

A business case for sustainability certification?

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Making the Connection conference

Addis Ababa

5-9 November 2012



A business case for sustainability certification?

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Objectives of this session

- Present experience from the field with regard to costs and benefits of certification at smallholders and certificate holder level
- Use experience from session participants to...
- Come to conditions for a successful business case for certification at farm/certificate holder level

Sustainability certification of food products



Sustainability certification

- Objectives: improve income, environment, social issues
- Farmers to comply with a Code of Conduct
- Smallholders, in a group (PO / grouped by business etc.)
- Audits on group level
- Certificate issued to certificate holder
- Produce from certified farmers can be sold with a label

Business model for tea certification

- Summary of LEI studies:
- Business models for tea certification (RA/UTZ/ETP)
 - Donor funded models (Kenya, Indonesia, Sri Lanka)
 - Costs: high costs for certification, paid by donors
 - Revenues: no concrete evidence on future revenues
 - Quality
 - Productivity
 - Efficiency
- Impact of certification: Rainforest Alliance seems to enhance productivity, but intensive training methods such as Farmer Field Schools have much bigger impact

The Sustainable Coffee Conundrum

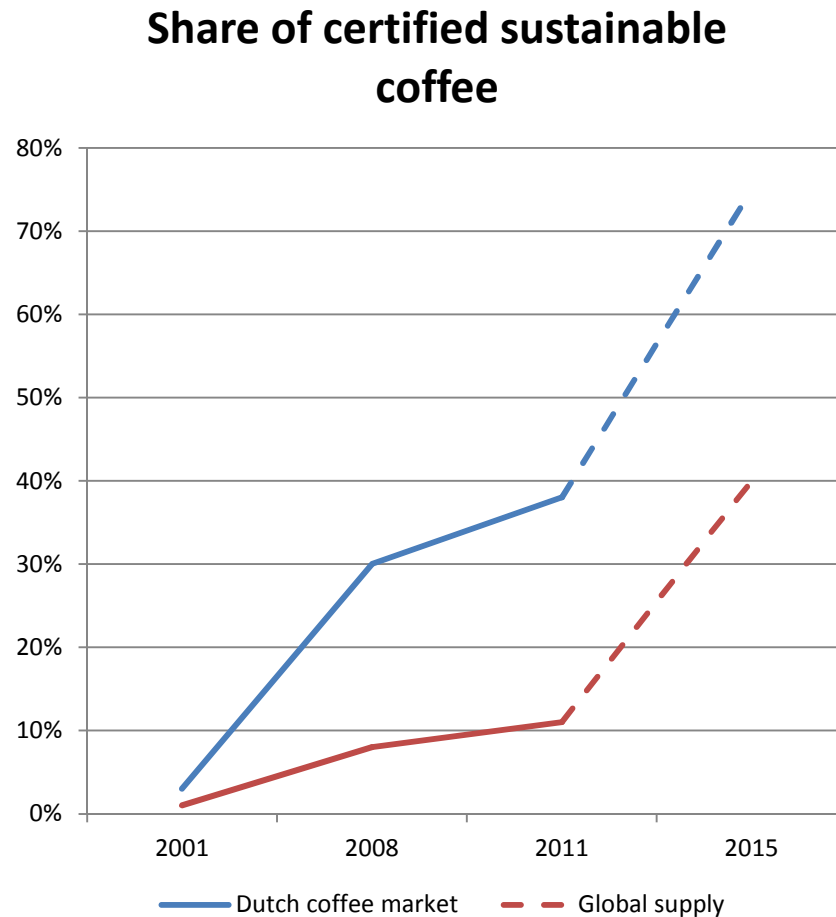
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conference
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Introduction



- Mainstream “Sustainables” are: Utz, RFA, 4C
- Major drive, but remarkably little is known about impact
- Less still is known about *how* impact is achieved
- DE Master Blenders 1753, 3rd largest coffee roaster, largest buyer of Utz certified coffee, and Dutch Economic Affairs ministry commissioned study into causal impacts of certification *and* implementation modalities

Research setup

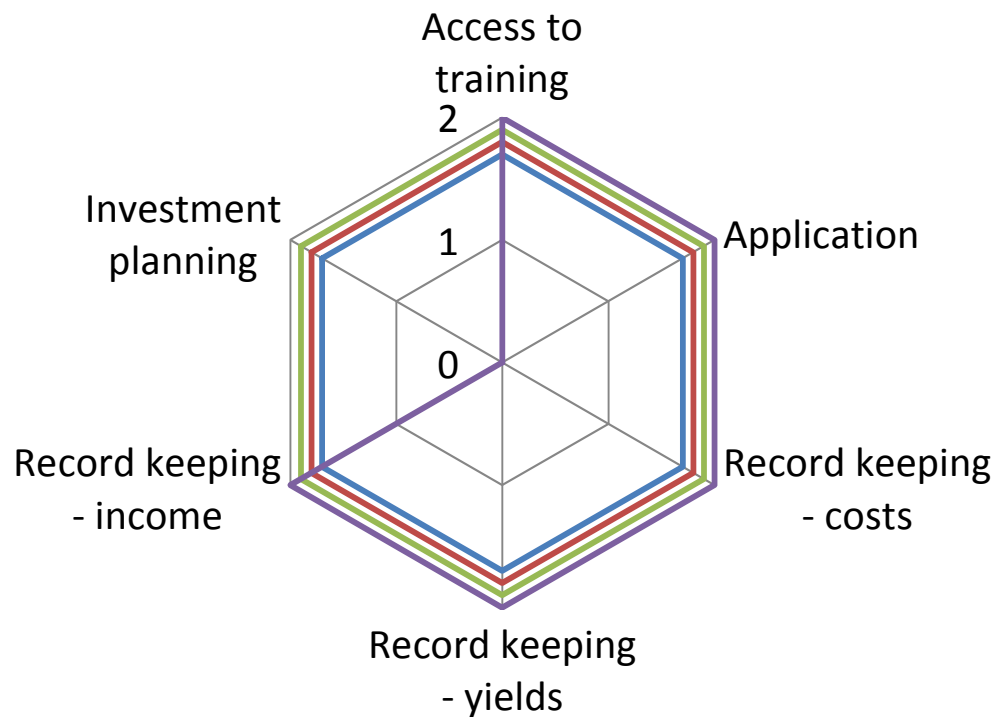
- Evaluate the costs and benefits of using different training intensities and forms of implementation to realize certified sustainable production by coffee growers in Vietnam
- 2nd largest producer (19%) and 2nd supplier of “sustainables”
- Largely private sector invested sustainable supply chains, few cooperatives
- Research design:
 - Build credible counter-factual
 - Control for pre-treatment differences (45 livelihood aspects, 6 capitals)
 - Use matching techniques
 - 5 types of analyses for robustness
 - Control for selection bias , spillover effects
 - 78 impact indicators
- Lack of baseline data, $t=0$ not identical

Training intensity and quality	Utz Certified	Not Certified
None	-	150
Minimal	75	-
Medium	75	-
High	75	75

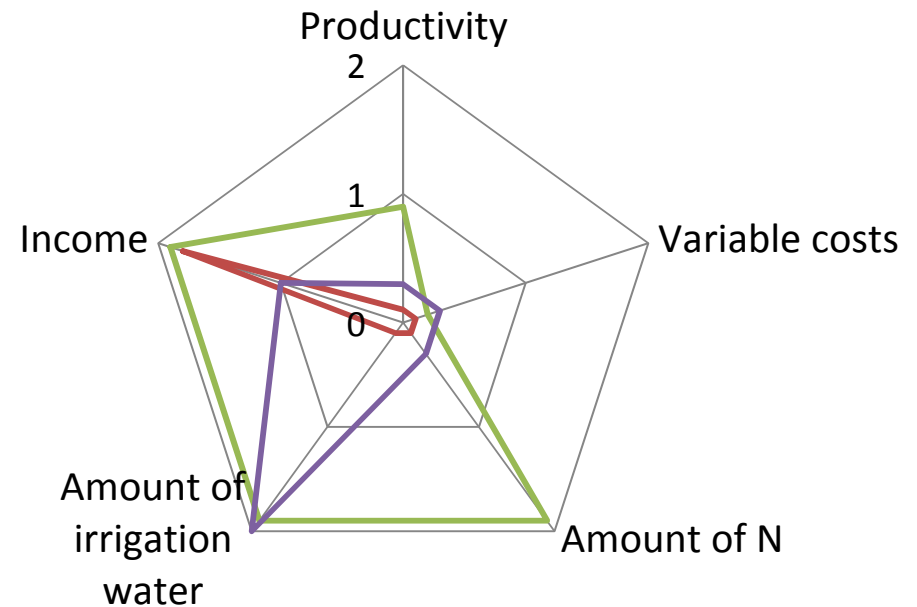


Selected results – preliminary!

Implementation



Outcome

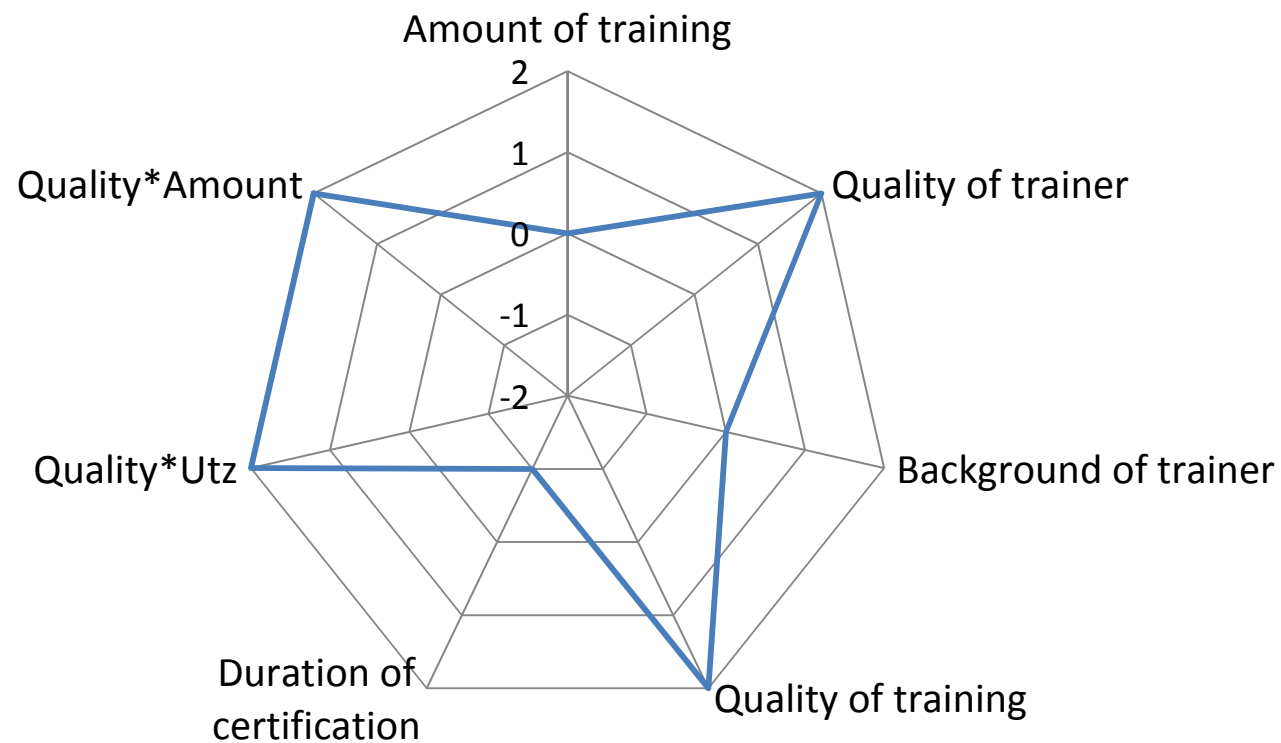


— Utz + low training — Utz + medium training — Utz + high training — High training

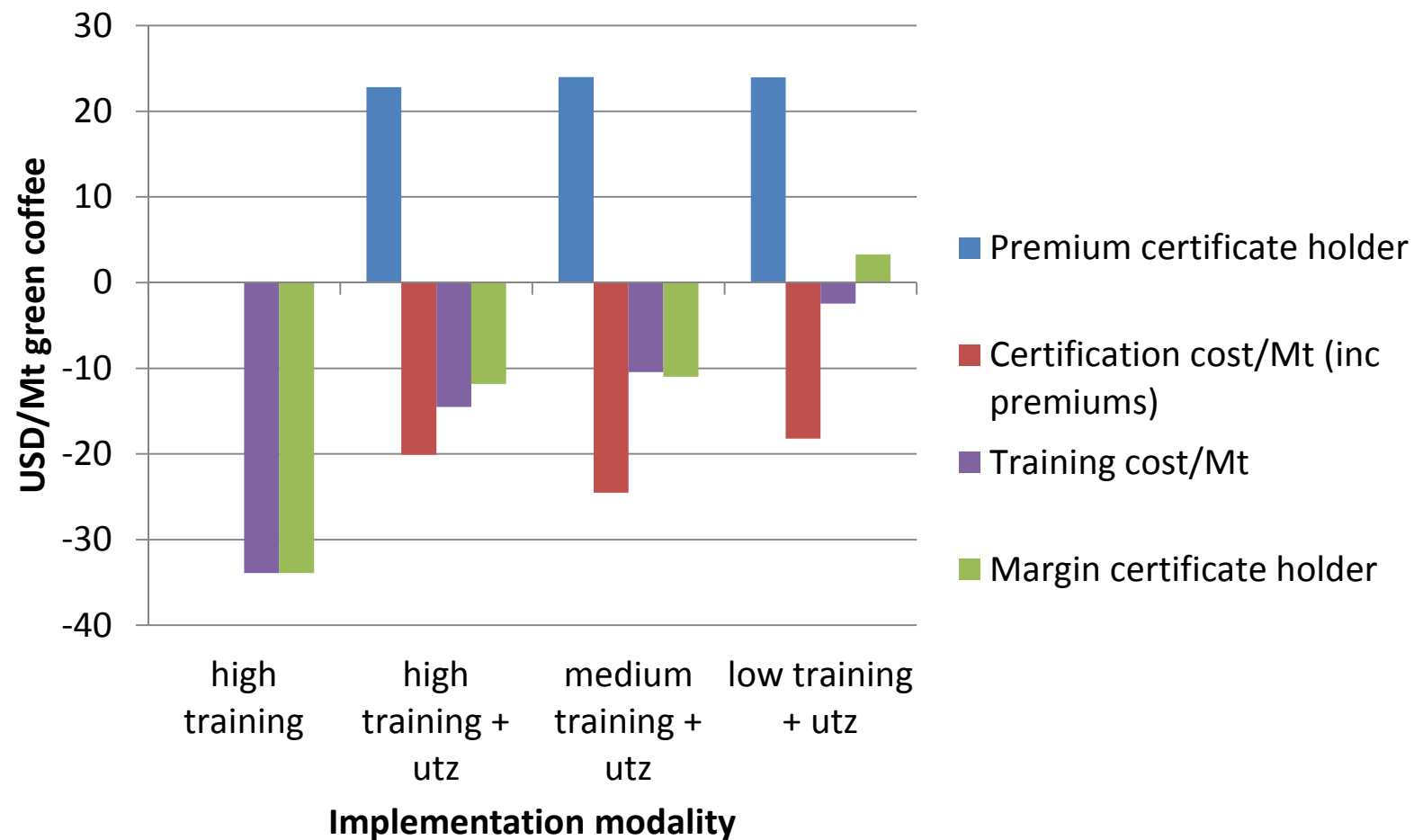
0=no impact; 1= weak impact; 2=strong impact

Implementation aspects

Significance of treatment characteristics on net income



Costs and benefits of implementation



First conclusions

- Utz certification in itself has little effect on production efficiency
- Premium payments to farmers around 10USD/Mt (0.5% price increase)
- Implementation modality drives impact
- Training aspects that can contribute to impact are:
 - Amount
 - Quality of training
 - Quality of trainer
 - Background of trainer
- Quality aspects matter most and are strengthened when taking interaction effects into account
- Time effects matter too, longer exposure to training leads to more impact, but effects level over time. Longer exposure to certification does not yield greater impact.

Food for thought

- System costs make up a large share of total costs
- Commercial operations can make (tight) margin on “sustainables”, but
- The training that drives impact is costly and benefits accrue at farm level
- Simplified systems or better marketability could enhance impact in commercial setting by allowing more training investment
- Commercial systems work because of scale. Farmers in study produce from 2.5 to 5.6 Mt green coffee per ha.
- Implications for African coffee producers where productivity is 10 times lower?

Fair trade Market for Cashew Nuts



The Experience of Savanna Farmers Marketing
Company in Northern Ghana

Outline

Background of SFMC

**Operational Model of the
cashew trade**

**The experience with the
cashew fair trade**

General Comments

Back ground of SFMC

- SFMC is a partly farmer owned limited liability Company aggregating and marketing produce of smallholder producers to industry within Ghana and beyond.
- The company currently facilitates the process for maize, soybeans, sorghum for over 12,000 smallholder producers in the North of Ghana.

SFMC organized a supply chain for Cashew producers into the Fair Trade Market from 2007-2010

Supporting agency
ACI
(FairMatch Support)

- Capacity building
- Facilitate certification
- Enhance information flow in the chain
- Ensure Fairness in operations

Fair Trade Mkt



Mim (Local)
Naturally fair
(Export)



SFMC(FT
Trader)



WCFMU/GCFA
(FT Producers)



Farmer
Associations

Premium



Raw cashew
nuts



Fair Trade

- Certification and renewing agency
- Fix and communicate fair trade prices
- Promotion of premium products
- Provide market intelligence
- Pay premium (bonus) to farmers

THE EXPERIENCE WITH THE FAIR TRADE

Savanna Farmers
Marketing Company

Challenges with Farmers

- High cost of FLO fees eg, membership fees, audit fees, re-audit fees. (interventions by donors not sustainable)
- Poor understanding of fair trade pricing- leads to unachievable expectations
- Poor record keeping skills
- Failure of farmers to be fair trade compliant eg. Record keeping, traceability, child labour etc.
- Lack of community based logistics like warehouses

THE EXPERIENCE WITH THE FAIR TRADE (cont.)

Savanna Farmers
Marketing Company

The Local Trader Perspective

- Margins received inadequate to meet yearly membership dues
- Traders did not have minimum fair trade prices
- Traders do not receive a premium
- High cost of monitoring farmers to ensure strict compliances to a long list of fair trade regulations
- High cost of pre-financing purchases from farmers
- Insufficient experience with international trade practises leading to loss of money to international partners.

Costs and benefits of certification

Farmer level- Gbankuliso Union-Bole

- ICS/IMS: EUR 2,409.75
- Audit:
- Training: EUR 2002.25 (provided by FMS)
- Premium on 300mtns \$14,389.27 for 2000+ farmers (2011)

FT Trader- SFMC 2010

- ICS/ IMS: EUR 3,057
- Audit: EUR 1,365
- Training: EUR 3, 004.50
- Loss to SFMC at port \$5600
- No premium

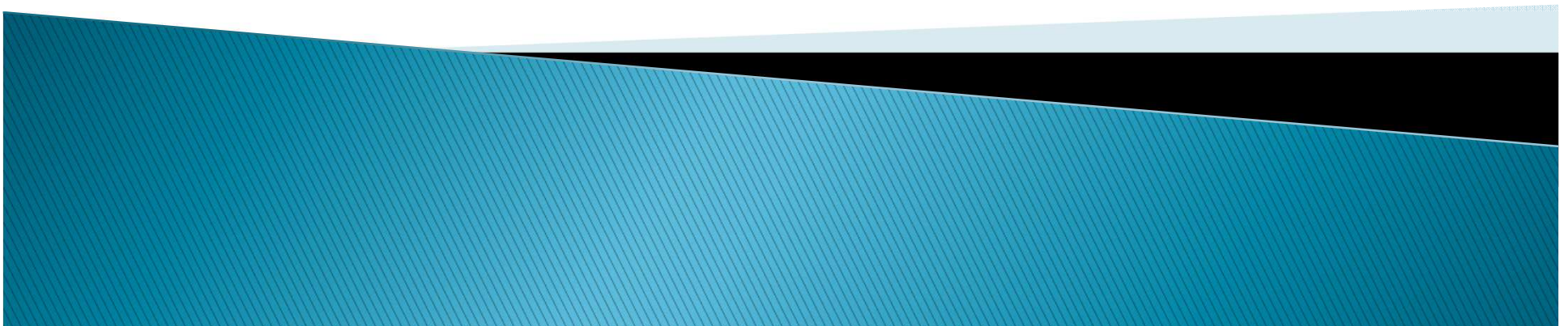
END OF PRESENTATION

LET US DISCUSS



A business case for certification?

Certifying small holder coffee farmers in the
North West Region of Cameroon



Background information

- ▶ OLAM is a multinational commodity company working closely with small holder arabica coffee farmers in a project i cameroon dubbed “promotion of sustainable production of arabica coffee in the North West region cameroon”
- ▶ Olam sources coffee from these farmers for sale to the international market.
- ▶ Within the framework of the project, UTZ certification was attempted with Olam as the certificate holder.



Costs of certification

Farmer level

- ICS/IMS: \$6000
- Audit: \$15,000
- Training: \$70,000
- Group organisation: \$15,000
- N.B: These costs are just those directly associated to the certification process without considering overheads.

Certificate holder level

- ICS/IMS: \$10,000
- Audit: considered at farmer level
- Training: \$5000
- Group organisation: considered as overheads



Benefits of certification

Farmer level

1. Good agricultural practices
2. Health and safety awareness
3. Business consciousness
4. Environmental protection assured

Certificate holder level

1. Ethical business practices enshrined



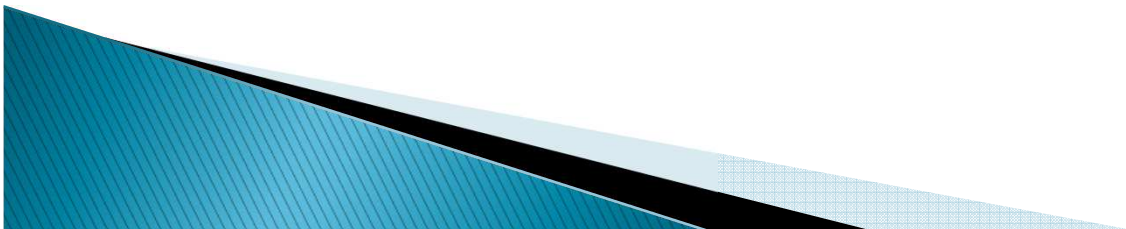
Net benefits of certification

Farmer level

1. No real quantifiable net benefits because certification cost is too high. In fact huge losses if donor support is absent.
2. Farmers are at a loss with the extra effort required with no clear return on investment.

Certificate holder level

1. Rather ostentatious(pride). No real benefit as premiums which are not guaranteed are too low to cover costs and extra effort to get certified.



Conclusions, recommendations

On if and how the business case for certification can be improved

Farmer level

- Review stringent control points and make them reachable by small holders in a sustainable way.
- Design control points flexible enough to embrace local realities e.g. “child labour”
- Certification fees should be reasonable enough to make it attractive

Certificate holder level

- Premiums must be guaranteed to justify the effort.



opinion

Unfortunately companies are bent on pushing the certification agenda which by our judgement does little if at all to improve the lot of small holder farmers

- Funds spent for certification could be better used for things like:

- capacity building initiatives
- improved planting material
- much needed micro finance among others

- Thank you

