Measuring the impact of fair trade on development

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This study of the impact of fair trade relies on new field data from coffee and banana co-operatives in Peru and Costa Rica, including a detailed assessment of its welfare effects by comparing FT farmers with non-FT farmers as a benchmark. Attention is focused on three major effects: (a) direct tangible impact of FT arrangements on the income, welfare, and livelihoods of rural households; (b) indirect effects of fair trade for improving credit access, capital stocks, investments, and attitudes to risk; and (c) institutional implications of fair trade for farmers’ organisations and externalities for local and regional employment, bargaining, and trading conditions. Although direct effects in terms of net income remain fairly modest, important benefits are found to include capitalising farmers and strengthening their organisations.

Key Words: Aid; Labour and Livelihoods; Methods; Latin America and the Caribbean

Introduction

The involvement of smallholders in fair trade (FT) supply chains – sometimes coupled with a shift to organic production methods – provides valuable opportunities to enhance household income and producers’ bargaining power. Several studies have tried to capture the impact of FT on local producers and households, but sound empirical evidence regarding the social, economic, and ecological impact remains patchy and sometimes contradictory. Owing to the notable absence of baseline studies and comparators, it is difficult to make a precise assessment of the impact on welfare at the household and co-operative levels. While there are many descriptive stories and narratives about perceived changes in farmers’ welfare and community organisation attributed to FT linkages (Milford 2004; Murray et al. 2003; Ronchi 2002), after 20 years of FT experience it is time to make a careful and balanced empirical assessment of the different ways in which this impact is achieved. This article provides an overview of some of the key findings derived from a cross-country assessment of the impact of FT among 700 smallholder coffee and banana producers in Peru and Costa Rica (Ruben 2008).

The study uses the so-called propensity score matching (PSM) approach as a means of ensuring unbiased findings (Rubin and Thomas 1996). While earlier field studies tend to indicate substantial net income effects (Jaffee 2007; Becchetti and Constantino 2008) and reduced
income vulnerability arising from FT (Bacon 2004), they seldom correct for intrinsic differences between households in term of farm size, location, and resource endowments. It is therefore almost impossible to conclude whether or not FT has contributed to improved welfare, or if already better-off farmers were selected to participate in FT. Moreover, an important element of the positive effects can be attributed to organic price premiums and other non-market factors. The PSM approach compares significant differences between FT and non-FT farmers under similar conditions and thus makes it possible to correct for potential self-selection (White and Bamberger 2008).

We distinguish between three different levels of impact: (a) direct effects on household production, net income, and expenditures; (b) indirect effects on households’ wealth, through improved credit access, increasing capital stocks, investments in farm or housing assets, and changing attitudes to risk; and (c) institutional effects on the strength and bargaining power of local farmers’ organisations and possible externalities for non-FT farmers through improved employment and trading conditions.

The article first reviews the main principles underlying FT and presents an analytical framework for verifying their empirical relevance. Special attention is given to externalities of FT that also benefit non-FT households. We then examine from a micro-economic perspective whether and how FT has made significant differences in these aspects. This provides useful insights into strategic pathways to reinforce the impact of FT on development.

**Fair-trade principles**

Twenty years ago, the Dutch development organisation Solidaridad initiated the first FT attempt to promote democratic development by guaranteeing market access to (groups of) smallholder producers from Southern countries. FT programmes began with coffee (Max Havelaar), expanded to tropical fruits (Oke’), and subsequently incorporated other products such as cocoa, textiles, tea, quinoa, nuts, and wine. New partners and corporate agents have joined the FT movement, and growth has now become a major strategic aim.

Fair trade is an organised social movement which promotes standards for production practices and delivery procedures, working conditions and labour remuneration, environmental care, and social policies in supply chains related to certified goods. Particular attention is given to exports from producers in developing countries to consumers in the North (although there has also been some limited experience within the South). A widely recognised definition presents fair trade as a trading partnership based on dialogue, transparency, and respect, seeking greater equity in international trade. Its proponents believe that FT contributes to sustainable development by offering better trading conditions to – and securing the rights of – marginalised producers and workers in the South. Fair-trade organisations are also actively engaged in raising consumer awareness and in campaigning for changes in the rules and practice of conventional international trade.

The main principles behind the concept of fair trade are: (1) creating opportunities for economically disadvantaged producers; (2) transparency and accountability; (3) capacity building; (4) payment of a fair price; (5) gender equity; (6) better working conditions; and (7) environmental protection. In practice, this means that producers sell at pre-defined and guaranteed prices, receiving an additional premium for deliveries to FT market outlets. The premium is paid to the producer co-operative, which can use these resources for community development purposes. An important additional objective of FT chains is to reduce risk and improve credit access, enabling producers to make long-term investments. The latter are considered to be of key relevance for poverty-alleviation strategies focusing on changes in risk behaviour as a pre-condition for reducing asset poverty.
Fair trade began with Third World handcrafts in the 1970s (sold initially through the so-called World Shops); it added coffee sales through supermarket chains in 1988, and has subsequently broadened its focus to fruit (particularly bananas), clothing, cosmetics, nuts, and a whole range of other products. In 1997, the Fair Trade Labelling Organization (FLO) was established for global standard setting and certification purposes. Global sales have grown substantially; in 2006 sales of FT-labelled goods totalled approximately €1.6 billion worldwide. Current certification covers 570 producer organisations in 57 countries, representing around 900,000 families of farmers and workers (Raynolds and Long 2007).

Measuring the impact of fair trade

Recent studies have shown various advantages and disadvantages of the fair-trade movement. Detailed studies from coffee co-operatives in Costa Rica (Ronchi 2002) and Mexico (Jaffee 2007; Calo and Wise 2005) found that it strengthened producer organisations and concluded that, in light of the coffee crisis of the early 1990s, FT can be said to have accomplished its goal of improving returns to small producers and positively affecting their quality of life and the strength of their representative organisations locally, nationally, and beyond. Other research emphasised that in a short time FT initiatives substantially improved the well-being of small-scale coffee farmers and their families, particularly as a result of better access to credit facilities and external funds, as well as through training and improved capabilities to enhance the quality of the product (Murray et al. 2003). FT farmers were also more successful in diversifying their production, experienced better prices for their crop, and saw improvements in monthly household food consumption and living conditions that resulted in a significant drop in child mortality (Becchetti and Constantino 2008).

Impact studies that examine longitudinal changes in welfare and livelihood conditions are, however, rather scarce. The European Fair Trade Association (EFTA) provides an overview of impact studies undertaken since 2000, but none relies on substantial field data, or on a comparison with comparable non-FT producers. Most studies emphasise the positive effects on producer organisations, focusing on the process of capitalisation from the premium payments. Little attention is given to the individual and household-level implications. Other studies refer to the effects on prices and productivity and the role of FT in improving competitiveness. Major constraints identified in the literature refer to difficulties of involving farmers in marketing decisions, and the importance of consumer awareness in order to expand the market for FT products. A general problem with many impact studies is that they do not correct for differences in farm-household characteristics. For instance, if it is generally larger or more progressive farmers who usually become engaged in FT, a major part of their improved welfare might simply be due to their initial individual attitudes.

This article focuses on the impact of fair trade at the farm-household level, comparing the changes in income, wealth, and investments of farmers involved in FT (treatment group) with those observed among similar farmers delivering to the conventional market (comparison group). Field data were collected on farmers’ land use, household income, expenditures, credit use, and risk attitudes (see Box 1), in addition to some recall information on the initial situation of both groups before the intervention (baseline). This enables us to identify which types of farmer typically engage in FT, and how they would have performed without such support (the so-called counterfactual). As stated earlier, we used PSM as a means to address the selection problem (Rubin and Thomas 1996; Heckman et al. 1997; Smith 1997). Its basic principle is to identify a group of non-participant farmers who resemble the participants in all relevant pre-treatment characteristics,1 making it possible to attribute differences in outcomes to involvement in FT.
The survey questionnaire included information regarding relevant farm-household characteristics (family size, age, gender, education), wealth and investments, access to finance, perceptions of and degree of satisfaction with FT, female/male participation in key household decisions, land-use practices, and attitudes to risk. Drawing on the survey questions, we constructed a set of indicators to facilitate comparison between the two sets.

**Box 1: Impact-assessment methodology**

In the near absence of baseline surveys allowing for a ‘first difference’ estimator (A–E), we need to select a post-treatment comparison group that closely resembles the situation of the treatment group had they not been involved in FT (B).

Propensity score matching ensures that relevant individual and group characteristics are similar for both groups, so both sets would have had similar chances of being involved in the programme. The impact estimator will then be based on the difference between A and D.

If available baseline surveys include individuals from both sets, one can then estimate the impact of FT by the changes in welfare between the two sets (equivalent to (A–E) – (D–F)). This so-called ‘Difference-in-Difference’ approach would reveal welfare improvements that can be attributed to FT by reducing the potential selection bias that frequently influences impact measurements.

**Data**

We collected field data from FT and non-FT coffee and banana co-operatives in Peru and Costa Rica. The Peruvian sample was further disaggregated to account for organic and conventional production systems. The total sample included 13 co-operatives and 700 producers (see Table 1), covering the full 2006–2007 agricultural cycle.

Banana production in the Chira valley in northern Peru provides a typical setting for studying the socio-economic and environmental effects of FT banana production, including a comparison between conventional and organic production systems in a region where FT has an important market share. The coffee study in central Peru allows a thorough analysis of the socio-economic and organisational effects of FT within several coffee co-operatives at different stages of involvement in this market, including a counterfactual of similar farmers who are not involved in fair trade.

The impact assessment of FT banana production in southern Costa Rica provides opportunities to understand the operations of an associative enterprise as business partner. Production in Coopetrambasur is managed under a common structure, whereby the co-operative owns the land and the work is divided among members. Even while direct income effects are likely to
be negligible, implications for asset ownership and investments deserve serious attention. The analysis of coffee farming in northern Costa Rica highlights the pitfalls of one of the early FT partners, Coopemontes de Oro RL (part of Coocafe´) in Guanacaste Province. Whereas earlier case studies confirmed positive ‘first-mover’ advantages (Ronchi 2002), more recent data indicate that – in the current dynamic context of quality upgrading and high coffee prices – an original comparative advantage can be seriously eroded. This study affords particular insights into the risk that FT certification might lead to certain (over)specialisation in coffee activities.

Direct welfare impact

The most visible and direct tangible impact of engagement in fair trade refers to the agreements regarding prices and payment regimes. Most attention is generally given to the stable price that reduces the risk to producers caused by fluctuations in the world market. Equally important, however, are the contractual conditions that oblige Western importers and processors to cancel part of the value of foreseen deliveries at an early stage, thus enabling producers to take out loans for necessary investments in crop maintenance and quality upgrading, without being trapped by local intermediaries who usually offer advanced sales at substantially lower prices.

There are few precise measurements of the net welfare effects of FT deliveries on farm-household incomes. We calculated the full household income of smallholder coffee and banana producers, including net revenues from all other household activities (e.g. cash and food crops, off- and non-farm income). Comparing FT and conventional production within

Table 1: Field samples (coffee and banana co-operatives in Peru and Costa Rica)

<table>
<thead>
<tr>
<th>Country</th>
<th>Enterprise</th>
<th>Establishment</th>
<th>Families</th>
<th>Sample size (N)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peru (bananas)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FT</td>
<td>APVC</td>
<td>2002</td>
<td>241</td>
<td>50</td>
</tr>
<tr>
<td>Non-FT (organic)</td>
<td>APBOS</td>
<td>2003</td>
<td>173</td>
<td>110</td>
</tr>
<tr>
<td>Non-FT (conventional)</td>
<td>Individual producers</td>
<td>n.d</td>
<td>&gt;500</td>
<td>40</td>
</tr>
<tr>
<td>Peru (coffee)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FT</td>
<td>CAC La Florida</td>
<td>1966</td>
<td>1250</td>
<td>60</td>
</tr>
<tr>
<td>FT</td>
<td>CAC Pangoa</td>
<td>1977</td>
<td>600</td>
<td>60</td>
</tr>
<tr>
<td>FT</td>
<td>CAC Ubiriki</td>
<td>1977</td>
<td>274</td>
<td>60</td>
</tr>
<tr>
<td>Non-FT</td>
<td>CAC Tahuantinsuyo</td>
<td>1975</td>
<td>233</td>
<td>60</td>
</tr>
<tr>
<td>Non-FT</td>
<td>CAC Sangareni</td>
<td>2004</td>
<td>293</td>
<td>60</td>
</tr>
<tr>
<td>Non-FT</td>
<td>Ass. Productores Pichanaki</td>
<td>2000</td>
<td>500</td>
<td>60</td>
</tr>
<tr>
<td>Costa Rica (bananas)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FT</td>
<td>Coopetrabasur</td>
<td>1980</td>
<td>70+100</td>
<td>50</td>
</tr>
<tr>
<td>Non-FT</td>
<td>Finca San Pablo</td>
<td>1968</td>
<td>200</td>
<td>50</td>
</tr>
<tr>
<td>Costa Rica (coffee)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FT</td>
<td>Coopemontes de Oro R.L</td>
<td>1984</td>
<td>286</td>
<td>50</td>
</tr>
<tr>
<td>Non-FT</td>
<td>Café de Altura S.A</td>
<td>2004</td>
<td>600</td>
<td>50</td>
</tr>
</tbody>
</table>
the same agro-ecological region and correcting for differences in farm size and household wealth, we can identify some general trends (see Figure 1).

Most substantial income gains are reached in the organic production sector. The additional income from FT is relatively modest, and either non-FT producers sometimes reap even larger net benefits or the registered differences were statistically insignificant. Also farmers’ perceptions regarding past and future welfare improvements generally show little change. This can be explained by various factors. First, strong concentration on FT production leads to some neglect of other income-generating activities, with less land and labour being devoted to food crops, off-farm work, and non-farm activities. These substitution effects are particularly relevant in coffee co-operatives. Second, FT production uses more (hired) labour and inputs that reduce the margin between gross and net revenues. Third, many co-operatives can sell only part of their certified production to the FT market, thus incurring costs that are not fully recovered by higher prices. Fourth, benefits from the FT premium that are invested in social services at the community level accrue by definition to all farm-households. 2

It should be noted that market prices in the 2006–2007 cycle were generally high, so the FT bonus remained relatively small. Otherwise, important positive price effects created by FT are registered in the Peruvian region of Valle de Chira, where the strong expansion of (organic) production has led to a general rise in banana market prices which also benefits non-FT producers. In addition, FT production also has a significant impact on the contract conditions for wage labour. Occasionally, FT farmers used hired rather than family labour (thus increasing their own leisure time), while the additional labour demand could lead to higher rural wages that also benefit local occasional labourers.

Further analysis of the welfare effects at the level of household expenditures, wealth, and capital assets reveals more substantial impacts. While overall expenditures are generally not significantly different between both categories of household, some FT producers show a consistently higher proportion of expenditure on long-term investments in household durables, farm and house improvements, and particularly education (even when, as in the Costa Rican coffee case, total expenditures are lower). This implies that FT farmers may not appear to be wealthier, but that they allocate their disposable income to other spending purposes that are in the medium to long run likely to improve their welfare and asset position.

Another important aspect concerns observed changes in assets or capital stocks. This indicates whether (past) returns have been invested in capital accumulation, and if FT households

![Figure 1: Impact of fair-trade coffee and bananas on net household incomes](image)

**Figure 1:** Impact of fair-trade coffee and bananas on net household incomes
could benefit from improved credit access. Both capital resources and savings contribute to better economic prospects for future investments in income-enhancing activities that reinforce the capacity of households to withstand adversity. Almost without exception, all case studies reveal substantial and significant positive effects for FT households with respect to credit access and asset value. Delivery contracts with FT outlets appear to offer suitable collateral for increased borrowing. Most investments in assets concern household durables, some acquisition of cattle, and – to a minor extent – investments in land improvements and acquisition (by hire or purchase) of new land.

**Indirect effects**

Indirect welfare effects arising from involvement in FT include (a) implications for farmers’ attitudes to risks and willingness to invest; (b) influence on gender roles; and (c) improved management of environmental sustainability. These somewhat less tangible effects appear to be equally or more important than the directly observable benefits of FT (see Table 2).

The FT pricing and trade regime provides rural households with guaranteed market outlets and greater security in terms of prices. This income stability also influences the household’s time horizon in terms of their willingness to invest. We expected to find spill-over effects towards higher investments in food crops (funded with the revenues from FT), but to a large extent, these investments concern household durables, some acquisition of cattle, and – to a minor extent – investments in land improvements and acquisition (by hire or purchase) of new land.

**Table 2: Fair-trade impact (differences compared with non-fair-trade households)**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Bananas conventional (Peru)</th>
<th>Bananas organic (Peru)</th>
<th>Coffee conventional (Peru)</th>
<th>Coffee organic (Peru)</th>
<th>Bananas (Costa Rica)</th>
<th>Coffee (Costa Rica)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net household income</td>
<td>n.s.</td>
<td>+38</td>
<td>−22</td>
<td>n.s.</td>
<td>n.s.</td>
<td>n.s.</td>
</tr>
<tr>
<td>Household expenditures</td>
<td>+42</td>
<td>n.s.</td>
<td>n.s.</td>
<td>n.s.</td>
<td>n.s.</td>
<td>−2</td>
</tr>
<tr>
<td>Perceived welfare</td>
<td>n.s.</td>
<td>n.s.</td>
<td>n.s.</td>
<td>+15</td>
<td>−32</td>
<td>n.s.</td>
</tr>
<tr>
<td>Credit use</td>
<td>+321</td>
<td>+58</td>
<td>+52</td>
<td>−115</td>
<td>+12</td>
<td>+28</td>
</tr>
<tr>
<td>Asset value</td>
<td>+84</td>
<td>+91</td>
<td>n.s.</td>
<td>+91</td>
<td>+44</td>
<td>+23</td>
</tr>
<tr>
<td>Organisational strength</td>
<td>n.d.</td>
<td>+24</td>
<td>+8</td>
<td>+11</td>
<td>n.s.</td>
<td>−18</td>
</tr>
<tr>
<td>Organisational satisfaction</td>
<td>n.d.</td>
<td>n.s.</td>
<td>n.s.</td>
<td>+29</td>
<td>n.s.</td>
<td>−17</td>
</tr>
<tr>
<td>Male-based decisions</td>
<td>+74</td>
<td>n.s.</td>
<td>+31</td>
<td>n.s.</td>
<td>+25</td>
<td>+19</td>
</tr>
<tr>
<td>Environmental practices</td>
<td>+40</td>
<td>−17</td>
<td>n.s.</td>
<td>+1</td>
<td>n.s.</td>
<td>n.s.</td>
</tr>
<tr>
<td>Risk acceptance</td>
<td>+27</td>
<td>+15</td>
<td>n.s.</td>
<td>−38</td>
<td>n.s.</td>
<td>n.s.</td>
</tr>
</tbody>
</table>

*Note:* figures show significant differences as a percentage compared with similar non-fair-trade producers; n.s. = not significant; n.d. = no data.
extent farmers reduced their engagement in other (farm and non-farm) activities, and household income generally became more dependent on the FT crop. Nevertheless, Peruvian FT banana producers in particular consistently show less risk-aversion and an improved willingness to invest in yield-enhancing production technologies. This implies that the guaranteed sales to the FT market enable them to undertake other – sometimes risky – activities that should ultimately reinforce their household economy.

Gender empowerment

Involvement in FT is frequently advocated because of its expected implications for the empowerment of women, and improved environmental care (see Milford 2004; Murray et al. 2003; Ronchi 2002). Empirical evidence for such effects is, however, rather scarce and largely descriptive. The assumption is that FT guarantees could provide opportunities for greater involvement of women in production and processing activities, whereas stable prices are generally considered to be a positive incentive to make a long-term investment in improving the ecosystem and enhancing the quality of production and management practices (Bacon et al. 2008).

Regarding the empowerment of women, the case studies provide rather mixed evidence. In banana production, female contribution to household income seems to decline, whereas the role of the male head of household in five key decision domains (i.e. purchase of food, purchase of housing durables, education of children, agricultural production plan, and credit requests) was reinforced. Coffee production showed similar but somewhat less pronounced tendencies. Only in organic coffee production was joint decision making more common, related to the greater labour demands for maintenance activities that reinforce the bargaining position of women. It is likely that these limited effects of FT on changing gender roles can be largely attributed to male control over monetary income sources (coffee revenues and FT premium). Moreover, men predominate in membership of the co-operatives.

Environmental sustainability

With respect to sustainable land-use practices, FT shows positive effects on the use of organic inputs and some reduction in the reliance on chemical fertilisers. But although changes in variable inputs use are frequently observed, investment in land-attached improvements (such as infrastructure to enhance soil conservation, terraces, contour rows, drainage) still remains scarce. Apparently, the lump sum required for realising these investments is still prohibitively high, and the FT premium is hardly available for these activities. It is also possible that insecure land rights may inhibit major investments in land improvements.

FT producers have far more incentives for getting involved in organic production, especially when this provides an additional price premium. Wherever the improvements for making production systems more sustainable rely on increased labour (i.e. for mulching, composting, manual weeding, etc.), FT can provide a positive contribution. In combination with improved access to credit – necessary for purchasing substitutes for chemical fertilisers – the prospects for more sustainable practices to be applied in FT systems are likely to be high. Further technological change still has the greatest potential for improving local farming systems and rural livelihoods.

Institutional effects

The least analysed implications of fair trade refer to its effects on internal and external organisation. While the former includes the impact of engagement in FT for the coherence and
strength of farmers’ co-operative organisations and local communities, the latter looks at potential spread effects to other households.

**Farmers’ organisation**

The overall positive effect of involvement in FT on the strengthening of local farmers’ organisations is one of the most significant outcomes of our impact assessment. Whereas the consolidation of co-operatives and farmers’ associations has always been a key objective of FT, empirical evidence is rather limited (see Murray et al. 2003; Ronchi 2002).

We applied a wide range of different indicators to analyse in depth the potential implications of FT on local organisations. In most cases, members’ confidence in the enhanced bargaining power of their organisation was strongly and favourably influenced by FT affiliation. Moreover, satisfaction rates regarding service provision (technical assistance, trade, etc.) proved to be high (except for coffee in Costa Rica). Many farmers thus perceive their organisations as a vital link to the FT channel, and they consider the support received from their organisation as an important guarantee for upgrading the quality and reliability of their deliveries.

On the other hand, the indicators developed to measure ‘organisational identification’ appear largely insignificant for most of the co-operative and associative enterprises (with the positive exception of organic FT coffee producers in Peru). This may point to some important deficiencies that many of the co-operatives are currently facing in terms of information provision, membership involvement in internal decision-making procedures, and renovation of genuine leadership. As also suggested by answers to questions regarding familiarity with FT, general knowledge about the significance of FT is not widespread, and information on the use of the FT premium funds is not always widely communicated.

It was originally envisaged that co-operatives with a longer trajectory of FT involvement would be likely to be better off compared with recent affiliates. This so-called ‘lifecycle’ effect would indicate the advantages of sustained FT participation. Empirical evidence points, however, in a somewhat different direction. Some of the early FT coffee co-operatives in Costa Rica suffer from limited incentives to improve their production and organisation systems, and they might have lost their initial advantage. On the other hand, the detailed comparison of three Peruvian co-operatives with different lengths of involvement reveals that the longer-standing FT co-operatives possess significantly more assets and animal stock and have better access to credit, whereas more recent arrivals still suffer from credit constraints and risk-averse behaviour. But this does not imply that coffee yields, net returns, and profits are necessarily higher in the ‘older’ co-operatives. Their established position may even give rise to a certain neglect of production innovations and further engagement with conventional market channels. In a similar vein, Becchetti and Constantino (2008) register a positive initial but clearly non-linear lifecycle effect – with declining marginal return over a longer time span – in their study of FT artisan co-operatives in Peru. This is mainly attributed to strong learning effects in the early stage that reinforce bargaining power.

**Spatial externalities**

Most impact studies focus on the farm-households that are directly involved in FT deliveries, thus neglecting the implications for other farmers living in the same region. The distributive implications of FT for other households nevertheless deserve serious consideration. The so-called spatial externalities of FT for non-FT households should be considered as a key impact area.

In regions with a substantial presence of FT production, local farm-gate prices tend to become fairly equalised, and price variability is reduced. While respecting differences in
quality, coffee prices in the Central Peruvian highlands are fairly similar among FT and conventional co-operatives. Information about prices and market outlets is becoming rapidly available to all producers (through fax and cell-phone connections), and the deliveries to the organic and FT market set minimum floor conditions for sales to other outlets. In northern Peru, the strong expansion of (mainly organic) FT production led to a general rise in market prices also for non-FT bananas. In areas where FT production reaches a substantial market share (about 30 per cent), options for exercising local market power become apparent. In the case of the Costa Rican coffee study, it appears that total dependence on the FT channel may easily result in a monopsonic market structure which reduces incentives for diversification and quality upgrading. These externalities represent the most important impact of FT linkages and they become stronger once FT deliveries represent a substantial share of local production capacity. Further expansion of FT is thus a key condition for generating stronger externalities.

In addition to price externalities, FT may also have a significant impact on the contract conditions for wage labour. FT co-operatives provide regional floor conditions for hiring wage labour. Basic stipulations regarding salaries, working conditions, security, and fringe benefits are incorporated into contracts with other private farms shortly after having been enforced by the FT co-operatives.

A particular type of externality is related to the FT premium. While this is supposed to be invested in collective goods, in practice many farmers express a preference for using these resources to enhance individual household welfare. Some intermediate solutions are found by allocating the premium to micro-credit programmes, school fees, health insurance, input provision, and technical assistance. The premium can represent a substantial resource to benefit the wider community. Some experiments have started to use the FT premium as collateral for savings and credit facilities for community loans, or as the local counterpart for mobilising complementary public or NGO funding to improve local infrastructure. Further engagement in such types of activity could generate substantial multiplier effects derived from the FT premium fund.

Perspectives and outlook

While the impact analyses discussed above focus primarily on the micro-economic level of producer/worker households and their organisations, the insights may be relevant starting points for further discussions about the macro perspectives of FT for reducing rural poverty and transforming global trade regimes.

Acknowledging household-level advantages and constraints provides useful insights into the realistic dimensions and transfer mechanisms at play within FT supply chains. While direct tangible effects on net income remain fairly modest, there are important effects on asset accumulation, credit use, investments, expenditure patterns, and organisational strength. Externality effects on local prices and wages, reinforced through the FT premium, that benefit all producers deserve more attention. In addition, most significant changes are observed in several attitudinal aspects (i.e. improved risk behaviour, larger time-horizon, and higher willingness to invest) that point to entrepreneurial responses to greater certainty of income. Spill-over and outreach effects thus tend to outweigh the benefits in terms of direct income.

This may suggest that long-term delivery contracts and the assurance of stable and large-scale market outlets are far more relevant features of FT than the price advantage. Although this may be a more difficult message to convey to most consumers, it is more in line with reality than the simple transfer of an extra price margin. More than 20 years of FT have seen only limited growth in its market share (for example, FT coffee represents about 1.2 per cent of the European market). Whereas large annual FT growth rates are still registered (up to 30–40 per cent in
terms of volume and value), the total marketed volume still remains very small, and further expansion depends on involvement of large-scale retail networks and mainstreaming of key elements of the FT approach. Substantial impact and externality effects are likely to be generated only if FT becomes a competitive regional player, capturing a relevant share of total regional production.

Reinforcing the structural impact of FT is thus strongly dependent on its capacity to reach a stable and recognisable regional market share. Other, less stringent labels based on principles of corporate social responsibility (CSR) with a sector-wide coverage (like Utz Kapeh for coffee and Rainforest Alliance for bananas) were able to achieve a substantial market position in a relatively short period. While in some countries the potential market for FT products offers scope for further growth, particularly in the UK, Switzerland, and some Nordic countries, it remains essential to guarantee that a larger number of Southern producers/workers can benefit from these improved marketing opportunities.

The distinctive aspects of FT are subject to new considerations, due to changes in the configuration of the market. First, an important proportion of FT products was originally delivered by smallholder co-operatives, but the role of plantation-type production units is growing and demanding new criteria regarding profit distribution and worker participation. Second, multinational companies have managed to acquire FT-like certification for some of their farms, thus initiating a process of mainstreaming. Both aspects call for a fundamental deepening of the significance of FT, paying more attention to the internal organisation of the supply chain and the relationships between key stakeholders.

Attention to FT will focus increasingly on aspects of co-ownership, co-investment, and co-management in the supply chain. While the original focus was on smallholder producers, the growth of FT plantations calls for new models of participatory ownership which enable workers and their families to share profits. Some FT plantations (for example, in South Africa as part of the Black Economic Empowerment (BEE) programme) are gradually transferring shares to their workers as a part of incentive schemes. In other cases, European importers or retailers share investments for upgrading local processing facilities, occasionally funded through public co-financing schemes. Other emancipatory aspects of FT – strengthening its impact on gender empowerment and sustainable environmental management – still deserve more attention in shaping alternative business models. There is also a growing demand for leadership training for members of co-operatives and trade unions, to enhance their bargaining and business-management capacities. It is precisely in these areas that the distinctive aspects of fair trade as an alternative partnership relationship in the supply chain should become apparent.

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Notes

1. A commonly used balancing score is based on the probability of participating in the programme as determined by a set of observable exogenous characteristics (Rosenbaum and Rubin 1983). The propensity score (p-score) is estimated for each farm-household by using the regression’s predicted probability of having FT certification. Considering the distribution of the propensity scores, we identify the regions of ‘common-support’. These regions are set after eliminating the observations in the non-participant group with a p-score lower than the minimum p-score in the participant group, and the observations in the participant group with a p-score higher than the maximum p-score in the non-participant group.
Community-level outreach of FT is particularly related to the investments made using the FT premium, which is frequently used for building primary schools, community health services, road improvement, public electrification and water provision, transport facilities, and other general services. According to FLO rules, this premium cannot be allocated to individual farmers or workers, and should be used for community activities. In the case of scattered settlements, however, it is difficult to select a location for such investments. It is therefore not uncommon to see the premium piling up in a bank account. Sometimes, the premium fund is then used for loan purposes.

References


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