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### **Third Party Socio-environmental Certifications: A New Perspective for Small-scale Coffee Producers in Honduras?**

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#### **Introduction**

Coffee is grown in 15 of 18 departments in Honduras. According to the Honduran Coffee Institute (IHCAFE) – more than 100,000 Honduran families grow coffee, and about 1 million jobs depend on the industry directly or indirectly. In contrast to neighbouring countries, coffee in Honduras is produced mostly by small-holders – 90 percent produce less than 5,000 pounds a year, and very few farms exceed 30 hectares. IHCAFE claims that coffee accounts for 10 percent of the Honduran GDP and 30 percent of the agricultural GDP.

The country has undertaken efforts to overcome the stigma of commodity that has come down upon on Honduran coffee. Diverse local and national initiatives aim to conform processes and identities in order to differentiate themselves with the end goal of improving their possibilities of positioning and competition in the international market. In this sense, the specialty coffee market -endorsed by third party certification programmes- has grown rapidly in recent years in Honduras. These trends allow you to think that, the development of these markets will benefit small-scale producers in the region. However, many of the farmers are considering abandoning that line in favour of Protected Origin Denomination (POD) coffee. The apparent reasoning is simple: the certification criteria are more or less equally stringent and costly to satisfy. But they think the market potential for a quality-based certification is greater, basically because more people are likely to be willing to pay more for a cup of coffee because it tastes good than because it makes them feel good to drink it. Even though we are not trying to ratify this proposition, we did want to explore more profoundly the specific reasons why the farmers in Honduras are not participating or are partially participating in third party certifications programs.

The research was carried out in southwest Honduras, with the collaboration of the Denomination of Origin (DO) project and IHCAFE. The scientific intervention identified the main causes that prevent the participation of coffee farmers in certification programs operating in the region such as: *Organic Coffee, Bird Friendly, Fair trade, UTZ Certified, Rainforest Alliance, and C.A.F.E. Practices of Starbucks*. Based on the results, a series of reflections were raised in relationship to the relevance of these programs in the context of the Honduran coffee business.

#### **Purpose**

The coffee value chain has evolved rapidly over the past decades in Honduras. On one hand, the consumers in industrial countries and also at national level have become more aware and

educated on social-environmental concerns. On the other hand, there has been an increase in the number of companies, NGOs and corporations promoting clean production, enforcing the compliance with social and environmental regulations among coffee producers (usually called third party certification).

These third party certifications have an impact on the price of the coffee, usually favoring small-scale producers. Nevertheless, according to the research results obtained by the Regional Unit of Technical Assistant (RUTA, 2003), many producers in Honduras consider the process of complying with standards and acquiring certifications as complex and all the requisites and costs involved seem too confusing. Additionally, they don't know if the requisites are obligatory or voluntary. In general, there is a lack of knowledge of the advantage and limitations of the certifications schemes.

In this context, the present study is warranted, because in the last 3 years (2007-2009) IHCAFE has developed and shared a number of socio-environmental certifications guides as well as information about the requirements to enter into the specialty coffee market. However, and based on evaluations conducted in 2009 by the POD Technical Assistance Agencies in the region, the results indicated that the specialty coffee market is still very weak and unsustainable, directly affecting the conformation of the POD.

## **Method**

- The main research question was: How did the coffee producers identify the main causes that limit the participation in the socio- environmental certifications of their farms? How did they classify these causes? What is the importance of the socio- environmental certifications for their business?
- To respond to this question, data from 30 coffee producers in the western part of Honduras was collected and three POD managers were also interviewed. Data collection took place from October to November 2009.
- The research methodology was qualitative-explicative. A case study with a constructive paradigm was used as a methodology for the research.

## **Conceptual Framework**

A recent investigation focusing on information exchange between coffee producers conducted in Honduras concluded that (Hartwich et al, 2010):

- In order to understand the farmers' decision to upgrade, one must focus on the set of relationships that farmers use to get informed and learn about the innovations at stake.
- There are differences in the way providers of knowledge and technology influence farmers' behaviour towards innovation. The influence of buyers, according the data, is focused on certification and quality aspects, whereas development agents focus on agricultural practices.
- The information provided about the Sustainable Coffee Markets, Socio-environmental Certifications and Protected Origin Denomination are usually diffuse and not trusted.
- The small farmers that take the risk to incur in this market- with or with out the support of organization or the Government- lack of resources to evaluate the size, the nature and the composition of the commercial chain.

## **Results and Discussion**

The research results are based on a constructivist approach and are not intended to establish pragmatic conclusions about the conditions of sustainable or specialty markets. In this sense, in response to the research and after a joint evaluation with the POD managers, the following conclusions were reached:

### **1. Main causes hindering the acquisition of socio-environmental certifications:**

- The limited information on the characteristics of these markets (dynamics, concepts);
- The high implementation costs;
- The lack of a national policy promoting certifications;
- A cultural weakness of keeping records and registries at the farm level are the main causes hindering the acquisition of certifications (ej. Organic, Fair Trade, Utz Certified, Rainforest Alliance, Starbucks C.A.F.E. Practices).

### **2. How are the causes classified?**

Coffee producers regard these causes as external to their production activities, but recognize that there is an internal responsibility that must be undertaken in order to find solutions or options in order to participate in these markets.

### **3. Are Socio-environmental Certifications important for their business?**

Because the monetary benefits are not immediately palpable, 100% of the farmers did not consider acquiring socio-environmental certifications a priority.

*Based on these results, a number of barriers to foray into sustainable coffee markets were identified:*

#### **Political barriers**

- Lack of governmental efforts for the development of activities to promote associations of small farmers and their capacity to monitor the sustainable coffee markets.
- Lack of guidelines and controls to regulate relations between actors in the chain.
- Lack of regulatory mechanisms and control over the activities of the certifying agents, such as those directly responsible for the custody of the product and its process.

#### **Information barriers**

- The little understanding of sustainable coffee markets' basic definitions, their characteristics, types of certification, models, difference between terms (Protected Origin Denomination and Third Party Certification), limits the incursion in these markets.
- 67% of the coffee farmers indicated that they were not familiar with the sustainable coffee markets and its characteristic.
- Only 39% of the coffee farmers indicated that were familiar with the concept of “socio-environmental certification”.
- 44% of the interviewed indicated that they distinguish the term POD. However when asked if they understood the difference between POD and social-environmental certification, 56% said that they did not understand the difference.
- Finally, when consulted if the coffee farmers knew whom perform social-environmental certification in Honduras, 61% replied that no, consequently 67% also answers that they did not know if there was a national representation of these companies in Honduras.

#### **Institutional and technical barriers**

- When questioned if they knew about the Honduran ‘national and international strategy for the promotion of the sustainable coffee markets, 100% of the farmers answered that they are not familiar with the national strategy and 83% were not familiar with the international strategy.
- In relation to whether certification issues were discussed with the farmers’ association (*cooperativa*), a little more than half of respondents said that they included the topic in their work agendas but the discussions were informal. It should be noted that this query had strong abstinence, since more than half of those surveyed did not answer. This is because 50% did

not belong to a *cooperativa* and its relationship with them is purely commercial, i.e. there is not an organizational basis.

### **Economic barriers**

- 67% of the coffee farmers believed that selling coffee with environmental certification might represent an alternative to emerge from the current economic crisis;
- 33% replied that there is not economical stimulus from the Government to help incur into this markets and that certification is expensive, additionally that the socio-environmental certification production has not yet adapted to local markets.

### **Conclusions and Outlook**

The small scale production, the lack of business and management capacities, the inadequate market information and the high cost to validate and certified the sustainable production are the main causes that prevent the participation of coffee producer in socio-environmental certification programs. Perhaps one of the main limiting factors most coffee producers face is the inadequate level and flow of information related to sustainable coffee markets. At the farm level, cash flow problems limit the incursion in certification schemes during the critical season of the year.

At a macro level, there is no regional policy that integrates the efforts of these markets, which contradicts the regional potential for the development of social environmental certification. Finally, the organizational capacity around sustainable markets is questionable.

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