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Small farmer cooperatives and voluntary coffee certifications: Rewarding progressive farmers of engendering widespread change in Costa Rica?

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ABSTRACT

Our research examines the benefits and drawbacks for cooperatives who participate in voluntary coffee certifications. We interviewed administrators at twenty Costa Rican coffee cooperatives about management practices related to voluntary certification. Voluntary certifications are popular among coffee cooperatives. Access to certified markets is facilitated by state support of the cooperative sector, regulation of the coffee sector and well-enforced environmental and social laws. However, there are no significant or consistent financial incentives for farmers to pursue certification. Multiple certifications may lower auditing and implementation costs, but cooperatives rarely receive the full premium for multiply-certified coffee. Low market demand for certified coffee, weak price incentives and high auditing and management costs encourage cooperatives to certify only a portion of their members. This strategy rewards compliant farmers rather than inducing widespread change to farming practices among the entire membership. Though financial incentives are weak, certifications offer non-financial benefits to both farmers and cooperatives, including better management and more resilient cooperatives.

1. Introduction

Voluntary coffee certifications, such as Fairtrade and Rainforest Alliance, have attempted to de-commoditize coffee and mitigate the effects of the crisis of coffee prices (Muradian and Pelupessy, 2005). Certifications were created with the broad goal of creating a segment of the specialty coffee market (Daviron and Ponte, 2005) in which social, economic and/or environmental practices which promote sustainable agriculture are verified and incentivized (Rice, 2015). Consumers have indicated a willingness to pay a premium for Fairtrade and other certifications (Arnot et al., 2006; Basu and Hicks, 2008), assuming that the higher price was used to support the implementation of sustainable practices.

While the market for certified coffee is growing, there is still a gap between the production of standard-compliant coffee and the sales of certified coffee. The insufficient demand for certified coffee means that standard-compliant coffee must often be sold on the conventional market (Sick, 2008). Low demand limits the number of cooperatives that can participate in certifications (Muradian and Pelupessy, 2005), undermining potential upgrades to the sustainability of farms and cooperatives.

In 2012 the production of standard-compliant coffee rose to 49% of global exports while sales of certified coffee reached only 12% of global exports (Potts et al., 2014). Fairtrade requires the certification of all members of a farmers' organization and therefore has the highest ratio of coffee that is standard-compliant versus coffee that is sold with certification. Consequently Fairtrade is most often criticized for overcertification (De Janvry et al., 2015). This overcertification may be exacerbated as cooperatives copy the certification strategies of other cooperatives in the same geographic area (Beuchelt and Zeller, 2013). On the other hand, Daviron and Ponte (2005) warn that a large supply of standard-compliant product is necessary to ensure the availability of diverse qualities and origins of product.

In this nuanced economic context, coffee certifications have been found to be an effective tool in improving farmers' livelihoods (Bacon et al., 2008) while other authors highlight modest effects on farmer income, particularly during times of economic crisis (Lyon, 2007; Raynolds, 2002; Ruben et al., 2009). Notwithstanding this evidence on the positive impact on farmers' wellbeing, coffee certifications receive criticism for not significantly affecting farmer

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livelihoods. Some studies highlight the meager economic benefits associated with certifications (De Janvry et al., 2015; Wilson, 2010) or find the distribution of financial incentives along the value chain is not always transparent (Daviron and Vagneron, 2011). Willingness to pay on the part of the consumer coupled with no clear policy on price premiums to producers (except in the case of Fairtrade) creates the opportunity for downstream actors of the value chain to charge higher prices to consumers without passing the profit on to producers (Vagneron and Roquigny, 2011; Valkila et al., 2010). Several authors have argued that what is classified as a certification premium is actually related to the quality of the coffee rather than to the manner in which the crop was produced (Kilian et al., 2006; Ruben and Zuñiga, 2011). This means that producers must improve both the quality and the sustainability of their production without clear compensation for the more sustainable practices (Giovannucci et al., 2008). Furthermore, Fairtrade is the only standard which addresses the distribution of a premium to farmers (Fairtrade Foundation, 2012). These examples of lack of transparency in pricing reduce the financial incentive to convert to sustainable agricultural practices (Giovannucci et al., 2008). However, much research ignores the non-economic benefits that certifications offer to farmers and their organizations (Omidvar and Giannakas, 2015). Other studies find that environmental change at the farm level is limited by self-selection of compliant farmers (Kirumba and Pinard, 2010) or low demand for certified coffee (Jaffee, 2008).

To better understand the impacts of certification on farmers we need to take into account two elements: (i) the diversity of certifications available and their different focusses and (ii) the critical role farmers' organizations play in certification.

1.1. Voluntary coffee certifications and global production

There are numerous voluntary coffee certifications currently available to producers and consumers (Table 1). Each certification scheme focuses on a different aspect of sustainability, although the standards of the schemes have converged over time (Reinecke et al., 2012). Coffee certifications can be classified into two categories based on their standard-setting bodies: NGO/civil society-initiated certifications and private certifications. Certifications initiated by NGOs or civil society such as Fairtrade, Rainforest Alliance, and organic put more emphasis on social and environmental standards. Private certifications such as Starbuck's CAFE Practices and Nespresso AAA are used to ensure quality and traceability. Private certifications are sometimes criticized for being less likely to promote significant changes in sustainability at the farm level because they are less transparent and based on corporate interests (Giovannucci et al., 2008).

1.2. Farmers' organizations and certifications

Stakeholders in the certified coffee value chain certification often favor estates over small-holder farmers (Bitzer et al., 2008), and small-holders cannot access certifications or their benefits without the support of farmers' organizations (Pinto et al., 2014; Wollni and Zeller, 2007). Farmers' organizations are not only intermediaries between different certification agencies and the producers, they represent the actors who participate in decisions relative to certification, such as which certifications to pursue, how many and which members to certify, how to identify new markets for certified coffee, and how to distribute the profits, if any, from selling certified products (Faure et al., 2012).

Farmers' organizations are based on principles of self-help, solidarity, collective empowerment and social responsibility (Chloupkova and Svendsen, 2003; Majee and Hoyt, 2010). These ideals are well-aligned with those of many certification schemes, particularly those of Fairtrade (Fairtrade International, 2011; Giovannucci and Ponte, 2005; Sustainable Agriculture Network, 2016). Some studies show that certifications promote farmers' participation in farmers' organizations (Bigirwa, 2005) and may increase the participation of women (Lyon et al., 2010). Certifications may strengthen these organizations (Ruben et al., 2009) by helping them upgrade their products, processes (Beuchelt and Zeller, 2013) and services (Snider et al., 2016). In addition, certifications may benefit cooperatives both financially and in terms of human and social capital development (Bacon, 2005; Ronchi, 2002; Ruben et al., 2009). The benefits of membership in a certified cooperative are enhanced if the cooperative is a member of a second-level cooperative, which may provide additional services (Bacon, 2010; Vandorpe, 2014). Despite these benefits, it has been suggested that cooperatives' decisions for pursuing certifications are not made strategically (Beuchelt and Zeller, 2013). Nevertheless, little work is directed toward the role cooperatives play in the process of certification, with the exception of Fairtrade (Ronchi, 2002; Valkila and Nygren, 2010) and to a lesser extent, certified organic (Mutersbaugh, 2002). For these reasons it is important to have a better understanding of what factors cooperatives consider when making decisions about certifications and which strategies they use to manage them.

This research examines the questions: What influence and implications do small-farmer cooperatives have on the choice and implementation of different certifications?; How do cooperatives benefit from certifications and what are the drawbacks to their participation? To answer these questions we use a case study of Costa Rica.

This research attempts to clarify the role of cooperatives in the certification process and the dynamics of financial and non-financial incentives for producers and cooperatives. Section 2 describes the case study of Costa Rica and the methods used in this study. Section 3.1 examines the strategies and methods that Costa Rican coffee cooperatives use to implement and the factors that cooperatives consider when developing these strategies. Section 3.2 addresses the financial incentives paid to small farmer cooperatives and how these incentives fluctuate with changes in the world price of coffee and with different certifications. Section 3.3 addresses whether the certifications provide a direct financial incentive to members or in-kind contributions. We conclude with some perspectives on certifications in the global market.

2. Case study and methods

2.1. Case study: the Costa Rican coffee sector

Coffee production in Costa Rica is dominated by small-holder farmers. Ninety-two percent of the nation's coffee farmers have farms of less than 5 ha. The harvest from farms of less than 5 ha represents 40.5% of the nation's total harvest (Icafe, 2014). Costa Rica is an important producer of certified coffee and its production of standard-compliant coffee approaches 30% of the country's total production (Potts et al., 2014). The country has a long history of collective action in the coffee industry, starting in 1903 when farmers first organized themselves to defend their interests against large exporters (Castro, 2013). Costa Rican farmers' organizations are classified into associations, cooperatives and consortia of cooperatives, each classification enjoying a distinct legal status (Faure et al., 2011). The twenty-two coffee cooperatives process 40% of the coffee produced in Costa Rica (Icafe, 2013a). There is diversity in the size of the cooperatives (Table 2).

Many cooperatives entered into the certified coffee market with Fairtrade certification, which was first available in Costa Rica in 1988 (Luetchford, 2008). Cooperatives (Faure et al., 2012) and con-