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Indebted to Fair Trade? Coffee and crisis in Nicaragua

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ABSTRACT

This paper explores the following general question: Why are Fair Trade coffee farmers in Nicaragua burdened by debt? Nearly five years from "the end" of the coffee crisis, peasant farming households committed to Fair Trade standards continue to struggle with a legacy of indebtedness caused by years of low farm-gate prices and declining productivity between 2000 and 2004. Through ethnographic observation and interviews with peasant farmers in Nicaragua, I explore how farmers experience a simple reproduction squeeze that hinders them from "bootstrapping" their own economic development. I argue that the effort to raise the Fair Trade minimum price and premium for coffee through Fair Trade Labelling Organizations International (FLO) in 2008 demonstrated a good first step toward improving farm-gate prices, however, these gains must be understood in the context of long-term indebtedness as well as rising production costs and household consumption costs.

1. Introduction

Over the past decade, Fair Trade coffee contracts played a decisive role in reducing the economic vulnerability of peasant farmers in Northern Nicaragua (Bacon, 2005; Bacon et al., 2008b; Utting-Chamorro, 2005). At no point were Fair Trade contracts more vital to peasants in Nicaragua than following Hurricane Mitch in 1998 and during the coffee crisis[1] beginning in 1999 (Bacon et al., 2008a). When farm-gate coffee prices dropped to 30 year lows in 2001, the coffee dependent rural economy of Nicaragua experienced, arguably, the most acute effects of the crisis in Central America (Bacon, 2005; Varangis et al., 2003).

In 2000, the Nicaraguan coffee sector generated US$171 million in export earnings, 26% of all export revenues in Nicaragua (Varangis et al., 2003). One year later, Nicaragua's coffee exports dropped by 50% and an estimated 500–3000 coffee farms succumbed to foreclosure (Bacon, 2002; Bacon et al., 2008; Mayda, 2001). Credit to the coffee sector froze. In response to declining prices and foreseen loses, banks cut their lending by 80% from 1999 to 2001 (Rocha, 2001). Three private banks financing coffee production declared bankruptcy under the weight of US$100 million in outstanding loans (Bacon, 2005; Rocha, 2001). Declining investment led to rampant unemployment, farm foreclosures and food shortages in localities where rural workers and peasant farmers depended on coffee wages or sales as a main source of household income (Bacon et al., 2008a; Rocha, 2001; Varangis et al., 2003). The Nicaraguan government responded slowly to the needs of coffee farmers and workers, intervening in debt restructuring to the benefit of large producers late in 2001 but eschewing assistance to peasant farmers and coffee workers bearing the brunt of the social and economic impact of the crisis (Varangis et al., 2003).

Between 2000 and 2003, contracts for Fair Trade certified coffee from Nicaragua issued from European and North American coffee importers generated revenues at more than double the conventional market price and helped protect more than 6000 peasant coffee farmers from over-exposure to the price decline (Bacon, 2005). In the midst of the coffee crisis Fair Trade contracts in Nicaragua expanded opportunities for peasants to gain access to credit, technical assistance, and to develop cooperative enterprises that could compete in the market for high quality coffees (Bacon et al., 2008b). Moreover, social development premiums paid above the Fair Trade contract price contributed to community-level programs for childhood education, health care and other vital development

[1] It should be noted that claims of a "global coffee crisis" can obscure the reality that the economic and humanitarian devastation caused by declining coffee prices were spatially uneven. While low farm-gate prices and disinvestment ravaged the countryside in producer countries, consumer countries were headlong into what Stephano Ponte has called "the latte revolution" (2002). The fundamental paradox of the coffee crisis was that, as Daviron and Ponte explain, it "coexisted with a coffee revival in consuming countries, if not in terms of overall consumption per capita, at least in terms of increasing value of consumption of coffee-based products" (2005: 204). In short, it must not be forgotten that even as producing countries experienced the objective social and economic impacts of the decline in coffee prices, coffee firms continued to experience growth in coffee profits through the expansion of value-added retail and wholesale coffees (Daviron and Ponte, 2006).

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initiatives that enhanced the livelihoods of farming families (Bacon et al., 2008b; Utting-Chamorro, 2005).[2]

As farmers in my study area explained, they are deeply indebted to Fair Trade for aiding them to maintain access to agricultural credit and stay on their land (see also Jaffee, 2007). The moral-economic imperative of Fair Trade contracts provided farmers a vital "safety-net" of premium prices and credit that enabled many to stay on and work their land (Bacon, 2005; Jaffee, 2007). Alternative trade organizations (ATOs) and specialty coffee importers who pioneered Fair Trade in the United States partnered with cooperatives to provide higher prices and social programs to their members while many unaffiliated peasant coffee farmers sold off property, abandoned coffee production or migrated to urban slums or abroad (Bacon, 2005; Rocha, 2004; Utting-Chamorro, 2005). According to Bacon (2002), small-scale farmers affiliated with Fair Trade cooperatives were four-times less likely than non-affiliated farmers to lose their land to credit lenders or be forced to sell (Bacon, 2002; Bacon et al., 2008b, see also Jaffee, 2007 on Mexico). As one farmer informant in my study explained: "Without access to credit and better prices through Fair Trade we would have sold our property in search for work elsewhere. We were that desperate. The conditions were that poor".

Nearly a decade since the onset of the coffee crisis, however, Fair Trade farmers in a municipality which I shall call Fonseca, Nicaragua are still struggling with the legacy of the protracted period of low farm-gate coffee prices. In addition, rising labor costs, input costs, food costs and transaction costs are erasing the nominal gains made through Fair Trade price premiums. In fact, in Nicaragua and elsewhere, many farmers committed to Fair Trade are burdened by very real material debts (Oxfam, 2005). Although cooperatives in Fonseca reaped the benefits of stable market access, credit access and social development programs during a period of extremely low farm-gate prices – a hallmark of the Fair Trade guarantee – in 2007 many of their farmer members struggled to remain solvent.

Given that the objective of Fair Trade is to guarantee favorable conditions of market access for peasant farmers and to provide assurances that they can meet the costs of production and attain a decent standard of living, their struggle for solvency calls attention to potential limits of Fair Trade alone in resolving the structural constraints to profitability that peasant farmers face. Subsequently, as this paper explores, understanding how peasant households who supply coffee to Fair Trade market fall into a cycle of indebtedness provides critical insights as to whether the rhetorically powerful ideals and principles of economic justice propagated by the Fair Trade movement are indeed giving "disadvantaged small producers and workers more control over their own lives" (FLO, 2008).

This paper is organized in three parts. First, I establish that indebtedness is a key economic and social problem in Fair Trade cooperatives. Second, I argue that in Fonseca, Nicaragua, farmers experience a "simple reproduction squeeze" (Bernstein, 1981) which, because of their dependence on the coffee market for income, forces farming households to meet the demands of reproducing the workforce with the demands of making the farm productive. The squeeze results in cycles of indebtedness. Third, drawing on interviews conducted with farmers in Fonseca, I argue that farming households respond to the simple reproduction squeeze by self-exploiting, self-provisioning, cutting back consumption and mortgaging their crop in advance of the harvest to fulfill their household needs.

The empirical evidence presented below on farmer indebtedness must not be directly attributed to the incorporation of farmers into Fair Trade markets. Indebtedness is not the result of initiatives for Fair Trade. Rather, indebtedness is caused by the political-economic conditions through which peasant coffee farmers supply coffee to international markets. The presence of indebtedness calls our attention to the persistence of structural constraints to profitability unresolved by Fair Trade. What my research illustrates is that farmers must, as one informant says, "patch things together" so as to continue supplying coffee to Fair Trade markets.

2. Fair Trade coffee, peasant farmers, and the problem of indebtedness

Indebtedness is one of the most pressing concerns to peasant farmers and cooperatives participating in the Fair Trade coffee network in Central America and Mexico. In a 2005 study, The Coffee Crisis Continues, researchers at Oxfam America argued that coffee farmer debt was one of the key factors prolonging the devastating effects of the coffee crisis in Central America (Oxfam America, 2005). The Oxfam America report claimed that many "peasant farmers entered into the coffee crisis shouldering significant debt at above market rates" and that farmers "who survived through the lowest prices continue to bear the heavy burden of this obligation" (2005, p. 5). The conjuncture of past debt obligations and declining productivity of their farms caused by a lack of capital investment and diminished household resources during the coffee crisis hindered farmers throughout the region from restoring profitability even after prices began to rise again in 2004 (Oxfam America, 2005; Utting-Chamorro, 2005).

Researchers working at the household scale in the region have reported that low incomes and indebtedness remain key barriers to stimulating economic growth in farming communities and cooperatives participating in Fair Trade, particularly in Nicaragua where state assistance to the coffee sector is largely absent (Bacon et al., 2008a,b; Calo and Wise, 2005; Jaffee, 2007; Mendoza and Bastiaensen, 2003; Oxfam America, 2005; Utting-Chamorro, 2005). Such studies document that, although Fair Trade cooperatives – as enterprises staffed with professional administrators – can respond to the challenges and demands of discriminate coffee buyers and certifying agencies, and can benefit from higher prices and market visibility created through the Fair Trade, peasant farmers represented by these organizations confront major barriers in their efforts to improve their standard of living and to foster sustainable development in their local communities (Bacon et al., 2008a,b; Jaffee, 2007; Oxfam America, 2005).

High rates of indebtedness among their members places considerable stress on cooperatives participating in Fair Trade. While debts can reduce net household income of members (Mendez, 2002; Lyon, 2002), they can also increase social tensions and distrust between farmers and officials within cooperatives and can weaken the external credibility of enterprises negotiating international Fair Trade contracts (Mendez, 2002; Lyon, 2002). Debts can be a major factor leading farmers to leave a cooperative or to sell their coffee outside of the cooperative, thereby breaking off contractual obligations and subjecting Fair Trade cooperatives to risks associated with meeting the demands of international buyers. Sarah Lyon captures the cascading effects of indebtedness on a Fair Trade cooperative in her research on the Guatemalan cooperative La Voz.

> Due to falling coffee prices...cooperative members' indebtedness rose to a high level and the rate of unpaid loans lowered

[2] Although peasant farmers affiliated with Fair Trade cooperatives had a safety net of international buyers concerned with securing high quality and labeled coffee during the coffee crisis which ravaged Nicaragua they also bore witness to the despair of their neighbors, workers, and family members, as unaccredited, unorganized and independent coffee workers and peasant coffee farmers suffered irreconcilable economic violence caused by rendering them structurally irrelevant to the global coffee value chain. Many in their communities and families filled the ranks of the surplus army of economic refugees that formed the Las Tunas agrarian reform movement.

> the cooperative's profits. [...] High rates of debt in a cooperative may also result in a cooperative's difficulty in fulfilling coffee contracts because members do not turn their coffee into the wet mill. High rates of debt can also be debilitating to the morale and sense of unity among cooperative members as solvent members begin to feel that they are being taken advantage of and indebted members begin to feel that the cooperative's management is not responsive to their needs. Finally, cooperative members that are deeply in debt to a cooperative may actually begin to have a vested interest in the cooperative's failure because it would potentially erase their own debts. Unpaid loans are hardly unique to La Voz, it is well known that mismanaged credit funds often lead to the destruction of otherwise successful coffee cooperatives throughout the region (2002; 9–10).

Lyon's analysis illuminates the centrality of debt-service relations within the Fair Trade cooperative in Guatemala as well as the moral obligations and conflicts that ensue from prolonged indebtedness. Internally, as Lyon describes, the long-term indebtedness of farmers can lead to lowered morale and sense of solidarity as well as reduce the profits of the cooperative as a whole (Lyon, 2002). Indebtedness can result in rising rates of attrition, depletion of financial resources in the cooperative, and even the breaking of contractual obligations between cooperative members and their organizations (Lyon, 2002). The breaking of such internal obligations can also hurt external obligations between Fair Trade cooperatives and buyers.

In response to these socio-economic concerns within Fair Trade cooperatives, the Coordinadora Latinoamericana y del Caribe de Pequenos Productores de Comercio Justo (CLAC), a transnational organization representing Fair Trade cooperatives, demanded that Fair Labelling Organizations International (FLO) increase the Fair Trade minimum price and premium for conventional and organic coffees in November 2006. The report reflected an effort by the CLAC to protect Fair Trade cooperatives against internal disarticulation caused by growing debts, rising food costs, input costs, and the costs of quality assurance required to farm, industrialize and commercialize the high quality coffees demanded in the Fair Trade marketplace. Yet, the CLAC report also revealed the inadequacy of the current "fair-price" to cover the costs of production for peasant farmers and their cooperatives. In its report, the CLAC claimed that the costs of production and basic subsistence wages for peasant farmers in the region were rising to unprecedented levels and suggested that these costs could lead to diminished competitiveness, insolvency and decreased income for cooperatives and farmers (Bacon and Flores-Gomez, 2007). On June 1, 2008, after two years of pressure from the CLAC and a review of pricing standards facilitated by FLO, a new pricing policy took effect within the Fair Trade system. Under Fair Trade standards for conventional coffee, FLO increased the minimum price and premium for conventional coffee by 7% (from US$1.26/lb to US$1.35/lb), and for organic coffee by 10% (from US$1.41/lb to US$1.55/lb).

Are these price increases enough to break the cycles of indebtedness confronting peasant farmers? My research suggests, following Bacon et al. (2008a), that changing the price structure within Fair Trade, although a good first step, may not present farmers with a "magic bullet". There are broader political-economic factors outside of price that must be addressed for farmers to earn a livelihood and to overcome cycles of indebtedness.

2.1. Methodology

In what follows I will present findings from 12 months of fieldwork with peasant coffee farmers in Fonseca, Nicaragua, a municipality that shares deep roots of solidarity with the Fair Trade movement in North America and Europe. From September 2006 to August 2007 I attended cooperative meetings, visited the homes and farms of cooperative members, and observed the coffee labors carried out over the harvest cycle. My concern for the problem of indebtedness emerged through semi-structured interviews in which I asked farmers to describe how they came to be coffee farmers, how they came to be members of their Fair Trade cooperative, and the kind of barriers they confronted in achieving economic growth in their household. I carried out and transcribed interviews with 41 Fair Trade coffee farmers (33 men and 8 women) as well as seven administrators (5 men and 2 women) and analyzed their responses through coded textual analysis. I selected my key informants by sampling farmers from four local-scale producer cooperatives representing a total of 120 individual farmer members. Methodologically, I sought a representative sample of farmers in the cooperatives based on farm-size and length of membership in the cooperative so as to gain a diversity of interpretations of the benefits of Fair Trade to peasant farmers in Fonseca. I made contacts with my informants in meetings held at the main offices of the Fair Trade cooperative and conducted one to three hour long interviews at their homes, often returning for follow-up conversations.[3] Two months after completing the interviews for the study, the Fair Trade cooperative in Fonseca provided data from a rapid assessment survey of their membership carried out through random sampling by their field technicians in May 2007.

2.2. Case study: Fair Trade coffee in Fonseca Nicaragua

Fonseca is a municipality shaped by the economic activities of coffee farming and cattle ranching due to its mountainous highlands, fertile lowland valleys and geographic proximity to major transportation routes. The Fair Trade cooperative in Fonseca is one of 12 different marketing cooperatives representing more than 6000 peasant coffee farmers – about 20% of the farmer population of the Nicaraguan coffee sector (Bacon et al., 2008). The Fair Trade cooperative provides credit, legal representation, competitive pricing, and organizes the vertically integrated marketing of coffee from cultivation to export. In Fonseca, Fair Trade farmers supply coffee to international markets through a three tier cooperative structure, which seeks to improve the market competitiveness of peasant farmers by creating economies of scale. At the local-scale, farmers affiliate with a farming cooperative. At the municipal scale, farmer's are represented by their local cooperative in a cooperative union. And at the regional scale, local cooperatives are represented by their cooperative union in a central marketing cooperative.

In 1993, the farmers in Fonseca won their first Fair Trade coffee contract with European importers. Between 1997 and 2007, the Fair Trade cooperative that represents Fonsecan farmers increased its total exports ten fold from 7 million pounds to 70 million pounds, making it one of the most distinguished and competitive coffee exporters in the country. Thirty percent of the coffee produced by the members of the Fair Trade cooperative is exported as Fair Trade certified. From their international reputation as

[3] Since farmers have indeed benefited from Fair Trade, it is rare that they have, or take, the opportunity to speak candidly about their concerns with the Fair Trade movement. Since Fair Trade accreditation affords farmers privileged market access in the context of limited alternatives, then they are, by necessity, somewhat dependent on the benefits provided by Fair Trade for subsistence, and by extension, to certifications, and to outsiders. Moreover, the evidence that Fair Trade works ultimately rests on whether farmers enjoy the economic prosperity promised and can testify to the benefits of Fair Trade. In my experience, farmers are not ignorant of this reality, but rather withhold judgment because demands to tighten the marketing apparatus has minimized the public spaces where peasant farmers affiliated with accredited Fair Trade cooperatives are at liberty, or feel safe, to express their discontent. Yet, on their land, in their homes, and in safe spaces, away from the direct gaze of outsiders concerned with expanding the market share of the Fair Trade brand, peasant coffee farmers are often quite reluctant to acknowledge that Fair Trade is indeed fair.

responsible enterprises and as ideologically committed to Fair Trade, the three tiered Fair Trade cooperative system in Fonseca also attracts projects from international NGOs who fund programs to increase literacy, decrease child mortality, improve women's health, improve access to drinking water, campaign for gender equity, encourage farmer-to-farmer education, initiate youth leadership activities, and increase awareness of agro-ecological practices that conserve biodiversity. On rare occasions the cooperative also acts as a broker of government and NGO programs for electrification, road-building, house construction, and water purification. In a municipality lacking a robust public sector, the cooperatives in Fonseca provide services otherwise unavailable.

According to the survey conducted by the Fair Trade cooperative, on average, farmers associated with the Fair Trade cooperative in Fonseca owned roughly 6 ha properties, maintained coffee plots of 2 ha and households were composed of seven dependent members. One of the most significant barriers to increasing solvency described by peasant coffee farmers in Fonseca is the limited amount of coffee under cultivation and their aging coffee plots. According to the survey carried out by the Fair Trade cooperative 77% of the peasant coffee farmers in Fonseca owned less than 2 ha of coffee in production and 65% of coffee producing members maintained equal to or less than 1.5 ha. Coffee farmers who owned 3.5 or more hectares of land reported higher yields than their counter parts, but made up only 13% of the overall population.

Illustrating the uneven land tenure pattern among farmers, two of my informants managed 17.5 ha farms with over 20 permanent workers and 75 seasonal workers for the harvest. Such farmers reported higher yields, owned trucks and cattle, multiple properties and wielded significant power in determining their lines of credit and when their debts would be liquidated. In other words, those who owned larger properties stood out from the rest in terms of their access to ample credit, their investment in yield improvement, and their power within the cooperatives. These farmers represented a different class of participants in the Fair Trade cooperative, visible in their participation in cooperative activities, and their appointment to elected and appointed positions of leadership. While these farmers are exceptional – in that they have very different livelihoods and opportunities to break the debt cycle – like smaller-scale landholders they still faced problems of indebtedness, even if it did not threaten their subsistence.

Yields in the municipality were quite low between 2004 and 2006, less than 2500 pounds of pergamino[4] per hectare annually. In terms of prices, over three harvests from 2004 to 2006 farmers reported an average farm-gate price of US$44 per 100 pounds of pergamino – or roughly the equivalent of US$88 per 100 pounds of export grade – generating in revenue US$2200 a year. It is a common misconception among advocates and consumers of Fair Trade certified coffee that coffee farmers receive, directly, the Fair Trade price and premium, and that all of their output is sold according to Fair Trade standards (Bacon, 2005). Unfortunately, due to the high transaction costs of processing and marketing the high quality coffee demanded in the Fair Trade market, a significant portion of the export price (paid according to Fair Trade standards) covers the costs of off-farm labor, administrators, facilities and marketing (Bacon et al., 2008b). Therefore, in Fonseca farmers receive a percentage of the export price that is paid before coffee is processed and exported. As a bonus for participating in the cooperative enterprise, farmers received a dividend from Fair Trade premiums in October of an average of US$36.50 or less for the average farmer. However, given that many farmers are indebted to the Fair Trade cooperative, these premiums are not transferred in payments, but applied to outstanding debts (see also Bacon et al., 2008a).

The problem of outstanding debt is directly related to the way that credit is structured. To provide farmers access to credit throughout the year, the Fair Trade cooperative instituted a crop-mortgage system in Fonseca in 2003. Now, farmers enter into a crop-mortgage agreement with the Fair Trade cooperative in March of every year. This agreement is usually made 9 months before the coffee is harvested and frequently more than 14 months before the coffee is actually sold by the Fair Trade cooperative on the international market. In 2006, the Fair Trade cooperative provided farmers a crop-mortgage for an average of US$16.00 per 100 pounds of pergamino – or on average US$400 or less per hectare under cultivation. To qualify for a crop-mortgage, the farmer must be a member in good standing of a local cooperative and provide their land-title as collateral to the local and municipal cooperative for the loan. The agreement provides each household with a cash advance – adelanto – contingent on estimated production at an annual interest rate of 18%. If farmers do not fulfill their production quotas and fail to payback their loans, farmers must pay an interest rate penalty of 25% for the remaining debt. As a crucial stipulation of the crop-mortgage agreement, however, the Fair Trade cooperative in Fonseca may not foreclose on the farmer's property and in certain cases, the Fair Trade cooperative has been amenable to debt restructuring. These flexible arrangements are a product of solidarities cultivated over many years and cannot be underestimated as a basis for farmer loyalty to the cooperatives even in the face of outstanding debts and low incomes.

The crop-mortgage agreement is determined by the cooperative technician who estimates the productivity of the coffee plot for a given year during an on farm inspection and assigns the farmer with a production quota. In return for the crop-mortgage and additional services provided in the cooperative, the farmer is obligated to maintain their coffee crop throughout the year and to make delivery of their product to the Fair Trade cooperative mill at the end of the harvest. As an official from the Fair Trade cooperative in Fonseca explained to me,

> ...its all a chain. We [the Fair Trade cooperative] serve as a link where [the peasants] get credit. If their loan comes through the cooperative, the peasants must deliver coffee to the dry mill. After the coffee is at the dry mill, the farmers make their debt payments according to their obligations that they have with the cooperative. [. . .] Once their debts to the cooperative are serviced, they can receive the surplus from the coffee that they sell. [Interview A.G. – December 12, 2006]

Crop-mortgaging directly incentivizes farmers to deliver their coffee and increase productivity. Because farmers must deliver the product according to their quota, it also indirectly reduces the costs of supervision and management carried out by the Fair Trade cooperative as it seeks to control their supply of raw product (Bernstein, 1981, p. 13). If peasants have access to credit, particularly at high interest rates, increasing annual productivity becomes vital to their ability to repay their loans and make profits. Therefore, crop-mortgaging while providing farming households with liquidity in the off-season (Jaffee, 2007, p. 96), has also come with a price. Farmers are at greater risk to default on loans if productivity falters and/or their quota exceeds what they are capable of producing.

3. The simple reproduction squeeze and peasant coffee farming households

Like coffee farmers throughout Central America (Oxfam, 2005), peasants in Fonseca, Nicaragua emerged from the coffee crisis ser-

[4] Pergamino refers to coffee that has been wet milled to remove the fruit-like pulp that surrounds the seed but has not yet passed through stages of drying and processing carried out at a dry mill exporter. One hundred pounds of export grade coffee is commonly processed from roughly two hundred pounds of pergamino coffee produced by farmers in Fonseca, Nicaragua.

vicing large debt obligations to their cooperative enterprises and face great hurdles to improve their standard of living, to intensify productivity and to capture greater rents from the coffee they sell. Unlike other producer countries such as Mexico (see Jaffee, 2007; Calo and Wise, 2005), the Nicaraguan state provides no subsidies to the peasant coffee sector to defray costs or provide for subsistence and interest rates provided by lenders are very high, even within Fair Trade cooperatives. With years of low coffee prices and high rates of inflation in Nicaragua, farming households have lost what little capital resources they may have accumulated and now must seek credit to fulfill even the most basic production and consumption needs. With little surplus gleaned from coffee profits, peasant coffee farmers described themselves as dependent on credit to maintain their coffee plots and, in many cases to cover the costs of social reproduction.

I argue that with rising household reproduction costs and a prolonged period of low coffee prices, farming households in Fonseca commonly experience a simple reproduction squeeze (Bernstein, 1981) caused by the high costs of production and consumption, low yields, high interest rates, and low farm-gate prices. The result is distressing. According to the survey conducted by the Fair Trade cooperative, farmer members who had sold coffee under Fair Trade contracts in 2006 reported net losses in household income at an average of US$397 and 60% reported outstanding debts with their cooperatives averaging US$200 dollars. These informants compare to Oaxacan peasant farmers studied by Daniel Jaffee in Mexico who, even with access to Fair Trade premiums and dividends, still reported losses of more than US$347, "even as they invest hundreds or thousands of hours to weed, harvest, and process their coffee" (2007, p. 101). In other words, despite expending a great deal of labor-time cultivating coffee, farmers continued to experience income losses as well as mounting debt.

To understand how farmers get into a situation of indebtedness, I draw upon the literature theorizing peasant economies and their integration with capitalist markets. In brief, as market-oriented peasant farmers enter into capitalist relations for the sale of cash crops (like coffee) and become increasingly dependent on market exchange for a significant proportion of household income and household consumption, they become vulnerable to exogenous forces that are out of their control; forces that can result in the failure to keep the farm productive (reproducing the means of production), the failure to meet basic consumption needs (Bernstein, 1981) and/or the failure to pay back loans. According to Bernstein (1981, p. 11) the simple reproduction squeeze is triggered when peasant commodity producers confront:

(1) falling prices and rising household costs;
(2) declining productivity caused by labor or land exhaustion
(3) rising production costs, and
(4) market uncertainty caused by "no assurance that there will be increased returns to labor commensurate with the costs incurred".

Bernstein makes clear that the simple reproduction squeeze is not only a problem of imbalance between falling commodity prices and rising costs of production. In other words, it is not simply a price-cost problem experienced by a capitalist farm through a drop in revenue or profits. Rather the squeeze is also caused by declining productivity, market uncertainty and rising household costs and it is experienced by the peasant farmers in the realm of social reproduction – of sustaining the household – that of feeding, clothing, schooling and healing the family. Bernstein (1981, p. 11) writes that,

> Falling prices for...commodities are experienced by the household economy as a deterioration of the terms of exchange of the cash crops it produces relative to the commodities it needs for simple reproduction (C–M–C). This means a reduction in levels of consumption or an intensification of commodity production (to try and maintain existing levels of consumption), or both simultaneously. Deterioration in the terms of exchange raises the costs of production both directly (increased costs of production) and indirectly (increased costs of reproducing the producers).

Because the purchasing power of the peasant household is determined by the value of the cash crop that they produce and sell, falling prices for their output, or rising prices for inputs in production (labor, fertilizer, pesticides), can lead to reduced household income. The squeeze is 'felt' by households as a direct result, not of the differential between the price of coffee and costs of production, but the demands of the household to decide how to split the income earned from cash crop sales between household consumption and farm production needs without provoking a drop in productivity (Bernstein, 1981).

Peasant households, according to Bernstein (1981), respond to declining income by working harder to increase productivity and/or by reducing budgets for food and other household items – in short they seek to preserve the farm and household income by any mean necessary. A farmer informant in my study explained this effort to make a livelihood in the following way.

> We have become accustomed to living in a particular way. When there is no way to cover the costs necessary to make things run correctly we patch things together to make it work. I call it patching policy. We mend, we patch things together. [Interview S.M. – February 2, 2007]

The farmer's effort to continually patch things together, or mend a broken or disarticulated system, concurs with Alexander Chayanov's (1991) description of how peasants respond to declining income. Based on his extensive research on peasant cooperative organizations in the Soviet Union, Chayanov argues that, unlike capitalist enterprises which would fail under conditions of economic crisis, peasant households are resilient because they can accommodate the income/revenue squeeze through reduced spending on consumption, thus preserving the farm enterprise for another year.

> In the event of a fall in gross income, one of the first results will be a reduction in capital accumulation [savings]. In the event of a further drop in gross income, a family farm, unlike a farm which pays wages, can continue to maintain the volume of activity at the old level, by cutting personal consumption... [...] This special characteristic of the peasant household considerably enhances the ability of the peasant household to renew their capital and makes it easier for them to recover from economic crises. (Chayanov, 1991, p. 65)

An informant from Fonseca confirms this special characteristic of the peasant household in comparison to capitalist farms through the example of his household in the midst of the coffee crisis.

> What happened when the coffee prices fell? The large plantations closed. They lost their farms because they couldn't pay to maintain the properties. The banks foreclosed on their land. [...] What did we do? For our family we reduced all of our spending in a strict, strict austerity plan. We tightened our belts. [Interview S.M. – February 2, 2007]

In our interviews, farmers often described cutting back meals, reducing travel, and taking children out of school during the coffee crisis (see also Bacon, 2005).

Yet, when a crisis is especially acute, or when subsistence budgets are especially limited, peasant farmers may also seek credit to resolve their income shortage (Chayanov, 1991). In other words, farmers will seek to loosen the reproduction squeeze by searching for credit to hold them over until the crisis subsides. As the same informant describes with reference to the coffee crisis:

> Plus, we went into debt for everything. We went into debt with the distributors for basic grains, for fertilizer, and with the financiers. Everything was on loan. [Interview S.M. – February 2, 2007]

As this farmer illustrates, rather than solely loosening the squeeze by reducing consumption or increasing labor intensity to address declining income, farmers may also decide to take out a loan in hopes that their fortunes may improve with better yields or higher prices in the near future. This evidence aligns with Chayanov's statement that, "cases are quite common when the unsatisfied needs of consumption are so acute that they swallow up the entire income earned by the families labor, leaving no opportunity for deductions of income [to address capital losses]. In that case, the household is left with only one way of enhancing its capital – by using credit" (Chayanov, 1991, p. 67).

Bernstein explains that under conditions of declining income, and when farmers need access to credit, particularly in times of emergency, they will often establish crop-mortgage arrangements (in advance of their harvests) with non-farm agents (Bernstein, 1981, p. 12). Ostensibly, a crop-mortgage arrangement can be seen as a benefit to the farmer since it provides them the resources they need to hold them over through the year. Ideally, within the crop-mortgage relationship, farmers and the cooperative share the risks and losses that accompany coffee production and marketing. Farmers bear the risk on production – such as rising labor and input costs, or weather events and infestations that reduce yields – and, once the product is exchanged at the farm-gate the cooperative bears the risk on selling the final product. However, the crop-mortgage can also be seen as a form of contract farming enabling the Fair Trade cooperative to secure access to coffee in advance of the harvest even as it provides farmers the cash flow necessary for farm production and household consumption needs.

In practice, farmers tend to bear the greatest risk in the crop-mortgage as their subsistence depends on the outcome of production and market dynamics largely out of their control. The vagaries of weather, susceptibility to pests, their subordination to externally determined prices, their dependence on seasonal labor, among other factors, can independently or collectively limit the farmer's productivity and margins of profitability – thus tightening the squeeze once again. With uncertainty as to the outcome of production each year and with little control over market forces such as market prices, it is not uncommon for farmers to miss credit payment schedules on their crop-mortgages.

4. Stretching, shrinking and squeezing: debt cycles in peasant households

The qualitative analysis of my interviews provides a picture of some of the structural constraints that peasant coffee farmers face in attempts to earn a livelihood. What the evidence supports is that farmers from Fonseca participating in the Fair Trade system in 2007 continued to resolve the high costs of production and low returns from coffee production by stretching their family's labor and resources to reproduce the family and the farm each year. Based on my interviews I claim that farmers fall into cycles of indebtedness due to declining coffee prices, fluctuating yields, rising consumption and production costs, rising wage labor costs, crop-mortgage provisions and the use of credit for household consumption.

Declining prices. Although each farmer in my research sample told their own story, in most cases, indebtedness began with the severe drop in coffee pricing in 2000. During the coffee crisis, my informants explained, they had to take measures to reduce costs, which in turn generated lower yields or diminished their capacity to improve coffee quality – a key factor in determining the final price of their harvest. One informant explained, "when prices were low it created super-indebtedness. A great amount of debt was accumulated. That has made it difficult to repay past debt". He continued to explain that due to indebtedness productivity faltered over time, lengthening the period of amortization.

> When the prices were poor during the crisis, we couldn't afford anything. There was deterioration in the area of production because you couldn't invest in the coffee plots. Today (3 years later), we still carry the debt from this period. We needed to be making new investments and we now need to confront the high costs of production at this moment to improve production. But we cannot. So we pay the debts from the prior years with the surplus we will make this year. This is the problem for the producer. [Interview S.M. – February 2, 2007]

Indebtedness, as the farmer explains, tends to lock farmers into a vicious cycle. In some cases, low prices and deteriorating terms of exchange caused farmers to decrease investments in certain factors of production that enhance productivity.

Fluctuating yields. Peasant farmers in general experience severe swings in yields every year caused by low input use and aging coffee trees in their coffee plots. Fluctuating yields can cause farmer revenues to change by as much as 50% a year. These yield swings can lengthen the period of amortization by limiting their total production and hindering them from paying both the principle and interest on a given loan. A farmer explains the effect of this yield fluctuation on their capacity to repay debt and to accumulate surpluses.

> So what happened with my family last year is that we came to produce some 2000 lbs. 2000 lbs. was only enough to make payment to the debt, but not to repay it or the obligations that we had over this year. And this year we are thinking we will produce 4000 lbs. so the situation is different. But we still can't breathe because you have to pay the credit that we didn't pay last year. So if one harvest drops it hurts the other harvest even though it could be a little higher [yield]. So this is a problem that we Nicaraguans call 'stretching and shrinking'. Stretching and shrinking because in one year we falter and the other year it is a little better, but because we have to pay the past debt we always end up in the same situation. Then, in the next year we run the risk of returning to a drop in the harvest. [Interview A.G. – December 12, 2006]

As the farmer describes in the statement above, the revenues earned by a farmer in one year may be stretched to cover debts from a previous year, thus diminishing overall surpluses, even in a good year. The farmer's conceptualization of his situation as stretching and shrinking, captures the subjective experience of uncertainty and vulnerability within such debt cycles. Yet, this uncertainty is not only a problem of profitability. As my informants explained, indebtedness is intimately linked to declining purchasing power for household consumption.

Rising consumption costs. Household budgets are a big concern to farmers in Fonseca. Peasant coffee farmers I interviewed in Fonseca produce a little more than half of the food consumed in their households (see also Bacon, 2005) and they described farming for subsistence as a necessary means for reducing the costs of food.

However, farmers still depended upon cash purchases for a great deal of household necessities, education, and health care. According to the Nicaraguan Central Bank in 2006, the basic basket of household goods – canasta basica – for one family in Nicaragua was over US$1900.00 (Banco Nacional de Nicaragua, 2008). One year later these same basic basket costs would climb to over US$4000.00 (Banco Nacional de Nicaragua, 2008). In interview after interview, farmers lamented the rising cost of food and supplies, their impact on the household budget, labor costs and reduced profits.

> This past year's harvest was good for us we got up to [50 dollars] per 100 pounds selling our coffee. I made about [2000 dollars] but it didn't feel that way. It sounds like a lot, but our family had to take food costs from that and if you want to eat three times a day you have to spend more. Imagine, corn costs 16 cents per pound right now. Sugar, beans, rice, cooking oil. You spend a lot in food. [Interview S.H. – May 3, 2007]

In September 2007, food prices in Nicaragua quadrupled due to a scarcity of basic grains lost in heavy rains during June and October, 2007. Administrators in the Fair Trade cooperative reported that 80% of peasants in Fonseca, farmers who traditionally produced at least a portion of their own beans and corn for household consumption, lost both of their annual bean harvests in 2007 thus forcing them to buy more food in the cash market, just as the costs of those food products spiked. Throughout 2008, food prices in Nicaragua remained two times higher than they were in 2006.

Rising production and wage labor costs. Household budgets were not the only rising costs in recent years that diminished household income. In our interviews farmers also lamented the rising costs of seasonal labor and agricultural inputs such as fertilizer, fungicides, and pesticides, the costs of transportation, the costs of tools, health care and education costs, the costs of home improvements, and more. With rising food costs, seasonal laborers, vital to maintaining farm productivity, demand higher wages, thereby forcing farmers to pay out a greater share of the household income to non-household labor. Paying short-term laborers is commonly necessary to accomplish tasks in the production of coffee, even on coffee plots as small as 0.5 ha. Demand for labor comes in brief spurts of intense activity around pruning, fertilizing, weeding, regulating tree shade, and applying pest management. Farmers negotiate local wage labor at great cost to their own profits. An administrator at the producer union explains that farmers who hire laborers to carry out farm tasks do so at great risk of prolonging indebtedness.

> The problem is that we cannot spend too much money or else we fall into debt. And where do we need to spend less money? In paying workers because we cannot manipulate the price of fertilizer. If they tell me 100 lbs. of fertilizer costs US$14.00 I can't say give it to me at US$6.00 because they won't sell it to me. But in the payment of workers you can negotiate costs because I can get my family to help in the labors to cut down on the need to pay a worker and be continuously indebted. A farmer says, "Look, I want to go and fertilize the coffee, so I am going to need money to search for workers". I say, if the farmer takes out credit to pay laborers it is an administrative error. Right now, no one works for US$1.50 a day. Its US$3.50 that the laborer asks for. If you pay a worker that amount, well, that is where the costs elevate. [Interview L.D. – January 12, 2007]

In turn, farmers pay workers at great risk to their own household solvency or farmers tend to self-exploit family labor which is not paid through a wage but as a proportion of the income made in a given year. Again, to draw on the metaphor of stretching and shrinking, farmers must increase their unpaid labor output to stay out of debt, or they must accept a diminished household income to pay workers.

Crop-mortgages. Farmers often described crop-mortgages as insufficient to cover their costs. In an interview with the president of a local cooperative, he explained that technicians from the Fair Trade cooperative wield almost complete control over the estimation of coffee productivity and therefore the amount of credit provided is determined in an executive fashion, limiting the autonomy of the farmer to define their credit needs. As one farmer stated,

> The calculations of transportation costs and labor costs are not covered in our annual plan. Why not? Because we are saying what the technician wants to hear, not what we need to produce. We are calculating our credit needs for the cooperative and not for ourselves. [Interview J.G. – March 3, 2007]

A clear distinction is be drawn by the technician between fulfilling the needs of the farmer, who needs ample capital to invest in production and to cover household expenses, and the needs of the cooperative which desires to reduce investment risk and to secure the harvest of their members. In the end, farmer explained that credit is provided to the majority of members simply to fund the minimal work necessary to maintain and harvest coffee within the parameters of an estimated output. Crop-mortgages, then, tend to cover only the most basic production activities, which are often being funneled to pay for household consumption needs.

Using credit for consumption. When farm work is fulfilled through household labor, the crop-mortgage provided for production tends to be diverted by the farmer to cover the reproduction costs of the household. Farmers will stretch the resources provided by the credit outlay to make the minimum investments in farm maintenance and to make vital purchases for consumption needs. Indeed, many smaller-scale farmers with little additional household income treat their advance payments like a wage (with interest). Managing credit funds in this way, farmers risk debt for subsistence, banking on a good crop. An interview with one farmer illustrates how farmers negotiate both the costs of household reproduction and farm production through the crop-mortgage provided by the cooperative.

> Farmer: Sometimes you cannot use these US$550 dollars just to buy fertilizer [as the technicians suggest]. We need food. We need pants. We need money to pay bus fare. Sometimes we need a new tool like a fumigator or a depulper. There are a lot of costs.
>
> Interviewer: How do you get by through the year on this much money?
>
> Farmer: Life is hard. To make it through the year you have to have a lot of luck. Really to feed the family year to year I need to make [2775 dollars]. Right now I am trying to make it on [550 dollars] and what I make when I sell my coffee [6–8 months from now].
> Interviewer: But, how do feed the family all year?
>
> Farmer: We'll pay for food with the advance and maybe someone from the house will get work on the haciendas. When bananas and plantains are in season we eat a lot of them and sometimes you might eat one of your chickens. We get milk and rice to feed the children at lunch from a Spanish NGO.

Interviewer: And you're coffee. What will you do this year with such little credit?

Farmer: I am just going to focus on the [2.5 ha] and the rest of the coffee we have (wife's plot lower on the mountain) is going to be abandoned. Really the credit isn't even enough to care for 1 ha but I'm going to stretch it out to 2 to see if we can get out of debt. God willing we'll have a good harvest and good prices. [Interview S.H – April 6, 2007]

As this farmer explains the crop-mortgage is simply not enough. In response the farmer cut back production and consumption, even supplementing overall household income with off-farm wages (i.e. by working as a day-laborer on another property or through remittances from family members working abroad). Alain de Janvry has described this pattern as functional dualism in which the labor force for capitalist development is sustained, not through the income generated through either on-farm income or off-farm income, but through both simultaneously (1981, pp. 35–37). The effect of such a labor arrangement is that capitalism never becomes fully articulated in the countryside, but leverages the ambiguous labor position of the peasant farming household – and their tendency to self-exploit and self-provision to reproduce the family and the farm – to provide even lower compensation either in wages or prices (de Janvry, 1981).

The qualitative analysis of my interviews confirms that farmers experience a simple reproduction squeeze and that they demonstrate a tendency to self-exploit, reduce consumption and self-provision – they patch things together – to meet the needs of the household. Farmers from Fonseca resolved the high costs of production and low returns from coffee production by stretching their family's labor and resources to reproduce the family and the farm each year. Declining coffee prices created prolonged periods indebtedness, and then were compounded by rising household consumption and production costs that reduced gains as coffee prices improved. Rising consumption costs also generated higher wage labor costs for seasonal laborers which also siphoned away household resources. As household capital resources disappeared, farmers grew increasingly dependent on crop-mortgaging – selling their coffee in advance of the harvest – as a method to get access to cash for production costs and living costs. Since crop-mortgages in Fonseca did not cover the total costs of farm production and household consumption, farmers tended to use their credit to cover household costs at the expense of yield improvement activities. As a result, coffee plots fluctuated in productivity, generating low yields.

5. Conclusion

We owe a lot to Fair Trade. Without Fair Trade prices and credit during the crisis, we would have lost everything. But today the farmers here are in debt. We are facing a crisis in the costs of production. I was buying fertilizer the other day and it was the most expensive I have ever seen. Labor costs are rising because food is more expensive. And [the Fair Trade cooperative] is demanding that we improve the quality of our product. We don't have the money to invest in the farm to make it productive. God willing we will have a good harvest and better prices in the coming year. It would give everyone a chance to breathe. [Interview J.G. – March 3, 2007]

What I have sought to describe in this article is that peasant farming households, the assumed economic beneficiaries of Fair Trade, continue to face very real constraints to profitability nearly a decade since the onset of the coffee crisis. Returning to the introduction of this article, it is clear that in the midst of the coffee crisis in Nicaragua, Fair Trade contracts did provide farmers with a safety-net of price premiums that reduced farmer vulnerability and enabled farmers to stay in their communities and to work their land (Bacon, 2005). Moreover it is difficult to dispute the evidence that Fair Trade played a vital role in increasing the capacity of Fair Trade cooperatives to export high quality coffee and to provide unique social services to their members – services that are otherwise unavailable either from conventional agribusiness or the Nicaraguan state (Raynolds et al., 2007). Indeed as many of my informants suggested, in the absence of state assistance and the indifference of conventional agribusiness, farmers were truly indebted to Fair Trade for enhancing their access to stable markets and agricultural credit.

Even though my informants in Fonseca remained grateful for the support and solidarity of NGOs, ATOs and coffee retailers associated with the Fair Trade movement, and consistently reminded me in our interviews that they wished no ill will toward advocates of Fair Trade, the interviews revealed that Fair Trade had not loosened the simple reproduction squeeze that burdened their households (Bernstein, 1981). Fair Trade has not guaranteed that farmers can meet the costs of production and attain a decent standard of living. In that sense, Fair Trade is certainly not a "magic bullet" to facilitate sustainable development in peasant communities (Bacon et al., 2008). And the notion that the Fair Trade movement is giving "disadvantaged small producers and workers more control over their own lives", as my case study illustrates, is only partially correct. There are broader factors for which Fair Trade cannot account, including rising production and consumption costs, wage labor costs and declining productivity that siphons away profits even when prices are good. The flexibility of the peasant household to mend and patch together a disarticulated capitalist market by stretching out their resources, self-exploiting and self-provisioning, enables them to continue producing coffee for the Fair Trade market even when it is unprofitable. Although farmers may be staying afloat, the burdens they carry as laborers at the bottom of the coffee chain are heavy to bear. As my informant used the metaphor of breathing to describe relief from this burden, so must we remember that Fair Trade should offer more than a means of basic survival.

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