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The Potential and Limitations of Alternative Trade Practices on Improving Coffee Producer Livelihoods in Matagalpa, Nicaragua

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**The Potential and Limitations of Alternative Trade Initiatives on
Improving Coffee Producer Livelihoods in Matagalpa, Nicaragua**

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Table of Contents

Introduction	1
Methods.....	2
Budget.....	6
Preliminary Findings.....	7
Reflections.....	13
Suggestions for Future Research.....	14
Works Cited.....	15

Introduction

This research investigates the income disconnect between the producers and consumers of high-quality single-origin coffee through a case study in the producing region of Matagalpa, Nicaragua. By investigating the different schemes already in place to help improve the livelihoods of farmers, this research aims to uncover the ways in which these schemes succeed or fall short. The specific research questions investigated are as follows:

- A) To what extent do alternative trade linkages improve the quality of life for coffee farmers in Matagalpa, Nicaragua? This question will be investigated through the lens of Fair Trade cooperatives, direct trade partnerships, and certification schemes.*
- B) What factors of the alternative trade linkages improve the livelihoods of Matagalpan coffee producers? Some factors to consider are access to credit, access to information, and community development efforts.*
- C) What factors of the alternative trade linkages fail to improve the livelihoods of producers, and how could they be restructured to better serve the producer?*

In the Matagalpan highlands of Nicaragua, farming communities depend heavily on the production and sale of coffee. Although the coffee produced from this region sells for a high premium price in the United States and other consuming countries, the producing communities of this coffee are financially insecure and lack bargaining power in the global coffee market. This position made the Matagalpa region of Nicaragua an ideal location to conduct this research because of the importance of coffee and the financial challenges experienced by the producing communities.

In recent years, coffee buyers, roasters, and consumers have taken an increased interest in the origin of their coffee. This emphasis on origin has led many buyers of coffee to come directly to the source rather than buy from international brokers. As this trend continued, the plight of the coffee farmers was revealed and many different attempts to alleviate the poverty were set in place. One of the most well-known is the Fair Trade scheme, which promises greater respect and transparency in trade partnerships with smallholder producers (Fair Trade International). Fair Trade works through locally-organized cooperatives of smallholder farmers and becomes involved at the cooperative level in ensuring fair prices, providing training, and encouraging community development.

The certification schemes, the most popular of which in Nicaragua was the Rainforest Alliance certification, work with larger coffee estates. On these estates, there is generally one owner who employs 200 or more local farmers. Rainforest Alliance provides standards that regulate the wages and living conditions of the farmers as well as encouraging environmentally sustainable farming practices.

The final scheme that was investigated in this research is the direct trade partnership, in which a coffee roaster in the consuming country will send a direct representative to the origin country to meet the farmers face-to-face and ensure that the trade relationship is equitable. This scheme is currently the least practiced in Nicaragua but is rapidly gaining popularity, as it empowers the farmer and increases information and transparency in the entirety of the trade partnership.

Methods

This research was focused on identifying the perspective of the farmers on their position in the global coffee market and how various assistance schemes successfully or

inefficiently address the farmers' needs. The research targeted two different groups of farmers, the first being farmers as employees on large farms and the second being independent owners of small farms. In order to assess the situation of the farmers as employees on large farms, I identified three different estates: La Bastilla, Selva Negra, and Los Mesones de la Trampa. At La Bastilla, I spoke with the owner of the farm about the different motivations driving his decision to enter into the Rainforest Alliance certification scheme. I felt that it was important to compare the perceptions of the scheme from the higher levels down to the individual farmer, specifically as a revelation of the information accessible along this chain.

Moving down the hierarchy of this estate, I then interviewed the manager of the coffee plantation and the manager of the coffee processing facility in order to understand the ways in which they feel the scheme helps them or fails to do so. Their perspective was valuable as they both began their careers as low-level coffee planters and slowly moved up to manage the production and processing facilities, which allowed them to speak with authority on many aspects of the coffee production.

I then compared these findings with interviews with the farmers themselves, intending to get a spread of interviews along the power chain of the plantation. This was particularly valuable information because the farmers' are given very little information about these schemes despite that it is their wellbeing that the schemes aim to enhance.

I followed my investigation of La Bastilla coffee estates with a similar investigation of Los Mesones de la Trampa, another large coffee plantation that borders La Bastilla coffee estates. At Los Mesones de la Trampa, I interviewed the owner of the farm about his perception of the coffee certifications. While La Bastilla was only certified by Rainforest

Alliance, Los Mesones de la Trampa was certified by UTZ, Rainforest Alliance, and Starbucks. However, in order to compare the two farms, I focused on the role played by Rainforest Alliance in assuring the farmers comfortable conditions. Mr. Larue, the owner of the farm, spoke to me regarding the conditions of his farmers and the relationship between those conditions and his participation in the certification schemes. Mr. LaRue then gave me a tour of his farmers' living facilities in order to allow me to assess the quality and compare it with what I had seen at La Bastilla and other farms.

The final large farm I visited was Selva Negra in Matagalpa, Nicaragua. Selva Negra also operated under the Rainforest Alliance certification as well as the Bird Friendly and USDA organic certification. At Selva Negra, I spoke with Mausi Kuhl, whose family has owned the farm since the late 1800s. Mausi has been managing the coffee production on the farm for forty years, and was able to provide insight into the influence of the certifications on the conditions of the farmers. I compared Mausi's perspective with that of a man named Jose Luis, who was born on the farm and whose family has lived there for decades. My interview with Jose Luis provided me greater insight into the experience of living on these farms and the quality of life granted to the farmers.

After gaining an understanding of these certifications in relation to the larger farms, I was interested in finding out how they affected the small, independently owned farms. In order to gain access to these farms, I worked through a local tour company in Jinotega which arranges tours of nearby coffee farms for visitors. I alerted the company of my research and asked that my tour focus on smallholder farmers working through fair trade cooperatives. My guide and translator for this tour was Felipe, who had previously spent

ten years working for these Fair Trade cooperatives and who was a great source of background information.

With Felipe, I visited two smallholder farms. My first interview was with a woman who, along with her husband, managed their small plot of coffee plants. In order to preserve her safety, she wished to remain anonymous. I spoke with her about her experience becoming a part of the Fair Trade cooperative scheme and how it affected her ability to maximize the money received from her coffee sales. She described to me the ways in which the Fair Trade cooperative works with her and the other farmers in the area and how she feels her farm plays into that scheme. She also spoke of how Fair Trade's other social initiatives funded by the premium charged for the product affect the community. Following this interview, I visited another farmer in the same farming community. I asked this farmer the same questions I had asked the previous farmer to get another perspective on Fair Trade's role in this community.

After completing these interviews, I moved from the city of Jinotega to Matagalpa, which is the largest city in the coffee producing region of Nicaragua. In Matagalpa, I worked through a similar local tour company to access smallholder coffee farmers in the region. The Matagalpa region works through a different Fair Trade cooperative than Jinotega, so I asked these farmers the same set of questions I had asked in Jinotega to compare the experiences of the two cooperatives.

In speaking with these farmers, I asked them what they desired out of the coffee market and how they feel they could be better served by its structure. This question generally led to farmers expressing their desire for a direct trade scheme, in which a coffee roaster in the consuming country would go directly to the origin, meet the producers, and

purchase coffee on the spot. This structure allows the farmers more information and accountability for their product. Speaking with farmers on this subject led me to a woman named Amanda Eastwood, who was an American working as an Origin Specialist for a direct trade company called Thrive! Farmers. I spoke with Ms. Eastwood extensively on her experience as a professional in this field and her perspective on what could be done to aid the coffee farmers based on her experience working closely with them. This conversation with her allowed me to better understand all the conversations I had had up until that point and to be able to assess the situation of the coffee farmers from a more professional perspective.

To supplement these first-hand interviews, I did extensive background research on the benefits and drawbacks of different alternative trade schemes such as Fair Trade, Rainforest Alliance, and direct trade. Specifically, I drew from a lot of work by the scholar Christopher Bacon on the situation of coffee farmers in Nicaragua. This research, along with a general survey of literature regarding alternative trade practices, allowed me a sufficient background through which I could investigate the topic firsthand.

This research investigated the various successes and failures of these schemes through background literature review and interviews in the field in Matagalpa, Nicaragua. The preliminary conclusions of this research will be described later in the report.

Budget

The budget granted totaled to \$4000, \$3250 from the University grant and \$750 from the Delta Phi fund. This budget was sufficient to purchase round-trip plane tickets to Nicaragua, lodging each night of the six-week in-country research period, food, transportation, and living costs for the four-weeks of preliminary research conducted in

the United States. In addition, the budget went towards translators for the interviews and each farmer interviewed was given a small stipend as a token of appreciation for the time taken out of their workday.

Preliminary Findings

A) To what extent do alternative trade linkages improve the quality of life for coffee farmers in Matagalpa, Nicaragua?

A preliminary answer to my research question *to what extent do the certification measures in place help the farmers*, can be split into three parts. The first part describes the ways in which the certifications help the farmers. I found that the Rainforest Alliance certification succeeds to an extent in improving the livelihoods of the farmers. Although the hours the farmers must work are still long (9 hours a day 6 days a week,) and the work is still hard and the wages are still low (national minimum wage), the farmers are provided adequate housing, food, access to healthcare, and education. Although the quality of these provisions varied, it is inarguable that their presence is already an improvement on their previous situation. In speaking with the farmers of La Bastilla and Selva Negra, each one claimed that this situation was an improvement on their previous situation except for one employee who claimed it was the same. These positive reactions from farmers as well as a comparison to the living situations I witnessed elsewhere in the country lead me to believe that overall, the Rainforest Alliance certifications has improved the livelihoods of farmers in Nicaragua. Additionally, the allowance of the farmers' families to take part in the food, healthcare, housing, and education provide educational opportunities to children who would not have previously accessed it, thus contributing to Nicaragua's development as a whole. Farmers working under the Rainforest Alliance scheme also expressed a sense of

pride in their work, as they enjoy the specific expectations laid out to them and the accomplishment of meeting Rainforest Alliance's standards each returning year.

Of the three schemes investigated, I felt that Fair Trade's promise to purchase the farmers' coffee annually had the greatest impact of its initiatives. In the local market, the amount of coffee produced by a family farm is insubstantial and the farmers would be unable to acquire an adequate price. Due to the organization efforts of the Fair Trade cooperatives investigated in this study, (Sopexca and UCA San Ramon), the farmers in this region have a steady purchaser for their beans. This is essential to their existence, because these farmers operate on subsistence farming in which each crop sold gets them only through the short-term. In the agricultural regions of Nicaragua, having a savings is a rare concept and it is more likely that each crop sold will only get the farmer through the immediate future. This is problematic because any interruption in the farmers' ability to sell their coffee could be detrimental to their existence. Fair Trade cooperatives alleviate this potential by ensuring the farmers a consistent purchaser. For instance, in the last few years when coffee has been hit by the La Roya fungus, or "coffee rust," farmers have needed the consistency of Fair Trade's purchasing. In many cases, farmers received their land from the distribution of a Fair Trade cooperative, and almost all farmers are provided materials and equipment from the Fair Trade cooperatives. This provision of land, materials, and technical assistance enhance the farmers' ability to thrive in the challenging and unstable coffee market.

The direct trade partnerships unite some of the benefits of the certification schemes and of the Fair Trade cooperatives. Direct trade cuts through many of the barriers to information accessibility that generally subjects coffee farmers to insufficient bargaining

power in the global market. In the direct trade scheme I investigated, the farmers are provided access to information regarding where their coffee will be sold and how much it will be sold for, which they are then able to compare with the price they are being paid on the spot. This allows the farmer to make a judgment on whether they are being treated fairly, which the larger-scale schemes were unable to completely provide. This has an enormous impact on the pride of the coffee farmers, as they realize the quality of their product and its demand in consuming countries. The direct trade partnerships in Nicaragua also require that the farmer be paid upfront for the coffee, as opposed to the standard market which pays the farmer only a portion upfront and then requires them to wait for their coffee to sell in the international market to be paid the rest. In subsistence behavior, this type of payment is incredibly problematic because it could leave the farmer with large stretches of time in which they are not receiving payment for their goods. The increased accountability of direct trade has thus far had positive impacts on the community development in producing regions of Nicaragua as the same representatives are either based locally or return annually to ensure that the quality of living continues to be up to par.

B) What factors of the alternative trade linkages improve the livelihoods of Matagalpan coffee producers? Some factors to consider are access to credit, access to information, and community development efforts.

Each of the alternative trade schemes provided different sets of factors aimed at improving farmer wellbeing. In the schemes investigated, I found that the greatest improvements came from increased access to information. In the traditional coffee market, farmers are not granted access to information regarding the selling price or destination of

their product. This prevents them from making educated decisions regarding the recipients of their coffee or the means of its sale. With greater access to information, the farmers reported greater senses of empowerment, pride in their work, and confidence in their receipt of an adequate payment.

Another factor that had a measurable impact on farmer livelihoods and wellbeing was the provision of housing and social goods as a result of buyer visits to farms, whether it be through direct trade or Rainforest Alliance auditing. These visits from Western professionals ensure that the farmers' housing and food standards are up to par, and that they have access to education and healthcare. These benefits extended to the farmers' families in both of these schemes, which allowed the farmers to feel pride and security in their work, as most other agricultural jobs in Nicaragua would not provide social goods for farmers and their families. In Nicaraguan rural communities, many families are struggling from poverty and food hardship, and the ability to rescue one's family from these challenges is an immense success for the individual.

A third factor that had the largest noticeable impact in the communities I investigated was access to training. In Nicaragua, agrarian jobs are generally passed down through the family without any additional training or equipment. Working through alternative trade organizations such as the ones investigated ensures the farmers access to training that could allow them to do their jobs more efficiently and to better thrive in their work and lives. Specifically, the financial training given to farmers working through Fair Trade, Rainforest Alliance, and Thrive! Farmers helps prevent some of the dangers of food insecurity and periods of poverty that frequently plague these farmers. The practice of building a financial savings to draw upon in times of need is not integrated into Nicaraguan

culture and is especially uncommon in the rural areas. However, these alternative trade organizations provide the farmers financial training and practices that encourage the farmers to save and avoid the periods of insecurity that come between harvests.

C) What factors of the alternative trade linkages fail to improve the livelihoods of producers, and how could they be restructured to better serve the producer?

Each alternative trade practice contained components that succeeded in improving farmer livelihood and components that did not. Each was unique in this comparison, but none was without drawbacks.

The Rainforest Alliance certification scheme succeeded in providing farmers housing and food, but was problematic in that its' management was so distant. Because the scheme was managed from Western headquarters and employed Western standards on global farms, it appeared that there were aspects of neocolonialism appearing. The farmers followed sets of rules and guidelines that they agreed to follow, but none of them seemed to be conscious of or understand where these rules were coming from. Even the owners of the farms utilizing the Rainforest Alliance certification expressed concerns that the managers of Rainforest Alliance did not understand the needs of the farms, but that they aligned enough that the farms were still able to use the certifications. Another problem was the barrier to entry of the certifications, as they cost several thousands of dollars to employ and remain a part of, which prevents any smaller farms from entering. These smaller farms are arguably those that need it the most, as the owners of the estates expressed that they did not get Rainforest Alliance to benefit their farmers but simply to become a part of the marketing trend. I found this problematic and disconnected from the actual needs of the farmers, as the schemes seemed much more distanced and market-driven.

I found a similar pattern in the Fair Trade farms, as the cooperatives adopted the Fair Trade seal because it makes the coffee more marketable. The farmers operating under these schemes, on the other hand, do not have control over whether their cooperative is Fair Trade or not and is instead subject to whatever changes develop. The farmers I spoke with were aware of the promises of Fair Trade, but only one farmer with whom I spoke expressed full satisfaction with the goods that had been delivered. Other farmers felt that they were still being subject to the many middlemen that stand between them and their coffee in the market. For instance, one farmer spoke of how she notices that the employees of the cooperative dress well and have nice cars while she can barely feed her family through the year. This leads her and the farmers in her community to believe that the cooperative captures a large portion of profit from the coffee without distributing it to the farmers. She says the farmers have tried to organize against the cooperatives and resist this exploitation, but without education they are unable to rally a sufficient effort. They also fear being left out of the cooperative without other options, because if the cooperative does not purchase their coffee they will be forced to sell in the local market, where prices are generally lower and there is no guarantee that their coffee will be sold. The farmers were so concerned about this that several of them requested that they remain anonymous in this study.

I find this general sentiment of exploitation and oppression very troubling in a scheme that is meant to empower the farmer and that Western consumers place faith in. However, all Fair Trade cooperatives vary in their efficiency so no large-scale conclusions can be drawn from this study.

The direct trade partnerships were generally very successful for both parties, but still struggle in scale. Because direct trade schemes are only now becoming popular, there are still relatively few in Nicaragua. Direct trade must work to convince farmers of its efficiency and reputability. Direct trade is arguably the most challenging of the partnerships to set up and requires the most direct effort in the field.

Reflections

Conducting this research in the field and speaking directly with the producers was incredibly valuable for this research. Because of their rural spatialities and lack of communication technology, it is impossible to access the voices of these farmers indirectly. Visiting the farms and meeting the farmers face-to-face allowed me to make complete, personal investigations of the farmers' livelihoods and involvement in alternative trade networks. It also allowed me to hear the farmers' perspective on the international market, which is a perspective that is generally silenced or unpublicized. Because farmer wellbeing was at the root of this study, it could not have been completed without these visits to farms.

These visits also provided the farmers an opportunity to voice their perspective on their position in the global value chain, on which they do not frequently get an opportunity to report. Many farmers expressed gratitude for my taking an interest in them and their wellbeing, and many of them requested to see the paper when it was done. In essence, it seemed they were hoping that I would be able to solve some of the problems that repeatedly plague them and leave them marginalized. This sentiment leads me to believe that the farmer perspective is one rarely gathered, and I was incredible grateful for the opportunity to contribute toward bridging this communication gap and I feel that it was also well-appreciated by the farmers whom I spoke with.

While in the field, I was grateful to possess a conversational level of Spanish that allowed me to speak directly to the farmers and galvanize the proximity of our relationship. However, I chose to conduct my interviews with the aid of a translator to ensure that the translations were accurate. I felt that this slowed the flow of the interviews and could have had an impact on the answers I received. I would have preferred to have more direct conversations with the interviewees.

I had expected to uncover both positive and negative aspects of each of these trade schemes, but I was surprised by the complexities of each one. I now understand how complex the coffee supply chain is and how, although it seems easy enough to give the producers of the coffee a greater portion of their profits, it is a challenging endeavor that involves more actors and politics than I had previously understood.

Suggestions for Future Research

Some future research that could further this work would be similar conversations in other farming communities to compare this case study with those in other regions. As in any study, a larger sample population is preferable for a more thorough coverage of data. Additionally, with more time, continuing relationships could be built with these farmers and their progress could be followed up on in the coming years to see how these changes continue to affect them.

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