



Tropentag, September 20-22, 2023, hybrid conference
“Competing pathways for equitable food systems transformation:
Trade-offs and synergies”

Striking the right balance between quality and cost: An analysis of productivity and profitability of value chains of third-wave and non-third-wave coffee smallholders in Central Java, Indonesia

EVI MARIANA, BENTE CASTRO-CAMPOS

Justus-Liebig University of Giessen, Institute of Agricultural Policy and Market Research, Germany

Abstract

In 2002 the terminology of third-wave coffee value chain was coined, introducing a new organisational structure between coffee producers, roasters, and consumers. The third-wave coffee value chain has seen the emergence of local micro-coffee roasters working directly with smallholder farmers with a vision to offer fairer prices to smallholders and encourage them to improve their coffee quality. However, there is little research on whether third-wave smallholders actually benefit from higher income compared to smallholders who are not part of the third-wave. This study compares the productivity and profitability of coffee smallholders belonging to the third-wave coffee value chain with those belonging to the general value chain. We interviewed a total of 114 Robusta smallholders and 112 Arabica smallholders in Central Java Province, Indonesia in 2021 and 2022, to gain a better understanding of this situation. The data collection included the profile of the coffee farm, the costs of coffee production, and the revenue for the years of 2020 and 2021. The comparison of the farm profile and productivity between the smallholders in the third-wave and those not in the third-wave shows that only the selling price for cherries and green beans are statistically significantly higher for smallholders producing for the third-wave due to the higher quality requirements. In terms of profitability, the analysis shows that third-wave Robusta smallholders generate less profit than non third-wave smallholders in 2020, but more profit than non third-wave smallholders in 2021, suggesting that production costs for higher quality requirements are not necessarily offset by higher prices. However, third-wave Arabica smallholders make more profit than non third-wave smallholders in both 2020 and 2021, suggesting that higher production costs are offset by higher prices. The difference between Robusta and Arabica can be explained by the fact that Robusta generally has lower quality requirements and is less suitable for the third-wave, and that the market price of Robusta is usually lower than the price of Arabica.

Keywords: High-value chain, smallholders' productivity, value chain