

RESPONSE

To the evaluation study

Evaluation of UTZ certification with a focus on coffee businesses in Guatemala, Honduras and Nicaragua (ICRAF)



**RAINFOREST
ALLIANCE**



BACKGROUND

UTZ commissioned this independent evaluation of its coffee program in Central America to the World Agroforestry Centre (ICRAF) before the merger of UTZ and Rainforest Alliance. Hence, the questions and findings reflect the concerns and realities of the pre-merger UTZ coffee program in that region. Both programs have been integrated from 2018 onwards. We believe that given the similarities and overlap between both pre-merger certification programs, the findings of this evaluation study are to a large extent valid and relevant for the merged program as well.

Having commissioned several independent evaluations over the past years to measure and understand the effects of certification for individual producers (farmers), UTZ decided to focus this evaluation on the added value of the UTZ coffee certification program at the level of the certificate holders. The choices and limitations faced by certificate holders when deciding on adopting (or not) a given certification program are an important factor in bringing about sustainability improvements with individual producers and workers. We noticed that multi-certification, notably with Fairtrade, organic, Rainforest Alliance and company programs such as C.A.F.E Practices is very common in Central America. From a methodological perspective, multi-certification makes it very challenging to disentangle and attribute effects of different certification schemes. Instead, we chose to focus on the added value of UTZ certification to the business and (sustainability) practices of certificate holders. This ensuing report is based on an in-depth qualitative study comparing a sample of three main types of certificate holders: individual estates, producer-led groups and trader-led groups, in three producing countries: Nicaragua, Honduras and Guatemala.

Evaluation questions

1. How do UTZ coffee certificate holders value certification? In how far are their expectations being met? What are the perceived benefits and costs?
2. What bottlenecks do certificate holders face to increase their certified sales and obtain greater benefits from participation in the UTZ program? How have they sought to overcome these bottlenecks?
3. Why and how have certificate holders engaged with different certification systems? How does UTZ fit into a multi-certification strategy? Does this vary across different types of certificate holder?

Methodology

ICRAF was provided with an overview of present and past UTZ coffee certificate holders in Central America. ICRAF selected nine certificate holders 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). Data was collected from interviews with group-managers, farmworkers or farmer suppliers and other key actors who interact with the businesses (such as buyers, intermediaries, Non-Governmental Organizations (NGOs), governmental agencies). Three former UTZ certificate holders Certificate holders (business that had participated but had recently withdrawn from the program were also included in the sample, to understand their reasons for abandoning the program.

The preliminary findings were validated in the field with the certificate holders and with a reference group within UTZ.



EVALUATION FINDINGS

1. *How do UTZ coffee certificate holders value certification? In how far are their expectations being met? What are the perceived benefits and costs?*

Cooperatives

UTZ certification enables cooperatives to sell Fairtrade / organic certified coffee for which they cannot find buyers. This helps them reduce marketing risks. Their UTZ coffee sales varied markedly from year to year. In Honduras UTZ certification enables cooperatives to negotiate contracts directly with buyers and avoid the negative country price differential. In this case, UTZ certification serves as an indicator of quality.

Cooperatives appreciate UTZ' drive for continual improvement of production practices, and UTZ's support in designing improvement plans such as technical assistance services, which has provided more structure to the interaction between technicians and farmers. Cooperatives in Nicaragua also use UTZ to source coffee from larger, non-member producers. The sale of non-member coffee allows these cooperatives to better use their installed capacity for processing and marketing, reducing the average costs for their own members.

Cooperatives in all three countries report limited economic benefits from the renewal of UTZ certification. They renew UTZ certification mainly to provide their buyers an expanded set of options. 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.

Plantations

Plantations use UTZ certification to obtain higher coffee prices, and as a trusted framework for improving their operations, especially in environmental stewardship. UTZ certification makes 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 (notably housing). However, their expectations for better prices and direct access to foreign markets are not being met. In all cases, sales of UTZ are limited to one or two containers a year. 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. However, they are making investments in improved living and working conditions for their workers.

It is difficult to fully attribute investments and reported positive changes to UTZ certification: plantations were making changes prior to and after obtaining UTZ certification. National environmental laws have 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 improvements.

Trader-led groups

Traders/exporters use UTZ certification to offer their international buyers an expanded portfolio of coffee products. Overall, their 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 also purchase their noncertified coffee.

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 to build a smallholder supply base that can comply with multiple certification systems.

Most certificate holders intend to renew their UTZ certification over the next five years. The specific motivations for renewing UTZ differ by CH type. Overall, low renewal costs, experience in managing certification systems and the uncertainty of marketing conditions likely contribute substantially to this outlook.

2. What bottlenecks do certificate holders face to increase their certified sales and obtain greater benefits from participation in the UTZ program? How have they sought to overcome these bottlenecks?

All certificate holders

A major challenge is the lack of demand for UTZ coffee. Certified sales are just a small percentage of their total coffee sales, where sales are dependent on a small number of buyers and vary markedly from one year to another.

Aspects of the UTZ system that pose challenges:

- increased burden of detailed reporting at multiple levels (farm, coop);
- change in certification bodies, with different inspectors interpreting the standard differently;
- changes in the standard that require a change in implementation and a need for the redesign of data collection systems with farmers.

Cooperatives

Cooperatives report few technical challenges to implement UTZ, as they had prior experience with Fairtrade, organic and others. Technical assistance programs and, in some cases, departments dedicated to certification, had been in place for years prior to obtaining UTZ.

Exporters / Trader-led groups

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. Exporters regard “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.

Cooperatives and private buyers alike report that it is challenging for them to enforce that group members pay the minimum wage to their workers. The involvement of children in farm activities is perceived as especially difficult to change.

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). Credit is needed to update processing infrastructure and likely constitutes a challenge for implementation.

Plantations

Plantations consider the most challenging aspect of UTZ to be “changing the mindset of hired workers”. Examples are separate waste collection, the prohibition to hunt or the prohibition wash clothes in streams. To enable the behaviour change plantations are making



investments in trainings, installation of signage and the building of infrastructure (i.e. laundry facilities).

3. Why and how have Certificate holders engaged with different types of certification systems; how does UTZ fit into the multi-certification strategy; how do these findings vary across different types of Certificate holders?

Cooperatives

Cooperatives see multi-certification as an insurance against stagnating demand for Fairtrade coffee. Multiple certification provides a visible sign of their marketing strategies. The set of certification logos signals their commitment to quality and social and environmental performance.

All cooperatives started out as Fairtrade and organic, which remain the core of their overall business and marketing strategy. The social premiums provided by Fairtrade help cooperatives maintain and expand their operations and compete with local intermediaries for the purchase of their members' coffee. However, the stagnation of Fairtrade coffee sales, especially in Nicaragua, forces cooperatives to cap their membership to avoid further diluting the price / premium benefits from Fairtrade sales for their memberships. The adoption of additional certifications by cooperatives usually follows demand from their international buyers. Implementing an additional certification carries limited expense or risk, as the internal management systems for certification are already in place.

While the cost of an additional certification 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 need the assistance of their local certification body to addressing certification related issues, including tracking the frequent changes in standards.

Plantations

Multi-certification is an important element of their marketing strategies. 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 to access European and US markets.

Trader-led groups

The drive for multi-certification reflects to a large extent the overall instability in global coffee markets and the challenge for exporters to compete for international buyers. The coffee businesses included in this study implement certification systems to increase their sales of certified coffee, which offers leverage for negotiating a premium. As most international buyers purchase only a few containers from a particular supplier, the buyer's 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.

RECOMMENDATIONS OF ICRAF

Reduce costs and uncertainty for UTZ uptake and renewal.

1. Provide formats and tools for implementation of the UTZ standard based on consultation with different types of Certificate holders.
2. Capture and disseminate lessons learned by Certificate holders in the implementation of the UTZ standards to reduce their "learning by doing."
3. Provide estimates of investments required to implement and renew UTZ certification based on the context of a given type of certificate holder.



4. Facilitate standardization of audits across certification bodies and provide detailed how-to guides and joint discussion and learning (i.e. involving certificate holders, UTZ representatives and external experts) for every change in the standard.
5. 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.

1. Explore partnerships with international finance providers to facilitate access to credit for investment in infrastructure, consultancy services and other types of investments needed for UTZ implementation and renewal.
2. 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.
3. Coordinate with other standards organizations to streamline reporting requirements and achieve efficiencies in annual audits and other services and products.
4. Assist certificate holders in formulating their (mandatory) improvement plans.
5. 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

1. Engage with auditors, Certificate holders, researchers and others to identify challenges and bottlenecks to the implementation of UTZ and advance joint solutions for overcoming them.
2. Engage with researchers in other regions to generate insights into the challenges that different types of Certificate holders face to implement and renew certification.
3. Design and implement a tool and method to assess the capacity of Certificate holders to use UTZ certification, including indicators related to benefits, costs and bottlenecks.
4. 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.

RAINFOREST ALLIANCE'S RESPONSE

We welcome the findings of this study and the insights it brings on how certification is contributing to enlarge the marketing options for certificate holders. It is encouraging to see concrete examples of how certification offers a framework for producers to make improvements in production, processing and marketing, and to make these improvements visible by means of certification.

Against the backdrop of the recent price declines and price volatility in the coffee sector, the findings of this evaluation study show that (multi-)certification as a marketing strategy makes business sense. But the findings also signal that the market uptake of certified coffee lags behind the available certified production and that, while certification supports producers on the path to sustainability, certification alone cannot solve all sustainability challenges. . Despite the intrinsic benefits that producers can derive from implementing sustainable practices, they are not accessing the full market rewards such as a premium, a better price and better payment conditions that certified coffee deserves. This has led the



Rainforest Alliance to publicly call upon buyers and governments to step up on their commitments and policies.

Moreover, [in collaboration with the InterAmerican Development Bank](#) and key national partners in Honduras, as the Rainforest Alliance we are stepping up our efforts to meet producers where they are at and deliver better support to help them build resilience to climate and market shocks, including through diversification strategies.

We welcome the recommendations of the evaluators. We are addressing them in the following way:

Recommendation: “Reduce costs and uncertainty for UTZ uptake and renewal”.

The merger of UTZ and the Rainforest Alliance in 2018 is a bold signal from both organizations acknowledging that business as usual is not sufficient to achieve the necessary transformation of the sector. A [mutual recognition](#) of audits and certificates for chain of custody certificate holders was implemented. This reduces the burden of double audits for UTZ and Rainforest Alliance chain of custody certification.

In addition, a [new Rainforest Alliance standard is under development](#) in 2019, which will enter into effect in 2020. The new RA standard will build on the best of both pre-merger programs, and includes an extensive process of consultation where stakeholders can bring forward their views and contribute to build a meaningful and effective standard.

We share the concerns of coffee producers with low coffee prices and price volatility. Although certification helps producers to optimize productivity and to manage their costs of production, it does not safeguard them from low prices or market volatility. In a [public statement on low coffee prices](#) issued in October 2018 the Rainforest Alliance calls on roasters and buyers to change their procurement practices to ensure that producers receive decent payment for their crop within a timely manner, and governments and companies to increase their investments in the sustainability of the producers

Recommendation: “Support partnerships to facilitate UTZ adoption and renewal”.

We believe that collaboration with all stakeholders is key to achieve structural transformations in the coffee sector. In November 2018 the Global Coffee Platform and the Rainforest Alliance signed a partnership for five years to support ‘[National Platforms](#)’ in coffee producing countries. Our aim is to strengthen National Coffee Platforms and their secretariat as facilitators of multi-stakeholder dialogues in different coffee producing countries.

Our [Sector Partnerships Program](#), supported by the Dutch Ministry of Foreign Affairs and implemented with local partners, addresses six key sustainability themes: living wage, climate change, farmer group strengthening, sustainable productivity, gender and child labor. Examples of partnerships and projects in this program is our partnership with the Coffee Quality Institute, focused on improving the conditions for female coffee farmers ([Nicaragua](#)), and a project to build the capacity building of local organizations to assess and address gender gaps in the coffee value chain ([Honduras](#)). In Guatemala we collaborate with the coffee producer association ANACAFE to develop early warning systems to alert producers on potential development of diseases such as coffee leaf rust (*roya*).

As for the certification program, we have intensified the training of Certification Bodies to ensure a consistent application of the standard in third party audits. These measures are accompanied by a stricter supervision and regular benchmarking of audit quality.



Recommendation: “Support joint learning”

Impactful training courses are key to the success of the Rainforest Alliance's programs. To scale up the supply of quality training we are pursuing alternatives such as building an [Associated Trainers Network](#). This is a group of reputable and skilled trainers capable of supporting farmers and farmer organizations on their path towards certification.

As part of our regular assurance program, we also conduct regular training and calibration sessions with local auditors, to enhance the consistency in the approach of different third party auditors.