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# A review of the impact of Fairtrade over the last ten years

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## Introduction

Over the last decade, Fairtrade sales have increased dramatically, reaching €2.89bn globally by the end of 2008. In line with this growth there is increasing demand to measure and demonstrate the difference that engagement with Fairtrade is having for participating producers and workers and their families – in other words the impact that Fairtrade is having at the local level. This paper summarises a review of the published literature on Fairtrade's impact, commissioned by the Fairtrade Foundation and conducted by NRI in 2009.



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## 1. The evidence base

Over 80 academic and development agency reports about Fairtrade were reviewed but actual evidence of Fairtrade impact was found in only 23 of these reports which contained **33 separate case studies** of Fairtrade certified producers which were studied in depth. The vast majority of the studies analysed were of coffee (25 case studies) and from Latin America and the Caribbean (26 case studies), although a limited number covered other commodities such as bananas, cocoa and flowers, and included cases from Africa (none from Asia). Smallholders were the main focus, although hired labour was examined in two more recent studies. Most studies were also snapshots in time and limited in scope with few longitudinal investigations investigating the impact of Fairtrade over time. While the earlier studies tended to be less comprehensive, more recent studies have explored in more depth empowerment issues, producer knowledge and perceptions of Fairtrade and its ability to stabilise prices, wider impacts on non-participating local communities and local markets. None of the studies explore the impact of support for producer networking which is provided within the Fairtrade system and is growing in scale and importance, and none focus specifically on Fairtrade advocacy interventions and their impacts.

## 2. Economic benefits of Fairtrade

Box 1 shows the main economic inputs of the Fairtrade labelling system. The evidence studied strongly supports the claim that through these and other mechanisms, Fairtrade provides a favourable economic opportunity for those smallholder farming families able to join producer organisations and provide products of the right specifications for the market. Thirty-one of the 33 case studies contained evidence of positive economic impacts. These families often enjoy **higher returns** (29 case studies) and **more stable incomes** (27 case studies) than comparable farmers selling to the conventional market.

### Box 1: Economic inputs of Fairtrade

- Buyers are required to pay a stable Fairtrade minimum price calculated to cover the costs of sustainable production
- Buyers are required to pay a Fairtrade premium to producer organisations for producer organisations to make livelihood investments and to improve the situation of local communities
- Opportunity for pre-financing

- Contracts that allow long-term planning
- Increased access to export markets

The Fairtrade minimum price is of particular value when volatile world commodity prices fall below production costs – providing a stable income and reducing vulnerability and the need for farming families to migrate or mine assets during periods of hardship. Further, the combination of price and Fairtrade premium has allowed many producers to capitalise their organisations (for example to increase production, quality, processing and diversification) and as result, improve the well-being of many farmers in situations where volatile price fluctuations have ruined the livelihoods of farmers who didn't have the benefit of the Fairtrade guaranteed price. A thorough study of a coffee co-operative in Bolivia demonstrated that Fairtrade had been a motor for local economic development in the Yungas Mountains to the extent that the organisation's members had increased ability to keep their children in school and for longer as well as a majority being able to create new sources of employment. Although deductions by producer organisations for operational, production and processing costs (which often benefit producers in the long-term indirectly anyway) often mean that less of the Fairtrade price reaches individual farmers, some studies still found that families selling to Fairtrade are more likely to make long-term investments such as household durables, house improvements and education. There were also clear examples where families were more able to remain secure while other farmers were losing their land.

The evidence of Fairtrade impact on net household income is varied. Three case studies found that involvement in Fairtrade increased output and or yield of farmers' key crops as well as having a positive effect on net household income. Another study found that despite increased Fairtrade prices and higher yields and production, net household income was not increased because of increased labour costs and costs associated with organic certification. However this same study also found that the Fairtrade farmers were still in a slightly better off position than their conventional counterparts.

Nine studies demonstrated that Fairtrade capacity building activities have increased access to new export markets because of improved product quality, improved negotiating skills, and greater exposure to potential export partners and market information. And 11 studies provided clear evidence that Fairtrade producers enjoy greater access to credit than their non-Fairtrade counterparts either through pre-financing by the buyer, credit schemes run by the organisation at advantageous interest rates or from traditional sources who viewed Fairtrade farmers as having a better credit rating due to their better incomes and long-term contracts.

The guaranteed price, long-term contracts and access to credit has also given farmers in some instances the security to diversify their source of income thereby further reducing vulnerability. Seven studies cite examples including improvement of food security through organic gardening or small livestock production. In El Salvador and Mexico, co-operative members were able to diversify into handicraft production, establishment of community stores, development of bakeries and improved production of basic grains. One study of Costa Rican coffee found activity specialisation was increased by participation in Fairtrade, leading to less income diversification, especially where co-operatives were able to sell a major share of their production to Fairtrade outlets.

The evidence on whether Fairtrade can and is improving quality is mixed. A number of studies do emphasise the importance of the long-term relationship between buyers and producers in incentivising farmers to invest in quality improvements while the prices paid provide the wherewithal to do so, enhancing competitiveness and price even when the market is in surplus.

However producers in ecologically marginal or remote areas may struggle to conform to the environmental and quality standards required to ensure sales to Fairtrade buyers, and even those in favourable circumstances only sell a proportion of their produce as Fairtrade. However, many Fair Trade Organisations such as Cafédirect and Divine, actively support producers in marginal areas to meet Fairtrade standards.

Fairtrade cannot remove all market risks for small producers, and while some commentators have argued that in theory the Fairtrade incentive structure could create artificially higher prices leading to increased production which will eventually depress prices – the review found no empirical evidence to support this assertion.

Many studies show that Fairtrade can provide important benefits to participants and a few mention dramatic improvements in livelihoods. There are several studies where producer families are still only surviving and covering basic needs. These studies suggest that Fairtrade needs to be supplemented by, and co-ordinated with, other development policies and initiatives in order to raise rural livelihoods to a more sustainable level. For example land tenure reform may be a critical issue which Fairtrade organisations alone cannot achieve, but for which they might contribute to a pro-poor lobby.

There is evidence from six studies that Fairtrade has also improved conditions for farmers and workers in the conventional market. In Mexico, for instance, the presence of, and competition induced by Fairtrade has forced middlemen to increase their prices - to the benefit of all producers. Similar effects have been noted in Tanzania, Peru, Ghana, Bolivia and Nicaragua. In Ghana, improvements in labour conditions on plantations in the region also occurred as a result of improvements implemented first on the Fairtrade certified plantation.

In some nine cases, particularly in coffee production in Latin America, Fairtrade has provided smallholders with the means to convert to organic production, providing them with an additional price supplement. The papers were divided as to the direct economic benefits of organic production though because of the labour and organic certification costs.

It does appear likely from the evidence that Fairtrade participants are benefiting positively from the Fairtrade premiums

especially in relation to health, education and agricultural development. However the existing body of evidence does not yet do enough to analyse the impacts of activities funded by the Fairtrade premium, or of how impacts are differentiated along social or gender lines. This is a missed opportunity in terms of identifying successes and tracking change in order to make improvements.

### 3. Social and empowerment impacts

The published literature strongly supports the argument that Fairtrade is having positive empowerment impacts. The social development principles of Fairtrade are of particular relevance to the political empowerment of producers (see Box 2), while economic inputs (see Box 1) also shape economic empowerment.

#### Box 2: Social development standards in Fairtrade

For *small farmers*, FLO standards require:

- A non-discriminatory, democratic organisational structure that enables farmers to bring a product to the market
- The organisation must be set up in a transparent way
- It must not discriminate against any particular member or social group.

For *hired labour*, FLO standards require:

- The company involved to bring social rights and security to its workers
- Training opportunities
- Non-discriminatory employment practices
- No child or forced labour
- Access to collective bargaining processes
- Freedom of association
- Conditions of employment exceeding legal minimum requirements
- Adequate occupational safety and health conditions
- Sufficient facilities for the workforce to manage the Fairtrade premium

Of the case studies reviewed, 22 identified positive improvement in at least one aspect of empowerment. For individual producers the most common were improved **self-confidence and self esteem** (10 studies), **greater access to training** (14 studies) and **improved market and export knowledge** (13 studies). The latter has led to **increased confidence to negotiate with buyers** and improved ability to operate on international markets. For example a coffee co-op in Tanzania said that participation in Fairtrade provided them with the security to take the initial risk involved in international trading following the 1989 coffee crisis and as result they have learnt how to meet the demands of speciality markets such as organic and gourmet coffees which bring greater returns. Indeed one group of authors argue that increasing the strength of producer groups and their bargaining power is **the** most important impact of Fairtrade which goes beyond the actual value of the products traded and the findings of many other studies bears this out.

Nineteen case studies found positive impacts in relation to **increased democracy and levels of participation** amongst Fairtrade co-operatives providing strong evidence of progress in this area. Thirteen case studies also found that Fairtrade co-operatives gained **increased influence nationally and locally** (for example influencing Tanzanian coffee board rules), and/or were better able to attract other sources of funding.

Many studies demonstrated that Fairtrade relationships provided a **solid platform for producers to innovate**, as demonstrated by conversion to organic production (nine case studies), and to operate more effectively in mainstream markets. The support of the Fairtrade system to producer organisations (e.g. in providing information and market transparency) is of particular importance during and immediately after the reform of marketing and trading arrangements.

While more knowledge of Fairtrade is held at the co-operative or plantation management level, in the majority of cases, individual farmer or worker knowledge of Fairtrade was found to be limited, with confusion of what Fairtrade is and does. If part of the aim of Fairtrade is to empower smallholders and workers then it is important that they have a deeper knowledge of the Fairtrade system, (especially where Fairtrade sales represent a high proportion of the total). However where Fairtrade sales are a small proportion of overall trade it is understandable that knowledge is more limited and the investment of time and resources into informing individual farmers and workers about Fairtrade should be commensurate to avoid unrealistic expectations.

There is a broader debate in the development literature about the efficiency and efficacy of the co-operative as a development tool and some authors question the Fairtrade emphasis on co-operatives (although in fact other democratic forms of organisation such as farmers' associations are also recognised within the Fairtrade system). However there are also benefits to individuals from being part of a recognised organisation, not least the other services provided by that organisation to members, and there are examples (e.g. coffee co-operatives in Costa Rica) where Fairtrade has enabled the very **survival of farmers in shocks and stresses** such as the collapse of the International Coffee Agreement in 1989. Co-operative farmers in Chiapas have also been able to **lobby local government** to obtain grants that are available for small producers –

benefits unorganised producers would not be able to access.

There is also evidence of the **wider community benefiting** from Fairtrade premium investment in community infrastructure (see section 2). There can also be multiplier impacts which reach beyond individual producers and organisations – in one example transport and tourism services, employment generation and national export earnings were all expanded as a result of Fairtrade.

There are positive examples of women benefiting from income-generating activities in agriculture, health and subsistence farming supported by Fairtrade. There are risks though that these may increase women's workloads without giving them greater influence in household decision-making. Existing gender inequalities present barriers to women's participation, particularly in export crops, which can be difficult to transform, without clear policies and strategies.

## 4. Environmental impacts

The environment-related inputs of Fairtrade are summarised in Box 3 in line with Fairtrade's ambition to protect the natural environment and make environmentally sustainable farming practices a part of farm management.

### Box 3: Environmental focus

- Fairtrade requires minimised and safe use of agrochemicals
- Proper and safe management of waste
- Maintenance of soil fertility and water resources
- Prohibits use of genetically modified organisms
- Requires organisations to assess their environmental impact and develop plans to mitigate it

While none of the papers carried out a methodical environmental assessment, **good environmental practices** amongst Fairtrade-certified producers were commonly found to be being used. For instance, in Guatemala non-Fairtrade coffee farmers are almost twice as likely as Fairtrade coffee producers to use agrochemicals, and Mexican Fairtrade coffee production is now almost synonymous with organic production, leading to clear environmental benefits including reduced chemical usage, increased biodiversity and soil fertility. Indeed in many cases it was noted that Fairtrade helped in the transition to organic production partly because the stable Fairtrade price enables farmers to make the transition to organic production and partly because the costs of conversion are shared across the producer organisation. Some studies reported that Fairtrade environmental conditions were found to be either too stringent or in some cases, locally inappropriate. Some suggest a need for standards and certification procedures to be more contextualised to consider local labour, social and cultural norms. In one case where complaints were submitted to FLO, the application of the standards to local conditions was modified.

Several papers recount how the Fairtrade premium has been used to finance environmental programmes, including organic farming, integrated pest and soil management, the promotion of fuel-efficient stoves and biodiversity conservation. Unfortunately, none explore in depth what difference these activities have made to the environment or to local livelihoods and communities – an obvious gap in the literature and another area for future research.

None of the studies so far consider the implications for Fairtrade of a changing climate. It is already clear that climate change is affecting the livelihoods of producers and workers and Fairtrade should consider how best to support farmers to increase the diversity and resilience of their farming system. Mitigation of, and adaptation to, climate change are both needed and require attention from the Fairtrade movement.

## 5. Gaps in the evidence

A new 'wave' of formal, strategic impact studies and participatory monitoring and evaluation is now underway and hopefully these will address some of the information gaps neglected by previous investigations, the most urgent including:

- The impact on hired labour of participation in Fairtrade
- The relative contribution that Fairtrade can make to tackling poverty compared to other kinds of development intervention
- The risks posed to the security of rural livelihoods by changing climate, localised environmental degradation processes and increasing competition over land use and the implications for Fairtrade
- The extent to which Fairtrade premium activities have achieved the objectives set by the producers and workers themselves
- How Fairtrade challenges gender norms and empowers women, and the differential impacts of Fairtrade for male and female producers, and other marginalised groups
- Given Fairtrade's move into the mainstream it is of critical importance that evidence from workers and producers in supermarket and major manufacturer supply chains as well as ATO value chains is gathered on a systematic basis to provide a fair assessment of impact

- Coverage of other important commodities in the Fairtrade system in a broader range of locations and over longer time frames.

## 6. Conclusions

Fairtrade does not claim to solve rural poverty in developing countries but if helping poor households to tackle poverty is the ultimate objective of Fairtrade, it is reasonable to explore how far Fairtrade is achieving this in different situations. This extensive review of the literature, (which covers mainly coffee case studies) finds strong evidence that Fairtrade provides a favourable economic opportunity for smallholder farming families that are able to join farmer organisations and can provide products to market specification. A high proportion of the studies reviewed found higher returns and stable incomes as clear benefits enjoyed by many Fairtrade producers, although Fairtrade is not always able to guarantee improved net household income because of for example increased labour or other household costs. But measurement of income differences between participating and non-participating farmers does not tell the complete story in relation to Fairtrade impact. Assessments based solely on this are not doing justice to the whole range of benefits instigated by Fairtrade (e.g. increased access to credit, increased self-esteem, benefits for the wider community and organisational capacity building) that are not so easy to quantify and yet which are shown by many of these studies to be extremely important. The question of whether Fairtrade producers are better off than their counterparts is very complex and cannot be confined only to questions of price and income differentials. A holistic analysis should consider not only household budgets, but a broad range of welfare and quality of life indicators, empowerment indicators and most importantly the views of the participants to assess whether Fairtrade enables them to make a step change in their livelihood security and welfare.

In summary, although the evidence base is far from complete, the information to date shows the importance of Fairtrade in providing organised small farmers with the greater stability and security needed to make longer-term investments, in building their capacity and throwing them a lifeline in times of real hardship. Similarly, many Fairtrade co-operatives are becoming stronger, often showing greater ability to survive in difficult times and becoming more able to provide important services to their members. This strengthening is particularly marked where producer ownership further along the value chain is achieved as demonstrated by the share ownership of producers in Cafédirect and Divine. There is an inherent tension faced by Fairtrade of using simple and positive messaging to inform consumers about Fairtrade whilst recognising and being transparent about the complexities involved in any development intervention. There is no easy solution but furthering understanding of how Fairtrade has an impact in different contexts based on the perspectives of farmers and workers is a critical first step along the way.

Download the summary paper 'A review of the impact of Fairtrade over the last ten years' [[PDF, 540kb](#)]

Download the full paper 'The Last Ten Years: A comprehensive review of the literature on the impact of Fairtrade' [[PDF, 750kb](#)]

Disclaimer: This paper was commissioned by the Fairtrade Foundation but the findings and views contained herein are those of the author alone

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