Ortiz Miranda, D.; Moragues Faus, AM. (2015). Governing fair trade coffee supply: dynamics and challenges in small farmers' organisations. Sustainable Development. 23(1):41-54. doi:10.1002/SD.1570.

Governing fair trade coffee supply: dynamics and challenges in small farmers' organisations

Dionisio Ortiz-Miranda[1]* and Ana M. Moragues-Faus[2]

[1]Group of International Economics and Development (GIED), Department of Economics and Social Sciences, Universitat Politècnica de València, Valencia, Spain

[2]School of Planning and Geography, Cardiff University, Cardiff, UK

Cite as: Ortiz-Miranda D, Moragues-Faus AM (2015) Governing fair trade coffee supply: dynamics and challenges in small farmers' organisations. *Sustainable Development*, 23, 41–54.

Abstract

Farmers' organizations are essential actors in fair trade certification schemes, and therefore in delivering its associated benefits for poor small-scale farmers. However, the dynamics and challenges faced by these cooperative organisations have been largely by-passed in the fair trade literature. In this context, this paper aims to unpack the multiple, coexisting and interwoven marketing channels available for small-scale coffee producers, unveiling potential sources of uncertainty and tensions among competing actors and interests, and identifying and assessing the strategies used by organisations to influence farmers' marketing decisions. The analysis comprises two case studies based in the department of Huehuetenango (Guatemala) where the existence of distinct marketing channels combines with processes of product differentiation, namely organic production. Results show the limitations of standard fair trade mechanisms to secure farmers' engagement with cooperative organisations. Rather, technical advice to improve farming practices and quality construction seem to be a more effective mechanism to govern this collective supply chain. Nevertheless, these strategies could be further constrained by productive and organisational factors, affecting the sustainability of potential benefits delivered by these key collective actors.

Keywords: Fair Trade, coffee, Guatemala, small-scale farmers, cooperatives, organic, sustainable supply chain governance, upgrading strategies

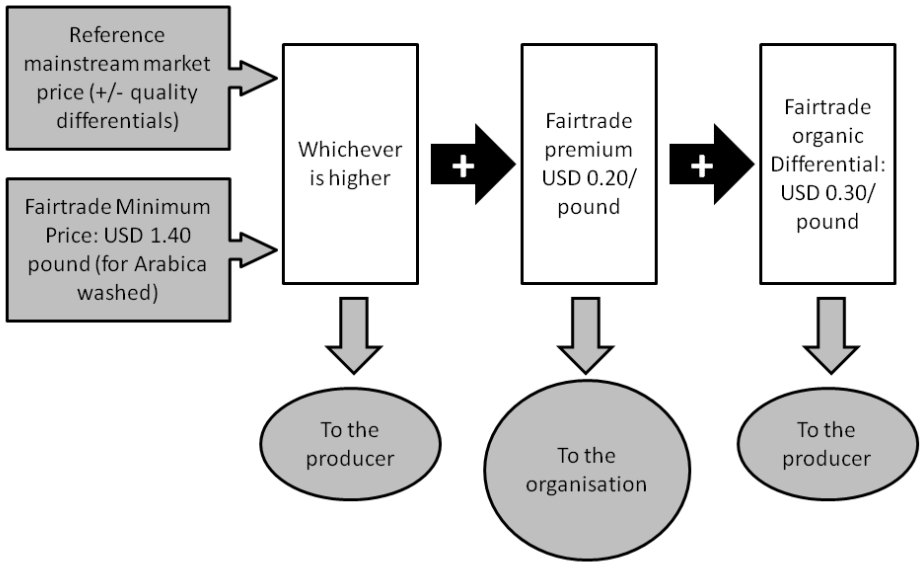
Introduction

Much work has tackled the implications and effectiveness of fair trade schemes in the fight against poverty, particularly of small-scale coffee producers. The so-called 'coffee crisis', provoked by the breakdown of the International Coffee Agreement in 1989, triggered a dramatic drop of international prices in late nineties (Petchers and Harris, 2008). Prices continued to fall in the first years of this century, and although these were reversed from 2005, reaching a

maximum in 2011 (above US$ 300 per pound[1]), by November 2013 these had fallen again at the level of US$ 123 per pound. Price volatility –which has shown to be particularly pronounced in Guatemala (ICO, 2011)- has wreaked drastic negative impacts on small producers in many developing countries, including Guatemala (ICC, 2003).

Fairtrade International (FT from now on) is the main fair trade global certification body (Kolk, 2013). It attempts to fight against poverty in a number of ways, one of which is to implement forms of sustainable supply chain governance (Vermeulen and Seuring, 2009) that protect small producers against price crashes. As Figure 1 illustrates in the case of Arabica coffee beans, FT aims to provide a safety net when market prices fall below the cost of 'sustainable production'. In this regard, FT becomes a form of upgrading since it allows farmers to 'move up the value chain', receiving a higher revenue for their produce (Bolwig et al., 2010).

Figure 1. FT minimum prices and premium system



Source: Adapted from Fairtrade International (2013)

Several studies have analysed in depth FT contribution to improve small-farmers livelihoods[2]. Most of these works agree that FT provides several benefits, either directly (guaranteed prices, access to credits, training on new production practices) or indirectly (community projects, social capital construction) (see for instance Taylor et al., 2005 or Barham and Weber, 2012 for a compilation). However, other studies also identify limitations on the impact of FT. For example,

[1] Prices refer to Arabica coffee in New York Stock Exchange. This is the variety of coffee produced by farmers addressed in this research.

[2] For a wider debate on fair trade impacts and pitfalls see academic debates between Smith (2009; 2010) and Griffiths (2010) and on North-South partnerships, dependence and economic justice see LeClair (2002) Hayes (2008) and Dolan (2010).

the study of Méndez et al. (2010) comprising four Central American countries found no clear correlation between FT participation and a positive impact on family incomes and savings, food security, access to education or lower propensity to migrate. Moreover, Wilson (2010) – based on empirical work in a Nicaraguan municipality- concluded that FT was not solving the problems of indebtedness of small farmers, since they were gripped by a 'simple reproduction squeeze' caused by "high costs of production and consumption, low yields, high interest rates, and low farm-gate prices" (p. 88). In short, these works show that FT might be able to make the most positive difference when international markets are at their lowest and therefore the minimum guaranteed price effectively acts as a safety net, reducing livelihoods' vulnerability (Bacon, 2005; Wilson 2010). This also might explain the growth of FT cooperatives' and organizations' membership during the crisis, given their essential role in in FT certification processes (Valkila and Nygren, 2010).

The changing benefits and potential positive impacts of FT in the ground often concur with small scale producers resorting to a variety of marketing channels, including FT organisations but also local middle-men who operate in mainstream (i.e. non-FT) channels. This phenomenon has been reported in different studies (see below), however less attention has been paid to analyse the coexistence of these multiple and overlapped marketing channels, and particularly the unstable market relationship that many producers establish with FT collective organisations. In this paper we aim to understand how fair trade schemes shape and are shaped by organisational dynamics, influencing potential benefits associated to collective action. From this point of departure, the purpose of this paper is to unpack the multiple, coexisting and interwoven marketing channels in the domain of small-scale coffee producers, unveiling potential sources of uncertainty and tensions among competing actors and interests, and identifying and assessing the strategies used by organisations to influence farmers' marketing decisions. The analysis is underpinned by two case studies based on the department of Huehuetenango (Guatemala) corresponding to two small farmers' organisations involved in FT certification schemes, Guayab' and CODECH. The selection of these two case studies relies on the existence of alternative marketing channels together with processes of product differentiation (namely organic production) as well as the importance on these two organisations in the area, in terms of volume of coffee production and membership base.

The overall study is underpinned by qualitative research in order to understand governance and decision-making processes in their natural settings as well as interpreting phenomena in terms of the meanings people bring to them (Denzin and Lincoln, 2000). However, quantitative data has also been used in order to gain initial information on the membership composition of the organisations as well as productive changes, jointly with other secondary data such as internal articles and certification forms. The collection of qualitative data comprised mainly recorded focus groups and semi-structured interviews, in order "to attempt to understand the complex behaviour of members of society without imposing any a prior categorisation that may limit the field of inquiry" (Fontana and Frey, 2006; p.653). These methods of inquiry allowed us to investigate the elements behind coffee producers and organisations' dynamics in front of other techniques such as questionnaires that limit options in advance.

The first phase of the field work was carried out in July 2012 comprising exploratory focus groups with board of directors of both organisations as well as semi-structured interviews with key informants (approximate length 1.5hours). This empirical material assisted the identification of main trends and factors at play in the governance of the fair trade supply chain in both localities, as well as the formulation of more focused research questions that led to semi-structured interviews with farmers and staff from both organisations. The final stage of the fieldwork comprised focus groups to discuss initial results and findings of the empirical material gathered. This scheme was repeated in the second phase of the fieldwork in June 2013, once previous empirical material was transcribed and analysed (see below). In total 18 in depth semi-structured interviews were conducted –with the members of a national FT association (5), technical and managerial staff from FT cooperatives (5) and organic and conventional producers (8) in their own holdings; and 9 focus groups were held with producers belonging to the organisations' board of directors and, in the case of CODECH, of the base organisations (3). In both phases, fieldwork also involved informal conversations mostly during trips to different settings as well as direct observation in the organisations' facilities, farms and farm households.

By and large, the topics that were tackled in interviews and groups revolved around (i) the structure and economic relations along Guatemalan (both mainstream and FT) coffee chains, in order to identify main actors and to understand coffee prices dynamics, (ii) the history, internal structure and governance mechanisms of the two organisations analysed, in order to unfold the relations among associates, and managerial and technical staff and the existing systems of incentives to shape farmers' marketing decisions, (iii) the technical and agronomic dimensions of both organic and conventional coffee production to deal with the interdependence relations that training and technical advice create among participants, and (iv) the motivations behind small-scale farmers marketing and managerial decisions. Focus groups and interviews were transcribed and analysed, following Coffey and Atkinson's (1996) sequence of qualitative data analysis which include coding, interpretation and theory-building processes.

The reminder of the paper is organised as follows. First, a literature review is presented which allows establishing linkages between farmers' organisations governance dynamics, FT schemes and competing coffee marketing channels. The following section describes the two case studies, paying particular attention to the internal characteristics of both organisations. The analysis of these cases illustrate the functioning of coexisting markets, tackling how different certifications at play (organic and fair trade) shape collective dynamics, and unveiling the web of interests and incentives at play. Finally, we discuss some concluding remarks regarding the potential and constraints of these organisations' strategies in the context of fair trade.

Fair Trade, cooperative governance and side-selling

Despite the contested debates about FT impacts on livelihoods, most studies agree that strengthening farmers' organisations is a key success of FT, since part of the premium price has been used to finance the development of the organisational and technical capacity (Smith, 2009). As Wilson (2010: 88) argues: "it is difficult to dispute the evidence that Fair Trade played a vital role in increasing the capacity of Fair Trade cooperatives to export high quality coffee and to provide unique social services to their members".

Indeed, cooperatives play a crucial role in the development of FT coffee value chains, since they can carry out several and parallel upgrading strategies having potential positive impacts on small producers. According to Riisgaard et al. (2010) there are different types of upgrading strategies including:

- Improvement of: (i) process, FT standards include some requirements regarding the production process where cooperatives play a key role being able to provide technical support for instance to promote more environmentally friendly production methods; (ii) product, standards include additional quality requirements and (ii) volume, since cooperatives try to boost yields by means of technical advice and capacity building.
- Functional upgrading, when cooperatives are involved in some stages of coffee processing (e.g. wet-milling and drying, see below).
- Vertical contractualisation which allows a better deal with buyers participating in the FT chain.

Riisgaard et al., (2010) argue that these cross-cutting strategies can contribute to a pro-poor development of value chains, as it has been proposed as well in other cases (see for instance Meaton et al., 2013). Additionally, FT has supported capacity building inside organisations such as hiring well skilled staff, able to operate within a domain of international prices and buyers, multiple and complex standards and certification agencies. Moreover, it has been also argued that FT relationships facilitate farmer organisations to diversify the products they export (Smith, 2013), which could reduce their vulnerability to fluctuations of a single market.

The literature widely acknowledges the importance of cooperative organisations in helping small-farmers to reduce transaction costs (TC) of accessing inputs, technological progress and particularly allowing access to markets (Markelova et al., 2009). In this regard, special attention has been paid to the governance mechanisms mobilised by cooperatives to reduce TC in these hybrid organisational forms (Ménard, 2004), so that the selection of these mechanisms relies on the frequency of transactions, uncertainty and asset specificity.

However, cooperatives can also be affected by a number of potential incentive problems. Among them, Borgen (2004) identifies decision-related incentive problems, which deal with both asymmetric information between associates and hired managerial staff, and potentially diverging interests not only between these, but even among different sub-groups of associates. In the case of FT, scholars warn about risks associated to the growing professionalization of staff and the related potential widening of the informational gap between managers and associates, leading to many 'fair trade' farmers being unaware of the very meaning of these schemes (Taylor et al., 2005; Méndez et al., 2010).

Yet, it has also been argued that there are factors that can neutralise to a great extent these problems in the case of agricultural cooperatives (Borgen, 2004), including: homogeneity of the member body, the contingency between members' and cooperatives' goals, the degree of members' involvement with their cooperative, the sense of belonging to the organisation and the direct involvement of farmers in the governance of these producer-oriented organisations. In any case, governance arrangements rarely solve completely tensions at the heart of cooperative

organisations (Ménard and Valceschini, 2005). Notwithstanding, these tensions can been seen as "a positive force in their development, an advantage rather than a liability" (Mooney, 2004: 79).

In spite of the rich academic literature about governance and agricultural cooperatives, there are much fewer studies addressing this topic in the domain of FT.. For instance, Beuchelt and Zeller (2013) research on Nicaraguan coffee cooperatives did not identify differences among conventional, organic and organic-FT organisations in relation to the upgrading strategies (other than the type of certification) they adopted. Similarly, in their analysis of selected Rwandan FT and non-FT cooperatives, Elder et al. (2012) conclude that the construction of social capital –in terms of trust among members and leaders of the organisations and perception about participation possibilities- derives from the continuous interaction between members and collective actors, regardless their participation in FT schemes.

One of the processes shaping interdependence relationships between producers and their organizations is the development of quality certification schemes, due to higher specificities of transacted assets and levels of uncertainty (Moragues-Faus and Ortiz-Miranda, 2012). Quality differentiation increases the specificity of both the coffee supplied by producers and the services provided by the organisation. On the one hand, farmers acknowledge the need to market their coffee through the organisation to be (FT and/or organic) certified. However, this does not necessarily imply that farmers will market all their production through the organisation, since there are other factors conditioning marketing decisions, such as comparative TC of other market options (e.g. local traders, Mujawamariya et al., 2013, Donovan and Poole, 2014). On the other hand, organisations need to have guarantees in advance to estimate the yearly coffee supply in order to negotiate with international buyers.

In this sense, one of the main sources of uncertainty in the relationship between producers and FT organisations is side-selling opportunities. Indeed, farmers are not required to market all their coffee production through the organisation despite being associates ; they can sell part (or even all) of their produce to local middle-men who operate in the region. In addition, this decision varies greatly over time since it is highly sensitive to the relative (and volatile) prices offered by either FT organizations (with a minimum price) or middle-men (dependent on variables of operational cost and prices further up the supply chain). In periods of high international prices in mainstream markets, some middle-men offer higher prices than FT organizations (Valkila and Nygren, 2010). In this context, FT organizations are at risk of being unable to attract enough coffee from associates which endangers the sustainability of their whole supply chain. When the mainstream market price is lower than FT minimum, farmers tend to sell more production through certified organizations. However, even in this low-price situation, many farmers continue selling through multiple markets: for example, Bacon et al. (2008: 108) revealed that Nicaraguan farmers kept selling part of their coffee to low-paying middle men to satisfy immediate needs during the so-called coffee crisis (2000/2001).The implications of side-selling for cooperatives can be controversial, as some of the few studies on the phenomenon show. For instance, Mujawamariya et al. (2013) argue that side-selling is preventing FT coffee cooperatives in Rwanda to take full advantage of the operational dimension of their processing facilities, and Parrish et al. (2005) point out side-selling through informal channels as one of the factors leading Tanzanian coffee cooperatives into increasing levels of debt. In Nicaragua, Donovan and Poole

(2014) suggest cooperatives are failing to increase the volume of coffee production from their members due to middle-men competition. However, Barham and Weber (2012) state that new entrants (either real new entrants or an increase of volume by existing members), in a seemingly FT saturated market for conventional coffee (Taylor et al., 2005), would negatively affect farmers' income associated with FT markets.

While farmers' organisations are an essential component of FT certification, there is a need for research that addresses the coexistence of several, interwoven and changing marketing channels, for instance in the domain of FT coffee producers, which have direct implications on the performance and sustainability of FT organisations.

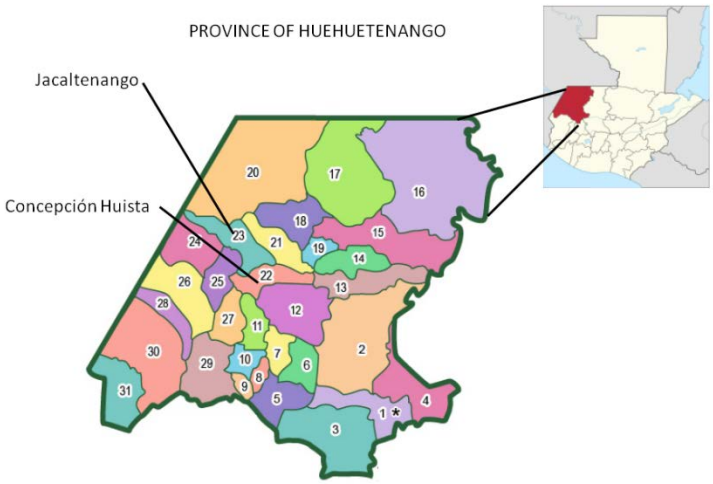
Description of small coffee farmers' organisations in Huehuetenango (Guatemala): Guayab' and CODECH

Guatemala exported 235,410 tons of green coffee in 2010, with a value of 714 million US$ (FAOSTAT). According to FLO (Fairtrade Foundation, 2012), 7,200 tons (3% of total) were FT certified, which represented 7% of world FT coffee exports. Currently, FLO has 14 organisations of small-scale coffee producers certified in Guatemala[3]. To be a FT certified coffee organization (which is considered a less labour intensive product like cocoa, seed cotton or honey), FLO standards require at least half of their members to be small producers. The criteria applied for defining small producer are that farm work is mostly done by these farmers and their families, and that they do not hire workers all year round (Fairtrade International, 2011). The quality of high grown coffee produced in Guatemala results in high price differentials (Fairtrade International, 2013).

In this context, we based our analysis on two case studies (see Figure 2), comprised by Guayab' and CODECH, two organisations located in municipalities belonging to the Cuchumatanes Range, the highest non-volcanic mountain range in Central America with altitudes reaching 3,800 meters, although coffee holdings are below 2,000 metres of altitude in the study area. These are part of shade coffee agro-ecosystems, widely documented by their high natural value (Gliessmann, 2008) and recognised by means of a number of environmental certifications (Rainforest Alliance, Smithsonian Migratory Bird Centre).

[3] Extracted from FLO-CERT producer data base. http://www.flo-cert.net/flo-cert/index.php?id=29. Accessed June 2013.

Figure 2



Guayab'

Guayab' (which means in popti[4] language 'mutual support') is legally a civil association, located in the municipality of Jacaltenango. However, its internal structure resembles a cooperative producer organisation given its democratic functioning since associates elect every two years the members of the board of directors and its president, and decisions are taken in assemblies. The organisation selected this legal form due to fiscal advantages and further flexibility to receive and manage funds from foreign cooperation agencies and NGO's. In any case, Guayab' fulfils perfectly the governance requisites included in Fair Trade standards. Currently, there are 447 associates, being 277 of them coffee producers and the remaining 170 only beekeepers (some of the coffee producers also have honeycombs).

Farmers associate to Guayab' individually. However, they are arranging 43 groups with its own (non-legal) identity. Groups cluster farmers (ranging between 4 and 26) from the same community or surrounding village. This structure facilitates technical training, which include sessions delivered by technical staff and visits to members' plots for practical demonstrations. In addition, the groups play two other relevant roles. Firstly, they reduce adverse selection of new entrants to Guayab', since new applicants need to be endorsed by members of a specific local group. Secondly, members of the group are jointly responsible for the credits that any individual receives from the organization (see below).

CODECH

CODECH –referring to the (Spanish) initials of the Coordinating Committee of Organisations for the Development of Concepción Huista- is a second-level organization formed by 7 local base organisations: 5 consisting of coffee producers, one of teachers and a women's organization. Four of the coffee base organisations are also civil associations (like Guayab') and the fifth one

[4] Popti is the Mayan ethnic group to which the majority of the members of the two organisations belong.

is a cooperative. CODECH's board of directors and president are elected every two years by the assembly, comprised of the board of directors of the base organisations, who in turn are elected democratically in their own assemblies. CODECH has around 1,000 associates producing coffee, 408 farmers produce organic coffee, and the remaining only conventional coffee –although many of them do not sell their production through the organisation (see below).

Distinct coffees, competing marketing channels

The main linkage between associated farmers and their organisations is the commercialization of the coffee. However, in this area associates have two market options as identified in the literature review. On the one hand, the cooperative organisation, which stockpiles farmers' coffee to be FT certified (and in some cases also organic) and to be sold through FT system to either non-governmental organisations or private companies. On the other hand, farmers can also resort to local-middle men (known as *coyotes*) for selling their coffee. This second option constitutes a potential problem for FT organisations, since it increases uncertainty around the amount of production they will stockpile from their associates and therefore affect their capacity to negotiate and reach agreements with foreign buyers. As it is explained below, the price and, particularly, the conditions of both transactions differ.

These two channels operate for conventional coffee, since middle-men do not differentiate among distinct qualities of coffee, that is, they do not premium organic coffee and neither establishes penalties for low quality beans. This means that for organic producers, the only available marketing channel to receive the organic price premium is the organisation. In addition, the organisation trains farmers in organic practices and manages the process of certification carried out by external auditors. Therefore, the organisation has no uncertainty regarding the amount of organic coffee that will be stockpiled. This incentive, jointly with an increasing international demand for organic FT coffee, has led to a gradual increase of the relative weight of organic production, currently representing the main export of both organisations: 11 containers[5] of organic and 3 of conventional coffee in Guayab', and 12 organic and 2 conventional in CODECH. Nevertheless, associates' conventional production exceeds organic total volume, which shows the relevance of non-FT coffee channels among potentially FT certified producers.

Figures 3 and 4 illustrate the several coexisting marketing channels and the local configuration of the stages of the value chains[6]. The main aspects these figures show are:

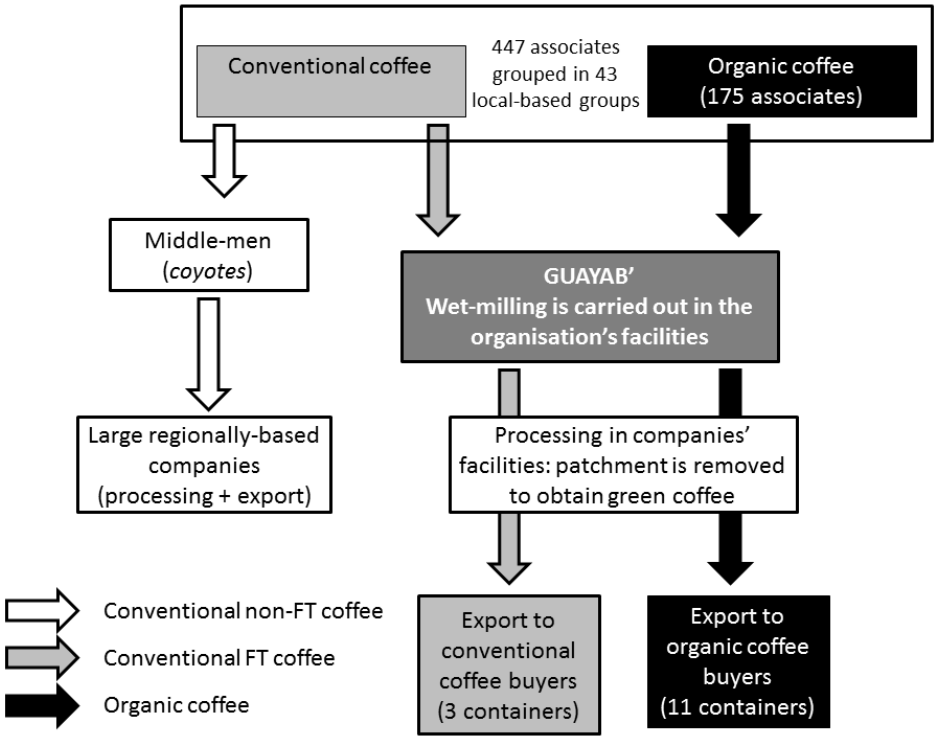
- Organic coffee is completely sold as FT through the organisations, since middle-men do not differentiate qualities.

[5] A container (which the unit commonly used to refer the total coffee exported) ranges between 375-412 quintals (45.34 kg).

[6] The processing of coffee cherries implies several stages: (1) wet-milling eliminates cherries' pulp and washes coffee grains, (2) grains must be dried, usually in the open air. These two stages are carried out either individually in each farm or in collective facilities. Guayab' also has dryer machines for the second one. Later, coffee is sent to regional processing plants for the removal of parchment. The outcome is the green coffee that is finally exported.

- Producers resort to both organisations and middle-men to sell their conventional coffee. The amounts sold by each channel vary yearly, depending on alternative prices and changing family needs.
- Middle-men work for large scale regional companies (most located in Huehuetenango capital), which stockpile huge amounts of coffee and can take advantage of important economies of scale, reducing in this way average operation costs[7]. This allows these companies to be price-competitive in comparison to FT organisations.
- In the case of CODECH (a second level organisation) it is likely that base organisations also diversify, so that also they sell conventional coffee to these regional companies (Figure 4).
- Both Guayab' and CODECH resort to regional companies (the same that buy coffee from middle-men) for processing purposes to obtain the green coffee that these FT organisations finally export.

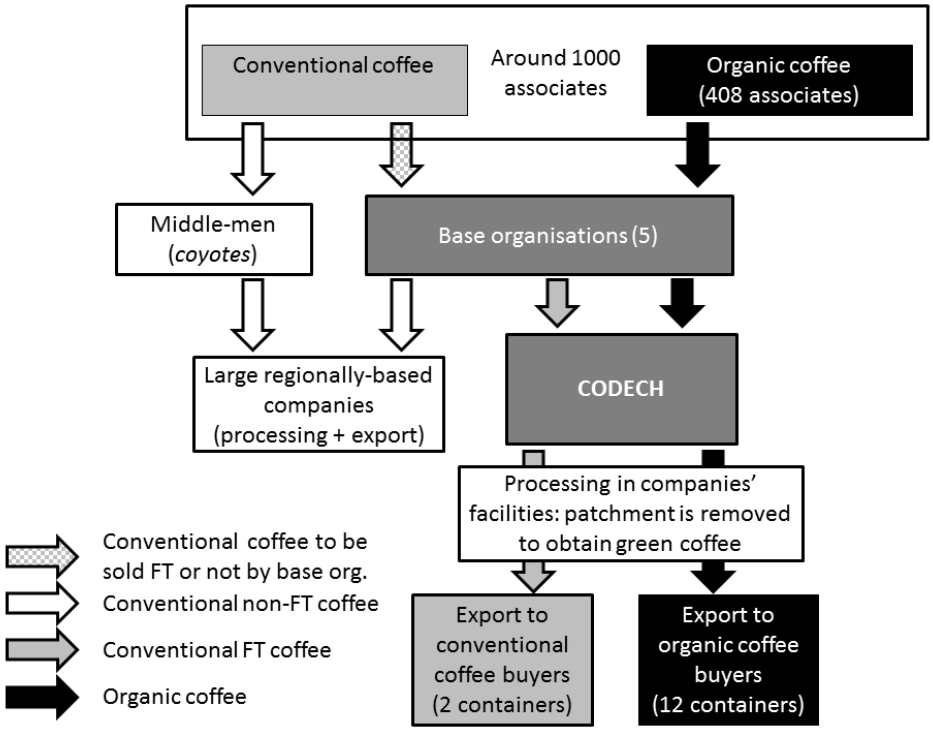
Figure 3. Coffee marketing channels for Guayab' producers



Source: Authors' elaboration.

[7] According to one of the interviewees, export average cost for large companies are around 11 US$/quintal, and between 27-47 for small producer organizations.

Figure 4. Coffee marketing channels for CODECH producers



Source: Authors' elaboration.

As it has been noted elsewhere, the coexistence of multiple marketing options for coffee farmers is a relatively common feature that has been reported in other countries. This coexistence supports the fact that neither of the two channels provides unequivocal advantages for small-scale farmers, partly due to the complexity and volatility of the combination of factors that shape individual marketing decisions: relative prices and payment timing, quality requirements and organisations' incentives (see also Valkila and Nygren, 2010).

Price

Relative prices that both marketing channels offer depend on the value of coffee in mainstream international markets, which is set up in the New York Stock Exchange. When these prices are significantly lower than FT minimum price, organisations are able to pay notably more than middle-men and consequently farmers prefer to channel most of their production through the organisation. This was the case in 2000-2005.

When international prices equal or surpass FT minimum, the difference between FT and non-FT paid prices is insignificant, according to FT principles these international prices would be remunerating producers fairly. Under these circumstances, producers complain that sometimes, middle-men pay even more than organisations, "*but why do they* [middle-men] *bring such a good price? This is what we do not understand, since we are supposed to be in a fair price* [system]. *Where do they sell their coffee is what we do not understand*" (Producer, member of a board of

directors). Or "*in conventional* [coffee] *is complicated to compete with* [...] *the 'coyotes'* [middle-men]" (Producer, member of a board of directors).

Payment timing

Equally important as price, the moment when producers receive the payment for their coffee constitutes a key explanatory aspect of farmers' decision making process. Similarly to most coffee FT organisations, both Guayab' and CODECH provide pre-harvest credits to farmers. Table 1 shows the structure of credits and payments.

Table 1. Credit and payment structure in selected organisations (data from 2013 season)

	Timing	Explanation	Guayab'	CODECH
Credits	July	Farmers can request a credit to the organisation.	38 $/Q at 12% interest rate	77 $/Q at 24% interest rate
Advance	Harvest season: January-March	When farmers deliver their coffee in the organisation's facilities, they are paid an advance (the coffee has not yet been sold and paid by the organisation's buyers).	64 $/Q (the debt is deducted from this advance)	77 $/Q (only for those who did not request credit, CODECH's associates only receive 2 payments)
Settlement	Around June	When the coffee has being sold, the organisations settle the producers on the basis of the average price perceived. This means farmers do not know until then the final price they will receive.	- Organic: 158 $/Q - Conventional: 121 $/Q	- Organic: 138 $/Q - Conventional: 117 $/Q

Source: Authors' elaboration.

These credits are proportional to the amount of coffee delivered by the individual farmer in the previous season. They provide farmers with cash in a moment (early summer) when they need to purchase fertiliser for coffee production. Credits are cancelled when producers hand over their production to the organisation. Consequently, credits also constitute a tool to reduce organisations' uncertainty about the amount of coffee that will be stockpiled for collective marketing. In addition, in the case of Guayab' all members of the local group are jointly responsible for every individual credit claimed to the organisation. This mechanism reduces the risk of non-paying off since farmers perceive the pressure of their closest community.

The way middle-men pay is much simpler. They visit farmers in their own houses or farms (where producer often dry the beans) during the harvest season, they make their offer and, if accepted, the middle-men take the coffee and pay in cash immediately. That means, on the one hand, that farmers do not perceive credit for the coffee sold through this marketing channel, but on the other hand they do not need to wait 3-5 months to receive the total payment –as it occurs with the organisations.

Quality requirements

Another outstanding difference between organisations and middle-men are quality requirements. Organisations demand high quality coffee beans, with standards that have been rising in order to

increase the quality premium buyers are willing to pay. That means that organisations control the quality of the coffee supplied by their associates. If this coffee does not fulfil the quality requirements, the product is simply rejected. Nevertheless, this hardly occurs, since farmers also know well when their production is likely not to be accepted. Producers do associate FT and quality requirements. "*Many of us are aware that fair trade is not only about extending our hand* [to receive]. *We extend one hand but we have two hands, one to demand and the other to offer. This is how fair trade is really fair. We are going to make quality to get something …. We go to fair trade for quality. This is how fair trade began."* (Producer, member of a board of directors).

Quality control is carried out differently in Guayab' and CODECH. Guayab' has collective facilities for the wet-milling and the drying of coffee where the quality control takes place by the organisation's technical staff. These processing facilities were financed by foreign cooperation aid. In CODECH wet-processing is carried out individually by the farmers in their own farms or houses, which further complicates quality control requiring numerous field visits by technicians. Interviewees point out that wet-processing is a key step where quality can be negatively affected if the process is not carried out carefully. The successful completion does not only depend on the farmers' abilities and training, but also on external conditions such as weather. Despite these limitations, CODECH's coffee keeps maintaining high quality standards.

On the contrary, middle-men buy almost all the available coffee without any quality control. Technicians from the organisations state that quality segmentation is done later by regional companies which receive a large quantity of coffee from several origins. From the farmers' perspective, this constitutes an advantage.

Constructing differentiated products: Organic and high quality coffees

Unlike conventional coffee, the market of organic coffee is less saturated, and the organisations acknowledge difficulties to sell their conventional FT production in front of the easiness to deal with FT organic coffee. The price of organic coffee is also higher for producers since there is a specific organic premium in FT system.

As it has been argued, many farmers participating in FT chains are hardly aware about the very meaning of FT certification, and this also explains in part the weak commitment most of them have with their organisations expressed through a changeable and utilitarian marketing relation with these collective actors. This situation is completely different in the case of organic production for a number of reasons. Firstly, organic producers are fully aware of the meaning of this certification scheme. They receive an organic price premium and they are regularly supervised by both technical staff from the organisations and certifying agencies –consequently they are very careful with mandatory standards. Furthermore, the process of organic conversion requires a close relation between organisations' technicians and farmers, which need specific training in this process. Secondly, organic producers develop a strong identity, what Valkila (2009: 3020) refer as 'ecologically sound producers'; as illustrated by an interviewee: *"Some of us, we are in organic production* [because] *we are trying to collaborate with the environment, with health… our self and that of others"*" (producer).

In addition, organic certification requires, as a sine qua non, an effective organisational development able to intermediate between small individual producers and the complex standards, certification procedures and monitoring mechanisms Thirdly, higher asset specificity of organic reinforces the mutual interdependence between parties and reduces opportunistic behaviour. This interdependence relies on middle-men lack of differentiation of coffee qualities, including organic, therefore producers' unique market option is the organisation, which in turn prefers to have more organic coffee. In short, the sum of increasing interaction, self-identity collective construction and growing interdependence unmistakably contribute to the construction of social capital in the heart of these collective actors. In short, organic adoption seems to be a win-win option, "*I believe that the aim we have, as organisation, is to increase organic production, because we are noticing it brings us several benefits, due to organic premiums as well as quality premiums. These are the benefits the others* [new associates] *look at and this is why they apply to entry*" (producer, member of board of directors). However, in many cases organic transition is still conditioned by farmers' profitability assessments; "*the drop of stock market* [price] *is in the organisation's interest. Why? Because people who want to be here* [in organic] *may accept the conditions we put for organic production… If stock market* [price] *rises, why am I going to do organic? I do better as always if I will be paid the same*" (producer, member of board of directors).

More recently, organisations are looking for other forms of product differentiation based on 'micro-batches'. These batches are small amounts of coffee (50-100 quintals) obtained in specific environmental conditions (mainly plots in hills of similar altitude), produced by highly involved and motivated associates and closely monitored by the organisations' technicians. The aim is to obtain a higher quality speciality coffee that is sold to buyers willing to pay additional price premiums for these individually identified micro-batches. Representatives of CODECH –where this initiative was launched some years ago argue "*in speciality coffee is where they* [middle-men] *cannot compete*" (CODECH member of board of directors). Guayab' is currently studying the marketing of micro-batches. This initiative deepens into the upgrading strategies, as it increases the price farmers perceive by adding speciality attributes to the coffee and creates new interdependencies and interdependencies among associates and organisations.

Unfolding interests, incentives, and tensions

The main linkage between producers and their organisations –i.e. the handing over of associates' coffee for its collective marketing as FT certified- is subjected to several tensions and uncertainties. On the one hand, the organisations would need to have guarantees about the amount of conventional coffee they will stockpile during the harvesting season to set up selling contracts some months earlier. On the other hand, producers' decisions depend every year upon relative prices and family circumstances, including potential deprivation from meeting basic human needs. In addition, this fluctuating relationship takes often place in a context of weak self-identification of associates with the organization, partly due to the informational gap between staff and producers about the meaning and performance of FT. But also other disconnections

arise, since even the producers who are currently members of the boards of directors (that are democratically elected) acknowledge there are communication problems with the rest of associates: "*I believe that we, as board of directors, have failed in something, that we should organize a meeting with the groups of producers and discuss about something related to the board of directors, about marketing … in order to see which expectations do they have, whether they agree or not, what do they think, how it does it work… many questions. And, really, it has not been done.*" (member of Guayab' board of directors).

Moreover, whilst there is a consensus about the need to reduce uncertainty about the amount of coffee to be stockpiled by the organisations, the potential implications of increasing this amount are sometimes perceived differently. Thus, CODECH's staff argue that they would be able to sell as FT certified all the conventional coffee that is produced by its associates. Contrariwise, Guayab' staff state that it would be complicated to sell increasing volumes of conventional FT coffee, since they consider they are at their maximum marketing capacity. So that, in the later case, staff believe they would be forced to sell the coffee as non-FT through other regional intermediaries, without any premium price. This coincides, as stated below, with other authors' findings who report that, very often, FT organisations may sell potentially certified FT coffee through non-FT channels. Even within this organisation, perceptions on the implications of having more coffee could not coincide. Thus, while the staff in charge of marketing acknowledges they could have problems to sell more conventional coffee, members of the board of directors believe that "*it is good for us, as organisation, that stock exchange* [price] *falls in, because in fair trade we can, we may show off*" (member of board of directors). The difference in price would attract both new associates and more coffee from their current members; as well as reinforce the symbolic value and recognition of FT farmers and organisations in the locality in front of non-FT schemes. These confronted visions show the controversial nature of side-selling, as well as contested interests which are at the moment minimal for organic coffee and other emerging high quality schemes like micro-batches.

Conclusions: Sustaining collective marketing fair trade initiatives to support small farmers?

The coexistence of several marketing channels (individual, collective but non-FT and collective FT) is not necessarily negative, since they sometimes contribute to meet different farmers' and organisations' needs. However, these competing channels reveal producers' lack of engagement with their organisations, the utilitarian behaviour of most producers and the difficulties of staff and directors to narrow the organization-farmers informational gap, provoking uncertainty that affects functioning and decision-making processes.

Participation is a key element to consider the implications of new value chains developments on famers' livelihoods (Bolwig et al., 2010). Regarding FT coffee, the first barrier to participate is to be able to join a collective organisation integrated in this global value chain. However, once farmers are within, they modulate their participation in the value chain of FT coffee on the basis of several variables, mainly relative prices, household cash needs, or quality of the product.

In a context where many agricultural households face different forms of deprivation or scarcity, the relative advantages of side-selling to local middle-men compared to market though

organisations (apart of, sometimes, higher prices) are: immediate availability of income with no uncertainty about the price finally received, and lower quality requirements. In other words, lower transaction costs, as also pointed out in the study of Mujawamariya et al. (2013). The main difference with this study is that this commercial relationship between producers and local traders is not embedded in mutual relationship of trust and daily interaction, as these authors found in Rwanda. Moreover, it is neither the case Donovan and Poole (2014) analyse in Nicaragua, where middle-men also provide credits. In the cases of Guayab' and CODECH, transactions between producers and middle-men operate simply as spot markets[8], where farmers' decisions are taken on the basis of two relationships: first, the relation between relative prices/payment timing and the household needs; and second, the relation between the quality of family's coffee and the distinct quality requirements of the organisation and middle-men.

Results also show that FT standard mechanisms (possibility of credits, minimum prices or price premiums) are not sufficient to assure and sustain producers' engagement. In this sense, organisations can resort to two strategies. First, the improvement of organisations' technical advice increases the interaction with producers. When farmers were asked about the advantages of being a part of the organisation they emphasised the relevance of accessing technical advice, training and new productive skills as the most valuable service the organisations provide (rather than prices or credits). In fact, producers often perceive how this technical support rapidly increases yields and, consequently, incomes. As Barham and Weber (2012: 1276) state "yields rather than price premiums are most important for increasing net cash returns for coffee growers". Invariably, these mechanisms to circumvent price effects raise doubts about the current FT price level and its capacity to fairly remunerate producers. In addition, better technical support could mean higher quality of production and a stronger incentive to take the coffee to the organisation (where they know quality is more acknowledged). The organisations analysed in this study are fully aware of this, but they complaint about the lack of resources to cover the technical needs of all their associates.

Second, higher quality developments –either organic or, more recently, micro-patches- also strengthen interaction between producers and organisations and can construct trust based upon identification with the organisation –a key factor to neutralise potential problems affecting these collective actors (Borgen, 2004), and reinforce social capital construction due to the need of stronger cooperative ties (Martínez-Torres, 2008). However, also this way has its obstacles. On the one hand, organic expansion is constrained by technical factors (particularly high labour costs for the transportation and application of organic fertiliser that explains why adopters use to be smaller holders). Moreover, in the case of farms above the average size (around 1 ha) where labour requirements intensify, interviewees agree that organic vs. conventional profitability is low (see also Valkila, 2009). On the other hand, for the production of micro-batches, participants are selected by technical staff on the basis of location and willingness and capacity to adopt specific production methods. This mechanism implies a fragmentation of organisations' member base, which can erode homogeneity and internal social capital. Consequently, the equity-efficiency conflict that affects cooperative organisations emerges. Moreover, fragmentation of

[8] Even, in some cases, in a context of suspicion. Some interviewees stated that sometimes 'coyotes' had paid with counterfeit money.

production through several forms of upgrading complicates the governance of the organisation. For instance, if each micro-batch requires a specific technical monitoring there might be an increase of internal transaction costs.

The development and strengthening of small-producer organisations constitute, undoubtedly, one of the main successes of FT. Besides the activities related to collective market access, technical training and quality developments, organisations carry out other key community projects (e.g. social and medical care), including the development of new ventures such as non-agricultural diversification, that have an impact on current farmers' livelihoods and hold the potential to develop future initiatives. However, their main activity and raison d'être still relies on marketing small farmers FT coffee, providing the collective basis to deliver other positive impacts. This study has shown how these collective organisations are affected by incentive-related problems which require the search of effective governance mechanisms, such as providing better services that reinforce the interaction with and among produces, in order to sustain their activity over time in front of competing channels and interests. "*The secret is that the cooperative has the capacity to offer good services* [to its associates]. *Loyalty does not arrive alone*" (technician of CRECER Association).

References

Bacon C. 2005. Confronting the Coffee Crisis: Can Fair Trade Organic and Specialty Coffees Reduce Small-scale Farmer Vulnerability in Northern Nicaragua? *World Development* **33**(3): 497-511

Bacon CM, Méndez VE, Fox JA. 2008. Cultivating Sustainable Coffee: Persistent Paradoxes. In Bacon et al., (2008) Op. Cit.; 337-372.

Bacon CM, Méndez VE, Gliessman SR, Goodman D, Fox JA (Eds). 2008. *Confronting the Coffee Crisis Fair Trade Sustainable Livelihoods and Ecosystems in Mexico and Central America.* MIT Press: Cambridge Massachusetts.

Barham BL, Weber JG. 2012. The Economic Sustainability of Certified Coffee: Recent Evidence from Mexico and Peru. *World Development* **40**(6): 1269-1279

Beuchelt TD, Zeller M. 2013. The role of cooperative business models for the success of smallholder coffee certification in Nicaragua: A comparison of conventional, organic and Organic- Fairtrade certified cooperatives. *Renewable Agriculture and Food Systems* **28**(3): 195-211

Bolwig S, Ponte S, Toit A, Riisgaard L, Halberg N. 2010. Integrating Poverty and Environmental Concerns into Value-Chain Analysis: A Conceptual Framework. *Development Policy Review*, **28**(2): 173-194

Borgen SO. 2004. Rethinking incentive problems in cooperative organizations *Journal of Socio-Economics* **33:** 383-393.

Coffey, A., Atkinson, P., 1996. Making sense of qualitative data: Complementary research strategies. Sage Publications, Inc.

Denzin, N.K., Lincoln, Y.S., 2000. Introduction: The Discipline and Practice of Qualitative Research, in: Denzin, N.K., Lincoln, Y.S. (Eds.), *Handbook of Qualitative Research*. Sage Publications, London, pp. 379-400.

Dolan, C.S., 2010. Virtual moralities: The mainstreaming of Fairtrade in Kenyan tea fields. Geoforum **41**:33-43.

Donovan J, Poole N. 2014. Changing asset endowments and smallholder participation in higher value markets: Evidence from certified coffee producers in Nicaragua. *Food Policy* **44**: 1-13.
Elder SD, Zerriffi H, Le Billon P. 2012. Effects of Fair Trade Certification on Social Capital: The Case of Rwandan Coffee Producers. *World Development* **40**(11): 2355-2367.
Fairtrade International. 2011. *Fairtrade Standard for Small Producer Organizations.* Fairtrade International: Bonn (Germany).
Fairtrade International. 2013. Fairtrade International Reference Guide on Prevailing Differentials. http://wwwfairtradenet/fileadmin/user_upload/content/2009/products/2013-06-12_FLO-Ref_Guide-Differentials_Coffeepdf. Accessed June 2013.
Fairtrade Foundation. 2012. *Coffee commodity briefing.* May 2012 http://wwwfairtradeorguk/resources/reports_and_briefing_papersaspx. Accessed June 2013.
Fayet L, Vermeulen WJV. 2012. Supporting Smallholders to Access Sustainable Supply Chains: Lessons from the Indian Cotton Supply Chain. *Sustainable Development* [Published online] DOI: 10.1002/sd.1540.
Fontana, A., Frey, J.H., 2000. The interview: From Structured Questions to Negotiated Text, in: Denzin, N.K., Lincoln, Y.S. (Eds.), *Handbook of Qualitative Research*. Sage Publications, London, pp. 645-672.
Gliessmann SR. 2008. Agroecological Foundations for Designing Sustainable Coffee Agroecosystems. In Bacon et al., (2008) Op. Cit.; 27-41
Griffiths, P., 2010. Lack of rigour in defending fairtrade: a reply to Alastair Smith. Economic Affairs **30**, 45-49.
Hayes, M.G., 2008. "Fighting the Tide: Alternative Trade Organizations in the Era of Global Free Trade"-A Comment. World Development **36**: 2953-2961.
International Coffee Council. 2003. *Impact of the coffee crisis on poverty in producing countries.* Eighty-ninth Session, 17-19 September 2003: Cartagena Colombia ICC 89-5 Rev 1.
International Coffee Organization. 2011. *Volatility of prices paid to coffee growers in selected exporting countries* ICC 107-10 [ICO Document]: London.
Kolk A. 2013. Mainstreaming Sustainable Coffee. *Sustainable Development* **21** 324-337.
LeClair, M.S., 2002. Fighting the tide: Alternative trade organizations in the era of global free trade. World Development **30**:949-958.
Markelova H, Meinzen-Dick R, Hellin J, Dorh S. 2009. Collective action for smallholder market access. *Food Policy* 34: 1-7.
Martínez-Torres ME. 2008. The benefits and sustainability of organic farming by peasant coffee farmers in Chiapas Mexico. In Bacon et al., (2008) Op. Cit.; 99–126
Meaton J, Abebe B, Wood, AP. 2013. Forest Spice Development: the Use of Value Chain Analysis to Identify Opportunities for the Sustainable Development of Ethiopian Cardamom (Korerima). *Sustainable Development* [Published online]. DOI: 10.1002/sd.1563.
Ménard C. 2004. The Economics of Hybrid Organizations. *Journal of Institutional and Theoretical Economics* **160:** 345–376.
Ménard C, Valceschini E (2005) New institutions for governing the agri-food industry *European Review of Agricultural Economics* 32: 421-440
Méndez VE, Bacon CM, Olson M, Petchers S, Herrador D, Carranza C, Trujillo L, Guadarrama-Zugasti C, Cordón A, Mendoza A. 2010. Effects of Fair Trade and organic certifications on small-scale coffee farmer households in Central America and Mexico. *Renewable Agriculture and Food Systems* **25**(3): 236-251.
Mooney P. 2004. Democratizing Rural Economy: Institutional Friction, Sustainable Struggle and the Cooperative Movement. *Rural Sociology* **69**(1): 76-98.
Moragues-Faus AM, Ortiz-Miranda D. 2012. Governing cooperative quality schemes Lessons from olive oil initiatives in Valencia (Spain) *Outlook on Agriculture* **41**(1): 27-33.

Mujawamariya G, D'Haese M, Speelman S. 2013. Exploring double side-selling in cooperatives, case study of four coffee cooperatives in Rwanda *Food Policy*, **39**: 72-83.
Parrish BD, Luzadis VA, Bentley WR. 2005. What Tanzania's Coffee Farmers Can Teach the World: A Performance-Based Look at the Fair Trade-Free Trade Debate *Sustainable Development* **13:** 177-18.
Petchers S, Harris S. 2008. The Roots of the Coffee Crisis. In Bacon et al., (2008) Op. Cit.; 43-66.
Riisgaard L, Bolwig S, Ponte S, Toit A, Halberg N, Matose F. 2010. Integrating Poverty and Environmental Concerns into Value-Chain Analysis: A Strategic Framework and Practical Guide. *Development Policy Review*, **28**(2): 195-216
Smith AM. 2009. Evaluating the criticisms on Fair Trade *Economic Affairs* **29**(4): 29-36.
Smith, A. 2010. Lack of rigour in defending Fairtrade: Some important clarifications of a distorting account - a reply to Peter Griffiths. *Economic Affairs* **30**(2): 50-53.
Smith AM. 2013. Fair trade governance and diversification: The experience of the National Smallholder Farmers' Association of Malawi. *Geoforum* 48: 114-125
Taylor PL, Murray DL, Reynolds LT. 2005. Keeping Trade Fair: Governance Challenges in Fair Trade Coffee Initiative *Sustainable Development* **13:** 199-208.
Valkila J. 2009. Fair Trade organic coffee production in Nicaragua – Sustainable development or a poverty trap? *Ecological Economics* **68:** 3018-3025.
Valkila J, Nygren A. 2010. Impacts of Fair Trade certification on coffee farmers cooperatives and laborers in Nicaragua. *Agriculture and Human Values* **27**(3): 321-333.
Vermeulen WJV, Seuring S. 2009. Sustainability Trough the Market – the Impacts of Sustainable Chain Management: Introduction. *Sustainable Development* **17**: 269-273.
Wilson BR. 2010. Indebted for Fair Trade? Coffee and crisis in Nicaragua. *Geoforum* **41:** 84-92.