

The coffee cooperatives in Nicaragua:

A point of reference for Latin America and fair trade international?

By René Mendoza V., Merling Preza, Martha Estela Gutiérrez, and Edgar Fernández¹

“Fair trade” has to do with various products, but coffee makes up the great majority (70%). Small producers in Latin America also produce 70% of the total coffee produced in the region, and “fair trade” is tied to organized small producers. What does this mean? This question gains relevance in the current situation of crisis for international fair trade, where “Fair Trade USA” just withdrew from “Fair Trade International” arguing “fair trade for all” and not just for small scale producers.

In this article we show the case of the cooperatives in Nicaragua, that greatly evolved in the last 30 years, attaining control over 20% of total coffee exports of the country, impacting national policies and impacting fair trade international policies in favor of the small producers of Latin American organized into the Latin American and Caribbean Network of Small Fair Trade Producers (CLAC).

What explains the leap forward of the cooperatives, when 20 years ago they did not even have 2% of exports? Our hypothesis is that the growing differentiation of coffee markets was responded to, more than by the private companies, by organizations of cooperatives in alliance with fair trade organizations; and that this model is capable of responding in volume and quality to the growing demand of the markets – which makes the separation of “Fair Trade USA” from the large family of “fair trade international” unnecessary.

Introduction

The concentration of land ownership in few hands was a structural factor of the inequality in Nicaragua that contributed to the civil war between 1950 and 1979; one of the measures of the Sandinista Revolution was the agrarian reform organized through the first tier cooperatives in the decade of the 80s. In the 1990s the application of the stabilization and structural adjustment policies (ESAF) began, which are policies of market liberalization, privatization and reduction of the State, and with it the cooperatives were left orphaned from “Papa State”; without credit, technical assistance, markets nor political direction. Their biggest problem was no longer access to land, but the defense of that land and their exclusion from the market.

The response to these structural problems came in three forms. Mega-projects financed by donors connected or not to the State to alleviate the effects of the ESAF policies, and to rehabilitate a post war society; initiatives like microfinance and private technical assistance services and those services provided by NGOs; and the cooperatives that faced the dilemma of disappearing or scaling up organizationally. Here we are focusing on the third form, the leap of the cooperatives from first tier (or grassroots cooperatives) to second tier cooperatives (that group together first tier cooperatives), and with them developing coffee processing and export services aimed a differentiated markets. Part of this leap involved the constitution of third tier organizations like the Federation of Agro-industrial Cooperatives of Nicaragua (FENIAGRO) and the Association of Small Coffee Producer Cooperatives of Nicaragua (CAFENICA) with the status of NGOs, and the growing influence of the cooperatives in the country in CLAC, and CLAC in fair trade international, of which it is a part – see Box 1 to get an understanding in the context of fair trade international. These advances

¹ René Mendoza V. (rmvidaurre@gmail.com) is a researcher, Martha E. Gutiérrez (direccion@cafenica.info) is the executive director of CAFENICA, Merling Preza (gerencia@prodecoop.com) is the president of CAFENICA, manager of the Federation of Multiple Service Cooperatives (PRODECOOP) and president of the Latin American and Caribbean Network of Small Fair Trade Producers (CLAC), and Edgar Fernández (edgardfernandez2003@yahoo.es) is a researcher.

responded to the challenge of differentiated markets within a context of institutional change imposed by the ESAF policies. What explains that leap?

Box 1. Emergence and evolution of fair trade

In 1964 the fair trade system started within the framework of the UN Conference on Trade and Development (UNCTAD). A few groups from the developed countries promoted the "UNCTAD" stores, selling products from Third World countries in Europe, by passing the tariff barriers. Later a chain of "solidarity" stores began in Holland, and later in Germany, Switzerland, Austria, France, Sweden, Great Britain and Belgium.

In 1967 the Catholic Organization SOS Wereldhandel from the Netherlands, began to import craft products from underdeveloped countries through a system of catalogue sales. In 1973 FT coffee began, produced by Guatemalan cooperatives under the brand "'Indio Solidarity Coffee"; the FT coffee gave a great boost to the growth of the system.

In the decade of the 80s the scale increased, the quality and design of the products improved, and the list of products included coffee mixes, tea, honey, sugar, cocoa, nuts, bananas and flowers. The craft makers grew in quantity and quality, with marketing techniques. Another great boost to the system was the emergence of Seals; the first to emerge was in Holland in 1988, later a number emerged with "Fair Seal"; in 1997 a number of them formed Fairtrade Labelling Organizations International (FLO).

Since 2002 a debate has begun about whether the large coffee plantations should be included in fair trade – as had already been allowed in bananas, flowers and tea. In 2011 the expected decision was made; the coffee plantations (of the large producers) would not be included. In reaction, Fair Trade USA, the principal promoter for the inclusion of the large producers, decided to withdraw from FLO International starting on December 31, 2011 and committed itself to "fair trade for all". Fair Trade FLO remains in favor of the small producers and in doing so is allied with the three associations from the three continents: CLAC from Latin America, FairTrade Africa from the countries of Africa, and the Network of Asian Producers from the Asian countries

For this article we did interviews of managers and leaders from cooperatives, producers, technicians, and representatives of INFOCOOP (Institute for Cooperative Promotion), and SCC (Swedish Cooperative Center). We also reviewed secondary data that is found in CETREX, INFOCOOP and data from FLO international. We also organized two large workshops with leaders and managers of export cooperatives. An important part of this article is the dialogue among the authors themselves, due to the fact that two of the authors of the article hold leadership positions in CAFENICA and CLAC, an opportunity that allows the article to have primary information and at the same time makes this article a bridge that contributes to resolving the crisis of fair trade international which it currently is facing.

After this introduction, the first section provides the results, positioning the cooperatives in their history, composition, and member characteristics; followed by the vision and strategic innovations, in the second and third sections; later the fourth and fifth section focus on explaining the elements of the context that facilitate and block innovation and the strategic vision of the cooperatives; the sixth section summarizes all the previous sections in terms of lessons (collective learning); and finally as a result of this learning, the conclusion summarizes the principle ideas in the debate about fair trade and suggests the importance of moving to a second generation of fair trade.

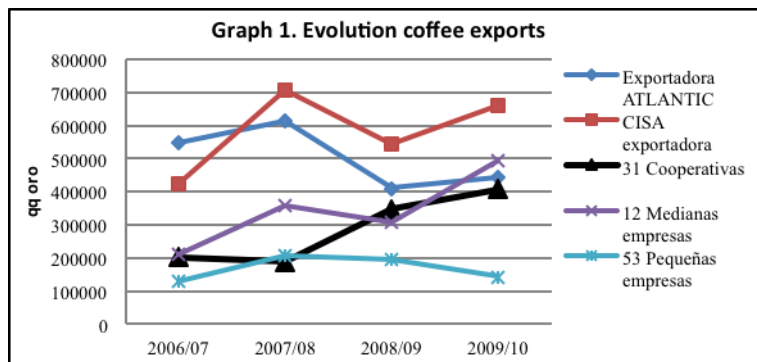
1. The coffee cooperatives in conflict over capital and fair trade

What do we have with the coffee cooperatives? We have cooperatives that responded to the challenge of differentiated markets through scaling up organizationally in alliance with fair trade organizations. And they did it within a 15-30 year timeframe. This section presents this progress; and in doing so it shows that the cooperatives have been competing for coffee capital with the private sector, something that barely 20 years ago was unthinkable, and that has an impact on the scenario in Latin America.

1.1 Locating the cooperatives historically

The decade of the 80s was the decade of the agrarian reform and the founding of first tier cooperatives. The decade of the 90s was the period of the founding of the second tier cooperatives (Unions and Federations) grouping together more than 120 first tier coffee cooperatives. As part of this growth, in the decade that followed most of the investments in dry mills, cupping labs, bars, fertilizer plants...took place; it is the decade in which the Cup of Excellence Award emerged (2002-

2010), 15.7% of whose awards for best coffee quality went to cooperatives – out of 261 winners, 41 are cooperatives; it is the period in which CAFENICA emerged, as a third tier entity, not as an association, but as “a facilitator of processes”, comprising most of the second tier cooperatives. In summary, in the 80s the talk was about



producing and the first tier cooperatives; in the 90s it was exporting and processing and the second tier cooperatives; and in the first decade of the current millennium the talk is about cup profiles, promotional events, representativeness and political advocacy in the country and internationally.

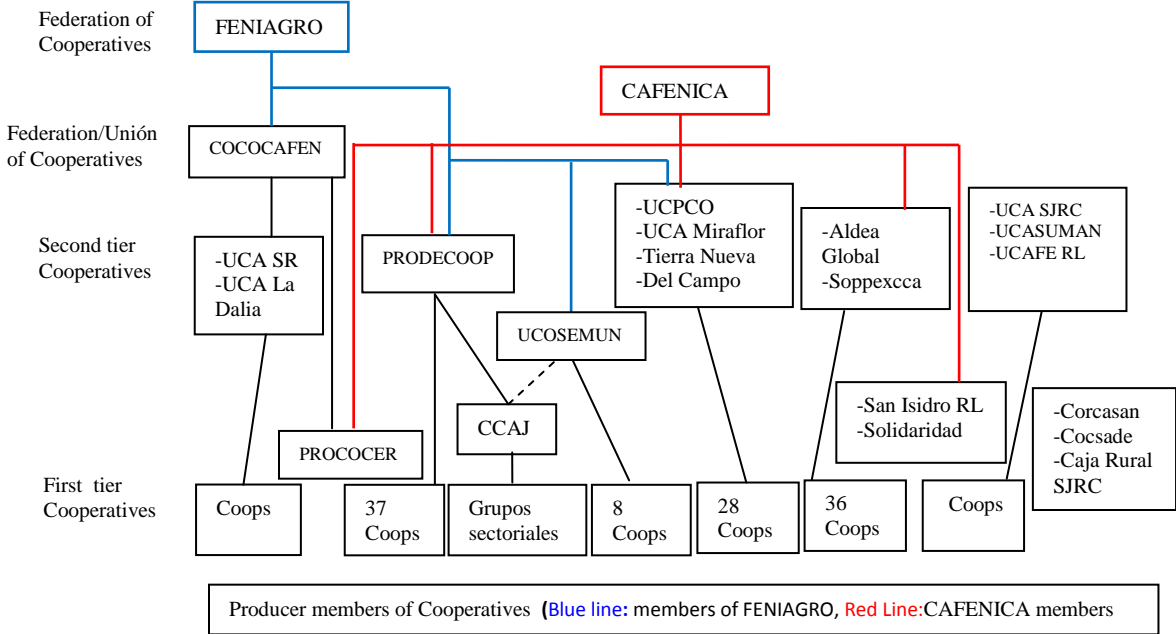
This growth can be appreciated in terms of its evolution in exporting coffee. In 1990 the cooperatives exported 1%, in 2006 10%, and in 2009/10 they reached 19% of all coffee exported. From 200,000 quintals in 2006/07 they are now surpassing 400,000 quintals of coffee exported per year.

(CETREX; Mendoza and Fernández, 2011)².

² The boom of the coffee cooperatives, a sign that they are galloping? In Spanish at <http://www.confidencial.com.ni/articulo/2892/el-boom-de-las-cooperativas-de-cafe>

Who are these cooperatives? Diagram 1 shows us the collection of cooperatives by their levels, then by their participation in second tier cooperatives, and from these to third tier organizations like the Federation of Agro-industrial Cooperatives of Nicaragua (FENIAGRO) and/or CAFENICA in

Diagram 1. Structure of Cooperative Composition



its formal capacity as an NGO, but that at the same time functions as an association. Note that many first tier cooperatives do not belong to any second tier organization, and many of the first and second tier level do not belong to any third tier organization nor to CAFENICA; and at the same time there are also organizations like CCAJ that are part of two second tier organizations.

1.2 Social sector and gender

Table 1 tells us that most of the second tier cooperatives emerged in the 90s, with some 150-180 grassroots cooperatives and more than 14,000 members. Cooperatives like PRODECOOP (because of the number of member cooperatives) and UCOSEMUN (because of the number of producers that include their member cooperatives) stand out; likewise organizations like Aldea Global that is not a cooperative, formally, but that brings together groups of producers called “Village groups”, and who work in alliances with first tier cooperatives.

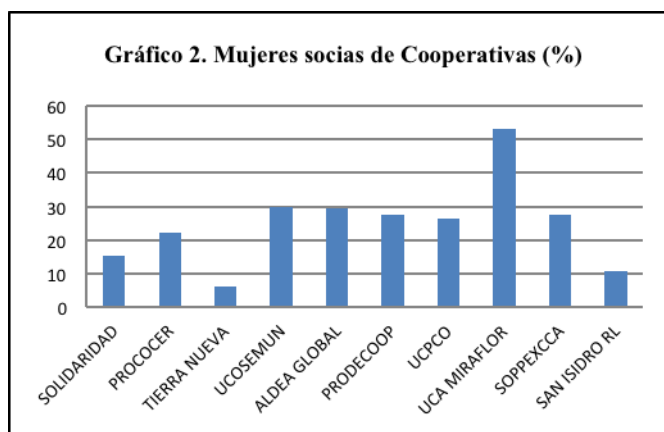
Table 1. Composition of Second tier coffee cooperatives

Member cooperatives	Date founded	First tier cooperatives (No.)	Number of members		
			Men	Women	TOTAL
DEL CAMPO	1997	2	95	20	115
TIERRA NUEVA	1997	8	590	40	630
UCOSEMUN	1998	8	3490	1496	4,986
ALDEA GLOBAL	1992	21	980	409	1,389
PRODECOOP	1992	39	1496	570	2,066
UCPCO	1996	5	308	110	418
UCA MIRAFLOR	1990	13	190	215	405
SOPPEXCCA	1997	15	470	180	650
UCASUMAN	2001	9			800
First tier cooperatives not part of second tier cooperatives *		50			2500
TOTAL		170			13959

* Estimate

Source: CAFENICA and interviews of managers of the organizations

If we are talking about 33,000 coffee producers in the country, 90% of them are small producers (CENAGRO). Of them, more than 14,500 are members of cooperatives (in other words 50% of the total number of producers). Of this total, the CAFENICA network brings together 11,500 producers, of whom 28% are women members (See Graph 2); in other words in a “traditionally male” area and in cooperatives “of men” the membership of women is increasing, and in some cooperatives like the UCA Miraflor women make up 54% of the members.

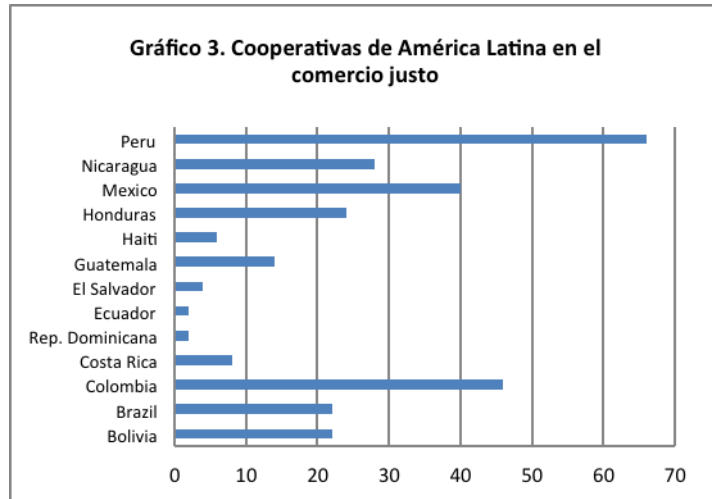


It is worth adding that the women members of all the cooperatives have begun another organization called “Coffee Flowers, Women United for a Better Future”, an organization that functions within the cooperatives that are part of CAFENICA, and their principal purpose is to strengthen the gender work, make the role of women in the coffee chain visible, and strength the leadership of women within the organizations.

1.3 Impact of Fair Trade on Latin America

The impact of the cooperatives is also being felt in Latin America. Thirty years ago agricultural cooperatives were rare. Now there are 533 organizations in Latin America who are members of fair trade international. Of these 533, 284 are organizations of small coffee producers (FLO 2011 records). Here is the importance of coffee in fair trade international, the reason why the current crisis in fair trade with coffee is making FLO international “wobble”.

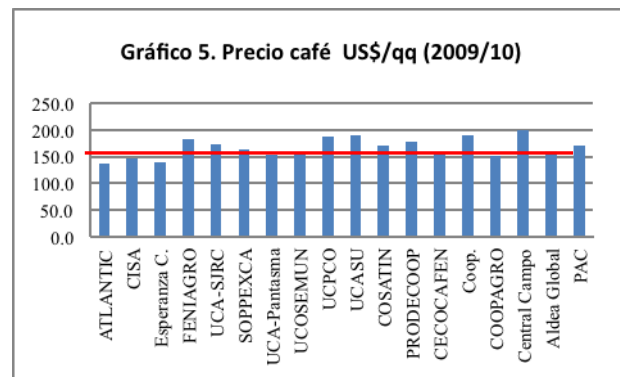
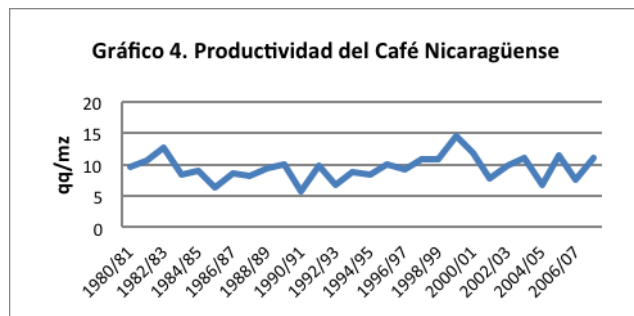
Comparing countries, Nicaragua is in fourth place behind Peru, Colombia and Mexico (See Graph 3). Nevertheless, if we calculate the number of fair trade cooperatives by total population of the country, Nicaragua is the country with the largest number of cooperatives *per capita*. Regardless of their respective position, the impact of coffee cooperatives on fair trade is great, and it is even more so when we are talking about 533 organizations. And even more when the great majority of these organizations are small producers,



except for the case of bananas, tea and flowers, where FLO international allows large producers to participate due to the fact that, for example, the production of flowers happens on small areas.

2. Strategic vision accumulated by the coffee cooperatives

The country as a whole for decades has promoted the productivity route, and under that logic, technical assistance. The result: the country has not increased its productivity (qq/mz, See Graph 4). On the contrary, since the middle of the 90s the cooperatives began to push coffee toward the fair trade markets, and slowly, moved by the demands of different markets and by the strategic interest of leaving behind the logic of “coffee is coffee”, took the route of coffee quality – in its attributes (aroma, fragrance, sweetness, cleanliness, etc) as well as in its processing, organizational component and gender. This implied reorganizing the coffee chain: they invested in the construction of dry mills, harvest collection centers and cupping laboratories, as well as in the development of organic production. They redefined technical assistance and organized credit services to ensure the collection of the coffee harvest.



As an expression of this effort, according to the records of the Cup of Excellency, 15.7% of the finalists belonged to cooperatives. This push toward quality is confirmed by the prices: the cooperatives get an FOB price of between US\$15 to 50/quintal above the price of the large coffee exporters of the country, CISA and ATLANTIC (see Graph 5, based on CETREX). This is the result of 30 years of effort on the part of the cooperatives and their members.

From all this, differentiated coffees seen over 20-30 years provided the framework for the vision, from this angle the cooperatives focused on the search for quality and the commercialization strategy, a perspective that led them to consolidate their organization from within (the relationship between the first and second tier organizations), and with the outside world (fair trade), and with organizations which it influences and/or with whom it has alliances (donors, associations, state). The engine which is pulling and pushing are the export cooperatives. The management, leaders, and producers of the cooperative members of CAFENICA explained their multiple strategic vision of the last 20-30 years under this framework, guided by the following question: What is the most strategic thing that each actor is seeking? See Table 3.

Table 3. Strategic vision over the last 20-30 years of the coffee cooperatives

Producers	First tier cooperatives	Second tier cooperatives	Fair trade organizations (FT)	Private sector
<ul style="list-style-type: none"> -Economic diversification; sustainability through productivity and quality; saving and reinvesting in their farms; capitalizing in area -Obtaining cheap credit, better prices for their coffee, knowledge and opportunities -women members: being economically visible; recognition of their contribution to living conditions 	<ul style="list-style-type: none"> -Sustainability: That 2nd tier cooperative not take their place, but would accompany them -Having their own identity and cooperative awareness to seek loyalty of members and of 2nd tier cooperatives -Accessing cheap and long term credit; Technical assistance close to farm through children of members: promoters-technicians -cooperative: engine for members and communities 	<ul style="list-style-type: none"> -Moving ahead with differentiated coffees (and markets), and reorganizing the chain around them: investments, traceability-quality control, cuppers, training of technicians, changes on the farm, cooperative democracy, gender; -Influencing public policies to solve poverty -learning from the private sector technology about dry milling, cupping laboratories, and management systems for commercialization. -capitalization using their own resources and from negotiating resources from aid agencies; -placing women and youth in the cooperatives. 	<ul style="list-style-type: none"> -opening another market for impoverished sectors. -in 20 years they organized chain: buyers, roasters, cuppers, distribution network; they turned into businesses demanding quality, compliance with contracts and control of cooperative-exporters through audits 	<ul style="list-style-type: none"> -Adapting to FT and quality coffee: having the FT seal, innovating coffee varieties for various markets. -Expanding their harvest collection network and getting external resources, connecting up with cooperatives, -Providing export, processing and credit services to the cooperatives. -Taking on Socially Responsible Enterprise (RSE)

In the box the different types of actors are seen that involve the producers, leaders, managers, intellectuals, and merchants. Obviously the perspective that they might have would vary: from a perspective based on the farm in the case of the producer, to the community in the case of the first tier cooperative, more regional in the case of the second tier organization, international in the case of fair trade, and focused on making their capital produce in the case of the private sector.

Comparing the vision of the 5 actors, each one differs from the other. The producers that infuse their farms with various crops and economic activities, propose that their identity and vision be diversification; it is not just a commitment to coffee. The first tier cooperatives, with an identity

more connected to their community, and pressured by the direct demands of their members, seek to exist and offer services that might respond to the diversification strategy of its members. The second tier cooperatives talk about markets, investments, services, capitalization and of having an impact on policies, their vision is more specialized on coffee. Fair trade speaks of prices, markets, chains, audits and consumers, and from there, their strategic vision is to expand the market for trade. The last actor, the private sector, their vision involves responding to the market in order to accumulate capital, and if that market includes working with cooperatives and fair trade seals, they do so quickly.

They also express common interests. There is an ever increasing search to be sustainable, be that as producer, first tier cooperatives, second tier cooperative and/or as fair trade industry; strategies to do so go from the productive and economic diversification of the producers, up to the specialization in coffee in the search for differentiated markets. There is an evolution in terms of gender, of concern for including women, to the growing importance of women in the leadership of the cooperatives and in the economic life of the producer families: also the growing importance of the inclusion of youth is being felt - sons and daughters of producers.

In terms of the private sector (exporters), in spite of the large differences and disputes with the cooperatives, there is a type of mutual usefulness between both of them: the private sector was surprised by their control of the coffee market, and has had to adapt themselves to (and take advantage of) the changes in coffee quality, improvement in prices and dynamic of the cooperatives; and the cooperatives also sought support in the private sector to process and export their coffee until they gained experience in the markets and invested in their own milling, as well as in adapting management systems and technical knowledge on processing and export operations. At the same time, the growing strength of the cooperatives and fair trade organizations challenging the practices of the large companies, combined with the production of poverty in the world, led the companies to respond by taking on the Socially Responsible Business framework, in this way contributing to improving the environmental conditions on their farms and the social conditions of their workers.

This strategic progress of the cooperatives began to have a decisive influence also on the fair trade policies that currently are in crisis. Box 2 summarizes the arguments about whether to permit the entry of the large producers and systems under contract to fair trade or not³. This

Box 2. Arguments in favor and against the inclusion of large producers

Fair Trade USA arguments in favor of “fair trade for all”:

- Including the large producers to increase scale of coffee exports (volume) and to help the workers on these large plantations to also benefit from fair trade
- More volume means greater impact on fair trade

Decision of FLO to stay with small producers:

- The entry of the large producers would affect the market quota that the small producers have gained
- The large plantations have enough resources to improve the lives of their workers; that the only beneficiaries of the position of Fair Trade USA would be the large buyers like Green Mountain, Starbucks and the large producers
- The minimum price would go down because the cost of production of the larger producers is less

Source:

Based on article in the New York Times, 11-23-2011 : “A Question of Fairness, and on Declaration of CLAC on withdrawal of Fair Trade USA.

³ To see the pronouncements on this crisis from the three organizations of Latin America, Asia and Africa, see <http://www.fairtraderesource.org/2011/10/05/the-3-major-producer-networks-oppose-ftusas-withdrawal-from-flo/>

debate that began in 2002⁴ concluded in September 2011 with a transcendental decision: FLO international would continue only with the small producers. Immediately Fair Trade USA withdrew. CLAC played a key role in the decision of FLO. Consequently, the correlation of forces has changed: from a FLO controlled by 21 nationals (brands like Fair Trade USA), to 50% controlled by the three organizations from the three continents, that represent 800 organizations and a million small producers in 60 countries from Africa, Asia and Latin America, and the remaining 50% controlled by the nationals.

3. Innovations and great changes experienced by the cooperatives

The innovations take the strategic perspective of 20-30 years as their frame of reference. These innovations can be read from the angle of “creative destruction” (J. Schumpeter), ‘adaptation’, as a result of “cognitive dissonance”, and innovation as the creation of ties of Granovetter (1983⁵):

- “Creative destruction”: constant creation of innovation through destroying what becomes inefficient and inadequate in a certain context with something new and more productive.
- “Adaptation”: a strategy produced in a certain context is applied to another context, because it is creatively adapted to the new context and in accordance with the vision of the actor that is adapting it; nothing is copied in a mechanical way.
- Innovation is born out of necessity; if a team believes itself to be a winner, it does not need to innovate, while the person who sees their situation as problematic and “creates a crisis” develops the need to innovate.
- Innovation can consist in the opening to new networks (or in the creation of a connection). This is the basic idea of being an entrepreneur, which means the person or actor who connects different networks.

Under this framework and maintaining the historical perspective, what innovations emerged in the 20-30 years of cooperativism? See the following Table.

⁴ In 2004 Paul Rice visited Nicaragua and Edmundo López from the José Alfredo Zeledón Cooperative asked him why fair trade opened their doors to businesses like CISA and ATLANTIC. Rice replied that cooperatives like PRODECOOP did not have the potential to respond to Fair Trade.

⁵ Granovetter, M. (1983) "The Strength of Weak Ties: A Network Theory Revisited". *Sociological Theory* 1:

Table 4. Innovation and fundamental changes in the coffee cooperatives

Producers	First tier cooperatives	Second tier cooperatives	Fair trade organizations (FT)	Buyers and Private sector
-conventional coffee replaced by organic coffee and organic farm. -from just producing coffee, to washing it, controlling quality, using more techniques, producing organically and knowing coffee profiles; from washing in river and polluting it to having wet mills and treating the water. -from poor producer to producer on way to being business person: learns to administer plot, accesses and uses information	-sell through the cooperative -cooperatives: family reinsertion, women are part of the board, and in the family women generate income. -be the door to resources from the state and donors to the community. -capitalization through contributions and coffee earnings, management of credit and negotiating projects. -children of producers become promoters and grassroots extension workers.	-sell coffee and reorganize chain; production, processing and export -diversification in commerce; honey, coffee, tourism, tubers. -dry milling and cupping was in the hands of large producers; cooperatives get involved and control coffee quality in accordance with markets -gender: "Coffee flowers" womens movement within the cooperatives-CAFENICA; diversification of products and flexibility in policies promotes inclusion of women members in cooperatives. -In technology: individual, family and cooperatives wet milling systems, and even shared among various cooperatives	-perception: from poor person to someone with value. -door for consumers to acquire awareness about producers -learned to compete in quality, to insert themselves into differentiated markets -management of concept of chains (roasting, grinding, distribution, laboratories, brands, cafeterias) -re-emergence of CLAC	-products of businesses are adapted to the conditions of the small producers. -adaptation of social logic of cooperatives; SRE, projects for communities and women, better social conditions for workers, and measures in favor of environmental care -cooperatives adapted business concept (exports, managerial and administrative control).

Following the notion of "creative destruction", changes experienced by the producers appeared, from conventional coffee to organic coffee and quality coffee, from managing coffee as something standard to coffee with quality and a differentiated product; also in the cooperatives the replacement of the "coyote network" by the cooperatives generating a new type of producer-buyer relationship, of cooperatives with a "bad reputation" to reborn cooperatives; and in the FT industry the change in perception from a "poor producer" to a producer who is "valued" for what they have. With the notion of innovation as adaptation, one can list the mutual practices adapted from the private sector by the cooperatives, as well as from the cooperatives by the private sector.

When the cooperatives got into commerce and got on the road to quality aimed at products-differentiated markets, suddenly the need emerged of reorganizing the entire chain. This is innovation as a product of need. These innovations can be read in the Table: physical and human capital investments, constructing chains, capitalization...in terms of the new coffee chain led by the cooperatives. Also the creation of different instruments constitutes innovation in response to need: with cooperatives that fall into crises and "administrative problems" there are instruments for correcting them and accompanying them, such as CAFENICA, INFOCOOP from the State (Institute for Cooperative Development) and CONACOOOP from associations (National Cooperative Council); with the emergence of new markets, the possibility that FENIAGRO might articulate and negotiate contracts with ALBALINISA without taking the place of the cooperatives.

Following the notion of innovation as "creation of ties", we see cooperatives as the "door" to something, inclusion of women and youth in the cooperatives with different roles, diversification of products and economic activities, alliances between the cooperatives and private enterprises, alliances between organizations for advocacy on public policies, founding of CAFENICA as a

horizontal organization (facilitator of processes) and not an association (vertical structure), something that does not exist in other sectors of the country, and the emergence of the “Coffee flowers” movement, the fact that the advocacy actions of the cooperatives (and historically in their development) is generally accompanied actively by some aid agencies (mostly Nordic: Sweden, Denmark and Norway) (D. Medina, interview in May 2011), and the growing influence of CLAC in Fair Trade International.

In general out of these innovations a change in attitude is observed, and the fact that probably we are facing a new type of producer: one who is concerned about the quality of their coffee, about the environment, about having a work plan, about studying their investment, about a producer who investigates, who has payroll, and about a producer family that increases their self esteem with sons and daughters trained and with a growing awareness of gender. Also there are unplanned outcomes as an effect of these innovations, such is the case of the private sector which is taking on certain policies and practices that are less negative toward the producers. And these innovations are also having an impact on the international arena, we are referring to the decision of fair trade international of continuing with small producers and abandoning the proposal of including the large coffee estates. From all of this, the small producer is becoming a reference point, the central point of any coffee chain and international organization.

4. Factors that are influencing the emergence of innovation

“Fish swim in the water, and their movement depends also on the water quality”. The vision and the innovation of the organizations so far has to do with the context, that can be favorable or not to the development of the cooperatives. In this section we present those factors that facilitate innovation and change in the cooperatives, and in the following section the factors that block it. What things in the context help innovation? See the following Box.

Box 5. Factors of the context that are facilitating innovation

- 1980s: Agrarian Reform caused boom of cooperatives; and also caused boom in the massive participation of women in the political life of the country, it was a context of war; in the 80s barriers were broken down about the concept of women in the family. The traditional family structure took a blow.
- 1990s: Defeat of the Front, attempts to disavow the agrarian reform titles, pressure to de-collectivize the cooperatives, ESAF policies, fall in the price of coffee and abuse of intermediaries with low prices. All that pressured the cooperatives to get involved in credit, defend the land, win markets. So the agro-export cooperatives persevered and grew, the coffee cooperatives with larger coffee cooperatives responding to producers who did not know who to sell their coffee to. In gender the pressure was for women to go back home, but the international campaign allowed women to take more steps.
- (2007-2011): Political context favorable to cooperative movement that encouraged them to take over the state institutions (INFOCOOP) and associations (CONACAFE, CONACOOB).
- Climate change: coffee in lower areas begins to ripen early. This forces them to be informed and to change-innovate technologies; ten years ago planting in a cleared area did not have a big impact, but now you have to provide it with shade.
- Growing competitiveness, the multinationals are forming blocks, and the proposal emerges that fair trade should include the plantations and producers through contracts,
- Growing number of brands; fair trade, organic coffee, coffee practices, rainforest, UTZ, C4.
- Growing strength of CLAC (and the coffee network of CLAC)

The producer families asked about the context, go back again and again to the history, an adverse history that is pushing them to innovate. Three periods seem to be well marked out: the 80s with the real emergence of the cooperatives, having an impact on the agrarian reform and at the same time limited by the context of the war; the 16 years of governments (1990-2006) that sought to affect the cooperatives combining the “stick” (adverse laws, cut in financing, indebtedness, disavowal of agrarian reform titles...) and the “carrot” (donations for certain leadership, projects so that a

different type of cooperative might emerge); and the return of the Sandinista government in 2007. Even if the cooperatives were easily controlled “from above” in the 80s, this type of political-military cooperatives evolved, becoming – some more than others – “cooperative enterprises” with a lot of terrain covered in autonomous processes. It is a context whose climax is located in the mid 90s where there was convergence between, on the one hand, a Nicaragua with a reputation for bad coffee quality and cooperatives in crisis (in the country as well as in Central America), forcing the cooperatives to restate themselves along the route of coffee quality; and on the other hand, international initiatives like the emergence of the group of small roasters in the US linked to commerce, restating a new type of solidarity with developing countries (P. Haslam, interview May 2011).

This adverse context forced the cooperatives to find their niches, the correspondence between differentiated markets and organized producers, in addition to having the fair trade organizations as their long term allies, and the commitment to coffee quality.

5. Factors that are limiting innovation

Paraphrasing Marx, “people make their own history, but they do it under certain circumstances.” The cooperatives are making their history, but they are doing it under certain circumstances. These circumstances, at times, help, just as we have seen in the previous section; and other times they are confining, just as we are going to see in this section. What things of the context are blocking innovation? See the following Box.

Box 6. Factors of the context that are blocking the development of the cooperatives

- The power relations favor the large producers. The State officials require the members to have latrines, while the large producers do not have to; the water contamination and felling of trees is more serious on the part of the large producers, but... “When the knife is made of gold justice is silent”.
- 3 governments (1990-2006) were hostile to the cooperatives, and they bore the bad image of many cooperatives that went broke because of corruption, and the reputation of being “dependents of the state” in the 80s.
- The emergence of the “No payers movement” ended up hurting the cooperatives, that saw themselves forced to spend their resources to defend themselves instead of deepening their innovations.
- Expensive and scarce credit for agricultural production and for the cooperatives to collect the coffee harvest
- Climate change: affects production, makes water either too scarce or too abundant.
- The institutionalized tradition in different organizations of not communicating the processes and big decisions to their members (e.g. the current crisis and decision of FLO is not known by the first tier cooperatives).

What most stands out are the power relations: there can be very favorable policies and formal laws, but their application is mediated by the power relations that decree very powerful “informal laws”. Laws against felling/deforestation are clear, but the powerful decree historically effective informal laws, that law says: “The rich person represents God, do not touch him, the laws are to be applied to the little ones without God”. This providentialist code (law) tends to be applied regardless of the type of government⁶. It is a real factor that limits innovation and the development of the cooperatives that are organizations of small producers.

⁶ “The companies connected to coffee that re-emerged since 1990 have disappeared; there are only cooperatives and multinationals left” (P. Haslam, founder of CAFENICA, Director IDR-Government). These multinationals include powerful actors of the country as shareholders.

Another limiting factor is working capital – in part the hostility of the three previous governments was expressed in privatizing the national bank and in not providing them with neither credit nor technical assistance. Coffee is harvested by providing credit in order to guarantee the coffee. Given the growth of the cooperatives, the volume that is collected has doubled, so they need to double the amount of credit. Not getting the credit, the producers with greater economic difficulties tend to sell their coffee at any price, and to buyers from other markets outside of the cooperatives in order to have liquidity. Within this context, the “no payers movement”’s threat to the loan portfolio of the cooperatives meant higher transaction costs and tagged them with greater uncertainty, precisely in times of growth and good international prices.

Finally the Belgian expression: “the stronger the crisis the closer the solution.” The Crisis that FLO experienced can be responded to with innovation on the part of the different tiers of cooperatives. For that to happen, information is needed at all levels, including the first tier cooperatives and their members. Informing and communicating continue to be challenges that limit innovation.

6. Lessons: learning that will not be forgotten

Lessons are like a first love, they are never completely forgotten. They are unique, specific and generalized lessons that the different actors can abstract from their experience of being part of a cooperative for more than 20 years. They are learning that within 10-20 years continue being remembered. They are also lessons that are made explicit in order to exchange them for new knowledge. See Box.

Box 7. Principal lessons

- If I organize in a cooperative and administer my resources well, I can increase my production and improve the lives of my family
- If the cooperative responds to its producers in a “made to fit” way, in accordance with their needs and capacities, and if the cooperative functions as a “family”, even the most serious problems can be resolved
- When the manager and president is the same person, judge and jury, the development of the cooperative stagnates.
- The more transparency there is, the more loyalty there is; the more secretive it is, the more there is to talk about, and in the long run it undermines any organization; if there are not clear accounts, distrust and conflict are the result
- If we form leaders to communicate and improve, the dispersion that exists among members of a grassroots cooperative can be resolved; communication at all levels makes the producer and their cooperatives stronger, and awakens interest of producers in contributing to their cooperatives
- If as a second tier organization you distance yourself from the grassroots cooperatives, the entire chain of the cooperative can get disorganized, at which time “the wolves could eat up the producer”
- If we transmit what we have experienced (events like the cooperatives going broke) to the youth, we will not stumble over the same stone twice, and the people replacing us will be stronger.
- If we people who participate in the leadership of the organizations accept from the beginning the participation of women, then the assemblies in the cooperatives will support the inclusion of women, and that will transform the cooperatives and the lives of the producer families themselves.
- When opportunities from the organizations are provided to people who we believe are not going to make the leap, and it ends up that they do, this shows us that when there are opportunities that even the most vulnerable people can make the leap.
- If you invest in the formation of people with a long-term perspective, then you have more possibilities of having an impact on the markets, reorganizing the chains. The investing in business capacity in the members and in having producers willing to change their manner of producing, allows entering into a competitive market
- Fair trade combined with cooperatives prevents the poor from falling into more poverty, because of the minimum price paid, and gradually gets them used to building their own future

Each lesson responds to organizations that found themselves orphaned and in an adverse context in 1990, as we have pointed out previously, and that slowly changed the coffee map of the country and were able to compete for capital with the national and transnational social business sectors, and that through their organizations played a decisive role in FLO international.

Conclusions

The question of Paul Rice, Fair Trade USA manager, in the New York Times, is: “*do we want a small and pure fair trade, or do we want fair trade for all?*” Rice wants the response to include the large producers so that the volume of coffee sold might double in 2015, and therefore the impact would be greater – “for all”, including for “the poorest who are the farm workers on the large plantations”, concludes Rice. The response of Dean Cycon, founder of Dean’s Beans Organic Coffee Company of Massachusetts, is also conclusive: “*Starbucks, Green Mountain and other coffee companies will get to be 100% fair trade, not because they would have changed one iota in their business practices, but because Fair Trade USA changed the rules of the game*”.

Rice could suggest, following his logic, that the large enterprises and the large producers are not changing their business practices due to the fact that they are NOT included under the fair trade rules, and that it is possible to influence them with fair trade, and thus benefit the workers themselves of the large plantations Nevertheless, what is seen in this article refutes that logic:

- If more volume of coffee is wanted, then there are two ways of getting it: 1) different studies say that the small producer members of the cooperatives deliver at least 50% of the coffee they produce to their organizations, so if it was possible to get the members to turn in 100% of their production, that would double the volume; 2) 70% of the total coffee production of Latin America is produced by small producers, and it is estimated that fair trade gets 15% of that total produced by small farmers, if another 15% is obtained, the volume of coffee exported with the fair trade label would double. Why then go to the large producers that only produce 30% of the coffee in Latin America.
- If Rice thinks that it would be difficult for the cooperatives to increase their volume of coffee selling via fair trade, the case of Nicaragua tells us that in 20 years the cooperatives gained 20% of total coffee exports in the country; if Nicaragua continues this tendency and if the same thing happens in other Latin American countries, the argument of volume does not work for Rice.
- If what is wanted is to have an impact on the large plantations and large businesses, the companies in Nicaragua have been changing, because of the growing impact of the cooperatives in the country as well as the combined growth of fair trade international: they have done it in order to work for quality coffee, to take on the norms of Socially Responsible Enterprises (SRE), providing better treatment to the environment and to their workers. Also at the brand level, Rain Forest Alliance and IMO Fair for Life⁷ include requirements that are close to those of Fair Trade and they are already working with the large producers. In other words, it is the strength of fair trade that is causing changes in the large producers and in international trade.
- If what is wanted is poverty reduction, there is no overwhelming evidence that the small producer members of fair trade have substantially reduced their levels of poverty. If this is true, how does Paul Rice and Fair Trade USA believe that working with large producers and large companies could reduce poverty more? In addition, if the argument for raising the minimum price for fair trade is the cost of production on the farms, the inclusion of the large producers would lower that minimum price due to the fact that their costs of production are lower than that of the small producers⁸. So, instead of reducing poverty, the argument of Rice and Fair Trade USA, it would seem that it would create the conditions for producing poverty.

⁷ *Café Practices* of Starbucks itself includes social conditions, that the large producers give better treatment to their workers in terms of housing.

⁸ Even though this argument is very debatable, the large plantations tend to have greater production costs than the small producers in countries like Costa Rica, while in countries like Brazil because of the scale as well as the large extensions of land their costs tend to be lower.

In dividing FLO international with the withdrawal of Fair Trade USA, the negative impact could be devastating for the small producers. They will lose their coffee market, at least their access could drop. The consumers will be confused as fair trade gets eroded. The large producers and large companies were changing their business practices, including the emergence of SRE, due to the growing impact of the organized small producers; now that they are “covered” by fair trade, there will be no more pressure to continue changing, and in addition they will have gotten a “free lunch”; all the effort of the small producers and their consumer allies and volunteers to make the Fair Trade brand will have been taken by the large producers. The only ones who win from the division are the large buyers like Green Mountain and Starbucks, as well as the large producers; while FLO international, Fair Trade USA, the small producers and the different organizations that are working for fair trade, lose out. Why then continue with the division? We are facing what the literature calls the dilemma of collective action: the visionary capacity of Fair Trade USA is needed to make fair trade international even better, to double volume and generate even more changes in fair trade, but without falling into the opportunistic behavior (free rider) of increasing their income by lowering their certification costs of the large producers with the large production volume instead of the small producers with small volumes of coffee.

The question of Rice, about whether we want a small and pure fair trade, or if we want fair trade for all, is inappropriate. The question is, whether we want fair trade to reduce the inequality so that poverty disappears. The question of Rice expresses the neoliberal vision that believes that poverty and inequality are reduced by trickle down: the more the economy grows with the large producers, the more trickles down for the poor; Rice would say the more premium we give to the large producers the more is going to trickle down to their workers. This neoliberal ideology, that dominated in the decade of the 90s, is no longer accepted even by the IMF and WB themselves, all recognize that that was a mistake. In addition, the UN itself, recognizing the strength of the cooperatives, just declared 2012 the year of cooperatives, which does not fit well with Fair Trade USA crossing over to the side of the wealthy that are adversaries of the cooperatives.

Whether Fair Trade USA definitively leaves or returns to FLO international, this crisis should be seen as an big opportunity for all the fair trade organizations, from the grassroots cooperatives up to the board members of FLO. FLO International should be accountable to its leadership board as well as to the entire chain of organizations, getting to the grassroots cooperatives themselves. The transcendental decisions should be shared with the million members of fair trade, because for now the decision of not including large coffee producers sounds incoherent when FLO itself included the large producers of bananas, tea and flowers – and in fact have allowed private exports companies to access the fair trade seal (see footnote No. 4). The cooperatives at their different tiers should work to be more efficient and effective, lowering their costs of production (farm, wet mills, dry mill, exporting, importing, roasting and distribution) and listening to the reasons why the producers are diverting their coffee, which is not just due to the lack of credit but to the centralization of the organizations throughout the entire fair trade chain. Changes in the ways of doing business should not just focus on providing a “minimum price” in accordance with production costs, that for some sounds like a hand out, and to others an award for inefficiency, but rather a “minimum percentage” depending on the final value of the coffee. It is time that we move to the second generation of fair trade: that the cooperatives might get to also be shareholders of the companies that distribute coffee to the final consumer. Many cooperatives already have medium scale producers, and with time many of their producers can get to be large producers, in other words most of the members have temporary workers and even full time ones. The same thing is true with the workers in the dry mill, in the roaster, in the ground and instant coffee distributors in Europe or the United States. Why do the conditions for the workers not improve? More than improve their conditions, why not seek out forms of including them as partners? Has Fair Trade USA already done it?

Taking on this agenda for change could permit the dilemma of collective action to be resolved and strengthen fair trade in its entirety. This would be “fair trade for all” and not just “fair trade for the large producers trickling down to some of their workers.” We are for a fair trade that paves the way, graduates, grows, offers a vision of a world with justice and that carries in its soul the sense of diversified and sustainable farms, and not for a fair trade coopted by the large buyers preaching the technology of the large plantation that historically have grown on the basis of stripping the indigenous and peasant populations of their lands and the value of their products, and of turning them into workers so that later these same people would turn to the large producers begging them to consider them to be “their” workers.