

Hilo

TRANSPARENCY REPORT

2020

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Introduction

This is the second edition of Hilo's transparency report. Each year we hope to include more information and make it more complete, but it is still a short version of what we would like it to be in the future. We hope to give you a short overview of the aspects, which we think are important in the context of transparency for you. Our system is built on trust, given by everyone, including you, to us as a supporter of our Hilo system. Our goal is to show you how, together, we contribute to making a difference and promoting change in the coffee trading system.

2020 was certainly a "special" year. Not only because of the pandemic, but also because it reminded everyone simultaneously of the "Law of Impermanence" (the only real constant is change). 2020 fixed the idea of "adaptation" as our core plan. Our implementation strategy for 2020, developed during our visit to Jardín in December 2019, focused on selling coffee to businesses, and became impossible as everything closed due to the new pandemic reality. Therefore we had to adapt and focus on a stronger digital presence.

Some important highlights for 2020 were:

- In 2019 we had imported roasted coffee, but in 2020, in order to have more flexibility, we imported green coffee from the Giraldo family, and roasted it in small batches in Germany, according to our sales demand. Our intention is to roast again in Colombia as soon as we have a stable demand for it, since this means that more profit stays in the country of origin.
- We established our online presence, launching our webshop and a solid social media strategy aimed towards a personal connection.
- We brought the idea of organic agriculture to discussion with the Giraldo family, and started to test a transition lot as an experiment.
- The pandemic made us reduce the amount of coffee we had planned to import, and because of that we had to halt payments for a couple of months for the social project Jardín Municipio Lector until the next import (until the beginning of 2021 were resumed).
- On the other hand, we managed to sell all the coffee that we imported, which was an important achievement.
- It was a mentally challenging year for the entire team, which is until today still working voluntarily.

Economic Stability

The first step in the systemic change we are proposing is to guarantee economic stability to all of those involved in building and learning Hilo. Economic stability represents a major change and is the groundwork towards the possibility for planning for the future, being creative, and reflecting about major topics such as climate change and environmental sustainability. In a nutshell, “if I don't know how I can pay my bills or feed my family next month, how will I be able to think of what's happening with the planet in the next decade?” Said anyone.

In the Hilo system, economic stability is achieved through a system of monthly payments: think of something similar to an Universal Basic Income. But in our case, it's not Universal, in the sense that it is connected to work realized within the system.

We start with the most vulnerable in this trust chain: the coffee farmers. For decades they have worked hard to produce great quality coffee, but are always at the mercy of the next price crisis in the international market, which never fails to happen. The last price crisis was in [2018](#), with coffee farmers in different continents having no option but to sell their product way below costs of production, and it was one of the reasons that pushed us to start Hilo.

After them, come the administration and operative tasks in Colombia, as they are essential to the functioning of the system at a local level. And next to it, the educational and social activities of the project “Jardín, un Municipio Lector”. This is the work of Marta and Patricia.

The least vulnerable, and therefore, the only ones which have not yet started to receive a monthly payment from Hilo, are the members of our team in Germany – but we hope to change that soon.

In the next pages we go into the exact details of the monthly payments, so you can know how the money you spend on coffee impacts the life of each of the people involved.

With either sun or rain, the harvesting has to be done.



1. Payments to the farmers

In 2020, we maintained our cooperation agreement with the Giraldo family. In this agreement, we commit to paying them 700,000 COP per 125 kg (carga*) for their parchment coffee to cover the direct costs of production. We agreed to order 12 cargass of parchment coffee (1500Kg), so the family received 8,400,000 COP (12 x 700,000 COP) in March 2020 corresponding to the cost of production.

In addition, the agreement establishes a monthly income of 857,143 COP for 12 months (from March 2020 until February 2021), corresponding to the same 12 cargass. This is already close to one official minimum wage in Colombia ([877,803 COP in 2020](#)), and an increase of 100% in relation to the monthly income paid in 2019. This equals to a payment per carga of parchment coffee of 1,557,143 COP directly to the farming family. For comparison, the domestic reference price** per carga according to the Colombian Coffee Federation was 1,145,000 COP in March 2020 – this price is calculated based on the international commodity price in USD. This was the highest price [since 2011](#), but a good 26,5% lower than the price paid by Hilo.

*The concept of "carga" comes from what one donkey can carry, it originated when donkeys were the main means of transportation in the rural areas, but remained as the standard measure for parchment coffee in Colombia.

	05/2019	03/2020	03/2021
N. Cargas	6	12	20***
Hilo Price (COP/carga)	1,557,143	1,557,143	1,557,143
Domestic reference price (COP/carga)	802,000	1,145,000	1,156,032
Difference (%)	+49,5	+26,5	+25,8

**Reference price used by the Cooperatives in Colombia, calculated based on the international market price from the New York Stock Exchange.

***First order of 20 cargass made in 2021.

Cooperation agreement

N. Cargas	Payment for production costs	Monthly basic income	Yearly basic income	Total yearly payment	Total yearly payment (EUR)	
6	4.200.000	428.571	5.142.857	9.342.857	2635,50	→ 2019
8	5.600.000	571.429	6.857.143	12.457.153	3514,01	
10	7.000.000	714.286	8.571.429	15.571.429	4392,50	
12	8.400.000	857.143	10.285.714	18.485.714	5214,59	→ 2020
14	9.800.000	1.000.000	12.000.000	21.800.000	6149,51	
16	11.200.000	1.142.857	13.714.286	24.914.286	7028,01	
18	12.600.000	1.285.714	15.428.571	28.028.571	7906,51	
20	14.000.000	1.428.571	17.142.857	31.142.857	8785,01	
22	15.400.000	1.571.429	18.857.143	34.257.143	9663,51	
24	16.800.000	1.714.286	20.571.429	37.371.429	10542,01	
26	18.200.000	1.857.143	22.285.714	40.485.714	11420,51	
28	19.600.000	2.000.000	24.000.000	43.600.000	12299,01	→ 2021 (goal)

2. Payments to the administration in Colombia

In order to maintain and organize our operations in Colombia, we count on the local support from Marta Rojas. She manages the relationship with the Giraldo family, takes care of the bank account, money transfers, taxes and shipments. For this service, she receives a monthly income of 1,000,000 COP, which is independent from the quantities of coffee.

The pandemic also caused a shift to online commerce, which meant we needed to strengthen our online presence. In order to be able to respond to that demand, we started working with Marcela Zapata and her agency [Ippocampo](#), who specialize in social media. From August 2020, they have been receiving a monthly income of 350,000 COP, plus cost coverage of the online ads.



Marcela presents her work to the Giraldo family.

3. Payments to the education project in Colombia

In the Hilo system, educational projects are not an add-on or donation: the social costs of coffee are part of our calculations. That's why Patricia Arroyave, who manages and realizes the project "Jardín un Municipio lector", also receives a monthly income of 1,000,000 COP.

2020 represented a big challenge to the project, as schools, libraries, and cultural spaces remained closed. Most of the project activities in the previous years took place in those spaces, so Patricia had to rethink the activities, focusing on those realized remotely – She created and performed in TV and radio programs, as well as the projects YouTube channel.

For example, the municipal television station Antena 4 provided its space, equipment and knowledge to make recordings of the readings and then broadcast them. We call the series "Leyendo con Don Gato" (Readings with Mr. Cat), and it is addressed to all children from urban and rural areas who would like to participate. Although in-person attendance is limited to three children, in compliance with safety protocols, each episode is broadcasted on the station three times a week in order to reach all children and young people.

The project is the result of a highly successful collaboration that aimed to create a character, create a recording set, motivate the children to participate and organize all the logistics behind the implementation of such a project. In the pictures we can see a bit of the behind the scenes.

One unexpected result of these activities was that the school teachers started using Patricia's videos and audios as part of their classes. Obviously, schools in rural Colombia were not prepared to offer remote online education, so the situation was far from ideal. In Patricia's words:

"How gratifying it is for Jardín Municipio Lector to see the teachers of the rural schools of Jardín sharing with the children the stories we record for them, but how sad it is to see the conditions in which they do it, through the screen of a laptop computer and even the teacher's cell phone. We still have so much to do!"

Si quieres aventura...
¡lánzate a la lectura!

Patricia and the children in the recording of
"Leyendo con Don Gato"



4. Adapting to the pandemic

In our plans, everything was clear: we confirmed the purchase of 12 cargass of green coffee from the Giraldo family, and agreed for the 2020 monthly payments. Then, around February, the pandemic hit, and that was exactly the moment in which we had to transfer the money. Without a clear alternative for our sales strategy, we felt the risk of bringing all this coffee to Germany was too high. That's why we decided to split it into two parts: 8 cargass in the first semester, and if things ran well, a second delivery of 4 cargass (or even more) in the second semester.

Since we had agreed on 12 cargass with the Giraldo family, we transferred the whole amount for their payment: 5.271,00 EUR (18,685,716 COP), consisting of the costs of production, plus 12 months of monthly payments. The remaining 4 cargass were stored in Colombia for a future shipment.

What changed was the transfer regarding the monthly payments for the administration and social project: we transferred the equivalent of 6 months income to Marta and Patricia: 3.385,05 EUR (12,000,000 COP).

Nevertheless, as 2020 advanced, sales did not grow as we had hoped for, and the idea of having a second coffee shipment became unrealistic. That's why we needed to make the difficult decision of stopping the payments to Marta and Patricia after 6 months. As we mentioned in the introduction, at this early stage, not everyone can receive a monthly payment yet, and we need to guarantee that for the most vulnerable first. Marta and Patricia were together in this decision, and agreed to wait for 2021 to start receiving their payment again, working voluntarily from September 2020.

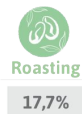
At the beginning of 2021, after a really good sales result during the Christmas season, we managed to sell almost all the green coffee we had imported (770Kg). This gave us confidence to plan a bigger order for January 2021: 20 cargass, which results in 1,820Kg of green coffee. The remaining 4 cargass from 2020 remained in Colombia. As Martín traveled to spend almost 6 months there, he thought it was time to have the Hilo system working in Colombia as well, and those 4 cargass (350Kg of green coffee) were used to kick start it. A big step for all of us!

Our Cost Structure

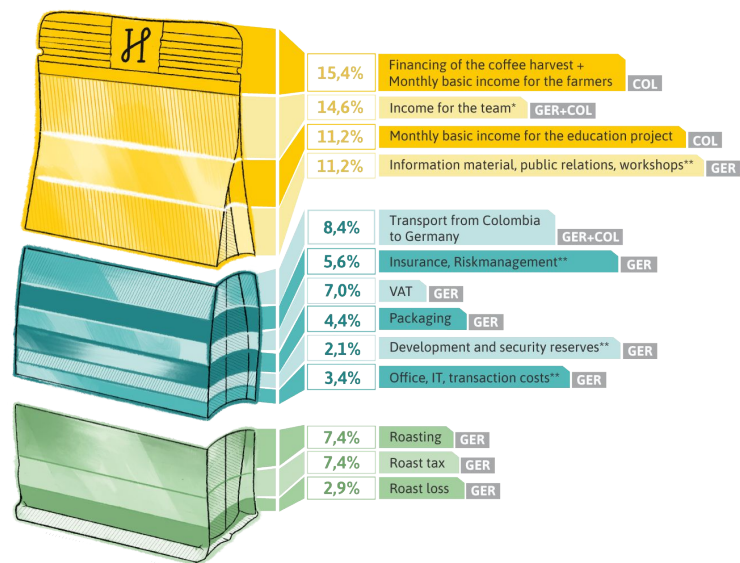
The way we achieve economic stability is through coffee sales, so our price is directly connected to our cost structure. Since we are still in the early stages of our project, some numbers are forecasts. Our infrastructure is still more costly in terms of logistics, roasting, and packaging than it can be for larger quantities (we need to achieve economies of scale), that's why we calculate some costs based on one full container of coffee (aprox. 20 Tons), even though we are still far from that. We started in May 2019 with a shipment of 500 kg roasted coffee from Colombia; then in March 2020 a shipment of 770 kg green beans; and for early 2021 a following shipment of 1.820 kg green beans.

The shift to roasting in Germany also influenced our costs, as it is more expensive than in Colombia. In 2020 we roasted in Germany in partnership with the KBK Roastery in Berlin. This year we still pay only a monthly income to the farming family and the social project staff in Colombia, while the "office" work in Germany has been entirely voluntary.

As we advance further into detailing our business and financial plans, these numbers become more concrete, but this is the status of our cost structure in June 2020.



Price calculation
for **1kg of coffee** sold
via the **Hilo System**



*So far the team in Germany has been working voluntarily, but this is temporary

**Based on a future scenario of 20 Tons

Key Figures

When we look for price transparency in coffee trade, we are faced with a multitude of numbers and technical terms. The concept behind our trust-building chain is to generate trust in our system, both by explaining what those numbers mean, but also showing how things happen. Some things are not 100% transparent even for us, and we keep learning along the way.

One common term used in the industry is "Return-to-origin" (RTO), which is shown as a percentage, and represents how much of the final coffee sales price actually goes back to the origin country where the coffee is produced. A higher RTO represents, generally speaking, a higher pay to coffee farmers. But there are other factors which influence as well.

For instance, in 2019, Hilo imported roasted and packed coffee from Colombia. That means roasting, printing, and packing services are also part of our RTO in 2019, which was calculated at 51,34% – way above the industry average. For terms of comparison, conventional coffee has an average RTO below 10% (sometimes as low as 2%), while for specialty coffee 20% is usually considered a really good RTO.

In 2020, we imported green coffee, and roasted it in Germany. Therefore, our effective RTO on the final retail price was lower than in 2019. It was 39,76%, including the payments to the administration and social project, and 19,61 % if we consider exclusively the price paid to farmers, our "Return-to-Farm" rate.

Year	Quantity of coffee (kg)		Total revenue from sales of roasted coffee	RTO to farm		RTO incl. social project & admin		Total RTO incl. Roasting + Packing at origin	
	Green	Roasted		EUR	%	EUR	%	EUR	%
2020	770	640	17980,00	3514,00	19,61	7124,73	39,79	7124,73	39,79
2019	600	500	14000,00	2708,07	19,34	6042,07	43,16	7187,60	51,34

Key Figures

Most roasters who present a RTO rate calculate it based on the "Freight-on-board" (FOB) price, not the price paid to the farmers (Farmgate price). The difference is that the FOB price includes the costs of in-country transportation, some taxes and fees, and considers what the importer pays for the coffee in the container at the port, ready to be shipped. The Farmgate price is often unknown to importers, as they do not buy coffee directly from farmers, but from exporters, who offer them an FOB price as the standard. The commodity market also works with the FOB price as the standard. In Hilo's case, the direct connection to the Giraldo family allows us to have that clarity.

	Farmgate price (EUR/Kg)	FOB price (EUR/Kg)	Full RTO price incl. social project (EUR/Kg)
Hilo	4,56	5,63	9,25
Specialty coffee (avg. 2020)	-	5,15	-
Fair Trade	-	3,17	-
C-market	-	2,91 (avg. 2020)	-

SUMMARY

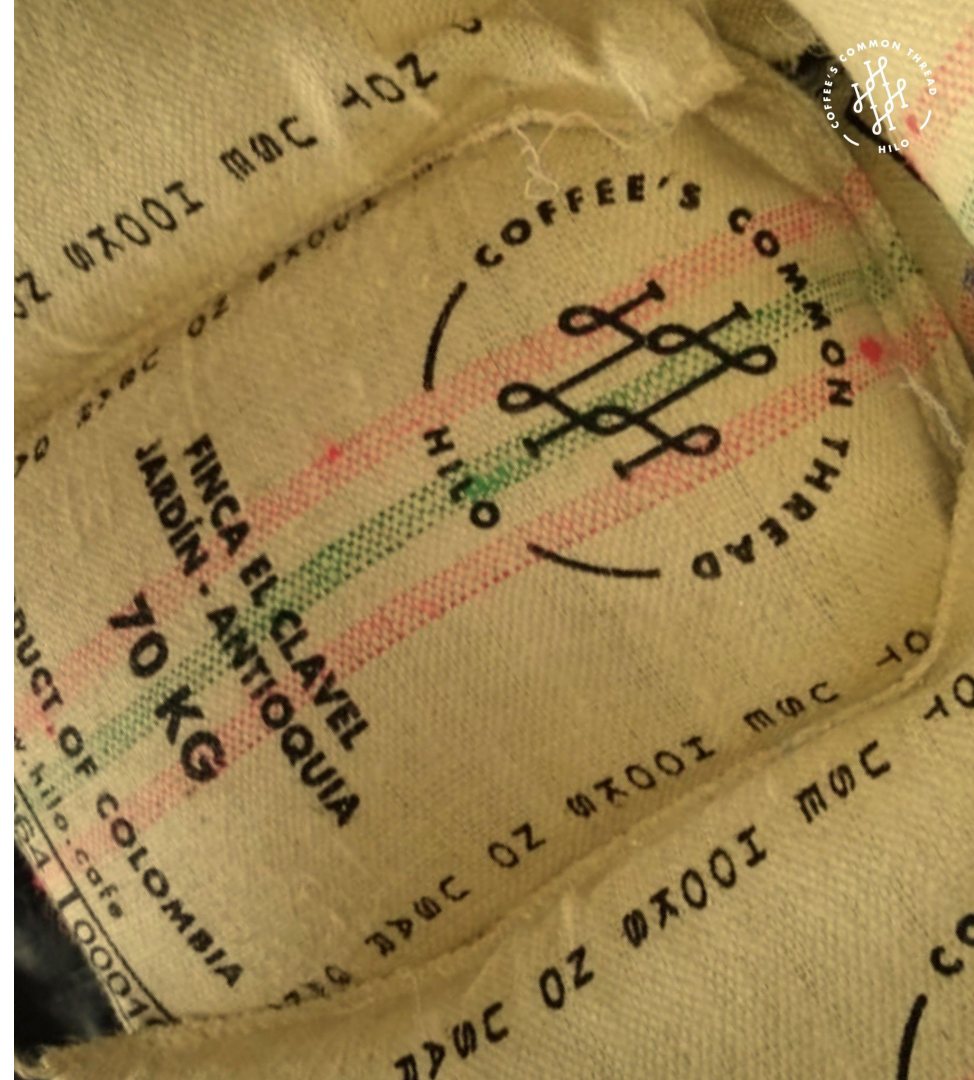
Country	Colombia
Producer	Giraldo family
Crop	2020
Direct trade	direct trade
Organic certified	no
Co-import with	Colombian Spirit
Lot size (kg)	770
Quality SCA score	84
Payment terms	100% production pre-financing + monthly wages
FOB \$/lb	2,84
FOB EUR/kg	5,63
Length of relationship with farm	since 2015
Last visit to the farm by Hilo	2021
Percentage of transparent coffee	100%

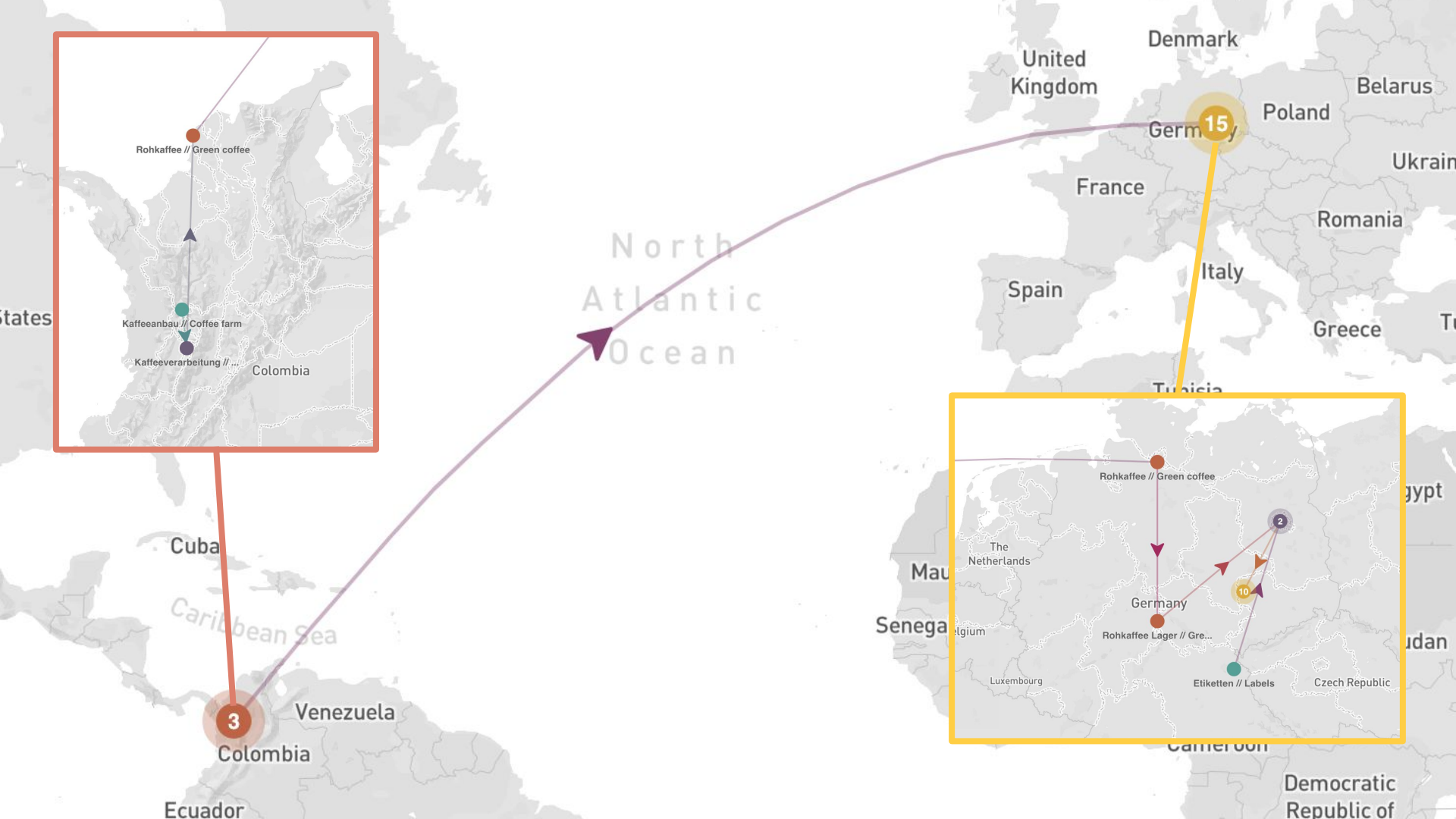
Trust-building chain

In 2020, Hilo's green coffee was harvested at the Giraldo family farm "El Clavel", in Jardín Antioquia, which makes it a single-farm origin coffee. After being pulped and washed, the coffee is dried and selected by the experienced hands of our farmers, Robinson and Don Andrés Giraldo. The 8 cargass of dried parchment coffee are then transported via truck to Armenia, Quindío, where it is milled (process of removing the husk of the beans, which turns parchment coffee into green coffee), packed in 70Kg bags, and prepared for export. The export container is loaded in Armenia, and then transported by truck to the port of Cartagena, in the Caribbean coast. There, the container is loaded into the ship, and travels across the Atlantic to reach Hamburg after around 3 weeks.

From Hamburg, the container is again transported via truck to the storage in Sünna. In 2020, we stored our green coffee in Sünna until the moment when it needed to be roasted, at which point it was shipped to our roaster in Berlin. After being roasted and packed, the Hilo coffee bags were then shipped to Leipzig, where they were stored until being delivered to our customers or resellers.

[Trust-building chain map](#)





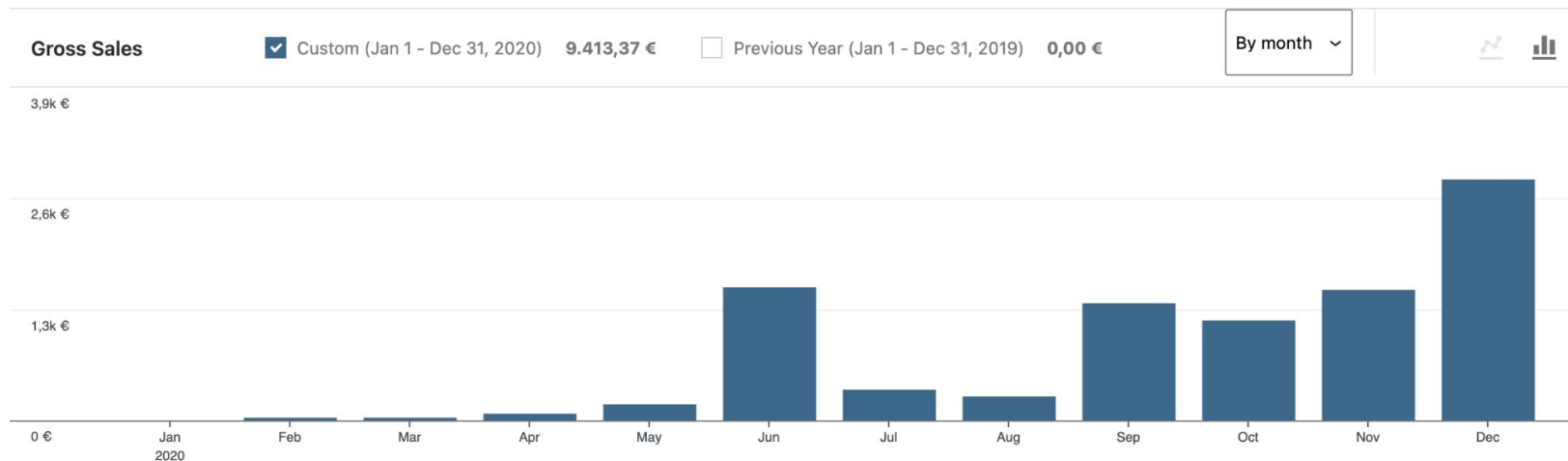


Don Andrés shows the process for selecting the best beans to members of the Hilo team in Colombia.

Sales

After the crowdfunding campaign in 2019, 2020 was our first year of active sales. Here you can find the summary of all sales during this period. Thanks to our web developer Rodolfo Dutra, we managed to launch our webshop in June 2020, and started selling our coffee online after 3 months of lockdown and low sales.

After the vacation months of July and August, we started picking up a good rhythm in sales, thanks also to Philipp's activities as our salesperson in Leipzig. In December we had our best month ever, with the holiday season proving to be a good opportunity, and giving us confidence to order fresh coffee for 2021.





The Samstagsmarkt in Leipzig-Plagwitz was one of the places where we had sales actions in 2020.

Carbon Footprint

We want to reduce our carbon footprint as much as possible. We are looking into improving our value chain, into a trust-building chain. To be honest, we are far from where we want to be and it will be a major focus for 2021. In 2020 approximately 30 native trees, were planted in Jardín by both Marta and Patricia and the Giraldo family (in particular by Anderson Giraldo, Robinson's son). The focus of 2020 was the inclusion of nature awareness and its relevance in our conversation: We successfully included The Soil into the conversation. With the amount of trees we planted in 2020 we realized we could offset the CO2 emissions for 2019.

At the beginning of 2021, with Martin's visit to Jardín, the family watched the documentary: Davids Atenboroguh One Life on Earth, and we discussed climate change, most likely for the first time for them. One interesting aspect was to see how Robinson transferred the key topics, like the use of pesticides, to local examples which he could follow. We also encourage you to develop this trust-building chain together with us. Please contact us [info\(at\)hilo.cafe](mailto:info(at)hilo.cafe) or via Instagram [hilocafe.co](https://www.instagram.com/hilocafe.co) if you want to join the weave.



Isabela, Robinson's daughter is learning how to plant new trees.

Conclusions

We are still at the very beginning of this systemic change, striving to make economic stability reality for all of those involved. But after two years of the Hilo system actively working, and of us working on this system, we asked ourselves:

Are we impacting those we want to impact?

We are impacting those who we want to impact, step by step, family by family. At the beginning of 2021, we acquired 2/3 of the harvest of the Giraldo family, the first family in the Hilo system. Our goal is to reach their maximum (28 cargas), and have the first family fully integrated into the Hilo system in 2021.

This means, opening a space for a new family in the Hilo system!

As a direct impact of our relationship with the Giraldo family, for example, they have begun to compost at their farm, and to experiment with organic farming on a micro-lot, moving from using chemicals to organic fertilization. And, our favorite: they installed Wi-Fi internet at their farm for the first time.

In addition, through the project Jardín, un Municipio Lector, we supported the production of valuable educational material in video and audio. This material had a real impact for the local school teachers, who didn't have much access to remote education resources to use during the lockdown. They used the content produced by Patricia as an integral part of their remote classes. As a result of her years of hard work with the community in Jardín, in 2020 Patricia received the award "Antioqueña de Oro", which honors women who make a difference in society.

Conclusions

Are we changing the dynamics hidden in the conventional trade system?

The dynamics in the conventional system are based on profit oriented relationships, which leads to maximizing quantities, squeezing costs, and exploiting people and the environment. In order to change those dynamics, we make a respectful relationship the basis of it all.

We have calls with Robinson Giraldo every two weeks, in which he tells us about what has been happening at the farm, and we exchange information about our daily activities. We also have weekly calls with Marta and Patricia, in which we learn about the developments of the project Jardín, un Municipio Lector, and share what has been happening in Germany. with the Giraldo family. We embrace that it takes at least two to have a conversation.

This can still seem very intangible, but we believe these conversations represent a major change in the system dynamics, enabling the sense of agency in all of those involved.

Another way in which we are shifting the dynamics is by focusing our effort towards economic stability with the most vulnerable – the farmers. We have made a great effort to keep the system running, so that the Giraldo family is soon completing two years receiving a monthly income without interruptions – even though our sales didn't grow as fast as we had hoped. While in the conventional system farmers are the first to suffer the consequences of a price crisis, the Hilo system creates a security buffer which guarantees their income.



Part of our team in the meeting we organized in August 2020:

Mercedes, Claudia, Thomas, Martin, Melissa, Tiago, Marcela, and Philipp.

Final Remarks

2020 didn't go as expected, and it required a huge adaptation effort from all of us. We understood that since our best bet is to plan to adapt, we should move from implementing Hilo, to "[learning](#)" Hilo. We expect better outcomes in 2021, and we hope it will be possible to include the entire harvest of the Giraldo family into the system.

In March 2021 Martin visited the Giraldo family in Jardín, and confirmed our commitment to keep working together, and focus on a participatory approach for scaling up on the producer's side.

The plan is to soon be able to scale to more families. Of course, it has to follow the demand for our products. The scaling is based on a model family that became a champion converting into a multiplier. The Giraldo family are the first champions, and our challenge today is to work together and enable them to become multipliers of the Hilo system.

Dear consumer:

With your participation, we believe we can change the system.

A big THANK YOU to all who have supported us, team members and external collaborators, especially our partners during this difficult year:

Social Impact Lab Leipzig / Col-Spirit / good point agency /
Friendzone.studio / Rara Colectivo / Jardín Municipio Lector /
Nitido Fotografía / Cafe Chavalo / Uptown Café / Berge Versand
Centre for International Migration and Diaspora CIM from the GiZ /
Impact Hub Leipzig / Mindful Innovation / Wunderbar Leipzig
Filter Stories Podcast / KBK Kaffeerösterei / Ippocampo / Pon Poco /
Ahoi Spätis / Zwischenfisch / Samstagsmarkt / Purple Bike Coffee /

and so many others!