



AID-FOR-TRADE CASE STORY

INTERNATIONAL SOLIDARITY FOUNDATION OF FINLAND

CASE HISTORY "TIERRA NUEVA" ON THE EXPORT OF COFFEE HONEY BEES AND SMALL PRODUCERS IN NICARAGUA

Submitted by:

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and

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Executive Summary

The case story of Tierra Nueva (COSATIN) describes the business development and market empowerment of a small farmers' organization in Nicaragua. The cooperative was formed in 1997 by 23 farmers to deal with marketing of organic coffee. Small coffee farmers in Boaco, Central Nicaragua, were used to selling their coffee bags for middlemen circulating the villages – with take it or leave it price. Farmers had little knowledge of the market situation and didn't have much choice whom to sell their products. Given the farmers' low market power and lack of processing, the price they were getting was low. Adding the poor productivity and aging plantations farmers saw their future quite pessimistically.

Late 1990's International Solidarity Foundation of Finland (ISF) and representatives of the cooperatives planned a series of development projects to decrease the adverse effects of poverty of small farmers. Education was introduced to improve cooperative's knowledge on commerce and financial administration. Organic and Fairtrade certificates were identified as more direct access for markets. Several actions to improve trade-related infrastructure were planned to increase the small farmers' role in the value chain of the production. Supply-side capacity improvements included replacing old plants with new and more productive varieties, development of organic fertilizers, education of peer mentors and encouraging other farmers - especially women - to join the cooperative.

Currently Tierra Nueva exports coffee and honey to Fairtrade markets in Europe and North America with nearly two million U.S. dollars annually. The success of Tierra Nueva is based on systematic training of more than 600 members and the creation of network of peer mentors and quality inspectors who ensure the smooth management of export products. Tierra Nueva as a company has also managed to identify the products (different types of coffee and high quality organic honey) in specific agro-ecological conditions in the area of operation, and also has a growing demand among international buyers.

1. Issues Addressed

Tierra Nueva is an organization of small farmers and beekeepers in department of Boaco in Nicaragua. The cooperative is dedicated to cooperative development and export of organic coffee and honey.

In the mid-nineties started the slump in coffee prices resulting in economic and social insecurity in rural communities in coffee production areas of Nicaragua. With support from the International Solidarity Foundation of Finland and a local NGO called Asprodic, a group of small coffee farmers of Boaco decided to organize. The challenges identified included limited access to markets, dependence on middlemen, low productivity, lack of market power and farmers' small share of sales value due to the lack of processing.

2. Objectives Pursued

The vision of the founders of Tierra Nueva started to expand through contacts with organizations and companies operating with Fairtrade. They desired to move towards a comprehensive empowerment:

International market access: Access to markets was seen very difficult for a young unexperienced cooperative organization. An objective was to qualify the cooperative in the export business, so that they would not have to rely on intermediaries in the marketing of the product.

Knowledge of quality standards: At the beginning of the process, producers had little knowledge of standards of coffee quality: what factors influence the quality and when a coffee is considered a quality coffee by the buyers. As a result, coffees of Boaco always got low grades, which lowered the price and did not allow the sale of products to more challenging markets. Objective was to increase knowledge of quality and introduce quality control system.

Value chain: Producers were selling unprocessed coffee, which led to low price. It was analyzed that the cooperative could increase the farmers' share in the value chain by acquiring a dry mill, warehouse, laboratory and truck.

Productivity of plantations: Small farmers' coffee plantations were generally quite aged, with coffee bushes of over 30 years old and soil suffering from erosion and lack of nutrients. As a result, yields were low, from 8 to 12 quintals per acre; this level did not provide small farmers a decent livelihood from their work. The objective was to increase the productivity within organic agriculture system and thus contributing to sustainable development.

The identity of the producers: The majority of small farmers in Nicaragua have neither business skills nor the mentality. Their identity is based on traditional concepts of "rural poor", whose vision is focused on basic subsistence and not in a steady development of productive resources. Poverty is presented as a social condition that can not be changed and in general the changes are considered as a threat rather than an opportunity. Traditionally, small farmers do not invest in the marketing their products. They are used to waiting in their farms for the middlemen who know the market or who work for export companies. The buyer usually determines the prices, while the role of producers is very passive, consistent with their identity as "poor" by fate, an inherited condition that can not be changed. The aim of the projects was to change the attitude of the peasants.

3. Design and Implementation

The joint development program of Tierra Nueva and ISF took place in several stages, where the lessons learned in each stage were used as input in planning the next phase. During the first phase, in the last five years of the nineties, project concentrated on improving the productivity of small coffee farms through intensive training of all the farmers and the establishment of demonstration plots in order to learn by doing. Tierra Nueva had taken the decision to use the methodology of organic agriculture as a strategic element to ensure sustainability of production in areas where soils had a high degree of erosion and soil degradation. Each producer received a course of twelve months of theory and practice on issues of organic production. The training gave the producers the required knowledge to use the resources of their farms in a sustainable manner, to prevent soil degradation and increase productivity. Only through intensive training producers were able to assimilate all new skills they needed to obtain organic and Fairtrade certifications which were the centerpiece of Tierra Nueva's new product and marketing strategy.

Simultaneously, the program of Tierra Nueva and ISF ran a marketing action with the aim of identifying potentially interested customers for the coffee. Fairtrade organizations in Nicaragua were contacted and Tierra Nueva also participated in international trade fairs. The concrete results of the first stage were the consolidation of the model of certified organic agriculture in local communities and the establishment of contacts to a network of customers and Fairtrade organizations.

In the second phase implemented from 2000 to 2007, the internal systems of continuous training and pre-certification were strengthened. This stage included the institutionalization of quality control of coffee through training of qualified tasters among members of Tierra Nueva. The increased awareness about the quality of coffee brought about structural changes in small farms. Catimor variety was replaced with new plants (Caturra, Catuai and Bourbon). As a result a significant improvement in scores of tasting was achieved increasing the price of Tierra Nueva on the international market.

This comprehensive empowerment of small farmers provided the security needed to develop their productive activities in the medium and long term, despite the constant fluctuations in harvests and prices. Another factor examined was the dependence on a single product in the generation of income. As a diversification strategy Tierra Nueva decided to develop beekeeping as an option to dampen the volatility of the coffee markets. Later Tierra Nueva enters more heavily in the international market of honey as cooperative members realize that the export of honey has at least the same potential as coffee.

In a third phase of development, from 2008 to 2010 with the support of the International Solidarity Foundation of Finland, Tierra Nueva acquired its own refinery where coffee grains are rinsed, cleaned, depulped. Tierra Nueva joined the Association of Small Coffee Producers of Nicaragua (CAFENICA) and developed to the largest exporter of honey in Nicaragua. At the same time, Tierra Nueva performs a process of promoting gender equity in their primary cooperatives.

4. Problems Encountered

The success and growth required financial capital resources but local banks did not finance cooperative organizations like Cosatin/Tierra Nueva because of the lack of guarantee.

Once the doors for international markets opened, the supply of honey turned to be a bottle neck for growth. Tierra Nueva has started to look for potential beekeepers in other regions of the country to be able to serve high demand for organic, Fairtrade honey.

5. Factors for Success/Failure

Persistent training: Members of Tierra Nueva participated in a relatively long training process, which had an effect on definition of a joint mission, and provided the necessary knowledge for a change in production systems.

Complementarity: The development of Tierra Nueva is the result of a series of complementary contributions of different actors. Since the beginning, Tierra Nueva and its member producers have been owners of their own organizational development, production and business. In this effort other development partners have joined such as:

- NGOs have financed or facilitated an important part of the process of training and business development (International Solidarity Foundation of Finland, ASPRODIC, OXFAM and others)
- Financial institutions have provided Tierra Nueva short-term loans to facilitate the collection of coffee and honey (Root Capital, Rabobank, etc.)
- Fairtrade organizations have facilitated contacts between Tierra Nueva and the buyers of coffee and honey, and have helped in the certification (Max Havelaar, Biolatina, FLO, CLAC, Red Café etc.)
- Importers of coffee and honey in Europe and North America, whose vision of development and corporate social responsibility have contributed in a very positive business environment and thus have facilitated the empowerment of the cooperative business (Equal Exchange, Gepa, Mitka, EZA Fairer Handel, Elan Organic, Naf, Paragon, Globus Coffees, Meira, Alter Eco, Walter Lang etc.).

Organizational model innovations: Tierra Nueva has been able to improve their organizational model according to business needs. When the process of training members was completed, a group of about 40 producers was selected to act as local peer mentors. This has created a network of qualified human resources that help grassroots producers to resolve 80% of production problems (nutrition, pests etc), without having to maintain costly systems of technical assistance. These same mentors have become responsible of pre-certification and internal inspection to ensure compliance with quality standards.

Socially responsible business approach covering the entire value chain: One of the success factors of Tierra Nueva is the holistic approach that encompasses the entire value chain from production to export. This allows the company to apply quality systems in each stage of the chain. In the process of Tierra Nueva the business vision has been very clear, and this has helped the cooperative's decision making in difficult times. Social responsibility of Tierra Nueva and other members of the Fairtrade chain have helped to channel resources so that success can contribute to the promotion of gender equality and the alleviation poverty.

Governance of the cooperative: In view of Tierra Nueva, the factor that has threatened the implementation of the desired development process has been the governance of the cooperative. If members do not know enough about the business of the cooperative enterprise, if the information does not flow and affiliates do not feel like the real owners of their own organization, members do not trust in it and do not identify with the development of it.

6. Results Achieved

Tierra Nueva currently has a membership of 620 producers. The cooperative has shifted from exporter of 23 bags to exporter of 23 containers per year. The organization annually exports certified organic and Fairtrade coffee with a total value of over a million dollars and the export value of honey is expected to exceed the coffee in a couple of years. Tierra Nueva is the largest exporter of honey in Nicaragua, which is an outstanding achievement for a cooperative of small producers.

Fairtrade and organic certificates obtained in the year 2000 have offered farmers of the cooperative higher than standard price on their products. The guaranteed minimum price was extremely important during the collapse of coffee price in the beginning of the millennium. With the Fairtrade premium the cooperative has been able offer direct benefits for farmers. Benefits include education, health services, improvement of roads, micro loans, renovation of communal buildings etc.

Nowadays Tierra Nueva takes care of most phases of production: picking, wet process (unpeeling), cleaning, drying, hulling, sorting, grading, packing, storing and transportation to the port. The increased control of the value chain has improved the quality control and added value of the product.

Fourteen-year process of development has changed the identity of the cooperative's "poor" to "farmer and entrepreneur" and strengthened both the cooperative and the capacities of members so that it has succeeded in creating a competitive company that can operate successfully in the domestic and international markets.

Tierra Nueva process was initiated in a situation where the producers themselves thought that Boaco coffee is of inferior quality compared to other coffee growing areas of Nicaragua. With the help of established advanced tasting systems it was found that several local communities produce coffee with special characteristics in relation to its sweetness, low acidity and delicious flavors and aromas, which are very popular among some segments of buyers. Tierra Nueva has a new approach to the market: the promotion of specialty coffees to targeted markets, identifying the origin and traceability required by customers. The result has been a significant increase both in demand and sales prices.

Tierra Nueva is a cooperative organization that promotes strong indigenous development of rural communities in an economically and ecologically sustainable way. Although they are not rich yet even by local standards, the cooperative members have increased their income and their socioeconomic conditions are more favorable than the rural population in general.

7. Lessons learned

Empowerment processes and commercial business require a clear vision and strength of the local organization. The organization has to be genuine, democratic and transparent representing and reflecting the interests of the target population. The two pillars are important:

- business approach (for the results to be economically sustainable)
- social responsibility (so that the results really help to alleviate poverty and increase gender equity)

Comprehensive, systematic and thorough training of people is a key factor for success. Another key factor is the complementary roles of the participant to meet the diverse needs of the value chain, including production, organization, financial services, training, contacts for market access etc.

The most important contribution of the Fairtrade system for the development process of Tierra Nueva has been to provide a very positive business environment. That has been safe environment for a new export company in the midst of its learning process. While in the middle of the coffee crisis in 2003, the Fairtrade system's minimum prices (125 USD per quintal when conventional coffee prices fell to 35 USD per qq) definitely offered an advantage for Tierra Nueva, but the real impact of Fairtrade relates to market access and business empowerment, and not so much to the price of coffee or honey.

8. Conclusions

The protagonists of the story are small farmers and beekeepers, who have managed to break with the traditional scheme where producers are only responsible for their crops while marketing channels are managed by large companies and their local intermediaries.

Aid for Trade projects are potentially very important in promoting sustainable economic development and poverty alleviation, provided they have a holistic approach and rely on competent local actors with a sufficiently broad social base, corporate vision and capacity for innovation and reengineering at critical moments. In implementing these programs is essential to work with networks with specialized institutions to facilitate the development of the entire value chain, not just one or some of the actors involved.