



## Sustainable coffee farming and improving smallholder livelihoods in Ethiopia

Tesfaye Berihun

- This policy brief highlights the Voluntary Sustainability Standard (VSS) as an initiative to establish criteria for sustainability measures that smallholder coffee farmers can adhere to.
- Disagreements and disputes over VSS have arisen due to perceived challenges and costs associated with its implementation. While proponents argue that VSS delivers economic, social, and environmental benefits, critics view it as a trade barrier that imposes additional costs and hampers developing countries' participation in the global market.
- The study finds that certified coffee farmers in Ethiopia's Sidama region experience noticeable benefits compared to non-certified farmers. Cooperative organisations also play a key role in facilitating market access and providing technical assistance, training, and resources to farmers.
- Policy recommendations include strengthening certification cooperation and addressing affordability concerns, adapting certification requirements to local contexts, and undertaking further research to promote sustainable coffee farming and improve the livelihoods of smallholder farmers across Ethiopia.

POLICY BRIEF ETH-22247

MARCH 2024

This project was funded  
by IGC Ethiopia

[www.theigc.org](http://www.theigc.org)

DIRECTED BY



FUNDED BY



## Introduction

---

This policy brief aims to provide recommendations for policymakers and stakeholders to promote sustainable coffee farming and improve the livelihoods of smallholder farmers in Ethiopia. Based on the findings of a recent study on the economic impact of sustainability standards on smallholder coffee producers in the Sidama region of Ethiopia, this brief highlights the benefits and challenges associated with Voluntary Sustainability Standards (VSS) certification and suggests strategies for maximizing the positive outcomes of certification while addressing the associated costs and barriers.

## Policy context

---

The study underlines the importance of a coordinated and collaborative effort to address global challenges, such as poverty and climate change, prevalent in the study area of Ethiopia. It highlights the Voluntary Sustainability Standard (VSS) as an initiative to achieve sustainable development by establishing criteria for sustainability measures that market participants can adhere to. The VSS system aligns with the Sustainable Development Goals (SDGs) and has gained attention in global sustainability programmes. However, disagreements and disputes over VSS have arisen due to perceived challenges and costs associated with its implementation. Proponents argue that VSS delivers economic, social, and environmental benefits. At the same time, critics view it as a trade barrier that imposes additional costs and hampers developing countries' participation in the global market. The impact studies of VSS in the literature remain inconclusive, with varying results depending on specific factors such as the type of VSS implemented and local contexts.

Despite conflicting evidence in the literature, adopting Voluntary Sustainability Standards (VSS) in agricultural trade has expanded significantly, and certification and traceability have become essential for enhancing prices and marketability, which stimulates governments and non-governmental organisations to embrace it. Nevertheless, implementing VSS certification in Ethiopia has progressed relatively slowly, and farmers' awareness remains limited compared to the global average. This hampers their ability to access better markets and benefit from premium prices; however, it has grown over the years despite some certification dropouts. Various certifications, such as Fairtrade, Organic, and UTZ/Rainforest Alliance, are commonly practised in Ethiopia. The recent policy reforms and liberalisation of Ethiopia's coffee industry demonstrate a strong commitment to increasing value chain incomes, particularly for smallholder farmers; however, the growing VSS supply chain management necessitates further policy consideration based on a robust and independent evaluation of VSS's economic impact on smallholder farmers.

The study focused on whether farmers with VSS certification, specifically the Fairtrade-Organic double certification, have a higher coffee yield, better prices, and higher income than their non-certified counterparts. Moreover, it explored the institutional impact of cooperatives on the outcomes mentioned above.

## Findings

---

### Benefits of VSS certification

The study demonstrated that certified coffee farmers in the Sidama region experience noticeable benefits compared to non-certified farmers. Fairtrade-Organic double certification increased coffee yields, prices, and dividends for certified coffee producers. Despite the nominal measures, which are not adjusted for inflation, certified farmers have higher coffee income, household income, and consumption expenditures than non-certified farmers, which may improve living standards. The impact of VSS certification remains positive and significant even after controlling for cooperative heterogeneity.

### Importance of cooperative organisations

Cooperative organisations play a vital role in facilitating market access and providing technical assistance, training, and resources to farmers. Most cooperative members in the study area sell their coffee through their cooperatives and the union. Farmers in high-performing cooperatives benefit more from certification in terms of coffee yield and dividends compared to farmers in low-performing cooperatives. In contrast, certified farmers in underperforming cooperatives received a higher price, which could be explained by the fact that the immediate price benefit trades off with most cooperative performance indicators, resulting in higher profits distributed as dividends to members at the end of the year. Better-performing cooperatives tend to provide higher dividends to their members.

### Trade-offs, costs, and other challenges

The impact of VSS certification on income is less strong than the price and yield effects due to costs and potential trade-offs with non-coffee income activities. While the study highlights the positive impact of VSS certification, it also acknowledges that non-certified farmers may have higher levels of non-coffee income, indicating a diversion of resources away from coffee farming. On the other hand, certified farmers may earn more income from coffee because they allocate more resources to it. Therefore, it is crucial to weigh the trade-offs between investing in coffee certification and diversifying income sources by carefully evaluating the marginal returns of resources. Certification does entail additional costs, such as compliance with standards and certification fees, which can create barriers for smallholders attempting to access global value

chains. These costs may disproportionately affect farmers with limited resources and infrastructure. Striking a balance between short-term costs and long-term benefits is essential for both farmers and policymakers. Despite the fact that most farmers practice organic farming even without certification, a significant number of farmers are unaware of other certifications they have in group, hindering the proper implementation of VSS. The study highlights the contextual factors determining the success of certification, and some producers reported difficulties in meeting certain certification requirements.

## Policy recommendations

---

### Strengthening certification cooperation and addressing affordability concerns

1. Exploring synergies and collaboration among certification programmes can streamline the process of obtaining multiple certifications or consolidate them into a standardised certification scheme. This would prevent unnecessary duplication, reduce farmers' costs, and alleviate administrative burdens.
2. The proliferation of Voluntary Sustainability Standards (VSS) can lead to credibility gaps, increased costs, and a potential race to the bottom. Enhancing cooperation between VSS systems through mechanisms like mutual recognition and meta-regulation is crucial to address these issues.
3. Certification bodies and stakeholders should explore ways to alleviate farmers' financial burdens. This can include offering financial incentives, providing technical support, or establishing cooperative networks to share certification costs, particularly in the short term.
4. While the benefits of VSS can offset some compliance costs, labor costs tend to remain high. Improving farmers' share of premium prices and market opportunities can help reduce these cost burdens and enhance their livelihoods and sustainability practices.
5. Facilitating direct trade relationships between smallholder coffee producers and buyers can reduce reliance on intermediaries and contribute to overall affordability concerns.
6. Cost-sharing arrangements, support mechanisms to enhance productivity and economic efficiency, and improved transparency in accessing information can all help address cost concerns.
7. Ultimately, producers can decide for themselves whether the advantages of certification outweigh the additional costs, provided that there is a parallel market for non-compliant produce.

## **Adapt certification requirements to local contexts**

1. Local contextual factors play a significant role in the success of VSS. When developing and implementing voluntary sustainability standards, it is crucial to consider the specific needs and characteristics of the target region and farmer communities.
2. Tailoring interventions to match the unique characteristics of each location, including market dynamics, value chains, and farmer preferences, ensures that certification requirements are relevant, feasible, and financially viable for farmers.

## **Assess the living income benchmark**

To gain a comprehensive understanding of the impact of voluntary sustainability standards on farmers' livelihoods, it is imperative to compare the incomes of coffee farmers with the living income benchmarks specific to the study area, adjusted for inflation. Regular assessments of the living income benchmark can help track progress toward improving farmers' economic well-being and guide future interventions.

## **Undertake further research**

The study has identified several researchable matters that necessitate additional investigation.

1. It is important to delve further into the trade-offs involved in investing in coffee certification versus diversifying income sources and examine household decision-making processes regarding certified coffee, non-certified coffee, and non-coffee activities. This is especially crucial considering the potential impact of climate change on weather patterns.
2. Notably, many smallholder coffee farmers practice organic farming even without certification, indicating the need for further research to explore farmers' incentives and underlying values in this regard.
3. Additional research is required to address the issues of certification modalities, such as group versus individual certification, and the size and formation of groups for potential group certification. Due to new regulations, these issues are particularly pertinent in terms of accessing international markets, such as the European Union.
4. Furthermore, given the contextual variations in the impacts of voluntary sustainability standards, it is vital to continue researching and sharing knowledge on the subject. This will contribute to a better understanding of the factors influencing the effectiveness of certification and will inform future interventions and policies.

## Conclusion

---

Implementing the recommendations in this brief has the potential to promote sustainable coffee farming and improve the livelihoods of smallholder farmers in Ethiopia. Policymakers and stakeholders can effectively leverage the benefits of certification while addressing the tradeoffs and challenges associated with it by encouraging the adoption of voluntary sustainability standards (VSS) certifications, lowering costs, and implementing context-specific approaches. By promoting sustainable farming practices, Ethiopia can position itself as a global coffee market leader while ensuring the continued success of its smallholder farmers and contributing to global sustainable development efforts.