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FROM THE AMERICAN PEOPLE

CASE STUDY

Financing Small-Scale Coffee Producers

Latin American coffee organizations receive short-term trade credit



Photo: William Fulbright Foote, EcoLogic Finance

By foot and mule, farmers in the Peruvian Andes transport freshly picked coffee cherries to the local mill for pulping, drying, processing, sorting and shipping.

By significantly increasing financing for producers in developing countries, the partnership is also helping to satisfy the rapidly growing U.S. market for specialty foods and other environmentally sound products.

Challenge

Small-scale specialty coffee farmers in Latin America struggle to compete in the worldwide coffee market. Farmers earn a smaller profit from their labor because local middlemen pay them unfairly low prices for their product. Some farmers have been able to leapfrog over the middlemen by exporting directly to international specialty coffee importers and roasters, who pay them Fair-Trade and organic premiums for their high-quality product. Unfortunately, many desperate farmers still choose to sell to the local middlemen for quick, up-front cash.

Initiative

USAID supports the Finance Alliance for Sustainable Trade (FAST) program, which creates partnerships among U.S.-based alternative lenders, socially responsible importers and roasters, and organizations that run independent, eco-labeling programs and social audits, such as Fair Trade certification. The groups work together to increase timely access to financing for farmer cooperatives whose products are grown, harvested and processed in eco-friendly ways. In one collaboration promoted by FAST, EcoLogic Finance and the Calvert Foundation — which both run alternative investment funds — worked together in 2003 to structure investments that provided short-term trade credit to coffee producer organizations in Mexico and Costa Rica. In 2004, this initiative expanded to provide trade credit to coffee farmers in East Africa.

Result

In 2003, FAST helped 29 trade credit facilities in Latin America, including more than \$5.7 million in trade credit to 18 different coffee farmer organizations. The program helped more than 4,000 small farmers improve their livelihoods. Benefits also extend directly to the environment. A coffee-grower organization in Guatemala launched a regional reforestation program focused on coffee shade farming, and an increasing number of farmers in Costa Rica have switched to growing organic coffee and shade coffee, particularly in habitats with high biodiversity.