

The impact of fair trade

Isabelle VAGNERON

→ ISABELLE VAGNERON is researcher at Cirad (Laos), in the Department of Environment and Society. Her fields of interest include the study of fair trade, its modalities and its impacts in the South.

Summary

Fair trade is a potentially tremendous development tool aimed at alleviating poverty based on the motto “*trade not aid*”. It is estimated that in 2011, the total number of farmers and workers participating in certified fair trade reached 1.2 million. This success has been achieved by encouraging the involvement of non-traditional fair trade actors such as corporations and supermarkets. Although positive in terms of growth, this strategy has brought new practices that ultimately question the ability of fair trade to keep delivering on its core promises. This called for a thorough assessment of the impacts of fair trade, its strengths and weaknesses.



► Why measure impact?

Once a network of grassroots initiatives aiming to support disadvantaged producer groups by establishing direct relationships with consumers from the North, fair trade has grown, strengthened and complexified. Over the last decades, new fair trade product categories and supply chains have emerged (tourism, handicraft, food, cosmetics, etc.); new actors have become involved (large corporations, plantations, supermarkets). As a result, total sales of fair trade products have rocketed. In 2010, sales of fair trade certified products totaled €4.36 billion, up by 27% compared to 2009 (FLO, 2011).

Since the early 2000s, fair trade has been challenged by an increasing number of labeling schemes (ethical trade, sustainable development, private company codes) that promote the ethical attributes of products. The ability of the fair trade movement to sustain competition from these rival labels depends on its ability to convince other stakeholders (producer groups, donors, consumers) that it delivers on its promises. This involves producing relevant information about the impacts of fair trade on its intended beneficiaries and confronting these impacts with the movements' objectives in terms of development which are: (1) to strengthen producer organizations (POs), (2) to strengthen the ownership and the participation in decision-making of producers and workers; (3) to provide support for training, capacity building and human resource development, especially of women, (4) and to encourage the adoption of environmental practices and responsible methods of production.

This brief presents an overview of the main impacts of fair trade on its intended (and sometimes unintended) beneficiaries. It is based on a literature review of 90 studies carried out for the *French Platform for Fair Trade* (Vagneron and Roquigny, 2010). Its objective is to assess whether fair trade can be considered as an effective development tool. This assessment is made in

relation to fair trade's ability: to improve the livelihoods and well-being of producers, to strengthen producers and their organizations, to reduce local and international inequalities and to foster environmental awareness.

► Fair trade as an effective development tool

Many examples illustrate fair trade's ability to foster producer empowerment and poverty alleviation.

Fair trade can improve the well-being of small farmers and their families

A majority of studies find that smallholders who participate in fair trade producers receive better prices. Moreover, they are satisfied with the price they receive. The price differential between fair trade and conventional products may however be quite low when world prices are high or for products with a double certification (fair trade and organic). When supply is scarce or when competition between producer organizations is fierce (Lyon, 2010), the differential may even be null (Fort and Ruben, 2008).

Higher prices do not always bring higher incomes for affiliated farmers and their families. 2/3 of the studies emphasize a positive impact of fair trade on farmer incomes. Becchetti *et al.* (2009) show that the number of years of affiliation is a major determinant of farmer incomes. The fair trade premium may also play a role in this respect: Fort and Ruben (2008a, 2008b) estimate that the premium improves the annual income of fair trade banana and cocoa farmers in Peru by 20%. Conversely, less than 1/3 of the studies identify little or no impact of fair trade on incomes. This is the case when the sales of fair trade products are low; when farmers are too dependent on fair trade markets; when production and/or certification costs are high; or in the presence of organizational problems (high operation costs, unequal distribution of benefits and access of

producers to fair trade markets, etc.).

Fair trade also contributes to stabilize farmer incomes (except under a certain volume of sales) and therefore may play a significant role in ensuring household food security.

Finally, a large majority of studies emphasize the *positive impact of fair trade on the living conditions of the affiliated producers*. Fair trade producers tend to allocate a larger share of their income to medium and long term investments in child education, health or to improve their home. However, this question is quite tricky as the farmers' living conditions are likely to be influenced by many other factors – situation of the household before the fair trade project, economic crisis, geographic location, etc.

Fair trade empowers producers and their organizations

Fair trade spurs producers' self-esteem and pride. Moreover, by promoting producers' involvement in cooperatives, fair trade also helps them develop a sense of ownership. Several studies show that farmer self-esteem increases with the number of years of affiliation in Kenya (Becchetti and Costantino, 2008), Peru (Becchetti *et al.*, 2008) and Thailand (Becchetti *et al.*, 2009). Similar results have been highlighted in plantations (Ruben and Van Schendel, 2008).

Fair trade strengthens Producer Organizations (PO's) as service providers. Fair trade improves the economic and financial situation of POs, which enables them in turn to offer a variety of services to their members. Such services include *technical support* to PO members through training, the organization of workshops and field visits, support for the implementation of new production techniques (e.g. organic agriculture), quality control and certification, etc. Fair-trade-affiliated POs are also able to offer *social services* to their members in the areas of education and health, and to develop community projects. However, the provision of services may be limited by the low volumes of products sold

as fair trade, which renders the social premium too small to finance ambitious projects.

Many studies underline how fair trade helps small farmer access credit. In many countries where financial institutions have withdrawn from the agricultural sector, fair-trade-affiliated POs are essential providers of financial services to small farmers. Indeed, POs are often in a better position to negotiate loans with local financial institutions or from alternative trade organizations in the North and can obtain pre-financing from their fair trade partners (Parrish *et al.*, 2005).

Fair trade acts as a launch pad onto international markets. By initiating POs to the workings of international markets (trade rules, demands of distant consumers, focus on quality, etc.), fair trade has given them access to precious market information and increased their understanding of market mechanisms. As a result, fair-trade-affiliated POs enjoy a stronger marketing capacity that shows through the volumes sold on international markets, and their ability to find new markets and to develop trade partnerships with actors of the conventional market. POs also enjoy a stronger negotiation power, even on conventional markets. This ability to target conventional markets further encourages diversification and quality upgrading.

Fair trade spurs the innovative capacity of POs. New activities developed by POs take a variety of forms, but often involve investing in devices/equipment aimed at improving product quality – processing equipment, warehouses, laboratories for quality analysis, certification fees, etc. Diversification towards non-traditional activities such as tourism is also sometimes encouraged.

► Some clouds on the fair trade horizon...

However, the achievements of fair trade in several areas have been far from satisfactory. This is a source of concerns as the limitations high-

lighted by the studies pertain to some of the core values of the fair trade movement (transparency, democracy, and equity).

Fair trade, a “black box” for producers

Several studies stress that affiliated producers only have but a limited individual knowledge of the principles and operation of fair trade (Getz and Shreck, 2006; Fort and Ruben, 2008; Saenz-Segura and Zuniga-Arias, 2008). It is not rare for farmers to ignore how the fair trade premium was used by their cooperative (Valkila and Nygren, 2010). Farmers’ lack of knowledge limits their participation in the activities of their organization and prevents them from correctly assessing the benefits of fair trade. As a result, producers are little integrated into the decision-making bodies of the organizations. Monopolization of power and financial means by key actors of the POs with the passive agreement of the majority may also be explained by a lack of transparency and democracy within the POs (although these problems may have been anterior to the fair trade project). This questions the democratic character of fair trade and seriously limits its ability to empower small farmers at all.

Fair trade as a source of inequalities

Recent studies show that fair trade is not impervious to inequalities and that it may even amplify local inequalities by creating pockets of prosperity. Different categories of stakeholders have a different access to fair trade, with the most vulnerable populations – women, temporary wage workers – benefitting less clearly from the positive impacts of fair trade. Indeed, several studies show that fair trade is likely to foster inequalities between :

- affiliated and non affiliated farmers/POs: in a context of harsh competition on fair trade markets, downstream operators tend to favor larger and more skilled producers over truly marginalized ones, and hence to exacerbate

local tensions;

- affiliated POs/producers within a region or a community because of an unequal access to the fair trade market;
- PO leaders and PO members, the latter monopolizing the financial, material and human resources generated by fair trade;
- men and women, although fair trade is not in itself a source of gender inequality, it seems to have a limited ability to promote gender equity, be it through votes, participation, income distribution, support to non-farm income producing activities, or support to female producers. Despite some achievements (Lyon, 2010), women hardly participate in the organizational and decision-making processes of fair trade POs. This is mainly because they are confined to low-status and unskilled jobs and because they lack the basic literacy and knowledge. It is also due to the fact that, while improving their self-esteem and status, women’s participation in fair trade increases their workload. The unequal division of labor at work and at home limits the opportunities of women to engage in organizational activities. As a result, women seldom decide how fair trade premiums are invested, nor do they enjoy any moral authority or have the decision power of those who occupy leading position within the PO. This also limits their ability to benefit from fair trade in terms of representation, market contacts and information.
- permanent and temporary wage workers employed in small farms: unlike smallholders and plantations workers, these workers are still largely uncovered the fair trade system whose benefits they seldom enjoy.

Inequalities in global supply chains

Very few studies question the ability of fair trade to introduce more equity in international trade by improving trade relations in favor of producers from the South. Two studies (Forero-Madero *et al.*, 2006; Vagneron and Roquigny,

2011) analyze the distribution of wealth within international fair trade and conventional banana chains. Both conclude that although fair trade offers affiliated producers higher prices, a higher share of the value created in the banana chain is captured by downstream actors who retain most of the power and remain the real pilots of these chains.

► What we still do not know for sure

The issue of attribution and externalities

Does fair trade really promote environmental awareness? Fair trade fosters environmental awareness through the diversification of activities, the focus on quality, and the promotion of organic agriculture. In some cases, environmental management projects accompany fair trade projects. The economic stability brought by fair trade, as well as the technical support to POs (e.g. fertility management, land erosion control, use of manure, etc.) may enable producers to focus more on the sustainable management of natural resources. Developing organic and fair trade certifications together makes it difficult to measure the impact of fair trade on farming practices alone, it also makes it more difficult to disentangle the economic benefits for the farmers (Valikla, 2009). Greater market access, higher price differentials and the fair trade premium often help producers add economic value to organic products and overcome the limitations of organic agriculture – higher costs of production and certification, lower yields, etc. As a result, attribution is difficult to establish as it is complicated to disentangle the effects of each certification on the management of natural resources. Moreover, the adoption of sound environmental practices may be explained by the inclinations of the members of a PO, independently from its involvement in fair trade.

Spillover effects. These are externalities ben-

efitting those who are not directly involved. In the case of fair trade, identified spillover effects include impacts on local prices, local development projects, local employment and local knowledge. Among the very few studies that focus on the spillover effects associated with fair trade, some show a positive impact on local development (examples). Indeed, long term partnerships with and support from fair trade operators enable POs to propose development projects with international NGOs and/or local authorities who regard their insertion into international markets as an indicator of reliability. However, the question remains whether it is fair trade or the dynamism of a specific PO that offers a fertile ground for the development of new projects. Other studies highlight positive externalities of fair trade on local prices: when fair trade production reaches a substantial market share, local prices of fair trade and non-fair trade products tend to equalize. Local employment is also affected : fair trade organizations create local jobs (processing units, administrative staff, and temporary workers) and tend to set the contract conditions for wage labor. Spillover effects however are difficult to assess and require special care in the design of counterfactuals.

Fair trade has a mixed impact on income diversification. While half of the studies highlight a positive effect of fair trade on income diversification, the other half worries about increasing dependence of fair trade farmers on export crops at the expense of traditional food crops, thus posing a threat to their food self-sufficiency. Fort and Ruben (2008) show that Peruvian banana producers tend to privilege banana production over income diversification strategies that would reduce their vulnerability in the long run, but reduce their immediate income.

Some grey areas remain...

A recent addition to fair trade and an object of heated debate, *plantations and their workers* should be given extra attention in future research.

Indeed, as most of the studies focus on producers and their organizations, evidence of the impact of fair trade on plantation workers and of changes occurring on plantations as a result of engagement with fair trade remain scarce. For example, little is known however on how worker organizations are structured in plantations.

Similarly, little is known about the *livelihoods of temporary and permanent waged workers in family farms or small processing units*. This is mainly because they are not covered by FLO standards. As a consequence, their situation is often disregarded, although wage work in small family units is widespread and often involves vulnerable populations such as landless farmers or migrants – e.g. Haitian migrants in Dominican Republic banana plantations, wage workers in Thai rice farms, landless farmers in Nicaragua, etc.

Methodological challenges

In general, the rigor of the methodologies used in fair trade impact assessments should be improved and take inspiration from the recent progress in impact evaluation methods¹. As a result, it is often extremely difficult (or even impossible) to attribute observed changes in the welfare of fair trade affiliated producers to their involvement in fair trade. Recent studies aim to get closer unbiased measures of FT impact (Ruben, 2008; Becchetti *et al.*, 2008, 2009). Finally, reliable baseline studies conducted before the initiation of the fair trade project often do not exist. This is a major obstacle to a sound assessment of long term welfare effects.

► Making fair trade an effective instrument for aid development

Governments and donors should focus on fair trade as a stepping stone for linking farmers to international markets. However, this objective must avoid a number of pitfalls that are current-

ly developing as a consequence of the growing importance of market mechanisms in fair trade:

- avoid the exclusion of the weakest farmers/POs that are unable to supply the volumes or the quality required by international market standards and/or cannot bear the certification costs involved;
- ensure that fair trade affiliation does not lock small farmers and their organizations in dependence (towards a trade partner, a product), by supporting producer-led diversification strategies as well as initiatives aimed at product and process upgrading that may help them move away low value-added activities.

At another level, if one of the objectives of fair trade is to seek greater equity in international trade, *it is necessary to openly question the distribution of value within fair trade value chains:*

- the question of value distribution along the chains is absent from fair trade standards that only focuses on producer prices. The only exception is the standard developed by Ecocert, which explicitly asks for transparency and for the monitoring of the margins of downstream actors (Ecocert, 2010). Discussion of such rules should be included into the fair trade agenda;
- a less conflicting way to change the distribution of value within fair trade chains could be to create intellectual property rights (e.g. geographic indications), mainly because of the importance of symbolic attributes in the current process of value creation at the consumer level.

Finally, as the ability of fair trade to foster development is also related to its ability to deliver improvements to non participants, it is quite essential to encourage the appearance (and identification?) of spillover effects. These effects, that go beyond the scope of intervention, benefit larger populations than those targeted and are likely to appear in the mid to long run, may be among the most important effects of fair trade. The fight against inequalities should be the main target for such spillovers.

1. For a survey of rigorous studies of various certifications including fair trade, see Blackman and Rivera, 2010.

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Contact

www.ferdi.fr

contact@ferdi.fr

+33 (0)4 73 17 75 30

