

# Does Fair Trade Deliver? Coffee Farms in San Martín de Pangoa, Peru

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## ABSTRACT

Peru is one of fifty countries around the world that grow Fair Trade coffee (Global Exchange, 2006). Ten principles established by the International Fair Trade Association (IFAT) were examined in the coffee farms surrounding the village of San Martín de Pangoa. Research was conducted through observation and interviews to assess whether outcomes specified by IFAT directly impact the farmers and community in a positive way. Outcomes measured include: creating opportunities for economically disadvantaged producers, transparency and accountability, capacity building, promoting Fair Trade, payment of a fair price, gender equity, working conditions, child labor, the environment, and trade relations.

## INTRODUCTION

As a finance student in the United States, I had rarely been exposed to Fair Trade and the benefits it can have on developing countries. The Fair Trade industry that has intrigued me the most is the coffee industry. The United States is the largest coffee consumer in the world, consuming one-fifth of the world's coffee. There are over 130 million coffee drinkers in the U.S. alone, with more cafés and specialty coffee shops opening everyday (Global Exchange, 2006). The more consumers become aware of the positive effects of Fair Trade coffee and other Fair Trade commodities, the more the demand for Fair Trade products is likely to increase, as will the economic security of communities in developing countries involved in Fair Trade.

The concept of Fair Trade began in the 1950's when alternative trade organizations (ATOs) became prevalent in Europe and the U.S. and ATO's bought directly from Third World producers, paying them a guaranteed fair price and eliminating the middlemen. This helped the producers boost their income while reducing their vulnerability to extreme fluctuations in commodity prices and speculation in commodity prices. Currently 17 different importing countries have Fair Trade Certification seals. To become certified as Fair Trade, producers must go through a formal application process and be approved by the Fair Trade market. After they are approved, the farmers are monitored and maintained by the Fair Trade Labeling Organization (FLO), which has field monitors in each producer region and visits all of the producer co-operatives annually.

If farmers are Fair Trade certified, an importer must meet the following criteria: pay a minimum price of \$1.26 per pound, provide needed credit to farmers, and provide technical assistance such as helping them transition to organic farming. In addition, Fair Trade also means community development, health, education and environmental sustainability.

To achieve a greater understanding of the relationship between Fair Trade producers and importers, I observed the ten principles of IFAT at the Coop Agraria Cafetalera Pangoa (CAC Pangoa) in San Martín de Pangoa in Central Peru. The principles include: creating opportunities for economically disadvantaged producers, transparency and accountability, capacity building, promoting Fair Trade, payment of a fair price, gender equity, working conditions, child labor, the environment, and trade relations. I hypothesized that all of the principles of IFAT would be upheld.

## METHOD

Many coffee farms are in locations that are difficult to travel to. Therefore, I contacted Dean Cycon of Dean's Beans Organic Coffee in Orange, Massachusetts. I explained my research objectives to Dean and he helped me get in contact with the General Manager, Esperanza, of CAC Pangoa. Esperanza went out of her way to help me travel to San Martín de Pangoa. First, a student of the coop that is currently studying in Lima met me at the Lima airport and took me to the bus station where I then traveled 12 hours by bus to San Martín. Then another young farmer, Jhony, met me at the bus station and took me to the hotel where I would stay for the duration of my time in San Martín.

I spent four days in San Martín and learned about all the different aspects of CAC Pangoa, not just the coffee growing. The first day, I talked with Esperanza about the history of CAC Pangoa and their current state. The second day I went to the coop's office and spoke with the coop's President, accountant, and other office personnel, toured some coffee farms, and learned about the women's program (CODEMU) and the retirement program that they would like to implement. On the third day in San Martín I visited various farmers that grew coffee and cocoa, and raised bees for honey. On the final day, I met some of the women that are a part of CODEMU and how this program has benefited them. Research on the ten principles of IFAT at CAC Pangoa was conducted through interviews and observations. I was able to interview many of the farmers and office personnel as well as observe the benefits and importance of Fair Trade.

## RESULTS AND DISCUSSION

### *CAC Pangoa Background*

CAC Pangoa is the biggest coffee coop in their particular region of Peru. It was started on October 2, 1977 with about 50 members. Today CAC Pangoa has over 600 members of which 200 are Fair Trade Organic. Unfortunately, there are about 5,000 farmers in the surrounding area of San Martín de Pangoa. This means that the majority of the farmers do not see the benefit of being a part of a cooperative and would prefer to be left alone.

Before the cooperative became Fair Trade, it was 100 percent conventional. Loyalty was not involved. The farmers would go to whichever company offered the best price. CAC Pangoa's production consists of 90 percent coffee and 10 percent cocoa (92 farmers). About 60 farmers also raise honey bees to produce honey. They sell their products to the U.S., England, and Canada.

Currently the Fair Trade price per pound of coffee is \$1.56. Out of this amount, 20 cents go to administration expenses and 10 cents go to funds such as health and education. Therefore, the farmer ends up with \$1.26 per pound. This fair price gives coffee farmers stability since the market price for coffee is constantly in limbo.



**Figure 1.** Warehouse where all the coffee beans were stored before being shipped out.

### *Programs of CAC Pangoa Comité de Desarrollo de la Mujer (CODEMU)*

In March, 2006, Dean Cycon donated three thousand dollars to develop CODEMU, a program to benefit the women in CAC Pangoa. This money was lent out to 24 women and their families to utilize in projects such as fixing hygienic services, raising small animals, fixing their kitchens, growing vegetables, etc. The maximum amount that each woman could borrow was 500 soles, or approximately 160 U.S. dollars. In 2007, Dean once again donated money towards CODEMU and 26 women were able to take out loans. Each woman whose farm produces 1,000 kilograms of coffee in the last three years can apply for a loan every year. To put this in perspective, most farms far exceed this requirement and produce anywhere from 2,000 to 10,000 kilograms of coffee per year. The women are required to give an ownership title to the coop to obtain a loan. Furthermore, they are required to inform the coop of their intentions with the loan and the coop then evaluates the situation and decides how much they will lend.

Before Dean donated money to CODEMU, the women could only obtain loans for a short period of time such as two to three months. Now the coop can loan money for up to one year. There have not been any problems with repaying the loans up to this point.

I had the opportunity to visit three of the 26 women who obtained loans in 2007. The lady that made the biggest impression on me was Maria Campos. Maria obtained a loan of 400 soles, or approximately 130 U.S. dollars. Maria had a small store that sold nothing but a few vegetables in cardboard boxes. After obtaining a loan through CODEMU, Maria was able to build shelves and sell more vegetables as well as other food such as rice, bread, chips, cookies, bottled water, etc. Maria was very generous and gave me a tour of the rest of her house. Many people in Peru raise guinea pigs because it is a delicacy meat for them. The guinea pigs that Maria raised were in the same building as her kitchen. Unfortunately, she had already borrowed the maximum amount of money for 2007 to redo her store so there was not enough left over to build adequate cages for the guinea pigs. They were running all over

her kitchen floor! This made me realize that even though the money in CODEMU has benefited many families, there is never enough.



**Figure 2.** Maria Campos and her new store after obtaining a loan through CODEMU.



**Figure 3.** Guinea pigs on Maria's kitchen floor.

CODEMU does much more than lend out money to women. Every year the coop has a doctor come in to give all of the women in CODEMU an annual check-up. They also educate them on how to take care of themselves and recognize symptoms of cancer and other illnesses. The women are also taught how to be responsible and not be so dependent on parents or their husbands. At first the men of the coop did not agree with what the women were being taught, but now they support it. In fact, the president of CODEMU is a man.

Another benefit of CODEMU is that every Saturday in front of the CAC Pangoa, the women have a market where they sell food, crafts, etc. There are 62 women in CODEMU so each week they rotate and there are 10 women that sell their products each Saturday. I really enjoyed learning about this program and witnessing first-hand the benefits it has had on not only the women in the coop, but their families as well.

#### *Fondo de Educación*

One fund that is supported through the ten cents taken out of the \$1.56 per pound of coffee is the education fund. Every January the coop calculates the number of students that they will be able to support. The coop has a separate bank account for the sole purpose of loaning the money out to students. Eligible students must be sons or daughters of an active farmer that has produced a minimum of 4,000 kilograms of coffee or 1,000 kilograms of cocoa in the past three years. There are eight universities that the student can choose among to pursue their studies. The coop will also support all students that decide to continue their studies after obtaining an undergraduate degree. Each student must maintain a minimum grade of 13 out of 20 points in all of their classes at the university to continue to be eligible for the education fund.

The coop will lend a fixed amount every semester that will cover the basic necessities such as housing, food, and books. An exact amount will be lent out every semester to cover the cost of tuition. This is to assure that the student is registered for the current semester. The fixed amount depends on the amount of coffee or cocoa that a student's family produces. For example, if their family produces the minimum of 4,000 kilograms, the fixed amount is 1,740 soles or approximately 550 U.S. dollars. If a family produces 8,000 kilograms, the fixed amount is 2,900 soles or 920 U.S. dollars.

To receive their money, every student must present to the coop at the beginning of each semester proof of registration, their transcript of the past semester, and the transactions of their bank account for the past semester. If everything is approved, the coop will deposit the loan in the student's bank account. The coop will loan the student money for the duration of five years which is the normal duration in Peru to graduate with a degree.

The administration and management of the coop evaluates the applications to determine which students will receive a student loan. In the case that there are more students than available money, the coop will elaborate a selection system. Fortunately there has been no need up to this point. Once the students are deemed eligible, the coop will inform their families and publish it in the coop periodical.

During the student's course of study and for six months following graduation, the coop will lend the money interest free. After this period, the interest rate of the loan will be .75 percent per month. If a student for some reason leaves the university without graduating, the interest on the loan will begin immediately. The maximum period that a student has to pay off their loan is ten years. They must repay the coop within the first three days of each month. If a payment is late or unpaid, there will be a penalty of 15 U.S. dollars. If this problem occurs repeatedly, the interest

rate will double to 1.5 percent per month. I asked the accountant of the coop if they have had problems with students not paying their loan payments on time and he said they have rarely had problems and never any major problems.



**Figure 4.** Students who have utilized the education fund and have returned to work at CAC Pangoa.

#### *Fondo de Salud*

Another fund that CAC Pangoa has established is the health fund. This fund offers the farmers loans to cover the costs of medical services. Just like the education fund, the coop has a separate bank account for money used for solely medical purposes. Fortunately, the farmers do not need to produce more than 1,000 kilograms of coffee in the last three years to utilize this fund.

In the case that a farmer has an illness that would need medical attention in Lima, the coop would lend money to cover the costs of travel to Peru, lodging, alimentation, transportation within Lima, the value of medical services, and the cost of medication. However, there is a limit of 80 soles per day, or about 25 U.S. dollars for the lodging, alimentation, and transportation while in Lima.

The maximum amount for each loan used for health services and medication is 600 U.S. dollars. These loans are offered without interest. However, the maximum term of the loan is two years. If the amount of the loan is less than 300 U.S. dollars, the loan must be paid back in one year. If the amount of the loan is between 300 and 600 U.S. dollars, the farmer has to pay 300 U.S. dollars within the first year and the remaining balance by the end of the second year. Most farmers pay back the loan between the months of April and August with the money that they receive for the coffee or cocoa that they have handed in.

In the case that the loan is not paid off with the money from coffee or cocoa they produce, the farmer will have to pay a 15 U.S. dollar penalty along with an interest rate of 2 percent per month until the amount is paid off. The following year, the coop will have the right to collect the coffee or cocoa from the farm to cover the balance of the loan.

Before obtaining a loan, each farmer has to sign a contract with the coop promising to pay off the entire balance of the loan and if for some reason they can not, they accept the penalties. Also, each farmer guarantees the loan with the title to their farm. If they do not have an ownership title, the farmer must have the backing of two other farmers who will guarantee the loan with their coffee or cocoa production.

While this fund has been beneficial to many families of CAC Pangoa, there is still such a long way to go. I often think about one family in particular that I met in Pangoa that has benefited from the health fund, but has also suffered because of its limitations. Fidencio and his wife are well into their 60's and still farming. They have five children who are all a part of CAC Pangoa and help their parents when they can. Fidencio just started farming organic three years ago and he produces coffee and cocoa and raises honey bees. While I was visiting their farm, I noticed Fidencio's arm was wrapped up. Fidencio had broken his wrist a few weeks before. When I asked him why he had not obtained a loan through the health fund to get it set and casted, he replied that his wife had already been sick this year and they had used their 600 U.S. dollar limit. It broke my heart to watch this man in his upper 60's walking around with a broken wrist because they had already borrowed their limit. It was at this point when I knew I would drink nothing but Fair Trade coffee.



**Figure 5.** Fidencio and his wife at their farm.

#### *Jubilación*

One program that is not yet implemented is a retirement program for the farmers at CAC Pangoa. Esperanza, the General Manager, has heard of the retirement programs in the United States and would like to start something similar in Pangoa. Their plan is to have farmers grow pink cedar trees on their farms and in ten years, when the trees have matured, they will sell the wood. Planting these trees would also support shade-grown coffee. The money that is received from selling the pink cedar would be put in a fund. They would like to invest this money in low-risk investments in the United States because the stock market in Peru is somewhat volatile.

Unfortunately, they do not know what to expect as far as prices and the market for the wood of pink cedar. The ultimate goal is to have the farmers retire at age 65 and receive 100 U.S. dollars per month. If they are expected to live until age 80, they will need 18,000 U.S. dollars for the duration of their retirement.

I think this is a great idea in theory, however, there needs to be a great deal of research before the farmers will agree to invest the little money that they have in pink cedar in hopes that there will be a demand for its wood. The farmers will also put their trust in the coop to invest this money in hopes that it will earn a sufficient return so that they will be able to retire.

## CONCLUSIONS

While traveling on the bus ride from Lima to San Martín de Pangoa, I was trying to picture what this coffee community would be like. Everything that I learned about Fair Trade was self-taught so I really had no idea of what to expect, let alone the fact that the next four days would have such an impact on the way I think about Fair Trade products. I will admit that before I traveled to Peru, I did not drink Fair Trade coffee. Now I will buy nothing but Fair Trade coffee, chocolate, etc. I have also converted my family into Fair Trade consumers!

I had made a hypothesis that all of the principles of IFAT would be upheld in a Fair Trade coffee community. Once again these principles include: creating opportunities for economically disadvantaged producers, transparency and accountability, capacity building, promoting Fair Trade, payment of a fair price, gender equity, working conditions, child labor, the environment, and trade relations. Fortunately I can say that they all were upheld; however there is still so much room for improvement.

I think one of the most rewarding parts of my research was witnessing the way all of the farmers in the coop looked out for one another. One morning I had the opportunity to sit in on one of their meetings where they talked about different ways they could improve the coop. One issue was that there are some farmers that are apprehensive about converting to farming organic. A solution brought up was to take pictures and film people farming organic and to project these images on a screen so the farmers could visualize how to farm organic. Many feel that it would be easier for farmers to convert to organic if they could have images to follow, rather than explanations.

The coop also discussed CODEMU and how some of the women members are organic while others are still conventional. They want to mix the organic and conventional farmers when they sell their products on Saturday mornings at the coop with the goal in mind that the women will interact and the conventional farmers will want to convert to organic farming. The meeting was mostly comprised of men so I was surprised at their enthusiasm to help the women.

I have never been a part of a community when so many people go out of their way for a complete stranger. All of the members of the coop knew that I was there to research Fair Trade, but I was still surprised at their generosity and willingness to help. Every farm that I visited, they would offer me lunch, fruit, or something to drink. And one afternoon, during a break, I was walking around the town and one of the members of the coop took me to visit one of the native villages outside of San Martín de Pangoa. And Jhony, a young member of the coop, spent the days driving me from farm to farm when I am sure he had much better things to do!

While I really did not get any negative feedback from any of the farmers concerning CAC Pangoa, this experience was still somewhat disturbing to me. I have traveled quite a bit throughout Europe, northern Chile, and Mexico. However, I have never been exposed to this much poverty for more than just a few hours. Spending four days in San Martín de Pangoa really opened my eyes and made me realize that the only way these farmers can get out of this vicious cycle is with our help. Americans consume one-fifth of the world's coffee. If we would all drink Fair Trade coffee, maybe more children could make their dream of going to college a reality. And if the coop could lend out more money from their health fund, Fidencio could properly take care of his broken wrist. Americans already spend a lot of money on coffee. Why not spend a little more and know that you are changing peoples' lives?

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