

Evaluation of UTZ certification focused on coffee businesses in Guatemala, Honduras and Nicaragua

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ABOUT ICRAF

The World Agroforestry Centre (ICRAF) is a centre of scientific excellence that harnesses the benefits of trees for people and the environment. Leveraging the world's largest repository of agroforestry science and information, we develop knowledge practices, for farmers' fields to the global sphere, to ensure food security and environmental sustainability. ICRAF's headquarters are based in Nairobi, Kenya, and we operate six regional programmes in Sub-Saharan Africa, Asia and Latin America. Our vision is an equitable world where all people have viable livelihoods supported by healthy and productive landscapes. Our mission is to harness the multiple benefits trees provide for agriculture, livelihoods, resilience and the future of our planet, from farmers' fields through to continental scales.

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EXECUTIVE SUMMARY

Over the past two decades, voluntary certification systems (VCSs) and private certification systems (PCSs) have expanded in developing countries. In agriculture, these certification systems seek to incentivize and verify actions by producers, processors and traders in accordance with established parameters. They provide a framework to inform and guide the decisions of stakeholders in coffee value chains, including farmers, processors and downstream roasters and retailers. In doing so, certification systems provide a critical link with consumers interested in specific product attributes. Coffee value chains have led the way for value chains where certification systems have been widely employed for the production and marketing of agricultural products. In terms of market size, nearly a quarter of coffee production meets one or more VCS or PCS. In 2015, five key coffee certification standards (C.A.F.E. Practices, Fairtrade International, organic, Rainforest Alliance and UTZ) each had from 2.6 million hectares to 4.6 million hectares certified. Researchers have focused much attention on the role of certification systems in coffee value chains, with most of the discussion on smallholders and the benefits they derive from their participation in these systems. Yet, limited insights have emerged on the needs, perceptions and strategies of coffee businesses in developing countries. These businesses play a critical role in deciding which certification systems are adopted, supporting farmers to make the required changes in production systems and engaging with downstream buyers and others for support in system implementation.

In 2017, UTZ hired the World Agroforestry Centre (ICRAF) to assess the strategies and needs of their coffee certificate holders (CHs), businesses that implement the UTZ standard, in Guatemala, Honduras and Nicaragua. The study aimed to understand the businesses' experiences with UTZ implementation, the benefits they derived from UTZ, the challenges they faced to deepen engagement and how UTZ fits into the coffee businesses' larger strategy around certification, farmer engagement and marketing. ICRAF selected nine different cases that included four cooperatives (in Honduras and Nicaragua; two emerging and two established), two private buyers (in Honduras and Nicaragua) and three plantations (in Guatemala; two large and one medium-sized farm). Farmworkers or farmer suppliers and other key actors who interact with the businesses (such as buyers, intermediaries, NGOs, governmental agencies) were also

interviewed. Finally, three former UTZ CHs (business that had participated but had withdrawn from the UTZ program for at least one year prior to data collection) were asked about their interactions with UTZ and the factors that led to halting participation.

The following three questions guided data collection and analysis for all the CHs:

- **UTZ implementation:** How do the CHs value UTZ certification (including expectations associated with UTZ adoption); what are the associated benefits and costs (realized and/or perceived)?
- **Bottlenecks for deeper UTZ engagement:** What are the major bottlenecks faced by CHs to increase sales and obtain greater benefits from participation in the UTZ program; how have they sought to overcome these bottlenecks?
- **UTZ in a multicertification context:** Why and how have CHs engaged with different types of certification systems; how does UTZ fit into the multicertification strategy; how do these findings vary across different types of CHs?

UTZ implementation

The results suggest that there were differences in the needs, expectations and experiences in the implementation of UTZ between private buyers and plantations, on the one hand, and cooperatives, on the other hand. These insights have important implications for how UTZ engages with different types of CHs and supports them before and during the implementation process.

The plantations and private buyers sought out UTZ to obtain higher prices—engaging in a trusted framework for improving operations (e.g. closer relations with workers and farmers, enhancing environmental stewardship)—and offer an expanded portfolio of coffee products to obtain new buyers or satisfy current buyers. They were willing to invest in UTZ implementation and renewal and had the necessary technical and financial resources. Certification spurred them to make sizeable investments, which in some cases had been planned for several years but undertaken only when encouraged by UTZ implementation. These investments included the upgrading of plantation housing and working

conditions, formalization of administrative procedures and upgrading of wet-milling plants for increased efficiency and reduced environmental contamination. The plantations, all in Guatemala, did not report changes in employee compensation due to UTZ. Enforcement of labor regulations by the Guatemalan government required the plantations to be in compliance with UTZ labor requirements before the plantations adopted the UTZ standard.

All of the cooperatives had obtained UTZ certification between 2010 and 2012 after having already obtained various other VCSs and PCSs, and at the time of data collection, all used at least five certification systems with varying levels of benefits. In Honduras, cooperatives considered UTZ to be one indicator of quality, which allowed them to negotiate contracts directly with buyers and avoid the negative country price differential for all coffee sold from the country (USD -4 at the time of data collection). In Nicaragua, UTZ fulfilled an important role in providing an additional opportunity for new members or non-members (but with an established commercial link to the cooperatives) to achieve a price premium for their coffee, as the higher economic benefits from organic and Fairtrade sales were reserved for longstanding members. Even though, major investments in building technical assistance teams, participatory governance structures and administrative systems had already been made before UTZ implementation to comply with organic and Fairtrade (often with project-provided assistance), UTZ's emphasis on continual improvement in production practices and its support in designing improvement plans contributed to the design of technical assistance services that provided structure to the interaction between technicians and farmers.

Bottlenecks for deeper UTZ engagement

The main concern for all CH types was selling all of their UTZ certified coffee to buyers willing to pay a premium for it. While price premiums and sales volumes were not the only benefits to be derived from UTZ certification, they were a primary motivation for the sampled CHs to seek UTZ certification. Thus, they are important for consideration. Although the CHs remained hopeful that demand might pick up for UTZ coffee, only one of the private buyers said there was more demand for UTZ coffee than they could meet; the rest of the CHs said they produced much more UTZ coffee than could be sold. Sales were also sporadic, usually depending on one or two European buyers. This lack of commercial success was the factor that led two of the businesses—a cooperative and a plantation—to decide not to renew their certifications. One plantation pointed out that the small premium they received from UTZ coffee compensated for the extra effort and investment to

meet UTZ and the other standards. In one extreme case, a plantation made relatively large investments in UTZ implementation but sold only one container of UTZ coffee.

In addition to the challenges in marketing UTZ certified coffee, the plantations reported that they faced difficulties in changing the behavior of permanent workers and seasonal hires (i.e. to dispose of garbage in designated places, refrain from hunting animals, wear protective gear, send children to school or other educational programs instead of working, stop washing clothes in rivers and streams). Similar to the plantations, the private buyers expressed frustration with the inability to drive change at the farm level, as they had weaker ties to farmers and faced higher barriers to inducing change on the farms. Farmers were perceived as being reluctant to adopt best management practices and keep detailed records, such as on the application of inputs. Given that certified coffee sales (i.e. UTZ, Rainforest and C.A.F.E. Practices) constituted a small percentage of their total sales, incentives to build technical assistance and monitoring systems were weak.

Overall, cooperatives were better positioned than their private buyer and plantation counterparts to implement the UTZ standard. They had considerable experience in implementation of standard systems, having already invested in building effective technical assistance and credit programs, and they enjoyed relatively strong links with their members. Given that cooperatives tended to implement UTZ following the implementation of other certification systems, they reported few bottlenecks in UTZ implementation. The difficulties reported included: increased burden of detailed reporting at multiple levels (farm, cooperative); inspectors interpreting standards differently so that the certificate holder did not know what to expect from one year to the next; and changes in the standard that required retraining of farmers and the redesign of data collection systems.

UTZ in a multicertification context

The CHs have maintained as many standards as possible to secure market access, to ensure that they will not be shut out of a market requiring a certification they lack. The CHs also faced uncertainty in estimating how much certified coffee a buyer would demand each year. There has been no clear trend over the past five years in sales for any of the certifications, with some businesses selling more of one type of certified coffee from one year to the next and others selling more of others. Furthermore, there has been a growing trend of buyers' demanding coffee with multiple certifications or buying mixed lots of coffee, lots with different certification standards and other lots of conventional coffee. Because of these unstable market conditions, all of the CHs were certain

they will maintain all their current certifications next year; only two expressed some doubt about whether they would continue to implement UTZ certification over the next five years. The risk of not having a certification that a buyer may want is too great for a CH to consider dropping it, especially since the requirements are so similar that the marginal cost of an additional certification is minimal.

For the plantations and private buyers, UTZ coffee was a much more important component of their overall sales than it was for cooperatives since UTZ was implemented in combination with just two other certifications, Rainforest Alliance and C.A.F.E. Practices. One plantation sold 60 percent of its harvest as UTZ coffee; another buyer sold 25 percent. However, one plantation was unable to sell any UTZ coffee from the 2016/2017 harvest. Conventional coffee still remained the primary product sold by these businesses, particularly the private buyers. For these businesses, the implementation of multiple certifications sent a clear message about their interest and commitment to meeting quality, social and environmental standards to the buyers, whose customer base not only demands high-quality coffee but also coffee that is produced using social and environmentally responsible methods.

The cooperatives sought UTZ, Rainforest Alliance and other certifications as insurance against the shared perception that demand for Fairtrade coffee was stagnating or declining; these other certifications were seen to provide a way to gain some premium for coffee that could not be sold as Fairtrade or organic. Nonetheless, Fairtrade and organic certification continued to provide the core element of their business and marketing strategies, mostly because of the much higher differentials that the cooperatives received for these two certifications, ranging from USD 0.30 to USD 0.40 more per pound for Fairtrade and organically certified coffee compared to the USD 0.02 to USD 0.15 cents more per pound for UTZ, Rainforest Alliance and C.A.F.E. Practices certified coffee. These premiums, especially the Fairtrade social premium, allowed the cooperatives to maintain and expand their operations and still compete with intermediaries. Thus, it is no surprise that the majority of the cooperatives' coffee was sold with Fairtrade certification; for one cooperative, all coffee produced by its members was sold under Fairtrade terms. In comparison, UTZ exports made up a very small percentage of total exports for the cooperatives, from just 1 percent to 5 percent of all coffee exports, a handful of containers sold per year. The cooperatives also maintained multiple certifications as a means of providing additional evidence to buyers and end consumers of their intention and capacity to responsibly produce quality coffee. They presented

the logos of the certification systems alongside the cooperative's logo as evidence of this commitment.

Recommendations

To facilitate the required changes in business and farming practices, UTZ could explore partnerships with other standards, financial institutions, input and service providers, auditors and research institutions. Such joint engagement would allow for the identification and testing of viable options to reduce costs and increase impact from the certifications. As CHs and their suppliers strive to meet the various requirements of the different standards, UTZ and the other standards have a responsibility to work together to streamline reporting requirements, making them compatible. Working with international finance providers would help facilitate the investments necessary to meet the standard (i.e. milling infrastructure, personnel, planting material, employee housing and safety equipment). Furthermore, partnerships with technical service providers would help the CHs improve coffee operations and address challenging aspects of UTZ implementation. The standards could also work together to train auditors on how to interpret and apply the different standards to address CHs' frustrations with inconsistencies in auditing. By engaging with researchers, UTZ can generate insights into the challenges that different types of CHs face to implement and renew certification and work to address these bottlenecks. These lessons would allow UTZ to design and implement a monitoring and evaluation plan on CHs and their capacity to engage with UTZ certification.

The difficulties that the CHs faced in selling their certified coffee demonstrates the need for UTZ to help them identify new and impactful ways to market their UTZ coffee. Such actions will be critical to the further expansion of UTZ coffee in the region and will require a strategy specific to the conditions faced by CHs in Central America, including high coffee prices vis-à-vis other coffee-exporting countries and high production costs (e.g. transport and labor). The CHs requested that UTZ be more forthcoming in providing contact information for buyers of UTZ coffee to directly market their coffee to them. They also suggested that UTZ make a greater effort to promote its coffee to major coffee buyers, possibly through joint marketing of UTZ coffee with CHs. UTZ has already made some such efforts; for example, an emerging cooperative mentioned that UTZ helped them attend an international coffee fair, which led them to secure a buyer. Similar assistance with other UTZ coffee businesses would provide a means to expand certified sales from the region. This work was commissioned before the announcement of the merger between UTZ and Rainforest Alliance. The findings of this study strongly endorse such a merger, which should

help reduce the direct and indirect costs related to certification. However, this mitigates neither the need to better support CHs in the administrative and technical aspects of certification nor the need to innovate and intensify efforts to support CHs in Central America in marketing their certified coffee.

1. Introduction

Global coffee production under voluntary certification systems (VCSs) continues to expand, with strong participation by coffee businesses and farmers in Latin America. Between 2008 and 2012, coffee produced under Fairtrade, Rainforest Alliance and UTZ increased in Latin America by 13 percent, 21 percent and 23 percent, respectively. Sales of UTZ coffee more than quadrupled in the region between 2010 and 2016 (fig 1). Certification can facilitate direct access to international coffee buyers that are committed to improved social and environmental performance of the coffee sector. The adoption of the standards also provides coffee businesses with a framework to guide decisions on production processes and engagement with workers and farmers. In addition to the expansion of VCSs, there has been a rapid growth in private certification systems (PCSs), such as C.A.F.E. Practices by Starbucks. Participation in these systems tends to be a necessary condition to sell to the intermediaries of major coffee retailers and processors.

In Latin America, the continued growth of certified coffee production has taken place during a period of relative uncertainty. The coffee sector has witnessed rising input costs, volatile prices and a major outbreak of coffee rust that has significantly reduced coffee yields. For example, in Nicaragua, Honduras and Guatemala—where the livelihoods of a large share of rural populations depend directly or indirectly on coffee—coffee rust has

exacerbated rural poverty and malnutrition (Avelino 2015). Major investments have been required for replanting coffee plantations with rust-resistant coffee varieties, intensifying farming practices for greater yields and increased quality, and upgrading processing capacity to maintain quality and reduce environmental footprints.

Certification may play a role in helping farmers and coffee businesses in producing countries tackle these challenges through a framework for guiding production-related decisions as well as in an investment capacity (such as access to higher prices and alternative forms of credit).

Central America is a major exporter of coffee produced under VCSs and PCSs. Nicaragua, Honduras and Guatemala made up nearly 25 percent of the total volume of Fairtrade certified exports in the world in 2010 (Fairtrade International 2012). In 2014, Honduras was the world's fourth most important exporter of Fairtrade coffee, at 15,400 t (Fairtrade International 2016). Nicaragua, Honduras and Guatemala made up approximately 16 percent of the total production of UTZ arabica coffee in 2016 (table 1). Honduras and Nicaragua ranked among the fastest expanding sources of UTZ coffee. Roughly 42 percent of UTZ certificate holders engage with at least one additional VCS or PCS—with

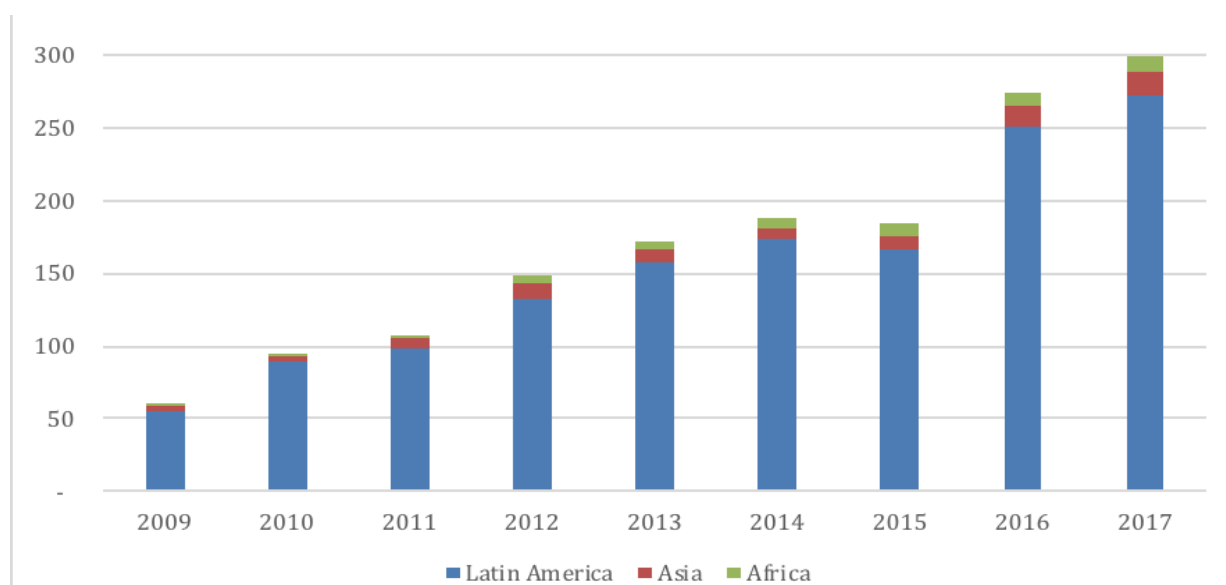


Figure 1. Volumes sold (1000 t) of UTZ arabica coffee sold from Latin America, Asia and Africa, 2009–2017 (Source: UTZ)

Table 1. Production of UTZ Arabica coffee from Latin America (1000 t), 2010–2017

| Region/Country | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Annual growth (%) |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------------------|
| Brazil | 136.4 | 166.3 | 231.6 | 227.4 | 243.3 | 248.9 | 295.9 | 293.2 | 14.3 |
| Colombia | 50.7 | 62.1 | 78.2 | 79.9 | 69.2 | 81.4 | 73.8 | 101.8 | 12.6 |
| Honduras | 33.6 | 42.4 | 64.4 | 60.4 | 69.3 | 72.7 | 82.5 | 69.4 | 13.4 |
| Peru | 20.8 | 37.0 | 58.5 | 48.5 | 32.2 | 36.4 | 75.6 | 73.5 | 31.7 |
| Guatemala | 10.3 | 13.5 | 16.0 | 12.4 | 8.8 | 11.4 | 12.2 | 14.2 | 4.6 |
| Nicaragua | 7.1 | 10.6 | 13.7 | 11.4 | 14.3 | 25.4 | 36.1 | 35.8 | 49.9 |
| Mexico | 4.7 | 2.9 | 7.8 | 15.7 | 7.7 | 16.8 | 12.6 | 17.8 | 32.3 |
| Others | 3.8 | 3.6 | 2.6 | 2.2 | 3.0 | 2.0 | 2.1 | 2.0 | (5.9) |
| Latin America | 267.2 | 338.4 | 472.7 | 457.7 | 447.8 | 494.8 | 590.7 | 606.0 | 15.8 |
| World Total | 304.6 | 373.1 | 524.7 | 509.3 | 510.3 | 593.2 | 693.0 | 708.5 | 16.6 |

Source: UTZ

UTZ and Rainforest Alliance certifications being the most common pairing (UTZ 2017). Most discussion on coffee certification in Central America has focused on the level of farms and households. When attention has been placed on cooperatives and private businesses, the focus has often been on their role in supporting farmers who participate in certified coffee markets. However, the role of coffee businesses extends beyond providing services to members. This report addresses this knowledge gap by examining the role of coffee businesses in determining which certification systems to use, the investments to make to respond to the standards and the engagements to undertake with other actors to adapt to changing markets.

The report is based on work collected from an ICRAF study financed by UTZ in 2017 to assess its coffee certification program from the perspective of different types of CHs in Guatemala, Honduras and Nicaragua. It

examines the relevance of coffee certification systems in general, considering that UTZ forms a part of a broader strategy by coffee businesses to engage with certification systems. It also focuses on the relevance of UTZ certification for different types of coffee businesses in the three countries: cooperatives, plantations and exporters that purchase from smallholder and medium-sized farmers. This recognizes that different types of coffee businesses are likely to engage in certification systems in different ways. We expect variation in expectations of stakeholders regarding certification systems, bottlenecks in implementation, investment capacity and engagement with other actors in the supply chain. However, our study is not designed to be representative of all certified coffee businesses in Central America or elsewhere. Rather, it serves to stimulate critical reflection by UTZ stakeholders and provides an objective foundation for joint learning with local businesses and their supporters, including NGOs and government agencies.

2. Methodology

We employed a comparative case study approach that included nine coffee businesses engaged in UTZ certification, referred to as certificate holders (CHs) in three Central American countries, namely Guatemala, Honduras and Nicaragua. This approach allowed for the depth needed to understand the needs and circumstances of UTZ CHs. Other benefits of the approach include: (i) incorporation of several important “how” and “why” questions into research design—important given the very limited research on the strategies for engagement with certification programs by coffee businesses in Central America and (ii) recognition of the role played by the context in which CHs operate. Specifically, this evaluation seeks to answer the following questions:

- How do the CHs value UTZ certification (including expectations associated with UTZ adoption); what are the associated benefits and costs (realized and/or perceived)?
- What are the major bottlenecks CHs face in increasing sales and obtaining greater benefits from participation in the UTZ program; and how have they sought to overcome these bottlenecks?
- Why and how have CHs engaged with different types of certification systems; how does UTZ fit into the multicertification strategy; how do these findings vary across different CH types?

Our research design incorporates three types of UTZ certificate holders: cooperatives, privately owned

exporters and plantations. They were selected in consultation with UTZ staff, based on selection criteria aimed to achieve variation in terms of number of certification systems used in addition to UTZ (i.e. Rainforest Alliance, Fairtrade, C.A.F.E. Practices and organic), experience with UTZ (more than four years and less than four years) and CH size in terms of members and export volumes. The study also included three coffee businesses that had participated in UTZ in the past three years but no longer maintain the certification. These former CHs included a cooperative and private buyer in Honduras and a plantation in Guatemala. Understanding their reasons for exiting the UTZ program provided deeper insights into the needs of coffee businesses and allowed for triangulation of the results from the current UTZ participants included in the study.

For each of the case studies, a team of three researchers interviewed representatives from each CH in situ in a two- to three-day period. The interviews covered various topics: the CHs’ interaction with UTZ and other certification schemes, impression of UTZ and others, marketing and sales, investments carried out in certification systems, relations with farmers, changes in practices and visions for the future. The ICRAF team interviewed several different actors within each CH (such as the manager, accountant, technicians, employees, farmers) to understand the different perspectives on the certification. This strategy also allowed the research team to compare responses and engage with local stakeholders for clarification. The results from the interviews were then organized into tables and

Table 2. Sample Overview

| | Honduras | Nicaragua | Guatemala | Total |
|--|----------|-----------|-----------|-------|
| Current UTZ certificate holders | | | | |
| Cooperative | 1 | 2 | 0 | 3 |
| Privately owned buyers | 2 | 1 | 0 | 3 |
| Plantation | 0 | 0 | 3 | 3 |
| Former UTZ certificate holders | | | | |
| Cooperative | 1 | 0 | 0 | 1 |
| Privately owned buyers | 1 | 0 | 0 | 1 |
| Plantation | 0 | 0 | 1 | 1 |

graphs to allow easy comparison of different aspects of certification for each of the CHs. The rigor-enhancing features of the research design include:

- Participation of lead ICRAF researchers in data collection and validation for each of the case studies to facilitate depth and critical relationships on information provided, uniformity in responses across cases and neutrality in questioning and reporting.
- Validation of preliminary findings with sampled CHs and UTZ staff to identify gaps and check for accuracy in findings (one-day workshop), with follow-up data collection by the ICRAF researchers to address any gaps in data.
- Extensive triangulation of findings by exploring complex issues with different stakeholders, different actors attached to the CHs, NGO staff engaged with the CHs, farming households and workers, UTZ dropouts and local certification representatives.

3. Results

This section presents the data obtained from interviews with representatives of CHs and key informants. The discussion begins with an overview of the sampled CHs and their utilization of voluntary and private certification systems. This is followed by a review of how the CHs that purchase coffee from farmers interact with their suppliers, changes in these relations and the role of UTZ in driving the changes. Attention then shifts to the relations between coffee plantations and their workers, changes implemented in these relations and the role of UTZ in driving the changes. The final subsection explores the relevance of UTZ for CHs, taking into account that CHs engage in multiple certifications for coffee.

3.1 Overview of sampled certificate holders

Most of the CHs were established in the mid-1990s and early 2000s or earlier (table 3). However, PL7 had more than a century of experience in the coffee business at the time of data collection. CP4 in Nicaragua was the newest of the group, established in 2011 by experienced former employees of a well-established coffee cooperative. In

certification and the first sales under the certifications for Fairtrade and Rainforest Alliance coffee. Most CHs made their first sales of UTZ coffee the same year or in the year after they obtained certification. The one exception was PL7, with a five-year lag between obtaining UTZ certification and its first sale of UTZ coffee.

The CHs sampled in this study were experienced businesses that knew how to engage in certification systems. There was also considerable variation among the CHs regarding when UTZ was adopted relative to other certification systems. UTZ was the first certification for only one of the CHs included in the study, private buyer PB5. The order in which a CH took up UTZ in relation to other VCSs has important implications for UTZ's influence on business practices. For CHs that adopted UTZ after adopting similar or, in some cases, more demanding, standard systems (i.e. organic), the expected influence of UTZ on their operations was more limited (CP1, CP2, CP3). The opposite holds true for those CHs where UTZ was the first or among the first systems to be adopted (PB5, PL7, PL9). Thus, UTZ played an important role in orienting practices

Table 3. Sampled certificate holders

| Certificate holder | Business type | Country | Year CH Established | First coffee sale | Year of first certification |
|--------------------|---------------|-----------|---------------------|-------------------|-----------------------------|
| CP1 | Cooperative | Honduras | 1999 | 1999 | 2004 |
| CP2 | Cooperative | Honduras | 2003 | 2004 | 2006 |
| CP3 | Cooperative | Nicaragua | 1993 | 2004 | 2004 |
| CP4 | Cooperative | Nicaragua | 2011 | 2011 | 2011 |
| PB5 | Private Buyer | Honduras | 2000 | 2000 | 2006 |
| PB6 | Private Buyer | Nicaragua | 1997 | 1997 | 2008 |
| PL7 | Plantation | Guatemala | 1906 | 1935 | 2005 |
| PL8 | Plantation | Guatemala | 2005 | 2005 | 2013 |
| PL9 | Plantation | Guatemala | 1992 | 1992 | 2003 |

general, the CHs have extensive experience in the coffee industry and have weathered major fluctuations in coffee prices as well as the recent outbreak of rust.

UTZ certification was led off by private buyers or plantations—first in 2006—and later by cooperatives (table 4). For the most part, the CHs faced little difficulty in making sales of certified coffee once they obtained the certification. There was no lag between obtaining the

for these CHs to improve production, coffee quality, administration, environmental outcomes, and employee welfare.

3.2 UTZ implementation with coffee farmers

Six of the sampled CHs sourced the coffee they exported from third parties. Both private buyers sourced from

Table 4. Year of implementation and year of first sale for certificate holders

| | CP1 | CP2 | CP3 | CP4 | PB5 | PB6 | PL7 | PL8 | PL9 |
|----------------------------|------|------|------|------|------|------|------|------|------|
| UTZ | | | | | | | | | |
| Obtained | 2011 | 2010 | 2012 | 2012 | 2006 | 2010 | 2010 | 2014 | 2007 |
| First sale | 2013 | 2011 | 2012 | 2015 | 2006 | 2010 | 2015 | 2014 | 2007 |
| Rainforest Alliance | | | | N/A | | | | N/A | |
| Obtained | 2008 | 2015 | 2016 | | 2010 | 2008 | 2010 | | 2003 |
| First sale | 2008 | 2015 | 2017 | | 2010 | 2008 | 2010 | | 2003 |
| C.A.F.E. Practices | | | | | | | | | |
| Obtained | 2007 | 2015 | 2007 | 2012 | 2008 | 2008 | 2004 | 2013 | 2010 |
| First sale | 2007 | 2015 | 2007 | 2014 | 2008 | 2008 | 2005 | 2013 | 2010 |
| Fairtrade | | | | | | | | | |
| Obtained | 2009 | 2008 | 2004 | 2011 | N/A | N/A | N/A | N/A | N/A |
| First sale | 2009 | 2008 | 2004 | 2011 | | | | | |
| Organic | | | | | | | | | |
| Obtained | 2004 | 2006 | 1994 | 2011 | N/A | N/A | N/A | N/A | N/A |
| First sale | 2006 | 2006 | 2004 | 2011 | | | | | |

Table 5. Certificate holders' relations with farmers for sourcing coffee in the 2016/2017 harvest

"The

| CH | Farmers | Change past five years | Perceptions on change |
|-----|---------|--------------------------------|--|
| CP1 | 478 | More than doubled | Higher coffee prices and technical assistance farmers receive, particularly in combating rust |
| CP2 | 321 | Only 72 members five years ago | Reorganization after the central cooperative failed and left large debts |
| CP3 | 420 | Grew by 90 (27%) | Higher prices paid to members, who can earn 28% above the price on the local market |
| CP4 | 99 | Tripled from 32 members | Higher prices, but have to limit membership to maintain high prices due to insufficient demand |
| PB5 | 50 | Reduced from 1200 | Decision made to reduce transaction costs for intermediaries to ensure standards are met |
| PB6 | 650 | Doubled | Expansion of local collection points and technical assistance funded by NGO |

intermediaries who produced coffee and sourced coffee from other farmers—one private buyer also sourced directly from coffee farmers. Cooperatives sourced from their members and, in some cases, non-members. In most cases, these CHs had expanded their engagement with farmers for the sourcing of coffee (table 5). The exception was PB6, which had recently made the decision to source its coffee through a small number of larger-scale trusted intermediaries. The intermediaries were responsible for ensuring that producers meet quality standards and, where applicable, certification requirements.

Cooperatives had expanded their membership rolls during the past five years, mainly because of their capacity to offer relatively high farm-gate prices.

"Farmers join the cooperative because they know we pay higher prices."—Manager of CP2

producers are motivated to sell to us when we tell them the price differentials they would receive."—Manager of CP3

The recent coffee rust outbreak has also provided an incentive for farmers to seek out cooperatives to gain access to technical assistance, credit and inputs (such as fertilizer and rust-resistant coffee seedlings). However, the cooperatives in Nicaragua, CP3 and CP4, are no longer expanding their membership, as demand has stagnated for Fairtrade coffee. These market realities would mean that if membership were expanded, current members would no longer be guaranteed the same price premiums.

Among the cooperatives established for 10 or more years (CP1, CP2, CP3), the overall tendency over the past five years has been to maintain current levels of

Table 6. Total number of farmers participating in each certification standard (by CH), percentage of CH farmers in the standard and change in farmer participation from 2013 to 2017

| | CP1 | CP2 | CP3 | CP4 | PB5 | PB6 |
|----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| UTZ | | | | | | |
| Number | 99 | 321 | 398 | 99 | 50 | 154 |
| % of total | 20.7% | 100% | 94.8% | 100% | 100% | 25.8% |
| Change | No change | No change | Many more | Many more | Fewer | Fewer |
| Rainforest Alliance | | | | | | |
| Number | 153 | 81 | 398 | N/A | 41 | 48 |
| % of total | 32.0% | 25.2% | 94.8% | N/A | 82.0% | 7.4% |
| Change | Many more | More | N/A | | More | No change |
| C.A.F.E. Practices | | | | | | |
| Number | 184 | 86 | 84 | 99 | 43 | 270 |
| % of total | 38.5% | 26.8% | 21.1% | 100% | 86.0% | 41.5% |
| Change | No change | More | No change | Many more | No change | Fewer |
| Bird Friendly | | | | | | |
| Number | 99 | N/A | 190 | 99 | N/A | N/A |
| % of total | 20.7% | N/A | 45.2% | 100% | N/A | N/A |
| Change | No change | | No change | Many more | | |
| Fairtrade | | | | | | |
| Number | 478 | 321 | 420 | 99 | N/A | N/A |
| % of total | 100% | 100% | 100% | 100% | N/A | N/A |
| Change | More | More | More | Many more | | |
| Organic | | | | | | |
| Number | 170 | 98 | 336 | 69 | N/A | N/A |
| % of total | 35.6% | 30.5% | 80.0% | 69.75% | N/A | N/A |
| Change | No change | More | More | Double | | |

participation among their members in the VCS (table 6). Regarding CP4, the newest cooperative of the group, all engagement with certification systems took place in the past five years, thus they reported major increase in member participation across all systems. Where notable exceptions exist (i.e. CP3's engagement with UTZ and CP1's engagement with Rainforest Alliance), it is because the cooperative acquired (reacquired) the certification during the previous five years. In all three of these cooperative cases, there was a moderate increase in the participation in Fairtrade certification, in line with the overall increase in membership.

With the exception of CP1 and PB6, the CHs tended to include all of their suppliers under UTZ certification. This suggests that CHs perceived value in broad coverage of their membership base for promoting good production practices. It may also reflect an expectation that demand for UTZ coffee could increase in the short- to mid-term. The private buyers tended to be more cautious in the coverage of certification for their supplier base. In the case of PB6, only coverage of C.A.F.E. Practices neared half of the supplier base. While the percentage of coverage for PB5 was high, this buyer purchased directly from only a small trusted set of medium- to large-scale suppliers, having shifted responsibility for sourcing

from farmers, including the certification of smallholder suppliers, to intermediaries.

3.2.1 Technical assistance to coffee farmers by certificate holders

Technical assistance refers to the services offered by CHs to their members or growers to manage their coffee plantations. This includes training and on-site visits related to production systems, postharvest management and processing, and certification compliance, among others. Investments in technical assistance by CHs can be critical for engaging their farmers in certification systems, as well as increasing the quality and volumes of coffee delivered. Table 7 identifies which CHs provided technical assistance and provides basic information on the design of the service. Five of the six CHs that obtained all or part of their coffee from farmers provided technical assistance. Considerable difference in the capacity of CHs to deliver technical assistance was found between the cooperatives and the private buyers, ranging from one technician for every 26 producers (PB6) to one technician for every 84 producers (CP3). Nearly all of the CHs hired more technicians than they did five years ago (table 7).

Table 7. Technical assistance offered to farmers, 2017

| Code Name | Number of technicians | Farms per technician | Changes in the past five years | Cost recovery |
|-----------|-----------------------|----------------------|---|--|
| CP1 | 20 | 48 | Up from one technician five years ago | Only one technician is paid from project funding |
| CP2 | 8 | 38 | Up from two technicians five years ago | Paid by the business |
| CP3 | 5 | 84 | Down from eight technicians | All but one is paid for from project funds |
| CP4 | 3 | 33 | Up from one technician five years ago | One is paid from project funding |
| PB5 | None | N/A | No longer provides technical assistance | Paid by the business |
| PB6 | 25 | 26 | Up from 12 technicians five years ago | 10 paid from project funds |

Doing business with limited external support

NGO support for smallholder participation in certified coffee markets, which traditionally has been focused on cooperatives, has decreased in recent years. At the time of the interviews, the CHs in Nicaragua still received support from NGOs, which provided subsidies for technical assistance and financing to build and/or enhance milling facilities on the farms. Only one technician was paid for by NGO support in Honduras, while in Nicaragua all of the CHs, including PB7, had at least one technician paid by a project. CP3 only paid for one technician from its own funds. These CHs noted that there was little support from the government. The exception was for assistance in obtaining loans for infrastructure investment for CP2, which would have not occurred without this support.

The plantations received no support from NGOs and only limited support from government agencies. However, the smallest plantation was dependent on state services to provide health care and education to its workers. The larger, more remote plantations took over the role of the state in providing these services as well as building roads and assistance to nearby communities. All of the plantations received assistance in the training of their workers from the national coffee association. The CHs had few expectations that there would be additional NGO or governmental support in the next few years.

Cooperatives in Honduras had increased their investment in provision of technical assistance in recent years, in large part to increase quality and maintain certifications. In fact, CP1 has had to maintain two teams for technical assistance. One team ensured that farmers comply with the certification standards, especially in helping keep the records up to date, and another team provided assistance in adopting the best agronomic practices. Unlike their counterparts in Nicaragua, they paid for technical assistance from the profit made from coffee

sales, with limited external support from NGOs, and from projects for technical support provision. This situation increases the pressure on CHs in Honduras to sell all of their coffee with price differentials, thus allowing them to compete with local intermediaries on farm-gate prices and ensure the provision of technical assistance needed for maintaining quality, volume and certification. PB5 did not offer technical assistance: it had passed the responsibility of service design and provision to the intermediaries from which the CH purchased all of its coffee supply.

The CHs in Nicaragua received much more external support, with projects covering a significant percentage of staff costs. Relative to the case in Honduras, CHs in Nicaragua have greater capacity to offer price incentives to their suppliers since the costs of technical assistance are subsidized. However, this dependence on external support implies uncertainty in staffing over time and potentially reduced control over technical assistance design (some donors may request specific activities to be carried out by technicians covered by project funds). For instance, reduced external support for CP3 has meant that the cooperative has reduced its coverage of technical assistance.

Overall, technical assistance teams have a difficult task: many farmers are barely literate, budgets are tight and technicians must comply with various sets of demands from the CHs, farmers, certification agencies and donors, in the case of externally funded technicians. To meet these challenges, the CHs changed their service offerings and adopted innovative strategies to reach the farmers. To respond to farmers' limited literacy, the technicians in all the CHs train producers' children and grandchildren to assist the farmers in keeping registries and bookkeeping. This practice serves two functions: helping the producers meet certification requirements and keeping youth interested in coffee production. Furthermore, to enhance communication, all of the CHs used text

messaging to provide price and weather information and recommendations for implementing production practices (i.e. reminders when to prune, plant and apply fertilizer).

“Not all the farmers have the capacity to make the changes [required by the VCS] on their farms.”— Technical Assistance Manager of CP4

“We would like all producers certified but not all are responsible enough. Sometimes, the ones that are already certified fail to comply with the standard.”— Technical Assistance Manager of PB6

Because of budget constraints that limit the number of technicians they can hire, CHs have had to focus on compliance with certification (i.e. obtaining information from farmers for certification renewal and ensuring adequate recordkeeping by farmers) at the expense of providing agronomic assistance and trainings (i.e. identification and treatment of pests and diseases, proper fertilization and pruning techniques). The CHs felt that this prioritization was necessary since maintaining the certifications was essential to how the CHs marketed their coffee to buyers. Furthermore, the constant changes in VCSs make it difficult for the technicians and the farmers to keep up to date.

“When there are changes in the norms, they don’t train the company on how to implement them.”— Technical Assistance Manager of CP1

“They [the VCSs] make too many changes in the regulations. We don’t have enough personnel to keep up with the changes.”— Technical Assistance Manager of CP4

The application of the standards by the auditors was also of concern for CP2, CP3 and CP4. (PL1 expressed a similar concern about capriciousness of the auditors). The CHs did not know from year to year how different auditors would interpret the standards. One auditor could place more emphasis on certain control points of the standard than another or even contradict what the certifier from the prior year had required. This uncertainty in the application of standards has created frustration in the technical assistance programs because they are unsure about what areas of the standards to advise the farmers to focus on and how to properly implement them.

“When auditing occurs, it isn’t clear what they are looking for.”— Technical Assistance Manager of CP2

“Every year they [the auditors] change inspectors, and they always have different requirements.”— Technical Assistance Manager of CP4

To streamline the element of technical assistance aimed at certification compliance by farmers, CP1 and CP2

have developed their own sets of requirements based on standards of the various certifications. (Before disbanding its direct purchases from farmers, PB5 also had an overall set of requirements based on UTZ standards.) This master list of requirements is aimed to ensure that the producers meet all the standards while providing technicians with a single set of requirements related to coffee production. This innovation has allowed the technicians to streamline their work and reduced confusion among farmers. CP1 has also uploaded the compiled requirements onto tablets, which they take to the field to determine on-site if the farmer is meeting standards.

Different strategies for sourcing and the provision of services to farmers

The two buyers included in the study had radically different strategies in their relationships with smallholder farmers. Two years ago, both buyers utilized the same strategy of directly buying from, providing technical assistance to, and guaranteeing credit for smallholder producers, but PB5 in Honduras decided to radically change this strategy. Starting a year ago, it dismantled its direct support to farmers and instead shifted most of this burden on the middlemen who supply it and ensure that the farmers meet certification standards. PB5 continued to directly purchase from only 50 of the best farmers instead of the 1200 farmers they once directly supported.

PB5 found that its former structure was too costly, especially given the great distances between coffee-growing areas in Honduras, which made coordination quite difficult. The manager of PB5 also continually faced challenges in competing with middlemen, as farmers did not exclusively sell to PB5. Rather than continuing to compete with the middlemen, PB5 decided to incorporate the most trusted ones into its business model, with the middlemen owning the certification. The other buyer, PB6, located in Nicaragua, does not face the same conditions that required PB5 to outsource its services with farmers. PB6 has fewer coordination challenges since their farmers are less geographically dispersed. PB6 has also been successful in obtaining support from international donors to support its technical assistance and credit programs, making the current direct-assistance program cost effective. As external support for farmers is reduced and marketing realities change, more and more buyers may adopt strategies similar to PB5 or other innovative strategies to source and support smallholder producers.

3.2.2 Credit offered by certificate holders

Access to credit can play a critical role in helping farmers respond to the demands of buyers and certification systems. Short-term credit is essential for the hiring of

labour, input application, crop management and selective harvesting of coffee, while long-term credit is necessary in the building of infrastructure, expansion of coffee area and replacement of old or diseased coffee plots. All CHs that purchased coffee directly from farmers offered short-term credit for a year or less with high interest rates, ranging from 12 percent to 24 percent. All CHs except CP2 offered long-term credit, which ranged from five to nine years for plantation renewal and had lower interest rates, ranging from 8 percent to 16 percent. CP1 and CP3 offered three types of credit, with a three- to five-year middle-term credit directed to extensive pruning of older trees.

A unique solution to offering credit to farmers

All the CHs found it to be necessary to extend their suppliers (farmers) credit, as smallholders in particular did not have adequate access to credit to pay for production activities and make long-term investments on their farms, such as renovation of older trees or purchasing better milling equipment. This credit was essential for the farmers to improve their farms to meet certification standards, respond to the rust crisis and enhance production, which is an important goal of the CHs striving to fill contracts. While nearly all businesses took out loans in order to provide microcredit to their suppliers directly, CP2 decided it was best to create a separate micro-savings business, with support of the United States Agency for International Development, to meet the farmers' credit needs. The cooperative is the primary shareholder of the savings and credit entity, investing its Fairtrade premium in the business. A third of the farmers have also invested in the savings and loan cooperative. The idea is that the members will earn back the interest that a traditional bank would make off the farmers while also providing the farmers with lower-interest loans. The cooperative manager described this strategy as taking the banks' "noose off the neck of the farmers" so that the banks could no longer charge unfair, exorbitant rates.

Short-term credit was particularly popular among the producers. A majority of farmers tied to all of the CHs access this credit, with 95 percent of the clients in PB6 receiving short-term credit. Although the long-term credit was less popular, with 20 percent to 30 percent of farmers receiving these loans, it was considered to have been crucial to the future of the CHs over the past five years: it allowed producers to replant coffee following the rust crisis. Although CP2 and PB2, respectively, received support from the United States Agency for International Development and the Inter-American Development Bank to subsidize these loans, the CHs took the risk to service these loans, guaranteeing the payments. The CHs used their contracts as collateral. Thus, contracts that are worth more (i.e. organic and Fairtrade), those

that provide differentials from certification, allow the CHs to access additional credit to provide to the farmers they assist. In addition, certifiers have helped facilitate credit relationships between CHs and lending institutions. Fairtrade and C.A.F.E. Practices were especially helpful in establishing these relationships or directly providing credit.

3.2.3 Auto-evaluation of the capacity of farmers to comply with UTZ standards

Table 8 summarizes the perceptions of those with direct and extensive knowledge of the implementation of technical assistance and certification programs in each CH. Questions were layered during the interviews to ensure careful consideration of the topic being discussed. First, the representatives of the CHs were asked about the current capacity of their farmers to comply with the given topic. Then, they responded to questions about changes in the producers' capacity over the past five years. Finally, they were asked about reasons for the change, with direct questioning on the role of UTZ in driving the change. Topics included the capacity of farmers to diversify their income sources outside of coffee, apply the necessary production inputs, soil and shade management capacity for coffee production and delivery of quality coffee to CHs.

Given the lack of detailed information available from CHs or the comprehensive baseline studies by external supporters, responses by the managers of the technical assistance programs provided a valuable, albeit rough, indication of the situation in 2017 and changes over time. Responses also provided valuable insights into how the CHs perceived the role of UTZ in driving change on farms. The responses also reflected the need of CHs to compete for international buyers based on high-quality coffee and respond to the crippling effects of the coffee rust epidemic in Central America.

For the topics related to coffee production (input application, soil management, shade management and quality standards), the overall pattern was one of strong update of technologies and considerable change in recent years. The CHs have invested significant effort to upgrade the capacities of their coffee suppliers over the past five years. In some cases, these investments responded to the uptake of VCSs, especially organic certification, given the importance of organic sales for the selected cooperatives. Where the overall assessment was positive, there is likely considerable variation within the group of farmers that supply the CH. Understanding this variation and the factors behind it will require more detailed information on farmers' livelihoods and coffee production systems.

The overall influence of UTZ on these changes was

considered to be limited. This reflects the unique circumstances of coffee businesses in Central America, the high degree of multicertification (with major changes being influenced by the first certification obtained) and the need to upgrade quality and production processes to address high production costs and external shocks (such as the coffee rust epidemic). Nonetheless, there was a belief among the CHs that UTZ had a positive influence on farmers' adoption of best management practices.

"There were social, environmental and economic impacts [on the farms].... There were many positive changes from UTZ certification." – Former Technical Assistance Manager of PB5

"The certification has been positive because we have been able to change our workers' mentality about the need to take care of the environment." – Sales Manager of PL7

From the CH perspective, the capacity to support the diversification of farmers' production implies, first, that the CHs have reliable downstream links with buyers for non-coffee-related products and services and, second, that they can expand their links with smallholders to engage on-farm production that meets quality, volume and timely delivery requirements for these products. This task is challenging; the CHs have faced difficulties in overcoming these challenges to help their smallholder suppliers diversify their income sources beyond coffee-related products. CP1 in Honduras reported progress in diversification, while CP2, CP4 and PB6 have only taken preliminary steps to diversify.

"For us, this change was due to considerable investments by the cooperative to help their members to diversify and access new markets." – Manager of CP1

We were unable to assess how wide or deep the outcomes and impacts of these efforts are; however, there are signs of increased interest and progress in diversification, especially in cocoa production and associated crops produced from the coffee agroforests. In general, CHs recognized that diversification of their sales was necessary for business viability over the long term, especially in light of the damages caused by the severe outbreak of rust in the region.

"If the cooperative doesn't diversify [its income sources], it is at risk...the recent coffee rust crisis has forced us to seek out options to diversify." – Manager of CP2

The CHs' limited success in facilitating the diversification of farmers' production beyond coffee was not entirely unexpected, given that all of the businesses were established to market coffee. Business relations, infrastructure and specialized skills and capacities have been built over decades. Extending into new markets

will require new sources of investment and similarly long periods over which capacities and resources are accumulated. Sources of support other than CHs are likely to be required for farmers to achieve meaningful progress on diversification outside of coffee.

Betting on diversification

Following the rust crisis that affected the finances of the cooperative—nearly causing bankruptcy—and members who had to sell their farms and migrate in search of employment and were challenged to meet household food security needs, CP1 in 2013 decided to take action so that farmers and the cooperative would no longer be so dependent on coffee sales. The members of the cooperative decided to invest some of the money they receive from their premium from Fairtrade sales in developing processing facilities, providing technical assistance and credit for farmers to develop alternative income sources. In subsequent years, they have received some external support to promote these activities. Unlike the other CHs, which focused on cocoa to address climate change concerns or marketing of crops from the coffee agroforests, CP1 chose to introduce new products into the Honduran market unrelated to coffee production, such as passion fruit, tomatoes and lemon grass and the processing of dried fruits and honey.

3.3 UTZ implementation with plantation employees

For plantations, labour relations form an important element of their capacity to produce coffee and engage in UTZ certification. The three coffee plantations included in this report varied markedly in the number of workers they employed (table 9). PL7 had 41 permanent employees, with more than 3000 seasonal employees. PL9 had about half the number of permanent and seasonal employees, at 22 and 1215, respectively. PL8 was considerably smaller, with seven permanent employees and 220 seasonal employees. PL7 and PL8 reported no change in the number of permanent employees over the past five years. PL9 reported some increase in staffing levels for production, milling and administration. For seasonal workers, PL1 and PL3 reported some increase in the number of seasonal workers hired in the past five years for coffee production and milling.

3.3.1 Auto-evaluation of plantations' capacity to comply with UTZ standards on employee relations

Table 10 summarizes the actions taken by the plantations in the past five years to meet the UTZ standards related

Table 9. Number of permanent and seasonal employees, 2017

| | PL7 | PL8 | PL9 |
|----------------------------|------|-----|------|
| Permanent employees | | | |
| Production | 10 | 5 | 12 |
| Milling | 1 | 1 | 4 |
| Administration | 5 | 1 | 6 |
| Others | 25 | 0 | 0 |
| Seasonal employees | | | |
| Production | 3000 | 220 | 1200 |
| Milling | 10 | 0 | 15 |

to childhood employment, provision of education and health-care services, payment of the national minimum wage and provision of on-site housing. Plantation managers were also asked about their perception of the influence played by UTZ certification in making these changes. Overall, the results suggest that plantations have taken steps to improve the workplace environment for permanent and temporary workers: relations with workers have become more formalized, increased attention is being paid to child labour during harvest season, and infrastructure, both community and housing infrastructure, has improved. However, many of the changes are recent and more work remains, especially in improving workers' housing—the plantations have just started renovations that will take several years to complete—and offering the employees a living wage, not just the national minimum wage.

“They [employees] have changed their practices, like following security norms and using the appropriate equipment.”—Owner of PL7

“You create a culture where the owner is not just demanding something; the certification requires it.”—Owner of PL8

All of the plantations cited their interest in complying with national regulation as the primary motivation for payment of the minimum wage to permanent and temporary workers. They perceived stronger encouragement (and enforcement) by the government for payment of minimum wages. Similarly, plantations perceived stronger government interest, based on stronger enforcement, related to child labour in coffee as the primary motivation for changes in policies on the participation of children in coffee harvests and other activities. Important questions remain regarding the extent to which these plantations are representative of other UTZ CHs in Guatemala, and to which the Guatemala context is similar to the coffee-growing contexts of other countries where UTZ certification is present.

“We started paying workers the national minimum wage long before we sought out certification.”—Manager of

PL7

“When you pay your workers a fair wage, they are going to be happy. When your workers are happy, you are going to see good work.”—Manager of PL8

In education and health, the plantation managers and owners mentioned a strong influence exerted by UTZ. They recognized UTZ certification as the primary motivation for speeding up planned investments. UTZ had a particularly important impact on the plantations' decision to improve their workers' living conditions. They mentioned that UTZ had stricter standards on worker living conditions (latrines, quality housing, clean drinking water, electricity) than the other VCSs. Because of UTZ, the plantations had to develop a plan to improve these conditions and continue showing progress as part of UTZ' program of continued improvement. In addition, each of the plantation owners mentioned that the UTZ country representative helped them develop a plan to improve workers' housing.

3.3.2 Employees' perceptions of relations with plantations

Interviewed workers, three for each plantation, provided insight on the changes they have seen in the plantation since the implementation of UTZ and other VCSs. Even though the owners and managers of the plantations mentioned that UTZ was not the main motivating factor in investing in improvements in education (infrastructure, equipment and scholarships), the workers have noticed a marked difference in educational offerings to their children and also the training they received after the farm became certified.

“The farm now pays for all [school] expenses, and we have a new school.”—Employee in PL7

“The trainings the farm now offers have served me a lot both at work and in improving my relationships with my family.”—Employee in PL8

Workers in PL7 and PL8, who applied chemicals, discussed how they now used the proper protective

Table 10. Self-reported changes in services provided by plantations to workers and their families in the past five years

| | | PL7 | PL8 | PL9 |
|--|--|--|--|--|
| Child labour | | | | |
| Change | Provides educational programs for children who accompany adults hired for the harvest | Requires contractors to only hire adults; playground equipment for children to use during coffee harvest | Requires contractors to only hire adults; playground equipment for children to use during coffee harvest | Requires contractors to only hire adults; playground equipment for children to use during coffee harvest |
| Perception of UTZ's role in the change | Medium—actions started before UTZ but reinforced by UTZ | Low—government pressure not to hire children | Medium—made changes to meet UTZ and other standards | |
| | | PL7 | PL8 | PL9 |
| Education | | | | |
| Change | Built a new school with computers, textbooks; provided scholarships for secondary education; trainings | With good public schools nearby, there is no need for the farm to provide education | Built a new school; training programs for workers and their families | |
| Perception of UTZ's role in the change | Medium—UTZ representatives encouraged the purchase of computers | N/A | Medium—started training programs to meet UTZ standards | |
| Health care and social security | | | | |
| Change | Annual checkups; improved medical clinic; new ambulance | Placed signs on safety standards; provides protective equipment | Clinic with a full-time nurse; provides protective equipment | |
| Perception of UTZ's role in the change | Medium—UTZ standards required the medical checkups | Medium—changes were made to meet certification standards | Medium—uses protective equipment to meet UTZ standards | |
| Salary and benefits | | | | |
| Change | Pays the national minimum wage | Pays the national minimum wage | Pays the national minimum wage | |
| Perception of UTZ's role in the change | Low—governmental enforcement of laws | Low—governmental enforcement of laws | Low—governmental enforcement of laws | |
| Living and working conditions | | | | |
| Change | Remodeling worker housing; latrines; filtered water | Remodeling worker housing; latrines; filtered water | Remodeling worker housing; latrines; showers; filtered water | |
| Perception of UTZ's role in the change | High—UTZ has stricter standards than other VCSs on housing | High—UTZ has stricter standards than other VCSs on housing | High—UTZ has stricter standards than other VCSs on housing | |

equipment when applying agrochemicals. Workers on all farms also pointed out that, following the adoption of the certification, efforts have been made to be environmentally responsible (i.e. pick up trash, protect water sources by using latrines, washing clothes in designated sites, use less water in the milling).

“[Following certification], technicians trained us in good agricultural practices and in how to protect the water.” — Employee in PL7

“Before [the farm was certified], you would see plastic containers all over the plantation. Now, the farm is litter free.” — Employee in PL8

“There are now trash cans all over the farm.” — Employee in PL9

The workers also noted an improvement in the plantations’ infrastructure (housing, water treatment facilities, latrines) since they have adopted the certifications.

“The farm has started to remodel all the houses and built a water treatment system to meet the certification requirements.” — Employee PL7

“The owners have recently remodelled my house and provided us with filtered drinking water.” — Employee PL8

The workers in PL7 and PL9 also witnessed improvements in the healthcare offered to workers. The workers in PL8 obtained their healthcare from local public clinics, so there was no requirement for the farm to invest in providing healthcare. PL7, in particular, was isolated and needed to undertake considerable investment (new ambulance, clinic and two nurses) to ensure that their employees had access to adequate healthcare. PL9 pays expenses for farmers to travel to clinics and hospitals.

Since the adoption of VCSs and PCSs, the employees have also noticed improved production and better working conditions overall.

“Because the farm has been certified, it treats the workers better.” — Employee in PL7

“These changes [following certification] have made my work more comfortable.” — Employee in PL8

“We now [after certification] use better management practices.” — Employee in PL9

Even though the employees have witnessed many positive changes in their working and living conditions after the implementation of UTZ and other VCSs, several workers expressed concerns about the added work, such as picking up trash and filling out additional paperwork, and the additional time to complete proper milling practices without receiving many benefits from

the added work. The employees in PL7 said that they hoped that by making the extra effort to complete the requirements to implement the standards, the plantation would receive higher prices and, thus, they would also be paid more.

3.4 Effects of the adoption of UTZ on business practices

The CHs pointed out that compliance with the UTZ standard was particularly relevant in helping improve the quality of the coffee produced (tables 11 and 12). They identified UTZ’s focus on traceability through the Good Inside Portal, improved milling operations and continuous improvement as being especially helpful in improving coffee quality.

“The investments [in infrastructure] were made to comply with the UTZ norms. But they are also a necessity to improve the quality of coffee and to take care of the environment.” — Intermediary with PB5

“What we like about UTZ is that they worry a lot about the traceability of the product. This helps improve the good quality of the product.” — Manager of PB6

“The UTZ protocol provides the necessary guidelines for good practices. This has been key to improving coffee quality and in improving the fertility of the soil.” — Owner of PL9

The plantation managers also pointed out that the UTZ environmental standards were helpful in orienting the business towards being better environmental stewards.

“UTZ has been positive because we have been able to change our workers’ mentality about the need to take care of the environment.” — Owner of PL7

“UTZ has a lot of relevance for our work on the farm. For example, we no longer use prohibited pesticides.” — Manager of PL8

All the CHs except for PB5 also mentioned that the UTZ standard helped them implement best management practices, which has improved coffee production.

“[UTZ’s program of] continuous improvement benefits the producers. Thanks to this, we have increased production and we have also received higher prices, which has improved smallholders’ income.” — Manager of CP4

“It [UTZ] forces workers and managers to make a greater effort to increase production.” — Owner of PL7

There was also disagreement about whether the businesses’ participation in UTZ helped the CHs attract new buyers and gain better prices. Several CHs commented that they did not receive the price

Table 11. CHs' perceptions of the relevance of UTZ in driving change in business practices for cooperatives and private buyers (those that source from farms)

| | CP1 | CP2 | CP3 | CP4 | PB5 | PB6 |
|--------------------|-------------------|---------------|-------------------|-------------------|---------------|-------------------|
| Improved quality | Very relevant | Very relevant | Somewhat relevant | Somewhat relevant | Very relevant | Very relevant |
| Greater production | Somewhat relevant | Critical | Somewhat relevant | Somewhat relevant | Not relevant | Somewhat relevant |
| New buyers | Critical | Very relevant | Very relevant | Very relevant | Not relevant | Very relevant |
| Better prices | Somewhat relevant | Very relevant | Somewhat relevant | Somewhat relevant | Not relevant | Very relevant |

Table 12. Plantations' perceptions of the importance of UTZ in changing their following business practices

| | PL7 | PL8 | PL9 |
|-----------------------------|-------------------|-------------------|---------------|
| Improved quality | Critical | Somewhat relevant | Critical |
| Greater production | Somewhat relevant | Somewhat relevant | Critical |
| New buyers | Not relevant | Critical | Critical |
| Better prices | Not relevant | Not relevant | Critical |
| Better environmental impact | Critical | Critical | Very relevant |
| Improved worker relations | Somewhat Relevant | Critical | Not relevant |

differentials they had expected from the sale of UTZ coffee. All of the CHs except for PB6 mentioned that they would like UTZ to better market the UTZ brand to help them attract more customers and sell more UTZ coffee.

PL7 mentioned that it would like UTZ to share lists of businesses that are seeking UTZ coffee and help the CHs develop business relationships with UTZ customers.

"We keep hoping that there will be new clients that want UTZ coffee."—Manager of CP1

"Even though we don't receive higher prices [with UTZ coffee], it allows us to sell more."—Manager of PB5

On the other hand, some CHs noted that UTZ had taken steps to build connections between coffee customers and suppliers. For example, CP4 stated that UTZ provided assistance for cooperative leaders to attend an international fair to promote their coffee, where they made sales to two new buyers.

3.5 Access to services and information for implementation of UTZ

Implementing the various VCSs, including UTZ, is not a straightforward process, as the businesses must determine not only what must be done to meet each of the requirements but how to properly document these changes and follow through with the auditing process. Furthermore, as the standards change, the CHs require additional information and assistance to know what must be done to meet these standards. The CHs only mentioned a few sources where they obtained information and assistance to help meet the standard: the country representative of each VCS, NGOs, consultants, other CHs and the CHs' own efforts.

The most important sources of information in implementing and maintaining the UTZ standard were two: the country representative for the VCS and the CHs' own efforts to obtain online documents (fig 2). While the CHs' own efforts were listed as being very

Figure 2. Percentage of cases that indicated the following sources of information as very relevant, somewhat relevant or not relevant for implementation of UTZ

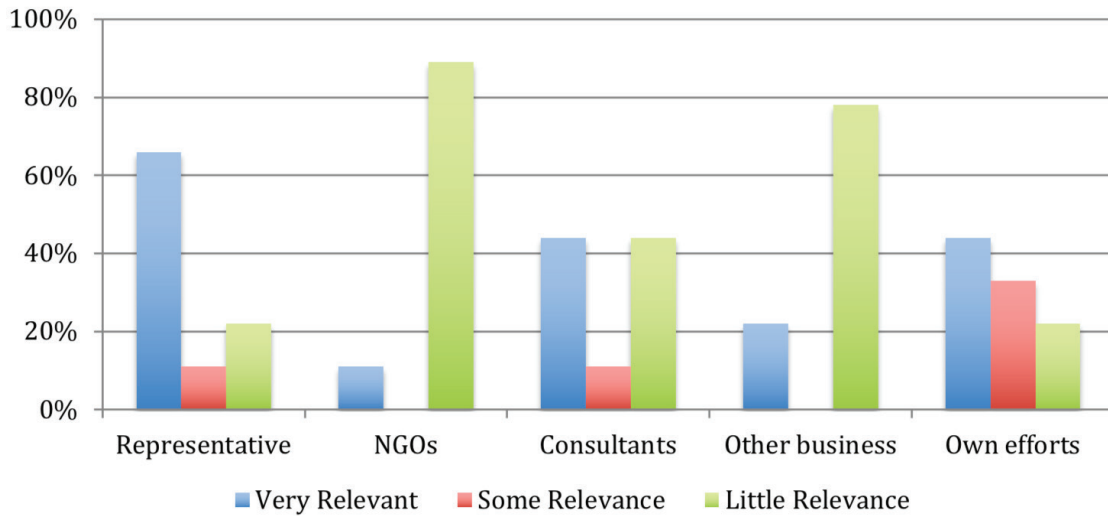
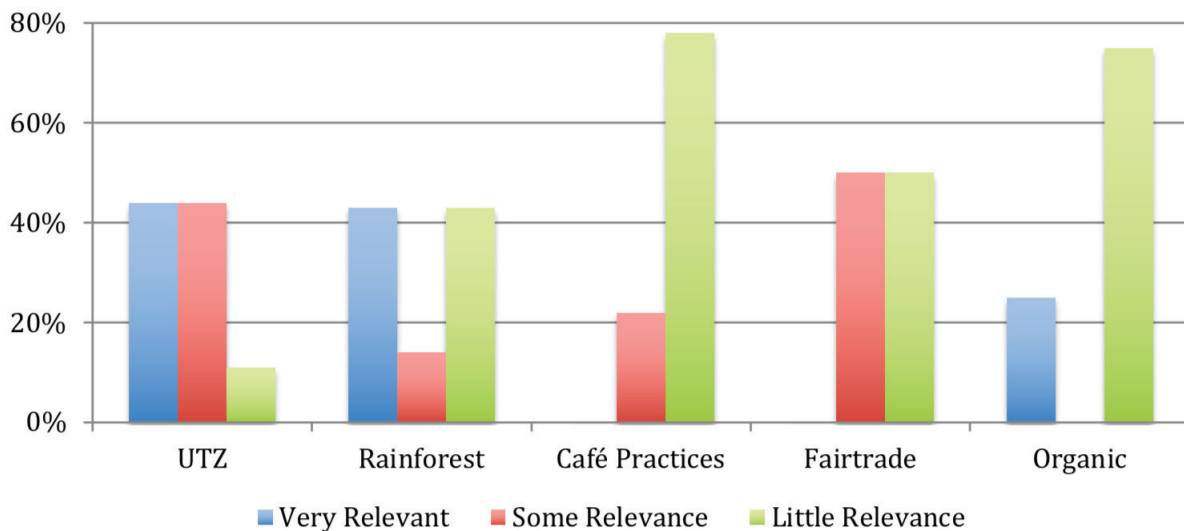


Figure 3. Rating of the usefulness of the interaction between the CHs and the country representatives for each VCS by percentage of cases



important in implementing the standard, the former manager of technical assistance of PB5 mentioned that many of the documents provided by UTZ about the standard, especially on how to implement some of the best management practices, are no longer available. For PB5, it is essential to have these documents easily accessible in order to properly implement and maintain its certification and as a reference if doubts arise without having to call on the UTZ country representative.

Although NGOs were important in encouraging several CHs to adopt the UTZ, particularly in CP4, PB5 and PB6, they did not provide much assistance in the process of obtaining certification. The CHs sometimes helped one another in understanding the processes to obtain and

maintain a certification. The managers of CP1 and CP2 mentioned that they would generally share difficulties with other managers at coffee expos and conferences. The exception to little CH collaboration in complying with the UTZ standard was CP4. This cooperative received assistance from CP3, an established cooperative located in the same small town that provided milling services for CP4. Outside this unique situation, there was little such collaboration among CHs.

UTZ and Rainforest Alliance representatives in particular were perceived as being the most helpful (fig. 3). The manager of PL7 mentioned that the UTZ representative was quite useful in helping on what needed to be done to meet the standard's requirements. He also

Table 13. Self-assessed order of VCS relevance on business performance, with “1” as most relevant

| | CP1 | CP2 | CP3 | CP4 | PB5 | PB6 | PL7 | PL8 | PL9 |
|----------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| UTZ | 5 | 5 | 4 | 4 | 2 | 1 | 2 | 1 | 1 |
| Rainforest Alliance | 4 | 4 | 6 | N/A | 3 | 2 | 1 | N/A | 2 |
| C.A.F.E. Practices | 3 | 3 | 5 | 3 | 1 | 3 | 3 | 2 | 3 |
| Bird Friendly | N/A | N/A | 3 | 5 | N/A | N/A | N/A | N/A | N/A |
| Fairtrade | 1 | 1 | 1 | 1 | N/A | N/A | N/A | N/A | N/A |
| Organic | 2 | 2 | 2 | 2 | N/A | N/A | N/A | N/A | N/A |

mentioned that trainings provided by UTZ helped them understand how to implement the standard. Only CP2 mentioned that it had little contact with the UTZ country representative—none since they obtained the certification. However, this cooperative has also sold very little UTZ coffee. CP1, CP2, CP4, PL7 and PL 8 also mentioned that they needed further assistance from UTZ in making the mandatory improvement plans.

3.6 UTZ in the context of multicertification

Even though the CHs are different types of businesses (cooperatives, private buyers and plantations), have a different history and are located in different countries with unique social and cultural contexts, they have all decided that they not only needed to obtain UTZ certification but also maintain multiple certifications. Cooperatives have the most diversified certification portfolios—all had at least five voluntary certifications and one had six (several had additional lesser-known standards such as women-only coffee and coffee from small farms). All sampled certificate holders had C.A.F.E. Practices, reflecting the strong reach of Starbucks in the region and the capacity of the sampled CHs to engage with demanding buyers. Among the cooperatives, Fairtrade and organic were rated first and second, respectively, as the most relevant certifications for overall business operations. One privately owned business and two plantations considered UTZ to be the most important certification system for their businesses. With only one exception (PL8), all private businesses and plantations held both UTZ and Rainforest Alliance certifications (table 13).

3.6.1 Motivation to obtain certification

The CHs were motivated to obtain certification, with few exceptions, as part of a larger business strategy to access new buyers and receive higher prices (table 14 and table 15). The desire to be better environmental stewards was also an important motivation for several

of the cooperatives to adopt organic certification and for several cooperatives and plantations to adopt UTZ and Rainforest Alliance certifications. This result was curious, as several of the CHs (CP2, PB6 and PL7) mentioned that the UTZ standard was less strict for environmental standards than Rainforest Alliance and allowed the use of certain agrochemicals, which were prohibited in organic certification. For the plantations (PL7 and PL8), they mentioned that UTZ certification allowed them to demonstrate their desire to be better environmental stewards to buyers and end consumers seeking sustainably grown coffee. The two cooperatives (CP2 and CP4), which mentioned that improved environmental stewardship was a motivation for obtaining UTZ, have particularly strong environmental philosophies, as demonstrated by their first obtaining organic production (table 4) and having a relatively large number of farmers organically certified (table 6). Two other CHs (PB5 and PL9) sought UTZ to improve their coffee production through the implementation of best management practices by their suppliers.

What comes first, the supply or the demand for UTZ coffee?

The owners of PL7 pointed out that they did not seek the certification to meet the demand for the certified coffee but rather as a guide for their adoption of environmentally sustainable production practices, both out of concern for the environment and as a means to promote its environmental stewardship to buyers—hoping that sales would soon follow. As one of the owners explained, “[We sought UTZ certification] because of environmental issues. We have always cared for the environment and the rivers.” This strategy of “obtain the certification and the buyers will come” was different from other CHs. The others sought UTZ after having lined up buyers who requested the certification, so there was no lag between certification and their first sales. While PL7’s strategy proved successful in improving environmental outcomes, the farm faced challenges in finding buyers for

Table 14. Primary and secondary reasons given by cooperatives for certification adoption

| | CP1 | CP2 | CP3 | CP4 |
|----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| UTZ | | | | |
| Primary | New buyers | New buyers | Higher prices | New buyers |
| Secondary | Higher prices | Environmental stewardship | New buyers | Environmental stewardship |
| Rainforest Alliance | | | | |
| Primary | Environmental stewardship | New buyers | New buyers | N/A |
| Secondary | New buyers | Environmental stewardship | Higher prices | |
| C.A.F.E. Practices | | | | |
| Primary | New buyers | Higher prices | Higher prices | New buyers |
| Secondary | Higher prices | New buyers | New buyers | Improve production |
| Fairtrade | | | | |
| Primary | Higher prices | New buyers | Higher prices | Higher prices |
| Secondary | New buyers | Higher prices | New buyers | New buyers |
| Organic | | | | |
| Primary | New buyers | New buyers | Higher prices | Environmental stewardship |
| Secondary | Environmental stewardship | Higher prices | Environmental stewardship | Higher prices |

Table 15. Primary and secondary reasons given by private buyers and plantations for certification adoption

| | PB5 | PB6 | PL7 | PL8 | PL9 |
|----------------------------|--------------------|---------------|---------------------------|---------------------------|--------------------|
| UTZ | | | | | |
| Primary | New buyers | New buyers | Environmental stewardship | Higher prices | Higher prices |
| Secondary | Improve production | Higher prices | Improve production | Environmental stewardship | Improve production |
| Rainforest Alliance | | | | | |
| Primary | New buyers | New buyers | Environmental stewardship | N/A | Higher prices |
| Secondary | Improve production | Higher prices | Higher prices | | Improve production |
| C.A.F.E. Practices | | | | | |
| Primary | New buyers | New buyers | Higher prices | New buyers | Higher prices |
| Secondary | Improve production | Higher prices | Improve production | Environmental stewardship | Improve production |

its UTZ coffee after certification, demonstrated by the lag between certification and first sales.

These businesses have used the multiple certifications as a means to demonstrate the quality of their product to their customers. Meeting certification standards demonstrates that the business and, where applicable, its suppliers, are willing to adopt best farming practices and properly process their coffee, which indicates higher-quality coffee. Several CHs also mentioned that the multiple certifications open avenues to increase sales by offering a portfolio of certification standards to meet demands or preferences a customer may

have. Since how much certified coffee a buyer may request can change from year to year as well as the certification a buyer may request, having multiple certifications allow them to meet market changes that may occur. PL8 and PL9 also mentioned that meeting the certification standards allows them to demonstrate their environmental stewardship and social responsibility to customers. Nearly all CHs, except PL7, stated that they expected to be able to increase their sales through participation in UTZ. PL8 expected that meeting UTZ standards would assist it in being able to better manage its production, sales and employees (table 16).

Table 16. Elements of marketing strategy and expectations for UTZ, by CH

| CH | Key elements of marketing strategy | Expectations for UTZ |
|-----|--|---|
| CP1 | <u>Portfolio of options</u> The CH maintains a variety of certifications to be able to meet buyers' needs. When a buyer asks for a certification, it will be ready to provide the requested certification. | <u>Increase sales</u> The CH was looking for access to European markets. Several European buyers asked for the certification. It was not difficult to meet UTZ standards since it already had the other certifications. |
| CP2 | <u>Portfolio of options</u> The CH maintains a variety of certifications to be able to meet buyers' needs. When a buyer asks for a certification, it will be ready to provide the requested certification. | <u>Increase sales</u> Require all producers to have at least UTZ to have access to at least one additional market. |
| CP3 | <u>Quality</u> The main marketing feature of coffee is quality. The CH's capacity to obtain and maintain various certification labels is expected to signal quality to potential buyers. | <u>Increase sales</u> A buyer was looking for UTZ coffee so the CH obtained the certification to make the sale. The CH has also achieved a limited number of sales of lower quality coffee under UTZ. |
| CP4 | <u>Quality</u> The main marketing feature of coffee is quality. The CH's capacity to obtain and maintain various certification labels is expected to signal quality to potential buyers. | <u>Increase sales</u> After the CH saw the problems with the split in Fairtrade, it sought UTZ for additional markets, especially in Europe. |
| PB5 | <u>Quality</u> The CH no longer sees coffee as a commodity with a strategy to sell as much as possible. It now seeks to sell the highest quality coffee and earn greater profits from large quality differentials. Certification helps meet this strategy by demonstrating the quality of its coffee to buyers. | <u>Increase sales</u> The CH keeps the certification to maintain access to additional buyers. Since the CH is unsure when a buyer will require a certification, it is always important to have certified coffee available. It brings additional clients. |
| PB6 | <u>Quality</u> Certification helps ensure the traceability of the coffee, which enhances the quality controls. | <u>Increase sales</u> The CH sees a demand in the market for UTZ coffee and having certifications like UTZ allows it to have marketing alternatives. |
| PL7 | <u>Quality</u> The CH has encouraged the farmers to plant improved varieties for better quality and invested in tastings. Certification helps encourage the adoption of standards to improve quality. | <u>Increase sales</u> UTZ helps demonstrate to customers that the farm takes environmental protection seriously, enhancing the brand of the farm. The CH hopes that by selling UTZ coffee, it can sell directly to end buyers. |
| PL8 | <u>Environmental responsibility</u> Certification helped encourage new milling processes that use less water and protect the environment. | <u>Improve business management</u> UTZ helped organize the farm to keep better books, administer the farm and develop controls to ensure protection of the environment during coffee production. |
| PL9 | <u>Environmental and social responsibility</u> Multicertification allows the CH to show it makes an effort to protect the environment and be socially responsible, which gives it a marketing advantage. | <u>Increase sales</u> The CH obtained UTZ to receive higher price differentials. |

3.6.2 Prices received according to different certification schemes

Overall, the CHs have been able to achieve one of their objectives in obtaining VCSs, receiving premiums for certified coffee. The size of the premium from VCSs was not uniform, with some CHs being able to negotiate substantial premiums. In general, the CHs were able to earn just a few cents more per pound for UTZ, Rainforest Alliance, C.A.F.E. Practices and Bird Friendly certifications (table 17). The one exception was PL9, which received USD 0.15 more for UTZ coffee, a premium three times more than the USD 0.05 received by CP3 and PB5. CP3 and PL7 signed contracts with particularly high premiums for Rainforest Alliance certified coffee. The sales manager of PL7 claimed it received these high prices not necessarily for the certification but rather for its reputation for producing high-quality coffee. The cooperatives received much more for Fairtrade and organically certified coffee, USD 0.30 or more, because of the price floor for Fairtrade and mandatory premiums paid for each of these certifications.

3.6.3 Volumes sold and trend in sales, by certification

The volume sold per VCS differed greatly per CH during the 2016/2017 harvest, with no clear sales trend over the past five years (table 18). For UTZ coffee, PB6 and PL9 sold more in this time, with the CHS managers commenting that they expected the demand to continue to grow. While CP1 and PL7 sold less UTZ coffee, this change was more of an anomaly since these two CHs had sold very little UTZ coffee: a single container during the 2015/2016 harvest and none during the 2016/2017

harvest. PB5 also stated it was selling less UTZ coffee. However, this CH was marketing less coffee overall after it changed its business strategy to focus on selling quality coffee and directly sourcing only a limited amount of coffee from farmers. Among most of the CHs, except for PB5, there was no growth in the sale of C.A.F.E. Practices coffee. The difference for PB5 may be due to the fact that it just started selling under this standard during the past two harvests. It did not sell C.A.F.E. Practices five years ago when the other CHs mentioned that demand for this VCS peaked.

3.6.4 Factors limiting the sale of certified coffee

In general, CHs have more certified coffee than they are able to sell (table 19 and table 20). These difficulties in selling certified coffee is why they would like assistance to make connections with buyers who buy certified coffee. In a few instances, the CHs mentioned that they could not produce enough certified coffee to meet customers' demand, which was particularly the case of CP1 for Fairtrade and C.A.F.E. Practices. The manager mentioned that the CH needed to certify more farmers in these VCSs to meet the demand—interested farmers interested had yet to finish the certification process. CP4 faced the same challenge with C.A.F.E. Practices—it is a small cooperative with just 99 certified farmers and cannot meet the demand for large purchases. For organically certified coffee, the standard is so much more difficult to achieve that CP1 and CP2 said farmers were not interested in completing the extra requirements and added work, so, they were unable to produce enough organically certified coffee despite the demand for it. For UTZ certification, most CHs mentioned

Table 17. Price received (USD/lb) for certified and non-certified coffee for 2016/2017 harvest ^{1,2}

| | CP3 | CP4 | PB5 | PB6 | PL7 | PL8 | PL9 |
|----------------------------|------|---------------------|------|------|-----------|------|------|
| Non-certified | 1.60 | 1.60 | 1.50 | 1.50 | N/A | 1.60 | 1.55 |
| UTZ | 1.65 | None sold | 1.53 | 1.55 | None sold | 1.62 | 1.80 |
| Rainforest Alliance | 1.75 | N/A | N/A | 1.55 | 1.80 | N/A | 1.65 |
| C.A.F.E. Practices | 1.75 | 1.60 | N/A | 1.55 | N/A | N/A | N/A |
| Bird Friendly | 1.75 | Sold with Fairtrade | N/A | N/A | N/A | N/A | N/A |
| Fairtrade | 2.00 | 1.95 | N/A | N/A | N/A | N/A | N/A |
| Organic | 2.05 | 1.90 | 1.65 | N/A | N/A | N/A | N/A |

¹CP1 and CP2 were unwilling to provide pricing data.

²The price data for PB5 was provided by the intermediaries that sell to it.

Table 18. Volume sold (1000 kg) from 2016/2017 harvest and trends in certified sales over the past five years for each ³

| | CP1 | CP3 | PB5 | PB6 | PL7 | PL8 | PL9 |
|----------------------------|-----------|------------------|--------|-----------|-----------|-----------|-----------|
| Noncertified | | | | | | | |
| Volume | 0 | 8700 | 34 000 | 168 000 | 0 | 320 | 2900 |
| Trends | No change | Much more | Less | Less | Less | No change | Much more |
| UTZ | | | | | | | |
| Volume | 364 | 2300 | 2400 | 59 000 | 0 | 360 | 6800 |
| Trends | Much less | N/A | Less | Much more | Less | No change | More |
| Rainforest Alliance | | | | | | | |
| Volume | 2900 | 1000 | 1500 | 9100 | 10 700 | N/A | 1000 |
| Trends | No change | N/A | Less | No change | Much more | N/A | More |
| C.A.F.E. Practices | | | | | | | |
| Volume | 5600 | 7700 | 11 400 | 31 800 | 0 | 0 | 0 |
| Trends | No change | No change | More | Less | Much less | Much less | Much less |
| Bird Friendly | | | | | | | |
| Volume | 730 | 680 | N/A | N/A | N/A | N/A | N/A |
| Trends | No change | No change | N/A | N/A | N/A | N/A | N/A |
| Fairtrade | | | | | | | |
| Volume | 10 000 | Sold with others | N/A | 9100 | N/A | NA | N/A |
| Trends | Much more | | N/A | Less | N/A | NA | N/A |
| Organic | | | | | | | |
| Volume | 5500 | 6900 | N/A | 680 | N/A | N/A | N/A |
| Trends | Much more | Less | N/A | No change | N/A | N/A | N/A |

Table 19. Factors limiting the cooperatives' sale of certified coffee, by VCS

| | CP1 | CP2 | CP3 | CP4 |
|---------------------|------------------------|------------------------|----------------|------------------------|
| UTZ | Lack of demand | Lack of demand | Lack of demand | Lack of demand |
| Rainforest Alliance | Farmers not interested | Lack of demand | Lack of demand | N/A |
| C.A.F.E. Practices | Shortage of production | CH not interested | Lack of demand | Shortage of production |
| Fairtrade | Shortage of production | Lack of demand | Lack of demand | Lack of demand |
| Organic | Shortage of production | Shortage of production | Lack of demand | Lack of demand |

³CP2 and CP4 refused to provide data on the volumes of coffee sold.

that they produced more than could be sold. Because PB5 in Honduras has moved away from directly certifying farmers, it has lost interest in both UTZ and Rainforest Alliance certification, although it has moved into buying C.A.F.E. Practices certified coffee because it has a buyer interested in it. On the other hand, PB6 in Nicaragua mentioned that the demand for C.A.F.E. Practices had nearly disappeared while the demand for UTZ coffee had grown over the past two years; so now it did not have enough UTZ farmers to meet the demand.

3.6.5 Expectations for the future

Even with these challenges, all of the cases are certain that they will continue each of the certification schemes next year. As the CHs do not know from one year to the next which certification will be demanded by their buyers, they have adopted a strategy of keeping them all in case a buyer demands a certification.

“We haven’t lost hope in selling UTZ [certified coffee].” – Manager of PL7

Since the standard is nearly the same for each of the

3.7 Perception of certificate holders who abandoned UTZ

Like the nine cases that have maintained the UTZ standard, the businesses interviewed that no longer participate in UTZ represented a variety of different contexts to shed light on the different factors that could have been important in the businesses’ implementation of the UTZ standard and the decision to no longer maintain it. The study included two cooperatives in Honduras and one plantation in Guatemala. The plantation maintained the standard for 14 years, from 2001 to 2015, while the cooperatives kept the certification for three and four years, with both first implementing the standard in 2012 (table 21).

The businesses shared many motivations for seeking UTZ certification that are similar to those of current CHs, particularly to obtain new buyers for their coffee. One mentioned that a secondary reason was to enhance its productivity and the quality of coffee it sources; another, to improve its environmental stewardship. Unlike the other cases, none of the businesses held any other

Table 20. Factors limiting private buyers’ and plantations’ sale of certified coffee, by VCS

| | PB5 | PB6 | PL7 | PL8 | PL9 |
|---------------------|-------------------|------------------------|----------------|----------------|----------------|
| UTZ | CH not interested | Shortage of production | Lack of demand | Lack of demand | Lack of demand |
| Rainforest Alliance | CH not interested | Shortage of production | Lack of demand | N/A | Lack of demand |
| C.A.F.E. Practices | Lack of demand | Lack of demand | Lack of demand | Lack of demand | Lack of demand |

VCSs, the marginal cost of an additional certification is low. The suppliers or the plantation workers have to make few changes to maintain each standard, and the auditing fees are minimal for large CHs. Nearly all the CHs also plan to continue with the certification over the next five years but one CH was unsure whether it would continue to maintain its UTZ, Rainforest Alliance and Coffee Practices certifications because of the weak demand for these VCSs. Because of the price premiums received for Fairtrade and organic coffee, the CHs that held these certifications were all certain they would continue with these standards.

VCSs. However, one of the cooperatives had sold fair trade coffee since 2001 and was working to obtain certification by Fairtrade and C.A.F.E. Practices.

The managers of the businesses mentioned how they received benefits from their participation in UTZ, listing the same benefits that the other CHs described. In particular, UTZ was credited with helping the businesses improve the quality of coffee that they source through UTZ’s focus on traceability and the implementation of better milling practices. They also mentioned that completing the UTZ standard led to better administration of the businesses, especially training managers and farmers on how to keep better records. The manager of

Table 21. Former UTZ certificate holders

| Business type | Year Established | First coffee sale | Obtained UTZ | First UTZ Sale | Left UTZ | Other VCS |
|---------------|------------------|-------------------|--------------|----------------|----------|-----------|
| Cooperative | 1999 | 2001 | 2012 | 2012 | 2015 | Organic |
| Cooperative | 2012 | 2012 | 2012 | 2012 | 2015 | None |
| Plantation | 2001 | 2002 | 2001 | 2002 | 2015 | None |

the plantation said the norms on worker ethics improved their relationship with their employees as the farm improved the working conditions. All three said that even though they no longer maintain the certification, they still apply the lessons learned from the UTZ and produce more coffee.

However, for one of the cooperatives and the plantation, these benefits did not outweigh the costs of maintaining the certification. These two businesses shared the marketing frustrations experienced by several of the cases—not being able to sell much UTZ coffee. They only obtained a small price differential for UTZ coffee and were unable to secure additional buyers for it. The lack of sales and the small premium were the primary factors why these businesses decided not to renew their UTZ certificate. This situation mirrors the experience of CP2, which failed to renew UTZ certification for several years since it did not have a buyer that demanded it. Once CP2 secured a buyer that demanded UTZ coffee, it renewed its participation. However, the other cooperative in Honduras did not share these frustrations: it had been successful in selling to buyers that demanded UTZ coffee and were willing to pay a premium for this coffee.

The businesses also faced many challenges in implementing the certification. One of the emerging cooperatives found that the cost to maintain UTZ was prohibitively expensive, citing paying for the auditor and additional technical assistance to make sure the farmers meet the standard's requirements. Because there were few additional sales, the costs outweighed the benefits. The manager of the plantation also expressed difficulties in paying for a certification that did not lead to higher prices and more sales. The other cooperative faced difficulties in encouraging its members to meet the standards; the manager stated that it lost its certification because an auditor found that a member failed to implement the UTZ child labour regulations.

The managers of both cooperatives expressed a desire for their businesses to obtain UTZ certification again within the next five years. Both of the cooperatives have started the process to export under their own name and not through private buyers. To achieve this goal, the cooperatives will need to be certified to demonstrate the quality of their coffee, to help establish trust with their clients. They believe there is a growing demand for certified coffee and UTZ coffee in particular. The plantation, however, does not see the need to be certified

since its buyers seek its high-quality coffee and do not request certification. However, the manager mentioned that the farm would be open to renewing its UTZ certification if a buyer requested it.

In order for these businesses to be certified again, the businesses said they would require additional support from UTZ. The cooperatives said they would need to be trained again in implementing the standard, as many of the staff that first implemented the standard no longer work for it. Similar to the comments made by PB5 and PL7, the plantation that left UTZ said that UTZ needs to better promote its brand to create a demand for the certification and should share contact information of buyers of UTZ coffee in order for them to make sales of certified coffee.

3.8 Benefits derived from UTZ certification by sampled CHs

Considering the experiences of the nine CHs with UTZ, it is evident that they were able to benefit from their relationship with UTZ (table 22). In general, the CHs were able to meet one of their primary goals of UTZ certification, earning higher prices for their coffee, all receiving some premium. However, they were unable in large part to sell all of their certified coffee and to expand their sales network to additional buyers. Yet, UTZ certification, in combination with other VCSs, allowed the CHs to expand sales as more and more buyers purchase multiple certified coffee or require the CHs to sell coffee lots with different certifications. Furthermore, UTZ has become more important for cooperatives as they seek alternative markets that provide some premium for their coffee, particularly since demand for Fairtrade coffee has weakened.

The CHs also claimed that the UTZ standard had influenced their operations. In particular, the strong UTZ standard on milling and traceability has required the businesses and their suppliers to invest in more efficient and more sustainable milling technology (using less water and proper disposal of the waste) and producing higher quality coffee. Managers in PB6, PL7 and PB8, in particular, noted how these changes have led to selling higher quality coffee. Since UTZ was one of the last standards adopted by most of the businesses that source from farmers, except for PB5, enhancing the CHs relations with farmers had already advanced during the implementation of the other standards. However, the plantations mentioned that UTZ's particularly strong requirements on worker welfare were quite influential in improving their relations with their workers. Even though UTZ did not play a large role in the plantations' decisions to pay their workers the national minimum wage, the strict requirements on housing quality and working conditions were credited by the management

Table 22. Summary of benefits related to UTZ certification obtained by the CHs

| Assessment criterion | Reviewers' general assessment | Comments |
|--|-------------------------------|--|
| Capacity to receive price benefits from sale of UTZ coffee | Average | Across all types of CHs, the capacity to achieve price benefits from UTZ sales varied from USD 0.02 to USD 0.15, with most of the CHs earning USD 0.05. |
| Capacity to increase sales of UTZ coffee | Low | Several CHs had sporadic and relatively small sales of UTZ coffee. Sales patterns do not suggest an upward trend in sales over time. In some cases, CHs have only made one sale of UTZ coffee (CP1, PL7). |
| More diversified buyer contacts and sales and improved buyer relations | Low | The capacity of CHs to build a long-term relationship with the buyers, leading to repeat sales of UTZ coffee, was limited. In some cases (CP1, CP2, PL7), CHs have only one buyer for UTZ coffee. |
| Expanded options for business marketing | High | Access to UTZ certification provides CHs with the option to respond to buyers' demands for certified coffee, especially the trend for buyers to request certification combinations (i.e. UTZ and Fairtrade or organic) and mixed orders (i.e. one lot of UTZ and another of organic). |
| Capacity to manage market-related risks in coffee markets | High | For cooperatives, the capacity to sell each lot of coffee above international market prices was critical. Most of the sampled cooperatives, except CP1, perceived slow or no growth in Fairtrade and organic sales. So, they sought out UTZ and other VCSs in order to earn premiums for their coffee. |
| Assessment criterion | Reviewers' general assessment | Comments |
| Improved processing operations (more efficiency, less contamination, higher quality) | High | UTZ provided a credible framework for carrying out investments in wet-milling operations. UTZ's emphasis on traceability was attributed to the CHs' sourcing better quality coffee. |
| Strengthened relations with coffee suppliers | Low | For all the CHs that work with farmers, except PB5, the UTZ standard was one of the later adopted VCSs. So, most of the impacts and changes were implemented prior to UTZ. |
| Improved relations with permanent and temporary workers (plantations only) | High | Because of the standard's strong emphasis on housing standards and working conditions, UTZ was credited by workers, managers and owners with improving the relations between the plantation and its workers. |

and the workers as improving worker satisfaction and strengthening the relations between owners, management and workers.

4. Discussion

In this section, we respond to the three research questions presented at the beginning of this report based on insights gained from the cases. We conclude with recommendations for future research and development by UTZ and partners to facilitate the expansion of UTZ in the region and deepen the impacts of certification systems for certificate holders.

4.1 UTZ implementation

Research Question One: How do CHs and their members value UTZ certification (including expectations with UTZ adoption); what are the associated benefits and costs (realized or perceived)?

- UTZ forms one element of the larger strategy pursued by CHs to diversify buyer relations and improve coffee production. The relevance of UTZ differs according to the type of certificate holder: for cooperatives, UTZ serves primarily as a tool to capture new buyers and favorable marketing conditions for coffee not sold under Fairtrade and organic terms. For plantations and privately owned exporters, UTZ is one of three standard systems often used that, taken together, plays an important role in shaping the business operations (i.e. agronomic practices, postharvest activities, and administrative processes).
- For cooperatives, access to UTZ certification reduces their marketing risks. UTZ allows them to respond to the demand from European buyers for first quality (occasionally second quality) conventional coffee. Coffee sold with price differentials of USD 2 to USD 6 per bag (with the exception of PL9, which received a differential of USD 15)—roughly at par with non-Fairtrade/organic certification systems. UTZ is rarely combined with other certifications for sales to these buyers. Annual sales of UTZ coffee varied markedly from year to year, and most cooperatives are engaged with just one or two buyers that demand UTZ coffee in a given year.
- In Honduras, while cooperatives sell limited volumes of coffee with UTZ certification, the volumes sold allowed cooperatives to negotiate contracts directly with buyers and thus avoid the negative country price differential (USD -4 at the time of data collection) for the UTZ coffee. UTZ serves as one indicator of quality for businesses operating in a country where the improvement of coffee quality has become a priority in the past several years.
- The technical aspect of UTZ certification most appreciated by cooperatives is related to continual improvement in production practices and support from UTZ in designing improvement plans. For instance, UTZ contributes to the design of technical assistance services, providing structure to the interaction between technicians and farmers.
- Cooperatives in Nicaragua also use UTZ to offer favorable marketing terms for the growing volumes of coffee provided by larger, non-member producers. Cooperative membership is fixed (see later discussion on multicertification), but coffee volumes are increasing due to the sale of coffee from non-members. The sale of non-member coffee allows the cooperatives to take advantage of existing infrastructure for processing and marketing, reducing average costs for members.
- Cooperatives in all three countries report limited economic benefits from the renewal of UTZ certification, although expectations remain that this will change in the midterm. They renew UTZ certification with the aim of providing buyers an expanded set of options. In addition, the UTZ logo on their banner provides an additional element of credibility to attract new buyers. Given their previous investments in certification systems, the cooperatives perceive the additional costs to implement and renew UTZ as being low.
- For plantations, the underlying motivation to obtain UTZ certification is twofold: fetching higher coffee prices, as it did, and engaging a trusted framework for improving operations, especially in environmental stewardship. All plantations report that they acquired UTZ, in part, to improve and validate the production processes within their business. UTZ's importance rests, in part, on its capacity to make visible within the business (to workers and managers) and outside the business (to international buyers) that best practices in coffee production are being followed.
- Plantations are willing and able to invest in UTZ implementation and renewal. The implementation of UTZ and Rainforest Alliance induced major investments in upgrading administrative processes,

installing new processing technologies and improving worker conditions (housing).

- Plantations' expectations for better prices and direct access to foreign buyers are not being met. In all cases, sales of UTZ are limited to one or two containers a year, in some cases, no certified sales were reported in 2017. Like cooperatives, plantations seek to reduce their marketing risks by offering buyers the option of UTZ coffee.
- Plantations do not report changes in their contractual relations with workers beyond legal compliance to pay higher wages due to UTZ certification. However, they are making noticeable investments in improved living and working conditions. In general, being compliant with national labor regulations in Guatemala prior to obtaining UTZ certification effectively reduces the need to adjust business policies on employees' salaries in response to the implementation or renewal of UTZ certification.
- It is difficult to fully attribute investments and reported positive changes in plantations' production and management systems to UTZ certification: plantations were making changes prior to and after obtaining UTZ certification. National environmental laws had become stricter, and the overall context (disease outbreaks and volatile markets) has required plantations to invest in improved production and management systems. Neither UTZ nor other certification systems appear to be the major factor driving change, but UTZ is likely to have increased the speed and the visibility of changes.
- Similar to cooperatives, privately owned exporters employ UTZ certification to offer their international buyers an expanded portfolio of coffee products. Overall, certified sales are limited, but the costs are justified to the extent that exporters are able to attract new buyers that may be willing to purchase non-certified coffee, in addition to UTZ,
- The investments to obtain UTZ varies between the two cases: in Honduras, a buyer is passing the costs of certification on to intermediaries (since the buyer no longer engages directly with farmers), while in the case of Nicaragua, NGO support and own investments allow for the investments needed to build a smallholder supply base able to comply with multiple certification systems.
- With very few exceptions, certificate holders express a very high likelihood of renewing UTZ certification over the next five years. No certificate holder intends to drop UTZ over the next five years. The specific motivations for renewing UTZ differ by CH type, as discussed in the points above. Overall, low renewal costs, experience in managing certification systems

and the uncertainty of marketing conditions likely contribute substantially to this outlook.

4.2 Bottlenecks for deeper UTZ engagement

Research Question Two: What are the major bottlenecks faced by CHs and their members for increased sales and greater benefits from participation in the UTZ program; how have they sought to overcome these?

- Across the sample, the major challenge for deepening the benefits of participation in UTZ, as reported by the sampled CHs, is a lack of demand for UTZ coffee. As discussed, certificate holders engage in UTZ for a variety of reasons. Primary among these reasons is increased sales and the possibility to achieve premium coffee prices. However, sales of UTZ coffee constitutes a small percentage of total coffee sales, where sales are dependent on a small number of buyers and vary markedly from one year to another.
- Particular aspects of UTZ certification that challenge cooperatives include: increased burden of detailed reporting at multiple levels (farm, coop); change in certification bodies, with different inspectors interpreting standards in different ways; changes in a standard that require a change in implementation and a need for the redesign of data collection systems with farmers.
- Cooperatives report few technical challenges to implementing UTZ. As reported, UTZ implementation followed the implementation of three to four other certification systems, where organic and Fairtrade were typically the first implemented. Technical assistance programs and, in some cases, departments dedicated to certification, had been in place for years prior to obtaining UTZ. Experience has been gained over the course of these years from learning by doing and through engagement with certification representatives.
- Compared to cooperatives, privately owned exporters have weaker ties to farmers and thus were likely to face higher barriers to induce change at the farm level. Both sampled exporters identify "farmers' reluctance to change" as the major technical bottleneck for UTZ implementation. The farmers have been unwilling to adopt best management practices and keep detailed records. Given that UTZ makes up a small percentage of total coffee sales, exporters were unable to offer strong economic incentives to farmers, thus further hampering their capacity to drive change at the farm level.
- Both the cooperatives (especially the one that lost its UTZ certification) and the private buyers face a challenge in ensuring that farmers pay the minimum

wage to workers. The involvement of children in on-farm activities is perceived as especially difficult to change.

- Similar to privately owned exporters, two plantations consider the most challenging aspect of UTZ to be changing the mindset of their hired workers (i.e. not to litter, hunt animals or wash clothes in streams). The plantations are making large investments to influence the behavior of workers, including trainings, installation of signage and the building of infrastructure (i.e. concrete clothes-washing station).
- All three privately owned exporters made large investments in upgrading their processing infrastructure, which can be linked to certification in general (UTZ, C.A.F.E. Practices and Rainforest Alliance). In one case, these investments are mentioned as the most difficult aspect of UTZ implementation. Even in the other cases, credit is needed to update processing infrastructure and likely constitutes a challenge for implementation.

4.3 UTZ in a multicertification context

Research Question Three: Why and how have CHs engaged with different types of certification systems; how does UTZ fit into the multicertification strategy; how do these findings vary across different types of CHs?

- For cooperatives, multicertification provides an insurance against the shared perception that demand for Fairtrade coffee from Central America is stagnating or declining, leading to the need to seek other options for selling coffee on certified terms (allowing for direct negotiations with buyers in Europe and the United States). In addition to the general stagnant demand for Fairtrade, cooperatives report lower demand for Fairtrade coffee when international prices are relatively high.
- Cooperatives' engagement with multiple certification systems provides a visible sign of their marketing strategies. The set of logos provide indisputable evidence of their commitment to goals related to quality and social and environmental performance.
- All of the cooperatives began with Fairtrade and organic certification. These two systems continue to form the core element of their overall business and marketing strategy. The social premiums provided by Fairtrade help cooperatives maintain and expand their operations and still be able to compete with local intermediaries for the purchase of their members' coffee. The lack of growth in Fairtrade coffee sales, especially in Nicaragua, forces cooperatives to cap their membership to avoid diluting the price benefits obtained from Fairtrade sales for existing members.
- Cooperatives are implementing various additional certifications, including UTZ, Rainforest Alliance and C.A.F.E. Practices. With few exceptions, the adoption of these certifications is in response to a specific request expressed by an international buyer. Having worked with organic and Fairtrade systems for several years, the adoption of additional systems carries limited expense or risk. Internal management systems for certification are in place following the implementation of organic and Fairtrade certification, backed by decades of experience in their design and implementation. Across all VCSs and PCSs, cooperatives indicate growing apprehensions due to perceptions of limited demand, including demand for Fairtrade and C.A.F.E. Practices (in Guatemala and Nicaragua).
- Multicertification also forms an important element of the marketing strategies of plantations. Most plantations are certified by C.A.F.E. Practices, UTZ and, in some cases, Rainforest Alliance. The combination of UTZ and Rainforest Alliance allows for access to both European and US markets, respectively. In one case, in response to a sharp decline in demand by Starbucks for Guatemalan coffee, plantations are turning to UTZ in an attempt to mitigate losses, without dropping C.A.F.E. Practices (in anticipation that demand might increase in the future).
- The drive for multicertification reflects, to a large extent, the overall instability in global coffee markets and the challenge for exporters to compete for international buyers. The sampled coffee businesses implement certification systems to increase sales of certified coffee, which offers leverage for negotiating a premium. As most international buyers purchase only a few containers from any one of the businesses, their overall influence on operations is limited. This stands in contrast to the cocoa sector, where international buyers are more likely to yield influence over the production and marketing operation of exporters in producing countries.
- While the cost of an additional VCS may be low, cooperatives are challenged to deal with the complexity of managing five to six certification systems at the same time. Considerable staff time is involved to coordinate with buyers, members, technical services departments and certification systems. Cooperatives tend to rely on their local certification body (i.e. MayaCert) for assistance in addressing certification-related issues, including tracking changes in standards.

5. Recommendations for UTZ

Reduce costs and uncertainty for UTZ uptake and renewal.

- Provide formats and tools for implementation of the UTZ standard based on consultation with different types of CHs.
- Capture and disseminate lessons learned by CHs in the implementation of the UTZ standards to reduce their “learning by doing.”
- Provide estimates of investments required to implement and renew UTZ certification based on the context of a given CH (i.e. type of business, level of development and management capacity, access to financial and technical services).
- Facilitate standardization of audits across certification bodies and provide detailed how-to guides and joint discussion and learning (i.e. involving CHs, UTZ representatives and external experts) for every change in the standard.
- Provide insights into potential benefits from UTZ and how to derive these benefits. This will include analysis of the past sales performance by different types of businesses and insights into options for improved marketing of UTZ coffee.

Support partnerships to facilitate UTZ adoption and renewal.

- Explore partnerships with international finance providers (i.e. Root Capital) to facilitate access to credit for investment in infrastructure, consultancy services and other types of investments needed for UTZ implementation and renewal.
- Facilitate access to technical service providers for the implementation of UTZ standards and overall improvement of coffee operations, addressing challenging aspects of UTZ implementation and responding to specific challenges in coffee production, labor relations, business management and coffee marketing.
- Coordinate with other standards organizations to streamline reporting requirements and achieve efficiencies in annual audits and other services and products.

- Assist CHs in formulating their (mandatory) improvement plans, with five-year planning horizons, backed by clear objectives, milestones and responsibilities.
- Engage in joint marketing campaigns with UTZ-certified coffee businesses in Europe and, where relevant, in other countries, with the aim of expanding certified sales from the region.

Support joint learning

- Engage with auditors, CHs, researchers and others to identify challenges and bottlenecks to the implementation of UTZ and advance joint solutions for overcoming them.
- Engage with researchers in other regions to generate insights into the challenges that different types of CHs face to implement and renew certification.
- Design and implement a tool and method to assess the capacity of CHs to use UTZ certification, including indicators related to benefits, costs and bottlenecks.
- Facilitate engagement between coffee businesses, service and inputs providers, other certification systems and researchers to identify and test viable options to reduce costs and increase impact from VCSs and PCSs.

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