

## Fair and square: better market share, more benefits through Fairtrade

### Overview

Fairtrade can have positive impacts on producers in developing countries, increasing income and employment opportunities, reducing vulnerability to price fluctuations and giving producers a better access to larger foreign markets and attract higher value. However, these findings are mostly based on qualitative data and case studies. There are few quantitative impact assessments of Fairtrade on the lives of producers and workers. Whilst farmers' incomes may have improved, there is still no clarity on whether Fairtrade makes livelihoods sustainable in the long-term.

**Key words:** Fairtrade, small farmers, sustainable livelihoods



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### Mind the development gaps

International trade can contribute to poverty reduction and development. But the way in which the international trading system currently works does not favour developing countries (Stiglitz and Charlton, 2005). For example, over two thirds of poor people in the world depend on small-scale agriculture. The fact that most of them lack access to and information about the right markets where they can sell, and are too small to carry any market power, puts them at a disadvantage in their negotiation with middlemen and retailers. Producers specialising in production for world markets for commodities such as coffee beans or cotton are vulnerable to fluctuating demand. Margins are often low and the prospects for increasing value are limited.

Fairtrade is a market based approach which works closely with small producers and workers in plantations to bring them a better price for their produce. It ensures that products are produced in a way that meets agreed environmental, labour and developmental standards, and that producers receive a fair wage for their work. It aims to make trade more equitable, empower farmers and help economic growth in poor countries. The number of buyers for Fairtrade products is still small but growing rapidly, the retail value of Fairtrade products increasing by 22 percent in 2008 (Nicholls, 2005, and FLO 2009). Major brands, such as Cadbury and Starbucks, have introduced Fairtrade certified products. Similar ethical initiatives are emerging for other products, such as garments. But has Fairtrade been effective in achieving its objectives?

Has Fairtrade improved the incomes of poor people? Are poor people's livelihoods more sustainable? And how does Fairtrade affect the lives of non-Fairtrade producers?

### Lessons learned

As Fairtrade is becoming increasingly important so has the importance of measuring its impact (Nicholls and Opal, 2005). In recent years, a number of studies on the impact of Fairtrade have been published. But most studies are based on qualitative evidence from case studies (Beccetti and Constantino, 2008).

Whilst many of these studies provide important insights into the potential impact of Fairtrade, there are very few high quality, comparative, quantitative impact evaluations (Le Mare, 2008). A major problem is the lack of baseline studies to be able to assess impact of Fairtrade (Ruben et al, 2008).

Some preliminary lessons can be drawn from the quantitative studies that have been undertaken:

**Fairtrade can improve general economic and social well-being:** Small farmers who participate in a Fairtrade scheme benefit from not only a better price for their produce but also some guarantee of stable prices and a channel through which they continue to trade (Becchetti, et al, 2007; Becchetti and Constantino, 2008; Imhof and Lee, 2007).

An impact study on Fairtrade programmes for coffee and bananas in Peru, Costa Rica and Ghana, found that Fairtrade producers of organic products had higher spending on longer-term investments and education (Ruben *et al*, 2008). In addition, a study comparing four different groups of Kenyan farmers - three different types of Fairtrade affiliated farmers and one control group - found that the control group had significantly lower average weekly household consumption expenditure and monthly earnings. In those cases, affiliation to a Fairtrade group not only increased the amount of food intake but also improved the types of food consumed (Becchetti and Constantino, 2008). A similar study assessed the impact of Fairtrade on Bolivian coffee producers in four different producer groups, including two groups without Fairtrade certification and found Fairtrade improved the incomes of the indigenous coffee farmers (Imhof and Lee, 2007). A positive impact on the incomes, food expenditure and food consumption share was also seen amongst Fairtrade affiliated Peruvian potters and apparel producers. This impact was significantly and positively associated with number of years affiliated to Fairtrade (Becchetti et al, 2007).

However, a recent impact assessment of coffee and banana producers in different regions of Peru, Costa Rica, Ecuador, Mexico, Ghana and Kenya shows that while increase in net income remain fairly marginal, the most significant impact include the strengthening of local farmers' organisations, better access and use of credit, accumulation of assets, as well as changes in expenditure and investments (Ruben and al, 2009). Similarly, an impact evaluation of organic rice production in Thailand comparing groups of non-Fairtrade and ex-Fairtrade farmers, establish that Fairtrade may not necessarily lead to higher income although it brings many social and environmental benefits for farmers (Udomkit and Winnett, 2002). In the same way, the income of the Fairtrade affiliated honey producers in Chile appeared to be lower than the non-Fairtrade ones as Fairtrade producers were selling their honey at wholesale price rather than at retail (Becchetti and Castriota, 2008).

**Conditions for workers on farms are better in a few places but not all:** Some studies have looked at the impact of initiatives, such as codes of practice, on workers in plantations. But the evidence from these studies is mixed.

An evaluation of Fairtrade affiliated honey producers in Chile found that temporary workers got paid lesser than what non-Fairtrade producers paid their workers (Becchetti and Castriota, 2008). This highlights a problem with many

Fairtrade organisations which establish a minimum price for producers but do not deal with the conditions of workers that the producers may employ.

Ruben et al, (2008), however, found that Fairtrade brought better salaries, working conditions and benefits for workers on all banana plantations included in their study in Ghana. Comparative, longitudinal studies on the impact of codes of practice in the wine industry in South Africa, and the cut flower industry in Kenya, found that workers generally had better wages, housing and assets in code adopting farms (Ewert et al, 2005; Omosa et al, 2006). In South Africa, workers in the code-adopting farms earned about 100 South Africa Rand (about US\$ 13) more per week than the others. Both studies compared code adopting and non-adopting farms. But in both cases improvements could not be attributed to the codes alone as progressive managers in code-adopting farms also had a positive effect. Only one of the five code-adopting farms in the South African wine industry showed improvements in the workers' conditions which was directly related to the code of practice (Ewert et al, 2005).

**Potential for poverty reducing effect on non-Fairtrade farmers too:** Although most studies have not yet established the long-term effects of Fairtrade on poverty levels and on the livelihoods of producer families, they find that overall Fairtrade producers are better off. Fairtrade also seems to improve incomes of non-Fairtrade producers and reduce inequalities in a community. The study of producers in Fairtrade coffee co-operatives in Bolivia found that when prices of Fairtrade coffee are higher, it seems to raise the price of coffee produced by non-members too. However, this may not be a direct effect and depends on other factors such as world prices of coffee, greater efficiency or better quality produce (Imhof and Lee, 2007). Evidence also showed that Fairtrade had a positive influence on conflict prevention by reversing horizontal inequalities biased against indigenous people.

Becchetti, et al (2007) also find that in Peru the presence of Fairtrade improved the conditions of non-Fairtrade apparel and pottery producers, by increasing their bargaining power. In Peru, Fairtrade production of organic bananas led to a general rise in prices for non-Fairtrade bananas as well.

However, there needs to be further investigation of the spillover effects (positive and negative) on non-Fairtrade producers as the existing evidence base is slim.

**Fairtrade co-operatives improve skills and livelihoods:** Participation in Fairtrade co-operatives can help poor farmers by opening new credit, training and other opportunities. The study of Kenyan farmers found that Fairtrade producer organisations helped to diversify crops, create a new marketing channel and provide technical assistance for the affiliated farmers (Becchetti and Constantino, 2008). Similarly in Chile, training programmes and free-credit were very important in creating opportunities for Fairtrade honey producers (Becchetti and Castriota, 2008). Coffee farmers in Nicaragua who sold only to the usual markets felt four times more vulnerable than those who were members of co-operatives that sold to Fairtrade markets (Bacon, 2005).

In Bolivia, producers in Fairtrade co-operatives had a better knowledge of production processes and markets than non-Fairtrade co-operatives (Imhoff and Lee, 2007). Fairtrade co-

operatives organise relevant training such as organic production, financial management and so on, encouraging entrepreneurship amongst producers.

However, a comparison of Tanzanian coffee smallholders who were members of a Fairtrade co-operative and those who worked in partnership with a business development organisation showed that both approaches could improve skills and give some security, if the overall goal was to reduce vulnerability (Parrish et al, 2005).

**Increased produce amongst Fairtrade farmers when better inputs are provided:** Becchetti and Castriota (2009) find that in Chile, Fairtrade honey producers increased their productivity if they were affiliated for longer. The impact study on bananas and coffee found that Fairtrade affiliation tended to increase investments and inputs (e.g. organic fertilizers) and hence improved crop productivity amongst organic banana and coffee producers. Guaranteed markets and prices provided a strong incentive to do this (Ruben, et al, 2008).

An evaluation of Fairtrade organic cotton in the Kita region in Mali looked at the impact on yield and quality of cotton fibre by comparing certified and non-certified producers, controlling for self-selection into the scheme (Balineau, 2008). While Fairtrade producers, in this case, did not have significantly higher yields than non-Fairtrade producers, the Fairtrade producers used fewer inputs. This evaluation finds that on average, Fairtrade producers received significantly higher revenues than non-Fairtrade producers. However, because of the selection bias the results on revenues cannot be considered as rigorous impact estimates.

**A positive impact on child health:** Econometric estimates in the study of Kenyan farmers point to the reduced likelihood of child mortality. This could be due to these families seeking better health care. However, neither child labour was lower, nor was school attendance higher (Becchetti and Constantino, 2008). In Bolivia too, the educational levels of both Fairtrade and non-Fairtrade producers and their families did not show any improvements (Imhof and Lee, 2007).

### Closing the evaluation gap

Overall, the existing impact evaluations of Fairtrade, and similar ethical trading initiatives, suggest it can have a positive impact on the welfare of affiliated producers and workers. However, these few studies are in turn based on relatively small samples, making it difficult to arrive at generalised conclusions. The differences in the characteristics of farmers' households may lead to a selection bias in the studies and make attribution difficult. A major limitation also stressed by Ruben (2008) is the lack of baseline studies to observe long-term effects of Fairtrade.

What is the impact of Fairtrade on the lives of poor workers and producers in low- and middle-income countries? How does Fairtrade's impact vary between cooperatives with affiliated producers and plantations with Fairtrade certification? Does Fairtrade have an impact on both material and non-material outcomes? How does Fairtrade impact the welfare of non-Fairtrade workers within a region? These are largely unanswered questions.

There are different impact evaluation frameworks for Fairtrade (Utting, 2008; Paul, 2005). The sustainable livelihoods framework allows a range of potential impacts of Fairtrade to be assessed for example in the area of education, health, skills, socio-economic impact on communities, organisational impacts, environmental impacts and so on. These need to be explored further through rigorous evaluation studies.

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