# WHOM DOES TRANSPARENCY SERVE?

## *Identifying a Living Wage Reference Price, Part II*

*By Nani Ferreira-Mathews*







**ABOVE**
Unpaved roads on the way to the coffee farm. *Photo courtesy of Mountain Harvest*

**PRECEDING PAGE**
Woman sorting green coffee. *Photo courtesy of Mountain Harvest*

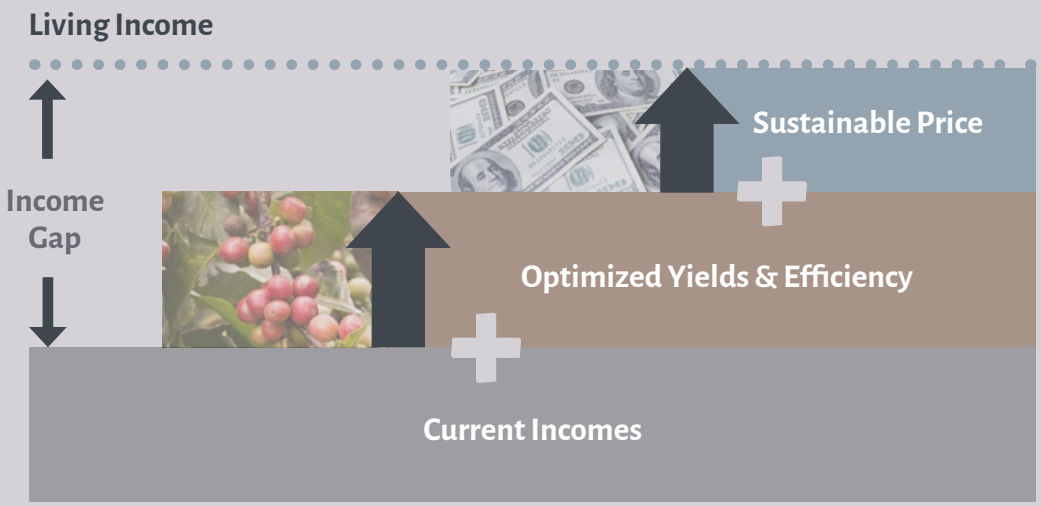
**IN PART ONE OF THIS SERIES,** we looked at multiple different price transparency efforts in the coffee industry, including importers and third-party transparency companies, auditors, and cooperatives with their own transparency efforts at origin. We explored companies seeking to create greater transparency around farm gate pricing to better inform the farmer on price discovery and researched the sentiment in the industry to use the data collected to create further equity in the coffee supply stream, specifically for producers. Part two of the series will further explore these concepts by looking at emerging models using transparency as a means toward an ultimate goal of equity and we will seek to answer the question, whom does transparency serve? We will take a deep dive into Fair Trade International's efforts to create a new price known as the 'Living Income Reference Price,' and learn about machine learning programs that use satellite imagery to identify where coffee grows and how data collection works to connect farmers with resources to increase yield and quality on their farms. Finally, we will look at a 100 percent farmer-led and farmer-owned successful vertical integration project.

Carla Veldhuyzen Van Zanten, senior advisor for sustainable livelihoods for Fair Trade International, is at the helm of major data collection efforts to introduce a new and sustainable reference price for the coffee sector. When it comes to transparency and data collection as a means to an end, Veldhuyzen has come up with a unique methodology to gather data to help determine a new price, called the Living Income Reference Price. Her research in the cacao industry—discussed in part one of this series in the May/June issue of *Roast*—recently defined a reference price for cocoa farmers in West Africa and began pilot programs to measure the effectiveness of these price points. "Coffee is more complex than

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Savor Brands

ILLUSTRATION 1 | LIVING INCOMES




other commodities," Veldhuyzen says. She credits the complexity to differing country-specific policies and trade organizations along with the lack of data at farm level. The data needed to reach the new price point requires identifying and defining four key parameters to be used in a unique formula for identifying new reference prices. Veldhuyzen explains how the data collection makes some assumptions in order to achieve its ultimate goal. For the purpose of the unique research, data is collected under the assumption that the farmer is producing coffee as a full-time job. From there, the data collected must define four parameters in an effort to employ a farmer full-time and provide a living wage. The parameters are:

- **Sustainable yield level**—productivity benchmark
- **Cost of sustainable production**—expenses to maintain the farm
- **Viable farm size**—to fully employ the household labor
- **Cost of decent living**—living income benchmark

"From these four parameters, we can find the living income price," Veldhuyzen says. The process to collect the first four numbers can be laborious. The first step in defining the four parameters is data collection from farm records. Fair Trade International developed an easy-to-use paper record-keeping system for farmers to track their expenditures and revenues. The physical record-keeping system is under development to become a smartphone application on the Android platform. The app will allow farmers to input data even when they are offline. "Their record keeping in itself will be the same effort but there will be daily reminders," Veldhuyzen explains. She says the electronic data collection will remind farmers to input daily data, give immediate feedback on cost, and provide quick and easy bookkeeping. This data will then move to the producer organizations or cooperative level, where areas of improvement are identified. Finally, the data will make its way to Fair Trade International to inform the research on living income.

The project of identifying a new Living Income Reference Price for the coffee sector is using data collection and transparency toward a goal of redefining what green buyers reference when considering price. In part one of this series, we looked at the Specialty



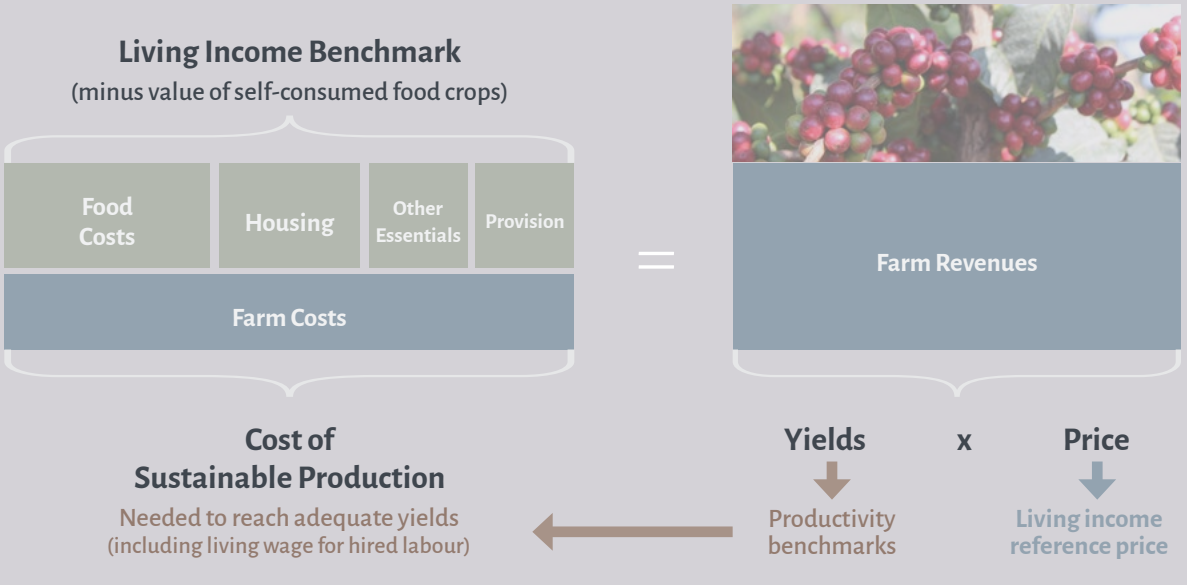
Coffee cherries ripening for the next harvest. *Photo courtesy of Mountain Harvest*

Coffee Transaction Guide and how it used data collected from importers and roasters to redefine the price norm outside of the C-market. The Transaction Guide shows the average prices paid per crop yearly by country and coffee score. The new data collection and transparency efforts give green buyers the tools needed to understand the specialty coffee market independent of the C-market price. The research from the Living Income Reference Price in cacao showed buyers how a new price is regarded as the norm.

For the coffee sector, Veldhuyzen and the Sustainable Livelihoods team started collecting data in Colombia, Uganda and Indonesia. Colombia is the first country for which there is an entire year of data collected for the Fair Trade International data set. The data, paired with an existing data set from the nonprofit Solidaridad Network, is being used to inform and define the four parameters needed to obtain the Living Income Reference Price.

Data collection from the farmer's paper or phone app records is paired with independent data and research in each country to define living wages and living conditions. Farmer records are used to identify farmer expenses, a metric that, when paired with farm gate prices, can reveal what sustainability and cost of production look like in a country or region. For the purpose of Veldhuyzen's research, the team is working country by country, beginning in Colombia. Veldhuyzen says that Colombia has both low-yield and high-yield farms in addition to conventional and organic farms. Veldhuyzen lived in Colombia for 16 years and says, "Their entrepreneurial attitudes were more in line with the attitudes of the research."

ILLUSTRATION 2 | LIVING INCOME BENCHMARKS





Wambazu Rogers picking coffee in Buginyanya, Uganda. *Photo courtesy of Mountain Harvest*

Even if the farmers are ready to assist, the process to define the four parameters is not always straightforward. In Colombia, a technical committee was assembled with 15 multi-stakeholder members, including coffee producers, coffee experts in the country and members of national trade organizations. The committee uses the data provided, along with their own experiences, to define parameters for sustainable yield level, cost of production, viable farm size and cost of decent living. Veldhuyzen says some of the variables can be tricky to define and for the purpose of the research the team is "looking at it from the perspective of a full-time farmer." The team looks at "viable farm size" as the physical farm area, in hectares, needed to employ a full-time farmer. Cost of production and sustainable yield levels are gathered and defined from the data sets, while cost of decent living and living wage follows the Anker Methodology and was previously researched and studied in Colombia. Once the four variables are defined and a consensus is reached by the technical committee, a formula is applied to find the Living Income Reference Price.






### COST OF DECENT LIVING + COST OF SUSTAINABLE PRODUCTION / VIABLE LAND AREA x SUSTAINABLE YIELDS

Once the Living Income Reference Price is defined and established, the next step is running pilot projects with buyers willing to pay the higher prices. The pilot projects are intended to generate evidence of how differing interventions and implementing a holistic approach are possible. The success of the transparency and data collection program and its pilot projects work to create the case for an increase in the Fair Trade minimum price, but Veldhuyzen says, "This is unlikely at first, because if the price is too high, we'd lose all our market at once." She says big change like increasing the Fair Trade minimum is a future goal, but the immediate work is advocacy and implementing at scale. "National governments are already taking living wage into policy to put pressure on the buyers," she explains.

The International Coffee Organization (ICO) is participating in the research and advocacy for a Living Income Reference Price for coffee. Veldhuyzen says the new price point is voluntary and the team is looking for partners willing to pay for pilot projects. She hopes the continued research and pilot programs, along with global advocacy through organizations like the ICO, will create a global case for sustainable coffee with a Living Income Reference Price. Veldhuyzen's research team and Sustainable Livelihoods department is working on compiling and releasing data over the next few years in Colombia, Uganda and Indonesia, followed by Peru, Honduras and Ethiopia. When asked how many countries are needed to serve as a sample to







move the Fair Trade price minimum, Veldhuyzen hesitates to answer, raising her eyebrows above her widening eyes as if to say, "we will see."

While this project is in its nascent stages, it has great potential to affect smallholder farmers within the Fair Trade network. The question remains: How do farmers not connected to existing networks find the same equity?

## GEO-REFERENCING MODELS IDENTIFY COFFEE FARMERS

Enveritas, a New York City-based nonprofit, hopes to answer that remaining question. Their methodology on global coffee farmer mapping is unlike anything the industry has seen before. Enveritas effectively trained computers to identify coffee growing in extremely remote regions of the world through its geo-referencing program that uses a combination of high-resolution satellite images and machine learning. The process begins with collecting high-resolution satellite images and, when the machine learning program believes it identifies images containing coffee trees, Enveritas dispatches people on the ground in the countries of origin to either confirm or deny the validity.

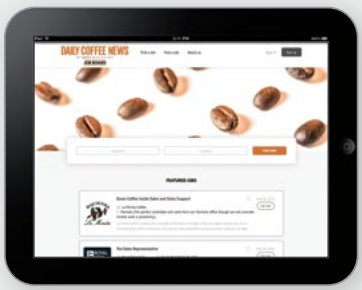
The program has been operating and informing on-the-ground observations for several years. The ability to identify smallholder coffee farmers anywhere in the world is now possible through global surveillance, a truth that may evoke an eerie Orwellian feeling. Through this process, Enveritas hopes to identify smallholder coffee growers and connect them to resources they may not have access to. In a typical year, the company deploys enumerators, or surveyors, to 14 countries to verify satellite imagery, conduct 50,000 surveys and interpret the findings to identify the areas most needed for improvement.

Enveritas' founders Carl Cervone and David Browning both worked at Technoserve, a global nonprofit providing business solutions to those in poverty, before starting Enveritas in 2016. "We observed that there were some real problems with existing ways of ethical sourcing," says Cervone, the organization's chief operating officer. He explained how in his 10 years at Technoserve, he witnessed multiple smallholder farmers who had a desire to pursue certifications in an effort to gain more money, but when an auditor or buyer visited, the farmers were often presented with the best possible image of the industry and not a total picture of farming realities. Cervone and Browning developed Enveritas as a solution to this problem and an effort to capture the reality facing coffee farmers around the world.

Enveritas surveys are designed to take about one hour, consist




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of hundreds of questions and follow an "if/then" trajectory. The survey was developed with two sets of standards in mind, legal requirements and critical requirements, elements required by the national law or needed to achieve sustainability. Cervone admits that one of the biggest problems Enveritas faces is how to take the data from its surveys and distill the information into meaningful resources. The survey may ask 600 questions to 50,000 farmers, Cervone elaborates, after which the data are laid out in a "spectrum" or "continuum. Unlike certifications, he says, the auditor is not there to pass judgement and the questions are not pass/fail. Enveritas is simply trying to reach the root of the problem, which according to Cervone, is generally related to price and falls into three categories:

1. Farms are profitable, but unethical.
2. Farms are not profitable, but ethical.
3. Less than 1 percent of farms are profitable and ethical.

"If you had to pick one issue that is at the root cause, it comes down to coffee being really precarious to grow, no living income or ability to raise above the poverty line," he says. That's precisely why Enveritas' main goal is to end poverty in the coffee sector by 2030. According to Cervone, the organization believes tackling the root cause first will naturally address other problems around sustainability.

Enveritas' main path is working directly with roasters to conduct surveys of their suppliers at the cost of 3 cents per pound. After data is collected, it is aggregated into a continuum (or spectrum) to identify high- and low-risk areas, similar to a scale of one to 10. From there, Enveritas shares the findings and "theory of change" with the roasters, then mediates a conversation between the buyer and seller to identify an action plan to enact needed changes. Nick Kirby, director of partnerships for Enveritas, says, "We have a point of view on what will ultimately raise the value of their output." In the end, roasters will have an Enveritas-certified product and a specific plan to increase value for their growers.

When asked what they thought of critics who identified their business model as "monetizing transparency," both Kirby and Cervone responded by emphasizing how Enveritas is a nonprofit organization and if profits are made, they are used to fund agronomy training for producers, an intervention they believe will provide the most value to the farmer. Cervone says, "We're trying to, in an independent way, effectively amplify the voice of farmers on a large scale." A challenge they face is how to provide feedback to farmers in a way that will lead to action.

While the data collected is not monetized—and only shared with

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Ripe coffee cherries. *Photo courtesy of Mountain Harvest*

roasters and farmers—the act of requesting roasters to verify the crops they are purchasing as ethical or unethical is effectively monetizing transparency, perhaps an area in which all third-party certification services may be guilty. Both Cervone and Kirby mentioned Enveritas' nonprofit status. This referral led me to pull the most recent 990 tax form for Enveritas, a form made public on all nonprofit and tax-exempt agencies. For the 2018 calendar year, Enveritas received over $10.4 million in grants with operating costs totaling over $7 million. The form reports an end of year balance of $4.2 million in unused funds. This $10.4 million in grants and donations to an organization whose main goal is to end world poverty in the coffee sector by 2030, suggests more of a systemic inequality than it does a nefarious monetization of transparency data. Money seems to flow more easily to well-intentioned nonprofits than it does to farmers directly, but in some cases, the farmers are identifying their needs separately from auditors.

Members of the CESMACH cooperative in Chiapas, Mexico, started their own internal geo-referencing and mapping program to enhance traceability of their farmer network in crop year 2019/2020. The first phase of their program includes 605 producers within their organization. The second phase of their program for the 2020/2021 crop year works to adjust and improve initial results. Their hope is to bring more value to their own farmer networks internally and without direct intervention from outside groups.

## RELATIONSHIPS AND VERTICAL INTEGRATION IN THE COFFEE VALUE STREAM

Several attempts to conduct an interview with a CESMACH cooperative leader proved unsuccessful, but David Griswold, CEO and founder of the import company Sustainable Harvest, shared the CESMACH geo-referencing story with me during an interview. "In the absence of building strong human connections, systems alone don't build the relationships that last," says Griswold.

Griswold started his importing company with the idea of building long-lasting relationships, now known as relationship coffee. His relationship coffee model has a methodology that aims to move away from the linear model of transactional coffee trade into a circular and interactive model that engages each user in the supply chain. Griswold's model of relationship coffee invites every actor in the supply chain to interact with each other and build solid relationships. He admits, "Relationship can sound so 'squishy,'" but says, "Empathy is not a bad business term."

It was building relationships that led Griswold to develop Let's Talk Coffee, an in-person annual conference gathering lenders, buyers, growers, exporters and importers to discuss needs, opportunities and solutions. Let's Talk Coffee started 17 years ago and continues to be an example of how to connect market actors and develop long-term relationships.

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The gatherings allow roasters and producers to exchange ideas and build deals around shared goals and projects. Griswold says, "The [projects] that work best are the ones where the impact comes from hearing from the farmers about what they need and what you as a roaster need." The relationship coffee model builds equity along the supply chain by humanizing the interactions between market actors and providing transparency to stakeholders. Farmer tools, market transparency and measured impact are elements available to those engaging in the model.

In 2013, Sustainable Harvest and Bloomberg Philanthropies partnered to form a nonprofit Relationship Coffee Institute in Rwanda. This Institute provided local coffee farmers with agronomy training, market access and quality control that led to higher yields and earnings. In 2020, after six years of external support and training, the project spun off on its own and rebranded under the name Sustainable Growers. Today, this Rwanda-based and women-led organization continues growing its social enterprise coffee brand, Question Coffee.

The six-year incubation program made Sustainable Growers a highly capable organization promoting gender equality and sustainable economic growth within Rwanda. Smallholder farmers are offered key programs designed to improve farmer livelihood, including agricultural best practices, financial and market access, cooperative management and gender mainstreaming training. The infrastructure developed and maintained today by Sustainable Growers fosters cooperation of the national government, philanthropy and private business to promote sustainable economic development for women. In a written statement



Sustainable Growers says, "Together, with several partners, the women receive basic training on skills including rights, literacy and health before getting specialized training on how to grow and harvest high quality coffee and export their coffee to the international market. They will also have access to training videos to connect with other farmers and track their progress using digital tools."

Sustainable Growers and its roasted coffee brand, Question Coffee, prioritize women farmers and incentivize training by implementing a program known as "Premium Rewards." Through the program, farmers who take part in leadership and agronomy training modules can earn rewards that include valuable items such as cellphones and farm equipment.

However, it is not simply a top-down approach to help uplift farmers or create equity. In a bottom-up approach there are examples of farmers answering the question of equity for themselves. Question Coffee has a successful wholesale program in Rwanda and continues expanding sales in the U.S. where the profits funnel back into the Premium Rewards program. This type of vertical integration, where farmers take part in each aspect of the supply chain and have a stake in



Participants from Colombia, Rwanda and Brazil sharing insights at Let's Talk Coffee 2018. *Photo courtesy of Sustainable Harvest*






Gregory Sanchez and Maritza Colindres, coffee farmers and member-owners of PRODECOOP cooperative in Río Coco, Nicaragua. *Photo courtesy of Pachamama Coffee*

profits along the way, has been used as a method of empowerment and equity for decades.

Pachamama, a Sacramento, California-based based roasting company founded in 2006, is entirely farmer owned. Ownership includes five growing cooperatives around the world, including Prodecoop in Nicaragua, COCLA in Peru, Manos Campesinos in Guatemala, OCFCU in Ethiopia and La Union Regional in Mexico. These cooperatives represent thousands of smallholder farmers who have ownership in the Pachamama model. The board of directors consists of one elected member from each cooperative and all business decisions are made by the board.

Pachamama started brewing in 2000. Once the model became established, the board hired its first employee to build the brand in the U.S. Thaleon Tremain, now CEO, oversees the project in Sacramento, which includes a roastery, a thriving wholesale business and three cafes. Tremain says, "Sustainability in this industry has to start with the economics." He explains how the farmer leaders who organized Pachamama understood the need to look downstream. "It's quite profitable as a matter of fact. Farmers need to capture a bigger piece of the pie," he says. "There's certainly enough money in the supply chain to solve this problem."

Each year, the cooperatives, along with the board of directors, set the FOB prices for each coffee exported. There is a previously agreed upon range, set at a minimum of $2.30 with an annual 10-cent increase above that minimum. In 2020, the average FOB price for all coffees purchased was $2.46. Profits go back



to the farm level at the end of each year. In 2020, Pachamama had net profits of 9 percent, with the average price per pound sold hovering around $15 and a total profit per pound equaling $1.11 and sold around 200,000 pounds. The board votes on a distribution of profits, with farmer input, and the profits go back to cooperatives annually. The profits are managed by the farmers and all members of the cooperatives decide how best to use them. "That's farmer empowerment," says Tremain.

In Sacramento, Pachamama has about 30 employees. U.S. employees do not have access to ownership, but are treated well with "modest, but fair wages," says Tremain. He makes it clear this story is not about him and explains how the model of vertical integration is created entirely by farmers. There are plans to integrate profit-sharing with U.S.-based employees and onboard new cooperatives in the business. "We're scalable," says Tremain, adding that the organization hopes to bring on five new cooperatives in the next five to 10 years. The team is building out a new roastery to increase capacity and the model allows current cooperatives to onboard struggling cooperatives and help build stronger businesses.

Pachamama has retained 100 percent of shareholder equity among the farmers who grow its coffee. "It's the real deal for empowerment," Tremain says about building equity, but the model does not have to be the only way for farmers to establish equity. Companies that claim to support farmers but don't offer decision-making opportunities create a type of charity that keeps farmers in the role of "price takers," he says.

"If we are an inclusive and supportive industry, then why not offer farmers access to decision making? It's not hard. It's free, it costs nothing. Nada," Tremain says. He suggests offering farmers positions on boards of directors or advisory boards. "You want to talk about empowerment? Give access to power. That's a starting point," he says. "This adds a lot of value."

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