

**FAIR TRADE NETWORKS IN TWO COFFEE COOPERATIVES OF
WESTERN EL SALVADOR: AN ANALYSIS OF INSERTION
THROUGH A SECOND LEVEL ORGANIZATION
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**A Case Study for the Project on “Poverty Alleviation Through
Participation in Fair Trade Coffee Networks: An Assessment of
Current Benefits and Future Potential”
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ABSTRACT

Fair trade and other alternative markets have become viable options for small coffee farmers in developing countries. This case study evaluated the potential benefits and limitations derived from fair trade networks in two contrasting coffee cooperatives of western El Salvador. One of the cooperatives is already selling through fair trade channels, while the second is in the process of insertion. In both cases, the Association of Small Coffee Producers of El Salvador (APECAFE), a second level organization with a key role in fair trade linkages, has mediated this process.

The research was carried out through focus groups, semi-structured and informal interviews, and direct observation. Data from an on-going study on shade coffee, livelihoods and conservation was used to complement this information. Interviews and/or revision of secondary data were done at three different levels: 1) key international (FLO) and national second level organizations (APECAFE) associated to fair trade; 2) the board of directors of each of the two coffee cooperatives; 3) interviews with individual members of the two cooperatives.

Coffee has lost much of the economic importance it once held in El Salvador. This sector is currently suffering not only from the price crisis, but also from a significant decrease in the support it once received from the state. The majority of coffee farmers in El Salvador are small growers and farmers grouped in collectively managed cooperatives. Some of these cooperatives are tapped into alternative markets. These commercialization networks are increasingly perceived as one of the few ways to survive the current price crisis.

An in-country representative from the Federation of Fair Trade Labeling Organizations (FLO), and APECAFE facilitate fair trade networks in El Salvador. Participating cooperatives get registered in FLO through APECAFE. This allows them to sell to fair trade buyers in different countries. Only four cooperatives in El Salvador are currently registered in FLO, and of these only two have been able to place coffee in fair trade markets. The main reasons for low registration are the small size of the fair trade markets, and its selectivity for very high quality coffee. For this reason, FLO and APECAFE are supporting the convergence of fair trade cooperatives with certification to other alternative market labels (mainly organic). In the past, APECAFE membership was limited to agrarian reform cooperatives, but the organization has recently opened to other types of farmer associations. This change is expected to bring the benefits of fair trade and other alternative markets to a larger number of farmers.

The two coffee cooperatives studied represent two different organizational models. One is collectively managed and established through the agrarian reform of 1980 (Las Colinas). The other is a farmer association created by the growers themselves (El Sincuyo). Las Colinas has been selling coffee through fair trade since 1998. The income generated by these sales is very important to this cooperative. Individual members acknowledge the benefits of fair as a source of income and as a source of advantageous credit for the cooperative. The main benefit perceived from fair trade by

cooperative members is through the use of this income for the payment of their salaries. The main limitations perceived are the long time it takes to receive coffee payments (and therefore their salaries) and the limited size of the market.

El Sincuyo cooperative is currently seeking fair trade registration. Members perceive the main potential benefit as a better price. Since farmers own and manage individual plots, this directly translates to higher incomes for the households. The main limitation perceived is their lack of understanding of how fair trade networks function.

Tapping into fair trade networks represents an advantageous strategy for coffee cooperatives in El Salvador. Key limitations that can be pointed to are the delay in payments to the cooperatives; the limited size of the market; and a somewhat homogeneous treatment of different types of cooperatives. Some important improvements that could be done within fair trade are: 1) to better integrate it with other development initiatives; 2) provide farmers with better information on the nature of the network and on coffee quality issues; and 3) support the convergence of fair trade with organic and other alternative markets.

SECTION 1: INTRODUCTION AND METHODOLOGY

INTRODUCTION

A large percentage of coffee producers in Latin America are small farmers organized in cooperatives and associations (Rice & McLean, 1999). These growers have been traditionally marginalized by conventional markets, which use the international commodities market in New York as a basis to set their prices (Bacon, 2001). In addition, the coffee industry as a whole is currently facing one of its most severe price crises. Thus, the situation that most small coffee farmers in Latin America are now facing is very serious. In the midst of this predicament, some growers have taken advantage of the opportunities offered by alternative coffee markets, such as organic, fair trade and shade grown. These alternatives can provide several advantages, including favorable credit, and the payment of premium prices for coffee produced under certain criteria.

This study analyzed the advantages and limitations of existing and developing fair trade networks in two contrasting coffee cooperatives of El Salvador. Fair trade networks usually include farmers, cooperatives, national and international organizations, and consumers. To reach a better understanding of any of the actors within this chain, it is necessary to try to analyze as many parts of it as possible. Given the available time and resources, this research evaluated benefits and limitations of fair trade at three different levels¹: 1) key national and international organizations related to fair trade; 2) cooperatives as first level organizations, through the board of directors; and 3) individual cooperative members.

The document starts with a section that describes the historical context and current situation of coffee farming in El Salvador, as well as the history of how coffee cooperatives were formed. The second section describes fair trade networks in El Salvador, focusing on the role of a second level national organization. The final section discusses fair trade from the perspective of the two cooperatives and its members.

METHODOLOGY

The research on fair trade in El Salvador drew from an on-going investigation that started in January 1999 (Mendez, forthcoming). Taking advantage of the established relationship with farmer cooperatives, this case study focused on specific aspects defined by the team of researchers involved in the project.

The following themes were explored and compared with the two cooperatives and fair trade organizations:

¹ In the case of El Sincuyo cooperative, which is seeking insertion into fair trade, the analysis focused on perceived potential benefits and limitations.

1. Historical context, in terms of insertion to fair trade
2. Organizational models of cooperatives
3. Links and relationships to external actors
4. Coffee quality and certification Issues
5. Benefits of fair trade
6. Problems and solutions related to fair trade

The methods used for data collection were direct observation, semi-structured and informal interviews and focus groups. A total of 43 randomly selected household interviews were carried out in the two cooperatives. Interviews were also done with the FLO representative in El Salvador and the staff of the Association of Small Coffee Producers of El Salvador (APECAFE). Several previous interviews and focus groups had been carried out with the coordinator of APECAFE. This data was complemented with information from the on-going research project on shade, livelihoods and conservation (Mendez, forthcoming; Mendez *et al.*, in press; Mendez *et al.*, 2002).

SECTION 2: COFFEE IN EL SALVADOR: HISTORICAL CONTEXT AND CURRENT TRENDS

ECONOMIC AND ENVIRONMENTAL IMPORTANCE

Until 1970, the economy of El Salvador was strongly dependent on the foreign exchange generated by coffee exports. This situation changed drastically in the 1990s, when the coffee price crisis was further exacerbated by a shift in government investment from the agricultural sector towards the industrial export industry. At present, coffee precariously holds its place as the country's leading export crop. It has been estimated that the contribution of the coffee sector to the gross national product (GNP) decreased from 10 to 3% between 1981 and 1997 (Cuellar *et al.*, 1999). This situation has had dramatic results on the percent of territory covered by coffee plantations (Table 1).

In contrast to the observed neglect from the state's economic policy, shaded coffee has gained considerable attention from the environmental sector. Due to the high level of deforestation in El Salvador (CCAD, 1998), shaded coffee farms have become the main providers of environmental services such as water, soil and biodiversity conservation (Cuellar *et al.*, 1999; Herrador & Dimas, 2000; Mendez *et al.*, 2002). The environmental role of shade coffee has been increasingly gaining recognition from different sectors of Salvadoran society. An important development was a recent project, financed by the

World Bank, which aimed to support "biodiversity friendly" shade coffee management in medium and large farms. However, it remains to be seen if the environmental importance of coffee will aid in mustering the necessary governmental and international support to survive the current price crisis.

Table 1
El Salvador: decrease in surface area covered by coffee between 1980 and 2000

| Period | Decrease (thousands of ha.) |
|----------------------------------|-----------------------------------|
| 1981-1985 | 177.1 |
| 1986-1987 | 164.2 |
| 1991-1995 | 164.2 |
| 1995 -2000 | 162.2 |
| 2001* | 162.2 |
| Total change in ha. 1980-2000 | -21.2 |

Source: Based on data from PROCAFE (2000)

*Projected data from CSC (2001)

Small-holders and Cooperatives in El Salvador

Approximately 78% of El Salvador's coffee farms are smaller than 7 ha, and together with collectively managed cooperatives cover an estimated 70% of the total area under coffee cultivation (Table 3)(PROCAFE, 1998; PROCAFE, 2000).

One advantage held by these growers is that most have legal titles to their farms. In collectively managed cooperatives from the agrarian reform each member holds legal property of an area within the cooperative. Having secure ownership of their farms has

become one of the strongest incentives for growers to continue to seek alternatives to remain on their land.

Development of Agricultural Cooperatives

Jesuit priests and church activists first promoted agricultural cooperativism in El Salvador beginning in the 1960's. These activities were perceived as "revolutionary" by the state, and as a result, many cooperative members were killed or persecuted. This situation spanned into the 1970's, representing a period of repression and intimidation against small farmers and cooperatives.

In 1980, the Salvadoran government implemented an agrarian reform. Many critics perceive this move as an effort to placate the discontent felt by a great number of small farmers and agricultural laborers. It was seen as an attempt to prevent these sectors from joining the revolution. The reform is notorious for its deficient planning and political motivations. More specifically, cooperative members were not adequately prepared to take over the management of large commercial estates. Land was bought from landowners and re-sold to cooperatives through soft, long-term loans. Most of the agrarian reform cooperatives in El Salvador are plagued by debt, mismanagement, and disorganization. Of these, the coffee sector seems to have survived in best shape, although many of these problems are not absent from these cooperatives (PRISMA, 1996). The first phase of the reform expropriated farms larger than 500 ha. (Decree 154). The second phase was supposed to expropriate land larger than 250 ha., but it was never implemented. Finally, in 1983 the third phase of the reform, decree 207, transferred plots of up to 7 ha. to tenants who had been renting for more than 10 years. As in phase 1, this land was bought from owners and re-sold to farmers in the form of "soft", long-term loans.

After the peace agreements of 1992, national agricultural policy has favored the

Table 2
El Salvador: Number of coffee farmers and plantations classified by farm size

| Farm Size Stratum (ha)* | Number of Farmers | Number of Farms |
|--------------------------------|--------------------------|------------------------|
| 0 - 7 | 9,552 | 11,983 |
| 7 - 14 | 928 | 1,192 |
| 14 - 35 | 907 | 1,201 |
| 35 - 70 | 506 | 556 |
| ≥ 70 | 414 | 333 |

Based on data from PROCAFE (1998)
 *Most cooperatives that are collectively managed consist of plantations with areas ≥ 35 ha.

formation of grower associations for commercialization purposes. This form of organization is legalized through the Ministry of Agriculture, and provides individual growers advantages for cost sharing in production and marketing. Government support was originally directed to larger farmers that could potentially export non-traditional crops. However, many small farmers have taken advantage of this opportunity to form associations. In these cases, the organizations play a variety of roles apart from improving commercialization. Specifically, they act as the medium through which rural communities negotiate with municipal and national

governments, development projects and other external actors.

Although this option offers many advantages, the formation of these organizations is a very difficult process. The procedure requires fee payments, as well as a long list of bureaucratic and legal requirements.

Coffee cooperatives

Coffee cooperatives have fared much better than other agricultural organizations formed through the agrarian reform. The favorable coffee prices before the crisis, and the infrastructure inherited from landholders (which included fully equipped processing plants), allowed them to become important players in the coffee sector.

However, one of the greatest obstacles faced by many cooperatives are the relatively isolated territories where they are located. Many farms also lack adequate roads. This makes marketing and access to commercialization networks very difficult (Mendez, forthcoming). Agrarian reform cooperatives make use of their infrastructure (which might include trucks for transportation) and membership to existing networks to overcome these difficulties. On the other hand, independent farmer associations have little choice but to sell to the nearest processor.

Agrarian reform coffee cooperatives formed the Union of Agrarian Reform Cooperatives that Produce, Process and Export Coffee (UCRAPROBEX). UCRAPROBEX has been providing commercialization and administrative support since the early 1980s. Cooperative members ship their coffee through the UCRAPROBEX's export license and contribute to the organization through fees. As a national organization with around 50 member cooperatives, UCRAPROBEX has developed significant infrastructure and commercialization contacts with consumer countries. However, many of its members complain of increasing distance between cooperatives and the Union (Mendez, forthcoming).

Alternative Coffee Markets in El Salvador

Until recently, UCRAPROBEX was the only organization in El Salvador that exported organic coffee. A recent change in this direction was the formation of the Association of Small Coffee Producers of El Salvador (APECAFE) in 1997. APECAFE is affiliated to UCRAPROBEX and was formed "to provide support to the cooperatives to overcome the problems of coffee production, administrative development and export coffee to the fair trade market". APECAFE is currently conformed by 11 agrarian reform cooperatives and is opening membership to non-agrarian reform organizations. APECAFE is currently responsible for commercializing all of the fair trade coffee exported from El Salvador.

Traditionally, most technical and economic support to the coffee sector has been directed to medium and larger sized coffee plantations (Galloway & Beer, 1997).

Processing plants have been centralized in larger farms and cooperatives, and small farmers have usually sold either directly to the processors or to intermediaries.

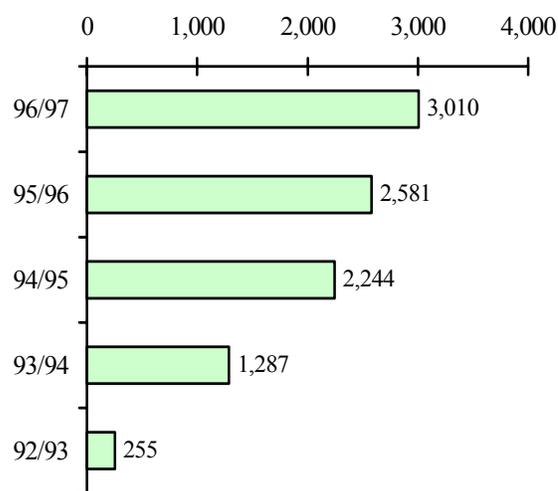
In the case of alternative markets this situation has been reversed. Most if not all of the coffee sold to organic or fair trade originates from farmer cooperatives. Cooperatives started to link to alternative markets, beginning with organic, in the late 80's and fair trade in the late 90's. The Cooperative League of the United States of America (CLUSA) initiated a project on organic coffee in 1988, and continued into the 1990's with support from USAID. This project was able to certify several agrarian reform cooperatives through the Organic Crop Improvement Association (OCIA), with the mediation of UCRAPROBEX. Cooperative sales to these markets (especially organic) have been increasing progressively during this decade (Figure 1). However, the total percentage of coffee that gets placed in this niche is still very low in relation to total production (Table 3).

Table 3
Coffee types and qualities exported from El Salvador (1996/1997)

| Coffee types and qualities | Exports | |
|----------------------------|-----------------------------|-------|
| | (Quintals-qq ²) | % |
| Strictly high grade | 1,111,096 | 29.89 |
| High Grade | 1,282,096 | 34.50 |
| Low Grade | 617,160 | 16.61 |
| Green | 288,001 | 7.75 |
| Inferior | 327,909 | 8.82 |
| Gourmet | 72,778 | 1.96 |
| Instant | 8,946 | 0.24 |
| Organic | 8,704 | 0.23 |

Source: (Cuellar *et al.*, 1999)

Figure 1
El Salvador: Organic coffee area (ha) 1992/1993 – 1996/1997



Source: (UCRAPROBEX *et al.*, 2000).

The current price crisis has resulted in different tendencies from the small and larger coffee farm sectors. Many larger farmers are seeking to diversify their plantations or shift into alternative crops, while others are “waiting out” for better prices, investing the bare minimum on farm maintenance. Others have also started to take interest in diversification and alternative markets, such as organic and shade grown.

Smallholders and cooperatives have reacted by using two main strategies: 1) diversifying with other crops inside their coffee plantations; and 2) connecting or

² 1 quintal (qq) = 100 lbs = 46 kg

expanding their sales to alternative markets. In both respects this sector is limited by lack of capital and the need for technical assistance.

SECTION 3

FAIR TRADE NETWORKS IN EL SALVADOR

ACTORS WITHIN THE FAIR TRADE NETWORK IN EL SALVADOR

Fair trade networks within El Salvador are made up by coffee cooperatives, APECAFE, UCRAPROBEX, and FLO. The Federation of Agrarian Reform Cooperatives of El Salvador (FESACORA) is also part of some fair trade transactions. UCRAPROBEX and FESACORA both play roles of national umbrella organizations, which provide contacts, training and financial support to its member cooperatives. In the case of fair trade, UCRAPROBEX plays the vital part of providing an export license. FESACORA has linked some of its cooperatives to fair trade organizations, although most of these links have been taken over by APECAFE, as officially registered in FLO. The roles of APECAFE and FLO are further discussed below.

APECAFE: THE VITAL ROLE OF A SECOND LEVEL ORGANIZATION WITHIN THE FAIR TRADE NETWORK³

According to APECAFE coordinator, Alfredo Rumaldo, fair trade in El Salvador before 1997 was handled directly between Max Havelaar and individual cooperatives. Accurate records of these transactions were unavailable in country, although FLO reports sales since 1996 (Table 4).

Table 4
Fair trade coffee exports in El Salvador, 1996-2000 (metric tons)*.

| 1996 | 1997 | 1998 | 1999 | 2000 |
|-------|--------|-------|------|------|
| 131.1 | 194.37 | 17.39 | 69 | 69 |

Sources: FLO & APECAFE

* Figures are those registered by FLO. 1999 and 2000 data reported by (Rumaldo, 2002).

Since 1998, all fair trade coffee sales have been mediated by APECAFE, which registered with FLO the previous year. This registration allows all members of APECAFE the chance to sell their coffee through FLO. However, not all cooperatives meet the standards of quality that the fair trade market requires. Currently, only two of four registered cooperatives, Las Colinas and El Pital, are able to sell coffee to fair trade markets (figures for the years 1999 and 2000 in Table 6).

APECAFE's main role is to facilitate cooperative coffee sales through alternative markets. The markets they are targeting are fair trade, organic, and most recently shade and ecological coffees. In relation to fair trade, this means that APECAFE can

³ Information on APECAFE was obtained through a formal interview on fair trade (Rumaldo, 2002), and several subsequent informal conversations.

only register those cooperatives that meet the FLO requirements. The organization aims to provide both technical assistance and direct commercialization contacts. Rumaldo travels extensively to Europe and the United States to promote fair trade and organic coffees from El Salvador. He also attends meetings and workshops related to coffee production and alternative markets.

Technical assistance activities focus on coffee quality and diversification strategies in plantations. Here, the organization provides training on quality monitoring, as well as the use of the cupping lab at UCRAPROBEX. All participating cooperatives provide samples for APECAFE to test at the cupping lab, and to send to potential fair trade buyers.

In addition, APECAFE plays a key role in establishing links with relevant actors that go beyond coffee production and sales. Examples of this are organizations that provided relief funds for damage caused by the 2001 earthquakes, and trainings in several trades, such as baking and sowing.

When questioned on the advantages and limitations of fair trade, Rumaldo pointed to the following:

Limitations:

- Small size of the market.
- Emphasis on high quality coffee that many cooperatives cannot meet.

Advantages:

- Better price.
- Access to soft financing.
- Opportunities to link to other development and relief organizations that can help the cooperatives.

APECAFE is very clear where it wants to go in the near future. First, it wants to direct all its cooperatives to become certified organic. Rumaldo expressed that the high demand from the organic market allows for the sales of lower quality coffee. Combining the two certifications could result in significant premiums for the other 9 cooperative members of APECAFE.

In addition to tapping into alternative markets, APECAFE seeks to increase its role as a facilitator for technical and administrative assistance. One of the greatest challenges the cooperatives face is establishing efficient and transparent administrations. Rumaldo thinks APECAFE can play a significant role in this process by facilitating links and partnerships with relevant individuals and institutions. APECAFE has already signed agreements on technical assistance for diversification with the Fundacion Salvadoreña para Investigaciones del Café (PROCAFE), and supports other research and information exchange activities.

Another important development in the work of APECAFE is its opening to membership of non-agrarian reform cooperatives. This will offer great opportunities for small farmer associations and cooperatives that many times are in more precarious situations than agrarian reform cooperatives. Such is the case of Cooperativa El Sincuyo, one of the case studies presented in this report. If APECAFE is able to facilitate fair trade or organic sales from these cooperatives, it is likely to have a much larger impact on poverty reduction in coffee territories.

THE VIEW FROM THE TOP: PERCEPTIONS OF THE FLO REPRESENTATIVE IN EL SALVADOR⁴

In El Salvador the FLO representative, Guillermo Denaux, works through APECAFE to register fair trade cooperatives. According to Denaux, the main limitations for fair trade sales in El Salvador are the quality of its coffee, as related to elevation. Most of the coffee plantations managed by cooperatives are in the low to medium elevation range (up to 1200 m). The quality standards required by an over-supplied fair trade market seek the higher elevation gradients.

Denaux agrees with APECAFE that cooperatives should try to get certified both as fair trade and organic. He supports Rumaldo's statement on the high demand for organic coffees of lower qualities. In addition, FLO's draft for a new set of criteria includes a section on "Environmental Development", which restricts the use of agrochemicals, and requires an "Integrated Crop Management" strategy from member cooperatives (FLO, 2001). This points to a tendency for convergence that can be perceived both from the fair trade and organic markets (Rice, 2001).

FLO's role consists in assuring that the APECAFE cooperatives meet the FLO standards. This allows them to be registered as fair trade organizations. Generally all APECAFE cooperatives are able to meet the standards. At the international level FLO is going through some changes that aim to better support its registered members. Part of this modification is the Producer Support Network (PSN), which aims to provide more direct support for cooperatives to be able to sell through fair trade. Activities include technical assistance and access to information, as well as facilitating contacts for funding specific projects.

⁴ Based on (Denaux, 2002)

SECTION 4

FAIR TRADE NETWORKS IN TWO COFFEE COOPERATIVES OF WESTERN EL SALVADOR

LOCATION OF THE COOPERATIVES

The study was carried out in the municipality of Tacuba, in the western region of El Salvador. Tacuba is located 188 km from San Salvador, the capital city, and 18 km from Ahuachapán, the nearest largest urban center (Figure 2). The municipality has an area of approximately 129.58 km². Total population, based on the last census, was estimated at 29,176 inhabitants, with 84% of the population living in the rural areas. Altitudes range between 600 and 1400 masl, and annual precipitations range between 1650 and 2100 mm, on average. Tacuba is part of the *Apaneca* mountain range, and is characterized by an accentuated topography (Cienfuegos, 1999; CNR, 1990).

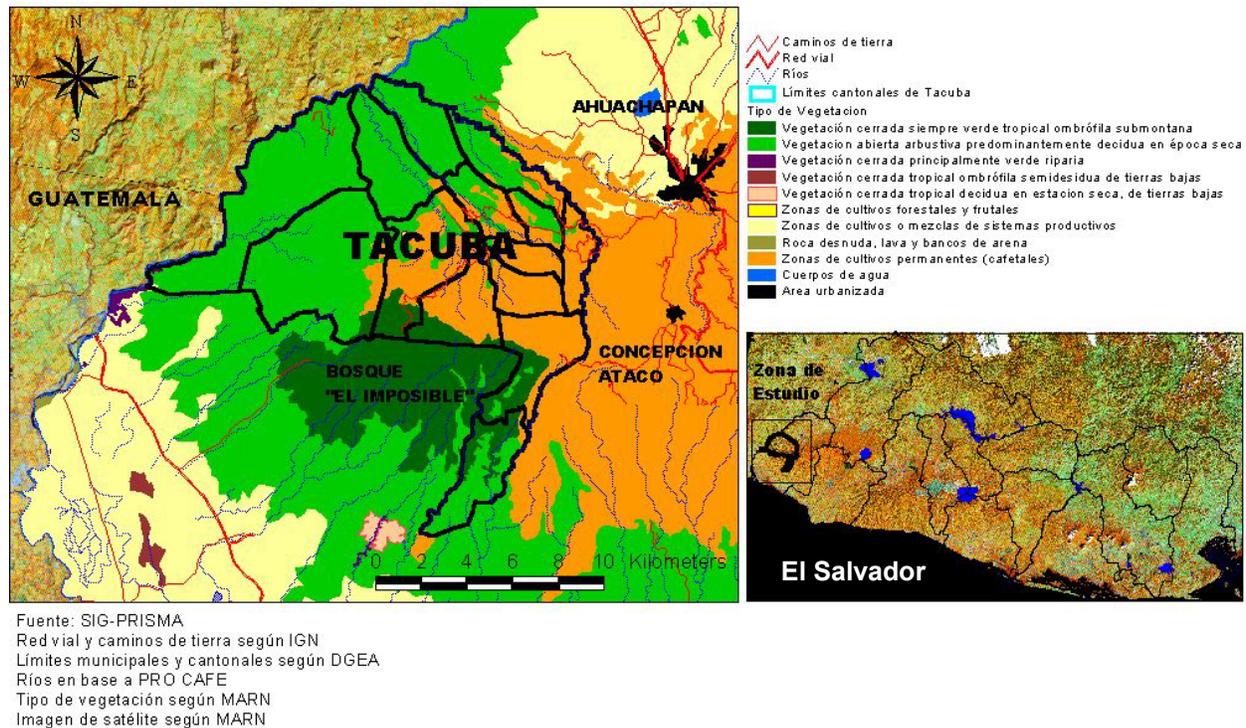


Figure 2. Location of Tacuba in western El Salvador, showing its proximity to *El Imposible* National Park. Source: [Mendez, forthcoming #335].

The site is adjacent to the *Parque Nacional El Imposible (PNEI)*, one of the most important conservation reserves in the country, and also within the projected area for the Mesoamerican Biological Corridor (MBC). The MBC is the most ambitious conservation initiative that has been undertaken in the region in the last several

decades. It aims to develop linked conservation areas from Mexico to Panama, including land under human management.

ORGANIZATIONAL CHARACTERISTICS OF THE TWO COOPERATIVES

General Characteristics

The study analyzed two cooperatives with contrasting differences in relation to origin, infrastructure and development (Table 5).

Table 5
Characteristics, total area, and sample sizes of the cooperatives under study, Tacuba, El Salvador

| Cooperative | Total Population | Benefits of the Organization | Infrastructure | Coffee Quality | Total Area (ha) |
|---|---------------------------|---|---|--|---|
| 1. "Las Colinas" agrarian reform cooperative | 99 members/ households | Main benefits are employment; commercialization; assigned space for residence and grain crops. The cooperative is affiliated to Fair Trade markets and is exploring selling to ecological coffee markets. | Complete coffee processing plant. Office, storage and other buildings. Roads are in relatively good condition. Most members have access to electricity and water. Local school. | Elevations range between 800 and 1300 m. Coffee varieties are high quality: Bourbon and Pacas | 195 |
| 2. "El Sincuyo" farmer association | 28 members/ households | Primary benefits are negotiating power with external markets and institutions, and improved coffee commercialization. Has allied itself to Coop 1 in order to sell to Fair Trade markets. | None. | Elevations range between 650 and 1200 m. Coffee varieties are high quality: Bourbon and Pacas | Individual farms range between 0.7 y 3.5 ha |

Source: (Mendez, forthcoming)

Cooperative 1 was formed through the first phase of the agrarian reform, and continues to face many of the problems previously described in section 2 of this document.

In contrast, growers with individual farms formed El Sincuyo Cooperative in the hopes of improving coffee commercialization through alternative markets, tapping into development projects and acquiring land for collective management. This effort started 2 years ago, and full legal representation was just recently acquired. The process of forming the cooperative in accordance to the legal criteria established by the Ministry of Agriculture has been a great effort for the cooperative members. Voluntary fees have been paid for transportation to San Salvador, and to cover legal documentation.

Structure and Governance

In theory, both cooperatives function through democratic decision-making. To reach any decisions the board needs to meet with the general assembly consisting of all cooperative members. Here all motions are decided through majority vote. Agrarian reform cooperatives, like Las Colinas, follow rules set and accounted for by FESACORA. Farmer associations like El Sincuyo follow a different set of rules established by the Ministry of Agriculture. These two regulations are very similar.

In both cooperatives, the board of directors consists of up to 15 members with the usual postings of president, vice-president, treasurer, secretary, several vocals, security board, etc. Board members are elected by majority vote, and they hold the charge for 4-year periods. At Las Colinas, it is common practice to review the board every 2 years. If justified, the cooperative members are able to modify the board at this time (as occurred this year). Any changes that go against regulation need to be mediated by the regulating agencies. If representatives from FESACORA or the Ministry do not approve them they are considered illegal.

In practice, there is a tendency for the board of directors to make decisions without consulting the general membership. Some of these are justified, since it becomes unmanageable to call for general assemblies on every occasion. However, many conflicts seem to arise due to this lack of communication and transparency.

Among other things, some of the conflicts dealing with governance have to do with the scale of each cooperative. It is a lot harder to get 99 people to participate than 28. However, it is also the result of the way in which the organizations were formed. All agrarian reform cooperatives have suffered from a series of internal conflicts since their inception in 1980. In these cases, the formation of the organizations was not a conscious decision taken by the farmers, but rather an imposition of the state. This resulted in much confusion and corruption amongst the different organizations and actors that were involved. In addition, it prevented many members from achieving a real sense of ownership over the land. El Sincuyo, on the other hand, is the result of personal motivation and great effort from the farmers themselves. These growers see the cooperative as an instrument to achieve a better quality of life. Thus, the time and resources spent in cooperative activities are perceived as an investment for a better future. The smaller size allows for closer relationships and also for better accounting between the board of directors and the individual members.

At this time Las Colinas cooperative is closed to new membership. This was an issue voted upon, and the decision was taken due to the livelihood crisis the members are facing. They don't feel the available resources can provide for additional members. This decision seems justified, since the cooperative now supports a population of approximately 600 individuals. El Sincuyo, on the other hand, is open to new members, since each person depends on his or her own resources for survival. In both cases, new members are approved by majority vote at the assembly.

Membership and participation of women is very small in both cooperatives. Male heads of households make up more than 90% of membership in both cases. On discussing this issue with cooperative members it does not seem there is resistance to allow women more participation. The roles of men and women are well defined, but it doesn't seem to be an issue for women to assume active membership. A recent trend in the meetings with El Sincuyo cooperative has been for wives and female relatives to attend. A motivation for this has been the information on the importance of gender issues the board of directors has been receiving from various projects and organizations. Although there doesn't seem to be a clear understanding of what this means, it is viewed as important in order to have the opportunity to work with these development actors in the future.

The cooperatives are relatively close to each other, and most members seem to know each other. The town of Tacuba is the central point for everyone in the vicinity to have access to public transportation, buy goods and deal with municipal issues. Farmers who live outside of town frequently see each other while doing business in Tacuba. In addition, most members of the two cooperatives have participated in different events that range from technical trainings offered by a variety of organizations, to municipal activities and festivities.

Decision-making Related to Fair Trade

In both cooperatives fair trade is given similar treatment as any other issues that concern the organizations. Any decisions pertaining to fair trade should be voted upon at the general assembly. In Las Colinas, insertion to fair trade, in 1998, was an issue that took several meetings, and which was finally agreed upon by a majority of members. The same is true for deciding how fair trade premiums are spent. However, the cooperative is so plagued by debt that all members have agreed that loan payments are a priority for the organization. Since its first sales to fair trade, most of the additional income obtained has been used to pay the banks.

However, the nature of fair trade does seem to force the board of directors to be more transparent and communicative on this issue. Visits from fair trade organizations and buyers usually require meetings with the general assembly. This forces the board of directors to inform members about the status of fair trade in their cooperatives before the visitors arrive (Box 1).

In El Sincuyo, fair trade has been one of the main motivations for forming the cooperative. In the words of the president:

“We are small coffee producers. If we don't unite, if we don't form our cooperative, or are not organized, we have to sell to the coyote (intermediary), who pays what he wants and sells to a higher price. That is why we seek to get organized, to find better markets, with better prices, as fair trade seems to offer” (Escalante, 2001).

Box 1: A First-Hand Experience with Equal Exchange

In February of this year I reluctantly accepted to translate for an Equal Exchange group visit to Las Colinas and El Pital cooperatives. Although I see the advantages fair trade can bring to coffee cooperatives, I have always viewed it with the critical and suspicious eye of the researcher. The event was being organized by APECAFE and the group consisted of a retail owner that is buying coffee from the cooperatives, some of his employees, one bi-lingual teacher, a journalist and a couple of Equal Exchange staff. During their stay the group spent a night at Las Colinas, held meetings with at least 30 cooperative members and learned about the production and processing of coffee. A pen-pal exchange had been organized by the teacher in the group. Similar activities were carried out at El Pital. I was impressed by the amount of time and resources invested in joining consumers and producers first-hand. The appreciation the visitors showed for the coffee the cooperative produced was definitely taken in by the farmers, with whom I spoke weeks after the visit. The visit also allowed for a larger number of members to be able to express their opinions directly to the Equal Exchange staff and the buyers. Here, a repeated theme was concern over the delays in payment. Although some may see these events as a form of “development tourism”, I perceived something different in this visit. It seemed like a real opportunity, seldom available to third world farmers, to voice their concerns directly to developed country retailers and consumers (and viceversa). The insistence of the Equal Exchange staff to hold large meetings also allowed for members, other than the board of directors, to learn first hand about what fair trade is. A most important characteristic of these activities is the opportunity to exchange relevant information between the actors in the fair trade networks, which is not possible in any other way. I have no knowledge if and how other alternative trade organizations account for the link between consumers and producers that are claimed in many fair trade labels. However, Equal Exchange did seem to take it seriously, and to know what it takes to ensure it is happens on the ground

FAIR TRADE ON THE GROUND: PERCEPTIONS FROM THE COFFEE COOPERATIVES

Las Colinas Cooperative

Historical context

Las Colinas has been selling fair trade coffee through APECAFE since 1998. The cooperative joined because of its strong link to APECAFE. Board members reported their main motivations to join fair trade networks were the higher prices and the opportunity to access pre-financing at low interests. In addition, Las Colinas is one of the cooperatives that meets the standards of quality that the fair trade market demands. Not only is it located at elevations of up to 1300 m, but also the coffee varieties it grows produce very high quality grains (the plantation is made up by the “Bourbon” and “Pacas” varieties).

Fair trade prices, pre-financing and distribution of the premium

Currently, Las Colinas sells between 1 and 2 containers through fair trade (750 qq), at a price of US\$126 per quintal. This represents between 30 and 50% of total production.⁵ According to the board of directors of the cooperative, fair trade coffee sales are the main reason the cooperative remains afloat. Most of the profits from fair trade sales go to debt payments. An obligatory \$5.00 should go to community projects, but no control mechanisms seem to be in place to ensure the allocation of these funds. In addition to the price premium, Las Colinas receives pre-financing for coffee of up to 60% of the value of the crop to be sold to fair trade. This loan is provided at an interest between 8-10%, as compared to national banks, which currently lend at 18%. In most cases, this sum is directly subtracted from the final payment for the coffee. Board members complained that pre-financing from Equal Exchange has been delayed in the past. In this case these transactions are mediated by FESACORA, which was the initial contact with Equal Exchange (Box 1)⁶.

Certification and quality issues

Fair trade certification through APECAFE has improved board member’s knowledge on management of coffee quality issues. APECAFE has facilitated training on both production and processing issues that affect quality. The emphasis has been placed on more systematic and careful harvesting, processing, drying and selection of the coffee beans. The APECAFE coordinator closely monitors quality with the cooperatives.

⁵ Coffee production is highly variable from year to year. Usually a “good” year will be followed by a “bad” year. For Las Colinas a good year yields approximately 2,000 qq, and bad years, as 2002/2003 is expected to be can drop down to 1,000 qq.

⁶ In February 2002 the author served as translator for a group of visitors brought by Equal Exchange. These included a retail owner and employees, as well as Equal Exchange staff. The group visited the two APECAFE cooperatives that currently sell to Equal Exchange.

Most members are aware of the importance of producing good quality coffee. Although few individuals reported receiving specific training on quality issues (Table 6), personal communications with members since 2000 seem to show that most farmers have a good understanding of this concept. The certification process was relatively easy for Las Colinas, and once again facilitated almost entirely by APECAFE.

Tapping into other alternative markets

APECAFE has been trying to convince cooperative members to produce organically, but members are still divided in this respect. Some are concerned about the decline in production from the transition, while others are convinced it is the only way to survive the price crisis. Since 2000, members seem to have become increasingly more supportive of getting shade and organic certification. Earlier this year, the general assembly approved for the board to solicit ECO-OK (or biodiversity friendly) certification. This move was also supported by APECAFE.

Benefits and Limitations Perceived by Cooperative Members

Benefits

Other benefits Las Colinas has received through its membership in the fair trade network are aid for earthquake damage (construction of several houses), and funds to improve processing infrastructure. In both cases support was mediated through APECAFE.⁷

Members of Las Colinas seem well aware that their cooperative sells through fair trade. Perceived benefits from fair trade are presented in Table 6. Most individuals associate fair trade benefits with better prices and access to favorable credit. Benefits related to training (3,4 and 6) were perceived as favoring mostly the board of directors, and most members would like for these activities to be accessible to all. This suspicion from individual members with respect to the board of directors hoarding benefits is very common in agrarian reform cooperatives, and many times unfounded. The history of these organizations, especially the larger ones, is full of examples of corrupt directors, who have taken advantage of their posts for their personal benefit.

⁷ According to APECAFE coordinator, donors and solidarity groups are reluctant to provide funds directly to cooperatives. Instead they prefer to channel their support through organizations like APECAFE.

Table 6
Perceived benefits of fair trade as reported by members of Las Colinas Cooperative, Tacuba, El Salvador

| Perceived Benefits of Fair Trade | Percent of Respondents that Acknowledged the Benefit (n=26) |
|--|---|
| 1. Stable and favorable coffee prices | 92% |
| 2. Access to favorable credit | 96% |
| 3. Support in production, commercialization and organization | 35% |
| 4. Training on quality and commercialization | 31% |
| 5. Improvement of self-esteem | 35% |
| 6. Support to non-coffee activities | 85% |
| 7. Improvement in community infrastructure | 92% |
| 8. Higher income for households | 92% |

All respondents that acknowledged higher income for households attributed it to the fact that higher prices and access to credit allows the cooperative to pay them for the work they invest in the coffee plantations. This information is consistent with data from previous interviews, in which almost all members acknowledged that the main benefit the cooperative provides is secure and stable employment (Mendez, forthcoming). Item 7 was high because APECAFE recently facilitated the donation of several houses through fair trade contacts. Most of the members interviewed specifically pointed to this. However, some respondents also mentioned that funds from fair trade sales had been invested in improving the school and the roads. Reactions regarding the “support to non-coffee activities” were also a response related to a recent training program, on baking bread and pastries, which was brought by APECAFE. All of the people interviewed directly alluded to this one non-coffee activity mediated through fair trade.

Until now, no profits from fair trade sales have reached cooperative members in the form of direct payments. As mentioned before, the money obtained through these transactions is used to pay members for their labor in plantation maintenance and harvest. Whatever is left over is used for loan payments.

Limitations

The perceived limitations of fair trade were very similar in both the household interviews and the focus groups with board members. The following are the two main limitations reported:

1. Pre-financing and coffee payments take a long time (a minimum of 3 months), in comparison to conventional market sales that are paid in 30 days. This is illustrated in the responses of some cooperative members, when asked to comment about problems related to fair trade:

Don Pablo Suriano:

“Sometimes what we collect as payments comes very late. The other markets pay a lot faster. We get the money for our work faster.”

Don Luis Ramírez:

“That the sales we make take a long time. We need the money fast to meet our necessities. It usually takes at least 90 days for the money to come.”

2. The fair trade quota is too small. Cooperative members would like to sell more of their coffee at fair trade prices.

The first limitation has direct implications for all cooperative members because these payments are used to cover their salaries. One of the most serious conflicts observed over these two years is the delay in payment of salaries. Members will wait for delayed payments of up to several months from the time they worked for the cooperative. This in turn results in a resistance to continue to work on plantation maintenance until over-due payments are received. This situation has serious potential consequences derived from neglect to maintain the plantation. This could in turn affect the quality of the coffee.

Increasing fair trade sales does not affect member livelihoods on a daily basis. It is seen as something that would improve their situation if it could happen in the future.

El Sincuyo Cooperative

El Sincuyo cooperative has just acquired legal status as a farmer association, through a process that has taken approximately 2 years. Fair trade was one of the main motivators for these farmers to organize. They heard about fair trade through the APECAFE coordinator who prompted them to organize and join his organization. The opportunity to sell their coffee at a better price greatly motivated their initiative to form their association (Mendez, forthcoming). All cooperative members participated in the meetings held by APECAFE, where the coordinator explained about the organization and its role in alternative marketing networks. However, farmer perceptions of what fair trade represents seem to be mostly related to receiving a better price (Table 7).

Members of El Sincuyo are still unclear about what the fair trade market represents besides higher and more stable prices. Nevertheless, they perceive that links to these types of networks are likely to bring a variety of benefits that go beyond the sales of coffee. For example, they have heard or seen that APECAFE provides training and support to community infrastructure in Las Colinas. This was part of the reason that half

of the farmers associated these activities as potential benefits that could be derived from fair trade (Table 7). In the words of one of the cooperative members:

Don Nicolas García de la Cruz:

“What we gain (from fair trade) is a better price, which comes from being organized. They value our work and effort. It is important because through the meetings we make links with people that help us meet our goals. We want to know more about it and that is why it is important to receive trainings.”

Interactions with Las Colinas have been instrumental for El Sincuyo members to learn and discuss about the future direction of their association. As part of the on-going research project, focus groups with individual cooperatives are alternated with meetings that include between 10-15 representatives from each of the three collaborating cooperative. These activities have greatly facilitated exchanges between the three different cooperative members that participate in the project. One of these focus groups discussed alternative markets, including fair trade, organic and shade grown (Escalante, 2001). Here farmers from the 3 cooperatives were able to share their opinions and experiences on these issues.

The high acknowledgement for items 1 and 8 in table 7 is related to the type of organization El Sincuyo represents. Since farmers produce individually, they identify higher prices as directly increasing household incomes. For cooperatives that manage collective land, such as Las Colinas, getting better coffee prices doesn't necessarily mean a direct increase in household incomes.

Don Jose Luis García, Secretary for Cooperative El Sincuyo, responded as follows: *“Of course, if the price in the market is higher, and I produce a couple of quintals, I am going to get more money for my family than if I sell to the coyote.”*

The meaning and importance of quality is not entirely understood by most farmers of this cooperative. All members of El Sincuyo traditionally sold their coffee to intermediaries or large processors. In this system they got used to receiving whatever was offered with very little understanding of the reasons behind the setting of the price. For El Sincuyo, quality issues might pose a more serious problem than for Las Colinas. Elevations in 17 randomly selected farms ranged between 650 and 1200 m. Although coffee quality is not solely a result of elevation (Beer *et al.*, 1998; Muschler, 2001), many buyers still use it as their main quality indicator.

So far, the only limitation observed by cooperative members related to fair trade is their lack of knowledge and power over the transactions and negotiations it entails. Many are still unclear of what role each of the different organizations involved plays (i.e. APECAFE, FLO, buyers, etc.). When farmers were asked this year on what topics they would like to receive training, they unanimously expressed the need to gain more knowledge on alternative markets, specifically organic and fair trade. They also see a potential obstacle in becoming members of APECAFE, since the organization requires

an entrance fee of \$571.00. According to the president of the board, Don Clementino Rosales, there is a possibility these fees get waived or paid in installments once El Sincuyo is tapped to the fair trade market.

On another note, Don Clementino Rosales expressed his desire to better understand how fair trade works, apart from what he has heard from APECAFE:

“We have met all the requirements to be members of APECAFE, because they told us about fair trade and motivated us to organize. But we don’t know if the fair trade market is possible directly or if there are other ways of doing it. We want to acquire better prices and support for our organization. We need more knowledge and training to know which persons or institutions will better help us to reach our goal.”

Table 7
Perceived potential benefits of fair trade as reported by members of El Sincuyo Cooperative, Tacuba, El Salvador.

| Perceived Benefits of Fair Trade | Percent of Respondents that Acknowledged the Benefit (n=17) |
|--|---|
| 1. Stable and favorable coffee prices | 100% |
| 2. Access to favorable credit | 29% |
| 3. Support in production, commercialization and organization | 50% |
| 4. Training on quality and commercialization | 14% |
| 5. Improvement of self-esteem | 14% |
| 6. Support to non-coffee activities | 14% |
| 7. Improvement in community infrastructure | 59% |
| 8. Higher income for households | 100% |

From the start, APECAFE highlighted the importance of becoming organic coffee producers in combination with fair trade. Members of El Sincuyo are in an advantageous position to do this, since most have not used any synthetic inputs in the last two years. However, farmers have very little knowledge of organic certification procedures and costs. Another limiting factor is the absence of a certified organic processor in the vicinity, which is necessary to be able to sell organic coffee.

SECTION 5: CONCLUSIONS AND RECOMMENDATIONS

BENEFITS AND LIMITATIONS OF FAIR TRADE

Participation in fair trade networks represents an advantageous strategy for the two cooperatives studied. However, it is also evident that fair trade networks currently face many challenges and limitations in bringing direct benefits to communities in coffee growing regions. Based on farmer perceptions and complementary data from the research, I have identified the following key benefits and limitations associated with farmer participation in fair trade networks.

Benefits

1. Fair trade supports the building of social networks and collective action that is essential for local actors to build and move forward their own development processes. New advances in FLO (i.e. PSN), point to strategies that might further integrate fair trade with other development activities.
2. Fair trade prices, even when applicable to limited quotas, provide a significant economic advantage for coffee cooperatives. Especially, when compared to their sales to conventional markets.
3. Some fair trade organizations provide low interest credit to cooperatives that would normally have either no access to credit, or only to loans with high interests.
4. Convergence with organic and shade grown markets is being promoted by fair trade organizations. This could open opportunities for a larger number of growers to be able to benefit from the combination of these markets.
5. Some fair trade organizations invest resources in directly linking farmers and consumers (box 1). These activities have three main benefits: 1) they may have a positive impact on the self-esteem of producers; 3) they allow for consumers to learn first-hand about the situation of producers, thus making them more conscientious and committed to fair trade; 2) they open the door for a more equitable exchange of knowledge and information between consumers and producers.
6. Fair trade has been instrumental in bringing awareness and education to farmers on the importance of producing good quality coffee.

Limitations

1. In general, individual cooperative members and households are lacking accurate **information** on what fair trade is. Overall perceptions are that it pays a better price and provides credit, but there is no clear understanding of the ideological motivations and the importance it gives to producer-consumer interactions. Here, Equal Exchange has shown a commitment to invest time and resources in promoting these issues with the Salvadoran cooperatives.

2. Fair trade payments take significantly more time to reach cooperatives than conventional market sales. This situation puts fair trade cooperatives in precarious circumstances, since it prevents them from paying salaries related to coffee production and maintenance.
3. In El Salvador, fair trade has benefited agrarian reform cooperatives exclusively. Individual farmer associations are only starting to visualize an opportunity for insertion. These coffee producers probably represent the poorest sector of the population engaged in coffee production, and would benefit greatly from their insertion into fair trade networks.
4. The fair trade market continues to be over-supplied. This has two important consequences: 1) Buyers become more selective, based mostly on quality; and 2) Quotas limit the amounts cooperatives can sell through fair trade. Although this aims for a more equitable distribution of fair trade benefits, sometimes the benefits gained are insignificant. This is especially the case for larger cooperatives.⁸
5. Although convergence with organic and shade grown certification is being promoted by fair trade organizations, growers are still reluctant to adopt these strategies. Their main concerns are yield reductions and the costs of certification.
6. Although the creation of social networks is intrinsic to fair trade, there is no defined strategy for working with other actors engaged in rural development. As mentioned before, rural communities are interested not only in the economic rewards of fair trade, but also in using it as a network for other rural development goals.

DISCUSSION

Insertion to fair trade networks in El Salvador is mediated by APECAFE, a second level organization that groups 11 cooperatives. APECAFE has done a good job of connecting its member cooperatives with fair trade buyers. However, until recently, APECAFE's work has been limited only to agrarian reform cooperatives. This excludes a large sector of small coffee farmer associations, which could very well meet all fair trade and quality criteria. Recent APECAFE policy is aiming to open its membership to non-agrarian reform cooperatives. This move is likely to expand the opportunities of more equitably distributing the benefits of fair trade. In this respect, many of these farmer associations will need significant administrative assistance to be able to join APECAFE and to get registered with FLO.

Convergence between certified organic, shade grown and fair trade coffee seems a desirable development for most actors in the fair trade network. The main limitation foreseen is the reduction in coffee yields and the costs of organic certification. Most interest is directed to organic markets because there is increasing demand and secure premiums, while shade grown is only starting to appear. Experiences with the ECO-OK

⁸ Personal communication with the board of directors of Cooperative Agua Buena (Coopabuena), in Coto Brus, Costa Rica. This cooperative groups approximately 500 small coffee growers. July 30, 2002.

label in El Salvador have not yielded the expected premiums.⁹ Fair trade organizations could play an important role in facilitating farmer's access to these other markets. FLO seems to be investing efforts in this direction through the formation of the Producers Support Network. It would be desirable that specific programs be directed to these issues.

As part of its criteria, FLO requires that "fair trade contribute to the development of certified producers" (FLO, 2001, p. 4). In its current form, fair trade is not really a part of a broader development strategy. Instead, it represents an alternative market that offers more equitable negotiating conditions to small coffee producers. However, fair trade networks provide great opportunities for the movement to play a more significant role in rural development. The earthquake relief that APECAFE was able to mediate for one of its cooperatives exemplified this. Similar efforts could easily be directed to more permanent development strategies.

To bring more significant and equitable benefits to small coffee producers, fair trade networks need to better account for the heterogeneity that exists within the cooperative sector. As shown in this study, there are different types of cooperatives, each with a set of strengths and limitations. Their needs and challenges with respect to alternative markets and other development strategies will probably be different in each particular case. Two important questions that arise are: Which cooperatives will have access to fair trade networks and how will they be chosen? In most cases this has not been a concern because fair trade usually works with established second level organizations, which have their own set of criteria for membership. However, it is an issue that may merit further analysis and one which could affect fair trade's real impact in coffee producing countries.

Fair trade networks seem to have a great concern for the nature of the organizations they work with. It is a requirement that cooperatives have "a democratic structure and a transparent administration that allows its members and the board of directors to control management in an efficient manner" (FLO, 2001, p. 4). It is important to point out that getting to know the intricacies of how cooperatives function is usually very difficult. At least, it requires presence and acceptance over long periods of time. If fair trade is to support democratic and transparent organizations, it will probably need to do more than include them as part of their criteria (see recommendations).

RECOMMENDATIONS

Based on the discussion presented above, several recommendations can be made in order to try to increase fair trade's potential to improve the livelihoods of poor rural communities:

1. Fair trade networks should become more actively involved in local development processes. One way is to actively create links with other types of development organizations in order to be part of integrated development

⁹ Personal communication with Alvaro M6ises, a Salvadoran farmer certified by ECO-OK.

- initiatives. This seems to be the motivator for the creation of the PSN program within FLO.
2. Convergence with organic and other alternative markets seems to be a desirable strategy that fair trade should more actively support with its members. This could come in the form of alliances with other certifiers or in providing support for multiple certifications of fair trade growers.
 3. Fair trade organizations need to further support the transfer of information to individual cooperative members and households, instead of only board members. This ties in with supporting transparent organizations that keep their members well informed of cooperative issues. There are several strategies that could be promoted by fair trade organizations in charge of registration (i.e. working directly with assemblies, producing cheap, illiterate-friendly materials, etc.). Important topics here are promoting a clear understanding of fair trade, furthering understanding of quality issues, better explaining the different types of alternative markets, etc.
 4. Fair trade organizations need to be aware of the heterogeneity of cooperative types that exists in different regions or countries. Having accurate information of this type will allow for a more just selection of which ones are eligible to join fair trade networks. This could be supported through characterizations and surveys carried out by third parties.
 5. It is crucial to continue to work in consumer countries to expand the market.
 6. Investing in direct consumer-producer activities seems worthwhile in order to increase conscience in both the north and the south, and to promote transparent information exchange between consumers and producers.

It should be acknowledged that the above recommendations might in some instances require increased investment from fair trade organizations. This could hinder the current advantage of fair trade, which incurs very little costs on the farmers. It is here where it would be useful to create and/or expand alliances with other actors that are relevant in rural development. These could include donor agencies, development projects and researchers.

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