

## THE SOCIAL IMPACT OF MICROLOTS A Counter Culture Coffee Case Study

*CRS Coffeelands Blog Research Review – 21 April 2012*

### 1.0 SUMMARY

Counter Culture Coffee (CCC) continues “to boldly go where no ~~man~~ Direct Trade roaster has gone before.” In 2010, Counter Culture published its first annual Direct Trade Certified Transparency Report, a groundbreaking effort to pull back the curtain on Direct Trade sourcing practices and payment schemes. Today, the company releases a case study titled “The Social Impact of Microlots” – an unprecedented industry-led examination of the social and economic impacts on smallholder farmers of the microlot approach to sourcing that is so central to the Direct Trade model.

This research is uniquely relevant to CRS in our work with smallholder coffee farmers. Over the past decade, we have worked with thousands of smallholder farmers seeking to expand their access to specialty coffee markets. This has, of course, required significant investment in helping farmers improve coffee quality. In some cases, it has involved support for farmer organizations trying to produce single-origins, special-process or otherwise distinctive microlots. We have spent hefty sums helping smallholder farmers upgrade “hardware” – new or improved post-harvest processing infrastructure – and “software” – better husbandry, more effective post-harvest process management, expanded market intelligence, training in coffee grading and cupping, etc. But we continue to wrestle with big questions: Which farmers should pursue microlots and which, perhaps, should not? How much investment in coffee quality is enough? When do returns to investment in quality begin to diminish? When does a smallholder farmer more effectively invest her limited resources in other activities unrelated to the continuous improvement of coffee quality? And in the back of our minds is the lingering question about whether or not microlots will undermine the social cohesion that farmer organizations have worked so hard to foster by delivering financial rewards to some members and not others.

In this report, CCC engages these questions directly – the first time to our knowledge that any Direct Trade roaster has done so publicly – and delivers important insights in response to each. We thank CCC for its leadership in this regard and salute its continued commitment to transparency: rather than use this research as a source of competitive advantage, CCC has chosen to make it public in the hope of informing and engaging other specialty coffee industry stakeholders who share an interest in the microlot process.

We also hope and trust that CCC’s research into the social and economic impacts of microlots will continue to improve over time just as its annual Direct Trade Certified Transparency Report has. We believe that future iterations of research into the social and economic impacts of microlots would benefit from larger sample sizes, multiple research sites, longer time horizons, broader multistakeholder participation and increased quantification of observed impacts. We also believe that CCC and other Direct Trade roasters can generate significant value for smallholder farmers in the meantime through more publications on the sources of smallholder success in the production and marketing of microlots.

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**2.0 RESEARCH METHODOLOGY**

The report is based on a study conducted in Peru among members of the CENFROCAFE cooperative in Jaen. CENFROCAFE is a second-tier cooperative that serves 2,225 members organized into 82 primary-level farmer organizations. The research focuses on farmers who belong to five of CENFROCAFE’s community-level associations in the San Ignacio region that work collaboratively under the name “Valle del Santuario.” Valle del Santuario has been trading with CCC for five years, and currently sells organic and Direct Trade Certified coffee to CCC.

The lead author was Hannah Popish, MSW, who specializes in social impact analysis. She had no previous experience in coffee, but was ably directed in her efforts by Counter Culture Director of Sustainability Kim Elena Ionescu.

In a show of humility, the authors abandoned their original hypothesis during the research process, adopting instead a more open-ended guiding research question.

<b>BEFORE</b>	<b>AFTER</b>
<p>“Microlots’ real impact is not only economic, rather it has both a positive impact on the individual who achieves a microlot premium and a positive impact on the community; there is an enhanced sense of ownership and a return on an investment for the microlot members’ product. There could also be a potential negative impact at the communal level if there is a sense among members that the process of microlot selection is unfair or divisive.”</p>	<p>“While we know that consumers appreciate the elevated quality of microlot coffee production, we know less about how these farming practices affect the members and the communities where members live. We want to clarify what elements of microlot coffee production lend to its success and what elements could be improved.”</p>

Popish conducted semi-structured interviews with 13 smallholder farmers, eight of whom had successfully produced microlots for CCC on and off between 2007 and 2011, and five who had tried and failed. A different survey instrument was used for each group, but each survey included questions addressing three different issue areas: CENFROCAFE’s services and the trading relationship with CCC, economic impacts and social impacts.

The research is exclusively qualitative and carefully done. The authors consistently demonstrate their sensitivity to the research subjects, often quoting them at length and in Spanish to ensure their contributions are properly contextualized and reported.

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**3.0 RESEARCH FINDINGS and OTHER OBSERVATIONS on CONTENT**

**3.1 Survey responses**

The report categorizes the responses of all respondents to all of the survey questions using keywords, then disaggregates the responses from each group – microlot producers and non-microlot producers. The highest rated response categories, in descending order, are:

price	economic incentives for quality
weather	all mentions of rain, climate and their impact on coffee
quality of life	explicit linkage of microlots or specialty coffee with the themes of health, education or housing
disappointment	about failing to produce a microlot at any time, or about failing to produce a microlot
effort	difficulty of producing microlots
microlots as a long-term goal	long-range quality aspirations
scoring system	requests to lower the bar on microlot quality standards or increase transparency in quality assessment
infrastructure	references to post-harvest equipment
pride	emotional incentive to produce microlots

The frequency of responses in each category vary across respondent groups in ways that are both intuitive and surprising.

**3.1.1 *Microlot producers***

The word cloud below roughly represents the relative frequency of responses among the microlot producers surveyed.



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Ironically, perhaps, the most frequent response among farmers who had succeeded in producing microlots for CCC is reference to their disappointment – a response that does not appear among the top six responses of farmers who never achieved a microlot. The overwhelming focus on disappointment – and the fact that “effort” represents the third most-frequent response among microlot producers – likely reflects the fact that none of the eight respondents was able to produce microlots two years in a row, instead moving in and out of the microlot ranks as a result of inconsistent quality.

The second most-frequent response is the connection between the price incentives for microlot quality and smallholder quality of life.

The researchers conclude, fairly in our estimation, that notwithstanding farmer disappointment, the effort involved in producing microlots, or uncertainty about the system by which coffee is scored, the microlot approach is validated by responses focusing on quality of life, identification of microlots as a long-term goal and the pride associated with achieving high levels of quality.

### 3.1.2 *Non-microlot producers*

The word cloud below roughly represents the relative frequency of responses among the non-microlot producers surveyed.



Perhaps predictably, the top four responses from this group focus on the barriers to microlot production: weather challenges, the effort involved, a lack of clarity regarding the scoring system and infrastructure limitations.

This group mentions the price issue more frequently than the microlot producers, both as a motivator and as a source of frustration – farmers can’t understand how their neighbors

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are producing microlots and they aren't despite apparently using the same varieties, husbandry practices and post-harvest management processes.

### 3.2. Microlots and social cohesion

The original research hypothesis for this case study voiced concern about the potential for microlots to sow the seeds of social disunity:

“There could...be a potential negative impact at the communal level if there is a sense among members that the process of microlot selection is unfair or divisive” (p. 7).

This observation reflects a long-standing critique of the Direct Trade model within the Fair Trade community that has been the source of engaged discussion on the CRS Coffeelands Blog. The authors cited an excerpt from one of these exchanges in the introduction to the report.

The survey generated helpful farmer feedback in this regard. Two passages in particular stand out and are worthy of citing here. The first is this:

“It is notable that not a single member in [the non-microlot] group expressed a negative attitude toward those who achieved microlots. In fact, they were inspired by them and aim to follow in their footsteps so that all can share in the success” (p. 12).

In our estimation, this is a significant finding given the concern expressed in the original research hypothesis and the critique mentioned above. Further research in other origins featuring other smallholder farmer organizations will help clarify whether this notable result holds true across contexts, or whether it may be more attributable to site-specific variables, such as the level of social cohesion within the associations involved in the study, or other variables particular to CENFROCAFE or Jaen.

The second passage that stands out regarding social cohesion is this one, based on observations by field agents that worked with microlot producers:

“The social impact of microlots has been clearly visible...in the first few years of microlots, *members did not want to share [the secret] of how they achieved the premium with their association members.* But, once they realized they weren't achieving it a second year, they decided to share information with other members to see if they could figure out the recipe for success” (p. 18, *italics mine*).

The italicized passage in this paragraph seems to validate the fears of critics of the microlot model – farmers who achieved quality breakthroughs were reluctant to share the secret recipe of their success with their neighbors. As the full citation explains, those farmers were unable to sustain those high levels of quality, and turned to their neighbors in a collaborative approach only after their secret recipes had failed them. One wonders

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whether microlots would have become a “team sport” in Valle del Santuario if the microlot farmers had sustained their success over time, or whether they would have driven a wedge between farmers. Again, additional research in other origins will help shed more light on this critical issue of quality incentives and social cohesion, and indicate whether generalizations can be made on the basis of CCC’s research observations in Peru.

### **3.3 Smallholders and microlot “suitability”**

Quite apart from the study’s primary focus on the social impact of microlots, the report reveals other ways in which Counter Culture (and other Direct Trade roasters) can deliver value to smallholder farmers: generating and publishing resources to help smallholder farmers successfully bring microlots to market, and facilitating the process by which smallholder farmers decide whether to commit themselves to producing microlots.

#### *3.3.1 Who should consider microlots?*

The report includes a lengthy citation from a page on Counter Culture’s website describing its approach to microlots and quality incentives, including this passage: “...some of our grower partners do not have the resources to manage the often-complex processes that result in microlots” (p. 4).

From our perspective as an international development agency working with resource-constrained smallholders, this is a critical observation. Over the past decade, we have worked with thousands of smallholder farmers seeking to expand their access to specialty coffee markets. This has, of course, required significant investment in helping farmers improve coffee quality. We have spent hefty sums upgrading smallholder “hardware” – new or improved post-harvest processing infrastructure – and “software” – better husbandry, more effective post-harvest process management, expanded market intelligence, training in coffee grading and cupping, etc. But it is not clear to us how much investment in coffee quality is enough. When do returns to investment in quality begin to diminish? When does a smallholder farmer more effectively invest her limited resources in other activities unrelated to the continuous improvement of coffee quality?

#### *3.3.2 Quality v quantity: Developing a segmentation strategy*

On page 14, the report discusses farmer observations on tradeoffs between quality and quantity: “When [farmers] are unable to achieve the quality premium, they become more likely to aim instead for quantity.”

Quality-driven roasters will be naturally inclined to perceive a quantity-based production and marketing strategy as a setback. It is important to recognize, however, that a volume-based strategy designed to maximize the quantity of “good-enough” coffee may represent a best-bet strategy for a resource-constrained smallholder – one that represents the most rational, profit-maximizing allocation of her scarce resources across multiple activities.

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### 3.3.3 *Microlot suitability – discussion*

The decision to pursue microlots, or more generally to opt for a primary focus on quality, is one that has to be made independently by smallholder farmers and their organizations on a case-by-case basis. In our work accompanying and supporting smallholder farmers, we want to base our counsel on rigorous data analysis and the best available market intelligence.

*Microlot suitability.* CCC and other Direct Trade roasters can contribute to a better understanding of microlot suitability among smallholder coffee producers through the development of technical resources for the benefit of smallholder farmers, farmer organizations, the organizations like ours that deliver technical and advisory services along the value chain, and other Direct Trade roasters. These might include:

- an inventory of “assets” – natural, physical, financial, human and social – that are conducive to successful microlot production and marketing; and
- a diagnostic tool to assess smallholder farmer and farmer organization suitability for microlots, including a scorecard.

World Coffee Research (WCR) is undertaking a massive research effort on behalf of the industry that should shed new light on the sources of coffee quality. In the meantime, however, quality-driven roasters like CCC represent leading repositories of practical intelligence on coffee quality. And they continue to apply their own criteria to coffee sourcing decisions. Codifying this knowledge and publishing it broadly would represent a significant first step in addressing two areas of concern identified in the report: uncertainty among smallholder farmers who aspire to produce microlots about the practices that lead to microlot success, and the temptation among successful microlot producers to hoard knowledge in ways that may undermine social cohesion.

*Quality v quantity.* The quality-or-quantity decision node is a critical one for smallholder farmers, and closely related to the question of microlot suitability. Perhaps a more realistic – and strategic – scenario is not one in which a grower chooses quality or quantity, but rather decides how to allocate her scarce resources between the two approaches. A segmented approach to production and marketing might involve planting different varieties at different elevations for different segments of the market, or committing to a high level of investment and effort on a relatively small amount of coffee that is naturally predisposed by terroir, varietal, etc. to produce outstanding cup quality.

Organizations like CRS have to facilitate and accompany this decision-making process more effectively in the field, helping smallholder farmers make good decisions by marshaling a broad range of qualitative and quantitative data, including but not limited to the following: past quality data, informed assessment of future microlot potential, “vocation” of farmers to produce microlots, farm-level and organizational capacity for managing innovation and segmentation processes, data-based cost-benefit analyses on the return to investments in quality, etc. This report begins to fill in some of the gaps in this regard. The

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recommendations in section 4 below are designed to help future research into the social and economic impacts of microlots narrow the gap even further.

### **3.4 Great cooperative names**

The farmers surveyed belonged to the following organizations: United for Progress, Geniuses of the Future, Triumphant Ones of the Future, Families of the Future – my favorite – Little Rooster of the Rocks. No great insight here, just *great* coop names.

### **4.0 FUTURE RESEARCH DIRECTIONS**

#### **4.1 Larger sample size.**

The authors of the report themselves recognize in the limitations of the research findings due to the very limited sample size. In the future, a research design that polls a larger number of farmers across multiple origins, including both microlot producers and non-microlot producers both within and beyond the cooperative, will generate more robust results.

#### **4.2 Longer-range approach.**

The authors also noted the desirability of a more longitudinal research design. A 4-5-year study with annual data collection would permit more time to track microlot performance and more reliable attribution of observed impacts at the household level to trading patterns and coffee income.

#### **4.3 Quantification.**

Notwithstanding the authors' compelling case for qualitative research methods, introducing quantitative metrics to the next iteration of research into the social and economic impacts of microlots may add more value to this process than any other single innovation.

For CCC, a first step might be linking the pricing transparency of its Direct Trade Certified Transparency Report with the kind of social and economic analysis advanced here – a measure that would tie observed household-level impacts to real data on specific financial incentives. In other words, it would help us understand what a \$1.15 premium meant to a specific farmer in a specific origin during a specific harvest.

Quantification of the quality-of-life dimension of the research will also enrich the findings. Tracking reinvestment of coffee income in the quality-of-life factors cited in the report – health, education and housing – would be one possible starting point. Other tools, including the sustainable livelihoods framework or standardized poverty assessment tools, could also help systematically track reinvestment into diverse farm and household assets.

Finally, gathering basic household-level data on poverty, nutrition and asset inventories would help illuminate how important initial asset endowments are to microlot success: is it possible to exclude certain farmers from microlot consideration over the short-to-



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medium term based on poverty level or other demographic data, or are the barriers to microlot production cited by non-microlot producers surmountable over the short term?

#### **4.4 Multistakeholder participation.**

The report notes in the introduction that “microlot coffee production and sales impact multiple stakeholders: the member, the cooperative, the buyer and roaster, the industry, and the consumer” (p. 4). The report also makes a number references to a multistakeholder research approach. And indeed, it included perspectives from farmers, cooperative leaders and technical staff and presumably CCC. Complementing these perspectives with those of others on the coffee chain mentioned here would provide an even more nuanced appreciation of the impacts of microlots chain-wide.

#### **4.3 Resource development.**

Proprietary research efforts such as this one must first and foremost inform and improve the practices of the companies that commission them. The authors of the report reveal in the abstract their hope that the process itself has generated some benefit for participants: “the approach allowed members’ voices to be heard with the hope of influencing the supply chain in some manner.” We hope and trust that this study will have delivered insights that will help CCC manage its supply chain relationships in general – and its microlot sourcing more specifically – more efficiently, transparently, equitably and sustainably.

By publishing this report, CCC is implying that the issues it has wrestled with in its research are salient to a broader range of industry actors seeking greater information about microlots and their impact at origin. Furthermore, the publication of the report signals CCC’s continued commitment to transparency in the service of increased sustainability in coffee sourcing: instead of using the results of its own research as a source of competitive advantage, CCC has preferred to publish them for collective enlightenment.

As noted in section 3.3.3 above, CCC could further serve actors all along the coffee chain by developing written resources – perhaps alone, but preferably in collaboration with other Direct Trade roasters – that provide qualitative guidance to smallholder farmers seeking to develop microlots. The following “assets” are identified in the report as relevant to microlot capabilities, and could represent a starting point for a microlot field guide that codifies those criteria, and a microlot suitability diagnostic tool that helps assess smallholder readiness for microlot production and marketing.

- *NATURAL ASSETS: Biophysical variables.*  
Generally speaking, the question here is whether the farmer has the terroir to produce a distinctive coffee if all the other variables under the farmer’s control – varietal selection, husbandry, post-harvest management, etc. – break in the farmer’s favor. This could include comment on the quality history of the community/region, elevation, microclimate, soil quality/composition, water/natural resources, etc.

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- *NATURAL ASSETS: Varietal.*  
The report explicitly notes the difficulty in attributing cup quality definitively to varietal selection given all the other variables that affect cup quality (p. 3), but we also know that quality-focused roasters are categorically rejecting specific cultivars that have not demonstrated their ability to consistently produce high cup quality. Here again, explicit guidance would be welcome where relevant.
- *PHYSICAL ASSETS: “Hardware.”*  
We think of post-harvest hardware in two categories – the basic or “pre-competitive” infrastructure that every farmer needs to consistently produce clean lots of high-quality coffee, and more specialized or “competitive” infrastructure that may support special-process microlots and catalyze quality-based differentiation. In our experience, the guidance of Direct Trade roasters in this regard evolves naturally over time as trading relationships develop and roasters begin to link cup quality to specific farm and mill-level practices. Meantime, a basic inventory would be instructive.
- *FINANCIAL ASSETS: Investment capital.*  
The report did not specifically mention financial assets, but did note that non-microlot producers identified infrastructure limitations as a barrier to microlot production – an obstacle that could be overcome in part by access to investment capital. We have provided financing in the past on both grant and credit bases to smallholder farmers to install both basic and specialized post-harvest infrastructure. We also know from our experience that access to trade finance is vitally important in helping cooperatives secure coffee supply. If there are specific financial asset requirements for microlot production or marketing, it would be an important inclusion in any microlot suitability reference.
- *HUMAN ASSETS: “Software.”*  
Simply put, this refers to all the knowledge of production and post-harvest practices that smallholders need to successfully produce and market microlots. Gathering this information represents a significant effort, to be sure, but one that would seem to be a necessary part of any WCR “baseline” assessment of the state of the art in specialty coffee.
- *SOCIAL ASSETS: Organizational capacity.*  
In several places, the report surfaces issues that inhibit smallholder farmers from successful production of microlots that may have less to do with the microlot model itself than the capacity of smallholder cooperatives to manage processes of quality-oriented innovation and segmentation. Cooperative-level capacity gaps identified in the report include communication of quality standards and buyer scoring methodologies, transparency and physical product traceability. Here again, a guide to the essential skills for smallholder organizations to successfully produce and market microlots would be an invaluable resource.

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