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The Impacts of Certification for Sustainable Production on Coffee Producers in Tanzania

An application of the Committee on Sustainability Assessment (COSA) Harmonized Methodology for Impact Analysis in the Coffee Sector

Date of submission: January 31 2011

Region: Africa

Country: Tanzania

Type: Building productive capacity

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Executive Summary

Environmental and social product qualities are increasingly requested on international markets. Private voluntary standards are an interesting instrument to highlight special qualities of a product and to respond to the growing demand for sustainably produced goods. The rapid growth in the use of private voluntary standards brings about opportunities and challenges for developing countries. On the one hand, according to scientific evidence the use of private voluntary standards appears to have a positive impact on developing country producers and improves their social and economic situation through increased productivity associated with certification, higher value addition and enhanced market access for differentiated products. On the other hand, coping with the requirements of an increasing number of private voluntary standards can constitute a challenge for developing country producers.

The State Secretariat for Economic Affairs (SECO) has invested over the last years in the build-up of private voluntary standards, private sector compliance with these standards and the harmonization of voluntary standard systems. To scientifically measure the impact of private voluntary standards, SECO has supported the development of a new harmonized system for sustainability measurement by IISD/UNCTAD Sustainable Commodity Initiative's Committee on Sustainability Assessment (COSA). This case story presents the harmonized system and preliminary results of a first series of field visits in the Tanzanian coffee sector. The contents of this case story provide important background for policy makers and market actors seeking to promote sustainable development through international trade.

1. Issues addressed

Environmental and social product qualities as well as specific production methods are increasingly being requested in international markets. At the same time multilateral trade rules do not differentiate products according to their production- and processing methods (PPM) but allow a distinctive treatment only if characteristics of the final product are distinct. Because social and environmental concerns often pertain to the production process, private voluntary standards can play an important role when responding to the consumer demand for sustainably produced goods.

The use of private voluntary standards as tools for building brand and market presence in developed country markets has grown astronomically, with substantial portions of mainstream markets now requiring compliance with one or another "voluntary standard" as a prerequisite for market entry. The global sales of certified "sustainable" coffees has grown by 433% over the last five years and by the end of 2009 represented 8 per cent of global coffee sales. At the same time, production compliant with one or another sustainability standard now accounts for approximately 17% of global production.¹

For many developing countries the promotion of sustainably produced products offers a good way to improve their sales opportunities in international markets. The use of private voluntary standards can have a positive impact on developing country producers and improves their social and economic situation through increased productivity associated with certification, higher value addition and enhanced market access for differentiated products. At the same time, coping with the requirements of an increasing number of private voluntary standards can be challenging for developing country producers.

The Swiss Governments label policy foresees a subsidiary role for the public sector in regards to private voluntary standards. It consists of three intervention lines: 1) information and sensibilization of the public on issues related to labels 2) facilitation of the elaboration and

¹ Potts, J, van der Meer, J, Daitschman, J. 2010. The State of Sustainability Initiatives Review 2010: Sustainability and Transparency (Winnipeg, IISD).

application of new private voluntary standards through multistakeholder processes 3) assistance to producers in coping with private voluntary standards. In accordance with this policy, SECO has invested over the last years in the build-up of private voluntary standards, private sector compliance with these standards, the harmonization of voluntary standard systems and impact measurement.

2. Objectives Pursued

The rapid growth in the use of private voluntary standards, as well as the role of institutions such as SECO in supporting developing country transition to meet such markets, raises important questions regarding the *actual field level sustainability impacts* of sustainability initiatives. The pertinence of this question to the WTO and international trade more generally is evident from the increased attention private voluntary standards have received at various committees within the WTO.²

In an effort to provide initial answers to questions regarding the impacts of the market transition to private voluntary standards in export markets for commodities, SECO has played a seminal role in supporting the development and application of an internationally recognized basis for measuring and comparing sustainability impacts of private voluntary standards at the field level. This case story presents preliminary results from initial baseline studies in Tanzania in the coffee sector.

3. Design and Implementation

The Committee on Sustainability Assessment was formed as a project of the IISD/UNCTAD Sustainable Commodity Initiative in 2006 to address growing questions related to the impacts of private voluntary standards on the sustainability of developing country producers. COSA's coffee indicators were developed, tested and refined through a three year process involving members of the private sector, standards bodies, and producer organizations.

Key characteristics of the COSA methodology include:

- Field survey process gathers information at the beginning of the supply chain
- Substantial sample sizes, with randomly selected samples and propensity scored, control groups, are used provide statistically significant results and counterfactual comparison
- Field visits are scheduled to occur over a minimum three year period in order to measure longer-term changes and impacts

Since one of the main challenges facing decision-makers at present is the absence of *comparable* information on impacts, COSA has invested substantial effort in building a widely applicable indicator base suitable for adoption across multiple sectors and countries. Figure 1 provides an overview of the conceptual framework underlying the COSA indicator set.

Figure 1: COSA high-level conceptual framework.

² For example, in its June 2007 regular meeting, the SPS Committee agreed to undertake consultations with members on how to best address the issue of private voluntary standards. In its October 2008 meeting, Committee members agreed to undertake a research process as outlined in document G/SPS/W/230 with the objective of better understanding the impacts of private voluntary standards and their relationship with national and international standards.

4. Results Achieved

Background

Tanzania was selected as a target country to develop and implement COSA due to the considerable importance of coffee for the economy and for poverty alleviation. Approximately 425,000 households in Tanzania derive part, and sometimes all, of their income from coffee. At least 95% of the nearly sixty thousand tons of coffee produced annually in Tanzania originates from these smallholder farms.

Tanzania is a Least Developed Country (LDC), a heavily indebted poor country (HIPC) and is ranked 140th out of 162 countries in the UNDP 2008/2009 Human Development Report, with a mean per capita income of US\$744 reported in 2005. Approximately 50% of Tanzania's almost forty million inhabitants live on less than one dollar a day. The majority of smallholder coffee farmer's are therefore defined as poor. Despite a prevailing trend of declining productivity and quality, coffee still makes an important contribution to smallholder livelihoods. There is a considerable potential to significantly improve livelihoods by increasing their farm productivity, improving quality, and accessing premium markets.

Fairtrade and Organic programs have operated in the country for several decades. More recently Utz Certified, Rainforest Alliance and Starbucks' CAFE Practices have expanded activities. This has also led to many dual or multiple certifications most notably Fairtrade and Organic, but also other combinations such as Starbucks/Utz and Utz/Fairtrade.

Results Highlights

At time of writing this case story, only one round of data collection across the sample group had been carried out. As such, the results achieved only represent a preliminary snapshot of the sustainability performance of farms visited and do not capture change over time.³

A total of 1053 coffee farms were visited: 495 treatment and 558 control farms spread over the core production regions. Six treatment groups consisting of producers certified with one or more of the following systems were identified: Fairtrade, Organic, Starbucks Café Practices and Utz Certified. Field visits occurred between August and November, 2009.

In order to simplify the presentation of the data for the purposes of this case story, we focus our reporting on the results comparing “certified” to “conventional” farms.⁴ The COSA methodology measures sustainability performance across economic, social and environmental parameters. Below we list highlights from each sustainability category.

Economic

Economic well being is the foundation for sustainable development, particularly among rural producers in Tanzania for whom poverty is the largest and most persistent threat to survival. Economic indicators also carry a special importance for sustainability systems that are built around the production and sale of cash crops such as coffee. Simply put, without adequate economic results, nothing else will be sustainable.

COSA measures economic sustainability by comparing the yield, price, cost and net income across certified and conventional farms. Across the board, the project found that certified farms performed as well, or better, than conventional farms along most of the core economic parameters.

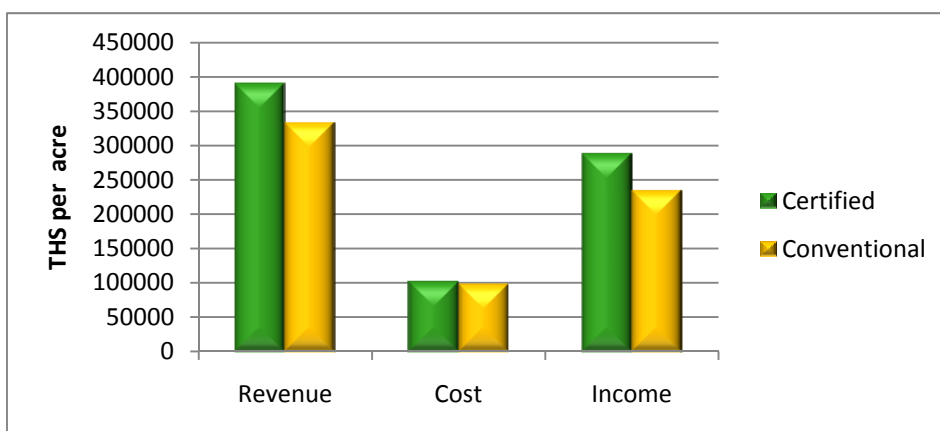
- Average yield across certified farms was 3% higher, and prices 15% higher, giving rise to average revenues 17% higher, for certified farms over conventional farms.
- Average production costs were, however, also 4% higher for certified farms reflecting additional investments associated with certification.
- Overall, revenue increases overcame cost increases, resulting in an average net income 23% higher for certified farms than on conventional farms.

These results are corroborated by farmer perceptions of their economic situation with 69% of certified farms reporting somewhat or much improved economic conditions as a result of certification.

³ Note also that results reported below have not yet been subject to propensity scoring.

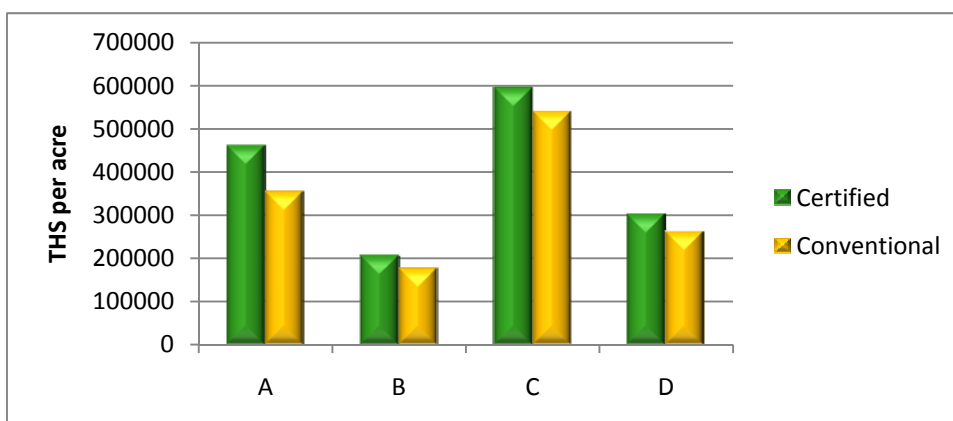
⁴ Importantly, COSA is also designed to allow for comparability between individual systems and can therefore assist policy makers and producers in identifying which systems might work best to meet their respective objectives.

Figure 2: Economic Performance: Despite higher production costs, certified farms displayed 23% higher net income as a result of higher productivity, yield and prices. Figure reports averages for key economic variables in Tanzanian Shillings per acre.



Another important observation arising from the economic data relates to the variability of performance based on the region of production. Although certified farms had consistently higher revenues compared with their controls, differences in revenue generation across regions were more significant.

Figure 3: Revenue in TSH per acre. Revenues from coffee production in different production regions (A-D) differ significantly.



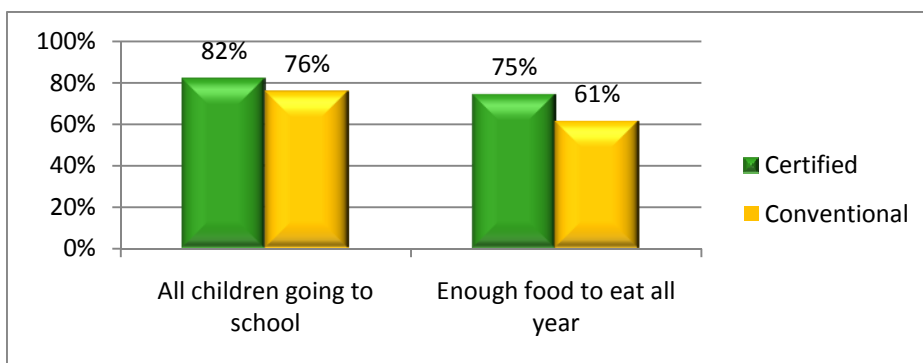
Social Sustainability

Producer social well being is deeply connected to economic well being. Typical social measures, such as access to food, education, medical facilities and decent working conditions, often depend on access to adequate economic resources. Data was collected from producers in order to determine impacts on health and safety, education and working conditions. Although differences in social conditions were less than those observed in economic conditions, certified farms displayed social conditions equal to or marginally better than conventional farms:

- Food security: 75% of certified farms reported have enough food to eat all year as opposed to 61% for conventional farms.
- Child education: 82% of certified farms reported all school age children attending school while only 76% of conventional farms reported all school age children attending school.

- Access to worker training: Certified farm received more than double the amount of work-related training at an average of 3.3 hours per farm as compared to 1.4 hours per farm for conventional farms.
- Health and safety: Certified farms displayed slightly higher levels of protective equipment (78% vs. 76%) and slightly less farms reporting injuries from pesticides (4.2% rather than 4.8%).

Figure 4: Key social indicators. Certified farms show slightly higher rates of school attendance and access to food than conventional farms.



Environmental Sustainability

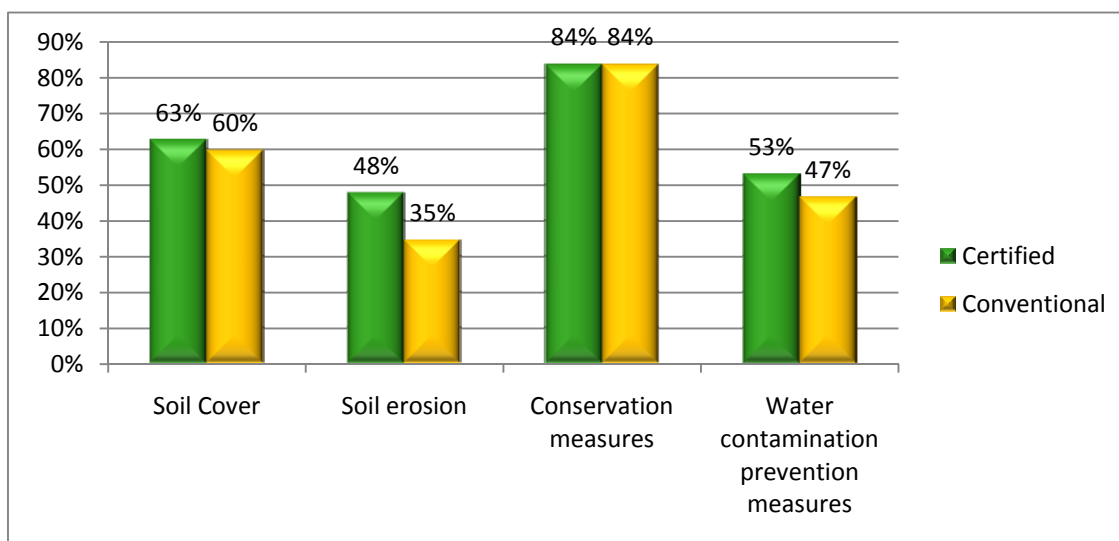
Environmental sustainability is a critical element of smallholder farming culture—both due to its impact on long term productivity, but also due to its direct impact on the livelihoods of farmers themselves. The COSA environmental indicator categories include: resource use; pollution; soil quality; waste management, biodiversity and carbon sequestration. Overall, while some improvements in environmental management were observed, differences between certified and conventional farms was less than under social and economic categories. By way of example:

- 63% of certified farms were found to have soil cover as opposed to 60% for conventional farms. However 48% of certified farms were found to have evidence of visible soil erosion as opposed to 35% for conventional farms
- Both certified and conventional farms applied soil and water conservation methods such as mulching, drainage ditches, water catchments etc at similar rates (84% applying one or more methods), however, 7% more of certified farms applied practices to protect water from contamination from chemicals.
- 5% more of conventional farms were found to be recycling 1 or more waste products but certified farms were found to have 53% more shade trees per acre than conventional farms.

Part of the lack of clear results on the environmental performance for certified farms may be related to the length of time required for environmental impacts to be observed, or it may demonstrate a focus of certification programs on farm management and productivity in the short term.

Although the results of the field measurements may still be inconclusive, 64% of certified farms believe that certification has improved the environmental impact of their farm since certification.

Figure 5: Overview of select environmental indicators. Certified and conventional farms display varying degrees of performance across environmental categories.



5. Conclusion

The rapid growth in the use of private voluntary standards can have a positive impact on developing country producers and improve their social and economic situation through increased productivity associated with voluntary standards, higher value addition and enhanced market access for differentiated products. It is for these reasons that SECO has invested in the build-up of private voluntary standards, private sector compliance with these standards harmonization of voluntary standard systems and impact measurement.

This application of COSA in the Tanzanian coffee sector represents one snapshot of a longer data collection and measurement process which continues to undergo cleaning and analysis. In this sense, all results presented need to be considered as preliminary. Nevertheless, the following high-level conclusions can be drawn from the results gathered thus far:

- Certification appears to be having positive economic impacts on coffee producers in Tanzania. Positive economic results are linked to improved productivity and prices rather than lower costs.
- Participation in certification initiatives appears to be linked to higher rates of access to food, education and training.
- Participation in certification initiatives has not yet shown any demonstrable improvements in environmental performance among Tanzanian coffee farmers

Another important conclusion that can be drawn from the Tanzanian data collection process is that although certified farms have largely experienced social and economic improvements over conventional farms, differences between local production conditions, at least in the short term, often have more significant impact on outcomes than certification per se. Similarly, the impacts of certification are likely to vary according to the regional conditions, suggesting the importance of monitoring the impacts of certification across specific production types and regions.

Building on this recognition, it is therefore important to understand the results reported above as being specific to coffee production in Tanzania and not necessarily generalizable across regions. Before any systemic conclusions can be drawn on the impacts of certification on coffee production (or other types of commodity production) considerably more field research will be necessary.