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## Profitability of Certified Small-scale Coffee Production Systems in Nicaragua

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### Abstract

The growing market for organic coffee and fair trade coffees has contributed to governments, donors and NGOs promoting group-based, certified market channels as a viable business model for poor small-scale coffee farmers as certified channels are assumed to offer more stable and higher prices than conventional ones. However, while coffee certification schemes have existed for more than fifteen years, there are few quantitative studies on their actual production and welfare impacts on small-scale producers.

This research analyses the profitability of certified small-scale coffee production including the direct and indirect costs of group certification, through an innovative combination of qualitative and quantitative methods. Data for all analyses are gathered by a structured questionnaire from 327 randomly selected farm households organised in conventional, organic, and organic-fair trade certified cooperatives, in northern Nicaragua. Qualitative data collection consisted of 48 key-person interviews, 33 semi-structured producers' interviews and 21 focus group discussions.

In the research region, farmers generally pursue low input production systems. At given yield levels, the income derived from coffee production in all chains is not high enough to enable farm households to meet basic livelihood needs. Though statistical analysis comparing gross margins and profits of conventional and certified coffee production shows differences, the profitability of certified coffee production is strongly influenced by conventional coffee prices and the cooperative's pricing schemes. Among the different cooperatives, the organisation and direct costs of group certification are similar while more variation exists regarding the internal inspection schemes for the organic certification.

Concluding, economic benefits from certified coffee are similar to those from conventional production, at least in times of good global coffee prices. In order to lift farmers out of poverty, a policy shift towards alternative business models, such as the gourmet coffee sector, as well as the establishment of public extension and production support systems is recommended.

**Keywords:** Cooperatives, fair trade, gross margins, organic coffee, sensitivity analysis