it thus:

*“Yo siempre he visto el café como una forma de asegurar comida.”<sup>16</sup>*

In the context of this dependence, it is not surprising that when asked about the level of prices, many interviewees first commented on the recent stability of prices and then on their superior level:

*“¿Los precios antes? Mas malos los precios--¡muy malos! El precio ahora es mas sostenible, mas fijo. Tiene un estabilidad para que la familia se supera.”<sup>17</sup>*

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<sup>14</sup> In fact, in the district of Porvenir, within the influence zone of CERRO AZUL, the 1980s saw the disappearance of whole communities: El Mora, Las Delicias, Bajo Ranas, la Balsa y Santiago Office of Rural Health (1997).

<sup>15</sup> Before the prices were much lower and we had to work very hard. Now we can rest a little.”

<sup>16</sup> “I have always seen coffee as a form of assuring there is food to eat.”

<sup>17</sup> “The prices before? They were worse—very bad! The price now is more sustainable—more fixed. A family can get ahead.”

### **3.2 Fair Trade Direct Impact on Producer Organisations**

Having looked at the direct impact of the Fair Trade 'fair price' premiums in the subsection above, it remains to examine how Fair Trade has promoted or impeded the development of Coocafé and its nine primary co-operatives and what the impact of this promotion has been on the organisations. The impact on producers of having strong representative organisations at the community and national levels is then examined under 'indirect impact' in the sub-section below. There, any impacts of the activities and services provided by the co-operatives and Coocafé are directly attributed to these producer organisations. To understand the impact of Fair Trade therein, it is clearly necessary to assess the extent to which Fair Trade has supported the survival and development of these organisations in the first place. The support of Fair Trade takes the form of financial and non-financial service provision and can take place at the level of Coocafé or at that of individual co-operatives.

#### *Financial and non-Financial Support for Coocafé*

Since its inception, Coocafé has owed a considerable portion of its revenues to the Fair Trade market. Although data is not available for the full ten years of Coocafé's activity<sup>18</sup>, cross-referenced data for five harvests from 1993-98 confirm that an average, in volume, of 52% of Coocafé's coffee was exported to Fair Trade markets (Coocafé, 1992-97, 1998a, 1999a). In 1997-98, this amounted to some 67% of green coffee export revenue. In addition, Coocafé has three roasted coffees on the market: Café Paz, Café Forestal and Café Autentico. In 1992, Café Paz was their first final product destined for U.S and Japanese Fair Trade markets and has maintained a small annual profit. Small revenues limit the importance of these roasted brands in *financial* impact terms, however, the non-financial impact of such initiatives will be discussed in greater detail below. Since 1995, Coocafé has also diversified into the exportation of yucca and plantain chips. Cumulative sales from 1995-98 amount to approximately US\$ 225 000. Finally, other direct Fair Trade sources of revenue for the consortium include commissions earned on financial intermediation activities undertaken on behalf of its co-operatives.

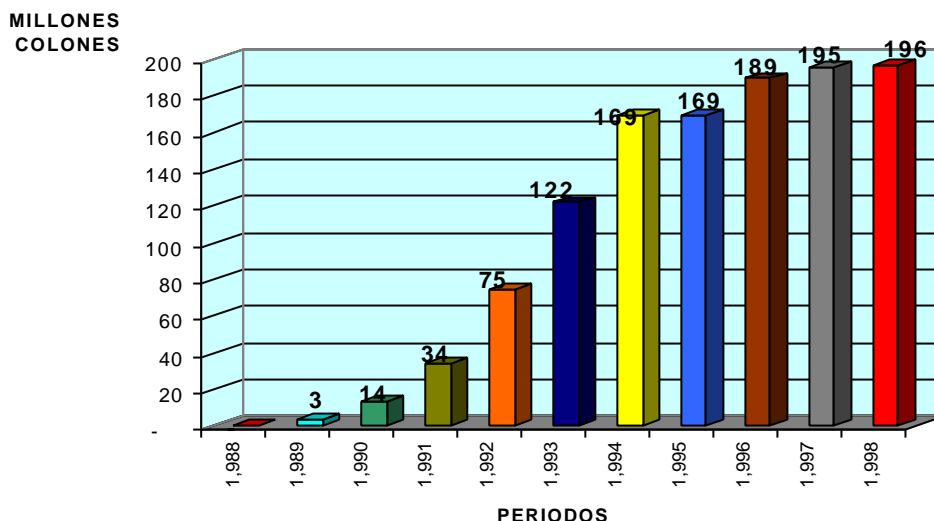
The Fair Trade premium or *sobreprecio* is divided as follows: 15% to the *Fondo de Desarrollo* (Figure 2), 15% to the Social Capital Fund and 70% to the Producers' Fund, discussed above. The *Fondo de Desarrollo* is at the disposal of each co-operative and its members, and has enjoyed steady growth for ten years:

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<sup>18</sup> As mentioned above, prior to 1997, all export figures were kept with FEDECOOP and any disaggregated data for the fair trade market not obtained at the time is now virtually unattainable.



**Figure 2: Fondo de Desarrollo (1988-98)**



**Source:** Accounting Department, Coocafé

On a similar trend, the Social Capital fund has grown by over 600% between 1988-1998. Arguably, one of the most important challenges facing the Costa Rican coffee co-operative sector in fierce competition with private *beneficios*, is the lack of access to credit necessary to extend their services to their more marginalised members. The affiliated co-operatives of Coocafé have access to credit from two sources: In the first instance, the 15%<sup>19</sup> of the *sobreprecio* deposited in the *Fondo de Desarrollo* (FD) uniquely funds this pool of credit. Its current value of over US\$1 million, then, is *entirely* due to invested revenues from Fair Trade green coffee exports. The Social Capital (CS) fund forms the other source of credit for members. Every month, Coocafé pays out 13% interest on each co-operative's share of the CS and FD. Each co-operative's share in these two funds is then summed to determine the total amount pertaining to the individual co-operatives. The co-operative can then access up to 90% of this amount as credit and Coocafé charges a 3% commission for its services. Over the ten years of operation, US\$ 1 435 019.82 of the US\$ 13 513 013.90 accumulated value of the Social Capital fund is due directly to Fair Trade premiums with the remaining bulk of it due to interest earned over the years by these Fair Trade sources. Due to the success of their investments and other efforts at opening lines of credit for its members, Coocafé has not had frequent occasion to ask importers to advance payment in order to facilitate credit.

The *direct* financial impact of Fair Trade can therefore be found in three channels:

1. The initial viability of Coocafé through early Fair Trade purchases,
2. The continued viability of Coocafé through exportation of roasted and green coffee to Fair Trade markets,

<sup>19</sup> The annual amount contributed in early years varied, but was formalised to 15% in 1997.

3. The source of financial intermediation and interest revenue through the investment of the *sobreprecio* into two capital funds.

The impact of Fair Trade on Coocafé as a secondary level consortium is extensive. Its credit services and export markets have always been, and continue to be, the backbone of the organisation's survival and these are dependent on the Fair Trade *sobreprecio*, although steps towards lower reliance are slowly being taken. There are other impacts of this Fair Trade financial support besides immediate survival.

In assessing the healthy organisational growth of Coocafé, all evidence points to a recent improvement in the viability of the consortium that coincides closely with the establishment of their own export arm. Coocafé established its export department in 1997, largely on its own initiative. The obstacles to entry into export in the conventional market include market access and a lack of professional trading capacity within the organisation. FLO provided that much needed access without which the consortium feels there would have been little chance of gaining the sort of autonomy (from FEDECOOP and more generally) that they actually achieved. Coocafé appreciates the stability of their Fair Trade clients through a fixed schedule of deliveries (rather than one-off order fulfilment). The export department has expressed their desire to increase their levels of conventional sales in order to further spread the fixed costs associated with setting up the department in 1997. They feel able to do so because of the extensive, capacity-building assistance they received from ATOs of the Fair Trade movement.

The export department reports that they received much assistance with quality control processes and standards, and an abundance of market information from their Fair Trade contacts. They report feeling confident in approaching conventional (non-fair trade) buyers due to this assistance. Although pleased with the new found autonomy associated with establishing the export department, Coocafé is far from complacent. They feel the way forward is to train personnel and gain experience in more aggressive, professional trading. In this regard, one ATO in particular has been very helpful, even providing information and resources regarding advanced trading (futures, SWAPs, etc.).

The export department entirely credits the successful production of final products to the assistance received from ATOs. The experience has had a positive impact that is only inadequately described in financial terms. Producing for the final market has given them an important understanding of the full coffee marketing chain and hence allowed them to learn a great deal about a number of markets. A similar experience was reported for the production of yucca and banana chips. For example, the export department reports a gain in confidence, during the length of the project, to negotiate better terms with the *maquiladora*. Without the support and custom of ATOs, they feel they would have missed out on a valuable base experience of product diversification. The general sense of 'we can do it!' permeates the organisation and is evident at the primary co-operative level as well.

The international representation Coocafé appreciates in its export relations has also been felt in the area of policy. For example, FLO, as an agent of Fair Trade, took up the Coocafé-initiated case of *peso justo*. This 'fair weight' question refers to the discrepancy between 100 lbs. of coffee and 46 kg of coffee. Historically, it has been assumed that 46 kilograms is 100 lbs. In fact, 46 kgs is actually equal to 101.41 lbs. Producers therefore lose 1.41 lbs of coffee on each bag. This is true everywhere in the coffee industry. When

CooCafé brought this matter to the attention of the FLO monitor, FLO undertook lobbying efforts on their behalf, directed in the first instance towards the Fair Trade importers. The repercussions of these lobbying efforts, however, have not been entirely satisfactory. There appear to be limits, even with Fair Trade actors, that the market places on industry policy changes. This notwithstanding, CooCafé feels that this representation on the international level is “*el papel lo mas importante del FLO*”.<sup>20</sup> They feel confident that they are well represented by sympathetic bodies on the international scene and therefore feel more comfortable asserting themselves in an arena where producer representatives have traditionally been excluded.

With respect to international representation, members of the consortium expressed the desire for the FLO General Assemblies in Europe to be run on a basis similar to the primary co-operatives’ General Assemblies. It is suggested that the FLO General Assembly should include all involved parties in the Fair Trade chain who attend with equal voting rights and actual policy decisions be then taken through debate and democratic vote. This process must also be complimented by greater transparency. They feel that the quality of information presented at the FLO Assemblies is sometimes poor. In light of the fact that the only contact many of the primary level co-operatives have with FLO is to fill in informational requests of a confidential nature, they feel the reciprocity of the information exchange may be lacking. These points were brought up in response to the question: ‘*How can the relationship with FLO be improved and impacts rendered more effective?*’ It is interesting that almost all responses had to do with information and communication rather than ‘more money’.

#### *Financial and non-Financial Support for Primary Level Co-operatives*

Ideally, financial impact is measured by comparing financial indicators pre-dating Fair Trade involvement with the same indicators available from the time since Fair Trade. Past studies on the production health of the co-operatives of the consortium, however, have proven almost impossible to recover from FEDECOOP. One such report for 1989-90 and data from recent annual reports, were used to construct Table 2 (FEDECOOP 1990).

**Table 2: FLO Financial Impact Summary Using Selected Variables (000s colones)**

Co-operative	Total Assets		Working Capital		Endowments	
	1990	1998	1990	1998	1990	1998
COOPELDOS	44 205	136 434*	-3 069	12 158*	14 217	72 794*
COOPE CERRO AZUL	48 893	75 791	1 401	5 485	14 657	12 106
COOPE SARAPIQUI	57 069	117 971	-3 283	-949	14 395	35 618

\*These figures are for 1996, sourced from COOPELDOS 1996

To deflate 1998 values, an index based on RPI figures was constructed using 1990 as a base year. All figures are therefore inflation adjusted and signify *real* changes in each of

<sup>20</sup> “FLO’s most important role.”

the variables. Total assets increased, on average, by 225%. COOPELDOS increased their working capital by 15 227 000 colones, moving them from a position of working in the red, to a sizable positive working capital in 1996. Similarly, COOPE CERRO AZUL increased their working capital by almost 400% while COOPE SARAPIQUI operated with 71% more working capital in 1998 than in 1990. Endowments went up by 512% for COOPELDOS and 247% for COOPE SARAPIQUI. COOPE CERRO AZUL saw an 18% decline in the real value of its endowments over this period. Overall, Table 2 charts an obvious improvement in the financial health of each of the co-operatives under study.

The next step in assessing Fair Trade impact in terms of financial survival, then, is to look at the constraints facing co-operatives. During the period of operation of Fair Trade in coffee, some 25% of the co-operatives in Costa Rica closed. It is well beyond the scope of this paper to analyse the possible inefficiency causes of these closures, but it is undeniable that the co-operatives face particular disadvantages in the market due to their capital constraints. Fair Trade has played a role in easing the capital constraints of co-operatives as compared to their 'private' competitors. *Beneficios* require a minimum harvest to operate profitably. Typical producer response to low prices is to cut back on purchased fertilizers and herbicides, thereby lowering yields. This problem is compounded by one of higher liquidity on the part of private *beneficios*. Producers in Costa Rica are paid an advance and then given quota payments in installments throughout the year. Although it is generally the policy of the co-operatives that members may not sell their coffee to third party middlemen, members often do so anyway. This is generally not because the competition pays better liquidation prices for the coffee, but because they are able to pay much larger advances or *adelantes*. Cash strapped producers often accept a lower liquidation price in order to have a larger initial outlay. The situation is often worsened for them by some unethical practices on the part of the competition: Buyers may falsely claim to pay higher than the co-operative, but then the quota payments prove to be measly. As a result of members selling to third parties for higher advance payments than those offered by the co-operatives, many co-operatives are unable to operate efficiently due to insufficient production. Furthermore, by extending services to its members that privates do not, co-operatives incur costs they cannot cover in times of crisis. If this at least partly explains the difficulties faced by the co-operatives that closed down, it is easy to see how the Fair Trade minimum price enabled the co-operatives of the consortium to face and survive the crisis. Indeed, this should come as no surprise in light of the fact that the minimum price concept was conceived, in part, to overcome these cyclical difficulties in coffee.

*“La creación de Coocafé R.L. en el año 1988 no fue en vano. Gracias a esta idea visionaria, las seis co-operativas que integramos al Consorcio hemos sobrevivido la crisis cafetalera y nos hemos fortalecido a pesar de las adversidades.”<sup>21</sup>*

Indeed, experienced interview respondents, mostly Management, suggest that the best indicator of the financial impact of Fair Trade on their co-operatives is witnessed by the continued existence of the co-operative in times of low prices and high legislative compliance and production costs:

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<sup>21</sup>“The creation of Coocafé in 1988 was not in vain. Thanks to this visionary idea, the six co-operatives that have integrated with the consortium have survived the coffee crisis and have strengthened despite the obstacles.” COOPE SARAPIQUÍ. 1996.

*“Si no ha sido por CooCafé, por lo mínimo, cuatro co-operativas hubieron sido desaparecidos”*<sup>22</sup> Assistant Manager, COOPELDOS 1999

*“En el periodo 1990-1993, otras [co-operativas] quebraron y los productores desaparecieron...”*<sup>23</sup> Manager, COOPE CERRO AZUL 1999

*“Sin el mercado alternativo, tendremos nueve co-operativas cerrados.”*<sup>24</sup>  
Manager, CooCafé 1999

The financial impact of Fair Trade on the survival and strength of the primary co-operatives can be further seen in the role the largely Fair Trade premium-funded Social Capital fund has played in meeting the co-operatives' legislative compliance costs and supporting its environmental efforts. In 1995, in support of its environmental agenda, the Costa Rican government passed legislation concerning the conversion of all *beneficios* to 'Clean Technology'. The penalty for non-compliance included fines and eventual closure, yet no financial assistance was offered. At 'Clean Technology' conversion costs averaging US\$ 38 000 - \$70 000<sup>25</sup>, the situation for low-margin, service rendering co-operatives across the country was severe. Nevertheless, each of the consortium's co-operatives complied with the conversion to semi-dry processing and the construction of residual and water treatment lagoons. Use of water was reduced by 85% and organic residual reduced by 60% (EMA, 1999 p.11). In all cases the conversion was almost completely funded by resources drawn from the Social Capital fund. Furthermore, for the three co-operatives under study, environmental improvements were, on average, 50% funded using Social Capital.

Although it is fairly clear that Fair Trade involvement with coffee co-operatives in Costa Rica in the early 1990s was almost indispensable to their survival and continued service, it would be inaccurate to restrict attention to the financial impact of Fair Trade. Equally important, in terms of direct impact, is the improved confidence and market position, higher level of security and institutional capacity facilitated through the shared learning that this Fair Trade model permits:

*“Hemos logrado mejorar a través de esta unión [con CooCafé y el Mercado Alternativo] nuestros procesos de beneficiado de café, nuestra infraestructura administrativa, nuestra imagen a nivel nacional e internacional y nuestra posición económico-financiero.”*<sup>26</sup> COOPE SARAPIQUÍ 1998

From annual reports to interview responses, evidence of an increased sense of confidence through association with the Fair Trade market surfaces. There are two main avenues through which this confidence is channelled from the Fair Trade experience to the primary level co-operatives: The first is that interaction with Fair Trade takes place through their membership to a consortium that is itself co-operative in nature. The

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<sup>22</sup> “If it weren't for CooCafé, at the very minimum, four co-operatives would have disappeared.”

<sup>23</sup> “In the period 1990-1993, other [co-operatives] went broke and the farmers disappeared...”

<sup>24</sup> “Without alternative trade, we would have nine closed co-operatives.”

<sup>25</sup> Calculated by averaging costs incurred by four of CooCafé's co-ops. Source: EMA. 1999.

<sup>26</sup> “We have been able, through this union [with CooCafé and the Fair Trade market] to improve our coffee processing plant, administrative infrastructure, our international and national image and our economic and financial position.”

impression of being part of something bigger than themselves proactively combats the image of helplessness or insignificance in the face of 'private' competition:

*“El grupo COOCAFE, lo conforman 8 co-operativas, y trabajando en bloque nos confiere mayor poder, ésta posición permite hacer planteamientos concretos e incluso se han ganado muchos espacios al nivel del sector cafetalero nacional y a nivel co-operativo, fiel imagen de la fortaleza que ha venido teniendo el consorcio.”<sup>27</sup> COOPELDOS 1996.*

This rather intangible impact has some very real outputs:

For example, in 1995, when the government legislated a costly conversion of each *beneficio* to so-called 'Clean Technology', all firms were given the same time in which to comply and compliance was to be enforced by inspections three times a year. Any firms not complying would be fined and eventually closed. One of COOPE CERRO AZUL's competitors have not complied with the legislation, but have not suffered the consequences of non-compliance. CERRO AZUL itself, with financing from its social capital and the help of Fundación Café Forestal (FCF) had completely complied with the legislation. Whether non-compliance on the part of the competition is due to graft or bureaucratic neglect, the fact remains that the competition have a cost advantage over CERRO AZUL while denigrating natural resources that the co-operative is trying to protect. The co-operative has launched a complaint and the case is being investigated by Icafé. The Manager at CERRO AZUL admits that as a part of Coocafé, he felt more empowered to make a case as the co-op would be harder to ignore. He also went as far as to state that in earlier times, he would not have dared to make a case as no one would have paid any attention.

The second avenue through which this improved sense of confidence is channelled is through the national and international exposure these hitherto highly marginalised and isolated co-operatives now enjoy. Coocafé's recent direct experience with exportation has been appropriated by its members who now feel better empowered to deal professionally and advantageously with their non-fair trade partners.

The FLO minimum price for a portion of the co-operative's outputs has provided a much needed sense of security. Often, poverty entails a low margin in which to absorb risk and the poor, therefore, are often the most risk-averse. This means that although it may be in their long-term benefit to undertake a certain investment, short-term insecurity prevents the investment from being undertaken. The number of projects initiated by the three co-operatives under investigation support the view that the financial security, provided by the FLO minimum price, has the impact of allowing for constructive long-term investments. Such projects include, universally, the purchase of farm land for financing and distribution to children of members in order to stem the rural-urban flow. In CERRO AZUL, the land distribution scheme is highly regarded in an area that has seen the disappearance of entire communities during the coffee crisis. Potential negative impacts of this supply inducement are returned to below. Other long-term investments the co-operatives now feel in a position to undertake, include the development of organic schemes and

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<sup>27</sup> "The Coocafé group, composed of eight co-operatives, and working as a group, confers greater power to us and this position permits us to make concrete plans and furthermore, has earned us a place in national coffee and co-operative sectors, a loyal image of the strength that has come with being part of the consortium." COOPELDOS. 1996.

diversification into new productive activities such as the yucca chip project at COOPE SARAPIQUÍ.

The non-financial impacts of Fair Trade can also be traced to the support of co-operativism. Most of the member co-operatives conduct educational programs concerning the benefits of co-operativism. They proactively attempt, through education, to instill a sense of solidarity in their members. This process is facilitated by the programs and prices offered by Coocafé by the direct or indirect medium of Fair Trade. The superior liquidation prices that the co-operatives are able to register at Icafé provide them with some much needed breathing room: They do not have to contend with competitors citing higher Icafé prices while the co-operative attempts to educate the producers about the benefits of staying with the co-op. For example, due to the FLO minimum price, in times of low world prices, COOPE SARAPIQUÍ was able to register considerably higher prices with Icafé than its competition. This proved useful in combating the problem of producers selling to third parties and thereby reducing the co-operative's viability. With higher prices registered at Icafé, SARAPIQUÍ could provide a direct incentive to members' loyalty and improve the stability of its market position, while carrying on its educational efforts regarding the benefits of co-operativism.

### **3.3 Fair Trade Indirect Impact on Producers**

Having clarified the extent to which Fair Trade has supported the ongoing survival and strength of producer organisations at both the primary and secondary level, an examination of the impact on the primary stakeholder of interest is in order. The awareness of improved financial conditions was covered in 3.1 above, under the direct impact of Fair Trade premiums. Pilot field work with producers show that the principle non-financial impacts of Fair Trade on producers manifest themselves in the services rendered to them by their surviving and indeed, thriving, co-operatives

An improved level of services rendered by the co-operative is generally recognised. For example, of the eight interviewees who remember financing conditions prior to their co-operative's inscription with Coocafé, seven testify to much lower interest rates on credit extended by the co-operative in the last ten years. This has permitted a number of respondents to undertake investments in their land and homes. Respondents almost universally ranked the co-operative's credit facilities, provisions (grocery and inputs), agricultural services and educational activities as important and over three quarter noted an improvement in these services over the last ten years. This is corroborated by a comparison of the three co-operatives who have longer experience with Fair Trade, COOPE SARAPIQUI, COOPE CERRO AZUL and COOPELDOS, with the state of service provision of COOPE LLANO BONITO that had only joined the Fair Trade consortium a few months prior to the study. The three long-standing co-operatives under examination offer similar services including a fully environmental legislation-compliant *beneficio*, long term credit services to members, short term credit available to non-members for basic needs (groceries, etc.), supermarket and agricultural input outlets, technical and agricultural assistance, environmentalism and co-operativism education schemes, and organic and environmental support. Tellingly, none of these services are fully developed and/or available at COOPE LLANO BONITO as of yet. Although they wish to, this newest member of Coocafé has hitherto lacked the resources, financial and otherwise, to provide them. For example, although an agricultural technician (*el técnico*) sometimes provided services to COOPE LLANO BONITO members, he was employed

part time and could only respond to specific requests for assistance. After the very first profitable export to the Fair Trade market, the *técnico* was employed full time and now offers routine visits twice a week. The sample of producers informed favourably on the impact of these and other increased services offered by their co-operatives.

The environmental record of CooCafé is formidable: Over the ten years of operation, over US\$ 3 500 000 was invested in environmental protection and development programs (EMA, p.8). Recently, an independent body of experts, *Energia Medio Ambiente y Desarrollo* (EMA) S.A., were commissioned to verify and document CooCafé's environmental record in a report released in June 1999. The report is able to verify each of CooCafé's environmental claims. Most of these activities emerged through a judicious range of partnerships with other environmental organisations. As revised earlier, the impact due to Fair Trade exists to the extent to which Fair Trade has ensured the ongoing survival of CooCafé and these co-operatives. In their continued survival, environmental impacts of co-operative activities include the conversion of over 1 200 producers to more sustainable agricultural practices<sup>28</sup> and the conversion of over 500 ha to certified organic production (7% of all producers). Some insight into how the producers themselves perceive these activities and corresponding impacts is of interest.

Roughly three quarters of respondents recall having participated in environmental education activities. Of all of these activities, those pertaining to shade trees seem to have the most impact: Of those who responded, over half planted more trees as a result and almost all those who have done so feel the quality of their coffee has improved since the introduction of shade trees. An additional one in five respondents feel the fruit-bearing shade trees also help supplement domestic consumption. Finally, three quarters of the producers interviewed reported using less herbicides and pesticides as a result of the educational sessions given by the co-operative on this topic. Almost all respondents recall receiving educational sessions on organic production, whilst only a fraction of these actually tried it. Continued resistance mostly appears due to a fear of a loss of yield. When coffee forms such a central part of basic survival, farmers are understandably risk averse:

*"La clima aqui es tan loco que se siente mas en contról con los cimicos."*<sup>29</sup>

It would appear that educational activities need to explicitly measure and account for these risks to the producer. This is especially true since despite a low active response to organic education, many interviewees expressed a desire to try organic production: 63% for reasons of reducing unhealthy exposure to chemicals, and 37% motivated by the organic price premium.

One of the most interesting aspects of Fair Trade impact at the producer level is that, via the strength and activity of the primary level co-operatives, the benefits of Fair Trade seem to extend to producers that are not exporting to the Fair Trade market at all. In a model of Fair Trade activity (Ronchi 1998) this phenomena is known as the 'ratcheting' effect, whereby price (or non-price) variables see improvement for all producers. In COOPELDOS, for example, through Fair Trade participation, the co-operative can afford

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<sup>28</sup> This includes a reduction in the use of herbicides, an increase in the use of shade and planting windbreaks.

<sup>29</sup> "The climate is so crazy here that one feels more in control with chemicals."



to set aside a certain amount per unit of coffee for the maintenance of roads in the area. Clearly, everyone in the community benefits. Another indirect example can be found in COOPE CERRO AZUL, where in an extension of the spirit of Fair Trade, members of the co-operative must pay the legal minimum wage to any hired field labour at the time of harvest. For a six-hour day, then, hired labour is paid 1 600 *colones*. Nearby, 'privates', pay their *peones* much less. When the latter group discovered the superior wage policy of the co-operative, this caused labour unrest for the 'privates' until the 'privates' were obliged to raise the wage they paid to their *peones*. Other extensions of Fair Trade benefits can be seen in the services these co-operatives can extend to non-members in the area as a result of improved financial health since Fair Trade involvement<sup>30</sup>. These services range from extending short-term credit at the co-op stores, providing reforestation support and including non-members in housing schemes like the UNIVICOOP scheme run through COOPE CERRO AZUL. The benefits of Fair Trade, then, appear to be extended to the community at large.

The impact on gender issues of producers is of interest to FLO due to its inclusion in the FLO objectives for Fair Trade. The extent to which co-operatives have achieved gender-related objectives among producers is reflected by the extent to which the co-operatives themselves have adopted this as an objective. The formulation of a specific gender objective exists at the secondary level of Coocafé<sup>31</sup>. Concrete examples of it can be found in the funding of the educational fund (Hijos del Campo) with an affirmative action policy towards scholarship distribution and in the commissioning of a study on women and coffee (Küper 1999). These objectives have not been developed at the co-operative level, however, and hence, can be seen to have had little impact on the gender reality of producers. A characterisation of that reality is in order if any impact is to be discerned.

The most common 'gender' variable cited when researching impact on gender is the percentage of women members of Coocafé's affiliated co-operatives. The average for the nine co-operatives is just under 20%, although this tends to obscure some important distribution extremes. Even accounting for the skewed average, however, and recognising the low level of participation in a number of co-operatives, these figures reveal very little about the true participation of women. Interview data reveals that many women are members on paper only in order for the family, as a unit, to access greater credit from the co-op or to increase voting rights. Pilot field work with producers suggest that the gender division of labour is less dramatic than anticipated: Only little over a half of respondents indicated that normal growing season tasks (planting, weeding, pruning, fertilising) were undertaken by men only. The rest came from households where women and men shared the coffee cultivation tasks. Two thirds of respondents indicated both male and female participation in the harvest. The age of children and income level appear to be key factors: Women seem to be active in younger and poorer households.

The combined fact that female participation in coffee cultivation is significant, but their role in decision-making is low, tends to support the need for a gendered objective. Sporadic efforts of the co-operatives to contribute to the empowerment of women have had limited success, and this mainly due to the unfocused nature of the projects and interventions. In COOPELDOS, for example, there have been few projects developed

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<sup>30</sup> Notably, the newest member, LLANO BONITO, is unable at this early stage to extend any of its services to other members of the community.

<sup>31</sup> "The incorporation of gender-orientated projects, in order to bring women closer to productive-participative processes in the region and to involve them in decision-making." Coocafé 1999c. p.2.

specifically for women, the most recent being the construction and rental of a small diner to be run by women to feed guests to the co-operative with its eventual extension into a craft shop. Although a great effort was initially made, the project has failed due to a lack of interest and poor organisation on the part of women. This may be due, in part, to the fact that the project appears to have been designed more to serve the alimentary needs of the co-operative staff and guests than to implicate a large number of women. The co-operative does maintain an effort to nominate as many women as possible to positions within the co-operative. The women reportedly have consistently declined the nominations.

Although most of the co-operatives have one or two women serving on the Education or Welfare committees, women are rare in *decision-making* positions within Management or the Administrative Council. Although membership and its rights are fully open to women, this does not guarantee their participation. In COOPELDOS, for example, 20% of the members are women who have full voting rights and the same rights of association as men. An estimated 70% of all members actually exercise their vote in the General Assembly. Individual interviews reveal that many women stay behind to take care of the children during the General Assembly since the co-operative legislated against family attendance at the General Assembly! This casts some light on *who* exactly might make up the non-attending 30%.

Explanations for the low level of female participation include a reluctance on the part of women, that may or may not be 'cultural'. The recent gender report commissioned by Coocafé confirms that household responsibilities are often prohibitively heavy for an increased female participation in the co-operative's coffee activities. The study further reports that women who do attend, tend not to actively participate and that some who wish to attend are prohibited to do so by their husbands: "*Las mujeres en la Co-operativa tienen voto pero no tienen voz.*"<sup>32</sup> The reluctance of women therefore, may be due to factors that can be addressed. There is a more positive experience in another Coocafé member, COOPE SANTA ELENA, in which the majority of members are female artisans in the arts and crafts sector of the co-operative. Located in a popular tourist zone, this sector has grown to a position of substantial financial importance in the co-operative and this has ensured a small *majority* of women on each of the co-operative's executive bodies. The arts and crafts initiative was started 18 years ago by the Friedrich-Ebert Foundation and has grown to include women in non-traditional positions of authority. The reluctance of women to adopt such positions does not therefore appear to be inherent or even 'cultural'. The impact of the co-operatives on the gender reality, with the exception of COOPE SANTA ELENA is low. Since impact is defined as progress towards a set objective and the objective does not seem to be clearly defined at the co-operative level, it is unsurprising that the impact is not felt significantly by producers.

Finally, research with the primary level co-operatives highlight a potential concern with respect to supply inducement. Each of the co-operatives visited had, as one of their most cherished projects, the purchase of more coffee lands to provide gainful employment for the children of members and those members with tiny holdings. With the exception of COOPE LLANO BONITO, which is situated in the very fertile, very saturated, SHB area of Los Santos, there has been geographic, and recently, financial room for such projects. What needs to be assessed is whether or not these land purchases are facilitated or

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<sup>32</sup> "The women of the co-operative have a vote, but do not have a voice." Küper 1999, p.19.

induced by higher liquidation prices and Fair Trade support for the co-operative and whether or not the scale of such expansion can undermine *financial* Fair Trade gains for producers. In 1998, the European Fair Trade Association (EFTA) reported that, "In practice, evidence from nearly 40 years of fair trading suggest that very few producers have expanded production due to the higher price paid—given the tiny parcels of land they possess and the lack of working capital and resources, it is almost out of the question,"(EFTA, 1998 p.28). An ICO report on coffee cultivation in Costa Rica supports this view:

...it is unlikely that there will be any significant expansion in output. There are only limited possibilities for planting new land and some of the former coffee area in the fertile Central Valley has been replaced by urban development. Moreover, there is unlikely to be any further increase in productivity as yields have been already maximised from previous technical progress (International Coffee Organisation, 1995 p.2).

The evidence from this report, however, does indicate that supply inducement is taking place to some extent among the Coocafé co-operatives. On the other hand, Management from the consortium's co-operatives point out that returns to producers are maximised when the costs of production are minimised. Each *beneficio* has a maximum efficiency point and increasing the co-operative's coffee production to achieve that point is in the interest of its producers. The point was further made that these increases are limited by the factors mentioned above and are nowhere near the scale where it is likely to cause a depression of world coffee prices more generally.

### **3.4 Fair Trade Indirect Impact: Coocafé Impact on the Co-operatives and Organisations**

Bearing in mind the shared, but important, role that Fair Trade pricing policies and Fair Trade non-financial capacity building and support have played in the support and growth of Coocafé and its members, an examination of the impacts of Coocafé's own activities on co-operatives is relevant. The impact of the consortium via its wider co-operative actions, its representative role on a national level and the opportunities it facilitates for its members provide important indirect impacts of Fair Trade.

The emphasis of the FLO model of Fair Trade on co-operative producer organisations would not appear to be misplaced. The credit and social services offered by Coocafé would be unattainable without the collective action of its nine members. It is estimated that a minimum production and sale of 30 000 QQ on favourable terms is needed to even attempt to undertake the current level of services.<sup>33</sup> Not a single one of the nine marginal and geographically dispersed co-operatives come anywhere near that quantity.

At the most basic level, then, Fair Trade support for Coocafé translates into support for general benefits of co-operative action for producer organisations, many of which have been outlined above. The beneficial impact on co-operation is further extended through the activities of Coocafé in this area.

The consortium actively supports solidarity efforts: In 1999 it hosted the first Co-operative Discussion Forum. It also consistently and financially supports the *Frente Solidario*, a

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<sup>33</sup> Management. October 1999. In interview.

San José-based solidarity and activist body of Latin American coffee producers. Other forms of co-operation are also actively sought. In 1996, the FCF signed a co-operative agreement with national and international environmental agencies such as World Wildlife Fund-Canada and Arenal Conservation Area, thereby ensuring the continued presence and of these organisations in CooCafé's areas of influence.

CooCafé as a consortium of co-operatives has representatives on some important national bodies. The best example is with Icafé, the all-important regulatory body for coffee in Costa Rica. The co-operatives now have fellow co-operative colleagues on the highest regulatory body in the country. The co-operatives report feeling important, better positioned and certainly better informed:

For example, through their colleagues in the consortium, COOPE CERRO AZUL and COOPE PILANGOSTA (not in this study) discovered that their small-farmer co-operative fell into the same regional group as other high-yielding, larger farm-fed *beneficios*. Icafé averages the yields of an area and expects that producers are paid according to that yield. For example, if the average yield in CERRO AZUL's group is 102 lb. per double hectolitre (DhL), but CERRO AZUL only yields 98 lb. per DhL, Icafé expects the co-operative to pay its producers for 4 lb. not received on each *fanega*. After bringing the case to Icafé, the two co-operatives have now been placed in a group more appropriate to their yields. Access to information has improved as a result of their affiliation with Fair Trade through CooCafé.

In an era of increasing liberalisation, quality differences are likely to make all the difference in the market. In recognition of this, through financing largely associated with the Fair Trade market, COOPELDOS became the first *beneficio* in Latin America to receive ISO 9002 quality certification. Due to the information interchanges that characterise the consortium co-operatives, each of the other co-operatives in the consortium have similar ISO goals and are achieving them based on the learning experience of COOPELDOS. This is likely to help them in a fiercely competitive market. Similar information-sharing processes have benefited the co-operatives in terms of administrative efficacy and human resource training. The *técnico* at COOPELDOS cites the sectoral meetings (between all the accountants, or all the *técnicos*, etc.) facilitated by CooCafé as an excellent impact in terms of training and ideas implementation.

#### **4. Conclusion**

If the Fair Trade strategy for the empowerment of producers relies on the payment of a 'fair price' and the strengthening of producer organisations, then it is necessary to examine to what extent Fair Trade has furthered these *two* objectives and the impact of both of these. Although the determination of the 'fair price' and the definition of a producer's organisation may vary across different Fair Trade models, they all share the developmental objective of empowering producers in their trading relationships and thereby improving their quality of life. The FLO model in use with CooCafé sets minimum standards: a floor price and premium for coffee and the requirement that purchases are made from democratically organised small producer organisations. We have seen that in the case of the Costa Rican consortium, some Fair Trade partners, the ATOs in particular, have gone far beyond these criteria in their provision of capacity building and support for CooCafé and its nine primary level co-operatives.

Tracing the different means of financial and non-financial support offered by Fair Trade sources delineated the 'avenues of impact' examined. Fair Trade support for the initial and continued viability of Coocafé has been effective. Although the primary co-operatives still rely on the price differential Fair Trade gives them over their competitors, especially in the current climate of coffee crisis, the consortium itself has furthered itself along the path of autonomy in terms of organisational strength. This is particularly true since the Fair Trade facilitated establishment of its export arm. The co-operatives, with the breathing space allowed them by the steady and oft-superior Fair Trade price, have been able to continue to operate efficiently during a period of crisis for co-operatives and private *beneficios* alike in the coffee sector. Furthermore, the benefits of belonging to a larger organisation under the common guise of access to Fair Trade markets has improved their leadership and impact on their producer members and the communities.

Having, in Costa Rica, accomplished its objectives of paying a 'fair price' and supporting organisational development, has Fair Trade had the desired impact on the quality of life of producers? Early research for the study raised a flag that macroeconomic indicators, especially for a country like Costa Rica where the investment of a software giant affects the top educated layer of the population but leaves the rural population untouched, cannot be used as a basis for understanding the past, present or continued support of Fair Trade. Accordingly, the pilot work with producers was conducted to compliment the impact assessment on producer infrastructure. Producers articulated their perception of improved conditions over the last ten years, but with a low awareness of Fair Trade. Although this signals a problem of communication to producers, which needs to be addressed, it also strengthens their claim to livelihood improvement. In having no clear idea of the role of Fair Trade therein, it is less likely that interviewees felt they had to provide the answer they thought might be expected of them. Producers are primarily aware of superior price conditions, but mention the various improved services of their co-operative, as a quality of life parameter. The case study would therefore appear to confirm that the emphasis on the role of *both price and support* of producer organisations in Fair Trade is not misplaced:

*"Sin el mercado alternativo, la realidad de estas co-operativas hubiera sido otro. El aprendizaje y sobreprecio ha marcado la diferencia entre un grupo de productores con esperanza de llegar a alcanzar un nivel de vida digna y otros productores que no lo tengan."*<sup>34</sup> Management Coocafé 1999

Finally, although the impact assessment, in its open interview techniques and follow-up workshop, attempted to be as inclusive to Southern participation as possible, the objectives against which impact was measured were those defined by the Fair Trade movement at large. Subsequent to the feedback workshop, Coocafé and its co-operatives agreed to the need to define their own developmental objectives so that they can speak of impact in a way that is meaningful to them. Since the early versions of this report (the first critical look at Coocafé as a case study for Fair Trade) the Costa Rican consortium has become recognised as an example of sound organisational development in Fair Trade. Fair Trade needs to learn how to deal with its success in Costa Rica and future research should include an analysis of best practice based on the experience. In light of the coffee crisis of the early 1990s, Fair Trade can be said to have accomplished

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<sup>34</sup> "Without the alternative trade market, the reality of these co-operatives would have been otherwise. The learning process and price premium (*sic*) has made the difference between a group of producers with a chance of obtaining a dignified level of life and those producers without."

its goal of improving the returns to small producers and positively affecting their quality of life and the health of the organisations that represent them locally, nationally and beyond.

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