

Food Standards, Certification, and Poverty among Coffee Farmers in Uganda

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Summary. — Voluntary standards are gaining in importance in global markets for high-value foods. We analyze and compare impacts of three sustainability-oriented standards – Fairtrade, Organic, and UTZ – on the livelihoods of smallholder coffee farmers in Uganda. Using survey data and propensity score matching with multiple treatments, we find that Fairtrade certification increases household living standards by 30% and reduces the prevalence and depth of poverty. For the other two certification schemes, no significant impacts are found. Several factors that can explain differential impacts are discussed. Overly general statements about the effects of sustainability standards on smallholder livelihoods may be misleading.

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1. INTRODUCTION

Food systems around the world are undergoing a rapid transformation, with modern retailers, private standards, and vertically integrated supply chains gaining in importance (Melo, Engler, Nahuehual, Cofre, & Barrena, 2014; Reardon, Barrett, Berdegúe, & Swinnen, 2009). This transformation is partly driven by changing consumer preferences, induced by rising living standards and growing concerns about food safety and the environmental and social consequences of agricultural production (Mergenthaler, Weinberger, & Qaim, 2009). To satisfy consumer demands, retailers and manufacturers – in cooperation with certification bodies and NGOs – increasingly use sustainability-oriented standards and labels (Kleemann, Abdulai, & Buss, 2014; Tran, Bailey, Wilson, & Phillips, 2013). This trend is especially pronounced for luxury foods, such as coffee, tea, cocoa, or tropical fruits. For coffee, the global market share of products with sustainability certification – such as Organic, Fairtrade, UTZ, or Rainforest Alliance – has doubled from 4% in 2006 to 8% in 2009; this share is expected to grow to over 20% in the next couple of years (ITC, 2011). In rich and emerging countries in particular, many consumers are willing to pay more for foods that are labeled to be sustainably produced. For coffee and other tropical products, this also involves consumer perceptions to contribute to improved livelihoods of smallholder farmers (Basu & Hicks, 2008; Efenbein & McManus, 2010). However, actual evidence about producer benefits is mixed (Hansen & Trifkovic, 2014; ITC, 2011; Subervie & Vagneron, 2013). Here, we analyze the impacts of sustainability standards on smallholder coffee producers in Uganda. Uganda is one of Africa's major coffee exporters. Around 500,000 small-scale farmers produce coffee in Uganda; around 10% of them are already certified under different sustainability standards (UCDA, 2012).

There is a growing body of literature about the impacts of standards on coffee farmers, yet with shortcomings in terms of regional coverage, methods used, and outcome variables considered. Most existing studies concentrate on Latin America (e.g., Bacon, 2005; Bacon, Mendez, Gomez, Stuart, & Flores, 2008; Barham, Callenes, Gitter, Lewis, & Weber, 2011; Barham & Weber, 2012; Beuchelt & Zeller, 2011;

Jaffee, 2008; Raynolds, Murray, & Leigh Taylor, 2004; Utting-Chamorro, 2005; Valkila, 2009; Valkila & Nygren, 2010), while there are only a few papers focusing on Africa (Bolwig, Gibbon, & Jones, 2009; Jena, Chichaielu, Stellmacher, & Grote, 2012). Concerning the methods used, many impact studies do not control for possible selection bias (Bacon *et al.*, 2008; Beuchelt & Zeller, 2011; Mendez *et al.*, 2010; Utting-Chamorro, 2005; Valkila, 2009; Valkila & Nygren, 2010), so it is unclear whether observed differences between certified and non-certified farmers are really attributable to certification. In terms of outcome variables considered, there is a heavy focus on coffee prices. In many cases, certified farmers receive higher prices, but sales prices alone are not a comprehensive indicator of livelihood impacts.

A few impact studies controlled for selection bias and also considered broader indicators of household welfare. Jena *et al.* (2012) used propensity score matching (PSM) to evaluate impacts in Ethiopia. They showed that certification contributes to higher incomes among coffee farmers, but the impact on poverty was insignificant. Ruben and Fort (2012) also used PSM in their study of Fairtrade impacts in Peru. They did not find significant income gains, although certified households were able to accumulate more wealth, possibly due to lower price risk. Arnould, Plastina, and Ball (2009) looked at Fairtrade impacts in Peru, Guatemala, and Nicaragua. While they revealed positive price effects, impacts on household welfare were small and uneven across the three countries. Bolwig *et al.* (2009) used Heckman selection models to analyze impacts of Organic certification in Uganda, showing that certified production contributes to higher farm revenues.

These findings suggest that the livelihood effects may differ depending on various factors, including regional context and type of standard. Hence, general conclusions about the impacts of sustainability standards on smallholder farmers are not justified. To gain further insights, comparing effects of different types of standards in the same regional context would be useful. Such comparisons are rare in the existing

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literature. Two exceptions are Bacon (2005) and Ruben and Zuniga (2011). Bacon (2005) compared farmers supplying Fairtrade, Organic, and specialty coffees in Nicaragua, suggesting that higher and more stable prices in Fairtrade and Organic markets may reduce the livelihood vulnerability of smallholders. Ruben and Zuniga (2011) also looked at farmers in Nicaragua, using PSM to compare the impact of Fairtrade, Rainforest Alliance, and Starbucks CAFE. They showed that Fairtrade farmers receive better prices but that Rainforest Alliance and Starbucks CAFE lead to higher yields and quality performance.

We contribute to this literature by comparing the impact of three different standards – Fairtrade, UTZ, and Organic – on smallholder farmers in Uganda. Uganda is an interesting study country for such comparison in Africa, because farmers certified under different schemes and their non-certified counterparts operate in the same locations. Our approach is similar to Ruben and Zuniga (2011). We also use survey data and PSM, but employ a refined approach to estimate propensity scores, which explicitly accounts for the fact that there are multiple treatments (Lechner, 2002). Furthermore, we extend the analysis of welfare effects and also examine impacts of certification on the prevalence and depth of poverty.

2. FAIRTRADE, UTZ, AND ORGANIC STANDARDS

Fairtrade, UTZ, and Organic are among the most important sustainability-oriented standards in the global coffee market in terms of volumes traded and number of farmers certified (ITC, 2011). Recent trends in the global trade of coffee under these standards are shown in Figure 1. All three standards are relevant for smallholder farmers in developing countries, and all three have social and environmental objectives. Fairtrade certification is only possible for farmer groups or cooperatives. This is different for Organic and UTZ where certification of individual farmers is also possible. However, due to the relatively high fixed costs involved, individual certification is not practicable for smallholder farmers. Therefore, in a small-farm context UTZ and Organic certification are also implemented as group approaches. The three standards are explained in more detail in the following.

Fairtrade certification and labeling systems for coffee were launched in 1988 by the Fairtrade Labeling Organization (FLO) with the aim of improving the livelihoods of smallholder producers and cushioning them from volatile market prices.

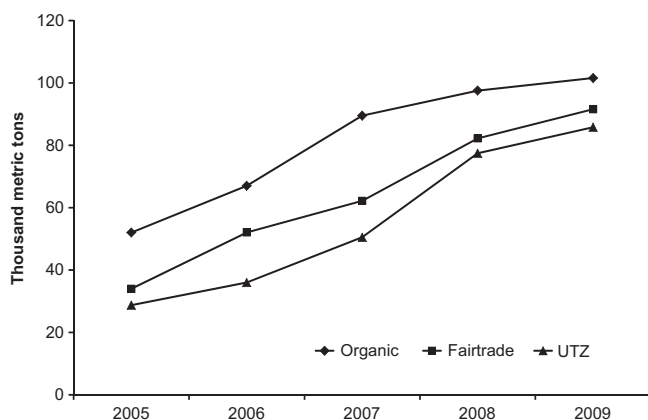


Figure 1. Global import quantities of Organic, Fairtrade, and UTZ-certified coffee. Source: Own graphical presentation based on data from ITC (2011).

Fairtrade certification can only be attained by producer organizations that are farmer managed, transparent, and founded on democratic principles. Democratic principles require that leaders are elected by all members of the organization. In order to be certified, a producer organization has to make an application and is physically inspected against Fairtrade standards. If successful, a certificate – usually valid for up to one year – is issued. The Fairtrade label guarantees producers a minimum floor price, whenever the international free market price falls below a certain threshold. In addition, a Fairtrade premium is paid to the producer organization to be used for capacity building, community development, and related projects. Producers have to ensure good labor conditions for workers, including payment of minimum wages, no child labor, and measures to reduce occupational health hazards. There are also specific rules for environmental protection, including practices for sustainable soil and water management and safe use of pesticides and fertilizers. The most important markets for Fairtrade coffee are the United States, United Kingdom, Germany, France, and the Netherlands (ITC, 2011).

The UTZ labeling system (formerly known as UTZ Kapeh) is a more recently founded standard. It was established in 1999 by the Ahold Coffee Company, a Dutch roaster, but is now used by other European coffee companies and restaurant chains as well. The primary focus of UTZ is on traceability and sustainable production processes, based on Good Agricultural Practice (GAP) as specified by GlobalGAP. The GlobalGAP standard requires producers to comply with the labor laws concerning wages and working hours, and to handle agrochemicals responsibly, as stipulated by the International Labor Organization. The UTZ label does not guarantee a minimum price to producers, nor does it provide any premium or protection against price volatility. It is mandatory for UTZ-certified farmers to be trained in GAP. The idea is that this training will contribute to higher coffee yields, better quality, and thus higher prices. The official website says: “Through the UTZ-program farmers grow better crops, generate more income and create better opportunities while safeguarding the environment and securing the earth’s natural resources” (UTZ Certified, 2014). The certification process is less bureaucratic for UTZ than for other sustainability standards, which may be one reason for its rapid expansion. The Netherlands is the biggest consumer of UTZ-certified coffee; around 30% of all coffee consumed in the Netherlands has the UTZ label (ITC, 2011).

The Organic standard follows the principles of health, ecology, fairness, and care. Certified farmers have to use production methods based on traditional and scientific knowledge that maximize farm soil fertility and enhance biodiversity. The use of inorganic inputs such as synthetic fertilizers and chemical pesticides is prohibited. Organic certification requires farmers to strictly follow organic production guidelines for a minimum period of three years (referred to as the conversion period) before getting full certification, thus making it one of the most stringent among the voluntary standards (Coulibaly & Liu, 2006). Prices paid for Organic coffee are often higher than for non-certified coffee, although no minimum price is guaranteed. The international guidelines for organic farming are set by the International Federation of Organic Agriculture Movements (IFOAM), an organization based in Germany with affiliated organizations in over 100 countries. In addition, some countries and companies use their own organic standards, which are similar to the IFOAM guidelines but may differ in certain details.

A fundamental difference between the three standards is that Fairtrade provides a minimum quality-invariant floor price,

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