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Upgrading for whom? Relationship coffee, value chain interventions and rural development in Indonesia

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ABSTRACT

Value chain upgrading interventions have emerged in recent years as a dominant approach to rural development. In coffee value chains, upgrading opportunities are presented by the growth in consumption of specialty coffees, which are associated with direct engagement with producer communities by roasting firms, along with an apparent increased commitment to social responsibility. Known in the industry as "relationship coffee", such interventions align with a value chain approach to development and are promoted as offering upgrading opportunities for otherwise marginalized rural communities. In this article, we critique the dominant development discourse of relationship coffee in Indonesia via three case studies of livelihoods and local agrarian dynamics across three coffee-growing communities on the islands of Sulawesi, Bali and Java. We find that the relationship coffee model does present opportunities for producer upgrading. However, these benefits have been subsequently captured by key individuals within the producer community who are able to accumulate wealth and consolidate their social position. As it is currently implemented in Indonesia, the relationship coffee model has reproduced local patterns of inequality rather than contributing to poverty alleviation efforts. These insights suggest the urgent need to develop a critical political economy of upgrading in the global value chain and rural development literature.

1. Introduction

This paper assesses the impact of an emerging value chain structure in the specialty coffee sector, known as "relationship coffee", on livelihoods and local agrarian dynamics across three coffee-growing communities on the Indonesian islands of Sulawesi, Bali and Java. We trace the discursive construction and implementation of relationship coffee as a development intervention in coffee producing regions, and its differential impact on local actors. In doing so, we challenge the overly de-politicized upgrading narrative that is frequently employed in relation to value chain interventions in the global south. Instead, we ask the question 'upgrading for whom'? Through posing this question, we point to some critical weaknesses in how the global value chain (GVC) concept has been applied to development *practice*, particularly its apparent disregard of local politics and social relations of production. However, we also contend that a reinvigorated and re-politicized GVC framework has much to offer development studies for understanding the politics of value distribution in value chain-focused development interventions.

The emergence of voluntary private regulation and standards as a mode of value chain governance in agri-food chains over the last two decades has been well-documented (Daviron & Ponte, 2005; Giovannucci & Ponte, 2005; Neilson, 2008; Raynolds, 2009). Private regulation in coffee, including sustainability codes and formal certification schemes, has emerged primarily in response to consumer and NGO-driven concern about the social and environmental ethics and sustainability of production (Neilson, 2008). This includes Fairtrade, which began as an attempt to de-commodify the coffee trade but is now increasingly driven by large coffee brands as another market-capture tool via a process of 're-commoditization' (Daviron & Vagneron, 2011; Raynolds, 2009). A large body of literature has analyzed the impacts of Fairtrade and other certification schemes on coffee producers, often employing a GVC analytical framework, with mixed results (Bacon, 2005; Bray & Neilson, 2017; Méndez et al., 2010; Ruben & Fort, 2012; Utting-Chamorro, 2005; Utting, 2009; Valkila & Nygren, 2010). At the same time,

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however, a parallel trend in the global specialty coffee sector over the past decade has been the growing uncertified upstream engagement of small and medium-sized coffee roasting firms with farming communities in coffee producing areas. One such model is known in the industry as "relationship coffee", which is part of the "third-wave" artisanal coffee movement (Manzo, 2010).[1] In general, this approach has received much less attention in the literature, although Holland, Kjeldsen & Kerndrup (2016) examine how roasters engaging in direct trading relationships with origins coordinate exporters in the value chain by mobilizing certain quality tropes, and Hernandez-Aguilera et al. (2018) recently assessed the environmental, socio-economic and technological outcomes for smallholders engaged in a relationship coffee model in Colombia. The relationship coffee model fundamentally differs from Fairtrade and other certification schemes in its *informality.* In this article, we understand "relationship coffee" to be coffee marketed to consumers as being procured through a direct relationship between roaster and producer typically involving personal interaction, mutual trust, price transparency, a commitment to quality improvement and (importantly) a stated intention to improve the lives of coffee farmers and their communities. As emphasised by Holland et al (2016), however, a direct "relationship" does not necessarily mean the exclusion of intermediate actors, such as specialist trading firms. It is increasingly both a discursive practice and business model among specialty roasters serving high-value end markets and is often framed by roasters as a response to what are perceived as cumbersome and impersonal formal codes and standards, such as Fairtrade. The relationship coffee model is promoted by roasters as offering opportunities for often-marginalized producer communities to establish new and prosperous livelihood trajectories. Unlike Fairtrade, there is generally no third-party auditing involved in relationship coffee. Instead, the claims of roasters are verified through online marketing, including stories and photos of farmer interaction, and rely on relationships of trust with consumers.

In Indonesia, the relationship coffee model has been embraced by governments and NGOs as a potential rural development strategy to improve outcomes for coffee producing communities. In a number of production sites across Indonesia, the emergence of the relationship coffee model has been facilitated through value chain interventions funded by the Indonesian state and donor agencies. These interventions are designed to upgrade the capabilities of coffee farmers and connect them with specialty buyers, enabling their participation in relationship coffee value chains and theoretically leading to increased value capture compared to traditional marketing chains. However, the claims made by roasters on their websites remain largely unverifiable. These claims rest on two key assumptions grounded in the narrative of upgrading: first, that relationship coffee interventions result in product upgrading and facilitate enhanced value capture; and secondly, that these benefits are distributed in such a way that leads to broad-based rural development outcomes (see Selwyn, 2013). While a number of studies have assessed the social and economic outcomes for farmers involved with the Fairtrade model (Jaffee, 2007; Méndez et al., 2010; Ruben & Fort, 2012), to date, there have been few studies assessing the outcomes of the relationship coffee model for rural households and communities. The study by Hernandez-Aguilera et al (2018) of a relationship coffee value chain in Colombia, however, identified improved sustainability outcomes, but no improvement in the farm-gate price received by farmers. To address this gap, in this paper we interrogate the broader claims made about buyer-driven development interventions on poverty reduction through case studies of three relationship coffee interventions in Indonesia. In doing so, we develop an argument based on four main tenets. First, the relationship coffee model does present upgrading opportunities, facilitating the transfer of ideas, knowledge and capital to individuals in producer communities. Second, however, because of the way that these interventions 'couple' with prevailing institutions and local social/political relations in rural Indonesia, upgrading has primarily manifested as rent-seeking for local elites. Third, the lack of attention paid by roasters and development actors to local institutional and livelihood contexts frequently leads to the breakdown of the relationship. Fourth, these insights suggest critical weaknesses in the upgrading narrative as applied to development interventions in (at least some) rural communities. The lack of attention paid to social and political relations at various scales in upgrading interventions means that such interventions inevitably reproduce pre-existing patterns of inequality. We argue that this is the result of a weak conceptualization of politics in prevailing development applications of GVC theory.

The paper is structured as follows. We first review the concept of upgrading within GVC theory and its application to development interventions in agricultural value chains. Next, we trace the emergence and rationale of relationship coffees in Indonesia via a discourse analysis of Australian-based roasters. We then present the results of case studies of three relationship coffee development interventions in Bali, West Java and South Sulawesi, focusing on the outcomes for producer households. The final section of the paper draws together the key insights from the case studies.

2. Upgrading and value chain interventions in agricultural value chains

Upgrading small farmers through value chain interventions is part of a broader agenda in international development practice known as 'value chain development' (VCD), which (often uncritically) borrows its conceptual apparatus from GVC theory (Humphrey & Navas-Aleman, 2010; UNIDO, 2011; Webber & Labaste, 2010). The emergence and evolution of GVC theory has been discussed extensively in the literature (see the edited volume by Bair, 2009, also Bair, 2005; Neilson, 2014). We do not reproduce that discussion here, but rather focus on the concept of upgrading, particularly its recent operationalization in development interventions within agricultural value chains. There has been a rapid uptake of value chain thinking within development agencies over the last decade, and the concept of upgrading has been the principle vehicle through which the GVC framework has been adopted as an action framework (Bernstein & Campling, 2006; Neilson, 2014). Gereffi (1999, p. 51-2) originally described 'industrial upgrading' as the "process of improving the ability of a firm or an economy to move to more profitable and/or technologically sophisticated capital- and skill-intensive economic niches." Gereffi (ibid: 39) argued that upgrading possibilities are driven by lead firms and their organizational capabilities in global value chains, and therefore that "participation in global [value] chains is a necessary step for industrial upgrading because it puts firms and economies on potentially dynamic learning curves." This argument was based primarily on analysis of East Asian industrialization and the upgrading trajectories of local technology and auto firms from simple assembly to original equipment manufacturers (OEM), to globally dominant original brand manufacturers (OBM), made possible through linkages to US and European lead firms (Gereffi, Humphrey & Sturgeon, 2005; Humphrey & Schmitz, 2002). It is this

[1] First wave coffee refers to the era of coffee consumption in Anglo-Saxon countries where coffee was largely sold as a bulk, largely undifferentiated commodity, while second wave coffee refers to the period from the 1990s onwards where coffee was increasingly consumed as espresso drinks in coffeehouse chains, typified by the emergence of Starbucks. The third wave of coffee connoisseurship, then, involves far greater specificity of origin (sometimes individual farms) and a desire to highlight their characteristic taste profiles through tailored roasting techniques (Manzo, 2010).