

# Fairtrade Coffee

## A study to assess the impact of Fairtrade for coffee smallholders and producer organisations in Indonesia, Mexico, Peru, and Tanzania

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V. Nelson, J. Haggar, A. Martin, J. Donovan, E. Borasino, W. Hasyim, N. Mhando, M. Senga, J. Mgumia, E. Quintanar Guadarrama, Z. Kendar, J. Valdez and D. Morales



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## TABLE OF CONTENTS

|  |    |
|--|----|
| Acknowledgements .....   | X  |
| Affiliations and roles in the research.....  | X  |
| Acronyms and abbreviations .....   | xi |
| Executive Summary .....  | 1  |
| 1. Introduction .....  | 1  |
| 2. Challenges in smallholder coffee production.....  | 1  |
| 3. Findings.....   | 3  |
| 3.1 Fairtrade interventions (inputs) .....   | 3  |
| 3.2 Fairtrade outputs.....   | 4  |
| 3.3 Fairtrade outcomes .....   | 7  |
| 3.4 Fairtrade impacts.....   | 12 |
| 4. Recommendations .....   | 14 |
| FULL REPORT .....  | 16 |
| 1. Introduction.....   | 17 |
| 1.1 Study objectives .....   | 18 |
| 1.2 Study design.....  | 18 |
| 1.2.1 Theory-based evaluation .....  | 18 |
| 1.2.2 Other factors causing change .....   | 21 |
| 1.2.3 Use of mixed methods.....  | 21 |
| 1.2.4 Maximising usefulness.....   | 21 |
| 1.2.5 Comparative analysis.....  | 23 |
| 1.3 Methodology .....  | 24 |
| 1.3.1 Selection of case study countries .....  | 24 |
| 1.3.2 Selection process for case study producer organisations with Fairtrade certification ..... | 25 |
| 1.3.3 Constructing counterfactual comparisons .....  | 26 |
| 1.3.4 Producer organisation selection by country.....  | 28 |
| 1.3.5 Selection of individual farmers in questionnaire survey .....                              | 32 |
| 1.3.6 Research protocol development .....  | 32 |
| 1.3.7 Research methods .....   | 32 |
| 1.3.8 Analysis of quantitative data and evaluation of counterfactual .....                       | 38 |
| 1.3.9 Synthesis of information and report writing .....  | 39 |
| 1.4 Strengths and limitations of the study .....   | 41 |
| 2. Context of Fairtrade coffee .....   | 43 |
| 2.1 Global coffee market .....   | 43 |

|       |   |    |
|-------|---|----|
| 2.2   | <i>Coffee livelihoods and challenges of the market</i> .....                            | 43 |
| 2.3   | <i>Sustainable coffee, certification and the Fairtrade coffee markets</i> .....         | 47 |
| 2.4   | <i>Country contexts</i> .....   | 50 |
| 3.    | <i>Assessment of Fairtrade interventions in coffee - inputs</i> .....                   | 52 |
| 3.1   | <i>Standards for supply chain businesses and for small producer organisations</i> ..... | 52 |
| 3.2   | <i>Building Fairtrade markets</i> .....   | 55 |
| 3.3   | <i>Fairtrade producer support</i> .....   | 56 |
| 3.3.1 | Peru.....   | 56 |
| 3.3.2 | Mexico .....  | 56 |
| 3.3.3 | Tanzania.....   | 57 |
| 3.3.4 | Indonesia .....   | 57 |
| 3.4   | <i>Building networks and alliances</i> .....  | 58 |
| 3.4.1 | Peru.....   | 58 |
| 3.4.2 | Mexico .....  | 58 |
| 3.4.3 | Tanzania.....   | 58 |
| 3.4.4 | Indonesia .....   | 58 |
| 3.5   | <i>Support from external agencies</i> .....   | 59 |
| 3.5.1 | Peru.....   | 59 |
| 3.5.2 | Mexico .....  | 59 |
| 3.5.3 | Tanzania.....   | 59 |
| 3.5.4 | Indonesia .....   | 59 |
| 3.6   | <i>Summary of overall findings on Fairtrade interventions</i> .....                     | 60 |
| 4.    | <i>Assessment of changes resulting from Fairtrade support – outputs</i> .....           | 63 |
| 4.1   | <i>Fairer trade for producers</i> .....   | 63 |
| 4.1.1 | Significant and sustained access to Fairtrade markets.....                              | 63 |
| 4.1.2 | Supportive trading relations with buyers.....   | 65 |
| 4.1.3 | Fair prices and price stability.....  | 66 |
| 4.2   | <i>Strengthened small producer organisations</i> .....                                  | 71 |
| 4.2.1 | Democracy, transparency and members’ participation.....                                 | 71 |
| 4.2.2 | Participation in Fairtrade networks and Fairtrade governance .....                      | 73 |
| 4.3   | <i>Investment in producers and their organisations and communities</i> .....            | 74 |
| 4.3.1 | Collective investments of the Fairtrade Premium.....                                    | 74 |
| 4.3.2 | Increased access to working and investment capital .....                                | 78 |
| 4.4   | <i>Increased knowledge and capacity among POs and producers</i> .....                   | 79 |
| 4.4.1 | Increased management and technical capacity at PO level.....                            | 80 |

|       |   |            |
|-------|---|------------|
| 4.4.2 | Increased capacity to protect health and environment, and to adapt to climate change..... | 82         |
| 4.4.3 | Awareness of human rights.....  | 84         |
| 4.4.4 | Understanding of Fairtrade principles and practices .....                                 | 85         |
| 4.5   | <i>Summary of overall findings on Fairtrade outputs.....</i>                              | <i>86</i>  |
| 5.    | Assessment of changes resulting from Fairtrade - outcomes.....                            | 91         |
| 5.1   | <i>Resilient and viable producer organisations.....</i>                                   | <i>91</i>  |
| 5.1.1 | Good business management practices and systems.....                                       | 91         |
| 5.1.2 | Increased productivity and quality.....   | 92         |
| 5.1.3 | Improved individual and joint ownership of productive assets.....                         | 95         |
| 5.1.4 | Development of markets.....   | 99         |
| 5.1.5 | Enhanced negotiation power of POs and control in supply chains.....                       | 100        |
| 5.1.6 | Increased profitability and reduced risk.....   | 101        |
| 5.2   | <i>Strong and inclusive small producer organisations.....</i>                             | <i>106</i> |
| 5.2.1 | Strong and accountable leadership.....  | 106        |
| 5.2.2 | Improving gender equality and equity within POs.....                                      | 108        |
| 5.3   | <i>Enhanced benefits for producers and communities.....</i>                               | <i>111</i> |
| 5.3.1 | Improved services and support for PO members.....   | 112        |
| 5.3.2 | Improved services and infrastructure in communities.....                                  | 117        |
| 5.3.3 | Support for vulnerable and marginalised groups.....                                       | 117        |
| 5.3.4 | Protection of the environment and adaptation to climate change.....                       | 119        |
| 5.4   | <i>Increased influence for small producers.....</i>                                       | <i>120</i> |
| 5.4.1 | Ability to influence Fairtrade policies and regulations.....                              | 120        |
| 5.4.2 | Ability to influence local, regional and international policy.....                        | 122        |
| 5.5   | <i>Summary of overall findings on Fairtrade outcomes.....</i>                             | <i>124</i> |
| 6.    | Assessment of changes resulting from Fairtrade – impacts.....                             | 128        |
| 6.1   | <i>Improved household income, assets and standard of living.....</i>                      | <i>128</i> |
| 6.2   | <i>Less risk and vulnerability.....</i>   | <i>133</i> |
| 6.3   | <i>Improved access to basic services.....</i>   | <i>135</i> |
| 6.4   | <i>Increased environmental sustainability and resilience to climate change.....</i>       | <i>135</i> |
| 6.5   | <i>Inter-generational sustainability of rural communities.....</i>                        | <i>136</i> |
| 6.6   | <i>Enhanced influence and status of small producers.....</i>                              | <i>138</i> |
| 6.7   | <i>Summary of overall findings on Fairtrade impacts.....</i>                              | <i>142</i> |
| 7.    | Conclusions.....  | 144        |
| 7.1   | <i>Synthesis of findings against the theory of change.....</i>                            | <i>144</i> |
| 7.2   | <i>Synthesis of findings on the evaluation questions.....</i>                             | <i>148</i> |

|       |  |     |
|-------|--|-----|
| 7.2.1 | The difference made by Fairtrade at an organisational level.....                         | 148 |
| 7.2.2 | Producer organisation goals and Fairtrade .....  | 153 |
| 7.2.3 | Relationships between Fairtrade and organic certification .....                          | 153 |
| 7.2.4 | The difference made by Fairtrade for individual members of Fairtrade organisations ..... | 153 |
| 7.2.5 | Individual producers' goals and Fairtrade .....  | 154 |
| 7.2.6 | Assessing the relative efficacy of Fairtrade interventions.....                          | 155 |
| 8.    | Recommendations.....   | 157 |
| 9.    | References .....   | 165 |
|       | Annex 1: Terms of Reference .....  | 167 |

**List of Tables**

|   |     |
|---|-----|
| Table 1: Shortlist of countries for inclusion in study .....  | 25  |
| Table 2: Possible counterfactual comparisons for this study in situations of multiple certification .....   | 27  |
| Table 3: Certification and PO characteristics in each country and reasons for PO selection .....  | 29  |
| Table 4: Overview of the study POs and comparison groups .....  | 31  |
| Table 5: Selection of farmers for interview .....   | 32  |
| Table 6: Data collection methods used during the study.....   | 37  |
| Table 7: Characteristics of farmers surveyed; values are averages for the survey participants.....  | 40  |
| Table 8: Methodological innovations .....   | 41  |
| Table 9: Limitations of the study .....   | 42  |
| Table 10: Overview of the social, economic and environmental issues at the producer level.....  | 46  |
| Table 11: Contextual factors shaping Fairtrade impact .....   | 50  |
| Table 12: External support to study POs .....   | 60  |
| Table 13: Fairtrade interventions (inputs) in the cases studied.....  | 61  |
| Table 14: Average farm-gate price received by farmers in 2013 (USD per kg of parchment coffee) according to their affiliation.....  | 70  |
| Table 15: Prices to farmers for coffee cherries (USD per kg) from different buyers – Indonesia.....   | 70  |
| Table 16: Self-assessment by POs of Fairtrade impact upon aspects of their organisational development ..  | 73  |
| Table 17: Value of Fairtrade Premium (USD) received by each PO based on Fairtrade audit report. Periods reported vary between PO depending on harvest periods and timing of audits..... | 75  |
| Table 18: Comparing investment uses relating to the Fairtrade Premium .....   | 76  |
| Table 19: Self-assessment of changes in service provision by the PO over the last five years.....   | 81  |
| Table 20: Summary of findings on Fairtrade outputs in the countries studied .....   | 86  |
| Table 21: Total production of coffee per farm over previous three years in Mexico (kg parchment coffee)   | 93  |
| Table 22: Total production of coffee per farm over previous three years in Peru (kg parchment coffee).....  | 94  |
| Table 23: Total production of coffee per farm over previous three years in Tanzania (kg parchment coffee) .....   | 94  |
| Table 24: Total production of coffee per farm over previous three years in Indonesia (kg coffee cherries) .   | 94  |
| Table 25: Average coffee prices – Peru .....  | 102 |
| Table 26: Costs and income (Peruvian soles) for Peruvian producers in 2013 and compared with 2011....   | 103 |
| Table 27: Costs and income (Mexican pesos) for Mexican producers in 2013 and compared with 2011....   | 104 |
| Table 28: Costs and income (Tanzanian shillings) for Tanzanian producers in 2013 .....  | 105 |
| Table 29: Costs and income for Indonesian producers (Rupiah) in 2013 and compared with 2011 .....   | 105 |
| Table 30: Women's and men's participation in POs as members .....   | 108 |
| Table 31: Comparison of prices received by men and women Fairtrade and non-Fairtrade farmers.....   | 109 |
| Table 32: Gross income (USD) from coffee production for men and women Fairtrade and non-Fairtrade farmers .....   | 109 |
| Table 33: Fairtrade outcomes in the countries studied .....   | 124 |
| Table 34: Fairtrade impacts in the countries studied.....   | 142 |
| Table 35: Findings by theme and indicators in the theory of change .....  | 144 |

**List of Figures**

|   |     |
|---|-----|
| Figure 1: Visual summary of findings .....  | 2   |
| Figure 2: Percentage of farmers who have received training in key topics .....  | 11  |
| Figure 3: Gross household income from coffee production (USD) per hectare per year .....  | 13  |
| Figure 4: Linking Fairtrade’s vision, goals and approach.....   | 19  |
| Figure 5: Detailed Fairtrade theory of change for small producer organisation situations indicating causal linkages.....  | 20  |
| Figure 6: Use of mixed methods responding to the Fairtrade theory of change and evaluation questions ..   | 22  |
| Figure 7: Sources of data and research methods.....   | 34  |
| Figure 8: Planned data collection tools at different levels.....  | 36  |
| Figure 9: Arabica coffee market 1989-2015: Comparison of Fairtrade and New York prices.....   | 44  |
| Figure 10: Standard-compliant production versus standard-compliant sales for 2012.....  | 47  |
| Figure 11: Global versus sustainable distribution of supply, 2011-2012 .....  | 48  |
| Figure 12: Growth in standard-compliant coffee production and sales, 2008–2012 .....  | 48  |
| Figure 13: Sales by Fairtrade POs to Fairtrade and non-Fairtrade buyers, in metric tonnes of export green coffee (Mexico and Peru), pre-export green coffee (Indonesia) and dried parchment (Tanzania)..... | 64  |
| Figure 14: Export prices for green coffee received by the POs (USD/lb). Sales of different types of coffee sold: Fairtrade, Fairtrade and organic, and non-Fairtrade sales .....                            | 68  |
| Figure 15: Coffee productivity in 2013 (kg parchment per hectare) based on farmer survey.....   | 93  |
| Figure 16: Productive assets of Fairtrade and non-Fairtrade farmers .....   | 97  |
| Figure 17: Assets associated with coffee processing on Fairtrade and non-Fairtrade farms .....  | 97  |
| Figure 18: Livestock owned by Fairtrade and non-Fairtrade farms .....   | 98  |
| Figure 19a: Percentage of Fairtrade and non-Fairtrade farmers receiving different services.....   | 114 |
| Figure 19b: Percentage of farmers who are satisfied with the services they receive.....   | 114 |
| Figure 20: Percentage of farmers who received training in key topics.....   | 116 |
| Figure 21: Gross household income from coffee production (USD) per hectare for 2013 .....   | 129 |
| Figure 22: Farmers’ most important source of income.....  | 132 |
| Figure 23: Chart showing Fairtrade and non-Fairtrade producer perceptions of change in their economic status over the past five years.....  | 133 |

**List of Boxes**

|   |     |
|---|-----|
| Box 1: Key research questions.....  | 18  |
| Box 2: Definition of theory-based evaluation .....  | 18  |
| Box 3: Using research protocols .....   | 23  |
| Box 4: Constructing a counterfactual .....  | 27  |
| Box 5: Key statistics in the coffee sector .....  | 43  |
| Box 6: Key Fairtrade statistics.....  | 50  |
| Box 7: Trader standards.....  | 52  |
| Box 8: Fairtrade generic standards for small producers and coffee-specific standards .....                      | 53  |
| Box 9: Definition of small producers .....  | 54  |
| Box 10: Summary of findings on small producer and coffee standards.....   | 55  |
| Box 11: Summary of findings on building Fairtrade markets .....   | 56  |
| Box 12: Summary of findings on Fairtrade producer support.....  | 58  |
| Box 13: Summary of findings on building networks and alliances .....  | 58  |
| Box 14: Summary of findings on support from external agencies .....   | 60  |
| Box 15: Overall findings on Fairtrade interventions (inputs) .....  | 62  |
| Box 16: Summary of findings on significant and sustained access to Fairtrade markets.....                       | 65  |
| Box 17: Summary of findings on supportive trading relations with buyers.....                                    | 66  |
| Box 18: Summary of findings on fair prices and price stability .....  | 71  |
| Box 19: Summary of findings on democracy, transparency and members' participation .....                         | 73  |
| Box 20: Summary of findings on participation in Fairtrade networks and governance.....                          | 74  |
| Box 21: An example of Fairtrade Premium funding in a coffee growing community, Indonesia .....                  | 78  |
| Box 22: Summary findings on collective investments of the Fairtrade Premium .....                               | 78  |
| Box 23: Summary of findings on increased access to working and investment capital .....                         | 79  |
| Box 24: Summary of findings on management and technical capacity.....   | 82  |
| Box 25: Summary of findings on capacity to protect health and environment, and to adapt to climate change ..... | 83  |
| Box 26: Summary of findings on awareness of human rights .....  | 85  |
| Box 27: Summary of findings on understanding Fairtrade principles and practices.....                            | 86  |
| Box 28: Summary of findings on Fairtrade outputs.....   | 90  |
| Box 29: Summary of findings on good management practices and systems .....                                      | 92  |
| Box 30: Summary of findings on increased productivity and quality .....   | 95  |
| Box 31: Summary of findings on improvement in individual and joint ownership of productive assets .....         | 98  |
| Box 32: Summary of findings on the development of markets.....  | 100 |
| Box 33: Summary of findings on negotiation power and control in supply chains.....                              | 101 |
| Box 34: Summary of findings on profitability and risk .....   | 106 |
| Box 35: Summary of findings on strong and accountable leadership.....   | 108 |
| Box 36: Summary of findings on improving gender equality and equity in POs .....                                | 111 |
| Box 37: Summary of findings on improved services and support for farmers.....                                   | 116 |
| Box 38: Summary of findings on improved services and infrastructure in communities .....                        | 117 |
| Box 39: Summary of findings on support for vulnerable and marginalised groups.....                              | 119 |
| Box 40: Summary of findings on protection of the environment and adaptation to climate change .....             | 120 |
| Box 41: Summary of findings on ability to influence Fairtrade policies and regulations .....                    | 122 |
| Box 42: Summary of findings on ability to influence local, regional and international policy .....              | 124 |
| Box 43: Overall findings on Fairtrade outcomes .....  | 127 |
| Box 44: Summary of findings on improved household income, assets and standard of living.....                    | 133 |

|   |     |
|---|-----|
| Box 45: Summary of findings on reducing risk and vulnerability .....                              | 134 |
| Box 46: Summary of findings on improving access to basic services .....                           | 135 |
| Box 47: Summary of findings on environmental sustainability and resilience to climate change..... | 136 |
| Box 48: Summary of findings on inter-generational sustainability of rural communities .....       | 138 |
| Box 49: Summary of findings on enhanced influence and status of small producers .....             | 141 |
| Box 50: Overall findings on Fairtrade impacts.....  | 143 |

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## Affiliations and roles in the research

**Valerie Nelson, Livelihoods and Institutions Department**, Natural Resources Institute, University of Greenwich (*Co-led the research, field research in Tanzania and Indonesia*)

**Dr Jeremy Haggart**, Head of the Agriculture, Environment and Health Department, Natural Resources Institute, University of Greenwich (*Co-led the research, field research in Peru and Mexico*)

**Adrienne Martin**, Director of Programme Development, Natural Resources Institute, University of Greenwich (*Advisory inputs on methodology and analysis*)

**Jason Donovan**, Value Chains and Transformational Change. World Agroforestry Centre, Research Leader, ICRAF, Peru (*field research in Peru and overall analysis*)

**Elena Borasino**, Advisor, World Agroforestry Centre, Peru (*field research in Peru*)

**Wardah Hasyim**, Independent Consultant (*lead for field research in Indonesia*)

**Zendaya Kendar**, Independent Consultant (*field research in Indonesia*)

**Dr Nandera Mhando**, Lecturer, Sociology and Anthropology Department, University of Dar es Salaam (*lead for field research, Tanzania*)

**Dr Matthew Senga**, Lecturer, Sociology and Anthropology Department, University of Dar es Salaam (*lead for field research, Tanzania*)

**Jacqui Mgumia**, Sociology and Anthropology Department, University of Dar es Salaam (*field research, Tanzania*)

**Eduardo Quintanar Guadarrama**, Universidad Autónoma de México (*lead for field research, Mexico*)

**J. Valdez**, Independent Consultant (*field research, Mexico*)

**D. Morales**, Independent Consultant (*field research, Mexico*)

## Acronyms and abbreviations

|          |   |
|----------|---|
| AGM      | Annual general meeting  |
| ATO      | Alternative trade organisations   |
| CAFE     | Starbucks' Coffee and Farmer Equity Practices   |
| CBD      | Coffee berry disease  |
| CLR      | Coffee leaf rust  |
| CLAC     | Coordinadora Latinoamericana y del Caribe de Comercio Justo   |
| COOPCAFE | La Coordinadora de Pequeños Productores de Café de Chiapas  |
| CPU      | Coffee processing unit  |
| FGD      | Focus group discussion  |
| FI       | Fairtrade International   |
| FLOCERT  | FLOCERT is a global certification and verification body, with the main role of independently certifying Fairtrade products. |
| GMA+     | Gross margin analysis plus  |
| ha       | Hectares  |
| ICA      | International Coffee Agreement  |
| ICO      | International Coffee Organisation   |
| ICS      | Internal control system   |
| ICT      | Information and communication technologies  |
| IDR      | Indonesian Rupiah (currency)  |
| IFOAM    | International Federation of Organic Agriculture Movements   |
| IGO      | Indication of Geographical Origin   |
| ITC      | International Trade Centre  |
| KII      | Key informant interview   |
| kg       | Kilogram (weight)   |
| lb       | Pound (weight)  |
| masl     | Metres above sea level  |
| NAPP     | Network of Asia and Pacific Producers   |
| NGO      | Non-governmental organisation   |
| NRI      | Natural Resources Institute, University of Greenwich, United Kingdom  |
| PEN      | Peruvian Nuevo Sol (currency)   |
| PGMA     | Participatory gross margin analysis plus  |
| PO       | Producer organisation   |
| PRA      | Participatory rural appraisal   |
| PSM      | Propensity score matching   |
| qq       | Quintals – a measurement of weight = hundredweight  |
| SSI      | Semi-structured interview   |
| TaCRI    | Tanzania Coffee Research Institute  |
| UCIRI    | La Unión de Comunidades Indígenas de la Región del Istmo  |
| USD      | United States Dollar  |



## Executive Summary

# A study to assess the impact of Fairtrade for coffee smallholders and producer organisations in Peru, Mexico, Tanzania and Indonesia

### September 2016

Report by *V. Nelson, J. Haggar, A. Martin, J. Donovan, E. Borasino, W. Hasyim, N. Mhando, M. Senga, J. Mgumia, E. Quintanar Guadarrama, Z. Kendar, J. Valdez, and D. Morales.*

This report presents the findings of an assessment of the impact of Fairtrade for coffee smallholders and their organisations in Peru, Mexico, Tanzania, and Indonesia. The study, commissioned by Fairtrade International, has been undertaken by a team led by the Natural Resources Institute at the University of Greenwich, in collaboration with research partners in each country.



## 1. Introduction

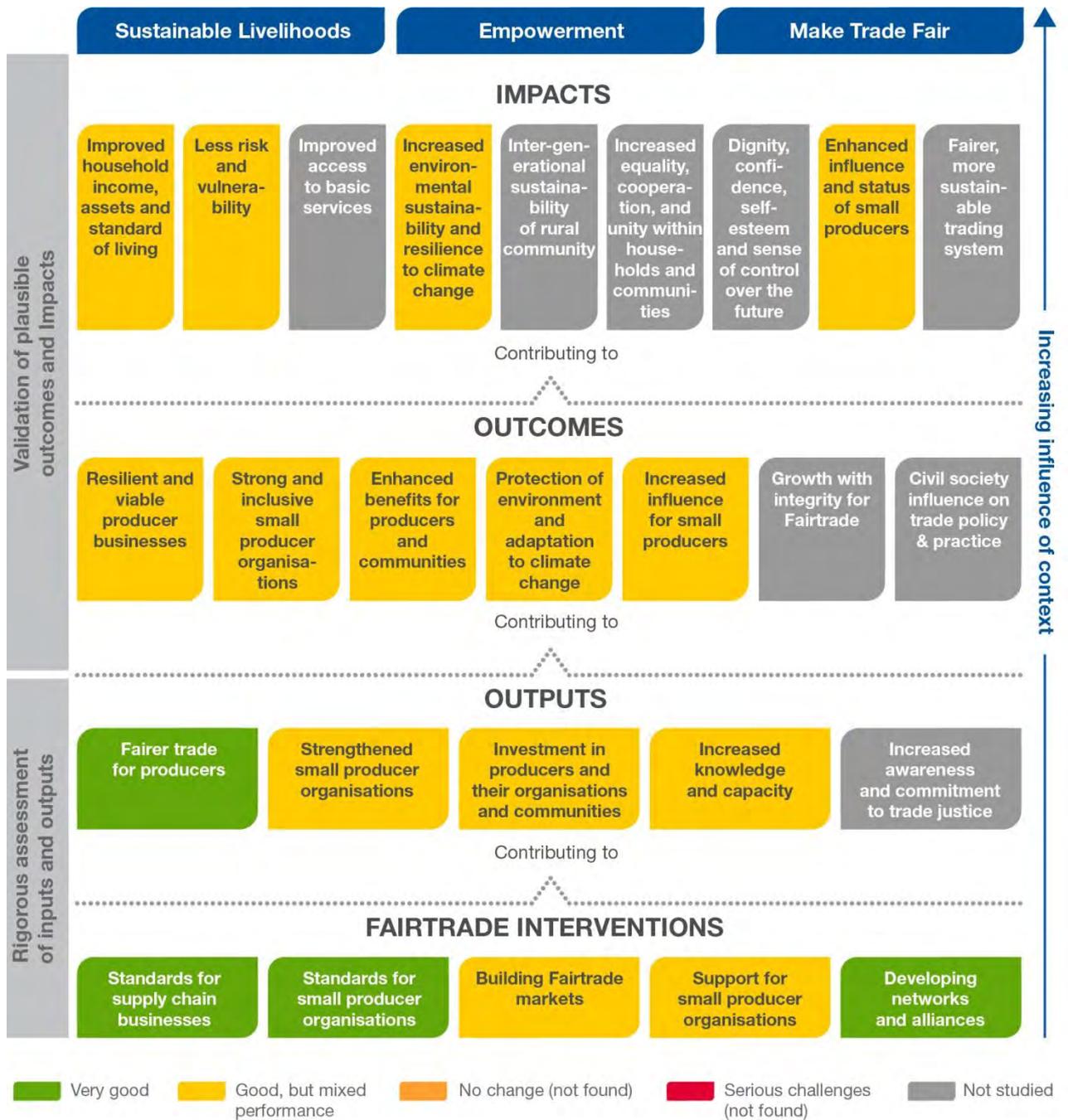
This executive summary presents the findings of a major evaluation commissioned by Fairtrade International. This evaluation aims to assess the impact of Fairtrade for coffee smallholders and their organisations to contribute to the evidence base on Fairtrade's impact to date and to inform Fairtrade on the potential to improve its impact in the future. Millions of smallholder farmer households around the world rely upon coffee for their livelihoods, and the challenges they face are numerous and growing. Fairtrade supports around 812,500 coffee-producing smallholder farmers in 445 producer organisations in 30 countries. In 2013-14 Fairtrade coffee producers reported selling 150,800 MT of coffee on Fairtrade terms. Producer organisations (POs) in four countries, Peru, Mexico, Tanzania, and Indonesia, were selected as cases by the research team to capture the range and depth of the Fairtrade experience. The evaluation covered two Fairtrade producer organisations in each country. Counterfactual comparisons are included in each case – either with a comparison producer organisation or with individual independent farmers cultivating coffee in the same area, but who are not part of Fairtrade certification. The evaluation used the recently developed and published 'Fairtrade International Theory of Change' to examine Fairtrade impact. Data was collected along the impact chain to understand how far Fairtrade's interventions have led to intended outputs and impacts, and to identify other influencing factors. The team developed a research protocol to support comparisons between countries, and used mixed methods to carry out the research.

## 2. Challenges in smallholder coffee production

Approximately 20 to 25 million farmers globally rely on coffee for their livelihoods. Despite a steady growth in global coffee consumption, small coffee producers face major challenges including high levels of volatility in prices, climate change, rising labour costs, price cost inflation, and a lack of

capacity to invest in improving production and resultant low and declining productivity in some countries, especially Africa. Structural issues, including lack of access to land for youth due to land fragmentation, widespread gender inequality, challenge equitable rural development. Developing countries have lost influence since the collapse of the International Coffee Agreement and there are inequalities in global coffee value chains, which tend to disadvantage small producers. While roasters' sourcing commitments in relation to certified coffee have grown considerably over the past decade, the amounts purchased are still fairly low compared to overall volumes.

Figure 1: Visual summary of findings



### 3. Findings

In this section we will firstly present our findings on the Fairtrade inputs, followed by our evidence on how far the Fairtrade inputs have contributed to intended outputs, outcomes and impacts, following the Fairtrade theory of change.<sup>1</sup> The findings relate to the case studies included within the study, rather than the entire Fairtrade system overall. See Figure 1 above.

#### 3.1 Fairtrade interventions (inputs)

Fairtrade interventions (inputs) include the standards Fairtrade has developed for traders, small producer organisations working with coffee, as well as the promotion of Fairtrade markets, providing direct support for small producer organisations and facilitating the development of networks and alliances. Our findings, on the extent and nature of implementation of the Fairtrade interventions in the cases and contexts studied, were as follows:

**Fairtrade and standards for supply chain businesses and producer organisations: Fairtrade has successfully developed standards for supply chain businesses and producer organisations. (Rating: very good)**

Standards represent a core element of the Fairtrade system. Developing such standards in a consultative process takes time and is a significant achievement. A few areas of concern, or where further clarification is needed were raised by producer organisation (PO) leaders, particularly in Mexico and Peru, for example: with regard to when adolescents are permitted to work on the farms, the adoption of the trader standards, the lack of provision of pre-finance and a lack of clarity on the rules governing participation of exporter companies. It is important to note that Fairtrade has revised its trader standards since the fieldwork was undertaken.

**Fairtrade performance has been positive in terms of building Fairtrade markets, but there are areas requiring improvement. (Rating: good, but mixed performance)**

A key intervention of Fairtrade is building Fairtrade markets; overall sales of Fairtrade coffee have been growing at a rate of 13 percent per year, similar to other voluntary sustainability standards. Producer sales of Fairtrade coffee have grown from 78,000 tonnes in 2008 to 150,800 in 2014. Over the same time period, the supply or production of Fairtrade coffee has also grown from 261,000 tonnes to 549,000 tonnes. This continued over supply can limit the amount of coffee that individual producer organisations can sell on Fairtrade terms.

**Fairtrade support for producer organisations has been good, with areas for improvement. (Rating: good, but mixed performance)**

In all four countries studied, the direct inputs from Fairtrade International in terms of producer support were seen as positive by PO managers. Producer support enables the POs to achieve Fairtrade standards, become certified (and thus access Fairtrade markets and associated benefits) and to continually make improvements. However, there was also some feedback from the producer organisations and members that the inputs need to be scaled up given the extent of the capacity building requirements facing them.

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<sup>1</sup> Outputs are the services and products delivered. Outcomes are the changes, benefits, learning or other effects that happen as a result of what the project or organisation offers or provides.

**Fairtrade and developing networks and alliances: A unique Fairtrade intervention is the building of Fairtrade producer networks and alliances and Fairtrade support for this has been very good. (Rating: very good)**

In our study we found very good Fairtrade performance. This mechanism of building producer networking and alliances is unique to Fairtrade. National networks for Fairtrade coffee have been established in three of the four countries studied, and these in turn are linked to regional networks which provide some training and international representation. There is active participation in national and regional Fairtrade networks by the Latin American producer organisations, and the producer organisations leaders felt this participation has been important in influencing the Fairtrade system and in achieving positive benefits for their organisations and members.

In Tanzania, producer organisation leaders have participated in regional East African network meetings, and in Indonesia, producer organisation leaders participate in the regional and a newly emerging national network – although in these cases it was harder to identify specific concrete outcomes, most likely because these network structures are younger and smaller than those in Latin America. More focused research is needed on the effectiveness of the producer networks, given their unique character and importance in Fairtrade governance.

**Beyond specific Fairtrade interventions, coffee producer organisations in the Fairtrade system frequently receive support from external agencies, frequently leveraged as a result of Fairtrade producer organisation certification and the associated reputational benefits**

It is important to understand the other types of support a producer organisation receives, the relative contribution of Fairtrade and these other sources and the extent to which Fairtrade enables producer organisations to attract additional funding. We found that support from external agencies is widespread amongst the Fairtrade producer organisations covered. Much of this support can be attributed to the Fairtrade certified status of the producer organisations, because certification adds to the reputation of the producer organisation amongst donors and buyers. However, there are cases where support has been provided to producer organisations independent of Fairtrade certification. For example, support has been provided by state and international funds to some of the coffee cooperatives in Southern Mexico in the past decade following the 1994 Zapatista Revolution led by the Ejército Zapatista de Liberación Nacional (EZLN), although this support is now waning.

### 3.2 Fairtrade outputs

*Jointly, these Fairtrade interventions are intended to lead to fairer trade for producers, a strengthening of small producer organisations, investment in producers and their organisations and communities, and increased knowledge and capacity.<sup>2</sup> Our findings were as follows:*

**Fairtrade and achieving fairer trade for producers: In terms of contributing to fairer trade for producers we found that Fairtrade support has been very good. (Rating: very good)**

All producer organisations made significant Fairtrade sales. In Peru, Indonesia and Mexico the general tendency was for sales to Fairtrade markets to have increased over the three years previous to the research, with Fairtrade and Fairtrade-organic sales representing over 80

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<sup>2</sup> Increased awareness and commitment to Fairtrade.

percent of total sales. In Tanzania, Fairtrade sales had declined over the previous three years with around 30 percent of total sales being on Fairtrade terms for the years for which data were available.

The trader standards are also designed to deliver more **supportive trading relations** for producer organisations with their buyers. We found improvements in the trading relationships of producer organisations with their buyers as a result of participation in Fairtrade. In at least two cases, participation in Fairtrade has enabled a producer organisation to become independent from a commercial trader and establish their own contracts. There were limitations to the provision of pre-financing, which is part of the Fairtrade trader standards, which had generally been done through financial intermediaries and was insufficient to pre-finance the full harvest of their members.

To improve **fair prices and reduce the impacts of price volatility**, Fairtrade sets a minimum price for Fairtrade export prices in the trade standard. The producer organisations in this study received higher prices from Fairtrade buyers than the non-Fairtrade buyers to whom they sold. In 2013, when coffee prices declined substantially, Fairtrade farmers received prices that were between eight and 30 percent higher price (the difference was statistically significant) than they would have received from selling to non-Fairtrade buyers, with the price difference being greatest for Fairtrade-organic farmers (12–30 percent higher). However, when world coffee prices were higher in 2011 and 2012, only producer organisations with very high quality coffee were able to negotiate higher prices than those offered by non-Fairtrade buyers. In terms of price stability, Fairtrade provides a small but limited buffer in the face of significant market fluctuations. While coffee prices for Fairtrade farmers were higher than for sales to non-Fairtrade buyers during periods of low prices the Fairtrade farmers experienced similar overall price fluctuations, with prices in 2013 half the level they were two years earlier when world prices were about twice the Fairtrade minimum.

**Fairtrade and strengthening of small producer organisations: There has been a positive effect in terms of the strengthening of small producer organisations, although this can still be improved. (Rating: good, but mixed performance)**

Most, but not all, of the producer organisations in our study indicate there has been a strengthening of key features of their governance, including democracy, transparency and members' participation as a result of participation in Fairtrade (e.g. the producer standards and producer support). For some of the producer organisations, there is a need to improve members' active participation in organisational decision-making and a need to increase organisational democracy and transparency – according to members we interviewed, some of the audit reports and various key informants.

**Fairtrade and investment in producers and their organisations and communities: Investment in producers and their organisations and communities resulting from Fairtrade has been positive, but there is room for improvement. (Rating: good, but mixed performance)**

The trader standards require registered Fairtrade buyers to pay a Fairtrade Premium to the Fairtrade producers from whom they purchase Fairtrade coffee, based on the volumes of Fairtrade coffee traded. These funds should be **collectively invested based on a democratic decision-making procedure**. The producer organisations in Latin America consider that the Fairtrade Premium has been critical in enabling them to invest in developing business capacity, for example in building processing facilities, and to provide services to their members, e.g. training in agronomy and quality control. In Indonesia and Tanzania these funds have also been used to provide services to farmers,

either as credit or technical support, and to make some community investments, such as in education, electricity or health. Farmers' knowledge of how the Fairtrade Premium was used was variable between producer organisations, and very few farmers felt there were direct benefits to themselves, even in the cases where the funds were used to give direct economic support to farmers e.g. through price support. There is a need to improve Fairtrade's advice to certified organisations on the appropriate uses and good management of the Fairtrade Premium.

**Increased access to working and investment capital** has been achieved by some producer organisations in our study, which have received pre-financing directly from buyers. For others, a common arrangement was for buyers to ally with financial institutions (usually specialist lenders to alternative markets) to lend money to the producer organisations, supported by a contract from the buyer with the producer organisation. Where this has been provided, this has been of invaluable assistance to the producer organisations, helping them to buy coffee beans. However it is not available to producer organisations that do not export, such as those in Indonesia. Furthermore, these sources of finance only cover a fraction of the financing required to buy the full coffee crop from the members.

**Fairtrade and creating increased knowledge and capacity amongst Fairtrade producer organisations: Fairtrade interventions have been positive in terms of creating increased knowledge and capacity amongst Fairtrade POs, but there is room for improvement. (Rating: good, but mixed performance)**

**Management and technical capacity** has improved as a result of participation in Fairtrade: The producer organisations have achieved greater independence from traders as a result of their participation in Fairtrade and are able to provide better services to their members, although producer organisations still have major challenges in covering the costs of the services without external support.

In terms of the Fairtrade producer organisations' capacity to **protect health and environment, and to adapt to climate change**, we found that the Fairtrade producer organisations in Mexico, Peru and Indonesia, especially those that hold organic certification, consider their organic production and broader environmentally friendly practices as conserving the environment. Leaders reported that Fairtrade promotes conservation of the environment in their standards (e.g. rules on the reduction of agrochemical use, environmental care, etc.), reinforcing organic culture where it already exists. The Tanzanian producer organisation leaders were aware of the relevant Fairtrade standards and farmers were aware of safe pesticide handling and restrictions.

The leaders of the Fairtrade producer organisations all had a high level of **awareness of human rights issues** and the content of the Fairtrade rules of relevance, following training by Fairtrade field staff. However, there is an assumption that this awareness-raising is cascaded to individual members, which does not necessarily occur, especially where the producer organisation does not receive additional support from NGOs and funders to enable them to develop strong advisory services.

On **gender equality**, Fairtrade includes guidance in the standards, but has decided not to include mandatory targets, for example on women's representation in official positions. With respect to youth, in Mexico, Peru and Indonesia, producer organisation leaders considered that above a certain

age, limited participation by adolescents was beneficial for them to learn about coffee production, but that attending school was the priority.

There is a good understanding of **Fairtrade principles and practices** among producer organisation leaders, although there are a small number of areas, such as the permitted uses of the Fairtrade Premium, where producer organisation leaders need further clarifications. At individual producer level, however, understanding is low.

### 3.3 Fairtrade outcomes

*Jointly, these Fairtrade outputs are intended to contribute to a range of outcomes, including resilient and viable producer organisations, strong and inclusive producer organisations, enhanced benefits for producers and communities, increased influence for small producers, and ability to achieve influence over local, national and international policy. Our evidence indicates the following:*

**Fairtrade and resilient and viable producer organisations: Fairtrade has led to positive outcomes in terms of resilient and viable POs, although there is room for improvement. (Rating: good, but mixed performance)**

With respect to good **management practices and systems**, in Indonesia, Mexico and Peru, the producer organisations have previously developed Internal Control Systems (ICS) as part of organic certification, which means their internal information systems and auditing of these systems is quite strong. For the Tanzanian producer organisations, there are more capacity gaps in their business management practices and systems, especially at the larger cooperative union.

**Differences in productivity** between Fairtrade and non-Fairtrade producers were country specific. In Peru and Mexico there were no significant differences in productivity between these groups; although there was some indication that in Mexico non-Fairtrade farmers had declining production while Fairtrade farmers were maintaining productivity. In Peru, all farmers suffered about 60 percent declines in production due to coffee leaf-rust over the previous two years. In Tanzania Fairtrade farmers had higher coffee productivity than non-Fairtrade farmers in our sample due to maintaining higher density of coffee plants. In Indonesia the non-Fairtrade farmers had higher productivity probably due to use of chemical fertilisers and higher coffee planting densities, and possibly more favourable site conditions for coffee production.

**Fairtrade has improved joint ownership of productive assets.** In terms of organisational investments, the producer organisations in Mexico, Peru and Indonesia reported investing in land, offices, warehousing and processing equipment over the past five years. These investments were at least partially supported by Fairtrade through the use of the Fairtrade Premium. There was limited organisational investment by the Fairtrade producer organisations in Tanzania as a result of Fairtrade, except in terms of office construction in Southern Tanzania. At the individual level, overall, Fairtrade coffee farmers in Mexico, Tanzania, Peru and Indonesia have greater assets for coffee production and processing compared to the non-certified Fairtrade farmers, but no clear differences are found for other assets.

Fairtrade has supported the **development of Fairtrade markets** for producer organisations. Fairtrade has supported producer organisations, especially in Peru and Indonesia, to become less dependent on individual trading companies to sell their coffee. In the case of Peru, producer organisations now have their own contracts with importers, and in Indonesia, producer

organisations are now working with different traders. Producer organisations in Mexico and Tanzania all have direct contracts with Fairtrade importers. Overall, the main recent market developments for the case study Fairtrade producer organisations were: they have offered roast and ground coffee to the local market, and in two cases they have even opened their own coffee shops which provided alternative income streams to the producer organisations. While export demand for high quality and Fairtrade/organic coffee is high and most producer organisations have stable relations with buyers for this coffee; finding Fairtrade buyers for non-organic coffee, and/or lower quality coffee is still a challenge.

In all the case studies, they have achieved **improvements in their negotiating power, although there is still wide variation in relative power within relationships**. The producer organisations have gradually improved their negotiating positions with exporters or international buyers, seeking to find alternative markets where possible. Their negotiating positions are stronger where they are selling high quality and organic/Fairtrade certified coffee, which has higher market demand.

**In terms of profitability and risk the Fairtrade certified producer organisations studied had greater resilience as a result of their participation in Fairtrade.** The producer organisations use the Fairtrade Premium as a source of funds to cover the varying demands of the moment, be that providing price subsidies to farmers to remain competitive during periods of high international prices, investing in quality management to meet demands of buyers, or providing training and inputs to farmers to combat coffee rust. Whatever the crisis of the moment, the availability of the Fairtrade Premium as a fund the members and organisation can utilise has been essential to their ability to respond to these crises. At the same time, the Fairtrade producer organisations in the study appeared to have higher costs than a traditional supply chain, which are paid for by the Fairtrade and organic Premiums, but these higher costs limit benefits to farmers.

**At the farm level, Fairtrade households are affected by the same sources of risk as non-Fairtrade households (e.g. variable prices, coffee rust), but at least in some cases, there is evidence that participation in Fairtrade has reduced farmer vulnerability, while not eliminating it completely.** The support from Fairtrade (Fairtrade Minimum Price and Fairtrade Premium) means that producer organisations are more resilient to risk, when there is a price crash. During periods when the coffee price crashes, as happens periodically (approximately every 10 years), the Fairtrade minimum price allows Fairtrade coffee farmers to obtain a higher price for their coffee and realise an improved income compared with non-Fairtrade farmers. During the price crash of 2013 Fairtrade farmers received between eight percent to 26 percent higher prices for their coffee compared to non-Fairtrade farmers. The importance of this for the producer organisations is evidenced by the substantial number of requests for application of new members that producer organisations in Mexico and Peru received during 2013.

**Fairtrade and more strong and inclusive POs: Fairtrade has been positive in achieving more strong and inclusive POs, but this can be improved. (Rating: good, but mixed performance)**

A key indicator for the positive impact of Fairtrade is the **strength and accountability of producer organisation leadership**. Producer organisations that have strong leadership are more likely to be effective in delivering services to and being accountable to individual members. Inclusive producer organisations are ones that are accountable, responding to the needs and interests of members, and critically they facilitate the active participation of members in decision-making. Where this

accountability does not exist there is the danger of producer organisation leaders or managers making decisions in favour of their personal interests rather than that of the members.

The ability of individual producers to hold leaders to account depends upon the quality of internal communications, individuals' understanding of their rights and obligations under the Fairtrade system and having sufficient confidence to exercise these rights. In the Mexican and Peruvian Fairtrade producer organisations studied, the farmers have a basic understanding of the governance of their organisation and there is evidence of leaders being held to account, i.e. removed from their positions of leadership or management when they have made decisions in favour of their own personal interests. The Indonesian Fairtrade producer organisation members interviewed appeared to be fairly positive about their leaders, but in Tanzania there were concerns raised by the farmers about the farmer group leadership or primary society leadership being unaccountable to members.

In terms of improving **gender equality and equity in producer organisations** we found little positive change. Women's membership is very low across all of the case study POs, because women are not usually landowners due to gender norms. There are some examples of efforts to increase women's participation in the organisation and in positions of authority in Peru and Mexico, but not at every producer organisation. Nevertheless one producer organisation in Mexico had increased women's membership and countered discrimination in prices paid to women against a cultural background of strong gender segregation. In Tanzania, few women attend meetings or training sessions, and most women who have coffee to sell do so via their husbands' or fathers' registration number for the producer organisation due to cultural gender norms. One of the Tanzanian producer organisations has a female board member who is also a Premium Committee member, but there has been no wider change in the producer organisation as far as we could assess during this study. In Indonesia, in a context of particularly strong cultural norms on the gender division of labour and decision-making by men, it is unsurprising that women's participation as members and in official positions remains low.

Through Fairtrade participation, producer organisations can increase their **ability to influence local, regional and international policy**, although this remains limited so far, except in Latin America. Some of the producer organisations participate in regional and national coffee fora, with participation strengthened by Fairtrade certification and capacity building. Producer organisation managers in Indonesia and Tanzania reported that Fairtrade supports this participation by building their confidence in participation in public spheres generally, but it is difficult to measure direct attribution. In Latin America producer organisation leaders said they actively participate in national fora, enabling them to have a voice in national level discussions. Where producer organisations have achieved concrete policy and regional funding influence, as in Peru and Mexico, this should be recognised as a major achievement.

**Fairtrade and protection of the environment and adaptation to climate change: Positive benefits have been achieved in terms of protection of the environment and adaptation to climate change as a result of Fairtrade, but improvements are needed. (Rating: good, but mixed performance)**

Fairtrade supports producer organisations and their members that are organic certified, reinforcing the requirements for sustainable coffee cultivation and protection of the environment. Fairtrade funds can help support training provision on environmentally friendly farming techniques, and sometimes certification can help to lever further external funding for farmer training. For many of

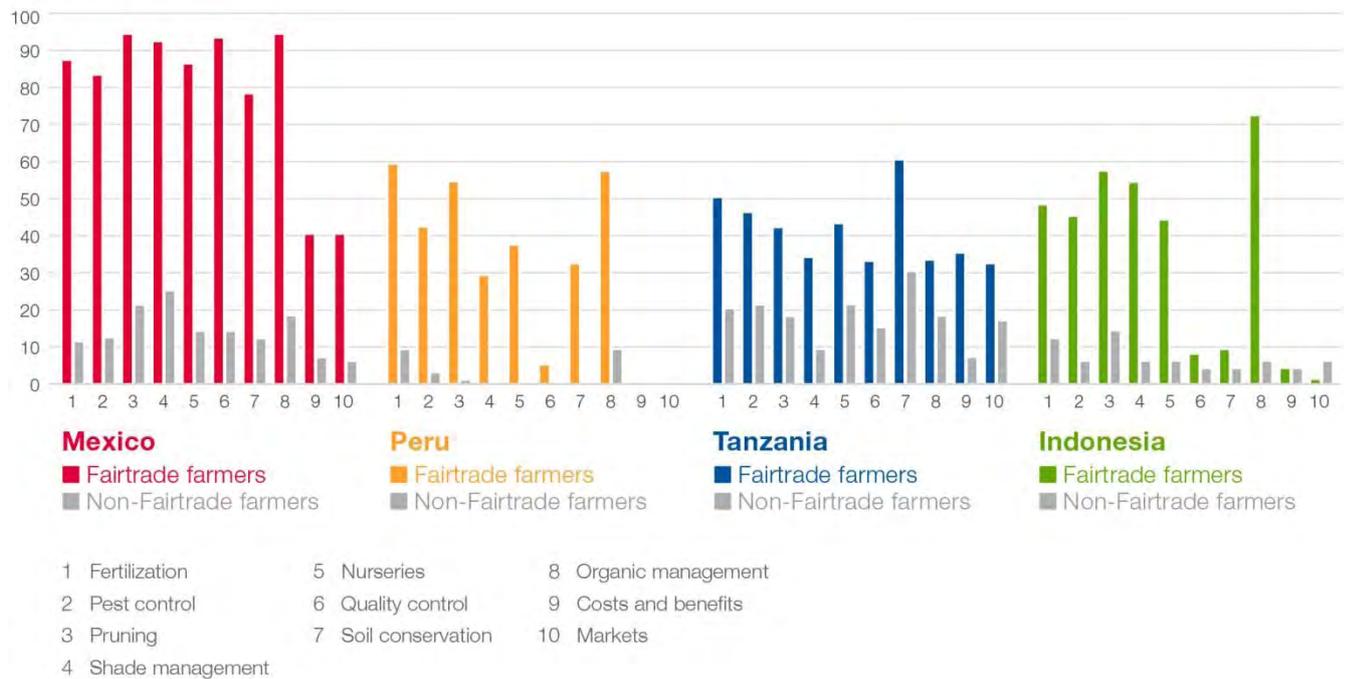
the Fairtrade farmers who are already organic certified, especially in Peru, Mexico and Indonesia, this is part of their cultural identity, which they feel sets them and their coffee apart from non-organic producers, but they consider they get relatively little reward for their investments in protection of the environment.

**Fairtrade and enhancing benefits for producers and communities: In terms of enhancing benefits for producers and communities we find good performance in relation to improved members' access to training and services, but there is room for improvement. (Rating: good, but mixed performance)**

**Improved services and support** is a key indicator of enhancing such benefits. The Fairtrade producer organisation marketing managers were positive about their organisation's ability to deliver services, perceiving some level of improvement – although in some cases this is from a fairly low starting point. In our study, two to three times as many Fairtrade farmers received training as compared to non-Fairtrade farmers (Figure2): between 30 and 75 percent of farmers in Fairtrade organisations received more training across a broader range of topics. The enhanced access to training is the result of the producer organisations using Fairtrade Premiums and also attracting additional funds. Fairtrade farmers also received a broader range of services (such as farm inputs, access to credit, extension services, coffee sales) than non-Fairtrade farmers and had a greater degree of satisfaction in those services than their non-Fairtrade counterparts. However, in some cases, the level of provision is at a fairly low starting point – such as in Tanzania where farmers in the group discussions indicated that they had received very limited training in the past and so any improvements achieved through Fairtrade are somewhat limited in scale.

**There are positive examples of improved services and infrastructure in communities, but they are very limited in scale.** There are examples of positive benefits accruing to wider communities, as a result of Fairtrade certification of producer organisations, mainly through the investment of the Fairtrade Premium in community infrastructure and services, but also through producer networks or producer organisation leaders facilitating the extension of government services (for example for the provision of electricity in one Indonesian community). The extent to which producer organisation leaders and producer networks can have success in lobbying depends to a large extent on the local political context, as well as their advocacy capacity.

Figure 2: Percentage of farmers who have received training in key topics



**On the support for vulnerable and marginalised groups resulting from Fairtrade, we found limited effects**

In terms of gender equality and equity we did not find major changes occurring as a result of Fairtrade certification, nor with respect to the terms and conditions of labourers working on smallholder farms. For children and youth, our evidence indicates that training on child labour issues has raised awareness amongst PO leaders and farmers about the requirements of Fairtrade, although there are some areas in which improved communication is still needed about what the specific Fairtrade rules are. PO leaders and farmers did not report any incidence of child labour during interviews, although in a short, broad-ranging impact study it is not possible to verify practices in the field. Fairtrade farmers consistently mentioned education of their children as a top priority for them and a major item of household expenditure. However, attracting and retaining youth in agriculture is challenging and requires increased access to land, as well as higher returns from coffee sales. Making it feasible for youth to have access to land is important for the sustainability of future production, and Fairtrade and other actors need to explore ways to promote improved access.

**Fairtrade and increased PO influence: Our evidence shows positive benefits for producers in terms of increased influence, but also room for improvement. (Rating: good, but mixed performance)**

The Fairtrade networks are highly valued by the majority of Fairtrade producer organisation leaders in our study, because participation in the networks enables them to exert some influence over Fairtrade policies and regulations. The Latin American producer organisations appear to have greater influence on national policy, in part because their networks are more established and they have more members. This is particularly the case in Peru and Mexico, where producer organisation leaders gave concrete examples where they felt they have had an influence, e.g. on national agricultural policy on organic agriculture in Mexico. Two major areas of concern were raised by producer organisation leaders in Mexico and Peru, relating to things they would like to see discussed

and clarified within Fairtrade. Firstly, they consider that the Fairtrade standards relating to child labour restrict the scope for young people to learn about coffee cultivation. This suggests that clearer communication of the Fairtrade standards is needed, as the standards do allow children and young people to work on the farm beyond school hours and in the school holidays. Secondly, they wish to understand the rules of participation in Fairtrade by trading companies as they perceive that there is unfair competition from traders offering Fairtrade terms to individual farmers. In Tanzania the regional network was valued by the producer organisation leaders, but the benefits are less tangible. In Indonesia the regional network is valued by one of the producer organisation leaders, but less so by the other.

### 3.4 Fairtrade impacts

*We have found plausible evidence that jointly, the interventions, outputs and outcomes outlined above have achieved the following (in relation to the impact indicators we addressed in this study).*

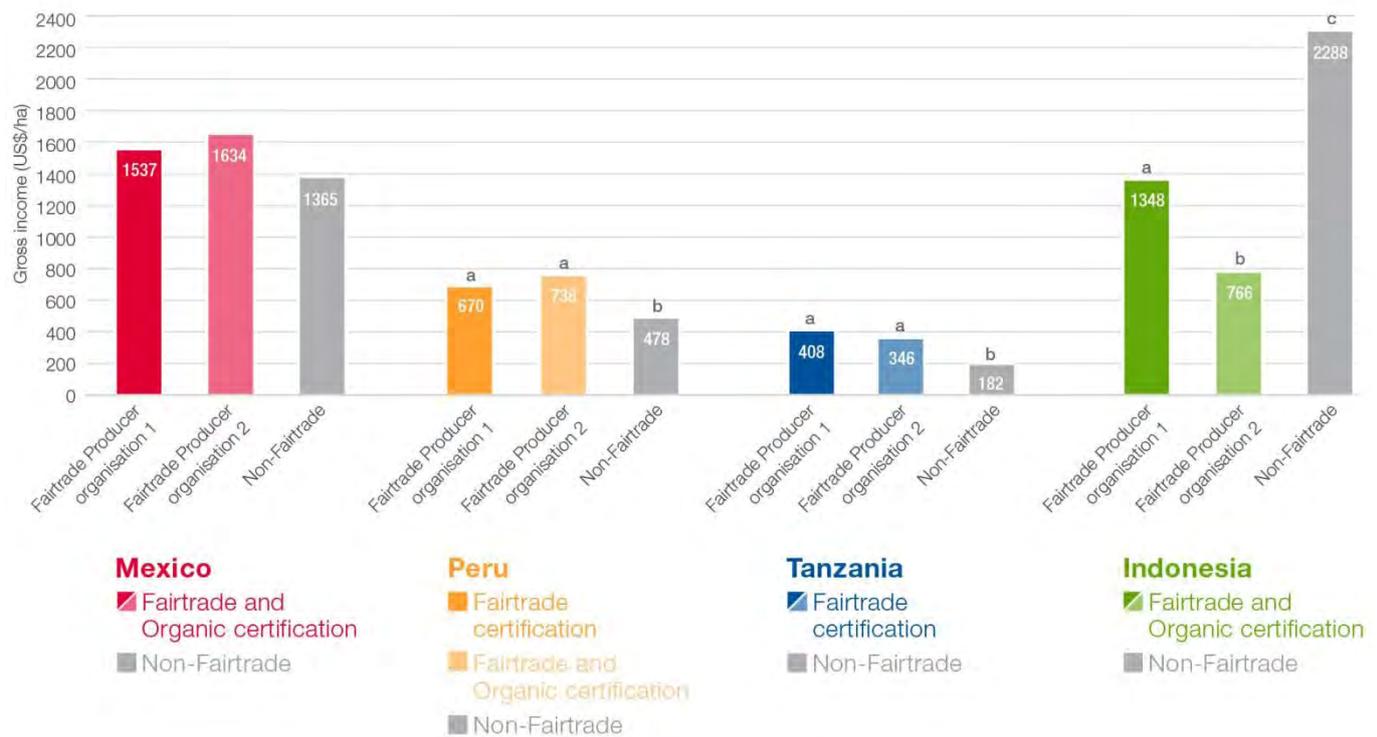
**Fairtrade and improved household income, assets and standard of living: Positive impact overall in relation to improved household income, assets and standard of living, although there are areas for improvement. (Rating: good, but mixed performance)**

In this study we compared gross household income from coffee for Fairtrade and non-Fairtrade producers (Figure 3). We found that gross income from coffee production was in general higher for Fairtrade producers than non-Fairtrade producers in three out of the four case study countries (16 percent higher in Mexico, 47 percent higher in Peru and 107 percent higher in Tanzania).

The exception was Indonesia where the producers in the non-Fairtrade comparison group were more productive and received higher prices, at least in part due to some using chemical fertilizer, being from a geographically distinct location, and having been less affected by conflict than the Fairtrade producers in our sample.

Nevertheless, more Fairtrade households in all four countries felt they were worse off than non-Fairtrade households. We believe that this is because they have invested more in coffee production, are more dependent upon coffee, and less willing to leave coffee. As coffee prices have fallen sharply over the past three years, they have been affected by the change more severely than their non-Fairtrade counterparts.

Figure 3: Gross household income from coffee production (USD) per hectare per year



Note: Letters above the columns indicate the presence or absence of statistically significant differences between the values for Fairtrade and non-Fairtrade farmers. Different letters within countries indicate that the differences between the values are statistically significant.

**Fairtrade and reducing risk and vulnerability for producers: Fairtrade has reduced risk and vulnerability for producers, but there is room for improvement. (Rating: good, but mixed performance)**

The risks faced by Fairtrade farmers are the same as for all farmers, but being a member of a strong producer organisation provides them with the social and financial capital to respond to these threats more effectively. There are areas for improvement in the functioning of the producer organisations in terms of realising benefits for members to reduce their risk and vulnerability. Key areas include: tackling gender inequality, improving organisational efficiencies and governance. It is important that Fairtrade continues to build up the producer networks and reflects on areas for improvement, both at national and regional levels, to ultimately strengthen producer empowerment.

**Fairtrade and environmental sustainability and resilience to climate change: Fairtrade has positive effects in relation to environmental sustainability and resilience to climate change, although there is room for improvement. (Rating: good, but mixed performance)**

It is plausible that the high levels of investment in training of members by producer organisations in sustainable coffee management have resulted in more environmentally beneficial farms. Farmers’ knowledge of and commitment to sustainable agriculture and environmental conservation was particularly strong in three of the four case study countries. Fairtrade reinforces the involvement of farmers in organic production, through its standards, minimum price for organic certification, and in some cases, investments of the Fairtrade Premium funds.

**Fairtrade and enhancing influence and status for small producers: Fairtrade has led to enhanced influence and status for small producers. (Rating: good, but mixed performance)**

The individual producer organisations are stronger businesses as a result of participation in Fairtrade, although improvements are still needed. Leaders have greater confidence to participate in public events. The regional and national producer networks are providing producer organisations with opportunities for peer learning, some influence within the Fairtrade system and in Latin America there are concrete examples of influence over national policy and/or local development programmes. In terms of women's empowerment and gender equality we did not find evidence of major progress, despite the efforts of a few producer organisations and more action is needed to ensure that Fairtrade can make a positive contribution in this regard.

#### 4. Recommendations

As in any system, improvements can be made. We appreciate that the majority of the changes recommended below require investment which is a significant limiting factor. We recommend that:

1. Fairtrade continues to support producer organisations in strengthening their organisations, and Fairtrade, government and other actors should improve their support to enable producer organisations to become viable, resilient businesses. The establishment of rural business centres and/or regional business academies is one option. Furthermore, the establishment of coffee-focused learning alliances in a series of localities and associated value chains is proposed, whereby key actors are engaged to support positive change, particularly the delivery of benefits to individual members and their communities.
2. Fairtrade studies how to incentivise coffee producer organisations to achieve greater organisational efficiencies, for example by managing collective dry milling facilities between various producer organisations.
3. Fairtrade supports coffee producer organisations to improve the individual members' understanding of how their organisation operates, and particularly of their rights and responsibilities under Fairtrade.
4. Fairtrade clarifies its trader standards to include issues such as the provision of pre-finance, and should generate better understanding of its existing trade standard to clarify the rules under which exporters can engage in the Fairtrade system, and on the relationship between Fairtrade minimum price and the New York premiums/discount system.<sup>3</sup>
5. Fairtrade studies how coffee farmers can be assured benefits from a minimum price when the Fairtrade minimum is an export price and not the price received by the farmer.
6. Fairtrade intensifies and scales up its producer support services to benefit coffee producer organisations and the individual members of producer organisations. This would include improved extension on good agricultural practices, which can help farmers respond to the challenges of rust, adapting to climate change etc.
7. Fairtrade actively seeks to broker partnerships (or support existing collaborations) in a particular territory or landscape to benefit Fairtrade producer organisations. Coffee should be one of the key commodities for piloting this approach given its importance to the system and the likelihood of finding multiple certified examples in a locality.

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<sup>3</sup> Differentials (discounts or premiums) are determined by the market's perception of the relative quality and demand for a particular source of coffee.

8. There is an opportunity for Fairtrade to engage with the public in consumer countries about what it can achieve and the limitations – given the scale of the challenges that exist – as part of reporting on impact and in increasing mobilisation of citizen action for fairer trading in coffee. Fairtrade should seek to influence governments so that they support improved business development services for smallholder coffee producer organisations and make the enabling environment (policy, investments and regulatory) more favourable for coffee producers.
9. Fairtrade continues to strengthen and extend the producer networks as a means of enabling greater small producer representation and voice, including coffee producers.
10. Fairtrade seeks to implement practical actions to tackle gender inequality in coffee farming, for example, through peer learning, giving women preferential access to, and supporting advocacy actions by producer networks to change policy, legislation and practices.
11. Fairtrade seeks to take action to better understand how to effectively ensure benefits for hired labour on smallholder farms and youth.
12. Fairtrade promotes internal learning to improve the impact in coffee. The theory of change is a tool that can be used as part of the learning system to analyse how to make changes to strategies.

For further information please contact Valerie Nelson: [v.j.nelson@gre.ac.uk](mailto:v.j.nelson@gre.ac.uk) or Jeremy Hagggar: [j.p.hagggar@gre.ac.uk](mailto:j.p.hagggar@gre.ac.uk)



**FULL REPORT**

# A study to assess the impact of Fairtrade for coffee smallholders and producer organisations in Indonesia, Mexico, Peru, and Tanzania

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## 1. Introduction

This evaluation, commissioned by Fairtrade International, presents the findings on the impact of Fairtrade for smallholder coffee producers and their organisations.

An estimated 125 million people worldwide are reliant on coffee for their livelihoods and more than 812,500 coffee farmers from 30 countries participate in Fairtrade coffee (Fairtrade, 2015). The first Fairtrade label was launched in 1988 in the Netherlands. Called Max Havelaar, the label was launched under the initiative of the Dutch development agency 'Solidaridad' and the first 'Fairtrade' coffee from Mexico was sold in Dutch supermarkets in 1988 (Fairtrade, 2012). The first Fairtrade certified products, launched in 1994, included Cafédirect coffee. In 1997 Fairtrade labelling was coordinated through the establishment of Fairtrade International, which now sets international Fairtrade standards, organises support for producers and promotes trade justice. Coffee is therefore an important commodity in the Fairtrade system.

While there have been many assessments of Fairtrade coffee, particularly in Central America, these studies have tended to focus on particular aspects of the Fairtrade system. This study contributes to the understanding of the impact of Fairtrade by providing a more in-depth analysis of Fairtrade's influence on farmers and their organisations and by comparing data from four countries (Mexico, Peru, Indonesia and Tanzania) and multiple producer organisations in each country. The report also includes recommendations on ways forward to improve impact in the future.

Section 1 presents the study objectives, overall design, methodology and details the strengths and limitations of the study. Section 2 provides a contextual analysis of the global coffee industry and markets in which Fairtrade seeks to have an impact, the challenges for smallholder coffee producers, and reviews the current trends in Fairtrade and sustainable trade certification. We then present the findings of the study based on a theory of change analysis (i.e. gathering data along the impact chain from inputs to impacts) to build up an evidence case. In this way we are interrogating the theory of change held by Fairtrade according to its own objectives and strategies, while identifying alternative causal factors, the relative contribution of Fairtrade versus other causal factors and reporting any unexpected impacts. We are also guided by the specific evaluation questions – the theory of change itself is complex and incorporates many interventions and impact pathways. We therefore concentrate on answering the specific evaluation questions set by Fairtrade.

Section 3 presents the findings on Fairtrade Interventions, Section 4 focuses on the findings on Fairtrade Outputs, Section 5 on Fairtrade Outcomes and Section 6 summarizes the findings on Fairtrade impacts. The conclusions and recommendations are set out in sections 7 and 8 respectively.

## 1.1 Study objectives

The objective of this study is *‘to provide a clear understanding and articulation of the impact of Fairtrade certification for coffee producers and their organisations, drawing on a range of cases that capture some of the important diversity within Fairtrade coffee producing contexts’*. See Annex 1 for the study terms of reference. The evaluation questions identified by Fairtrade are set out in Box 1.

### Box 1: Key research questions

#### Fairtrade impacts for producer organisations

- What are the organisational and economic benefits of Fairtrade for producer organisations?
- Which Fairtrade interventions contribute to change, and how?
- What are the goals of the producer organisations, and how do they compare to the Fairtrade theory of change? To what extent is Fairtrade supporting these goals?

#### Fairtrade impacts at for coffee farmers and their households

- What are the economic, social or environmental benefits of Fairtrade for individual producers and their households/communities?
- What are producers’ goals?

Based on the research findings and analysis, we identify recommendations and learning for the Fairtrade system focusing on how the Fairtrade approach and strategies can be improved to deliver greater impact.

## 1.2 Study design

This section outlines the key elements of our study design, which include: Theory-based evaluation; Understanding other factors causing change; Use of mixed methods; Maximising usefulness; Comparative Analysis.

### 1.2.1 Theory-based evaluation

A theory-based approach to evaluation was adopted to assess both the impacts of Fairtrade, but also to understand how impact is achieved – i.e. attention is paid to process as well as impacts. This is an approach that the Natural Resources Institute (NRI) at the University of Greenwich has pioneered in the field of sustainability standard impact evaluation.

The Fairtrade theory of change<sup>4</sup> provides the overall conceptual framework and guide for the research team in identifying data collection needs and in processes of analysis. Evidence is

### Box 2: Definition of theory-based evaluation

Theory-based impact evaluation “maps out the causal chain from inputs to outcomes and impact and tests the underlying assumptions.” (White, 2009, p.2)

systematically gathered along the chain from inputs, through outputs and outcomes to impacts in an approach called ‘process tracing’. Rigorous data are sought on the implementation of inputs and outputs, and validation of plausible outcomes and impacts – a recognition of the increasing influence

<sup>4</sup> The current version of the Fairtrade theory of change is available at <http://www.fairtrade.net/resources/our-theory-of-change.html>

of context as one moves along the impact chain (indicated by the blue arrow in Figure 4 below). Unexpected and unintended outcomes and impacts are also captured and attention is paid to the relative contribution of different factors driving change – not just Fairtrade.

For example, if there was an input, such as training by Fairtrade producer support officers, we should ask whether this training input led to expected outputs (e.g. producers have improved understanding and capacity of how to prune coffee trees), and in turn the expected *plausible* outcomes (improved yields) and impacts (improved incomes and more secure livelihoods). If we find that the outcomes and impacts were achieved as expected, and key informants and stakeholders confirm that the causes of the outcomes and impacts were Fairtrade inputs (not contextual or other development project interventions), then we can say that we have a robust evidence case. The case is stronger where we compare between certified and non-certified producers – because the comparison group helps to explain what happens when Fairtrade is part of the change process and what happens when Fairtrade is not involved (see use of credible counterfactual comparison below).

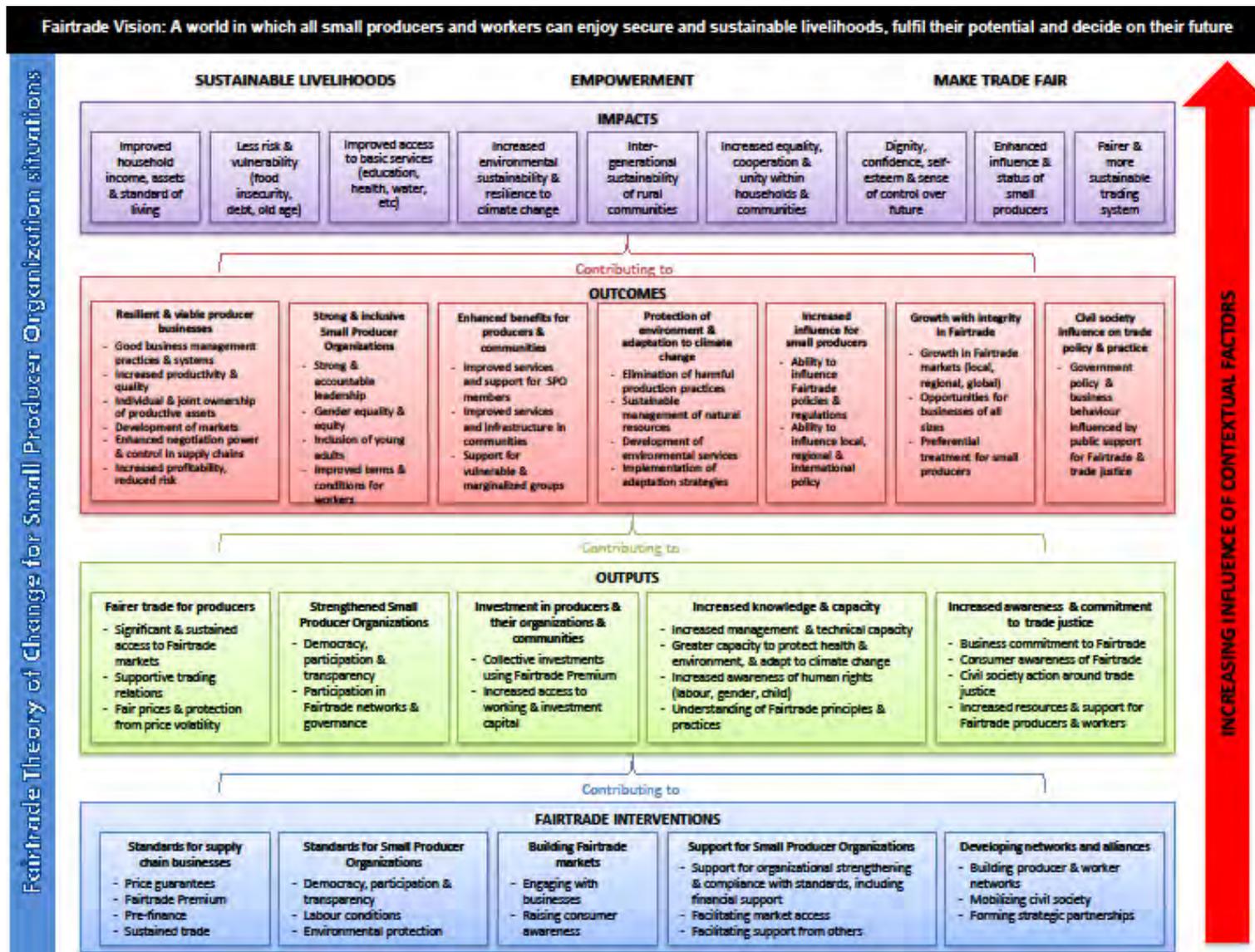
In our study we have used Fairtrade’s own mapping of the causal chain visualized in the Fairtrade theory of change (see Figure 5) and we analysed associated themes and indicators.

**Figure 4: Linking Fairtrade’s vision, goals and approach**



There are two types of interventions in Fairtrade - the standards and certification which establish and monitor the ‘rules’ for fair trading practices and engagement in Fairtrade. They include key tools such as economic protection policies, the Fairtrade Premium, the FAIRTRADE MARK, and the audit process. Secondly, there are the strategies and policies which enable engagement in Fairtrade by small producers, workers, employers, supply chain businesses, consumers and civil society organisations, and leverage this engagement to bring about wider changes in support of greater justice and sustainability in trade. Strategies include building Fairtrade markets, providing support to small producers, and developing networks and alliances.

Figure 5: Detailed Fairtrade theory of change for small producer organisation situations



The draft Fairtrade indicators (associated with the theory of change) were shared with the research team. The research team adopted a selection of indicators according to the priority research questions.

This study design matches the attributes of the Fairtrade programme to the particular study objectives and evaluation questions. Fairtrade is a multi-stakeholder organisational *system* crossing several continents, rather than a more traditional development programme or project. No single study can capture all of the inherent diversity this implies in terms of outcomes and impacts. The theory of change is itself inherently complex with multiple impact pathways and there may be differing interpretations and perspectives within the organisation and variation in implementation processes in different places etc. The particular research questions set by Fairtrade help to focus the research team's enquiry. It was not possible to cover all of the impact pathways contained with the Fairtrade theory of change; nonetheless, this is a fairly comprehensive assessment covering multiple organisations across four countries.

### **1.2.2 Other factors causing change**

We have sought to understand how far contextual factors determine whether Fairtrade can deliver on its intended outcomes and impacts. Assessment of Fairtrade's *relative* contribution vis-à-vis other causes of change is an explicit part of our approach and tools. We have anticipated heterogeneity of impact as a result of intervention design, beneficiary characteristics or socio-economic setting by examining carefully how Fairtrade interventions vary in a number of country cases, how the producer organisations and members vary in characteristics, and explored the diversity of contexts of implementation.

### **1.2.3 Use of mixed methods**

Our study design employs mixed methods. We have combined a range of qualitative and quantitative methods, with the comparative analysis blending the different data with the theory of change (Figure 6). We have collected different kinds of data from different sources for purposes of triangulation in order to increase the trustworthiness of the evidence. We have sought to engage stakeholders as far as possible in the analysis to capture multiple values.

We have included the best available counterfactual comparison in each case. We have sought matched producer organisations (Fairtrade certified and non-certified). Where this comparison was not possible, we have included a comparison with a matched group of farmers. As a mixed methods approach the numbers of farmers engaged or interviewed was more limited than a solely questionnaire-based evaluation. Nevertheless, credible quantitative data have been generated for some aspects of farmer performance; the interpretation of this data is supported by qualitative information from the focus group and stakeholder workshops and interviews.

### **1.2.4 Maximising usefulness**

The study design sought to enhance the usefulness of the study for Fairtrade stakeholders. Fairtrade has an ethos of participation and social justice and so we have maximised the usefulness of our study, known in monitoring and evaluation as 'utility' (see Patton, 2010), within the resources available.

**Figure 6: Use of mixed methods responding to the Fairtrade theory of change and evaluation questions**



For Fairtrade, this study can inform its policies and practices through the recommendations provided in this report, as well as providing evidence of outcomes and impact to the wider world. Engaging Fairtrade stakeholders at the local area level where the case studies were conducted also allows for learning to occur amongst these groups and for cross-checking of their perspectives on elements of the theory of change. By building up a set of relevant stakeholders there is the opportunity to create a learning alliance for future actions: stakeholder workshops were planned as part of the *analysis* (rather than dissemination process) to capture stakeholder views and facilitate discussion and the aim was also to build dialogue around Fairtrade impact. It was not possible to hold workshops in every country during the study, but in the cases where such workshops were held they were deemed useful by participants.

Supporting individual producer organisations (POs) to explore their goals and aspirations is an important part of impact analysis and was facilitated during discussions and with the use of participatory tools for assessing organisational change. Encouraging POs to share the findings with individual farmers who are members of the organisation is also important. A number of countries provided feedback on initial findings to the PO leaders, although there were limits on the resources available for feedback to POs during the study. Fairtrade agreed that Fairtrade itself would be responsible for the feedback and review process. Finally, in terms of the choice of methods it is important to design tools for data collection that are not too burdensome – in fact methods can be

chosen that farmers themselves can find useful and understand such as participatory gross margin analysis.

### 1.2.5 Comparative analysis

Our study design also comprised comparative analysis: by employing a fairly standardized approach using the theory of change, the same set of research questions and research field guide for each research team (a research protocol) in each country case, we were then able to compare the data collected to identify commonalities and divergences. At the end of 2013 there were more than 1200 Fairtrade certified producer organisations in more than 70 countries. The selected case studies are not representative of all Fairtrade organisations and it is very important that research findings are not generalized from a small number of cases to the whole Fairtrade system. However, because the cases were selected using clear criteria and by using a standardised approach based upon a testing of the theory of change in each case we increased the opportunities for cross-case comparison. We have been able to develop more generalised findings and insights from Fairtrade in coffee from this approach by drawing upon the eight cases, but also our existing knowledge and practical experience of the wider Fairtrade coffee system and from the secondary literature. The research protocol is available for use by other researchers to add to the evidence base in a similarly systematic manner.

#### Box 3: Using research protocols

From our previous experience it is very important that in a multi-country evaluation employing case study approaches, each country team fully understands and is aware of the principles and approach adopted in order to answer the study questions in a manner which supports comparative analysis and some level of generalization. Thus a research protocol (after Yin, 2014) was developed to provide sufficient standardization to enable cross-comparative analysis, although still retaining scope for adaptation to local context by the research teams.

*The research protocol is available at: <http://www.nri.org/development-programmes/equitable-trade-and-responsible-business/publications>*

Our comparative case study approach involved the careful selection of a number of cases (four country cases, with two certified producer organisations and a counterfactual comparison) in each of the four countries. The analysis then required comparison of the findings across an indicator for each country. We have presented the findings for each country in each section of this report on a particular theme and indicator as well as synthesis boxes, and the report follows the structure of the Fairtrade theory of change. This approach enables the team to build up the evidence – which is inevitably more rigorous for the initial interventions and outputs, and then becomes focused on plausible outcomes and impacts, given the increased influence of contextual factors. We have also tabulated the findings to support our analysis by country/indicator and then summarized the findings against the Fairtrade theory of change. Various tables and figures are included throughout the report presenting the summary findings along the impact chain.

A comparison is drawn between the ‘with’ project group and the ‘without’ project group including a questionnaire survey and focus group discussions with farmers and manager interviews/workshops with certified and non-certified POs (unless the latter did not exist). It is usual in impact evaluation to

include a 'before' and 'after' comparison as well, but this study was commissioned as a single point in time study. It is not possible, therefore, to compare in real time the outcomes for similar groups of farmers within and without Fairtrade certification. The possibility that farmers in the Fairtrade organisations were significantly different from non-Fairtrade farmers prior to entering Fairtrade may bias the findings, since it is difficult to know whether there were pre-existing differences in their circumstances (e.g. larger asset base, wealth, higher educational status etc.). Propensity Score Matching (PSM) can be conducted to controls for these differences, but only in instances where there is 'before and after' data and this requires large numbers of questionnaires – over 100 per group, with usually twice as many non-certified as certified farmers to have sufficient cases to support the statistical procedures of PSM.<sup>5</sup>

### 1.3 Methodology

This section explains the key steps in the methodology undertaken in the study. The research protocol gave each team a guide as to the key steps in the study including an outline of the research objective and questions, data gathering plans, and analytical strategies to be used. Annexes include the checklists for each of the qualitative interviews and the questionnaire survey for individual producers. Furthermore, a draft outline of the overall report was shared to ensure that each team was clear on the expected output from the study. The draft research protocol was shared with all the research partners for comment, although time for consultation was fairly limited.

#### 1.3.1 Selection of case study countries

Selection and sampling were undertaken at a number of levels, from the country level, to individual POs and comparison groups and at the individual farmer level.

While we have gathered some data across the Fairtrade system we have also *systematically* selected cases for analysis of countries and within those countries we have covered two Fairtrade certified POs, and a comparison group. This represents a *nested* case study approach (Yin, 2014), as we have selected at the country level, then at the enterprise level. The countries were selected using clear criteria as were the POs for inclusion in the study and the comparison groups.

The research team made a selection of country cases, chosen from across the range of countries where there are Fairtrade certified producer organisations. Fairtrade International requested coverage of at least four countries. The research team suggested covering all of the three main geographic regions. The number of certified organisations varied greatly within each region – 268 in Latin America, 32 in Africa and 29 in Asia–Pacific at the time of the research planning. Although the overall distribution of Fairtrade coffee producing organisations is heavily weighted towards Latin America, this research recognizes that African and Asian coffee co-operatives have not been sufficiently covered in previous research in Fairtrade coffee, and aims to help redress that balance.

A matrix was developed with the following criteria:

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<sup>5</sup> In the statistical analysis of observational data, propensity score matching (PSM) is a statistical **matching** technique that attempts to estimate the effect of a treatment, policy, or other intervention by accounting for the covariates that predict receiving the treatment.

- The number of certified producer organisations which produce ONLY *Arabica* coffee<sup>6</sup> (which were certified prior to 2010) drawing on data shared by Fairtrade;
- Fairtrade certified production (drawing on data shared by Fairtrade);
- Percentage of the Fairtrade market (drawing on data shared by Fairtrade);
- Fairtrade coffee exports for the top 10 countries (Fairtrade Monitoring Report, 2012);
- Percentage sold on Fairtrade terms (Fairtrade Monitoring Report, 2012).

Fairtrade International also indicated that only Arabica producing POs should be included, so POs were excluded that produce Robusta or both Arabica and Robusta.<sup>7</sup> The research team excluded any POs certified from 2010 onwards, because this means that there is insufficient time for Fairtrade to have had a significant impact.<sup>8</sup>

As well as having a regional spread (i.e. selecting at least one country from South America, North and Central America, Africa and Asia) and using the production and export statistics, security issues were also taken into account for country selection. Based on an initial analysis, a shortlist was developed and agreed with Fairtrade (see Table 1 below).

**Table 1: Shortlist of countries for inclusion in study**

| Region          | 1 <sup>st</sup> and 2 <sup>nd</sup> choices | Reasons for choice   |
|-----------------|---|--|
| Asia            | Indonesia                                   | Scores highest on all criteria (production; number of POs; sales on Fairtrade terms etc.).   |
| South America   | 1. Peru;<br>2. Colombia                     | Peru has most Fairtrade POs, but Colombia produces more and has a higher share of Fairtrade market. Peru sells more coffee on Fairtrade terms, but Colombia is second in South America.  |
| Central America | 1. Mexico;<br>2. Guatemala                  | Honduras is too dangerous. Guatemala and Costa Rica produce more, but Mexico has more POs and sells most on Fairtrade terms. Good research contacts in Guatemala and fewer other studies have been done. First choice is Mexico, then Guatemala.                           |
| Africa          | 1. Tanzania;<br>2. Kenya                    | Rwanda has most POs, followed by Kenya. Kenya produces more and has the highest share of global Fairtrade market than other countries. Tanzania is second in terms of production, but Tanzania sells more on Fairtrade terms. So first choice Tanzania, followed by Kenya. |

### 1.3.2 Selection process for case study producer organisations with Fairtrade certification

Having chosen the countries for study – Indonesia, Mexico, Peru, Tanzania – based upon the analysis above, the research team independently selected the producer organisations for inclusion as cases. Drawing on previous experience we sought information on Fairtrade coffee from Fairtrade producer support officers in each of the chosen country cases to inform certified and non-certified PO selection. The independent selection of case study POs by the research team represents a new step

<sup>6</sup> There are two commercial species of coffee known as Arabica and Robusta coffee with differing characteristics. Arabica is considered to have a higher quality and is grown at higher altitudes in the tropics and subtropics. More than 90 percent of Fairtrade coffee is Arabica.

<sup>7</sup> Given over 90 percent of Fairtrade coffee is Arabica, it was decided by Fairtrade that the research should focus only on Arabica producers.

<sup>8</sup> This reflects the fact that it takes time for Fairtrade certification to have an impact. Our research thus included only producer organizations which have held Fairtrade certified for more than three years.

for Fairtrade-commissioned impact studies. This is an important step, and one which enhances the independence of the study. However, without funding for dedicated visits to gather this information, it was necessary to rely on Fairtrade Producer Support Services staff and team contacts and in some cases information was limited or unavailable. Without basic information on non-Fairtrade POs in terms of their location, size (membership) and exporting arrangements (e.g. direct or indirect), it is difficult to try and match certified POs with a non-certified PO.

The key criteria for selection were location, size range of the POs, potential availability of non-certified POs, similar exporting arrangements and budgetary considerations.

Questions of location within country were taken into account for logistical and budgetary reasons in selecting Fairtrade study POs, but the research teams also sought to match certified and non-certified POs and farmers in terms of their agro-ecological contexts.

### 1.3.3 *Constructing counterfactual comparisons*

In this section we explain how the research teams constructed counterfactuals in each country case. The funding available allowed the team to include two certified organisations, but only one non-certified PO as a comparison. It is possible to conduct both qualitative and quantitative research in counterfactual studies and this was our approach in this study. We intended to hold interviews with PO managers and leaders, as well as with farmers of non-certified POs, but once in the field it was only possible to interview managers and leaders as well as farmers for both Fairtrade and non-Fairtrade POs in one country where we found a comparable PO. In the other countries we only interviewed non-Fairtrade farmers who were not part of a PO.

Finding out about where other non-Fairtrade certified organisations exist in a sub-region or district can be challenging,<sup>9</sup> and we have also found that there is rarely information held centrally by one organisation about what certifications an organisation holds (as well as size and export modalities) and so this requires contacting organisations individually which takes time and resources. In some countries where certification is more advanced, there are few organisations which are not yet holding some kind of sustainability certification. This is the case in Peru and Mexico where POs that do not already hold certifications are unusual, and may be because they are very new. In Tanzania only one organisation was suggested in the focal zone selected that does not hold other certifications – but it used to be Fairtrade certified, still follows Fairtrade principles, and the Japanese buyer pays the Fairtrade Premium but does not use the Fairtrade label. Thus, it is not an adequate counterfactual comparison.

For the counterfactual, non-certified comparison, the first choice is thus a non-certified producer organisation in the same zone which has similar features as the certified PO (e.g. size, export model). If this cannot be found, it was agreed with Fairtrade, that the *next best* comparison group should be a sample of non-organized farmers – i.e. they sell individually to other buyers, from the same

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<sup>9</sup> The time taken to gather primary data in each country should not be underestimated. Fairtrade field staff only hold certain information on the Fairtrade POs and do not necessarily have information on non-Fairtrade POs, the certifications they may hold and their general characteristics (e.g. export modalities, when they were established, exact locations and size of membership etc.)

communities or region as the certified PO farmers. Our understanding of the definition of the counterfactual is that they should represent what the alternative reality would be for the Fairtrade certified farmers in the absence of Fairtrade. Where non-Fairtrade POs exist, being a member of such a PO would be likely to be the alternative reality i.e. the farmers could opt to become members of this PO. Where such POs do not exist, the alternative reality would be individual farmers remaining independent and not being affiliated to any PO. In such situations, other farmers in the same communities who are not members of the Fairtrade PO represent the counterfactual.

**Table 2: Possible counterfactual comparisons for this study in situations of multiple certification**

| Certified POs   | Counterfactual  |
|---|---|
| Fairtrade certification   | Either a non-certified PO or<br>Non-certified individual coffee farmers from the same communities or region |
| Fairtrade and organic certification<br>(Fairtrade and organic members <i>or</i> Fairtrade only members) |   |

The two certified producer organisations selected should be Fairtrade or Fairtrade and organic certified. These could be either two Fairtrade POs; one Fairtrade PO and one Fairtrade and organic PO; or where no single Fairtrade certified POs exist, two POs holding both Fairtrade and organic certification. It may be difficult, particularly in Latin America, to find a Fairtrade certified PO that is not also organic certified unless it is very recently created, which would make it different from those with certification. Since some Fairtrade and organic POs have both organic and non-organic members, it is important that the sample of farmers is either all Fairtrade, or all Fairtrade and organic, not mixed. (For this study it was not feasible to include organisations with other certifications, except for organic, because of the complexities this creates in the attribution of impact).

Most of the POs studied also held organic certification, although often only specific groups of the membership were organic certified. As Fairtrade establishes a minimum price for organic coffee as well as conventional coffee, there is an intrinsic link between these two certifications. Therefore, it is impossible and would be incorrect to study the impacts of Fairtrade without including Fairtrade organic producers. Where possible within POs we have separated those farmers who are certified organic from those who are only Fairtrade (or in transition to being organic certified). This separation has particularly been made with regards to the price received by the farmers. POs insist that access to other benefits and services are for all members. Some POs were also in the process of obtaining other certifications, but none had made any sales under these certifications at the time of the study.

#### Box 4: Constructing a counterfactual

A counterfactual PO was included, where they exist and were judged sufficiently similar, and in other cases a set of non-certified farmers from the same communities were identified and included. Comparative analysis between the country cases was conducted at the higher level. The comparability of counterfactual farmers was statistically assessed by comparing characteristics that are unlikely to be affected by the certification, such as gender, education, farmed area. It was only possible in this study to make these comparisons after the surveys had been collected, and so it was not possible to know when certified and non-certified groups were not comparable until after the study, as was the case in Indonesia.

### 1.3.4 *Producer organisation selection by country*

In the following section we explain the selection process undertaken in each country. See Table 3 for a summary of the POs in each country and the reasons for selection. Only POs producing Arabica coffee were taken into consideration, as per the study terms of reference.

#### Peru

In Peru there were 68 Fairtrade certified coffee POs in 2013 at the time of selection. The majority became certified between the mid- to late-2000s. In selecting our case studies we considered 49 which had been certified for at least three years, of which the greatest number were in the departments of Junín (13), Cajamarca (13) and San Martín (7). We selected San Martín as the focal area of the study. The Peruvian research partners identified this area as being the zone with more non-Fairtrade coffee farmers. It therefore is an area which provides the possibility of comparing between the situation of Fairtrade farmers and non-Fairtrade certified farmers.

Across Peru 67 percent of Fairtrade certified POs have between 100 and 1000 members indicating variation in the numbers of farmer members within each PO. The research team purposively selected two POs with a differing number of members (295 and 435 members respectively). Both of the POs hold organic certification, as do most Fairtrade POs in Peru, but in one case only about half the members are certified organic. The two selected POs pay intermediary exporters for export services, but they have control over the contracts and sales for their coffee; most Fairtrade POs in Peru have their own export contracts.

#### Mexico

At the time of the study there were 43 Fairtrade certified coffee producer organisations in Mexico; 31 of which export directly. There is a large range in the size of the POs, 67 percent of them have between 100 and 1000 members.<sup>10</sup> The state with the largest number of Fairtrade POs is Chiapas which has 23. The POs in Chiapas that export directly and have between 100 and 1000 members were identified as being the most representative of Fairtrade coffee POs in Mexico based on the membership figures obtained. Within Chiapas we selected between those POs based in San Cristóbal de Las Casas, where the largest number of POs are based, and then chose one larger PO (with 640 members) and one smaller PO (with 159 members). These two POs have been certified Fairtrade since 2002 and 1998 respectively. Both were also certified organic: almost all Fairtrade POs in Chiapas are also certified organic. One of the POs exports by themselves, the other through a different Fairtrade-PO exporter.

#### Tanzania

In Tanzania there were four Fairtrade certified coffee producer organisations producing Arabica coffee and one PO producing both Arabica and Robusta coffee. The larger organisations were second grade organisations, i.e. they are made up of primary grade organisations. Because of the size of the cooperatives and the legal regulations preventing more than one cooperative operating in the same location, there were few other coffee cooperatives operating in any particular region, although farmer associations can overlap with coffee cooperatives.

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<sup>10</sup> This figure is higher than the original data shared by Fairtrade International and indicates gaps in the monitoring data in terms of the basic list of certified organisations.

**Table 3: Certification and PO characteristics in each country and reasons for PO selection**

| Number of Fairtrade certified POs (2013)                | Size range   | When Fairtrade certified                           | Certification landscape  | Exporting arrangements   | Other reasons for selection of area   |
|---|--|--|--|--|---|
| <b>Peru</b>   |  |  |  |  |   |
| 68 Fairtrade POs  | Majority have between 100 and 1000 members   | Mainly mid- to late-2000s                          | All of the selected POs hold organic certification as well as Fairtrade, but in some cases not all members are organic certified   | The two selected POs pay intermediary exporters for export services, but have control over the contracts and sales for their coffee. Most Fairtrade POs in Peru have their own export contracts. | Area known by research team to have coffee farmers not in certified Fairtrade POs<br><br>Budgetary/Logistical |
| <b>Mexico</b>   |  |  |  |  |   |
| 43 Fairtrade POs in Mexico (23 of which are in Chiapas) | Majority have between 100 and 1000 members   | The POs have been part of Fairtrade since the 90s. | Our two Fairtrade study POs are also organic certified as are most Fairtrade certified POs in Chiapas  | One of the POs exports directly, the other through a different Fairtrade-PO exporter.  | Budgetary/ Logistical   |
| <b>Tanzania</b>   |  |  |  |  |   |
| 4 Arabica-only Fairtrade POs                            | Very large, with two having more than 58,000 members.  | Between 1993 and 2004                              | There are few POs, but most are Fairtrade certified. One non-Fairtrade PO is selling non-Fairtrade coffee to the Japanese market, but was previously part of the Fairtrade system. | Auction system and direct sales  | Budgetary/Logistical  |
| <b>Indonesia</b>  |  |  |  |  |   |
| 9 Fairtrade POs   | A few Fairtrade POs have 600 to 700 members; Five POs have 1000+ members. One PO has 8000 members. We chose medium-sized POs, to match the non-certified POs sizes (none more than 1650) | Late-2000s   | Most POs are also organic certified  | Most POs rely on exporters in Medan, Sumatra, Indonesia  | Budgetary/Logistical  |

Two of the POs have membership above 58,000, but one was excluded as it produces both Robusta and Arabica coffee. Another PO has a membership of 20,000 plus members, and the fifth is slightly smaller with 12,000 plus members. The choice of POs was therefore very limited. The two POs that were chosen for the study were chosen because they were to be found in the same part of the country – the Kilimanjaro region – and in light of the budget available, which meant that only one locality could be covered in Tanzania, due to the country’s extensive size.

One of the POs selected is the oldest coffee producer organisation in Africa. It was established in the colonial era, and became involved with Fairtrade much earlier than the other POs joining Fairtrade in 1993. It is a second tier organisation (cooperative union), whereas the other Tanzania PO selected is a member-owned trade association limited by guarantee. It was established in 2001 with the support of an international NGO and gained Fairtrade certification in 2004. All of the Fairtrade producer organisations have been Fairtrade certified for more than three years.

There is an auction system for coffee in Tanzania, although some sales can be made on a direct basis for certain classes of coffee. The POs undertake direct sales as well as selling through the auction, with PO2 particularly developing direct sales with specialty coffee buyers. In terms of organisational structure and capability the Tanzania PO1 has a large professional staff.

The first PO chosen has ten primary societies out of a total of 70 with organic certification, but PO2 does not hold organic certification.

### Indonesia

In Indonesia at the start of the study there were nine Arabica-producing Fairtrade POs of which five were found to have more than three years of certification. Three producer organisations produced Arabica and Robusta coffee and so were excluded. The total number of POs both certified and non-certified is not easy to define as many registered coffee POs are organisations in name only and they do not have any members. In total there are probably more than 100 POs registered in Aceh in north Sumatra according to the Fairtrade producer support officer, but the producer support officer and other key informants explained that many are not operational, except for the Fairtrade POs, which do exist. Most of the Fairtrade POs obtained Fairtrade certification in the late 2000s in this region.

The membership numbers for the Fairtrade POs include a handful with approximately 600 to 700 members, and five organisations which have more than 1000 members. One of these POs is larger than the rest with 8000 members. In selecting POs we chose medium-sized POs, given that the non-certified POs have not more than 1650 according to the data collected in the field in a planning visit. Many of the Indonesia Fairtrade POs rely on exporters based in Medan and are not yet able to export by themselves.

The Indonesian POs chosen for the research also hold organic certification.

Table 4 below summarises the key characteristics of the POs selected for the case studies.

Table 4: Overview of the study POs and comparison groups

| Country           | Peru  |  |  | Mexico   |  |   | Indonesia   |  |   | Tanzania  |   |  |
|-------------------|---|--|--|--|--|---|---|--|---|---|---|--|
| PO/ Aspects       | Fairtrade PO1   | Fairtrade PO2  | Non-Fairtrade farmers  | Fairtrade PO1  | Fairtrade PO2  | Non-Fairtrade farmers                                 | Fairtrade PO1   | Fairtrade PO2  | Non-Fairtrade PO  | Fairtrade PO1   | Fairtrade PO2   | Non-Fairtrade farmers  |
| Location          | Mayo Valley of San Martín farmers from 600 to 1400 masl*  |  |  | Altos de Chiapas farms from 1000–1600 masl   |  |   | Aceh Tengah, Banda Aceh Province. Differing altitudes. PO 2 – mostly coffee growing at 1,000 to 1,400 masl              |  |   | In several districts on the foothills of Kilimanjaro at varying altitudes   |   |  |
| Certification     | Fairtrade (2009) and organic (2009)   | Fairtrade (2005 and organic (2002)   | -  | Fairtrade (2002) and organic (2002)  | Fairtrade (1998) and organic (1998)  | -   | Fairtrade (2008) and organic (2007)   | Fairtrade and organic 2005**   | -   | Fairtrade (1993) and organic (2004/5)   | Fairtrade (2004) and organic for 10 primary societies   | -  |
| Type and size     | 1 <sup>st</sup> grade coop. 412 members (14 women)  | 1 <sup>st</sup> grade coop. 295 members (17 women)   | -  | 1 <sup>st</sup> grade coop. 640 members (65 women)   | 1 <sup>st</sup> grade coop. 159 members (7 women)  | -   | 1st grade coop. 1627 members  | 1st grade coop. 3616 members   | 1 <sup>st</sup> grade coop. 134 members   | 2nd grade Coop. Union, 61,000 members   | 2nd grade Farmer Association 11,260 members   | -  |
| Coffee production | <ul style="list-style-type: none"> <li>Organic production but not all certified organic</li> <li>Sell parchment coffee</li> <li>Coffee rust impact on productivity and loss of plantations</li> </ul> | <ul style="list-style-type: none"> <li>All organic production</li> <li>Coffee rust impact on production.</li> <li>Sell parchment coffee</li> </ul> | <ul style="list-style-type: none"> <li>Conventional production</li> <li>Sell parchment or cherries</li> <li>Coffee rust impact since 2012</li> </ul> | <ul style="list-style-type: none"> <li>Organic or in transition to organic</li> <li>Sell coffee parchment</li> </ul> | As per PO1   | Conventional producers sell parchment to intermediary | <ul style="list-style-type: none"> <li>Organic production.</li> <li>Mostly sell coffee cherries to collector</li> </ul> | <ul style="list-style-type: none"> <li>Organic production</li> <li>Mostly sell parchment coffee</li> </ul> | <ul style="list-style-type: none"> <li>Some agro-chemicals used by some members.</li> <li>Mostly sell coffee cherries to collector</li> </ul> | <ul style="list-style-type: none"> <li>Farmers produce parchment.</li> <li>Some organic farmers – but not included in survey</li> </ul> | <ul style="list-style-type: none"> <li>Conventional production</li> <li>Some farmers sell cherries for processing in Coffee Processing Unit (CPU) others parchment</li> </ul> | <ul style="list-style-type: none"> <li>Conventional production.</li> <li>All sell parchment</li> </ul> |
| Coffee exports    | <ul style="list-style-type: none"> <li>Contracts with importers</li> <li>Pay for service of export</li> <li>Sell to US</li> </ul>   | <ul style="list-style-type: none"> <li>As for PO1</li> <li>Sell to US</li> </ul>   | Sell to local buyers who in turn sell to exporters   | Have contracts with importers and export in their own right<br>Sell to US, France and Switzerland                    | Contracts with importers, pay another Fairtrade PO to manage export logistics<br>Sell to US and Europe | Sell to local buyers                                  | Contracts with exporters in Medan   | Contracts with exporters in Medan  | Contracts with exporters in Medan   | Auction and direct sales to US and Europe   | Mainly direct sales to US trader  | Sell to local buyers who sell on the auction   |

\* masl = metres above sea level \*\*2007–10 suspension from Fairtrade, but now recertified

### 1.3.5 Selection of individual farmers in questionnaire survey

Fairtrade farmers were interviewed from a selection of communities (chosen by the researchers) where the organisation had members. Members within the communities were then selected from the membership list of the PO, and those present and willing were interviewed. Non-Fairtrade farmers were interviewed from the same or neighbouring communities depending on the availability of farmers within the communities, except in Indonesia where a comparison PO was found and communities were selected where it had members, and then individual farmers selected from their lists. The survey included questions to establish the overall comparability (or not) between the Fairtrade and non-Fairtrade farmers in terms of their overall socioeconomic status and collected data on production, sales, and receipt of services for coffee production.

**Table 5: Selection of farmers for interview**

| Country   | Selection of farmers for interview in questionnaire survey  |
|-----------|---|
| Peru      | Researchers selected two or three communities where each PO had members, at least one closer and one further from the central town and PO base, and interviewed all available PO members in those communities based on the membership list. Non-Fairtrade farmers were interviewed from these same communities as a counterfactual.   |
| Mexico    | Researchers selected two or three communities where each PO had members, at least one closer and one further from the central town and PO base, and interviewed all available PO members in those communities. Non-Fairtrade farmers were interviewed from these same communities as a counterfactual, or from neighbouring communities, where there were insufficient available farmers in the community.  |
| Tanzania  | From the lists of primary societies shared by the PO leaders the research team established communities where both PO 1 and PO 2 were operating and selected two communities in higher locations more distant from town, and two in lower locations nearer to town for inclusion in the survey. Farmers within the communities were then randomly selected from the members list for that community.   |
| Indonesia | Researchers selected from a list of the primary societies, which included information on their geographical location and following questioning of the PO leaders as to the main sources of variation between the groups (altitude and distance from main town etc.) The research team categorised the primary societies according to distance and altitude and then selected two communities (one high and distant and one low and near) for inclusion in the survey. Farmers were then randomly selected from the members list for that community. |

### 1.3.6 Research protocol development

Indicators that were judged of potential relevance to the research questions were systematically selected from the theory of change and associated indicators provided by Fairtrade International. A series of research methods was then developed to generate data based on these indicators. These research methods are detailed in the next section. A research protocol document was drawn up and shared with the research teams prior to the start of the study and for use in the field.

### 1.3.7 Research methods

#### Methods

We used mixed methods in the research, i.e. we collected data through qualitative and quantitative methods and through structured and more open-ended questions. Using different methods and gathering data from a range of sources can enhance the trustworthiness of the data collected through a process of triangulation. However, what is most critical to understand in evaluation is the approach to *causality* that the research team is using. Many evaluators/donors in recent times

prioritise what is called ‘counterfactual logic’ – i.e. comparing the ‘with’ intervention group, with a comparable ‘without’ intervention group. This study incorporated a questionnaire-based survey and focus group discussions with individual farmers – including both Fairtrade certified and non-certified – to make this important comparison.

Data were collected using a range of methods including workshops/meetings with managers and board members, focus group discussions and participatory gross margin analyses<sup>11</sup> (GMA) with farmers, a questionnaire survey with individual farmers, a marketing manager questionnaire and key informant interviews (see Figures 7 and 8). Questionnaire surveys, focus group discussions, and participatory gross margin analyses were conducted with non-Fairtrade farmers from the same or neighbouring communities, and interviews with their PO managers (if they were affiliated to a non-Fairtrade PO) and traders associated with these groups. The survey provides a broader set of data on individual farmers, but focus group discussions, key informant interviews and mining of audit data were employed to explain *how* and *why* Fairtrade has an impact.

### *Questionnaire*

A questionnaire was designed for interviews with individual farmers. The survey aimed to collect data from certified and non-certified PO members in three areas i) characterisation of the farm, ii) details of coffee production and income such as number of coffee plants and equipment, amounts sold and prices obtained from the PO and other buyers, and iii) satisfaction with access to inputs and services, and assessment of their own economic status. The questionnaire survey is included in the research protocol document.

Once the questionnaire for farmers had been designed, this was shared with an Indian company, SeedINDIA, who designed software for use with tablet computers in the field. Each team downloaded the files onto tablet computers and received online training in how to complete the survey and how to upload and share the files.

During the testing of the questionnaire – which was conducted primarily in Mexico, but also to a limited extent in Tanzania, and on review of the data emerging, it became clear that some of the questions needed to be clarified. Each research team provided local language options for drop down menus (e.g. on local terms for units of land measurement). This process was fairly time intensive, and in future surveys more time should be allowed for testing the questionnaire prior to its conversion to the tablet software to allow for more adaptations to be made. At the end of each day in the field the research teams sent their files to the team in India to ensure a master copy was held centrally and also to allow for data cleaning to be carried out and for the Indian team to spot any major errors.

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<sup>11</sup> Participatory GMA+ is a method developed by a farming systems specialist and NRI associate, Barry Pound, while working at the Natural Resources Institute and by Professor Haggard in his work in Central America with coffee producers. This method helps farmers to model the inputs, costs, yields, outputs and sales of crop, production and additional returns in one particular field – here, coffee. The data is entered into an excel file and used in sensitivity analysis. The team can build up cost of production models which they can then use with the questionnaire and farmers can better understand the margins of coffee production.

Figure 7: Sources of data and research methods



Overall, 800 farmers were interviewed in the questionnaire survey, including 537 farmers (22 percent women) and 262 non-Fairtrade farmers (30 percent women). Between 50 and 90 farmers were surveyed for each group (a group is made up of PO members, or a population of non-Fairtrade farmers). Larger surveys were conducted where either the PO had a very large membership (such as in Tanzania), or the PO had a mixture of organic and conventional farmers (one case in Peru), and thus there was likely to be significantly greater variability in these populations. No data were available prior to the surveys to estimate sample size needed to obtain a certain power to differentiate between groups. However, at the same time, each variable we are interested in testing has a different associated variance (e.g. the variance for income is considerably greater than the variance in price); and thus the procedure is of questionable utility. From experience of having conducted many similar farm surveys we know that a sample size of between 50 and 100 is usually sufficient to be able to detect statistically significant differences (See Table 6 for more details).

*Key informant interviews*

Interviews were held with key informants including representatives from local government, coffee associations, traders directly buying from the case study POs, and local NGOs. Thirteen key informant interviews were conducted across the study. Checklists were designed to guide the discussions.

*Audit reports*

The audit reports for the POs selected for study were requested by Fairtrade and available reports were shared with the researchers. These were mined for useful basic statistics and monitoring data and to obtain insights into changes and challenges faced by the Fairtrade certified POs. Data was gathered on Fairtrade Premium amounts, on the coffee prices obtained and on the sales figures of the producer organisations.

*Mini-stakeholder workshop*

A mini-stakeholder workshop was held in each locality where the POs had been selected. The aim of the workshop was to draw on key stakeholders' perspectives on the coffee sector, and to note changes influencing certified and non-certified POs, including Fairtrade. A checklist and exercises were designed and included in the research protocol. Workshops were held in Tanzania and Mexico, but not in Indonesia where relations between POs and the government were deemed by the research partner to be too sensitive. The workshop was not held in Peru where logistical costs were too high to bring in representatives from outside of Moyobamba, San Martín. All of the Fairtrade certified POs in Moyobamba were directly interviewed as key informants.

*PO leaders and marketing manager interview*

For each of the POs in the study a meeting/workshop was held with PO leaders and board, combined with a specific interview with the marketing manager to gather data on the PO's goals – where these have been articulated – as well as coffee price and sales figures, membership figures and investments of the Fairtrade Premium by certified POs. Data was also gathered on issues pertaining to democracy, management systems, gender, hired labour, child labour issues, the extent to which Fairtrade has led to changes in these areas and other influencing factors. A checklist was designed for the leaders and board members' meeting and a tool called 'force field analysis'<sup>12</sup> was adapted for the Fairtrade context. This tool involves facilitation of a participatory discussion of the current status of an organisation, its situation five years previously and five years hence, and the key enabling and constraining factors were added to a visual diagram to spark discussion on organisational change.

In total eight workshops/meetings were held with Boards of Directors of the POs supplemented with more detailed interviews with PO managers (although managers of the Tanzania PO2 were not present, only three board members).

*Participatory gross margin analysis plus (PGMA+)*

Participatory gross margin analysis plus (PGMA+) is a tool designed by Barry Pound of NRI. It helps farmers to calculate the inputs, costs, yields, outputs and sales of coffee production and additional returns in one particular field. The team can estimate costs of production with the farmers

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<sup>12</sup> Force field analysis is a visual participatory rural appraisal (PRA) tool designed by social scientists Adrienne Martin and Barry Pound at NRI to assess organisational change over time, and the enabling and constraining drivers of observed changes.

themselves and build better understanding of the gross margins of their coffee production. This exercise was conducted with farmers in both Fairtrade and non-Fairtrade producer groups (or with groups of farmers in neighbouring localities).

In total three PGMA+ exercises were conducted per country resulting in a total of 12 exercises with farmers in the entire study. Within each PO farmers were split into different groups depending on key issues of variation such as productivity, organic or conventional status etc..

*Focus group discussions*

Focus group discussions (FGDs) were held with separate groups of women and men farmers in both certified and comparison groups to allow more open discussion of Fairtrade impact. A checklist was designed covering questions on livelihoods, wealth/poverty, coffee farming, asset-building, farmers’ goals, and their views on the producer organisation and other buyers. A framework was provided to the research teams to guide the writing up of notes from the discussions.

In total 23 focus group discussions were held during the study. This included 12 men’s FGDs in each PO or comparison group of farmers, and 11 women’s FGDs (in one Mexican PO there were no female members at all registered in the cooperative).

**Figure 8: Planned data collection tools at different levels**



**Table 6: Data collection methods used during the study**

| <b>Questionnaire survey of farmers</b>   |  |                      |                      |                                 |              |
|--|--|----------------------|----------------------|---------------------------------|--------------|
| Data from certified and non-certified PO members on coffee income, other sources of income, coffee plants and equipment, amounts sold and prices obtained from PO and other buyers, satisfaction with access to inputs and services.   |  | <b>Fairtrade PO1</b> | <b>Fairtrade PO2</b> | <b>Non-Fairtrade PO/farmers</b> | <b>Total</b> |
|  | <b>Indonesia</b>   | 71                   | 65                   | 52                              | <b>188</b>   |
|  | <b>Mexico</b>  | 51                   | 49                   | 78                              | <b>178</b>   |
|  | <b>Peru</b>  | 86                   | 47                   | 69                              | <b>202</b>   |
|  | <b>Tanzania</b>  | 75                   | 93                   | 64                              | <b>232</b>   |
| <b>Total survey respondents</b>  |  |                      |                      | <b>800</b>                      |              |
| <b>Audit Reports</b>   |  |                      |                      |                                 |              |
| Data on Fairtrade Premium, on the Producer Organisation (PO), prices obtained, and sales   | Audit reports for the eight Fairtrade producer organisations were analysed   |                      |                      |                                 |              |
| <b>Stakeholder Meetings</b>  |  |                      |                      |                                 |              |
| Forces shaping change in coffee for certified and non-certified POs.   | Stakeholder meetings were held in Mexico and Tanzania, with representatives from Fairtrade producer organisations, as well as local traders, government officials, NGOs etc. (No workshop was held in Indonesia due to contextual tensions between government stakeholders and POs, and was not feasible in Peru due to the cost of bringing together stakeholders from across the country). In Indonesia and Peru, individual meetings with stakeholders were held instead. |                      |                      |                                 |              |
| <b>Key informant interviews in each country</b>  |  |                      |                      |                                 |              |
| Interviews held with various key informants (e.g. local government, coffee associations, traders) to gather their perspectives on Fairtrade impact in coffee   | Approximately 13 key informant interviews were conducted (three per country)   |                      |                      |                                 |              |
| <b>Participatory Gross Margin Analysis plus (PGMA+) with farmers</b>   |  |                      |                      |                                 |              |
| Modelling of inputs, costs, yields, outputs, sales of coffee, production and additional returns in one particular field with farmers. Data entered and used in a sensitivity analysis. Cost of production models were then created, which, combined with questionnaire data, can support a better understanding of the margins of coffee production. | Exercises were conducted at the different POs and with independent farmers, with farmers split into groups of two or three depending on different levels of productivity.  |                      |                      |                                 |              |
| <b>Focus group discussions with farmers</b>  |  |                      |                      |                                 |              |
| Livelihood strategies, self-assessments of wealth and poverty, coffee farming practices, productive assets, goals, views on POs and other buyers.  | 23 FGDs were undertaken (two per PO or group of farmers: 11 with women's FGDs and six with men's FGDs).  |                      |                      |                                 |              |
| <b>Workshop with PO leaders; and interviews with managers</b>  |  |                      |                      |                                 |              |
| PO goals; prices, sales, membership, Fairtrade Premium investment (for Fairtrade POs), democracy, management systems, gender, hired labour, child labour issues.   | For each PO, we held a workshop with the Board of Directors of the PO, supplemented with more detailed interviews with the PO managers. In Tanzania there was limited access to interviews with PO managers, and no workshop was held with the Board of Directors for PO2.   |                      |                      |                                 |              |

### 1.3.8 Analysis of quantitative data and evaluation of counterfactual

Initially, quantitative data from the household surveys were screened for validity and consistency of responses, such as checking that values fell within a realistic range for the variable, and cross-checking data (e.g. that the total reported sales are similar to the total production or that the total production for the area under cultivation reflects a realistic level of productivity). Where these checks indicated values outside a realistic range, the information for this farmer was excluded, at least for the theme for which the data were erroneous (e.g. a farmer whose production and income data were not reliable might still include data on 'satisfaction with services').

Firstly, data from the basic characterisation of the households were analysed to establish whether the two Fairtrade groups and the non-Fairtrade group were comparable in their general socio-economic status;<sup>13</sup> and thus to establish whether the non-Fairtrade group were a relevant counterfactual to the Fairtrade farmers. This comparison was conducted based on the age, education, land-holding size and number of years cultivating coffee. These are the same criteria that would be used under a propensity score matching procedure, but a comparison or 'match' is evaluated for the group overall rather than matching individual farmers as would be done in PSM. Significant differences were found between the two Fairtrade PO members and the non-Fairtrade group in the case of Indonesia and between PO2's members and the non-Fairtrade group in Mexico and are described below and in Table 7.

#### Peru

No significant differences were found in the general characteristics of the Fairtrade and non-Fairtrade farmers in the Peru survey. Overall, the percentage of women respondents in the survey was very low; this was in line with the number of women farmer members of the POs.

#### Mexico

In Mexico the PO1 and non-Fairtrade producers surveyed are largely comparable. However, the non-Fairtrade producers had more years of education than the Fairtrade farmers. Farmers in PO2 had more land, and there was only one woman registered as a member. Thus PO2 was not considered comparable with the non-Fairtrade producers (nor PO1 farmers).

#### Tanzania

In the Tanzania survey a statistically significant difference exists in the percentage of women in the survey, with more women in the non-certified group compared to the Fairtrade farmer group. Separate analyses have been made for men and women to assess whether differences between the groups are affected by this gender difference. No other statistical differences emerged between the groups in terms of age, education, years of farming and cultivated land area.

#### Indonesia

There are significant differences between the farmers in the different POs in Indonesia, with the Fairtrade PO2 having a higher percentage of women farmers and more cultivated land than Fairtrade PO1. The Non-Fairtrade PO3 farmers had more years of education than the other two groups; had larger land-holding size than PO1, and fewer women members than PO2. Thus the

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<sup>13</sup> The funding available for this study does not allow for the kind of scoping work required to gather data for assessing comparability prior to the survey, so this is a cross-check on comparability undertaken after the fieldwork.

farmers of the different POs were different from each other in three socio-economic factors which would indicate a higher likelihood that they are not comparable.

In the following findings sections, information is presented for each of the groups in the study, but statements on the significance of differences between Fairtrade and non-Fairtrade groups need to be qualified given there are other likely pre-existing socio-economic differences between the groups in the case of Indonesia.

The second section of the questionnaire data pertains to the quantitative data on production and income. From the data given, secondary indicators were calculated such as productivity per hectare, total income, average price obtained (as coffee was often sold to various buyers at different prices), and gross income per hectare. These continuous variables were initially tested using an analysis of variance comparing producer groups; as part of this analysis, data were checked for the normality of the differences from the means. Where data were confirmed as normally distributed, and the analysis of variance indicated a significant effect of certification status, then differences between the means of each group were tested using the Tukey test for means comparison. Where residuals from the data were not normally distributed, the data were analysed using the non-parametric Kruskal Wallis test which provides a mean and standard deviation, but assesses whether groups are significantly different based on ranking the frequency by which the value of one group exceeds the value of the other groups<sup>14</sup>). In general, normally distributed variables included the area of crop or number of plants, but data on production and income which had very large ranges were not normally distributed and thus were analysed using the Kruskal Wallis procedure.

The third section of the questionnaire provides data on access and satisfaction of services based upon categorical responses (generally 'yes' or 'no', or a ranking). In this case, differences in frequencies of response between the groups were tested using a Pearson's Chi-square test.

### ***1.3.9 Synthesis of information and report writing***

Following the fieldwork, each country team produced a set of detailed notes from the qualitative field research and tabulated the findings following the guidance table in the research protocol. The questionnaire data was rapidly checked and converted into Excel for analysis by the Indian software company, which conducted some basic analyses.

Further analyses were then conducted within each case to build up a rigorous set of evidence about whether the intended impact chain was evidenced in practice, to what extent and how. Each country team provided further inputs to the analysis led by the NRI team comparing the certified and non-certified farmers and organisations.

A comparative analysis was then conducted between each country case to draw wider conclusions than the individual cases, although the findings cannot necessarily be generalised across all Fairtrade coffee organisations.

Fairtrade staff and members of the research team presented and discussed the report findings with coffee POs in three of the four research countries during 2015.

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<sup>14</sup> The statistical calculation is actually more complex than this, but here we attempt to describe the difference between the two procedures.

**Table 7: Characteristics of farmers surveyed; values are averages for the survey participants**

|                             | Mexico           |                  |                       | Peru          |               |                       | Tanzania        |                  |                       | Indonesia         |                   |                   |
|-----------------------------|------------------|------------------|-----------------------|---------------|---------------|-----------------------|-----------------|------------------|-----------------------|-------------------|-------------------|-------------------|
|                             | Fairtrade PO1    | Fairtrade PO2    | Non-Fairtrade farmers | Fairtrade PO1 | Fairtrade PO2 | Non-Fairtrade farmers | Fairtrade PO1   | Fairtrade PO2    | Non-Fairtrade farmers | Fairtrade PO1     | Fairtrade PO2     | Non-Fairtrade PO  |
| % women *                   | 17 <sup>a</sup>  | 1 <sup>b</sup>   | 28 <sup>a</sup>       | 7.6           | 2.3           | 3.6                   | 38 <sup>a</sup> | 42 <sup>ab</sup> | 63 <sup>b</sup>       | 16.2 <sup>a</sup> | 43.8 <sup>b</sup> | 23.8 <sup>a</sup> |
| % under 40                  | 59               | 51               | 65                    | 30.2          | 23.4          | 33.3                  | 26              | 17               | 17                    | 59                | 57                | 57                |
| Years of education*         | 4.5              | 5.3              | 5.9                   | 5.5           | 6.7           | 6.0                   | 6.8             | 6.8              | 6.8                   | 10.0 <sup>a</sup> | 8.7 <sup>a</sup>  | 11.1 <sup>b</sup> |
| Years farming coffee        | 14.8             | 18.0             | 16.5                  | 17.5          | 23.2          | 18.6                  | 23.5            | 24.9             | 24.9                  | 16                | 13.3              | 16                |
| Cultivated land (hectares)* | 1.6 <sup>a</sup> | 3.6 <sup>b</sup> | 1.6 <sup>a</sup>      | 7.0           | 6.5           | 5.6                   | 1.9             | 2.0              | 2.0                   | 0.7 <sup>a</sup>  | 1.6 <sup>b</sup>  | 1.1 <sup>b</sup>  |

*\*differences are statistically different between groups; values for Fairtrade POs and non-Fairtrade farmers within countries that do not share the same letter are statistically different*

#### 1.4 Strengths and limitations of the study

The study benefits from a theory-based evaluation and mixed methods approach, which allows triangulation and increased trustworthiness of findings. The coverage of multiple enterprises across four countries combined with a comparative analysis approach allows for some generalisation of case study findings. The engagement of a broader range of stakeholders than has commonly been the case in such Fairtrade impact studies in debating the factors causing change has also increased the trustworthiness of the data. The decision taken by Fairtrade and NRI, that the research team should select the countries and cases for study independently of Fairtrade, has increased the rigour of the evaluation from the perspective of independence.

Several methodological innovations were undertaken in this Fairtrade impact study – see Table 8 below.

**Table 8: Methodological innovations**

|   |
|---|
| <p><b>Theory-based evaluation using the new Fairtrade theory of change and indicators</b></p> <p>Although other studies have employed theory-based evaluation in Fairtrade research, this is the first systematic use of the Fairtrade theory of change and associated indicators to guide the evaluation.</p>  |
| <p><b>Development of a research protocol to guide each country research team and enabling comparative analysis between cases</b></p> <p>The development of a protocol in the context of Fairtrade, using the Fairtrade theory of change and indicators, was a useful step to support systematic data gathering (although tailored to context) amongst different country research teams. It helped to ensure consistency and to facilitate systematic coverage of key indicators as well as comparative analysis between the cases at the country level. The protocol will be published to enable other researchers to use it and produce evidence in a way that facilitates comparison between different studies.</p> |
| <p><b>A local stakeholder workshop to broaden perspectives and analyse forces of change</b></p> <p>While stakeholder workshops are a common tool in research and development programming, holding a local area stakeholder workshop in Fairtrade impact research, as part of an explicit analysis of the factors causing change vis-à-vis other influencing factors, is an important innovation which can also be developed further in combination with contribution analysis.</p>  |
| <p><b>Use of organisational tools to analyse change</b></p> <p>Force field analysis and other tools were adapted for use in participatory assessment of PO organisational change in meetings with PO leaders and managers.</p>  |
| <p><b>Use of computer tablets for questionnaire survey</b></p> <p>A short, focused questionnaire on some of the indicators in the theory of change was designed and software was designed and uploaded on tablets for use by the research teams in the field.</p>   |
| <p><b>Participatory GMA+</b></p> <p>This tool was used with farmers who found it to be a valuable exercise and it produced indicative data for the research team on the costs and benefits of coffee production.</p>  |
| <p><b>Filming of interviews</b></p> <p>Video footage was taken during focus group discussions in Tanzania and Indonesia – with permission of those participating. This material potentially provides a way of sharing more widely and more directly the views of Fairtrade farmers on the impact of Fairtrade. A truly participatory video approach was not feasible and is yet to be tried within a Fairtrade impact evaluation, although participatory video has been used in other types of Fairtrade research. This would be better suited to a longitudinal study, supporting recall as well as helping to communicate findings to a wider set of audiences.</p>   |

We recognise the study also has a number of limitations, set out in Table 9.

**Table 9: Limitations of the study**

|   |
|---|
| <p><b>Non-longitudinal study</b></p> <p>The study did not allow data collection over a number of years which would allow the research team to compare both 'with and without' Fairtrade, but also 'before and after' certification.</p>   |
| <p><b>Limited number of observations in the questionnaire survey</b></p> <p>Approximately 70 questionnaires were conducted per PO or group. Larger sets of observations and more time for analysis would be needed to conduct the more rigorous propensity score matching (PSM) analyses. For PSM, sample sizes of at least 100 families for each certified group and 200 families for the non-Fairtrade farmers would probably have been required (or 1,600 farmers for the whole study), as this method discards data for farmers it is not able to match.</p>  |
| <p><b>Limited coverage of topics in the questionnaire survey</b></p> <p>A more detailed approach would involve inclusion of costs of production questions and analysis. Instead, PGMA was undertaken as a compromise and to increase the usefulness of the study to farmers.</p>  |
| <p><b>Challenges in constructing a counterfactual comparison</b></p> <p>Challenges were experienced in each country, because certification of POs (Fairtrade and other voluntary sustainability standards) is now widespread in coffee: there are few producer organisations without any kind of certification at all. For those that do not have certifications there are often confounding features (e.g. they may be very new or sell to different markets and therefore are less comparable). Furthermore, the selection had to be made on the basis of limited information – resources did not allow for preparatory field trips to study areas prior to choice of research zone, which might allow for identification of non-certified POs and checking of data on all study POs in terms of certifications held etc.</p> <ul style="list-style-type: none"> <li>• <b>Peru:</b> Survey researchers selected a representative number of communities where the POs had members and interviewed all members who were willing and available to participate. Then a similar number of non-Fairtrade producers were sought to respond in the same communities. While in part this was to limit logistical costs of interviewing farmers over a large landscape, it also helped ensure the Fairtrade and non-Fairtrade farmers were living and producing under similar conditions.</li> <li>• <b>Mexico:</b> Survey researchers selected a representative number of communities where the POs had members and interviewed all members who were willing and available to participate. Then a similar number of non-Fairtrade producers were sought to respond in the same communities; where these were not available, neighbouring communities were visited. While in part this was to limit logistical costs of interviewing farmers over a large landscape, it also helped ensure the Fairtrade and non-Fairtrade farmers were living and producing under similar conditions.</li> <li>• <b>Tanzania:</b> The team could not find a non-certified PO or buyer in the chosen study locality to match the chosen certified PO, despite significant efforts to do so in the field. Therefore, the team sought non-certified farmers, although these were also difficult to identify in the same zones as the certified PO. This is because many farmers will not admit to selling elsewhere and are often registered as members of the PO but they sell simultaneously to different buyers. It is also the case that some of the certified farmers will sell to multiple buyers.</li> <li>• <b>Indonesia:</b> The research partner visited the field prior to selection and found a possible comparison with a non-Fairtrade PO, which had organic certification – as do the Fairtrade POs in the area. This meant that a comparison in principle could be drawn between the POs. However, in practice, after having completed the survey and during the analysis of the data, it became clear that some of the non-Fairtrade PO farmers apply agrochemicals. There are also variations in historical context and growing conditions for the farmers between the POs, which make the comparison somewhat weak.</li> </ul> |

## 2. Context of Fairtrade coffee

### 2.1 Global coffee market

Global coffee consumption is increasing steadily at about 1.5–2 percent per annum (Fairtrade International, 2011 cited by Donovan, 2014). In 2010, approximately 88,000 tonnes of Fairtrade coffee were consumed globally – this represents a threefold increase since 2005 (Fairtrade International, 2011, cited by Donovan, 2014). In 2014, Fairtrade producers reported selling 150,800 MT of their coffee on Fairtrade terms (Fairtrade International, 2015).

#### Box 5: Key statistics in the coffee sector

**Top importers:** In 2012 the top five coffee importers globally were the United States (24 percent), Germany (20 percent), Italy (8 percent), Japan (6 percent) and France (6 percent) (International Coffee Organization [ICO], 2012).

**Overall production:** In 2012 it is estimated that 8.2 million metric tons of coffee were produced in 50 countries on 0.2 percent of the world's agricultural area.

**Coffee exports:** Over 80 percent of coffee production was exported, with a total export value of USD 23.4 billion (International Trade Centre [ITC], 2013).

**Top producers:** The top five coffee-producing countries in 2012 were Brazil, Vietnam, Indonesia, Colombia and Ethiopia, whose combined production accounted for 67 percent of global production (ICO, 2013 in The State of Sustainability Initiatives [SSI] 2014, p.159).

**Top exporters:** The top five exporters in 2012 were Brazil, Vietnam, Indonesia, Colombia and Honduras, representing 66 percent of global exports (ICO, 2013).

### 2.2 Coffee livelihoods and challenges of the market

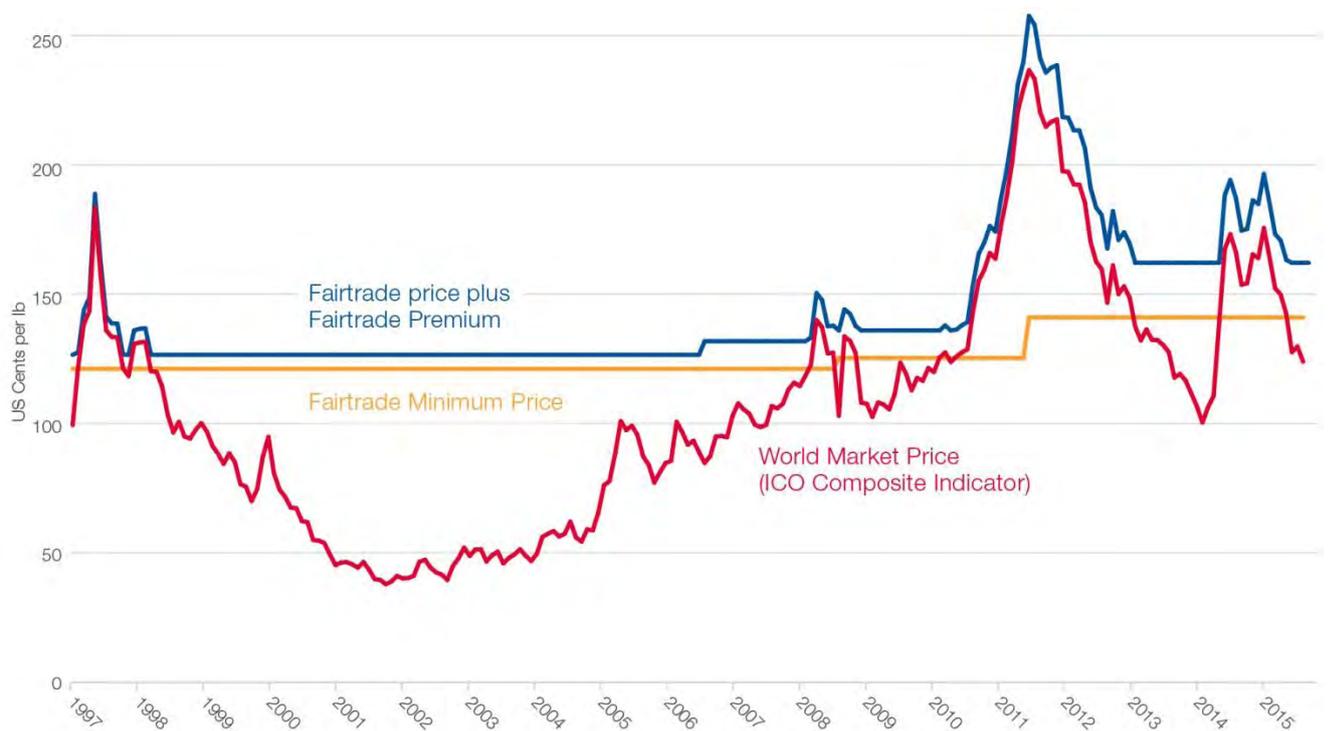
There are an estimated 20 to 25 million coffee farmers worldwide. Coffee production is largely undertaken by smallholders, most of whom are living in poverty (Panhuysen and Pierrot, 2014; SSI, 2014). Overall, coffee production involves more than 100 million people in production and processing (Panhuysen and Pierrot, *ibid.*).

The coffee market is characterised by high levels of price volatility and declining terms of trade (Panhuysen and Pierrot, *ibid.*). Between 1962 and 1989 there was a functioning International Coffee Agreement, involving producing and consuming countries in a system which had flaws, but was 'successful in raising and stabilizing coffee prices' (Daviron and Ponte, 2005, p.87). The ICA regime was not renewed in 1989 and there was a 'brutal drop in international prices', a general crisis in the stabilization systems of producing countries' and 'bankruptcy of state agencies in charge of coffee sectors (Daviron and Ponte, 2005, p.88). In 2002 prices reached an all-time low with coffee prices below the cost of production and leading to adverse consequences for rural producers and workers, including hunger, breakup of families and communities, and increased outmigration (Panhuysen and Pierrot, 2014).

There are long-term declining prices in coffee, globally. The largely systemic causes of volatility are the time lag between new planting and production, climatic variability, growing global production and oversupply of coffee (uncoordinated investments in production), but also commodity speculation (SSI, 2014; Panhuysen and Pierrot, 2014). Price volatility was accentuated by the collapse of the International Coffee Agreement in 1989 and the loss of market-based controls for supply management as explained above (SSI, 2014), but also by increased activity in coffee futures markets (Daviron and Ponte, 2005).

Farmers face various challenges in the production and marketing of their coffee. There is low and declining productivity in some countries, especially in Africa, due to increased incidence of pests and diseases, limited access to finance and other important services. Vietnam, Indonesia, Brazil and Honduras, however, have increased productivity. Smallholder producer organisations face rising labour costs and price cost inflation and lack of capacity to invest in improving production and certification costs. Individual farmers lack finance and often need cash to cover basic needs and farm inputs. They face significant coffee price volatility, plus they need to balance cash cropping with food production for food security (Byers, 2013). In 2013, coffee prices were at their lowest in six years, and during part of the year the New York 'C' price was below the Fairtrade minimum price. (See Figure 9).

**Figure 9: Arabica coffee market 1989-2015: Comparison of Fairtrade and New York prices**



Note: The 'Fairtrade price' is either:  
 1. The Fairtrade Minimum Price: which applies when the market price falls below the Fairtrade Minimum Price, or  
 2. The market price, which applies when market prices are higher than the Fairtrade Minimum Price.

More structural issues such as population growth and pressures on land, with land fragmentation and acquisitions, are affecting rural communities. Lack of access to land is a challenge for younger generations and is undermining the attractiveness of coffee as a main livelihood activity for young

people. Gender inequalities frequently exclude women from decision making in coffee production and control of the income, even where they are involved in coffee cultivation tasks.

There are major challenges in coffee value chains, which ultimately disadvantage smallholder producers. Despite steady growth in consumer countries in coffee consumption, there is a coffee crisis in producing countries (Daviron and Ponte, 2005). According to the *Coffee Barometer 2014* report the world coffee market is dominated by three large transnational corporations (Nestlé, Mondelez and De Masters Blenders) and a small number of large coffee roasters, such as Smucker's, Strauss, Starbucks and Tchibo (Panhuysen and Pierrot, 2014). This is a common situation amongst many agricultural commodities. With the collapse of the International Coffee Agreement and the retreat by nations from domestic market regulation and stock management, developing countries have lost influence and leverage in global value chains.

Moreover, many developing countries are 'stuck in producing and exporting goods that are valued only in their *material* quality attributes. *Symbolic* and *in-service* quality attributes are generated and controlled elsewhere. Thus, market power is not only a question of market share (and abuse of it), but also of capturing the most valuable attributes while undermining the value of the attributes that need to be purchased.' (Daviron and Ponte, 2005, p.270) However, it is also the case that market demand and premiums for organic and quality coffee have grown rapidly.

Daviron and Ponte (2005, p.272) warn that 'we may be witnessing the re-emergence, in a different guise, of the plantation model that characterised commodity production and trade between the fifteenth century and the second part of the nineteenth.' Given that many agro-food commodities are produced overwhelmingly by smallholders there are potentially negative implications. Fairtrade International does not certify coffee estates on principle, because of its commitment to smallholder producer empowerment.

A summary of social, environmental and economic challenges faced by smallholder coffee producers around the world, is provided in Table 10 below from the *Coffee Barometer* (Panhuysen and Pierrot, 2014).

Many of these challenges are structural in nature or fall beyond the scope of Fairtrade and other voluntary sustainability standards to address on their own (Nelson and Martin, 2013). In coffee a wide range of actions are needed including:

- i) Regulatory approaches, such as international anti-trust regulation, government rules requiring public verification of claims made by sustainability standards, etc,
- ii) Hybrid approaches, such as strengthening producer organisations linked to Indications of Geographical Origin (IGO) systems and coordination in service and inputs provision;
- iii) Commercial approaches such as promoting ICO coffees in consuming countries, consumer education on equality etc. (Daviron and Ponte, 2005, p272).

**Table 10: Overview of the social, economic and environmental issues at the producer level**

| Issue                | Smallholder level  | Estate level  |
|----------------------|--|---|
| <b>Social</b>        | <ul style="list-style-type: none"> <li>• Food insecurity</li> <li>• Malnutrition</li> <li>• Poor access to education and healthcare</li> <li>• Gender inequality</li> <li>• Ageing farmer communities</li> <li>• Migration and young people leaving coffee farming</li> </ul>  | <ul style="list-style-type: none"> <li>• Labour abuse</li> <li>• Limited access to clean water</li> <li>• Poor living conditions</li> <li>• Discrimination</li> <li>• Gender inequality</li> <li>• Sexual harassment</li> </ul>   |
| <b>Economic</b>      | <ul style="list-style-type: none"> <li>• Green bean price volatility</li> <li>• Low productivity</li> <li>• Lack of farm credit</li> <li>• Lack of market information</li> <li>• Lack of direct market access</li> <li>• Rising cost of living</li> <li>• Ageing coffee trees</li> <li>• Land tenure uncertainty</li> <li>• Limited access to insurance instruments</li> <li>• Poor services through farmer organisations</li> <li>• No living income</li> <li>• Taxation</li> </ul> | <ul style="list-style-type: none"> <li>• Green bean price volatility</li> <li>• High casualisation of labour</li> <li>• Un- and under-employment</li> <li>• Low formal minimum wages</li> <li>• No living wage</li> <li>• Lack of income diversification (especially for temporary workers)</li> <li>• Taxation</li> <li>• Partial freedom of association</li> <li>• Limited collective bargaining</li> </ul> |
| <b>Environmental</b> | <ul style="list-style-type: none"> <li>• Conversion of primary forest habitat</li> <li>• Deforestation</li> <li>• Loss of biodiversity and habitat destruction</li> <li>• Soil erosion and degradation</li> <li>• Agrochemical use and run-off</li> <li>• Degradation of water quality and supply</li> <li>• Limited waste water management</li> <li>• Eutrophication</li> <li>• Coffee pests and tree diseases</li> <li>• Mono-culture sun cropping</li> </ul>                      |   |

Source: *Coffee Barometer, Panhuysen and Pierrot, 2014, p.2*

There is an increasing imbalance between supply (too much) and demand (too little) for certified coffees, which does not benefit smallholder producers, and it is critical that roasters increase their commitments in sustainable coffee sourcing (Panhuysen and Pierrot, 2014). Greater coordination is needed between key actors (governments of producing nations, roasters, traders, voluntary sustainability standards, NGOs, producer organisations, unions, and financial institutions (Panhuysen and Pierrot, 2014).

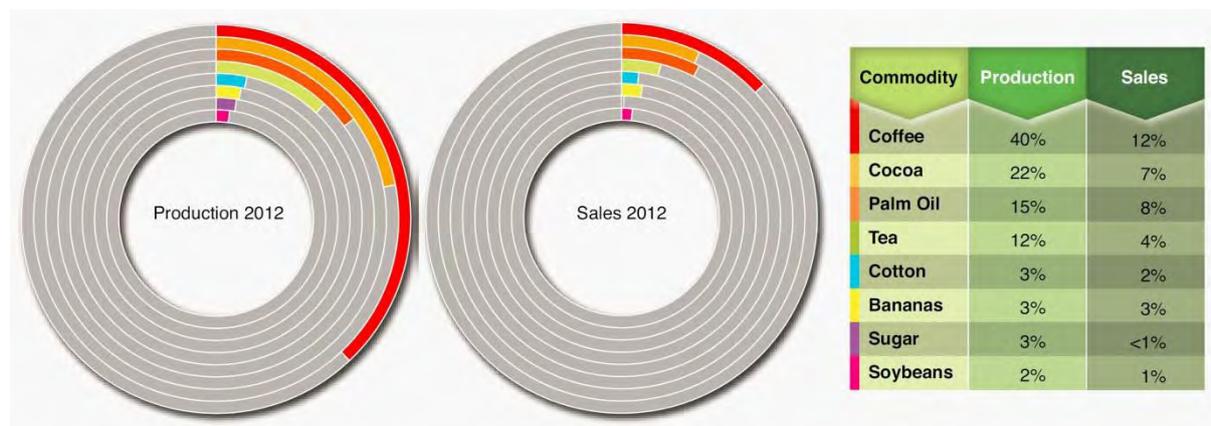
Climate change challenges in the coffee sector are severe. An NRI report commissioned by the Fairtrade Foundation in 2010 concluded that in general, in many coffee-growing regions a combination of lower rainfall and higher temperatures will render production unsustainable by 2050, at lower elevations where the crop is currently cultivated. Farmers will need to make more use of shade trees, select drought-resistant varieties and use supplementary irrigation. Higher altitudes, where it is currently too cold to grow coffee, will become more suitable but available land is usually scarce and the environment highly fragile (Nelson *et al.*, 2010; Haggard, 2014). Voluntary

sustainability standards can play an important role in supporting increased climate adaptive capacity and resilience among smallholder producers (Nelson *et al.*, *ibid*).

### 2.3 Sustainable coffee, certification and the Fairtrade coffee markets

Coffee has the greatest market share of sustainability standards of all the agricultural commodities in terms of supply and demand, because of the maturity of the market, the 2001 coffee crisis which also raised consumer and private sector awareness, and two factors which support consumer recognition of certified ingredients: limited processing between production and consumption and retail products with single or few ingredients (SSI, 2014). From a niche market, sustainable certification is now in the mainstream and is a 'strategic business management tool for mainstream and specialty coffee companies' (SSI, 2014).

**Figure 10: Standard-compliant production versus standard-compliant sales for 2012**

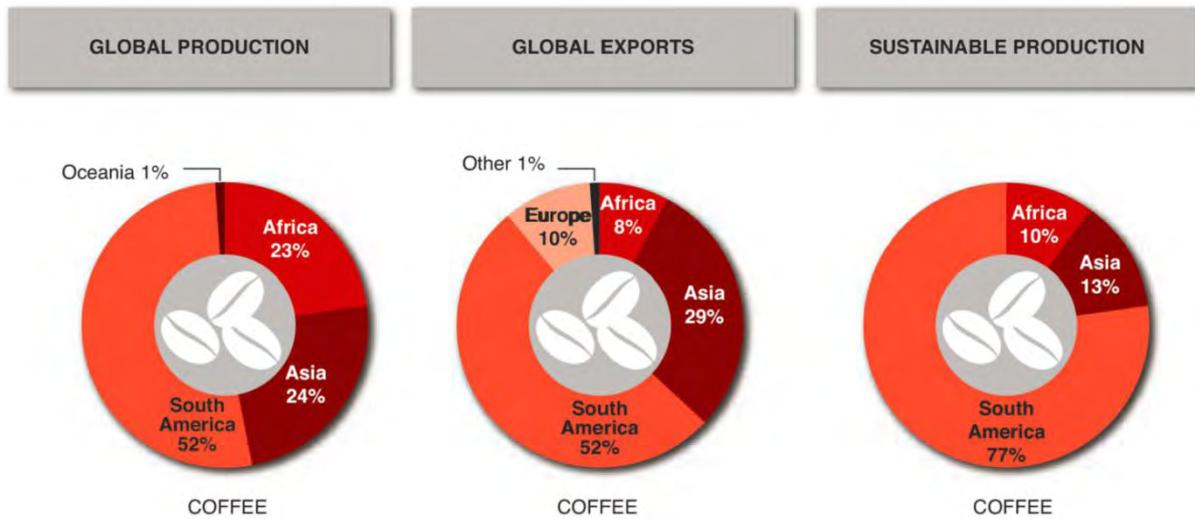


Source: *State of Sustainability Initiatives, 2014, p.91*

Production of certified or verified coffee increased from approximately 15 to 40 percent of global production between 2008 and 2012 with average annual growth rates of global certified or verified coffee production over the same period at 26 percent compared to the growth of global coffee production at four percent (SSI, 2014).

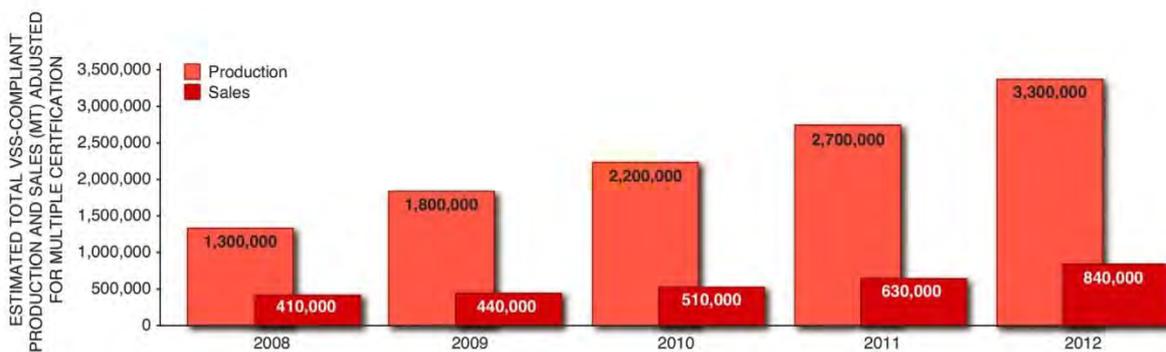
Coffee sustainability certification has now expanded rapidly, especially in the last ten years, with a range of other initiatives being established in the market including Nespresso AAA Sustainable Quality, 4C Association, Starbucks' Coffee and Farmer Equity (C.A.F.E.) Practices, organic (International Federation of Organic Agriculture Movements, IFOAM) and Rainforest Alliance. The top five standard-compliant coffee producer countries were Brazil, Colombia, Vietnam, Peru and Honduras, which jointly accounted for 81 percent of global certified coffee production (SSI, 2014). Approximately 3.3 million metric tonnes of coffee were produced in compliance with a voluntary sustainability standard in 2012, which represents 40 percent of global production (SSI, *ibid*).

Figure 11: Global versus sustainable distribution of supply, 2011-2012



Source: State of Sustainability Initiatives, 2014, p.93

Figure 12: Growth in standard-compliant coffee production and sales, 2008–2012



Sources: J. Anderson, Starbucks, personal communication, November 21, 2013; A. Bruestle, 4C Association, personal communication, February 6, 2013; FLO, 2012; C. Guinea, Rainforest Alliance, personal communication, March 24, 2013; Nestlé Nespresso Corporate Communications, personal communication, September 26, 2013; J. Rijkenberg, UTZ Certified, personal communication, March 19, 2013; IISD, H. Willer, FiBL, personal communication, August 26, 2013.

Source: State of Sustainability Initiatives, 2014, p.162

Fairtrade was a pioneer in the standards landscape, by focusing on trade as the mechanism by which farmer livelihoods could be improved. The first Fairtrade label, Max Havelaar, was launched in Holland in 1988, selling Fairtrade coffee from Mexico into Dutch supermarkets.

Buyers were required to pay a minimum price for coffee while also ensuring other trade benefits. This model expanded rapidly and in 1997 the different initiatives co-founded a central global office, the Fairtrade Labelling Organization, now Fairtrade International, to co-ordinate global standards, pricing and producer support at origin.

For coffee, Fairtrade works only with democratically organised small farmers (usually in cooperatives or associations) and fixes a Fairtrade Premium (of USD 0.2 per pound of coffee exported) which is generated by producer organisation (PO) sales. The Fairtrade Premium it is not usually part of the price received by the farmers, who decide collectively on how to use it. Most sustainability standards generate market premiums, but they are dependent upon market demand. Fairtrade is the only standard system to set a fixed minimum export price, currently USD 1.4/lb for washed Arabica coffee, plus an additional Fairtrade Premium of USD 0.2/lb.<sup>15</sup>

Furthermore, Fairtrade establishes a minimum payment above the Fairtrade minimum price for organic coffee of USD 0.3/lb. It is important to note that these minimum prices apply to the export price paid by the importer to the PO (or facilitating trader) and are not minimum prices to the farmer. The trader may agree deductions from this export price to cover the costs of exporting, and processing which may vary between organisations and locality.<sup>16</sup>

There is an increasing trend for smallholder producer organisations to seek to obtain multiple certifications to increase their market access options. Another important trend is that some commercial businesses have started their own sustainability initiatives in coffee, with differing interpretations of sustainability in coffee.

Whilst consumer taste and price quality considerations are the most important factors in consumption, coffee sustainability is having greater influence over consumers' choice of brands (Panhuysen and Pierrot, 2014). All of the top ten coffee roasters have strategic alliances with diverse international voluntary sustainability standards, or developed their own private coffee standard systems (e.g. Starbucks' C.A.F.E. practices). However, despite the growth in commitments to sustainable coffee sourcing among the main roasters for some of them this represents 'only a minimal part of their total coffee procurement' (Panhuysen and Pierrot, 2014).

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<sup>15</sup> Fairtrade is the only system to fix a premium, currently USD 0.2/lb, which is paid collectively to the PO. Fairtrade organic certified coffee receives an additional USD 0.3/lb. Fairtrade Premium is paid on top of the Fairtrade Minimum price if the New York C market prices are below the Fairtrade minimum of USD 1.40 per lb.

<sup>16</sup> Fairtrade Trade Standards require export deductions to be clearly documented and agreed in writing with the producer organisation ahead of time, when the purchase contract is agreed and signed. Where there are disputes, contract issues can be referred to the Fairtrade International Coffee Help Desk for advice or mediation services.

## Box 6: Key Fairtrade statistics

By the end of 2014 there were 1226 Fairtrade certified producer organisations in 74 countries. There is regional variation in organisational certification: 647 in Latin America and the Caribbean, 392 in Africa and the Middle East, 187 in Asia and Pacific in 2014.

By the end of 2014, 445 small coffee producer organisations in 30 countries held a Fairtrade certificate for coffee. More than 812,500 small-scale farmers were members of Fairtrade certified coffee producer organisations. Approximately 80 percent of Fairtrade coffee sold is from Latin America and the Caribbean. Only three of the top ten producers (Indonesia, Kenya and Ethiopia) are located outside of Latin America, but at the same time there more coffee farmers in Fairtrade coffee organisations in Africa. Each individual producer in Africa produces relatively small amounts, but they are aggregated into very large producer organisations. By the end of 2014 there were 516,200 farmers in Fairtrade coffee in Africa and the Middle East, compared to 210,200 in Latin America and the Caribbean and 76,100 in Asia and Pacific.

Fairtrade coffee sales reported by producers were 150,800 MT for 2013-14, while total production of certified coffee was 549,000 MT. Fairtrade certified organisations eligible to make Fairtrade sales sold an average of 28 percent of their Fairtrade production as Fairtrade. Fairtrade coffee farmers earned more than €49 million in Fairtrade Premium.

Source: Fairtrade International (2015) 'Monitoring the Scope and Benefits of Fairtrade: Seventh Edition', [http://www.fairtrade.net/fileadmin/user\\_upload/content/2009/resources/2015-Monitoring\\_and\\_Impact\\_Report\\_web.pdf](http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/2015-Monitoring_and_Impact_Report_web.pdf)

## 2.4 Country contexts

Contextual factors in each of the study countries shape Fairtrade's impact (see Table 11 below).

**Table 11: Contextual factors shaping Fairtrade impact**

| <b>Mexico</b>   |
|---|
| Social landholdings were formed after Agrarian Reform in 1930 and are known as <i>ejidos</i> , an area of communal land for agriculture and communities. Most small farmers and indigenous people have less than five hectares of land. Land fragmentation means many smallholders now have less than one ha ( <i>minifundismo</i> ). Also, there are many large coffee producers. In addition, there are a limited number of large landholdings that are coffee estates, especially in the states of Chiapas and Veracruz. |
| 1989 – After the collapse of the International Coffee Agreement the Mexican Institute of Coffee, Instituto Mexicano del Café (INMECAFE) disappeared. INMECAFE had been involved in prices, markets, and capacity building. Many farmers left coffee production after this due to fluctuating prices and reduced support.  |
| New models of commercialisation began with Fairtrade with the Union of Indigenous Communities of the Isthmus Region (known by its Spanish acronym, UCIRI) in Oaxaca State.  |

**Peru**

Historically, coffee production was carried out on large haciendas. There was strong growth in exports from smallholders during 1960s, when peasants were organised into government-backed cooperatives (major land reform). Coffee production declined in the 1980s due to terrorism. Illicit production increased during this time and there were reductions in international prices. Many cooperatives dissolved during the 1990s (parcellation – dividing up of land into plots of 3–6 ha).

In the late 1990s, with new support from civil society for the export of certified coffee, new cooperatives formed and others were revitalised. Peru emerged as a major player in Fairtrade coffee. Peru had the largest number of Fairtrade certified POs and the largest share of certified exports (by volume).

*Source: Fairtrade International 2012*

**Tanzania**

Cooperatives were established in the colonial era. Tanzanian coffee is based upon an auction system. Liberalisation in the early 1990s has been followed by declining yields and quality. The government used to supply farmers with subsidised inputs via cooperatives, but after subsidies were removed, production declined.

There is a decline in production and the area of land under coffee, especially in the north. Land fragmentation and coffee production is becoming unviable on small plots. There is significant competition from other cash crops, especially bananas.

There is outmigration to clerical jobs by many from the Kilimanjaro region. They send remittances home but for some their coffee plots are not well maintained as a result of absence and their land is temporarily rented out to poorer smallholders who grow tomatoes and potatoes for a few months before moving on. House building on family plots reduces the area for coffee growing.

Coffee is grown in border areas in different regions of Tanzania, so monitoring is logistically challenging. Coffee berry disease (CBD) and coffee leaf rust (CLR) disease are present.

**Indonesia**

The study area is a conflict-affected zone, with a peace accord signed after the tsunami of 2004. This has been largely positive for the region, but coffee growers were affected by the conflict, the impact of which still exists today. It is an Islamic region with Sharia law which influences gender relations. Women's participation in public life is limited. It is also an earthquake-prone region, and the study area was affected in 2013. Volcanic eruptions affected Medan in 2014.

'Gayo' coffee is a high quality Arabica coffee produced in North Sumatra. North Sumatra is a key area of Arabica production for Indonesia. There are many cooperatives, but few are operational. 'Geographical indication' was awarded to gayo coffee.<sup>17</sup> Exporters based some distance away in Medan affect the reputation of gayo coffee by blending it with other types.

Government officials report plans for a warehouse receipt system, dry dock and auction system, but implementation has not begun.

<sup>17</sup> A geographical indication (GI) is a sign used on a product to denote its origin where a specific quality, characteristic or reputation of the product is essentially attributable to that origin.

### 3. Assessment of Fairtrade interventions in coffee - inputs<sup>18</sup>

This section analyses the five key areas by which Fairtrade seeks to make a difference in coffee:

1. Standards for supply chain businesses and for small producer organisations
2. Building of Fairtrade markets
3. Fairtrade support to coffee producers
4. Building networks and alliances
5. Support from external agencies

We address each of these Fairtrade interventions in turn, analysing the effectiveness of Fairtrade interventions in each of the country case studies. While we touch on issues of Fairtrade markets, we have not been able to cover this in an in-depth manner. We also analyse in section 3.5 the support provided to the study POs from external agencies, as this is part of an analysis of relative contribution of Fairtrade and other organisations.

#### 3.1 Standards for supply chain businesses and for small producer organisations

The Fairtrade Minimum Price, Fairtrade Premium, pre-finance and sustained trade are standards established by Fairtrade International in the standards for supply chain businesses. While in-depth value chain analysis was not feasible, we explore with producer organisations how far buyers are meeting these standards and what this means for them. The key elements of the trader standards are outlined in the box below.

##### Box 7: Trader standards

Some key elements of the Fairtrade Trader standards are as follows:

- Fairtrade Minimum Price for different crops
- Differential payment for organic Fairtrade Premium
- Long-term trading relationship
- Advance payment

We discussed with the POs their relationships within the Fairtrade value chain and particularly their immediate buyers. We asked PO leaders about how far their buyers meet the Fairtrade standards. Most of the POs indicated that the buyers meet the standards, but there are areas of confusion/lack of understanding by producers as to how differentials in the market are considered under Fairtrade. The Fairtrade market reference price means that in high price markets, the price of Fairtrade coffee may vary depending on the prevailing differentials operating in the market for different origins. These market differentials usually reflect supply and demand dynamics in specific origins. Fairtrade has no influence over the market differentials. The majority of Fairtrade buyers are committed to the groups they source from, but in a couple of cases PO leaders said that they thought when prices rise on the international markets, some Fairtrade buyers seek to source coffee from countries where

<sup>18</sup> These are termed 'inputs' in a theory of change.

discounts (or negative differentials) can be applied, or in the case of Tanzania they thought some buyers stopped buying Fairtrade

There are Fairtrade standards for small producer organisations and coffee-specific standards. They cover a wide range of social, economic and environmental requirements. Within the standards there are core compliance criteria which should be complied with at all times, and development requirements which refer to the continuous improvement that certified organisations must demonstrate. Compliance with development criteria is verified against an average score.

#### Box 8: Fairtrade generic standards for small producers and coffee-specific standards

In the Fairtrade generic standards for small producer organisations:

- The **General Requirements** chapter defines what Fairtrade understands by small producers and their organisations:
  - **Members must be small-scale producers.** The majority of the members of the organisation must be smallholders who don't depend on hired workers all the time, but run their farm mainly by using their own and their family's labour
  - **Democracy.** Profits should be equally distributed among the producers. All members have a voice and vote in the decision-making process of the organisation
- The **Trade** chapter defines what producers can do to build fair trading practices
- The **Production** chapter defines what producers can do via production methods to better secure sustainable livelihoods
- The **Business and Development** chapter defines the unique Fairtrade approach to development. It explains how through social organisation producers can build a basis for empowerment and sustainable livelihoods

There are both core and development requirements in the standard.

The coffee-specific standards set out the requirements on:

- **General Requirements** (Certification, labelling and packaging, product description, and other product requirements)
- **Trade** (traceability, product composition, contracts)
- **Production**
- **Business and Development** (Sustaining Trade; Pre-finance; Pricing)

The definition used by Fairtrade of small producers is described in Box 9 below.

#### Box 9: Definition of small producers

Fairtrade International defines small producers (including coffee producers) as producers who are not structurally dependent on permanent hired labour and who manage their farm mainly with their own and their family's labour. Producers can hire workers if their family's work is not sufficient during peak seasons like sowing and harvest. However, workers are not usually employed permanently during the whole year of production of these crops.

Small producer organisations can participate in Fairtrade if they have formed producer organisations (co-operatives, associations or other types of organisations) that are able to engage in commercial activities and contribute to the environmentally sustainable, social and economic development of their members and of their communities. The organisations have to be democratically controlled by their members, meaning that every person has direct voting rights or is represented by a delegate that votes on behalf of several people. All products that the organisation sells as Fairtrade have to come from its members.

It is important to note that according to the small producer organisation standard at least 50 percent of the membership of a PO need to comprise of small producers and at least 50 percent of the sales need to come from such members (i.e. there is scope in the Standards for the PO to have members who are technically not 'small' according to the definition above).

Producer organisations are required to follow these standards and are audited by FLOCERT auditors to check their compliance. Producer support officers, who are employed by the Fairtrade system, provide support to enable POs to meet and to sustain these standards.

The role of our study was not to conduct audits and we do not assess compliance. Our focus in this study was to understand the Fairtrade intervention package in each location and in this case the support provided by the producer support officers, as well as to hear the views of PO leaders as to whether the standards and auditing process has led to changes. In the following section we assess how effective the producer support officers have been in helping the POs to achieve the required standards in this section. We explore later in the report how PO leaders report that meeting the standards makes a difference to their organisations.

#### Peru

POs considered that restrictions on child labour prevented their young people from learning about the family business of coffee growing and learning the value of work. While they entirely agree that the children's education must come first and that any 'work' done by children must be adequate to their capabilities, they felt that it was valuable for adolescent children to have limited participation in the activities of the farm. This indicates challenges with the communication of the Fairtrade standards which do allow children to work on the family farm outside of school hours.

Leaders of POs also raised concerns as to the rules of participation of international trading companies in Fairtrade (as in Mexico see below).

## Mexico

A similar view was held by Mexican PO leaders as that held by the Peruvian POs and explained above with regard to adolescent children participating in some farm activities and learning coffee production.

As in Peru, Mexican PO leaders were concerned about the rules of participation of national and international trading companies in Fairtrade. In particular there was concern that traders were offering to buy from farmers under what the traders claim are the conditions of Fairtrade, but without farmers being organised or working through producer organisations. They even cited cases of local intermediaries offering Fairtrade terms (e.g. with respect to Fairtrade Minimum Pricing and Premiums). They were unsure under which conditions international traders are allowed to participate in Fairtrade, and thus when it was legitimate for them to challenge any of the above claims.

## Tanzania

In Tanzania there was limited comment on PO participation in Fairtrade. Several of the Certified PO 1 managers said that there should be revision of some of the Fairtrade standards as they were not appropriate to the Tanzanian context, but no particular details were given.

## Indonesia

No particular comments were made on the producer or trader standards, except that many traders do not provide pre-finance and thus producer organisations felt they are not following the spirit of the standards.

The PO leaders indicated clear benefits for their organisations obtained from following the standards, and said that through their membership of the Fairtrade networks, which in turn means they are part of Fairtrade governance, the Fairtrade networks can increasingly influence decisions taken on the standards. PO leaders find the Fairtrade buyers to be generally supportive, but there are areas for improvement (e.g. in the provision of pre-finance) and instances of over-dependency on exporters.

### Box 10: Summary of findings on small producer and coffee standards

Fairtrade has produced standards for traders, small producer organisations, and standards specific to coffee as a core element of the Fairtrade system. Developing such standards in a consultative process takes time and is a significant achievement. Some issues were raised by PO leaders particularly in Mexico and Peru in relation to both the producer (child labour rules) and trader standards (provision of pre-finance, rules governing participation of exporter companies).

## 3.2 Building Fairtrade markets

One indicator of building Fairtrade markets is producer sales. At a global level, Fairtrade coffee export sales grew on average 13 percent per year between 2008 and 2012, from 78,000 tonnes to 128,000 tonnes (Potts *et al.*, SSI report, 2014). This represents approximately a two percent market share of global exports – similar to other sustainability standards. Production of Fairtrade coffee has also increased at about 13 percent per year to about 430,000 tonnes in 2012 representing five

percent of global production. This means that only 31 percent of Fairtrade coffee produced was sold as Fairtrade, so there is room for expansion in Fairtrade markets (see the sixth edition of the Fairtrade Monitoring Report<sup>19</sup>), but this is not a dissimilar picture to the situation for other sustainability standards. The market demand for Fairtrade coffee has been growing strongly, but the supply has been growing at the same rate.

We report our findings on producer sales to Fairtrade for the case study POs under section 4.1.

#### **Box 11: Summary of findings on building Fairtrade markets**

Sales of Fairtrade coffee have been growing at a rate of 13 percent per year, similar to other sustainability standards, but the supply or production of Fairtrade coffee has been growing at a similar rate. Only 30 percent of Fairtrade production is currently being sold to Fairtrade markets.

### **3.3 Fairtrade producer support**

The Fairtrade producer support function ‘supports producers by providing training in local languages, offering guidance on Fairtrade certification requirements, facilitating relationships with buyers and access to new markets, supporting producer involvement in consultations on standards and pricing, supporting networking and partnership development’.<sup>20</sup> Fairtrade support to producers on the ground is mainly provided by producer support officers who are employed by the Fairtrade Producer Networks and are based in regions of certified production. The producer support officers provide training, guidance on certification and facilitate relationships with buyers’.<sup>21</sup> The actual delivery of these services and the requests for support from the POs will vary in intensity and type as part of implementation. Therefore it is important to gather information on the actual support provided in each case. In some situations, for example, alternative trade organisations (ATOs) that are Fairtrade stakeholders provide additional support for certification, product development, or market access. In other instances, funders and NGOs may provide funding for producer support to groups which are Fairtrade certified. There is, therefore, variation in the actual producer support received by an individual PO in terms of scale, and type of investments.

#### **3.3.1 Peru**

At least one of the POs had received substantial direct assistance from the Fairtrade producer support officer in aspects such as development of business plans, receipt of lists of buyers and participation in trade fairs. The other PO said that they received training when a new board of directors was instituted.

#### **3.3.2 Mexico**

The POs reported that they have received limited visits in person from the Fairtrade producer support officer and limited invitations to training events – generally providing updates on the Fairtrade standards. Until recently one producer support officer was covering Mexico and the Caribbean; currently there is an additional part-time producer support officer, specifically for Chiapas and Oaxaca in Mexico.

<sup>19</sup> Available at: <http://www.fairtrade.net/impact-and-research.html>

<sup>20</sup> <http://www.fairtrade.net/what-we-do.html>

<sup>21</sup> <http://www.fairtrade.net/what-we-do.html>

### 3.3.3 Tanzania

PO leaders were positive about the producer support received, but thought the Fairtrade producer support officer visits were fairly infrequent. (The producer support officer is based in Kenya and covers POs in several countries.) Managers said that they had received training on Fairtrade principles and are informed when standards change. They have participated in various joint training sessions on the standards and participated in sessions allowing for sharing of experiences. Managers from one PO reported participation in the East Africa Fairtrade Convention. Both POs are struggling with poor staff retention and there were some major changes in leadership of PO1 in recent years. This makes it difficult for the understanding of Fairtrade to be adequately institutionalised. The large size of the organisation means that limited information reaches the local level according to managers. One manager was concerned that in the absence of agricultural inputs, now that government does not provide subsidised inputs via the cooperatives to farmers, Fairtrade training can raise farmers' expectations that they will receive these subsidized inputs through Fairtrade and their organisation.

### 3.3.4 Indonesia

PO leaders were positive about inputs from the Fairtrade producer support officer and were very keen to have greater presence in Aceh Province to increase capacity building and monitoring. The managers said that the producer support officer support had built their confidence, facilitated links to exporters, and enabled them to express their opinions in public spheres. The producer support officer reported that while no Fairtrade POs in Aceh were exporting when he started in post, there are now seven, which is a major achievement for Fairtrade. Unlike many coffee cooperatives in Aceh Province which are officially registered but only exist on paper (as found by the research team on an exploratory visit), Fairtrade has supported a number of POs to develop into functioning businesses – according to the producer support officer.

According to several key informants, the approach adopted in the provision of producer support is also important in terms of its effectiveness. The producer support officer placed a notable emphasis on listening to producers and providing support as much as giving out advice, which appears to be appreciated by the PO managers, and contrasts with the poor listening skills and the lack of appropriate coffee-related skills of government extension officers. This view of the producer support officer was reiterated by Fairtrade PO leaders who also noted the lack of skills of the existing government extension officers, and indeed by a government department official who had been interviewed.

*“Fairtrade provides training for POs including finance management, environmental impact, about the Fairtrade standards, GMOs. The Fairtrade representative comes regularly and we communicate very well by email and they visit. The training enables us to have more confidence, so we can express our opinion in public spheres. We now understand more about transparency, we can talk now in public spaces including to government. Democracy has become our tradition. The ICS [Internal Control System field officers] also work on the farm sharing knowledge and skills with members. Fairtrade facilitates many meetings, for example with buyers in Medan, for which they pay the costs, to meet new buyers and exporters.”*

(Fairtrade and organic PO leader, Indonesia, reflecting on the nature of Fairtrade producer support and its benefits)

### Box 12: Summary of findings on Fairtrade producer support

In all four countries studied, the direct inputs from Fairtrade International were seen as positive by PO managers, but they were also deemed to be *limited in scale*, given their capacity building requirements and needs.

#### 3.4 Building networks and alliances

Building farmer and worker networks, mobilising civil society and forming strategic partnerships is a key element of the Fairtrade approach, and the emphasis laid particularly upon the creation of producer and worker networks is unique among standard systems.

Fairtrade facilitates the building of networks and alliances as part of its approach to producer empowerment.

As well as participation in international events and trade fairs, there are regional networks in Latin America, Africa and Asia and Pacific, which form part of the governance structure of Fairtrade. In the case of Latin America the Latin American and Caribbean Coordinator for Fairtrade, known by its Spanish acronym CLAC, has a specific network for coffee-producing POs.

Some of the POs have participated in training facilitated by the regional networks. There are also national networks being established for coffee in three of the four countries studied.

##### 3.4.1 Peru

The Peruvian POs are members of the national Fairtrade Producers network, who in turn are members of the CLAC. One of the POs had participated in a meeting of the CLAC '*Red de Café*' (Coffee Network).

##### 3.4.2 Mexico

The Mexican POs are members of a Chiapas State organic and Fairtrade producers network (COOPCAFE – Coordinator for Small Coffee Producers of Chiapas), and at least one is a member of the national network. Both are aware they are indirectly members of the CLAC.

##### 3.4.3 Tanzania

Both of the Tanzanian certified POs have participated in East Africa producer network meetings to share findings. There is no national network for Fairtrade producers, but the leaders of one of the POs reported participation in a national stakeholder workshop each year.

##### 3.4.4 Indonesia

There is active participation in the existing regional network and newly created network by the leaders of both of the Fairtrade POs studied.

### Box 13: Summary of findings on building networks and alliances

National networks for Fairtrade coffee have been established in three of the four countries studied, that in turn are linked to regional networks who provide some training and international representation.

### 3.5 Support from external agencies

In each country some of the POs selected for study have received external inputs, as well as Fairtrade interventions. Table 12 summarises the support provided by external agencies (e.g. NGOs, donors, governments). This information is important, because it indicates the other external factors which are shaping change within the PO, as well as from Fairtrade intervention. We explore the relative contribution in comparison to other interventions such as that by development donors and NGOs, or other non-Fairtrade certified buyers. Furthermore, we explore some of the ways in which Fairtrade brings benefits to POs by leveraging additional support that POs would not otherwise receive, although it is not to establish the reasons for funder and government support of many years ago.

#### 3.5.1 Peru

The Peruvian POs have received considerable support from government programmes (e.g., 'Agroideas', a 'programme of compensation to promote competitiveness'), and development support leveraged by international buyers to provide financing for infrastructure and training for farmers and capacity development of the organisation. The support given by international buyers (usually the traders leveraging development funds to support the organisations) was the result of the PO being Fairtrade certified.

#### 3.5.2 Mexico

The Mexican POs had received support at various times either from the state, and/or funders after the 1994 Zapatista uprising, although most of the later support was over ten years ago. In this case it is less clear how important it was that the POs were Fairtrade certified in generating this support. In Chiapas, the support given by government and funders to farmer organisations was largely as part of a response to the Zapatista uprising, and all of this has now fallen away, in part due to changing government and funder priorities.

#### 3.5.3 Tanzania

The Tanzanian POs have both received external support over the years since they achieved certification, including from non-Fairtrade buyers (e.g. in the provision of pre-financing) and funding for extension services. One buyer has provided support for the establishment of a roasting facility, union café and roaster and business skills training. A cooperative lending society offering ethical investments in fair trade has supported them by providing organisational credit. Managers reported new support from an Italian NGO, providing support for health insurance. We have only limited information from the second PO, but it also received support from an international NGO since its formation, though this ended in 2011. A US-based specialty coffee buyer has provided support and they have also obtained organisational credit in the past from ethical investors.

#### 3.5.4 Indonesia

The Indonesian POs have been supported by NGOs. One PO has a good partnership with an international NGO which supports a relatively new credit fund, enabling them to extend credit to members. It is likely that the Fairtrade certification of the PO makes a contribution to leveraging this support. Another international NGO is working with all certified POs in Banda Aceh and including the study POs, as well as a few non-certified organisations. The NGO is training ICS staff, as well as government extension officers with funding from Starbucks. In this case it is clear that certification is helping to leverage support for training on coffee cultivation and conservation. However, to date,

the NGO's local representation in Banda Aceh said that they had reached only 20 percent of the farmers in three districts and so the capacity gap is still great. In contrast the non-Fairtrade PO in our study did not have any partnerships with external agencies and they themselves said this is because they are not certified.

Local government in Indonesia provided one PO with a huller machine, but it was too small, so the PO has decided to sell it to buy a more appropriately sized one, with support from an exporter to obtain a loan.

**Table 12: External support to study POs**

|   |
|---|
| <b>Mexico</b>   |
| Considerable support was given in the past from funders and from the state to POs in Chiapas, but this was mainly ten years ago. While Fairtrade may have contributed to this support, it is difficult to ascertain how far it was a factor so many years later and other non-Fairtrade organisations are likely to have benefitted also from the post-uprising investment. |
| <b>Peru</b>   |
| Considerable support was given from government programmes, private banks and international buyers – the latter leveraged directly as a result of being attracted by Fairtrade certification.  |
| <b>Tanzania</b>   |
| One PO received significant support from an international NGO in the establishment phase, but this has now ended. Support was also given from a buyer and from an alternative financial agency (Fairtrade helped to attract this support, but was not the only factor in attracting this support). One PO has support from non-Fairtrade buyers and NGOs                    |
| <b>Indonesia</b>  |
| Various NGOs have provided support, e.g. in partnering one PO in developing a credit fund, in funding some agricultural extension work, and in conservation agriculture. Limited support from government. Certified POs are receiving support from Conservation International, whereas the non-certified PO was not.  |

#### **Box 14: Summary of findings on support from external agencies**

Overall, we found that support from external agencies is widespread amongst the Fairtrade POs covered by our study. Much of this support can be attributed to the Fairtrade certified status of the POs, because certification adds to the reputation of the PO as a viable business. Furthermore, Fairtrade certification brings established processes, governance, independent auditing and infrastructure to producer organisations that may lack these attributes, making it easier for external agencies to fund/resource further development. Also, Fairtrade support can enable producer organisations to better articulate their needs. There are also cases where support has been provided independent of Fairtrade certification.

### **3.6 Summary of overall findings on Fairtrade interventions**

In this section we summarise the overall findings on Fairtrade interventions in coffee in the four country cases, including the relevant standards for traders and small producers, building of Fairtrade markets, and the creation or strengthening of networks and alliances.

A summary of the findings per country on Fairtrade interventions compared with the key indicators in the theory of change is set out in Table 13 below, and a synthesis of the findings on interventions is given in Box 15. See also Table 35 for a summary of findings on the relevant inputs, outputs, outcomes and impacts.

**Table 13: Fairtrade interventions (inputs) in the cases studied**

|   |  |
|---|--|
| <b>Theme: Fairtrade standards for traders</b><br><b>Indicators:</b> <i>Price guarantees; Fairtrade Premium; Pre-finance; Sustained trade</i>  | <b>Theme: Fairtrade standards for small producers</b><br><b>Indicators:</b> <i>Democracy; Participation; Transparency; Labour conditions; Environmental protection).</i> |
| <b>Mexico</b>   |  |
| <ul style="list-style-type: none"> <li>• Fairtrade standards for traders and POs have been developed.</li> <li>• POs meeting Fairtrade standards.</li> <li>• POs indicate that traders pay the Fairtrade Premium, observe the Fairtrade Minimum Price, but do not directly provide pre-finance.</li> </ul>  |  |
| <b>Peru</b>   |  |
| <ul style="list-style-type: none"> <li>• Fairtrade standards for traders and POs have been developed.</li> <li>• POs meeting Fairtrade standards.</li> <li>• POs indicate that traders pay the Fairtrade Premium, observe the Fairtrade Minimum Price, but do not directly provide pre-finance.</li> </ul>  |  |
| <b>Tanzania</b>   |  |
| <ul style="list-style-type: none"> <li>• Fairtrade standards for traders and POs have been developed.</li> <li>• POs meeting Fairtrade standards, although one PO was struggling at the time of this research, and its certification was suspended subsequently.</li> <li>• POs indicate that traders pay the Fairtrade Premium, observe the Fairtrade Minimum Price, but do not directly provide pre-finance.</li> </ul> |  |
| <b>Indonesia</b>  |  |
| <ul style="list-style-type: none"> <li>• Fairtrade standards for traders and POs have been developed.</li> <li>• POs meeting Fairtrade standards.</li> <li>• POs indicate that traders pay the Fairtrade Premium, observe the Fairtrade Minimum Price, but do not directly provide pre-finance.</li> </ul>  |  |
| <b>Theme: Building Fairtrade markets</b><br><b>Indicators:</b> <i>Engaging with businesses; Raising consumer awareness</i>  |  |
| <b>Mexico, Peru, Tanzania, Indonesia</b>  |  |
| Fairtrade markets are continuing to grow, although supply is also growing.  |  |
| <b>Theme: Support for Fairtrade producer organisations</b><br><b>Indicators:</b> <i>Support for organisational strengthening and compliance with standards, including financial support; Facilitating market access; Facilitating support from others</i>   |  |
| <b>Mexico, Peru</b>   |  |
| Positive feedback, but limited in scale.  |  |
| <b>Tanzania</b>   |  |
| Positive feedback, but limited in scale (especially given size of PO)   |  |
| <b>Indonesia</b>  |  |
| Very positive feedback, but limited in scale and greater representation from Aceh Province sought by PO leaders   |  |
| <b>Theme: Building networks and alliances</b><br><b>Indicators:</b> <i>Building producer and worker networks; Mobilising civil society; Forming strategic partnerships</i>  |  |
| <b>Mexico</b>   |  |
| Strong participation in national and regional coffee fora and strategic sectoral discussions  |  |
| <b>Peru</b>   |  |
| Strong participation in regional, national and sub-regional coffee fora.  |  |
| <b>Tanzania</b>   |  |
| Participation in national coffee strategy development and annual stakeholder meeting. Attendance at trade fairs and coffee meetings via Fairtrade, but now have to cover own costs.   |  |
| <b>Indonesia</b>  |  |
| Participation in trade fairs and international coffee meetings. Participation in local coffee forum, which obtained geographical indication, but the forum now has limited activity.  |  |

### Box 15: Overall findings on Fairtrade interventions (inputs)

Support from external agencies was significant, and much of this support can be attributed to the association of the POs with Fairtrade, although not in every case.

Overall, Fairtrade Interventions in the case study countries were assessed as follows:

- **Standards for small producer organisations and for traders:** Standards established and being followed, except for provision of pre-finance by traders. Good support from Fairtrade producer support officers, but insufficient in scale.
- **Building Fairtrade Markets:** Fairtrade markets have grown, but room for expansion as supply has also increased.
- **Support for producer organisations:** Very positive feedback, but support is limited in scale.
- **Building networks and alliances:** Strong participation in regional producer networks and national networks in Indonesia, Peru and Mexico.

## 4. Assessment of changes resulting from Fairtrade support – outputs

In this section we summarise the findings on the immediate changes resulting from the Fairtrade interventions described in preceding sections and we indicate where changes are also a result of the inputs from other interventions and/or influencing contextual factors.

The areas where Fairtrade expects to contribute to change are as follows:

1. Fairer trade for producers
2. Strengthened small producer organisations
3. Investment in producers and their organisations and communities
4. Increased knowledge and capacity
5. Increased awareness and commitment to trade justice

### 4.1 Fairer trade for producers

There are differing aspects of ‘fairer trade’ for producers as outlined by Fairtrade: Significant and sustained access to Fairtrade markets; Supportive trading relations with buyers; Fair prices and relative price stability. Our findings on the contribution of Fairtrade against each of these indicators are presented in this section.

#### 4.1.1 Significant and sustained access to Fairtrade markets

Fairtrade seeks to develop more stable market access for producers.

Figure 13 below shows the sales by Fairtrade POs in each of our country cases, for the years where we were able to obtain data. Data for 2013 sales was not available for all cases at the time of the research.

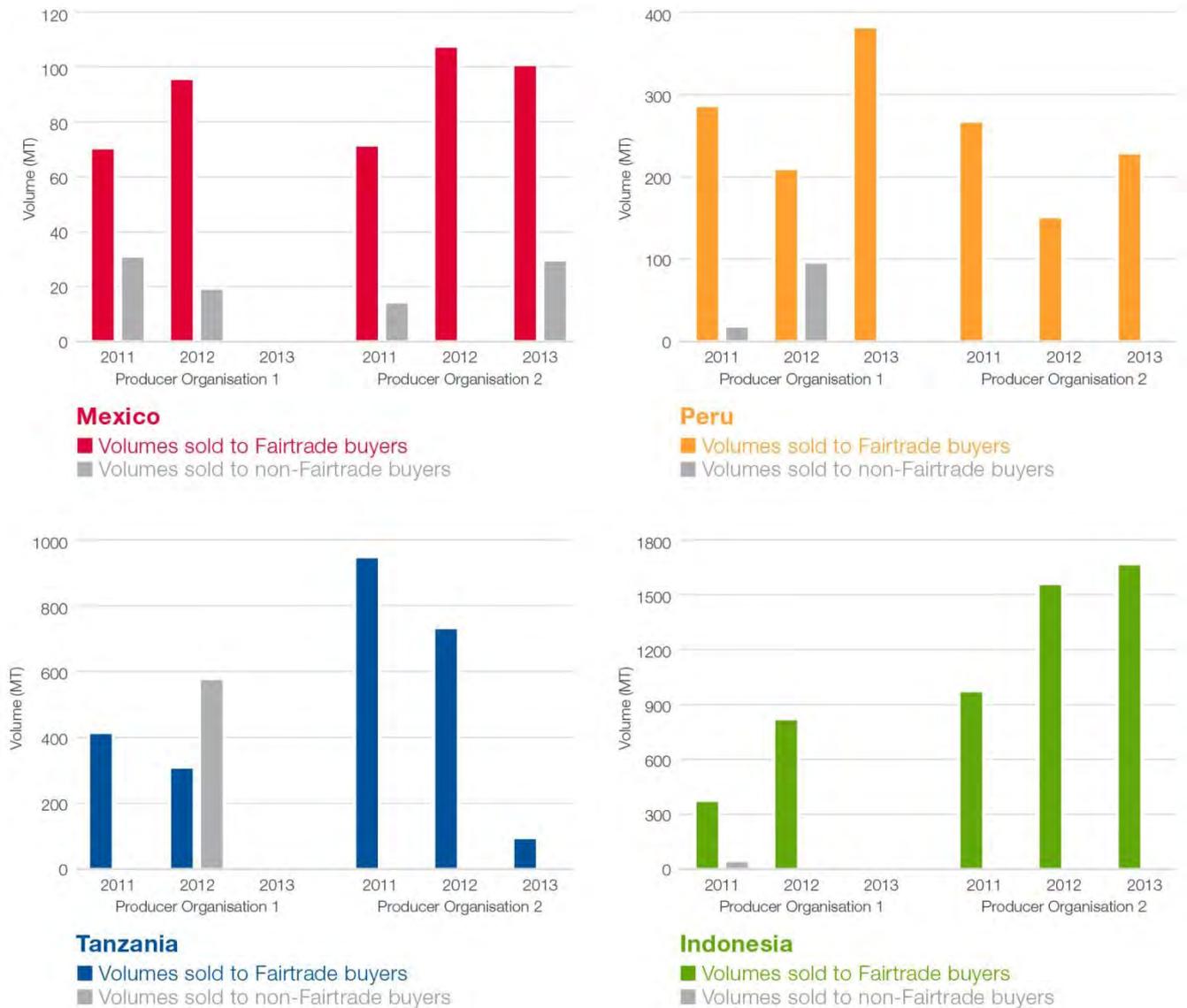
#### Peru

The Peruvian POs have had fluctuating sales to Fairtrade markets, and manage to sell only about half the total production of their members. This is because of the strict quality demands of their most important buyers. Achieving the quality levels required has been particularly difficult for smallholders at lower altitudes. In general, the considerable variation in altitude among members in the Peruvian POs challenges their ability to provide a uniform high quality to their main buyer; in 2011 and 2012 this resulted in part of the crop being sold to non-Fairtrade buyers. In 2013 PO1 managed to find a Fairtrade buyer who would accept ‘lower’ quality coffee under Fairtrade terms.

#### Mexico

The POs in Mexico could *sell* more high quality/high altitude coffee, but they cannot *produce* it in sufficient quantities to meet the potential demand, and so they have not looked to expand their buyer contacts. The organic coffee production of their members is limited by a lack of capacity to invest in increasing production; one of the POs has accepted new members to increase volume, but they are currently in the three-year transition phase to organic certification. Not all POs have the capacity to export by themselves, but some POs export through more developed, larger POs that provide this service for them.

**Figure 13: Sales by Fairtrade POs to Fairtrade and non-Fairtrade buyers, in metric tonnes of export green coffee (Mexico and Peru), pre-export green coffee (Indonesia) and dried parchment (Tanzania)**



Note: At the time of field research, sales information was not available for 2013 for all producer organisations.

Volumes are given in metric tonnes of export green coffee (Mexico and Peru), pre-export green coffee (Indonesia) and dried parchment (Tanzania).

### Tanzania

PO1 managers said they need to see an increase in sales on Fairtrade terms, as currently, sales are modest as a proportion of their overall coffee sales; obtaining precise figures was not possible. Fairtrade PO2 is struggling to meet the quality requirements of buyers, with productivity and quality declining overall, and this is particularly the case for the Fairtrade PO (farmer association) which focuses its model on direct exports to specialty segments of the market. The Tanzania POs both have a lack of working capital to buy the beans and only a proportion of the coffee collected by PO1 is sold on Fairtrade terms. PO2 at the time of the fieldwork did not have sufficient funds to buy coffee due to an internal financial crisis.

Coffee farmers in the north of Tanzania are particularly struggling with ageing trees, which, amongst other factors, is challenging productivity in coffee. Low production/productivity is resulting from farms having few and old trees, poor husbandry practices and high intensity of intercropping

especially with bananas, which increases the risk of disease, and a lack of inputs and climatic factors (TaCRI, 2005; FGDs).

### Indonesia

The Indonesian Fairtrade POs in our study are both Fairtrade and organic certified, because this is what the market demands and all of their produce was sold on certified terms. Demand for 'gayo' coffee is high as it is blended with other coffees. PO managers said that there is more demand for organic certification than Fairtrade, but all of the PO sales are sold as Fairtrade and organic, and the combination is important as the Fairtrade Premium funds help the organisation and the members to sustain organic certification. Seven Fairtrade POs in Indonesia now have their own export licence and are selling to Fairtrade markets.

#### Box 16: Summary of findings on significant and sustained access to Fairtrade markets

All producer organisations made significant Fairtrade sales. In Peru, Indonesia and Mexico the general tendency was for sales to Fairtrade markets to have increased over the three years previous to the research, with Fairtrade and Fairtrade-organic sales representing over 80 percent of total sales. In Tanzania, Fairtrade sales had declined over the previous three years, with around 30 percent of total sales being on Fairtrade terms for the years for which data were available.

#### 4.1.2 Supportive trading relations with buyers

Fairtrade seeks to improve the trading relationships that producer organisations (POs) and their members have with their buyers. Longer-term relationships between the PO and their buyers are one indicator of a more supportive trading relationship. Others include buyers providing POs with a sourcing plan, providing other forms of support to the PO and there being a sense of partnership and mutual respect between buyers and the POs.

### Peru

The POs manage direct relationships with importers, make yearly contracts and overall, relationships are stable, although there is no long-term contract. Buyers have different motivations for engaging with Fairtrade coffee POs. Some buyers prioritise quality coffee in the specialty markets. In Peru, the POs reported that buyers set strict standards on quality that limit their ability to export certified coffee. While both POs have found exporters for their lower quality coffee, these export contracts do not always recognize its Fairtrade certification. Contracts are negotiated on a year by year basis, based on performance from the previous year. No pre-financing is offered directly by the buyers, although requested by the POs; some pre-financing is facilitated through alternative lenders supported by contracts with the buyers.

### Mexico

The Mexican POs also manage direct relationships with importers, have contracts with buyers and the POs have a core group of buyers who buy from them each year in fairly stable relationships, but again there are no formal long-term contracts in place. However, Fairtrade buyers – for the POs

studied – do not provide pre-finance; this was confirmed by all the Chiapas Fairtrade POs who participated in the stakeholder workshop and who have asked for pre-finance from their buyers.

### Tanzania

The POs manage direct relationships with Fairtrade buyers in fairly stable relationships, although PO managers expressed concern that during times of high prices Fairtrade buyers may move away from buying Fairtrade coffee. For one of the study POs, which has a focus on specialty coffee, quality is key and the specialty coffee buyer has invested at the farmer level in training and equipment. But the PO finds it difficult to meet the high quality standards and 35 farmer groups out of 90 are currently said to be ‘on probation’ within the PO as a result, as they seek to achieve sufficient quality levels to be able to sell to the PO. The other PO sells Fairtrade coffee both via direct sales and at auction. Several key informants noted that the government regulation – which separates those buying coffee at the local level, and those buying at auction – is not adequately enforced. Several of those buying at auction own subsidiary companies with whom they make their own arrangements. This, according to several stakeholders interviewed during the course of this study, leads to depressed auction prices, which affects the prices obtained by producer organisations, though this could not be validated during our study. Where Fairtrade has facilitated direct sales, this means the PO can avoid some of the export costs involved in selling at auction. Some buyers provide pre-financing, but not all, although POs have requested it.

### Indonesia

The study POs are dependent upon exporter companies based in Medan, and the relationships are not always very stable, with both of the study POs experiencing difficulties with some of their previous export partners and having to make changes. The case study POs are seeking export licences themselves and several other Fairtrade POs in the region have reportedly gained export status in recent years. There is good market demand for *gayo* coffee, although the PO leaders alleged that there is mixing of the *gayo* coffee with other coffees by exporters which reduces quality, although they did not indicate that their particular exporter partners do this. Only a few of the buyers provide the POs with pre-financing despite requests for it from the POs.

#### Box 17: Summary of findings on supportive trading relations with buyers

The study finds that producer organisations do, generally speaking, have improved trading relationships with their buyers as a result of participation in Fairtrade. However, the provision of pre-financing in particular, which is part of the Fairtrade trader standards, is very limited.

### 4.1.3 Fair prices and price stability

Relatively higher prices and improving price stability form part of Fairtrade’s theory of change. We have divided the findings in this section into two:

- i) Export prices received by the POs
- ii) Prices received by the farmers

### i) Export prices received by the POs

*N.B. the data and discussion below do not include the Fairtrade Premium of USD 0.2/lb of green coffee, as these payments are made separately, and are accounted for separately (see section 4.3.1 on the use of the Fairtrade Premium).*

#### Peru

Export prices are above the price of Fairtrade minimum plus organic differential across all three years, although the price for PO2 in 2011, when the New York 'C' price was high, was much lower than for PO1. The non-Fairtrade sales made by PO1 in 2011 and 2012 were at a lower price than the Fairtrade sales (see Figure 14).

#### Mexico

Export prices paid to POs are substantially above the Fairtrade minimum plus organic differential across all three years. Also non-Fairtrade sales (of coffee in transition to organic) were at lower prices. In the case of PO1 these sales were actually as roast and ground coffee to the local market, and had a price almost as high as the export price for Fairtrade-organic coffee, but also this was a price set internally by the PO. One of the POs had indicated that even during the period of highest prices in 2011 it had been able to negotiate a small price differential for its coffee from one of its buyers to enable it to maintain its offer of better prices to its members.

#### Tanzania

Prices reported by PO1, the farmer cooperative union, are above the Fairtrade Minimum Price. Prices were lower for PO2, the farmer association, that sells just Fairtrade, with no organic status, and were equivalent to the Fairtrade Minimum Price. See Figure 14.

#### Indonesia

The prices reported by the POs were always above the New York C price or the Fairtrade Minimum Price plus organic differential, whichever was higher.

During the stakeholder workshop in Chiapas, PO representatives indicated that during the period of high coffee prices, they had been under pressure from some buyers to sell at lower than the prices stipulated in the Fairtrade standards (i.e. New York 'C' price plus organic and Fairtrade Premiums). Furthermore, POs in Peru indicated that some buyers wished to apply the negative differential applied to Peruvian coffee for perceived lower quality to the Fairtrade price, which they were not in agreement with.<sup>22</sup> One of the Tanzania PO's managers said they had seen a similar scenario, with Fairtrade buyers moving away from Fairtrade during times of high prices.

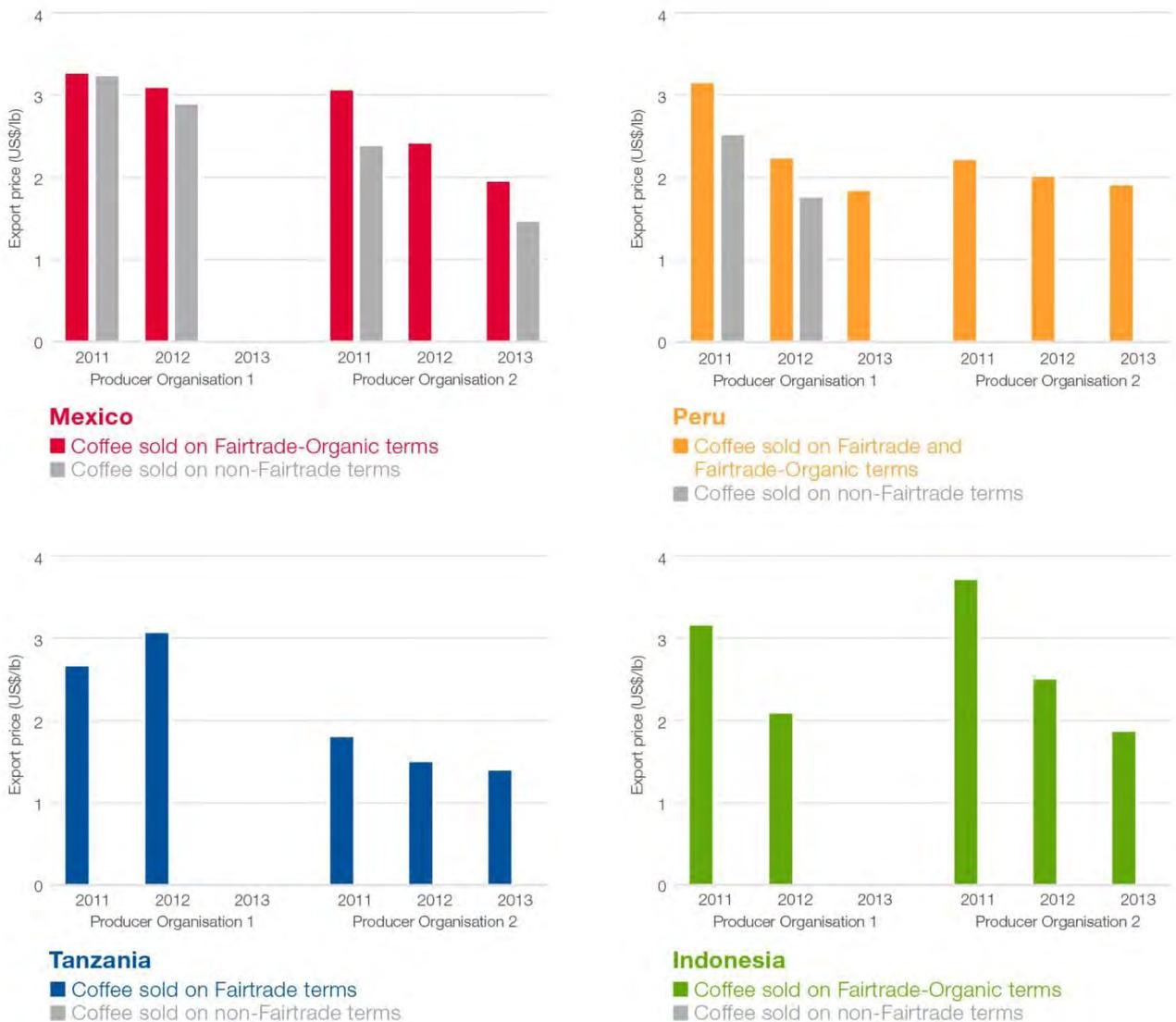
There is confusion among the POs about how country or regional price differentials (discounts or premiums according to the market's perception of the relative demand for a particular source of coffee) are considered with respect to the Fairtrade pricing. Fairtrade has said that price differentials

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<sup>22</sup> In 2012, it was identified that there was a need for clarification of the term 'prevailing differential' in defining the Fairtrade market reference price. Fairtrade International and FLOCERT jointly issued a formal letter of clarification to all producers and traders and has since published bi-weekly benchmark differentials based on public/ commercially available market information. <http://www.fairtrade.net/coffee.html>

should be considered in the Fairtrade price. Particularly, producer organisations are not clear how negative differentials should be taken into account – for example in Peru – specifically whether these should be subtracted from the New York ‘C’ price when this is above the Fairtrade Minimum Price; the POs interviewed indicate that some buyers have that expectation, but they are not sure this is correct under the terms of Fairtrade. The latest Fairtrade pricing guidelines clarify that negative differentials can be taken into account as long as the reference New York ‘C’ price is above the Fairtrade Minimum Price.<sup>23</sup>

**Figure 14: Export prices for green coffee received by the POs (USD/lb). Sales of different types of coffee sold: Fairtrade, Fairtrade and organic, and non-Fairtrade sales**



Note: 'Coffee sold on Fairtrade and Fairtrade-Organic terms' refers to a mean price of sales of coffee with just Fairtrade certification and coffee with Fairtrade plus organic certification.

Prices do not include the Fairtrade Premium which is paid separately.

At the time of field research, price information was not available for 2013 for all producer organisations.

<sup>23</sup> The Fairtrade International guidance on applying coffee differentials is published regularly on their website, see: <http://www.fairtrade.net/products/coffee.html>.

## ii) Prices received by the farmers

The price which farmers receive for their deliveries of coffee depends upon the amount the PO discounts from the export price to cover the costs for processing, certifying, exporting, investing and providing services to members. However, it also depends on the degree to which these items are subsidised by external actors, since in many cases services to members (training etc.) and infrastructure investments are subsidised. Processing (conversion from cherry or parchment coffee to export green coffee), certification (Fairtrade and organic) and export costs (legal costs, transport, taxes etc.) are usually directly assumed by the PO and thus deducted from the export price to establish the price to members. The costs are considerably dependent on economies of scale i.e. the larger the volume the lower the cost per unit volume.

### Peru

The price that Fairtrade farmers reported receiving from their POs in 2013 was 7–16 percent higher than that received by non-Fairtrade farmers from other buyers, a statistically significant difference (Table 14). The average price received by PO2 farmers, who were all organic certified, was greater than the average price received by PO1 farmers who were a mix of organic and non-organic certified farmers. The price received by non-organic Fairtrade farmers of PO1 (USD 2.02/kg) was not statistically different from the prices received by non-Fairtrade farmers. The prices that the farmers reported receiving during the preceding years (2011 and 2012), in which international coffee prices were well above the Fairtrade Minimum Price, were little different when comparing between Fairtrade POs and other buyers.

### Mexico

All farmers interviewed were Fairtrade-organic certified and in 2013 received USD 0.6/lb more or a 30 percent higher price from their PO, than non-Fairtrade farmers received from other buyers. The PO said that it paid a small premium to its members who were in transition to organic certification, of USD 0.14/lb. The farmers indicated that the POs had also paid a higher price than other buyers in 2011 and 2012 varying between about USD 0.2 – USD 0.5/lb parchment coffee.

### Tanzania

Fairtrade certified farmers of one PO had significantly higher prices (USD 0.14/lb) than the non-Fairtrade farmers; for the other PO there was no significant difference.

The Tanzania PO2 had had a recent financial crisis that led to a situation in which the PO had not been able to buy from their members at all. The cooperative union PO engages in price setting with the Tanzania Coffee Board and other actors. It also struggles with access to working capital, sustaining quality levels and its prices have not been much higher for producers than other buyers. However, it has continued to buy from members and many have opted to sell to the cooperative union because sometimes they have been able to pay them a second payment upon sale of the coffee at the auction. This had not been possible in the last season due to the low prices on coffee markets, but farmers were still expecting a second payment.

**Table 14: Average farm-gate price received by farmers in 2013 (USD per kg of parchment coffee) according to their affiliation**

| Group of farmers      | Mexico | Peru   | Tanzania |
|-----------------------|--------|--------|----------|
| Fairtrade PO1 members | 2.48 a | 2.10 a | 1.45 a   |
| Fairtrade PO2 members | 2.49 a | 2.29 b | 1.37 ab  |
| Non-Fairtrade farmers | 1.89 b | 1.96 c | 1.31 b   |

Prices that do not share the same letter are statistically significantly different when comparing between Fairtrade and non-Fairtrade farmers **within** the same country.

**Table 15: Prices to farmers for coffee cherries (USD per kg) from different buyers – Indonesia<sup>24</sup>**

| Buyer             | Fairtrade PO1 members | Fairtrade PO2 members | Non-Fairtrade PO members | Average |
|-------------------|-----------------------|-----------------------|--------------------------|---------|
| PO price          | 0.35                  | 0.37                  | 0.46                     | 0.40 a  |
| Other buyer price | 0.33                  | 0.34                  | 0.43                     | 0.37 b  |
| Average           | 0.34 a                | 0.36 a                | 0.45 b                   |         |

Prices are for coffee cherries in USD per kg. Prices followed by different letters are significantly different

However, not all export-grade coffee produced by PO members is sold to the PO, thus reducing the volume of coffee managed by the PO. This increases the costs per unit volume of coffee for the organisation and thus the deductions from the price received by farmers. While most farmers sell at least some of their coffee to other buyers – in particular the low quality coffee at the start and end of the harvest – in Tanzania and Peru it was particularly obvious that farmers sell large volumes to multiple buyers outside of their PO.

### Indonesia

In Indonesia our statistical comparison indicates that the Fairtrade POs did manage to offer marginally higher prices for coffee cherries than other local buyers in the same community. However the non-Fairtrade PO also managed to offer a better price than other buyers in the same communities. The non-Fairtrade PO also offered a higher price overall than the Fairtrade POs. However, the prices offered by the POs for parchment coffee (coffee that has been wet milled to remove the pulp from the cherries) were higher for the Fairtrade POs at USD 1.27/kg compared to USD 1.13/kg for the non-Fairtrade producer organisations. A statistical comparison was not possible as very few non-Fairtrade farmers sell parchment (as the price is effectively lower than for coffee cherries), but over half of Fairtrade PO2 farmers do sell parchment. The complexity of forms of sale and buyers in Indonesia makes conclusive comparisons difficult, but it does seem that farmers in the Fairtrade POs are getting a better price for their coffee than they are being offered by other buyers in the same location. Furthermore, members see other benefits to selling to the designated collector of their farmer group in the community for the PO (established relationship, access to advances sometimes from the collector, and other services). The higher price paid by the non-Fairtrade PO

<sup>24</sup> Coffee may be sold by farmers at different stages of processing, coffee cherries are as picked from the field with no processing, parchment coffee is when the pulp has been removed from the cherries but the bean is still covered by a thin parchment, green coffee is when this parchment has been removed.

appears to be due to other factors, as the non-PO buyers also offered a higher price, indicating a higher overall demand for the coffee from those communities.<sup>25</sup>

#### Box 18: Summary of findings on fair prices and price stability

In summary, we found that in 2013 Fairtrade farmers received higher prices (statistically significant) from their POs than they would have received from selling to other buyers, with the price difference being greatest for Fairtrade-organic farmers. However, when prices were higher in 2011 and 2012, only POs with very high quality coffee were able to negotiate higher prices than those offered by other buyers. In terms of price stability, Fairtrade provides a small buffer in the face of significant market fluctuations. While coffee prices for Fairtrade farmers were between eight and 30 percent higher during periods of low prices, Fairtrade farmers experienced similar overall price fluctuations, with prices in 2013 half the level they were in 2011.

## 4.2 Strengthened small producer organisations

Fairtrade seeks to strengthen small producer organisations in terms of improving democracy, transparency and members' participation and increasing their participation in Fairtrade networks and Fairtrade governance.

### 4.2.1 Democracy, transparency and members' participation

POs follow Fairtrade producer standards to achieve compliance through their own efforts and with support from the producer support officers, and auditors ensure there is compliance with the standards which include basic requirements relating to democracy, transparency and members' participation. In this section we present the self-assessment of PO leaders on the impact of Fairtrade on their development, as well as the perceptions of farmers at the local level in terms of their understanding of their organisations and active participation in its decision-making.

#### Peru

The PO leaders were asked the extent to which Fairtrade has had an effect upon their organisational strength, infrastructure and democracy. They rated their organisational strength as 'improving a little'. Leaders of one Fairtrade PO said that their organisational infrastructure has 'improved greatly', whereas the other PO's leaders felt there had been no effect upon their organisational infrastructure. Both organisations' leaders said that their organisational democracy had 'improved a little' (see Table 16 below).

In Peru, farmers generally understood the governance structure of their PO and decision-making processes, and felt at liberty to express their opinions directly, through delegates or technical staff. Nevertheless, cases were cited by members where managers or Presidents of the PO had taken decisions in their own interest that were not supported. In each of these reported cases, after a period of time, the people involved were removed from the organisation and the membership,

<sup>25</sup> Fairtrade producer organisations have to comply with a different, and higher set of standards, than private coffee trader processors, who also may have easier/cheaper access to finance compared to small farmer organisations. Private exporters operating in the same locality as Fairtrade farmer organisations may have to pay locally competitive prices in order to secure farmer member coffees (for evidence of this see A Study of Fairtrade Co-operatives in Chiapas, Mexico by Milford, 2004)

through the board of directors, took control of the organisation. There was a mixed view at PO level with some managers seeing Fairtrade standards and auditing as deepening their organisational democracy, while others felt that the Fairtrade requirements mirror the national rules for cooperative management, and do not have additional requirements in this respect.

### Mexico

Leaders of the two POs rated the strength of their organisation as ‘improving a little’ or ‘improving greatly’, respectively. Fairtrade contributed to the organisational infrastructure of both organisations, which led to being rated ‘improving greatly’ in this field. Similarly, their democracy has ‘improved greatly’ according to the PO leaders as a result of Fairtrade certification (see table 16 below).

Farmers generally understood the governance structure of their PO and decision-making processes, and felt at liberty to express their opinions directly, through delegates or technical staff. PO managers see Fairtrade standards and auditing as deepening their organisational democracy supporting them in strengthening the internal organisation. The boards of directors reported that Fairtrade has helped them to maintain good governance and decision-making processes in the cooperative and managers are pushed to share information with the board and members, but the demands require substantial staff time. One PO was suspended from Fairtrade, for non-compliance in standards: this helped the PO to recognise and correct their internal management deficiencies. Individual farmers appreciated strong leadership, but also expressed concern when leaders did not keep them informed.

### Tanzania

For Tanzania Fairtrade PO1 the strength of their organisation has ‘improved a little’ as a result of Fairtrade, but their organisational infrastructure and democracy has ‘improved greatly’. During the workshop with PO managers the leaders also confirmed that Fairtrade has improved their organisational democracy. However, the key informants interviewed were less positive, pointing to major challenges of bureaucracy and a lack of transparency, efficiency and accountability. For PO2 the leaders did not provide assessments. There were concerns about the use of the Fairtrade Premium funds amongst the key informants interviewed.

Farmers understood the governance structures of their organisations and decision-making processes, but most did not feel able to participate or have their voices heard at the higher levels of the organisation. Much depends upon the leadership skills, capacity and motivation of the leaders of the farmer business groups or the primary societies, as they are the representatives of farmers to the wider PO. The cooperative governance structure has been established for many years and it is fairly top-down in nature, in part for historical reasons. Farmers are clear on how the PO is organised, but some men in a PO1 focus group discussion (FGD) were quite critical of their leadership, saying they did not listen to the views of members, and women’s views were ignored. In both POs farmers had concerns about their primary society or farmer business group leadership. In the non-certified men’s FGD, participants in Tanzania said that they are not members of any PO and do not feel that they are missing specific benefits by not being part of a PO – certified or otherwise.

### Indonesia

The Fairtrade PO leaders reported that the strength of their organisation had ‘improved greatly’ as a result of Fairtrade. Their organisational infrastructure had ‘improved greatly’ for one PO and

‘improved a little’ for the other and a similar picture was found for organisational democracy (See Table 16 below).

While managers of both Fairtrade certified POs did report some improvements in internal basic democratic processes in their organisation as a result of Fairtrade standards, at the same time they noted that the national laws on cooperative governance have to be followed and so the Fairtrade impact would necessarily be limited in this regard.

PO members were fairly positive about the management of their organisations and decision-making processes, compared to the non-Fairtrade focus group participants who said they were unclear on PO decision-making and had not yet attended an Annual General Meeting (AGM).

**Table 16: Self-assessment by POs of Fairtrade impact upon aspects of their organisational development**

| PO             | Strength of organisation | Organisational infrastructure | Democracy         |
|----------------|--------------------------|-------------------------------|-------------------|
| Tanzania PO 1  | Improved a little        | Improved greatly              | Improved greatly  |
| Tanzania PO 2  | No data                  | No data                       | No data           |
| Indonesia PO 1 | Improved greatly         | Improved a little             | Improved greatly  |
| Indonesia PO 2 | Improved greatly         | Improved greatly              | Improved a little |
| Peru PO 1*     | Improved a little        | Improved greatly              | Improved a little |
| Peru PO 2      | Improved a little        | No effect                     | Improved a little |
| Mexico PO 1    | Improved a little        | Improved greatly              | Improved greatly  |
| Mexico PO 2    | Improved greatly         | Improved greatly              | Improved greatly  |

\*Researcher scoring rather than PO managers

Scoring Key:

|                  |                   |           |                   |                |
|------------------|-------------------|-----------|-------------------|----------------|
| Improved greatly | Improved a little | No effect | Worsened a little | Worsened a lot |
|------------------|-------------------|-----------|-------------------|----------------|

#### Box 19: Summary of findings on democracy, transparency and members’ participation

In sum, most of the POs in our study, but not all, indicate there has been a strengthening of these features of their governance. However, according to members we interviewed, some of the audit reports and various key informants, there are also challenges for several of the study POs to improve members’ participation, and their democracy and transparency.

#### 4.2.2 Participation in Fairtrade networks and Fairtrade governance

The Fairtrade regional and national networks vary in their level of development, with the Latin American networks more established than the African and Asian ones, and the extent to which they facilitate producer voice in the Fairtrade system and beyond also differing.

##### Peru

In general, the PO managers in Peru said they actively participate in and value the national Fairtrade network and have also attended CLAC (the Fairtrade producer network for Latin America and the Caribbean) for Fairtrade-sponsored events. PO leaders in Peru recognise the role of the Fairtrade networks in lobbying for improvements in the Fairtrade Premium and Fairtrade Minimum Price

rules. The managers felt that these changes have been critical in securing the future viability of their organisations and for the generation of benefits for farmers.

### Mexico

The Mexican POs are members of a Chiapas State organic and Fairtrade producers network (COCAFE). At national level the POs were confused by the presence of a Fairtrade Mexico network, which we believe promotes consumption of Fairtrade products in Mexico, and COCAFE. They were not and did not want to be part of Fairtrade Mexico. Both are aware they are members of CLAC, through the national Fairtrade network for producers. PO leaders are aware of the role of CLAC in lobbying for improvements in the Fairtrade Premium and minimum prices.

### Tanzania

There is no national network in Tanzania, but the producers mentioned participating in Regional East Africa network events, which enable them to share lessons and experiences, although no concrete achievements were specified.

### Indonesia

Indonesian PO leaders valued the regional Fairtrade Network of Asia and Pacific Producers (NAPP) as a vehicle for them to influence Fairtrade (e.g. Fairtrade Minimum Price levels), but said it needed strengthening, should be more transparent in its use of funds and should have greater representation of (Indonesian) coffee producers. The national network is only just starting, and there have been initial leadership difficulties, but it is now evolving and the participants have agreed to invest some funds in shared awareness raising activities amongst members on production and quality, but also on other Fairtrade principles (e.g. on the Fairtrade Premium and their role in decision-making). Participation in both networks had enabled Indonesian PO leaders to share experiences and given them greater confidence in articulating their views both in the Fairtrade system and at other public events.

#### Box 20: Summary of findings on participation in Fairtrade networks and governance

In sum, there is active participation in Latin America in national and regional Fairtrade networks, which PO leaders felt has been important in influencing the Fairtrade system and in achieving positive benefits for their organisations and members. In Tanzania PO leaders have participated in regional East African network meetings, and in Indonesia PO leaders participate in regional and a newly emerging national network – although in both cases it was harder to identify specific concrete outcomes. More focused research is needed on the effectiveness of the producer networks, given their unique character and importance in Fairtrade governance.

#### 4.3.1 *Collective investments of the Fairtrade Premium*

Fairtrade sales generate the Fairtrade Premium. For coffee, this is currently set at USD 0.20/lb. According to the Fairtrade standards, PO members should decide democratically on the use of the Fairtrade Premium. In our study we found that the types of collective investments of the Fairtrade Premium vary by PO. While many focus on meeting organisational PO needs, there are also social investments in communities (e.g. funding school fees, facilitating electricity provision etc.), as well as direct payments to farmers.

In Table 17 below we present the data that are available in the audit reports on the value of the Fairtrade Premium received by each PO.

**Table 17: Value of Fairtrade Premium (USD) received by each PO based on Fairtrade audit report. Periods reported vary between PO depending on harvest periods and timing of audits**

|      | Peru    |  | Mexico   |                   | Tanzania |  | Indonesia |         |
|------|---------|--|--|-------------------|----------|--|-----------|---------|
| 2011 | 74,791  | 60,084   | 15,668   | 15,592            | 102,708  | 96,888   | 355,344   | 110,655 |
| 2012 | 93,752  | 80,610   | 41,680   | No data available | 166,366  | 99,736   | 690,096   | 359,100 |
| 2013 | 109,980 | Full 2013 data not available at time of research | Full 2013 data not available at time of research | 44,266            | 77,117   | 42,328<br>This is 6 months' worth of data. Full 2013 data not available at time of research. | 815,522   | 260,755 |

In Table 18 we provide some information on the uses of the Fairtrade Premium. However, it is difficult to provide comparable figures, due to the weaknesses in the audit report data and the different categories used by the POs in the data shared in terms of amounts or percentages spent on different usages. According to Fairtrade International efforts are being made within the Fairtrade system to improve the consistency and categorisation of Fairtrade Premium data collected during audits.

### Peru

The Peruvian POs used large amounts of their Fairtrade Premium funds to invest in the operation of their organisation. POs used about a third of the funds to cover PO administrative costs (i.e. legal costs of exporting, salary of administrator, telephone etc.), and the rest on financing or co-financing processing infrastructure (coffee driers, warehouse etc.) and technical assistance projects or price support to farmers. One PO set up an emergency fund for members. The PO leaders frequently mentioned the importance of the Fairtrade Premium for investments in coffee infrastructure.

In terms of producer understanding of how the Fairtrade Premium is generated and used, the Peruvian producers understood the general principles of how the Fairtrade Premium uses are decided upon (e.g. by the Assembly, and usually with inputs from the local level), and knew the main uses of the funds, although few understand fully how the Premium funds are generated – i.e. based upon the volume of coffee sold to Fairtrade buyers.

**Table 18: Comparing investment uses relating to the Fairtrade Premium**

|            | <b>Mexico</b>   | <b>Peru</b>  | <b>Tanzania</b>  | <b>Indonesia</b>   |
|------------|---|--|--|--|
| <b>PO1</b> | 100% used to finance dry milling and export processing infrastructure and materials for processing and export | 30% infrastructure<br>60% technical assistance<br>10% social programmes                            | 26% internal producer support officer<br>26% quality project<br>24% nursery materials<br>18% education fund<br>6% training   | Payments to individual farmers<br>Investments in community development projects  |
| <b>PO2</b> | 50% inputs for members<br>45% credit guarantee<br>5% technical assistance                                     | 35% storage and office infrastructure<br>30% administration<br>30% price support<br>5% social fund | Initially used to improve price to farmers.<br>Subsequently divided 25% to second tier PO, and 75% to first tier member PO for each to decide on use.<br>Currently not meeting contracts so Premium funds not being generated. | In 2012 50% was used for direct price support to members, as well as community development projects, extension services etc. |

### Mexico

One PO used all the funds to pay off financing used for land purchases and dry processing infrastructure critical to establishing their independent capacity to export. The other PO used funds to buy tools, inputs and materials for members and to guarantee external finance to purchase the harvest, and a small amount for technical assistance.

In the Fairtrade organisations studied, the Mexican producers had a fairly good understanding of the general principles underpinning decision-making on the Fairtrade Premium (e.g. by the Assembly, and usually with inputs from the local level), and were aware of the main uses of the funds, but again a full understanding of how the funds are generated in the first place is lacking.

### Tanzania

According to PO leaders at PO1 Fairtrade Premium funds have been used for education, an organic project, coffee nurseries, training and certification, as well as direct economic support to farmers through the second payment. The Fairtrade Premium funds have been used at PO1 for paying school fees (447 children supported to date), plus the funding of a Fairtrade officer post in the PO, a coffee nursery and agricultural extension. PO2 has invested in processing equipment for farmers (CPUs), school materials, direct payments to farmers and new offices in Southern Tanzania. Smallholders were aware of the PO investment in two children's school fees in each village and were appreciative, but said the investments were too limited to create a major difference. In Tanzania the POs did not provide clear documentation of how the Fairtrade Premium was used. In Tanzania the managers of PO1 reported that they could not understand why they could not use the funds for administrative

purposes, indicating a misunderstanding of the Fairtrade rules of correct Fairtrade Premium use. Funds have been used to support the organisation in the past (e.g. in funding a Fairtrade officer). The managers and members of this PO also said the size of the Fairtrade Premium is limited and more sales are needed to make a difference on the ground. For PO2 they have been experiencing a financial crisis and had not been able to meet contracts in the year of research and so had not received Fairtrade Premium funds.

In Tanzania there was very limited understanding beyond the farmer group leaders of how the Fairtrade Premium is decided upon and used, and even their understanding was variable. Farmers in the focus group discussions said they did not have a say in Fairtrade Premium decision-making. Of course, it should also be recognised that collective decision-making is easier with a few hundred members, as in Mexico and Peru, as opposed to tens of thousands of members as in Tanzania. It is rare in the Tanzania cases to find producers who fully understand how Fairtrade Premium funds are generated. The use of the Fairtrade Premium funds is not easy to establish given the weaknesses in accounting. Farmer members indicate that the direct benefits to them are limited.

### Indonesia

Payments were made to individual farmers using Fairtrade Premium funds. Other uses of the funds included: community infrastructure projects including road improvements; community centres; grass cutting equipment and tools; and administrative purposes (7.25 percent for one PO). In some villages, access to the electricity supply was facilitated by Fairtrade. One PO has a credit fund with an NGO (72 farmers have obtained small loans so far). One PO has bought land, warehouse and processing facilities and is using this to guarantee credit. It has also bought an ambulance for use by members and their villages. In 2011 no Fairtrade Premium was received by one PO due to a dispute with the exporter, and funds have only been used for working capital and for paying off the debt.

*“We received assistance in the form of equipment and cash to pay others for ventilation (about IDR 600,000 – Indonesian Rupiah per household) and the PO also distributed saws, mattocks, scissors and grass cutting machines to all members. The PO has also distributed some organic fertilizer and trained some of the delegation and some members on how to make compost from organic waste. We proposed to have an ambulance last year and now the PO has bought one ambulance for members and other community members can use it when they need the service. This is very important as we are very far from the general hospital.”*  
(Fairtrade farmer delegate in the FGD, Indonesia.)

Indonesian Fairtrade producers had some understanding of how the Fairtrade Premium uses are decided (e.g. by the Assembly, and usually with inputs from the local level) and what they have been used for, but not how they are generated. The farmers interviewed in the FGDs reported that they did have a say in the decision-making process by proposing ideas which could be considered at the Annual General Assembly. The accounting of the Fairtrade Premium funds is weak. In some areas in Indonesia the Fairtrade farmers interviewed said the benefits realised locally are limited, but in other cases farmers were positive.

**Box 21: An example of Fairtrade Premium funding in a coffee growing community, Indonesia**

Male farmers of Fairtrade PO1 said that they had obtained access to electricity in the village with the support of their PO, which had negotiated with government to bring the electricity supply to their village and paid for electrical fittings. This had altered their lives significantly and as a result they were very positive about the PO. The electricity is a significant benefit, making them better off than five years ago and enabling some households to increase their assets as a result. The women in their FGD also praised their improved access to electricity, noting that in 2010 they started to have electricity in each home. Plus they have received grass cutting machines, which are important to control the weeds in their organic production, and they had received food rations and vegetable seed crops. They have proposed the construction of a windmill to supply water to the village from the adjacent lake as they face water supply problems. Both groups had limited understanding of Fairtrade and the fact that Fairtrade Premium funds are generated on their own sales.

*Source: PO 1 FGDs*

**Box 22: Summary findings on collective investments of the Fairtrade Premium**

In summary, the POs in Latin America consider that the Fairtrade Premium has been critical in enabling them to invest in developing business capacity and provide services to their members. In Indonesia and Tanzania these funds were also used to provide services to farmers either as credit or technical support, and to make some community investments, such as in education, electricity or health. Farmers' knowledge of how the Fairtrade Premium was used was variable between POs, and very few felt there were direct benefits to themselves, even in the cases where the funds were used to give direct economic support to farmers, e.g. through price support. Improvement is possible in terms of data collection and sharing on the generation and uses of the Fairtrade Premium.

**4.3.2 Increased access to working and investment capital**

The trader standards indicate that Fairtrade buyers should provide pre-financing to POs when requested by POs. In this section we review our findings for each of the country cases, before providing a summary of findings on access to working and investment capital.

**Peru**

POs have received financing for collecting and processing coffee partly from international alternative financiers such as OIKO credit, Root Capital, Verde Ventures, Alterfin, RaboBank etc, and partly from national banks. Most of these lenders give priority to POs that are holders of a certification, as this demonstrates a certain level of administrative capacity. The POs did not receive any pre-financing directly from buyers, although they had requested it. Having to deal with multiple lenders to secure coffee implies that the POs in Peru incur considerable administrative costs and in most years funds are made available half-way through the harvest which means the PO cannot buy the coffee from the first part of the harvest, affecting the total amount they can obtain.

## Mexico

In contrast, each of the POs in Mexico obtains financing from just one financial lender (international in one case, national in the other). None of the POs receives pre-financing from their buyers, despite requesting it, and this is also the situation for all of the Fairtrade POs in Chiapas which attended the stakeholder meeting. The Mexican POs do not have sufficient resources to finance coffee production, although sometimes they offer a small advance on the coffee just prior to harvest against the coffee to be collected.

## Tanzania

In Tanzania the POs provided few details on credit sources, but they have obtained finance from alternative financiers such as Shared Interest and Root Capital, which has been very valuable for both of them. Unfortunately, in the last year one of the POs experienced a financial crisis. They borrowed significant funds and then were affected by low production, after which their debts increased and they were unable to obtain further working capital. As a result they have not been able to fulfil their contracts and to purchase from members. The large cooperative union also struggles with access to sufficient working capital at reasonable rates, although some of their buyers have provided them with pre-financing.

## Indonesia

The Indonesian Fairtrade POs have not received pre-financing, despite requesting it. However, one of the POs has used its Premium funds to buy land and processing facilities and this is now being used to guarantee funds. The non-Fairtrade PO managers said they lack access to pre-finance.

### Box 23: Summary of findings on increased access to working and investment capital

Overall, we found that some POs in our study have received pre-financing directly from buyers. For others a common arrangement was for buyers to ally with financial institutions (usually specialist lenders to alternative markets) to lend money to the POs, supported by a contract from the buyer with the PO. Where this has been provided, it has been of invaluable assistance to the POs, helping them to buy coffee beans. However it is not available to POs that do not export, such as those in Indonesia. These sources of finance only cover a fraction of the cost of buying the coffee beans from the members.

## 4.4 Increased knowledge and capacity among POs and producers

This section covers the following indicators:

- a) Increased management and technical capacity at PO level
- b) Increased capacity to protect health and environment, and to adapt to climate change
- c) Awareness of human rights
- d) Understanding of Fairtrade principles and practices

#### 4.4.1 *Increased management and technical capacity at PO level*

In this section we report on changes in management and technical capacity at PO level, drawing on the self-assessments by PO leaders of their organisation's overall capacity, particularly in terms of delivering services to members, and our analysis of their findings.

##### Peru

The Peruvian POs are quite reliant on hiring staff to manage the PO's business. The Peruvian POs have received support from donors and traders in terms of financing infrastructure, organisational capacity building and funding agricultural extension, so some credit can be given to Fairtrade for the resultant changes in their organisational capacity. Nevertheless, the POs remain dependent on some level of external support to maintain services to members and overall capacity.

The Fairtrade PO board leaders provided positive feedback on the changes in service provision by their POs on a number of different indicators, with most of the services staying the same, improving a little or improving greatly (See Table 19).

##### Mexico

The Mexican POs received substantial support from government or external agencies a decade or so ago following the Zapatista uprising, but this has tailed off more recently. The POs have still become more self-reliant in some aspects: During their initial years of existence the study POs depended on external funds, with their managers and advisors contracted from outside the organisation. However, as they have become more established the POs are managed directly by members of the organisation, and they only contract specialist accountancy services. They consider they are totally independent of external assistance for the basic operations.

The Mexican PO board leaders also indicated that their POs have managed to maintain or improve most of the services they provide to members (See Table 19). Only their technical advice is said to have 'worsened a little' which is likely to be due to the ending of external funding.

##### Tanzania

For PO1 long-term participation in Fairtrade and support from external partners has supported its continuation as a smallholder cooperative with basic democratic governance structures in a challenging global market and national context. However, key informants said there is limited active participation of members in cooperative operations, and challenges of bureaucracy, limited capacity, and high staff turnover, although there are energetic new managers in place. Farmers also indicated that they do not receive adequate information from higher levels of the organisation –for example, many farmers are still awaiting their second payment, which the PO cannot manage due to lower coffee prices. The members also said, during FGDs, that they receive few material benefits as a result of being members of the cooperative.

In the other Fairtrade PO, while basic democratic structures have been established, reinforced by participation in Fairtrade, there is limited active participation of individuals (according to key informant interviews; FGDs). An NGO has supported the PO to adopt a model of specialty coffee and direct sales, to avoid exporter fees. However, this is a difficult model to sustain, because of the quality requirements involved. Rapid expansion and perhaps an element of poor management have currently led it into severe difficulties and there is some loss of trust amongst members, now that the PO is not buying coffee. The stringency of the quality requirements and because some groups

were struggling to pay back CPU loans or were tempted by other private buyers competing on price, mean there has been some loss of membership prior to the current difficulties. When this specialty coffee and direct sales model was functioning, better prices were received by the farmers and they also received more training and extension inputs, but these have lessened in scale recently, with the last training being received in 2009 (according to FGDs). Despite the risks involved, it may still represent a viable model of fair trading.

**Table 19: Self-assessment of changes in service provision by the PO over the last five years**

| Services   | Tanzania PO1      | Tanzania PO 2** | Indonesia PO1     | Indonesia PO2     | Indonesia Non-certified PO | Peru PO1           | Peru PO2          | Mexico PO1        | Mexico PO2        |
|--|-------------------|-----------------|-------------------|-------------------|----------------------------|--------------------|-------------------|-------------------|-------------------|
| Credit   | Improved a little | -               | Improved a little | Improved greatly  | Stayed the same            | Improved greatly   | Improved greatly  | Stayed the same   | Improved greatly  |
| Marketing of produce (finding buyers)                | Improved a little | -               | Improved a little | Improved greatly  | Improved a little          | Not asked          | Not asked         | Improved greatly  | Stayed the same   |
| Selling of produce                                   | Improved greatly  | -               | Improved a little | Improved greatly  | Improved a little          | Stayed the same    | Improved a little | Improved a little | Stayed the same   |
| Technical advice                                     | Improved greatly  | -               | Improved a little | Improved greatly  | Improved a little          | Improved a little  | Improved greatly  | Improved greatly  | Worsened a little |
| Market information                                   | Improved a little | -               | Not asked         | Not asked         | Not asked                  | Improved a little  | Improved greatly  | Improved greatly  | Improved greatly  |
| Training provision (e.g. prices, buyers)             | Improved a little | -               | Improved a little | Improved greatly  | Stayed the same            | Improved greatly   | Improved a little | Improved a little | Improved greatly  |
| Agronomic inputs (e.g. fertilisers, tools)           | Stayed the same   | -               | Improved a little | Improved a little | Stayed the same            | Stayed the same    | Improved a little | Stayed the same   | Improved greatly  |
| Inputs on credit                                     | Improved a little | -               | Improved a little | Stayed the same   | Stayed the same            | Not asked          | Not asked         | Stayed the same   | Stayed the same   |
| Development projects                                 | Stayed the same   | -               | Improved a little | Improved a little | Stayed the same            | Stayed the same    | Improved greatly  | Improved greatly  | Stayed the same   |
| Influencing local government on behalf of members    | Improved a little | -               | Improved a little | Improved a little | Stayed the same            | Improved a little* | Stayed the same*  | Stayed the same   | Improved greatly  |
| Influencing national government on behalf of members | Improved a little | -               | Stayed the same*  | Stayed the same*  | Stayed the same            | Stayed the same*   | Stayed the same*  | Stayed the same   | Stayed the same   |
| Influencing Fairtrade on behalf of members           | Improved greatly  | -               | Stayed the same*  | Stayed the same*  | Not asked                  | Stayed the same*   | Stayed the same*  | Stayed the same   | Worsened a little |

\*Respondents said they did not have influence before, and this had not changed with Fairtrade certification.

\*\*In Tanzania the PO2 marketing manager questionnaire was not returned so we do not have data for this PO.

Scoring Key:

|                  |                   |                 |                   |                |
|------------------|-------------------|-----------------|-------------------|----------------|
| Improved greatly | Improved a little | Stayed the same | Worsened a little | Worsened a lot |
|------------------|-------------------|-----------------|-------------------|----------------|

In Tanzania the board directors provided a self-assessment for one of the POs. Their ratings were positive in terms of perceived changes in their ability to deliver services over the past five years (see Table 19).

### Indonesia

The POs are relatively young, and both have struggled in their early relationships with exporters, but are now gaining greater confidence and business knowledge. Fairtrade Premium investments are helping to strengthen the business (e.g. in processing infrastructure), but there is still a capacity gap and a need for business development services, which the leaders themselves recognize.

In Indonesia the PO marketing managers gave positive feedback in the surveys on the perceived changes in the PO's ability to deliver services to members (see Table 19).

#### **Box 24: Summary of findings on management and technical capacity**

In sum, the POs have achieved greater independence from traders as a result of their participation in Fairtrade and are able to provide better services to their members. However, there are still major challenges for the POs to support the costs of the services without external support, which would require increased organisational efficiency in provision of these services.

### ***4.4.2 Increased capacity to protect health and environment, and to adapt to climate change***

In this section we explore the awareness and knowledge of PO leaders and members of inter-linked production-health-ecology issues and note any indications of changes in practices. While capacity to act requires resources, understanding and motivation are pre-requisites.

#### Peru

The Fairtrade case study POs are also organic certified. As a result they have already developed considerable awareness of the health and ecological benefits of organic farming. There has been substantial support from funder programmes investing in the POs' ability to provide technical assistance to members, which has built upon members' own local knowledge. The certified farmers from the case study already seek to conserve the environment and do not use pesticides which they consider have negative impacts on human health – this is an important part of their identity and has led them to distinguish themselves from other farmers. The organic premium under Fairtrade supports their aspirations to benefit society and the environment in general. The Fairtrade restrictions on the use of agrochemicals also reinforce the uptake of environmentally friendly farming practices. Farmers reported in the focus group discussions that their improved knowledge of environmentally friendly farming practices is helping them to cope with the huge challenge of the coffee rust outbreak – but the donor support has not been linked to Fairtrade certification specifically.

#### Mexico

The POs in our study are largely funding technical assistance themselves, which is mostly channelled via the organic inspectors who are also PO members and the questionnaire data indicate that many farmers are being reached through training. As in Peru, the Mexican farmers interviewed in the

Fairtrade and organic POs have already developed good knowledge of the health and environmental benefits of organic farming. Conserving the environment and avoiding the use of agrochemicals is also part of their identity. The organic premium under Fairtrade supports the Mexican farmers to follow their values and the Fairtrade restrictions on use of agrochemicals also reinforce this.

### Tanzania

The PO has been supporting some groups to obtain organic certification, with approximately 10 currently producing organic certified coffee (although some groups had reportedly decided to leave the cooperative union). Some of the Fairtrade Premium funds have been used to support the extension services provided by the PO to members. We did not visit the organic certified PO groups as part of the study, and so cannot assess the extent of their awareness of the health and ecological benefits of organic production.

PO managers said they have received training on the appropriate use of and prohibitions on certain agrochemicals, safer storage and waste disposal and use of safety gear when applying pesticides by Fairtrade; this knowledge has been cascaded to individual members. Some of the farmers interviewed in the FGDs did note the training they had received from the POs, but they reported inadequate quality and frequency of the training. For both POs, cascading information through the organisation to the individual members, especially at PO1 which has more layers, is challenging and it is clear that it is not occurring in full. In the past buyers provided training to PO2 leaders and members, which farmers said was positive, but this is not occurring at present.

### Indonesia

The Fairtrade POs in this study are certified organic, which means the managers have a good awareness of organic production and environmental conservation. They have also received training from external agencies on conservation agriculture and had support for extension services to cover such topics. The ICS system is the means by which extension is channelled. Information is also cascaded to members via the delegates who are elected by the members. Managers said that the Fairtrade Premium provides an important boost to the organic premium and so there are synergies resulting from the dual certification. After Fairtrade and organic certification, the managers said that they now have better systems for when farmers should pick cherries, when they should be dried, and their farming practices had changed. At the farm level, most of the producers were positive about the training they had received on pruning, making compost, drying techniques, environmentally friendly methods of cultivation and waste management.

#### **Box 25: Summary of findings on capacity to protect health and environment, and to adapt to climate change**

The Fairtrade POs in Mexico, Peru and Indonesia, especially those that are organic certified, consider that their organic production and broader environmentally friendly practices help to conserve the environment. The PO managers reported that Fairtrade promotes conservation of the environment in their standards (e.g. rules on the reduction of agrochemical use, environmental care, etc.), which reinforces the organic culture where it already exists. Among the PO leaders in Tanzania, there was also a high level of awareness of the relevant Fairtrade standards. Farmers also mentioned their awareness of safe pesticide handling and restrictions.

### 4.4.3 Awareness of human rights

Fairtrade seeks to build up awareness of human rights covering key issues such as gender equality, the treatment and wages of hired labourers, and child labour.

#### Peru

*Gender equality:* One PO board director in Peru said that they had tried to encourage women to take organisational responsibilities but they were 'not willing or interested'.

*Hired labourers:* Farmers when asked about the payment of hired workers indicated that wages have increased significantly over the past few years, while at the same time coffee prices have fallen, and most have had to reduce the amount of labour they hire.

*Child labour:* The farmers and PO managers were aware of the Fairtrade restrictions on child labour.

#### Mexico

*Gender equality:* In Mexico one PO had made an effort to increase the number of women as members and had succeeded in increasing numbers and also participation in training events. The other PO from the same ethnic group kept to the traditional gender division in which women did not tend to participate in coffee production.

*Hired labourers:* In general, the farms of the members are small enough to be managed primarily with family labour and with mutual exchanges of labour between households being common. The general opinion in the focus group discussions was that hired labour costs have risen considerably over the past few years while coffee prices have fallen and thus their capacity to hire labour is limited. There are currently limited issues on labour rights for hired labourers, given the limits on the hiring of labour in the area.

*Child labour:* PO participants in the stakeholder workshop expressed a strong opinion that it was beneficial for adolescents to have some participation in coffee farming work as part of learning the business and the value of work. They were entirely in agreement that this work must not interfere with schooling and should be limited in extent, but they said it should not be prohibited. The Fairtrade standards do not prohibit children or young people undertaking appropriate work outside of school, so farmers appear not to have received the correct information on the standards.

#### Tanzania

*Gender equality:* In Tanzania the PO leaders at PO1 said they had received training on gender issues and were cascading this through the organisation. However, there does not appear to have been a major change in terms of women's membership or representation in official positions. We had limited feedback from PO2.

*Hired labourers:* Regarding workers' conditions at the cooperative union processing facilities in Tanzania, the managers reported improvements as a direct result of the Fairtrade standards. The team did not visit the processing facilities during the study and so did not interview workers; therefore, they cannot triangulate these reported improvements. For smallholders who hire labourers to help them, particularly in the harvest and sometimes in pruning, there has been little focus on wages and conditions for hired labourers, according to the farmers interviewed and management.

*Child labour:* The PO leaders were aware of the restrictions on child labour in the Fairtrade standards.

#### Indonesia

*Gender equality:* There are no specific targets on gender equality for POs (e.g. in terms of the numbers of women in official positions) in the Fairtrade standards, although there are guidelines on the participation of women and non-discrimination in POs, as the Indonesia PO leaders noted – ‘*just guidance*’.

*Hired labourers:* No major changes were identified for hired labourers working on smallholder farms according to management.

*Child labour:* The PO leaders were aware of the restrictions on child labour in the Fairtrade standards.

Part of the challenge across all four countries is scaling up the training on the different human rights interests to reach individual producers – as awareness-raising activities (to the extent that they occur) are focused on PO managers, and do not necessarily cascade through the organisation to individual farmers.

#### Box 26: Summary of findings on awareness of human rights

The leaders of the Fairtrade POs all had good awareness of human rights issues and the content of the Fairtrade rules of relevance, following training by the Fairtrade producer support officers. However, training for managers on human rights issues does not necessarily cascade to individual members, especially where the PO is not receiving additional support from NGOs and donors to enable them to have strong advisory services. On gender equality, while there is guidance in the standards, there are not mandatory targets for example on women’s representation in official positions.

In Mexico, Peru and Indonesia PO leaders did consider that above a certain age limited participation from adolescents was beneficial for them to learn about coffee production, but that attending school was the priority. As the Fairtrade standards do not preclude children working on farms during school holidays and after school, there may be some gaps in communication of the

#### 4.4.4 Understanding of Fairtrade principles and practices

##### Peru

There appeared to be a good understanding of Fairtrade principles and practices amongst the PO leaders and managers in terms of how they apply to their organisations. Farmer members mostly associate Fairtrade with the Fairtrade Minimum Price and are less aware of other aspects of Fairtrade, because farm-level internal control systems are mainly associated with the organic standard.

##### Mexico

At the leader and manager level of the POs there is good understanding of Fairtrade principles and practices, although the PO leaders were unsure as to how the Fairtrade standards apply to traders. At the farmer level, the members mostly link Fairtrade to the Minimum Price. Other aspects of

Fairtrade are less well recognised amongst the individual members, and this is likely to be due to the association of the internal control system with the organic standard.

#### Tanzania

There is good understanding at the PO level of Fairtrade principles and practices, as a result of the training and capacity provided by Fairtrade via the producer support officer and as set out in the Fairtrade standards. Understanding is much less clear at the local level amongst members, for example in relation to how Fairtrade Premium funds are generated.

#### Indonesia

The Fairtrade PO managers have a good understanding of Fairtrade principles and practices, resulting from the training provided by the Fairtrade producer support officer, and as outlined in the producer standards. The farmers interviewed in the FGDs were aware of their organisations' certification to different standards, but were not always able to say how the training they receive is funded, for example, or exactly how the Fairtrade Premium funds are generated.

#### Box 27: Summary of findings on understanding Fairtrade principles and practices

There is good understanding of Fairtrade at the level of PO leader, although there are still a few areas where further clarifications would be helpful. At the individual member level there is less good understanding of what Fairtrade is, how it may change what their organisation can offer them and how their respective roles and responsibilities might change.

### 4.5 Summary of overall findings on Fairtrade outputs

In this section we summarise the findings per country case study and the synthesised overall findings on Fairtrade outputs. Table 20 below provides a summary of our findings on Fairtrade outputs for each country in relation to the intended outputs identified in the theory of change.

**Table 20: Summary of findings on Fairtrade outputs in the countries studied**

| <b>Theme: Fairer trade for producers</b>  |   |  |   |
|---|---|--|---|
| <b>Indicator: Significant and sustained access to Fairtrade markets</b>           |   |  |   |
| <b>Mexico</b>   | <b>Peru</b>   | <b>Tanzania</b>  | <b>Indonesia</b>  |
| Long term relationships with dedicated buyers, though contracts are year-to-year. | Contracts made on a year-to-year basis, but largely same buyers, with strong demands for quality (which limit export capacity). | <ul style="list-style-type: none"> <li>Better market access via Fairtrade, but for PO1 Fairtrade sales need to increase as a proportion of overall coffee sales to increase size of the Premium terms.</li> <li>PO2 struggles with buyers' quality requirements and is in financial crisis.</li> </ul> | <ul style="list-style-type: none"> <li>POs sold all of their output as Fairtrade, organic. Good demand for <i>gayo</i> coffee, although POs keen to export themselves to avoid dependence on exporters and to capture more value.</li> <li>Seven other Fairtrade POs in Indonesia have begun exporting in the last four years.</li> </ul> |

| <b>Indicator: Supportive trading relations with buyers</b>   |  |  |  |
|--|--|--|--|
| <b>Mexico</b>  | <b>Peru</b>  | <b>Tanzania</b>  | <b>Indonesia</b>   |
| Strong relations with buyers sustained by Fairtrade, organic and quality.  | Some direct, stable relationships, but challenges in meeting quality demands, or finding buyers for lower quality just Fairtrade certified coffee.   | Some direct relationships with buyers of variable stability, but majority of sales through auctions.   | <ul style="list-style-type: none"> <li>Fairtrade POs have improved and more diversified relationships with exporters, but still dependency issues.</li> <li>The POs are not yet exporting independently, but they are currently applying for export licences (Non-Fairtrade PO is not yet exporting).</li> </ul>   |
| <b>Indicator: Fair prices and price stability</b>  |  |  |  |
| <b>Mexico</b>  | <b>Peru</b>  | <b>Tanzania</b>  | <b>Indonesia</b>   |
| Improved prices during low and high price phases.  | Higher prices during period of low prices, otherwise similar to other buyers.  | Fairtrade POs are generally providing better prices than intermediaries, but they have difficulty in sustaining markets.   | Fairtrade POs are providing better prices than intermediaries, but less than some other POs.   |
| <b>Theme: Strengthened producer organisations</b>  |  |  |  |
| <b>Indicator: Democracy, transparency and participation</b>  |  |  |  |
| <b>Mexico</b>  | <b>Peru</b>  | <b>Tanzania</b>  | <b>Indonesia</b>   |
| <ul style="list-style-type: none"> <li>Strengthening of existing practices (already have national cooperative governance legislation).</li> <li>Audits have helped improve transparency</li> </ul>   | <ul style="list-style-type: none"> <li>Strengthening of existing practices (already have national cooperative governance legislation).</li> <li>Changes of board have had to correct past bad practices</li> </ul>                                   | Leaders gave positive assessments ('some improvements'), but key informants and members less positive about PO governance, especially in the larger cooperative union. | <ul style="list-style-type: none"> <li>Fairtrade has improved PO democracy and transparency, but they build upon existing national cooperative law.</li> <li>The non-Fairtrade PO has less democracy in decision-making and has not yet held an AGM, but they are fairly new.</li> </ul>                           |
| <b>Indicator: Participation in Fairtrade networks and governance</b>   |  |  |  |
| <b>Mexico</b>  | <b>Peru</b>  | <b>Tanzania</b>  | <b>Indonesia</b>   |
| <ul style="list-style-type: none"> <li>Active participation in the national network.</li> <li>Managers value their role in giving them a voice and mentioned positive influence on Fairtrade policies (e.g. on price and premium levels).</li> </ul> | <ul style="list-style-type: none"> <li>Active participation in the national network.</li> <li>Managers value their role in giving them a voice and mentioned positive influence on Fairtrade policies (e.g. on price and premium levels).</li> </ul> | Meetings provide chances to share experiences with peers, but no national network as yet, and no clear concrete achievements mentioned for regional network.           | <ul style="list-style-type: none"> <li>New national network valued and PO leaders actively participating.</li> <li>Regional network is fairly weak and needs urgent strengthening, but PO leaders value the voice it gives them in Fairtrade and has helped them to gain confidence in public speaking.</li> </ul> |

| <b>Theme: Investment in producer organisations and communities</b>   |  |  |   |
|--|--|--|---|
| <b>Indicator: Collective Investments using the Fairtrade Premium</b>   |  |  |   |
| <b>Mexico</b>  | <b>Peru</b>  | <b>Tanzania</b>  | <b>Indonesia</b>  |
| Substantial collective investments partially financed or backed by Fairtrade Premium, but limited direct benefits to members.  | Major gains in infrastructure at cooperative level, with considerable support from government programmes, backed by Fairtrade Premium).  | <ul style="list-style-type: none"> <li>Funds used for Fairtrade officer and services to farmers and community investments, but the realization of benefits to individuals is very limited in extent.</li> <li>Audit and organisational data on premium are weak.</li> </ul>  | Funds used to provide services to farmers as credit or technical support, and to make some community investments, e.g. electricity.   |
| <b>Indicator: Increased access to working and investment capital</b>   |  |  |   |
| <b>Mexico</b>  | <b>Peru</b>  | <b>Tanzania</b>  | <b>Indonesia</b>  |
| <ul style="list-style-type: none"> <li>POs need more access to working capital.</li> <li>No pre-finance directly from Fairtrade buyers. All financing obtained from one lender.</li> </ul> | <ul style="list-style-type: none"> <li>POs need more access to working capital.</li> <li>Finance from alternative financiers – significant transaction costs incurred from having to deal with multiple buyers.</li> <li>No direct pre-finance from Fairtrade buyers.</li> </ul> | The POs have accessed finance from alternative financiers, but both struggle with a lack of access to working capital to buy coffee beans and one PO has suffered a major financial crisis this year.  | <ul style="list-style-type: none"> <li>No pre-finance received from Fairtrade buyers.</li> <li>One of the POs has purchased assets with Fairtrade Premium funds and is using this to secure bank loans.</li> <li>The non-Fairtrade PO lacks access to pre-finance.</li> </ul> |
| <b>Theme: Increased knowledge and capacity</b>   |  |  |   |
| <b>Indicator: Increased management and technical capacity</b>  |  |  |   |
| <b>Mexico</b>  | <b>Peru</b>  | <b>Tanzania</b>  | <b>Indonesia</b>  |
| POs consider they can operate without external assistance.   | Have achieved greater independence from traders, but still dependent on support from development funds to offer services to members.   | <ul style="list-style-type: none"> <li>External support received for PO capacity building, but significant challenges in terms of organisational governance and leadership capacity.</li> <li>PO2 has grown from nothing to a fully-fledged organisation with international NGO support, but it has grown too fast leading to a financial crisis.</li> </ul> | Greater independence by finding more reliable exporters, but still many challenges in terms of their organisational independence.   |

| <b>Indicator: Greater capacity to protect health and environment and to adapt to climate change</b>  |  |  |  |
|--|--|--|--|
| <b>Mexico</b>  | <b>Peru</b>  | <b>Tanzania</b>  | <b>Indonesia</b>   |
| <ul style="list-style-type: none"> <li>• Synergies between organic and Fairtrade certification.</li> <li>• Organic farming part of farmers' identity.</li> <li>• Attribution to Fairtrade not very clear.</li> </ul>   | <ul style="list-style-type: none"> <li>• Synergies between organic and Fairtrade certification.</li> <li>• Big improvement in awareness, but due to donor programme, rather than Fairtrade.</li> </ul>   | <ul style="list-style-type: none"> <li>• Extension provided to members (e.g. on safer use of agrochemicals according to management, but FGD participants critical of training (not regular or intensive enough).</li> <li>• Few farmers mention changes in farming practices.</li> </ul>   | <ul style="list-style-type: none"> <li>• POs have organic certification and have received other conservation agriculture training so awareness is high, but the Fairtrade Premium provides synergies.</li> <li>• Individual members were positive about the (overall) training they have received and say it has changed practices, although attribution to Fairtrade is not completely clear.</li> </ul>  |
| <b>Indicator: Increased awareness of human rights</b>  |  |  |  |
| <b>Mexico</b>  | <b>Peru</b>  | <b>Tanzania</b>  | <b>Indonesia</b>   |
| <ul style="list-style-type: none"> <li>• Training provided on Fairtrade principles, leading to some greater awareness at PO manager level, but limited awareness among individual members.</li> <li>• One PO has admitted women to the PO overcoming traditional barriers. No change in awareness on hired labour issues.</li> <li>• Awareness of child labour content of standards, although desire to engage adolescents in learning coffee as a valuable life skill.</li> </ul> | <ul style="list-style-type: none"> <li>• Training provided on Fairtrade principles, and some raised awareness at PO manager level, but limited awareness raising at individual member level.</li> <li>• No change in awareness on hired labour issues.</li> <li>• Awareness of child labour content of standards, although desire to engage adolescents in learning coffee production as a valuable life skill.</li> </ul> | <ul style="list-style-type: none"> <li>• Training provided on Fairtrade principles, leading to some greater awareness at PO manager level, but staff turnover, and information not reaching individual farmer level.</li> <li>• Awareness on child labour issues. No major change in awareness on hired labour issues on smallholder farms.</li> </ul> | <ul style="list-style-type: none"> <li>• Training on Fairtrade principles and some awareness-raising amongst leaders.</li> <li>• No mention of such training by non-Fairtrade PO and no awareness.</li> <li>• Commitment to some issues lacking (e.g. on gender inequality), but this is not surprising given the religious context of Aceh Province.</li> <li>• No change in awareness on hired labour issues on smallholder farms.</li> <li>• Awareness on child labour issues.</li> </ul> |

| Indicator: Understanding of Fairtrade principles and practices             |  |  |   |
|--|--|--|---|
| Mexico   | Peru   | Tanzania   | Indonesia   |
| Good understanding among leaders and managers, more limited among farmers. | Good understanding among leaders and managers, more limited among farmers. | Good understanding at higher levels, but less good at lower organisational levels, and very limited understanding amongst farmers. | Good understanding at higher levels, but less good at individual farmer levels. |
| Indicator: Understanding of Fairtrade principles and practices             |  |  |   |
| Mexico   | Peru   | Tanzania   | Indonesia   |
| Good understanding among leaders and managers, more limited among farmers. | Good understanding among leaders and managers, more limited among farmers. | Good understanding at higher levels, but less good at lower organisational levels, and very limited understanding amongst farmers. | Good understanding at higher levels, but less good at individual farmer levels. |

The overall findings on Fairtrade outputs in coffee are presented in the box below.

**Box 28: Summary of findings on Fairtrade outputs**

Overall, Fairtrade Outputs in the case study countries were assessed as follows:

- **Fairer trade for producers:** Fairtrade farmers received better prices during periods of low international prices.
- **Strengthened Small Producer Organisations:** POs with improving organisational capacity, but still challenges to fully empower members and ensure transparency.
- **Investment in producers and their organisations and communities:** Fairtrade POs have made substantial investments in their businesses through access to Fairtrade Premium, although this limits support directly to members and communities.
- **Increased knowledge and capacity:** Technical capacity has improved but often limited by access to external funding; environmental awareness generally high especially among organic producers.
- **Understanding of Fairtrade principles and practices:** Good understanding among PO leaders, but less understanding among individual members.

## 5. Assessment of changes resulting from Fairtrade - outcomes

This section explores the medium-term changes resulting from Fairtrade interventions. In the theory of change these changes are termed outcomes. There are seven key areas:

- i) Resilient and viable producer organisations
- ii) Strong and inclusive POs
- iii) Enhanced benefits for producers and communities
- iv) Protection of the environment and adaptation to climate change
- v) Increased influence for small producers
- vi) Growth with integrity in Fairtrade
- vii) Civil society influence on trade policy and practice

We do not cover vi) and vii) as these lay beyond the scope of our study. We discuss each of the other indicators in this section in turn.

Moving along the theory of change from Fairtrade interventions, through outputs to outcomes there is an increasing influence from contextual factors, which, alongside and in interaction with Fairtrade, shape the actual outcomes achieved on the ground. We have indicated our assessment of the contribution of Fairtrade and noted where other contextual factors or alternate interventions, such as donor programmes, are playing a role. For organisational level changes, it is only possible to draw counterfactual comparisons where matching POs were identified in the study zones and thus could be included in the study (i.e. Indonesia).

### 5.1 Resilient and viable producer organisations

There are different dimensions of the resilience and viability of producer organisations. In this section we assess the evidence on the contribution made by Fairtrade to improvements to PO resilience and viability. The indicators used by Fairtrade International in their theory of change for resilient and viable POs are as follows:

1. Good business management practices and systems
2. Increased productivity and quality
3. Individual and joint ownership of productive assets
4. Development of markets
5. Enhanced negotiation power of POs and control in the supply chain
6. Increased profitability and reduced risk

#### 5.1.1 Good business management practices and systems

In this section we explore the business management practices and systems, although our field exploration of this topic was limited in practice.

##### Peru

In Peru the POs were able to show quite detailed information on sales, the support received from donors, and commitments to financial agencies etc. However, there were issues of transferring information when there were changes of managers or board president. A recent change in the general manager left one PO without complete financial records. All of the Fairtrade producer organisations in our case studies have ICS systems in place, as this has been a long-term requirement

for organic certification. Similarly they have internal auditors that ensure compliance with the organic (and Fairtrade) requirements at the individual farmer level.

### Mexico

In Mexico the Fairtrade POs studied also have ICS systems in place, again as a result of their participation in organic certification. Similarly, they have internal auditors that ensure compliance with the organic (and Fairtrade) requirements at the individual farmer level. The POs contract external accountants to keep their financial data up to date.

### Tanzania

Given that these are smallholder producer organisations, many POs have some capacity gaps in terms of their business management systems and documentation. However, these systems appear to be particularly weak in the two Fairtrade organisations we studied in Tanzania. One of the Tanzania POs is a large, established organisation with different departments, assets and businesses, but we found its data to be inconsistent within the audit reports. The other PO has received significant support to improve production data management from the NGO and their buyer, including giving tablet computers to farmer business group leaders to update data and share with the PO etc. We were unable to assess the quality of their systems, because they were experiencing staff turnover and a financial crisis and were not able to share much data with us, but there are also inconsistencies and errors in the audit reports.

### Indonesia

The organic POs have developed an ICS, as a long standing requirement of the organic certification they have adopted. The Indonesian POs were able to share fairly detailed information on the support they currently receive from external agencies and sales figures etc. The non-certified PO is more recently established and does not have relationships with external agencies.

#### Box 29: Summary of findings on good management practices and systems

In Indonesia, Mexico and Peru the POs have previously developed Internal Control Systems (ICS) as part of organic certification, which means their internal information systems and auditing of these is quite strong. For the Tanzanian POs there are more capacity gaps in their business management practices and systems, especially at the larger cooperative union.

### 5.1.2 Increased productivity and quality

Increasing productivity and quality is essential for Fairtrade farmers to enable them to improve their income and livelihoods, and the Fairtrade system is working with coffee producer organisations to support this. Fairtrade mechanisms include elements of the producer standards, but also the investment of the Fairtrade Premium in productivity- and quality-oriented activities. The productivity data provided here is that reported by farmers from the individual survey.

### Peru

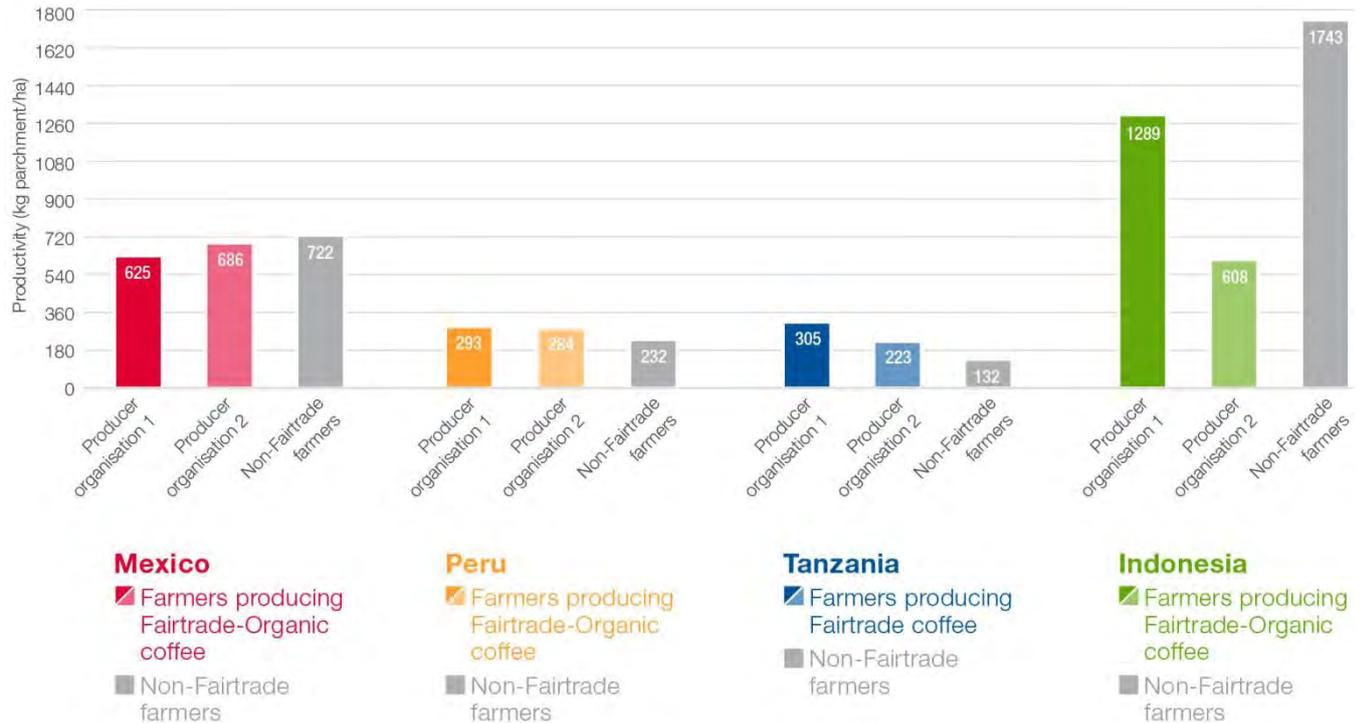
Productivity per hectare is not significantly statistically different between Fairtrade, Fairtrade/organic and non-Fairtrade producers (Figure 15). Coffee production of surveyed farmers in San Martín fell by 68 percent over the previous two years due to the impacts of coffee leaf-rust on non-Fairtrade and Fairtrade conventional farms. The fall in production on Fairtrade-organic farms

was slightly less at 58 percent (Table 21); the participatory gross margin analysis would indicate that Fairtrade-organic farmers are making greater investments in maintaining production than other producers.

**Mexico**

Productivity per hectare is not significantly different between Fairtrade/organic and non-Fairtrade producers (Figure 15). However, while Fairtrade farmers had slightly increased production over the previous two years, non-Fairtrade farmers’ coffee production fell by 20 percent (Table 22).

**Figure 15: Coffee productivity in 2013 (kg parchment per hectare) based on farmer survey**



Note: Productivity from Indonesian farms has been converted to parchment for greater comparability although they mostly sell coffee as cherries.

*N.B. Productivity of Indonesian farms has been converted to parchment for greater comparability although they mostly sell coffee as cherries.*

**Table 21: Total production of coffee per farm over previous three years in Mexico (kg parchment coffee)**

| Total kg/year      | Fairtrade PO1 | Fairtrade PO2 | Non-Fairtrade |
|--------------------|---------------|---------------|---------------|
| 2013 kg total      | 412 a         | 1095 b        | 396 a         |
| 2012 kg total      | 400 a         | 1117 b        | 395 a         |
| 2011 kg total      | 406 a         | 975 b         | 501 a         |
| % change 2011-2013 | +1%           | +12%          | -20%          |

**Table 22: Total production of coffee per farm over previous three years in Peru (kg parchment coffee)**

| Total kg/year      | Fairtrade and organic PO1 | Fairtrade PO2 | Non-Fairtrade |
|--------------------|---------------------------|---------------|---------------|
| 2013 kg total      | 998 a                     | 1003 a        | 580 b         |
| 2012 kg total      | 1840 a                    | 2438 a        | 1375 b        |
| 2011 kg total      | 2383 a                    | 3114 a        | 1886 b        |
| % change 2011-2013 | -58%                      | -68%          | -69%          |

**Table 23: Total production of coffee per farm over previous three years in Tanzania (kg parchment coffee)**

| Total kg/year    | Fairtrade PO1 | Fairtrade PO2 | Non-Fairtrade |
|------------------|---------------|---------------|---------------|
| 2013 kg total    | 147 a         | 116 b         | 56 c          |
| 2012 kg total    | 154 a         | 135 a         | 51 b          |
| 2011 kg total    | 161 a         | 139 a         | 68 b          |
| % change 2011-13 | -8%           | -16%          | -16%          |

**Table 24: Total production of coffee per farm over previous three years in Indonesia (kg coffee cherries)**

| Total kg/year    | Fairtrade PO1 | Fairtrade PO2 | Non-Fairtrade |
|------------------|---------------|---------------|---------------|
| 2013 kg total    | 2907 a        | 1764 b        | 5286 c        |
| 2012 kg total    | 2354 a        | 1153 b        | 4189 c        |
| 2011 kg total    | 2017 a        | 2378 a        | 4063 b        |
| % change 2011-13 | +44%          | -26%          | +30%          |

*Values with different letters are significantly different when comparing between POs.*

### Tanzania

In the Kilimanjaro area of our Tanzania study, productivity and quality is widely recognised to have been declining since the liberalisation of coffee sales. The Fairtrade farmers surveyed in our study had significantly higher productivity than the non-Fairtrade farmers, primarily because they have more productive plants per hectare (see productive assets). The data indicate that all farmers have seen a moderate (10–15 percent) fall in production over the past three years. The low productivity compared to other countries is due to a low number of coffee plants per hectare and the importance given to other associated crops, particularly banana as evidenced by the participatory gross margin analysis. It would appear the Fairtrade farmers in Kilimanjaro are more dedicated to coffee than the non-Fairtrade farmers. There was not any indication from focus groups as to whether this increased specialisation in coffee is the result of participation in Fairtrade or not.

### Indonesia

There are considerable differences in the productivity between the POs in Indonesia. The non-Fairtrade PO has the highest productivity, followed by Fairtrade PO1 and Fairtrade PO2 with the lowest productivity. The differences in productivity are closely related to the higher density of coffee plants on the non-Fairtrade PO member farmers and because 40 percent of the non-Fairtrade farmers use chemical fertiliser. The two areas where the POs are located are also considered to have differing production conditions, with the location of the Fairtrade farmers being thought to be a more marginal zone. Several contextual factors also account for the variation in productivity – for

example, one of the Fairtrade groups was seriously affected by the period of conflict in the Aceh region between rebel forces and the government. Also the non-Fairtrade producers have some socio-economic differences from the Fairtrade farmers which may also affect their capacity to invest in production. These factors (more marginal locations, conflict) may explain the differences in productivity indicating that in general the non-Fairtrade producers have more intensive production systems.

#### **Box 30: Summary of findings on increased productivity and quality**

Differences in productivity between Fairtrade and non-Fairtrade producers are country-specific. In Peru and Mexico there are no significant differences in productivity between these groups; although there is some indication that in Mexico non-Fairtrade farmers have declining production while Fairtrade farmers maintain production. In Peru all farmers have large declines in production due to coffee leaf-rust. In Tanzania Fairtrade farmers have higher coffee productivity due to maintaining higher density of coffee plants. In Indonesia the non-Fairtrade farmers had higher productivity probably due to use of chemical fertilizer and higher coffee planting densities, and probably more favourable site conditions for coffee production.

#### **5.1.3 Improved individual and joint ownership of productive assets**

Fairtrade aims to support asset building by smallholders as individuals and also their collective ownership of productive assets within POs. This would be indicated by capital investments by the organisation (e.g. in natural or productive assets such as land or processing facilities) or where individual members have been able to build up their productive assets such as land, technology and mechanisation over time supported by Fairtrade.

##### **Collective PO assets**

###### **Peru**

In Peru both POs now have offices, driers, warehouses, cupping labs and a small roasting operation. The assets of one of the POs was estimated at USD 280,000, which included the office with cupping lab, a store and drier in one of the communities, and two small farms with demonstration coffee plantations and a compost production plant. The infrastructure of the POs was partly financed from donations and partly from loans or co-financing arrangements – including Fairtrade Premium funds.

###### **Mexico**

In terms of organisational investments the POs in Mexico reported investing in land, warehousing and processing equipment. One PO in Mexico has invested in a complete dry processing infrastructure to directly export their coffee. This included purchase of the land and buildings, including an office, warehouse and processing unit. The processing machinery included a mill, cleaner, sorter and bagging machines. These assets were obtained partly from a donation by the French government and partially through financing from the State government, which is paid off using the Fairtrade Premium. These investments had been made since 2005. The other PO had offices and warehouse infrastructure but no processing facilities.

## Tanzania

For Tanzania PO2 we had limited access to organisational information, because at the time of the study they were experiencing a financial crisis and few of the leaders were available to share information. The Fairtrade Premium has been used to invest in office facilities in the Southern Chapter according to the audit report and board members interviewed. At the local level farmers have tablets to update information and CPUs. For Tanzania PO1, this organisation was already an owner of significant assets, for example, being a part owner of a processing plant for many years – this was not the result of Fairtrade certification.

## Indonesia

In terms of organisational investments the POs in Indonesia reported investing in land, warehousing or processing equipment. In Indonesia one of the POs reported using Fairtrade Premium funds to purchase land and processing equipment which is enabling it to obtain further bank loans.

## Farmer assets

### Peru

Fairtrade PO members had slightly larger land-holding and areas under coffee production than non-Fairtrade farmers (although this was not statistically significant). More Fairtrade PO1 members had cattle, while more Fairtrade PO2 and non-Fairtrade farmers had pigs. While 80–90 percent of Fairtrade PO members had a complete wet processing infrastructure of depulpers, fermentation tanks and drying tables, less than 20 percent of non-Fairtrade farmers had fermentation tanks. Thus Fairtrade farmers had made more investment in quality processing assets.

### Mexico

Fairtrade PO1 members and Non-Fairtrade Farmers had similar land holding size and area under coffee production. Fairtrade PO2 members had larger landholding size, but we believe these assets are inherited. More Fairtrade PO2 farmers had chickens and more non-Fairtrade farmers have goats than the other farmers. This would indicate that Fairtrade PO2 members had the least assets in terms of livestock. Fairtrade PO2 farmers all had depulpers drying tables and fermentation tanks for processing coffee and maintaining quality. 60–70percent of PO1 Fairtrade farmers had these assets, while similar numbers of non-Fairtrade farmers had depulpers and drying tables but only about 20 percent had fermentation tanks. This would indicate a lower investment in quality processing capacity by the non-Fairtrade farmers.

## Tanzania

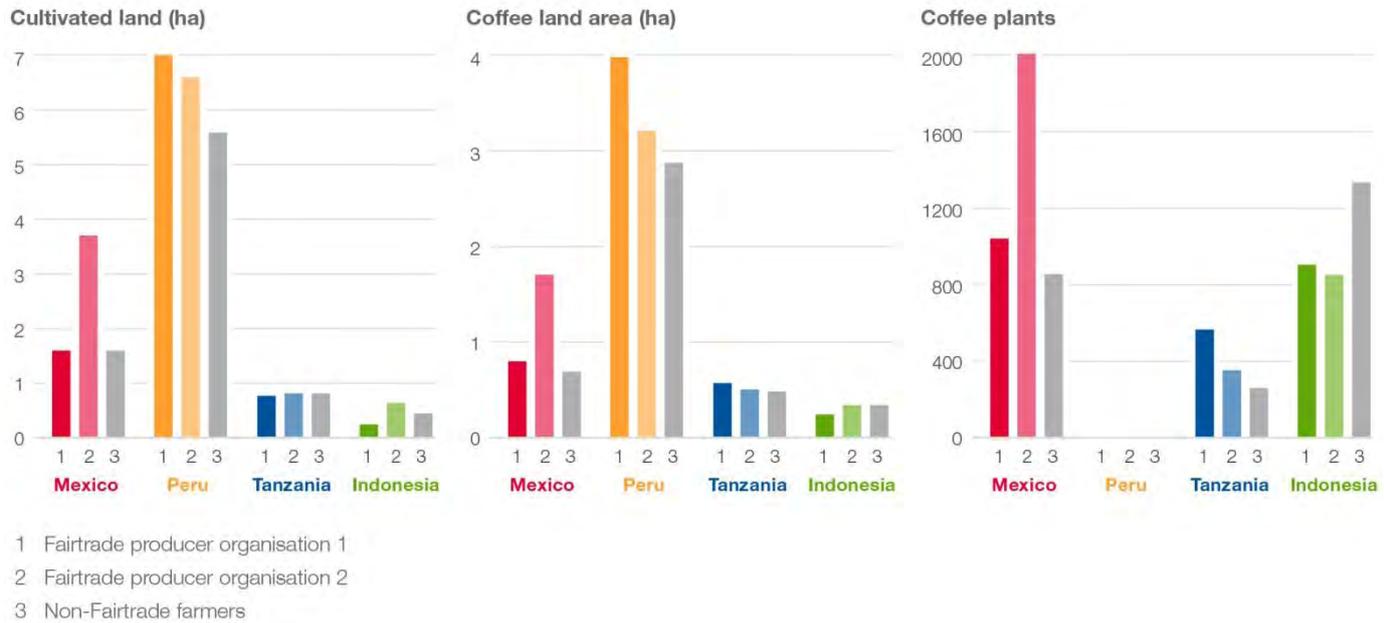
Fairtrade and non-Fairtrade farmers had similar landholding size and areas under coffee production, but Fairtrade farmers had significantly more coffee plants. The percentage of Fairtrade farmers with cattle and goats was slightly higher than non-Fairtrade farmers. While 50–60 percent of Fairtrade farmers with coffee depulpers, fermentation tanks and dryers, only 40 percent of non-Fairtrade farmers had these assets.

## Indonesia

In Indonesia, while Fairtrade PO2 members had more land area in coffee production than the other two groups, the non-Fairtrade PO members had more coffee plants than the Fairtrade PO members; but Fairtrade PO2 had more processing equipment (as they process from cherries to sell parchment

coffee. There were also some differences in livestock assets. Overall there was some tendency for Fairtrade farmers to have more livestock but generally differences were not statistically different.

**Figure 16: Productive assets of Fairtrade and non-Fairtrade farmers**



**Figure 17: Assets associated with coffee processing on Fairtrade and non-Fairtrade farms**

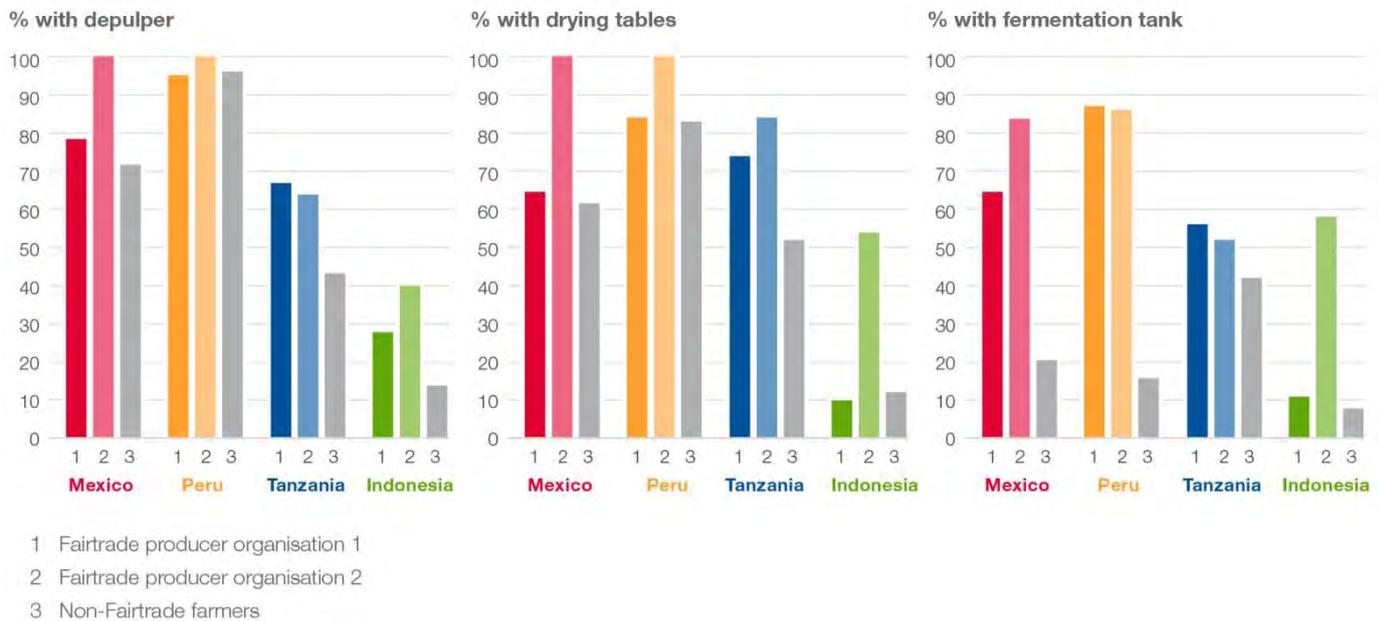
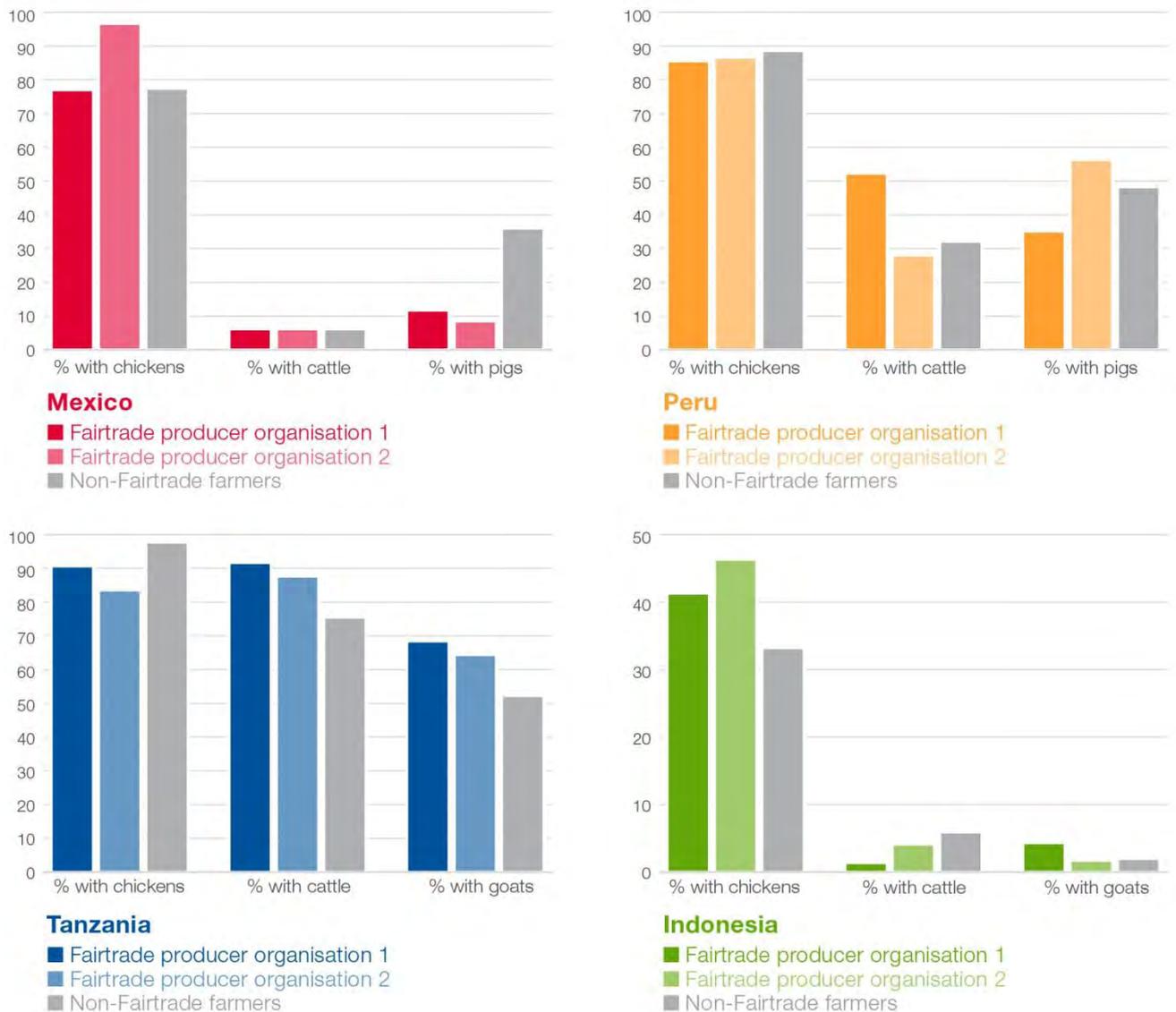


Figure 18: Livestock owned by Fairtrade and non-Fairtrade farms



**Box 31: Summary of findings on improvement in individual and joint ownership of productive assets**

Overall, in terms of organisational investments the POs in Mexico, Peru and Indonesia reported investing in land, offices warehousing and processing equipment over the past five years. These investments were at least partially supported by Fairtrade through the use of Fairtrade Premiums. There was limited organisational investment by the Fairtrade POs in Tanzania as a result of Fairtrade, except in terms of office construction in southern Tanzania. Overall, the Fairtrade PO members in Mexico, Tanzania, Peru and Indonesia had greater productive assets for coffee production and processing than the non-Fairtrade farmers.

#### 5.1.4 Development of markets

Fairtrade seeks to build international and South-South markets for Fairtrade organisations in a number of ways, such as increasing the total number of buyers, and specifically Fairtrade buyers, increasing the number of markets they sell into and the number of Fairtrade-organic sales. In this section we present the findings on Fairtrade's development of markets in each country. This builds on the data presented in the previous section on the growth and number of buyers in 4.1.1.

##### Peru

In Peru, both POs had received support from Fairtrade to contract sales of coffee independent of trading companies upon whom they were previously dependent. Recently, both of the POs had found a new buyer, each of which will purchase coffee without particularly high quality requirements, but only one of which holds Fairtrade trader certification. These buyers complement their more demanding existing buyers of quality Fairtrade/organic coffee. Both POs also process and package roast and ground coffee sold to local retailers with equipment purchased from government support programmes.

##### Mexico

In Mexico the POs do not have the capacity to supply more international buyers – to increase the number of their buyers they would need more support to increase productivity and quality etc. One of the POs sells roast and ground coffee to the local market and even has its own coffee shop selling directly to consumers. This investment was partially supported with Fairtrade Premium funds.

##### Tanzania

The Tanzanian POs both have multiple buyers, but are keen to expand the number of Fairtrade buyers, and/or the volume of Fairtrade sales. The other PO has a diversified portfolio of buyers, but is keen to expand the number of Fairtrade buyers. One of the POs sells roast and ground coffee and has their own coffee shop selling directly to consumers; this investment was made with support from a non-Fairtrade buyer.

In terms of participation in trade fairs and international meetings facilitated by Fairtrade, one of the Tanzanian PO leaders said that Fairtrade had given them greater exposure to end markets and experience of participating in international and national events. These activities have made their organisation '*visible in global markets*'. However, the PO leaders reported that nowadays the PO has to pay to participate in such events, which will limit their future participation.

##### Indonesia

Both of the POs in Indonesia are seeking export licences, and while still lacking in capacity and access to finance, they are in a stronger position than before. In the wider set of certified POs, seven Fairtrade POs have gained export licences and begun exporting in the last four years (according to the producer support officer) indicating both improved capacity, but also greater confidence in dealing with exporters and buyers. There is still a long way to go, however, in achieving resilient POs and the producer support officer counsels the organisations to retain links with different exporters, even as they become exporters and seek to find international buyers. In Indonesia a PO leader said exposure to buyers, which Fairtrade enables, is critical for them in seeking to become an exporter, because to achieve this requires links to international buyers.

**Box 32: Summary of findings on the development of markets**

Fairtrade has supported POs, especially in Peru and Indonesia, to become less dependent on individual trading companies to sell their coffee – in the case of Peru, engaging in their own contracts with importers, and in Indonesia, working with different traders.

Overall, the main recent market developments, has been the case study Fairtrade POs offering roast and ground coffee to the local market, and in two cases even opening their own coffee shops. While export demand for high quality and Fairtrade/organic coffee is high and most POs have stable relations with buyers for this coffee, finding Fairtrade buyers for non-organic coffee, and/or lower quality coffee is still a challenge.

### *5.1.5 Enhanced negotiation power of POs and control in supply chains*

Fairtrade seeks to improve the negotiation and decision-making power of POs by facilitating more direct relationships with buyers, engagement in activities beyond production and post-harvest processing, access to timely information on prices and potential buyers, and the ability to negotiate price and marketing using their own brand.

#### Peru

A key buyer of both the Peruvian POs provides incentives for the supply of quality coffee, but at the same time it restricts coffee sales of lower quality coffee that is free of defects. However, in general, the POs in Peru have been unable to strengthen their bargaining position vis-à-vis northern coffee buyers.

#### Mexico

One of the Mexican POs negotiated with one of the buyers with a particularly strong social mission an increase in the purchase price during the period of high price in 2011-12. This is supported by the fact that the POs in this part of Mexico have high quality/altitude coffee and the demand for their coffee already exceeds what they can supply.

#### Tanzania

The Tanzanian PO1 does not have strong bargaining power. They are currently selling approximately 30percent of their coffee on Fairtrade terms and so have less leverage than the Mexican POs; but at the same time the volume sold as Fairtrade was about twice that of the Mexican POs, and the total sales about four-times that of the Mexican POs. Thus, the Mexican POs have a stronger negotiating position as they have more limited supply than the larger volumes available from the Tanzanian PO. The second Tanzania PO, which works on the 'specialty quality and direct exports' model works closely with a US buyer.

#### Indonesia

The Indonesian POs have struggled with previous exporters, and the managers felt they had not had bargaining power. They now have relations with other exporters and say the relationship is better. They are also taking a stronger stand in price negotiations and avoiding fixing prices in their contracts, and managing risk. From the previous difficult experiences, they have learned how to bargain better with exporters and Fairtrade has given them support in this process. The non-

Fairtrade PO is more recently established, but the PO leaders said their bargaining power was weak and they were hoping to join Fairtrade in the future to gain support in this area.

### Box 33: Summary of findings on negotiation power and control in supply chains

Overall, we found that POs have gradually improved their negotiating positions with exporters or international buyers, seeking to find alternative markets where possible. Their negotiating positions are stronger where they are selling high quality and organic/Fairtrade certified coffee, which has higher market demand.

#### 5.1.6 Increased profitability and reduced risk

Fairtrade seeks to increase profitability and reduce risk for smallholder farmers. At an organisational level profitability refers to the ability of the PO to generate profits and risk relates to the organisation's capacity to withstand shocks and stresses, for example, by having sufficient levels of capitalisation and cash reserves. At an individual level smallholders who have food crops, diversified livelihood strategies and income which covers their costs are less vulnerable to shocks and stresses. In this section we discuss risk at both levels – firstly, at the PO level, followed by the individual farm level, however, it was not possible to analyse profitability for each of the case study organisations as this information was not readily available. We include information for Peru on issues relating to efficiency – we do not have a similar analysis for the other countries.

#### Profitability and risk at PO level

In the previous section on outputs, we have discussed how far Fairtrade POs are obtaining higher export prices, accessing Fairtrade Premium funds, and obtaining better access to working and investment capital, as a result of their Fairtrade certification (See Section 5). This has enabled them to invest in developing human and industrial capacity, enabling some POs to become coffee exporters or traders.

Only in the case of Peru did we have access to cost structures to enable us to assess economic efficiency, while farmer profitability was assessed in all countries through the focus groups.

Through Fairtrade certification, cooperatives receive a higher price, which, in theory, could be used for reinvestment in systems for business administration and on-farm production.

#### Peru

The Fairtrade POs in the case study are more capable businesses and more resilient to risk as a result of Fairtrade support. However, the issue of PO efficiency is also pertinent, because this shapes the extent to which a PO can realise benefits for its members.

Evidence from Peru suggests that Fairtrade may in some cases be reducing the pressure on cooperatives to become more efficient and more competitive. Both the selected Fairtrade cooperatives in Peru have invested heavily in new offices, transportation and drying equipment, and professional staff for administration and technical assistance – investments that would be hard to justify when spread over a relatively small membership, between 300-400 families, without being subsidised from Fairtrade Premiums or donated funds. Cooperative members sold their coffee to both national traders, and to their cooperative. In 2013, members reported that traders paid, on

average, USD 1.11/lb, which was equivalent to 79 percent of the New York C coffee price. This implies that these traders had, on average, USD 0.29/pound for covering expenses related to processing and exporting. In 2013, the POs offered growers, on average, USD 1.25/lb, which is 68 percent of the contract price paid by their international buyers. The cooperatives had roughly USD 0.60/lb to cover expenses related to certification, processing and exporting. Assuredly as a cooperative business and managing internal control systems for certification and quality the POs will have higher costs than a conventional trader, although many now also manage various certifications and quality premiums. Nevertheless, this suggests an urgent need to explore options for increased efficiencies among cooperatives, which could include possible sharing of staff and infrastructure. If costs could be reduced then prices to farmers could be increased and volumes sold to the POs by their members would probably also increase. This would also make the POs more competitive with the other traders and enable them to increase members and the volumes of coffee sold, further improving their efficiency.

**Table 25: Average coffee prices – Peru**

| <b>Average coffee prices</b>   | <b>Local buyers</b> | <b>Fairtrade cooperative</b> |
|--|---------------------|------------------------------|
| Average contract price (USD/lb)  | 1.40                | 1.85                         |
| Average price paid to growers (USD/lb)   | 1.11                | 1.25                         |
| Margin for covering expenses related to processing and export (including certification) (USD/lb) | 0.29                | 0.60                         |
| Percentage of contract price for covering expenses related to processing and export              | 21                  | 32                           |

### Mexico

The Fairtrade POs are more effective businesses due to the benefits obtained through Fairtrade certification (see Section 5). However, during periods when the coffee price crashes, as happens periodically (approximately every 10 years according to ICO data), the Fairtrade minimum price allows Fairtrade coffee farmers to realise an improved income against non-Fairtrade farmers. The importance of this for the POs is evidenced by the substantial number of requests for entry of new members that POs in Mexico had received during 2013.

### Tanzania

In the earlier section on outputs, we have set out the evidence showing that Fairtrade POs are benefiting from obtaining higher export prices, accessing Fairtrade Premium funds, and, in a limited way, obtaining better access to working and investment capital as a result of their Fairtrade certification. This has enabled them to invest in developing human and industrial capacity. However, for PO2 there has been a financial crisis in the year of the field study and this indicates that they are not yet internally sufficiently resilient. The managers of PO2 said that they wished to utilise Fairtrade Premium funds for uses such as organisational capitalisation, and thought this was not allowed. Since Fairtrade rules do allow such uses for Premium investments, this signals that the Fairtrade rules on correct Premium use are not always being correctly communicated or understood.

### Indonesia

The Fairtrade POs are receiving higher export prices, accessing Fairtrade Premium funds, and one PO has managed to secure bank loans as a result of Fairtrade enabling them to purchase assets. This is

increasing their organisational capacity and resilience, but the POs are still fairly dependent upon Indonesian exporters. The non-Fairtrade PO has not received any of these benefits.

### Profitability and risk at farm level

This section analyses the coffee costs and income for Fairtrade certified and non-certified producers. Estimated net income coffee from gross margin estimates were developed through group analysis of costs and benefits under what were identified as ‘typical’ scenarios for the farmers present. Contrasts in costs and income highlight the main differences found and variation between the country cases. These data have then been integrated with the more representative data from the surveys to generate an estimate of the gross margins for production typical for each group or scenario. Note costs of production, and net income cannot be statistically compared as production costs were estimated from group sessions; other variables that come from the quantitative farmer surveys are compared statistically.

#### Peru

According to the participatory exercise involving gross margin analysis with focus groups of farmers, we found that Peruvian farmers’ income has been affected by two factors. Firstly, crop losses due to coffee rust: in Table 26 below high productivity is for the situation before coffee rust and low productivity after coffee rust. Second is the fall in prices (the initial scenario explored by the farmers is for 2013 prices followed by a comparison with 2011 prices, but assuming the same production costs). Under a low production, low price scenario all producers found that they suffered a loss, including Fairtrade and Fairtrade-organic producers, despite receiving the minimum price. Although the Fairtrade producers were closest to breaking even, the organic producer scenario maintains high investment in production in an attempt to combat the effects of coffee rust. Under the high price scenario all farmers get the same price, so there is no economic benefit to the organic or Fairtrade certified producers, although all make a profit under both low and high productivity.

**Table 26: Costs and income (Peruvian soles) for Peruvian producers in 2013 and compared with 2011\*\***

| Productivity                                  | Peru Fairtrade-organic |              | Peru Fairtrade |             | Peru Non-Fairtrade |              |
|---|------------------------|--------------|----------------|-------------|--------------------|--------------|
|   | High                   | Low          | High           | Low         | High               | Low          |
| Coffee production qq/ha                       | 15                     | 6            | 19             | 6           | 16                 | 5            |
| Cost of production PEN/ha                     | 5185                   | 4730         | 5041           | 2060        | 3907               | 2816         |
| Price PEN/kg*                                 | 298                    | 291          | 282            | 290         | 224                | 275          |
| Gross income coffee                           | 4473                   | 1749         | 5350           | 1740        | 3580               | 1375         |
| <b>Net income coffee</b>                      | <b>-712</b>            | <b>-2980</b> | <b>309</b>     | <b>-320</b> | <b>-327</b>        | <b>-1513</b> |
| 2011 price PEN/kg                             | 550                    | 550          | 550            | 550         | 550                | 550          |
| 2011 gross income coffee                      | 8250                   | 3300         | 10,450         | 3300        | 8800               | 2750         |
| 2011 net income (assuming same costs as 2013) | 3777                   | 1551         | 5100           | 1560        | 5220               | 1375         |

\*Average of price sold to coop and to other buyers’ coops assumes approximately 60 percent sales to PO and 40 percent sales to other buyers.

\*\*Low productivity scenario relates to conditions with coffee rust and high productivity scenario to before coffee rust

Farmers' response to the coffee rust outbreak was to reduce the area of coffee under production, making more investments in this small area to try and tackle rust and saving costs in order to do so through also reducing the use of hired labour. Fairtrade-organic farmers were using the technical assistance provided to invest in improving the management of the areas they were maintaining under production to help recovery from coffee rust.

### Mexico

Based on these analyses (Table 27) Fairtrade farmers in PO1 had a better net income from coffee than non-Fairtrade farmers as they received better prices and a similar level of production for a lower investment. There were no significant differences between men and women Fairtrade farmers. Non-Fairtrade women farmers were at a disadvantage as they received significantly lower prices than their male counterparts and had lower productivity, but they compensated by also having lower investment in production and thus lower losses.

Coffee rust had not affected producers in this very high altitude region of Chiapas.

**Table 27: Costs and income (Mexican pesos) for Mexican producers in 2013 and compared with 2011**

|                               | Mexico Fairtrade PO1 |              | Mexico Fairtrade PO2 | Mexico Non-Fairtrade |              |
|-------------------------------|----------------------|--------------|----------------------|----------------------|--------------|
|                               | Men                  | Women        | Men                  | Men                  | Women        |
| Area coffee ha                | 0.91 a               | 0.66 ab      | 1.7 c                | 0.72 ab              | 0.54 b       |
| Total number of coffee plants | 1064 a               | 1029 a       | 2008 c               | 1119 a               | 431 b        |
| Coffee production kg          | 442 a                | 356 a        | 1095 c               | 476 a                | 222 b        |
| Cost of production            | 10,162               | 9142         | 22,290               | 16,318               | 6265         |
| Price per kg parchment        | 31.6 a               | 30.6 a       | 31.8 a               | 26.0 b               | 22.4 c       |
| Gross income                  | 13,967               | 10,896       | 34,821               | 12,376               | 4972         |
| <b>Net income</b>             | <b>+3805</b>         | <b>+1754</b> | <b>+12,531</b>       | <b>-3942</b>         | <b>-1292</b> |
| 2011 price                    | 48                   | 46           | 56                   | 45                   | 25           |

Different letters indicate significant difference between men and women across organisations ( $p \leq 0.05$ )

### Tanzania

Fairtrade Producers in Tanzania had greater coffee production than non-Fairtrade producers as they had more coffee plants, for which they obtained a higher price. Fairtrade farmers also invested more in production, but the primary return on that investment appeared to be income from other crops (bananas), which are a more important source of income than coffee, and grown intercropped with the coffee. The growing of bananas and other crops helps farmers in this region to have diversified livelihoods, but it also presents a threat to POs as overall coffee production levels are declining in the Kilimanjaro region.

**Table 28: Costs and income (Tanzanian shillings) for Tanzanian producers in 2013**

|                          | Tanzania Fairtrade PO1 | Tanzania Fairtrade PO2 | Tanzania Non-Fairtrade |
|--------------------------|------------------------|------------------------|------------------------|
| Area coffee acres        | 1.4                    | 1.3                    | 1.2                    |
| Coffee plants            | 567                    | 356                    | 250                    |
| Coffee production kg     | 127                    | 93                     | 55                     |
| Cost of production       | 950,000                | 450,000                | 280,000                |
| Price per kg             | 2313                   | 2188                   | 2100                   |
| Gross income coffee      | 293,750                | 203,500                | 115,500                |
| Gross income other crops | 900,000                | 275,000                | 120,000                |
| <b>Net income</b>        | <b>243,750</b>         | <b>28,500</b>          | <b>-44,500</b>         |

### Indonesia

In Indonesia the Fairtrade PO1 farmers and non-Fairtrade farmers participating in the focus group discussions had similar productivity levels (as distinct from the results of the farmer surveys), but the costs of production were higher for the Fairtrade farmers who were also organic certified, possibly due to greater use of organic fertiliser. In the group discussions the Fairtrade-organic farmers said they received higher prices than the non-Fairtrade farmers; nevertheless, this was still not enough to compensate for the higher costs of production under both low and high cost scenarios. Farmers in Fairtrade PO2 mainly sell parchment coffee; they have very low productivity (equivalent to about 2200 kg/ha of coffee cherries), but also low costs of production. The price obtained converted to coffee cherries is similar to that for Fairtrade PO1 equivalent to 4285/kg (low price) and 10,000/kg (high price), they are also Fairtrade and organic certified. However, due to the low productivity Fairtrade PO2 has the lowest net income under both low and high price scenarios despite having the highest price; but it should be noted that the investment in production is about half of that in the other groups.

**Table 29: Costs and income for Indonesian producers (Rupiah) in 2013 and compared with 2011**

|                         | Indonesia Fairtrade PO1 | Indonesia Fairtrade PO2 | Indonesia Non-Fairtrade |
|-------------------------|-------------------------|-------------------------|-------------------------|
| Coffee production kg/ha | 7200 <sup>1</sup>       | 768 <sup>2</sup>        | 7120 <sup>1</sup>       |
| Cost of production      | 34,198,000              | 13,909,000              | 25,375,000              |
| Price/kg 2013           | 4167 <sup>1</sup>       | 12,000 <sup>2</sup>     | 3750 <sup>1</sup>       |
| Gross income coffee     | 30,000,000              | 9,216,000               | 26,700,000              |
| <b>Net income</b>       | <b>-4,198,000</b>       | <b>-4,693,000</b>       | <b>1,325,000</b>        |
| High price (2011)       | 9167                    | 28,000                  | 6250                    |
| Gross income            | 54,000,000              | 21,500,000              | 45,000,000              |
| Net income              | 19,802,000              | 7,595,000               | 22,078,000              |

<sup>1</sup> Production and prices for coffee cherries given in group discussion of costs and income

<sup>2</sup> Production and prices for parchment coffee

**Box 34: Summary of findings on profitability and risk**

Overall, Fairtrade certified producer organisations have greater resilience as a result of their participation in Fairtrade. The POs use the Fairtrade Premium as a source of funds to cover the demands of the moment, be that providing price subsidies to farmers to remain competitive during high international prices, invest in quality management to meet demands of buyers, or provide training and inputs to farmers to combat coffee rust. Whatever the crisis of the moment, the availability of the Fairtrade Premium as a fund they (the members and organisation) could utilise has been essential to their ability to respond to these crises.

At the farm level, Fairtrade households are affected by the same sources of risk as non-Fairtrade households (e.g. variable prices, coffee rust). However, at least in some cases, there is evidence that participation in Fairtrade has reduced the effects of these influences, but has by no means eliminated their impacts.

The support from Fairtrade (Fairtrade Minimum Price and Fairtrade Premium) means that POs are more resilient to risk, when there is a price crash. During periods when the coffee price crashes, as happens periodically (approximately every 10 years), the Fairtrade Minimum Price allows Fairtrade coffee farmers to realise an improved income against non-Fairtrade farmers. The importance of this for the POs is evidenced by the substantial number of requests for entry of new members that POs in Mexico had received during 2013.

## 5.2 Strong and inclusive small producer organisations

According to the Fairtrade theory of change, a key outcome is the achievement of strong and inclusive small producer organisations. Key indicators for this include:

- i. Strong and accountable leadership
- ii. Gender equality and equity
- iii. Inclusion of young adults
- iv. Improving workers' terms and conditions

We discuss Fairtrade's contribution on leadership, gender, and workers terms and conditions.

### 5.2.1 Strong and accountable leadership

Good leadership is indicated by strong trust by individual members in an organisation; training provided by leaders to members on leadership; members ready to take on positions when required; renovation and rotation of leadership; delineation of governance and management roles; and member knowledge of work plans and financial accounts, etc.. We were not able to investigate this issue in great depth, but asked an open question to farmers in the focus group discussions (FGDs) for their overall views on the PO. This provides us with some qualitative data on members' perceptions of their organisation. We also interviewed the PO leaders and managers and this provides us with insights into the operation of the POs in our case studies.

## Peru

Farmers generally understood the governance structure of their PO and decision-making processes, and felt at liberty to express their opinions directly, through delegates or technical staff. Nevertheless, cases were cited by members where managers or presidents of the PO had taken decisions in their own interest that were not supported. In each of these reported cases, after a period of time, the people involved were removed from the organisation and the membership, through the board of directors, had taken control of the organisation.

## Mexico

Farmers generally understood the governance structure of their PO and decision-making processes, and felt at liberty to express their opinions directly, through delegates or technical staff. PO managers see Fairtrade standards and auditing as deepening their organisational democracy and supporting them in strengthening the internal organisation.

## Tanzania

Some challenges were found to exist in the Tanzanian POs, where in general, individual members were not satisfied with their primary society or farmer business group leaders (qualitative discussions). Furthermore, these primary tier leaders were not particularly satisfied with the senior managers – in particular in

PO1 the distance is very great given the size of the organisation and the number of members. This organisation has seen significant turnover of management staff, but not

*“We have the problem of leadership. As you can see, this Chairman is just acting. We have not elected him and actually the past Chairman has not officially handed over important documents so we have another election. We are in a mess with leadership now, how do you expect that our views will be heard in this context?”*  
(Men’s FGD, Fairtrade PO2, Tanzania)

necessarily of the board. The view of one participant in an FGD was commonly held, indicating problems of poor leadership, including a lack of continuity.

## Indonesia

In one FGD, a female participant commented positively about the PO leadership (Fairtrade women’s group in Indonesia, FGD). At the same time, individual farmers’ understanding specifically of

*“The PO staff are very close to us”, providing a range of services, and “The PO leadership is good and trustworthy.”* (Women’s FGD, Fairtrade PO, Indonesia)

Fairtrade, and the rights and responsibilities associated with certification, is also somewhat limited, which may also limit their ability to hold their leaders to account.

The newly formed Indonesia Fairtrade network has recently agreed to invest 0.5 percent of their Fairtrade Premium funds into a joint fund, aimed at improving members’ understanding of the Fairtrade Premium, production and quality, to improve transparency in the business and trade relations with producers and traders, and finally to improve governance management structures in the networks. By pooling these resources for activities such as the development of extension materials and videos, the network aims to create synergies and to use their limited resources more effectively to engage and inform the members of their organisations. This type of investment may support more active participation by members and a greater capacity to hold leaders to account,

which may in turn spur improved leadership in a virtuous circle, but this is a hypothesis and further research is needed. Fairtrade networking can clearly stimulate collective innovation.

### Box 35: Summary of findings on strong and accountable leadership

In terms of individual producers being able to hold leaders to account, this depends upon the quality of internal communications and individuals' understanding of their rights and obligations under the Fairtrade system and being confident enough to exercise these rights. In the Mexican and Peruvian Fairtrade POs studied, the farmers have a basic understanding of the governance of their organisation and there is evidence of leaders being held to account. The Indonesian Fairtrade PO members interviewed appeared to be fairly positive about their leaders, but in Tanzania there were concerns raised by the farmers about the group or primary society leadership being weak and unaccountable.

### 5.2.2 Improving gender equality and equity within POs

Measures of change include greater women's membership of the POs, increased women's participation in official positions, as well as women feeling their views are listened to and that they are as able to benefit from Fairtrade as men through their participation in coffee farming.

#### Peru

In one Fairtrade PO the Peruvian PO leaders sought to include at least one woman in their board of directors, but with only partial success. The other Fairtrade PO sought to change the nature of membership from individual farmer member to membership of couples. Generally women participate more in the training events in Peru compared to those in Mexico, with up to 25 percent and 50 percent (for each PO respectively) of participants being women. During the FGDs, women had similar but less detailed knowledge of the POs, compared to their male PO members. Women participate in coffee production and some of the training, but indicated that they are interested in receiving support for domestic food production. The data on women's membership across the case study POs are presented in Table 30 below.

**Table 30: Women's and men's participation in POs as members**

|           | Fairtrade PO1 |            | Fairtrade PO2 |       |
|-----------|---------------|------------|---------------|-------|
|           | Men           | Women      | Men           | Women |
| Mexico    | 570           | 65         | 192           | 7     |
| Peru      | 398           | 14         | 278           | 17    |
| Tanzania* | -             | -          | -             | -     |
| Indonesia | 83% (2012)    | 17% (2012) | 81%           | 19%   |

\*No reliable data available

In Peru, while women received slightly lower prices, both Fairtrade and non-Fairtrade, this was not statistically significant (but also in Peru the number of women farmers surveyed was very small). See Table 31 below. Table 32 indicates that overall, women had lower income from coffee production than men, but the difference was not statistically different in Peru.

**Table 31: Comparison of prices received by men and women Fairtrade and non-Fairtrade farmers**

|                  | Fairtrade |       | Non-Fairtrade |        |
|------------------|-----------|-------|---------------|--------|
|                  | Men       | Women | Men           | Women  |
| USD/kg parchment |           |       |               |        |
| Mexico           | 2.43      | 2.35  | 2.00 a        | 1.72 b |
| Peru             | 2.45      | 2.41  | 1.97          | 1.82   |
| Tanzania         | 1.45      | 1.35  | 1.34          | 1.31   |
| USD/kg cherries  |           |       |               |        |
| Indonesia        | 0.35      | 0.35  | 0.42          | 0.43   |

<sup>2</sup>Prices with different letters after them are significantly different between men and women ( $p < 0.05$ )

**Table 32: Gross income (USD) from coffee production for men and women Fairtrade and non-Fairtrade farmers**

|           | Fairtrade |       | Non-Fairtrade |       |
|-----------|-----------|-------|---------------|-------|
|           | Men       | Women | Men           | Women |
| Mexico    | 1128      | 838   | 930 a         | 420 b |
| Peru*     | 2467      | 1295  | 1030          | 752   |
| Tanzania  | 241       | 160   | 77            | 62    |
| Indonesia | 1618      | 1444  | 2498          | 1985  |

Values with different letters after them are significantly different between men and women ( $p < 0.05$ )

\*Small number of women farmers in sample limits possibility of showing significant differences

### Mexico

In the Altos de Chiapas traditional society, there is a strong separation of roles between men and women. However, in PO1 efforts have been made to increase women's participation and it was possible for the members of the team to interview and hold group discussions with women's groups. In PO1 the women acknowledged that the leaders had made efforts to include women in the organisation, and did listen to their concerns. It has two women delegates, and women attend the assemblies, but their participation in the training events is less strong. In PO2 in the past the organisation has tried to establish activities of greater relevance for women, such as support for vegetable production, but they were not able to sustain these activities. Only a handful of women, who are the widows of deceased members, are members of the PO.

In Mexico non-Fairtrade women producers received significantly lower prices than their male counterparts, while in the Fairtrade PO they received the same price. At least in the case of Mexico the Fairtrade PO had managed to reverse a price discrimination against women.

In terms of the total gross income of women and men from coffee production, overall women had lower income from coffee production than men, however only in the case of non-Fairtrade women farmers in Mexico was this difference statistically significant (See Table 32).

### Tanzania

In Tanzania women generally lack access to land, coffee and finance, and men tend to rely on women for labour. Reliable membership data were not available and neither PO shared a breakdown of their membership figures, but women's membership and participation in meetings was low with only widows or a few women who have inherited land joining as official members. In the FGDs some women farmers said that they use their husband's or father's registration numbers to trade their coffee, and this means they do not have a legal right to attend the meetings.

Of the women interviewed in the FGDs, they had very little interest in attending PO meetings. They felt that their time could be better spent on other income-generating activities. Some said that they grow too little coffee to focus on it and they have too many other domestic responsibilities to participate in PO activities. Some women also held the view that the meetings were more about the politics of coffee, and were not useful.

*“Women have a lot of responsibilities in the home, and most of us spend our time to obtain our income. I can’t just go to a meeting which focuses on the politics of coffee and waste my time, while I could be in the market trying to make a little money.”* (Fairtrade women’s FGD participant)

*“My father was a member. I have been using his number to sell whatever I harvest, but I do not take part in the meeting. My father does not go either.”* (Fairtrade women’s FGD, Tanzania)

The non-Fairtrade women farmers interviewed did not mention any engagement or training activities offered by private buyers. Both POs lack sufficient extension systems through which such issues could be addressed and it seems fewer women participate in trainings than men. At the organisational level there are few women representatives in official positions, although one of the PO2 Fairtrade Premium Committee members, who are also board members, was female.

In Tanzania, while women received slightly lower prices for both Fairtrade and non-Fairtrade, this was not statistically significant (see Table 31). In terms of the total gross income of women and men from coffee production, overall women had lower income from coffee production than men, but this was not statistically significant (see Table 32).

### Indonesia

In Indonesia the religious and cultural context means that there are restrictions on women’s and men’s proximity.<sup>26</sup> Women tend to be involved in the harvest, pruning and digging holes for replanting coffee, whereas men do weed cutting. Although it is mainly men who attend training sessions, women can also be invited and were generally positive in the FGDs.

There are few female members in the study POs (17 percent in PO1 and 18 percent in PO2 in 2011 and 2012 respectively), because of their generally limited access to land. The exceptions are women who are members because they are widows or who have inherited land. Also only five of the 103 delegates in one Fairtrade PO are female. The members elect the delegates (1 per 50 members), but the members are primarily male.

A few women hold administrative positions in the Fairtrade POs and one PO has a female treasurer, plus a female representative on the Fairtrade Premium committee. Generally speaking women are under-represented in all three POs – Fairtrade or otherwise.

A leader at one of the Fairtrade POs noted that Fairtrade does not set clear gender-related requirements and targets in its standards, it only provides guidance. They suggested that more change might occur were the clear requirements and target standards to be set.

<sup>26</sup> Aceh Province in Indonesia has strong Islamic roots and adopted Shari’a law in 2001. This means that there are certain restrictions on the culturally and religiously acceptable proximity between women and men, besides one’s spouse.

Management level training on gender issues has been provided as explained in the earlier section of this report. However, understanding of gender issues is still fairly limited and the PO leaders lack clear ideas on how to address entrenched gender norms. One of the Fairtrade PO leaders, for example, said that women could not be members of the PO at all for religious reasons. Both sets of Fairtrade managers said that it is not culturally acceptable and further the mountainous terrain is too challenging for women to work as ICS officers. There has been no training on gender issues provided by the (newer) non-Fairtrade cooperative for managers or members.

The Fairtrade producer support officer noted the success of one women's-led cooperative in North Sumatra, not covered in this study. The PO has received significant support from Fairtrade and could represent a role model for other groups, because it has strong, charismatic leadership from a female leader, and it has a high proportion of female members compared to the other coffee cooperatives in the region. Peer learning visits to this PO could be facilitated by Fairtrade, because there is a possible opportunity for learning by farmers – male and female.

In Indonesia men and women received the same prices for their coffee, both for Fairtrade and non-Fairtrade (Table 31). In terms of the total gross income from coffee production, overall women had lower income from coffee production than men (Table 32).

#### **Box 36: Summary of findings on improving gender equality and equity in POs**

In terms of women's membership in POs (Fairtrade and in the non-Fairtrade example in Indonesia), across all of the POs, women's membership is very low. There are some examples of efforts to increase women's participation in the organisation and in positions of authority in Peru and Mexico, but not at every PO. In Tanzania few women attend meetings, training sessions and most women who have coffee to sell do so via the registration number of their husband or father. One of the Tanzanian POs has a female board member who is also a Premium Committee member, but there has been no wider change in the PO as far as we could assess during this study. In Indonesia, in a context of strong cultural norms on the gender division of labour it is unsurprising that women's participation as members and in official positions remains low.

### **5.3 Enhanced benefits for producers and communities**

Fairtrade seeks to deliver enhanced benefits for producers and communities. The key indicators for this theme are:

- i) Improved services and support for PO members
- ii) Improved services and infrastructure in communities
- iii) Support for vulnerable and marginalized communities

In this section we present the findings on each of these indicators for each country in the study, as well as a summary of findings.

### 5.3.1 Improved services and support for PO members

Fairtrade seeks to enable POs to provide improved services and support for their members. Below, we present the findings for each case study country based on the views of farmers within the case study organisations.

#### Peru

At the farm level 95 percent of Fairtrade farmers received services of extension (training and technical assistance) and about 70 percent marketing of coffee, as opposed to less than 10 percent of non-Fairtrade farmers. A majority (60 percent) of Fairtrade farmers were satisfied with the extension services, but only 40 percent of the farmers who indicated receiving marketing services were satisfied. The later response is reflected in that the prices offered by the Fairtrade POs over the two years of high prices were not different from the general market price. Between 30 and 60 percent of Fairtrade farmers had received training on each of seven aspects of coffee agronomy, while only 10 percent of non-Fairtrade farmers had received training and on only two aspects of coffee agronomy.

#### Mexico

At the farm level Mexican Fairtrade farmers received various services. 60 percent of Fairtrade farmers received coffee sales and inputs, 50 percent extension and 25 percent credit. About 80 percent of farmers were satisfied with each of these services. Only 10 percent of non-Fairtrade farmers reported receiving any service and this was in coffee sales, with none being satisfied. Over 75 percent of Fairtrade farmers had received training on each of eight aspects of coffee agronomy, while less than 20 percent of non-Fairtrade farmers had received training on these topics.

#### Tanzania

The proportion of Fairtrade farmers receiving services was about 65 percent for coffee sales, 40 percent for extension, and 20 percent for inputs; about the same number of non-Fairtrade farmers received services in coffee sales, but half as many received extension and inputs services. Fewer than half the Fairtrade farmers were satisfied with the coffee sales, while about 60 percent of non-Fairtrade farmers were satisfied. A majority of both Fairtrade and non-Fairtrade farmers (who received these services) were satisfied with extension and about half were satisfied with inputs without any difference between the groups. Between a third and a half of Fairtrade farmers had received training on each of the 10 topics; while only between 10–30 percent of non-Fairtrade farmers received training in these topics. During the qualitative FGDs, the Fairtrade farmers said that

*“In recent years the cooperative has organised its activities as a buyer of coffee and nothing more. So, there is little attention on meetings... All that Certified PO1 members know is how to collect coffee and the PO buys it. It does not offer training at all.”* (Fairtrade certified women’s FGD participant, Tanzania)

*“No-one has taught me about coffee production. We learn from each other and use the knowledge gained from our fathers.”* (Fairtrade certified women’s FGD participant, Tanzania)

*“I know some educators came here in 2008, I am not sure whether they came from the PO, but they were here and taught some few people about coffee production, specifically how to treat plants. Some other educators came from TACRI in 2010 and they taught some few people on short production of coffee.”* (Fairtrade certified women’s FGD participant, Tanzania)

the training provided by their PO was inadequate.

Agrochemical inputs were subsidised and supplied to farmers through the cooperative system between the 1970s and 1990s. From 1992 chemicals were supplied at market prices, and this led to the first reduction in input use. A further decline occurred as farmers lacked credit. With the abolition of the monopsony power of the cooperative unions, only larger farmers could access credit and the cost of inputs is not affordable for many smallholder farmers.

### Indonesia

A majority of Indonesian Fairtrade farmers receive services in coffee sales (80 percent of farmers), extension (70 percent) and inputs (50 percent); while only a minority of non-Fairtrade farmers receive these services (30 percent, 10 percent, 20 percent, respectively). A majority of Fairtrade farmers are satisfied with the services in coffee sales and extension but less than half are satisfied with services in inputs, while less than half the non-Fairtrade farmers are satisfied with coffee sales, and about half are satisfied with extension and inputs (of those that receive them).

More Fairtrade farmers in Indonesia receive training than in the non-certified PO, although the comparison may be limited given the relatively recent establishment of the PO. Farmers were very positive in the main about the training they have received on pruning, weeding and environmentally-friendly cultivation methods, but they still request more skills training and information on prices and markets. Some of the training is funded by external agencies, with this support being in part leveraged by the Fairtrade certification of the PO.

The non-Fairtrade PO leaders reported that they aim to improve the services provided to their members by supporting their coffee production, seasonal crop production and livestock keeping, and have shared various farm tools. However, their capacity to deliver extension is currently very limited, and they lack sufficient financial capital to buy all the coffee from members.

*“We have learnt a lot about better practices through training and other extension programmes, facilitated by the PO.”* (Views from a Fairtrade men’s FGD, Indonesia)

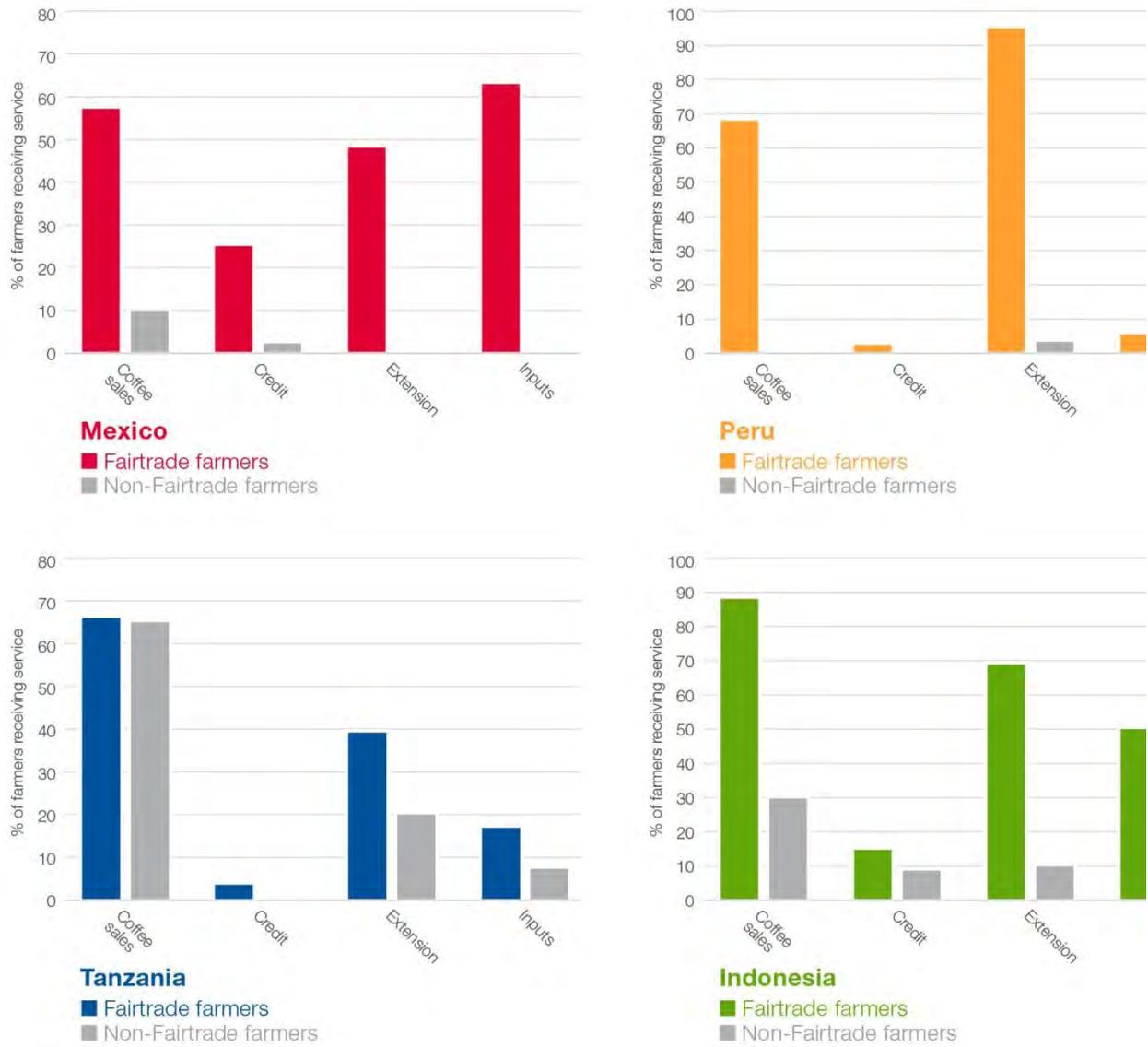
*“So far the number of people involved in training is still very low. It is important for farmers in this village to gain knowledge and more training is necessary.”* (Views from a Fairtrade men’s FGD, Indonesia)

*“We need more agricultural promotions, people with good knowledge and experience about coffee to share with us and more members in our village. We believe with a better knowledge and practice, although our farms are small, we can still produce more coffee.”* (Fairtrade farmer delegate in the FGD, Indonesia)

In our surveys, Fairtrade farmers reported receiving a broader range of services (Figure 20), compared with the non-Fairtrade farmers with a much higher percentage of Fairtrade farmers reporting that they received services from their POs (Figure 19a). Generally, a majority of farmers

who received services, both Fairtrade and non-Fairtrade farmers, were satisfied with these services (Figure 19b).

**Figure 19a: Percentage of Fairtrade and non-Fairtrade farmers receiving different services**



Some of the farmers in the FGDs, however, did report concerns about the level of training provided to them by the POs. In Tanzania, particularly, members said that the level of training provided is too limited in extent. In Peru, the provision of extension services and training is highly dependent on funding through development projects, and thus not sustainable.

Figure 19b: Percentage of farmers who are satisfied with the services they receive

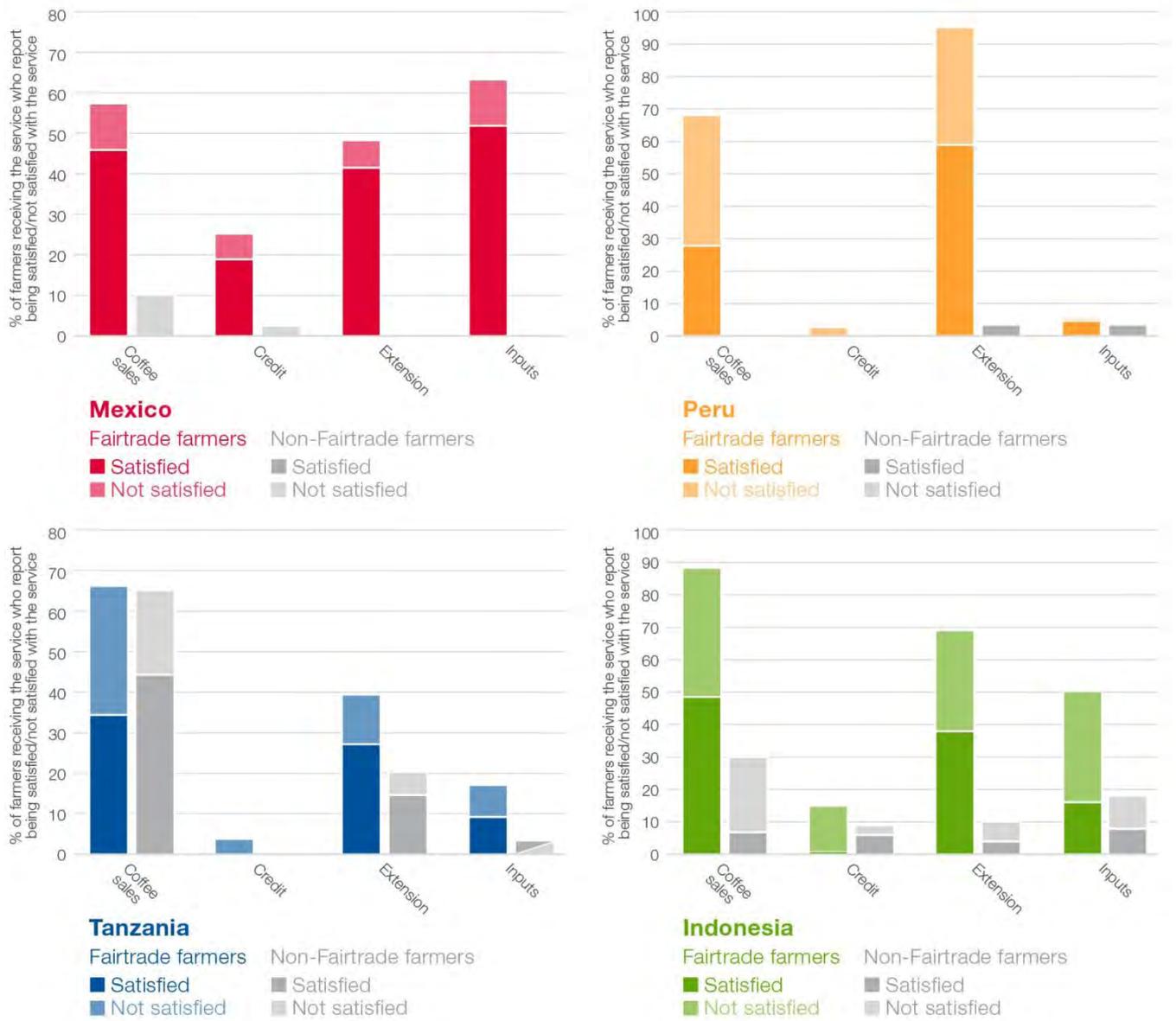
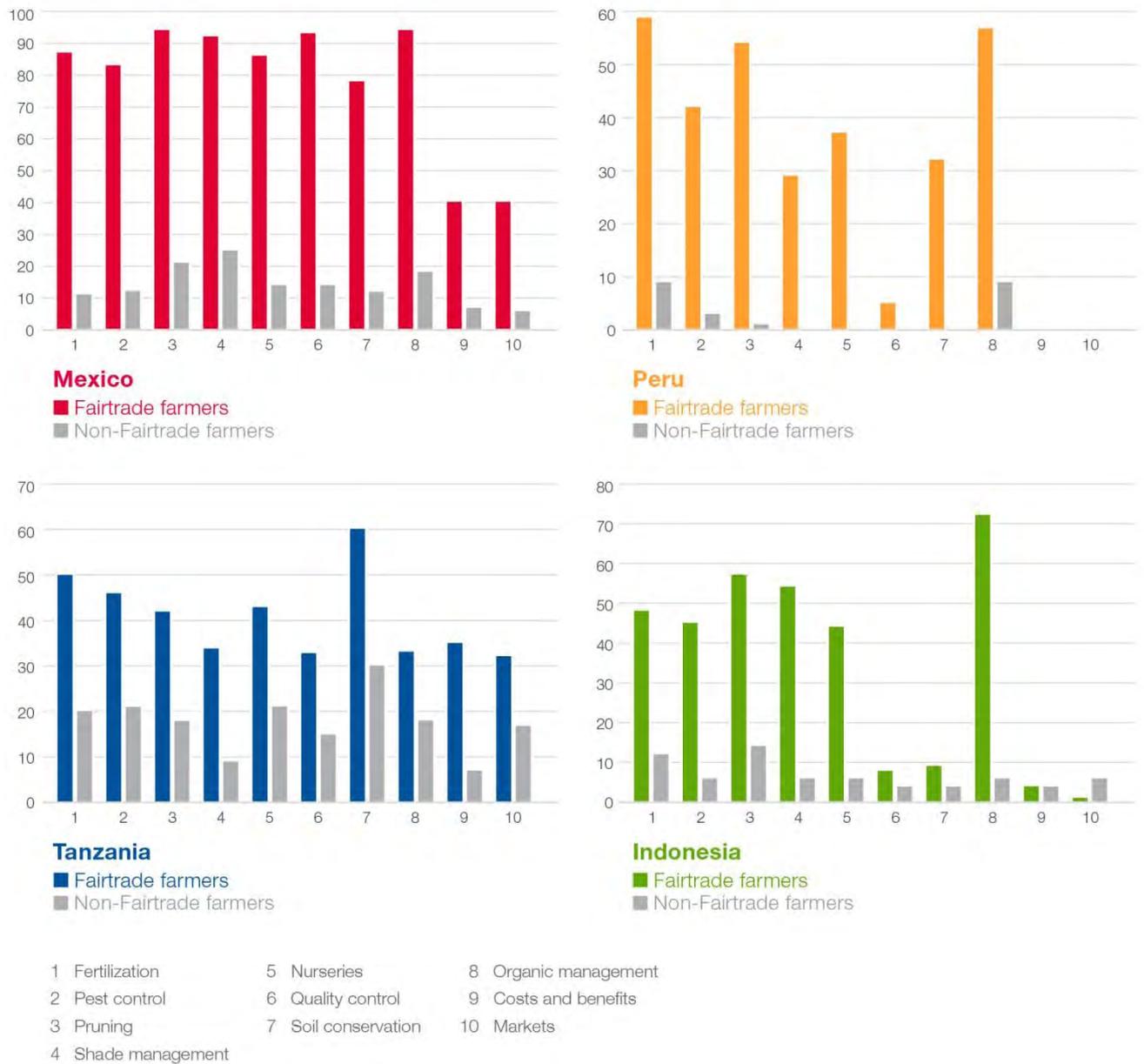


Figure 20: Percentage of farmers who received training in key topics



**Box 37: Summary of findings on improved services and support for farmers**

Overall, the Fairtrade PO marketing managers were positive about their organisation’s ability to deliver services, perceiving some level of improvement in their ability to provide services – although in some cases this is from a fairly low starting point.

In our study, farmers in Fairtrade organisations received considerably more training, across a broader range of topics compared to non-Fairtrade farmers. They also received a broader range of services such as inputs, credit, extension, coffee sales, and have a greater degree of satisfaction in those services than non-Fairtrade farmers. However, in some cases the level of provision is on a fairly low starting point – such as in Tanzania with farmers in the qualitative research indicating that they had received very limited training indeed.

### 5.3.2 Improved services and infrastructure in communities

Fairtrade seeks to improve services and infrastructure in communities through a number of impact pathways. Investment of the Fairtrade Premium in community infrastructure and services projects is an obvious example, where benefits may accrue to members of the PO, but also to the wider community. Where PO leaders and producer networks become strong, it is also possible that they could have greater influence through improved advocacy capacity, leading to better outcomes for Fairtrade farmers, and also for the wider community. It was not possible in the scope of this study to fully assess the extent of provision of infrastructure and services to communities, but an assessment of plausible impact has been drawn up based on the findings from the focus group discussions.

#### Peru

We did not find any cases where the POs had contributed to improved services or infrastructure that benefited groups beyond their membership.

#### Mexico

In Mexico some of the POs used their organisational skills and position to lobby for improvements in the infrastructure in local communities such as roads or water systems, which were successful.

#### Tanzania

In Tanzania, the Fairtrade PO1 members interviewed in the FGDs noted the funding of school scholarships for children, which are funded using the Fairtrade Premium, although they also commented that these were few in number, and therefore did not see other benefits for the wider community.

#### Indonesia

In Indonesia one of the villages visited had *significantly* improved access to electricity as a result of Fairtrade support and the impacts reached far beyond the PO members.

#### Box 38: Summary of findings on improved services and infrastructure in communities

Overall, we found examples of positive benefits accruing to wider communities as a result of Fairtrade certification of POs, mainly through the investment of the Fairtrade Premium in community infrastructure and services, but also through lobbying by producer networks or PO leaders. The extent to which PO leaders and producer networks can have success in lobbying depends to a large extent on the local political context, as well as their advocacy capacity.

### 5.3.3 Support for vulnerable and marginalised groups

Processes of marginalisation are highly context-specific. There is widespread incidence of gender inequality, plus forms of identity inequality based on age and ethnicity, etc.. Furthermore, spatial marginality exists, whereby certain areas, often in remote regions, are excluded from decision-making, state infrastructure and service provision etc. Gender inequality intersects with other forms of marginalisation and social exclusion in all the case study countries. Support for vulnerable and

marginalized groups (including children and youth) can be achieved through multiple means, including, for example:

- i) POs establishing specific policies to support disadvantaged groups;
- ii) Having child labour policies in place, taking a proactive approach to child labour elimination, requesting training on child labour issues and linking to NGOs working to tackle child labour issues, as well as working with government on these issues;
- iii) Investing the Fairtrade Premium in projects benefiting children and youth;
- iv) Youth employment projects etc..

We have covered issues of gender equality and equity and the situation of hired labourers working on smallholder farmers in earlier sections of this report. In this section we present any additional information collected on particular activities undertaken by the POs to support vulnerable and marginalised groups, although our analysis on this indicator was limited in practice.

### Peru

There was good awareness amongst PO leaders that child labour is prohibited under Fairtrade and there were no reports of specific challenges in their area. Most of the families in the FGDs identified children's education as being their top priority and a key line of expenditure. However, farmers and PO leaders said that they would like adolescents to learn about coffee cultivation as this is a key life skill. This is not precluded by the Fairtrade standards, but there appears to be weaknesses in the communication of the Fairtrade standards to producers.

### Mexico

Child labour awareness among PO leaders is high and there were no reported child labour issues in their regions. In the FGDs, farmers cite children's education as being their highest priority and largest expense. As in Peru, in Mexico, farmers also expressed their desire for adolescents to learn about producing coffee. Improved communication of the Fairtrade standards is clearly needed as the standards do allow children to work out of school hours and during holidays on the farm.

### Tanzania

Farmers prioritised their children's schooling, but said that coffee no longer provides sufficient funds and it is bananas which provide the income to meet household and education expenditures. Horticulture also gives more return per acre than coffee, but is more risky. These factors and increasing land fragmentation mean that many of the farmers and most youth do not see coffee production as an option for young people's livelihoods in the future.

### Indonesia

Farmers prioritise their children's education and invest in school fees, as well as the purchase of food (FGDs). Although education is free, they have to pay for their books, uniforms, pocket money and transport costs, as both junior and senior high schools are at some distance from the village. Many noted their concerns regarding land fragmentation and volatile coffee prices with respect to their children's potential entry into coffee cultivation in the future.

**Box 39: Summary of findings on support for vulnerable and marginalised groups**

The findings on Fairtrade and outcomes for vulnerable and marginalised groups are presented in different sections of this report. In terms of gender equality and equity, we did not find major changes occurring as a result of Fairtrade certification, nor with respect to the terms and conditions of labourers working on smallholder farms. For children and youth, there is evidence that training on child labour issues has been fairly effective in terms of raising awareness of Fairtrade standards, and PO leaders and farmers did not report incidence of child labour, although in a short, broad-ranging impact study it is not possible to verify practices in the field. However, more information needs to be provided by Fairtrade to farmers on Fairtrade rules as these rules do not prohibit children from working on farms during holidays and after school. Fairtrade farmers consistently mentioned education of their children as a top priority for them and a major item of expenditure. Attracting and retaining youth in agriculture is challenging and requires increased access to land, as well as higher returns from coffee sales. Considering how Fairtrade mechanisms and partnerships with other actors can increase land access, especially for young people, is important if an overarching goal is sustainable livelihoods.

**5.3.4 Protection of the environment and adaptation to climate change**

Fairtrade seeks to achieve protection of the environment and adaptation to climate change. The key indicators for this are:

- i) The elimination of harmful production practices
- ii) Sustainable management of natural resources
- iii) Development of environmental services
- iv) The implementation of adaptation strategies

**Peru**

The POs consider that an important value, which differentiates them from other farmers or organisations, is the protection and non-contamination of the environment. Although they primarily associate this with organic farming, they also recognise that Fairtrade promotes conservation of the environment.

One PO in Peru has members living adjacent to a protected area of forest. They receive external support to conserve the forest and to produce coffee sustainably, but also have to comply with restrictions on the use of forest products and are not allowed to cut down trees. Farmers in the FGDs said that none of the members now cuts trees or burns them and in general they feel that the environment is improving in their communities through an increase in the number of trees. However, this incentive for sustainability in coffee production is not linked to Fairtrade.

**Mexico**

The POs, which are also certified organic, consider that an important value that differentiates them from other farmers or organisations is the protection and non-contamination of the environment. Nevertheless, they also recognise that Fairtrade promotes conservation of the environment.

One of the Fairtrade POs in Mexico has put in place a programme to protect the water sources in their communities. With the help of one of their buyers, they have also installed new water tanks to keep water clean for use by households and in processing; this was done as part of the Fairtrade agreement with the buyer. In general, the POs consider that their organic production and general environmentally friendly practices help conserve the environment, but that they receive little monetary reward for this.

#### Tanzania

In Tanzania, the board members of one of the Fairtrade POs said that, although the Fairtrade rules are strict, they have followed them. They listed the requirements relating to the reduced use of agrochemicals and environmental care including the disposal of chemical containers, prohibition of certain agrochemicals, and prohibiting child labour etc. thus demonstrating good knowledge of the Fairtrade requirements. The board members also said that farmers have been trained not to wash containers in a public place or in a swamp where people or animals are taking water. Farmer members have been trained in the safe handling of agrochemicals (the training was supported by a Fairtrade buyer).

#### Indonesia

The Indonesian farmers interviewed in the FGDs were able to describe their environmentally-friendly organic farming practices. They also reported replanting the coffee trees and improved maintenance on their farms following training. Some of the training results from the organic certification process, which is partly funded by Fairtrade, and partly from support from international NGOs. The women in one village were really pleased with the new floral decorations they had created from re-used plastic waste, following training on waste management.

#### **Box 40: Summary of findings on protection of the environment and adaptation to climate change**

Fairtrade supports POs and PO members that are organic certified, reinforcing the requirements for sustainable coffee cultivation and protection of the environment. Fairtrade funds can help support training provision on environmentally friendly farming techniques, and sometimes certification help to lever further external funding for farmer training. For many of the Fairtrade farmers, especially in Peru, Mexico and Indonesia, who are already organic certified, this is part of their cultural identity, which they feel sets them and their coffee apart from non-organic producers, but they get relatively little monetary reward for their investments in protection of the environment.

## **5.4 Increased influence for small producers**

### **5.4.1 Ability to influence Fairtrade policies and regulations**

There is variation in the strength of the regional producer networks, which affects their ability of to influence policies and regulations within Fairtrade and to represent the views and interests of their membership. We explored with the PO managers how far they feel their participation in the relevant producer networks has enabled them to influence Fairtrade decision-making.

## Peru

The PO managers were positive about the role of the networks, which provide them with a voice and support them in sharing information and peer learning, although they recognise the limited influence they can currently wield.

The leaders of one Peruvian PO reported their participation in negotiations within Fairtrade over the Fairtrade Minimum Price and Fairtrade Premium levels through the regional network. They felt that they had managed to achieve an influence over Fairtrade decisions, which in turn had improved their competitiveness in local markets and improved their business capacity. However, when asked if their influence over Fairtrade had changed over the last five years, the PO marketing manager said it had 'stayed the same' (Table 19).

## Mexico

The case study PO managers gave positive feedback on the role of the producer networks, which allowed them to participate in the governance of the Fairtrade system, and which provided them with a voice in the system. At the same time, the PO leaders said that participation in the regional network could support information sharing and peer-learning. However, when rating whether their ability to influence Fairtrade has changed over the past five years, the PO marketing managers said it had 'stayed the same' or even 'worsened a little' (Table 19) due to the presence of more traders offering Fairtrade terms to farmers without being certified to Fairtrade.

Mexican PO leaders would like to have greater influence on the social regulations of Fairtrade and to see changes in the Fairtrade approach they see as based on European social values to encompass values from other societies in the world.

## Tanzania

The PO marketing managers said their influence in Fairtrade had improved as a result of participation in the Fairtrade networks, although when asked to rate the change in their influence over Fairtrade in the past five years they said it had 'stayed the same' (Table 19). They value the East Africa Fairtrade Network for the benefits they have gained in terms of confidence building and sharing lessons with their peers. However, concrete achievements in influencing Fairtrade decisions and policies were harder to identify compared to Peru and Mexico.

## Indonesia

There was a mixed view amongst the PO leaders on the value of the regional network. The leaders of one Indonesian PO said that the Network of Asian Pacific Producers (NAPP) was important to their organisation, because it gives them a voice in the Fairtrade system, and they were able to advocate for changes through the regional network, for example, on changes to the Fairtrade Minimum Price and Premium. The leaders of the other Indonesian PO were less positive about the efficacy of the NAPP in enabling their voices to be heard – particularly because in their view the network is dominated by Indian tea producers. When asked to rate their ability to influence Fairtrade on behalf of members, the PO marketing managers said that their influence had 'stayed the same' (see Table 19).

A national Indonesian network is in the process of being established, and is already making interesting decisions, such as collective agreements to allocate small amounts of Fairtrade Premium funds into the production of resources aimed at raising awareness amongst Fairtrade farmers. One

PO said that participation in the national network had enabled them to resolve a serious dispute with their previous exporter.

#### Box 41: Summary of findings on ability to influence Fairtrade policies and regulations

The Fairtrade networks are highly valued by the majority of Fairtrade PO leaders in our study, as the networks enable the PO leaders to exert some influence over Fairtrade policies and regulations. The Latin American POs appear to have greater influence on national policy, in part because their networks are more established and they have more members. In Peru and Mexico, PO leaders gave concrete examples where they felt they have had an influence. Two major areas of concern were raised by PO leaders in Mexico and Peru, one relating to rules on child labour and the ability of their youth to learn about coffee cultivation and the other regarding the competition from international trading companies who are sourcing from farmers offering them similar terms for their coffee. On these two counts, the PO leaders request greater clarification on the rules of Fairtrade and they are keen to have greater influence themselves. In Tanzania the regional network was valued by the PO leaders, but the benefits are less tangible. In Indonesia the regional network is valued by one of the PO leaders, but less so by the other. While the national network has experienced some initial leadership difficulties, it has already begun to facilitate joint activities between the POs.

#### 5.4.2 Ability to influence local, regional and international policy

Fairtrade seeks to improve the ability of Fairtrade POs to influence local, regional and international policy. Key impact pathways are through Fairtrade support for PO and PO network advocacy of government and non-governmental actors, and building alliances with non-governmental actors.

##### Peru

The POs are members of the *'Junta Nacional de Café'* (the National Coffee Council) through which they lobby government locally and nationally for support for small-scale producers. This is fairly well established as a network. The Peruvian leaders said they had achieved the acceptance of organic coffee production as a national strategy. Furthermore, they have an influence at departmental level in discussions on the use of regional funds as they seek to attract support for coffee.

##### Mexico

Thirty Fairtrade-organic POs form a network called the Coordinator of Small Coffee Producers (known by its Spanish acronym, COOPCAFE). This entity seeks to represent the POs in state and national coffee forums (e.g. the Coffee Commission of the State of Chiapas). COOPCAFE is participating in the development of the Coffee Strategy for Chiapas State.

##### Tanzania

PO1 leaders participate in a national coffee stakeholder workshop each year, which provides them with an important avenue to seek to influence national policy, although it was not possible to identify specific concrete achievements in terms of influencing government. They have actively participated in multi-stakeholder processes in the past which have produced the current national coffee strategy. The PO is very large and well-established and it is likely that the leaders would be

invited to attend such meetings and to participate in such processes regardless of Fairtrade participation. However, the leaders said that they have gained greater confidence to participate in and speak at such events and processes as a result of their networking and participation in Fairtrade.

At the last meeting of the national coffee network the PO leaders said that they had been influential in gaining agreement that buyers would refrain from buying cherries from farmers which disadvantages the PO. It is not clear what status the agreement has, but the PO leaders were proud of their role and said that their ambition is that their organisation becomes a 'giant stakeholder with regard to Arabica coffee' in Tanzania. They intend to lobby government for subsidies for coffee inputs for smallholders in the future. However, in the key informant interviews, a number of key informants said that the PO is not using its potential influence sufficiently – they should be lobbying the government harder to properly regulate the auction.

### Indonesia

No mention was made by Fairtrade PO leaders or by the non-Fairtrade PO leaders of influencing national government policy. Some of the Fairtrade POs have recently sought to pressure local government to improve their agricultural extension services for coffee producers and in the past have requested that the government facilitates lower interest loans from the banks. Despite promises from government, they have not been successful, for example, in upskilling and mobilising extension workers. The non-Fairtrade PO reported a similar situation.

Overall, relationships between the cooperatives and the government in Aceh are fairly strained. This is because of the particular history of the government, its approach and use of cooperatives for political ends, and the conflict in the region which has exacerbated distrust between farmers, communities and the government. While there was some discussion by PO leaders of the need to improve service provision by regional and local government, there was no mention of their participation in any on-going processes of strategic development of the coffee sector. A key government informant admitted that current extension services are inadequate in terms of skills, number and motivation. The POs are wary of government involvement in their affairs, because of the history mentioned above, and their concerns regarding government interference in their affairs. The government key informant interviewed said that in his view all the Fairtrade Premium funds should be channelled via government, who would in turn invest in infrastructure. All of the certified POs in Aceh Province are part of the local Coffee Forum, which has achieved a Geographical Indicator for *Gayo* coffee,<sup>27</sup> but the forum is not very active according to the Fairtrade producer support officer.

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<sup>27</sup> The Coffee Forum successfully challenged a Dutch company over its patent on 'Gayo Mountain Coffee', a patent which effectively barred cooperatives from using 'Gayo' to describe their own brands. In 2010 the Dutch company lost their patent and a Geographical Indicator (GI) for Gayo coffee was established. Fairtrade buyers are not currently using the GI on their products, so more marketing is needed to realize market value for this GI, but the potential exists.

**Box 42: Summary of findings on ability to influence local, regional and international policy**

Some of the POs participate in regional and national coffee fora. PO managers in Indonesia and Tanzania reported that Fairtrade supports this participation by building their confidence in participation in public spheres generally, but it is difficult to measure direct attribution. In Latin America, PO leaders said they actively participate in national fora, enabling them to have a voice in national level discussions. No examples emerged of regional and international policy influence, although we recognise that this is likely to be a long-term goal for small producer organisations, particularly those that are smaller in size. Where POs have achieved concrete policy and regional funding influence, as in Peru and Mexico, this should be recognised as a major achievement.

## 5.5 Summary of overall findings on Fairtrade outcomes

**Table 33: Fairtrade outcomes in the countries studied**

| <b>Theme: Resilient and viable producer organisations</b>  |  |  |   |
|--|--|--|---|
| <b>Indicator: Good business management practices and systems</b>   |  |  |   |
| Mexico   | Peru   | Tanzania   | Indonesia   |
| Limited information, although development of internal control systems (ICS) for organic certification.   | Limited information, although development of ICS for organic certification.  | Limited information. There appear to be capacity gaps.   | Limited information, although development of ICS for organic certification.   |
| <b>Indicator: Increased productivity and quality (at PO level; for individual farmers only current asset status assessed)</b>                                    |  |  |   |
| Mexico   | Peru   | Tanzania   | Indonesia   |
| One PO has increasing productivity.  | All farmers 60 percent fall in production due to coffee rust.  | Fairtrade farmers have greater coffee production.  | Non-Fairtrade farmers are more productive (but use agrochemicals).  |
| <b>Indicator: Improved individual and joint ownership of productive assets</b>   |  |  |   |
| Mexico   | Peru   | Tanzania   | Indonesia   |
| <ul style="list-style-type: none"> <li>PO assets have substantially increased.</li> <li>Fairtrade farmers have more equipment for quality processing.</li> </ul> | <ul style="list-style-type: none"> <li>PO assets have substantially increased.</li> <li>Fairtrade farmers have more equipment for quality processing.</li> </ul> | <ul style="list-style-type: none"> <li>Limited data made available.</li> <li>Fairtrade farmers have more coffee plants.</li> </ul>   | <ul style="list-style-type: none"> <li>PO assets have substantially increased.</li> <li>Fairtrade farmers in PO1 have more equipment for processing.</li> </ul> |
| <b>Indicator: Development of markets</b>   |  |  |   |
| Mexico   | Peru   | Tanzania   | Indonesia   |
| Supply side constraints mean the POs cannot expand its buyers, but developing expanding national market.   | Each Fairtrade PO has found new less demanding buyers which complement their existing ones; both have developed local markets.                                   | <ul style="list-style-type: none"> <li>PO2 expanded rapidly with new buyers, but is now experiencing financial crisis.</li> <li>PO1 expanded its buyers, but Fairtrade sales are limited.</li> </ul> | <ul style="list-style-type: none"> <li>More diversified and stronger exporter partners.</li> <li>Seeking export licences and international buyers.</li> </ul>   |

| <b>Indicator: Enhanced negotiation power and control of supply chains</b>     |  |   |  |
|---|--|---|--|
| Mexico  | Peru   | Tanzania  | Indonesia  |
| One PO has negotiated better prices when prices were high.                    | Have managed to find buyers for Fairtrade or conventional coffee, but main Fairtrade buyer demanding in quality. | One PO participates in negotiation of local price; but little power over export prices. | POs have established better relations with more reliable exporters, although they are still reliant on exporters to reach international markets. |
| <b>Indicator: Increased profitability and reduced risk (individual level)</b> |  |   |  |
| Mexico  | Peru   | Tanzania  | Indonesia  |
| Fairtrade-organic farmers have better net income than non-Fairtrade farmers.  | Fairtrade-organic farmers have the same net income as non-Fairtrade farmers, but can invest more.                | Fairtrade farmers have better net income than non-Fairtrade farmers.                    | Fairtrade-organic farmers have lower net income than non-Fairtrade, but may be due to local conditions.  |

| <b>Theme: Strong and inclusive small producer organisations</b>                 |  |  |   |
|---|--|--|---|
| <b>Indicator: Strong and accountable leadership</b>                             |  |  |   |
| Mexico  | Peru   | Tanzania   | Indonesia   |
| Fairly strong and accountable.  | Fairly strong and accountable.   | Dissatisfaction with group and primary society leaders.                          | Fairly strong and accountable leaders.  |
| <b>Indicator: Gender equality and equity</b>                                    |  |  |   |
| Mexico  | Peru   | Tanzania   | Indonesia   |
| One of the Fairtrade POs has managed to reverse gender discrimination.          | No clear changes in gender equality, but some efforts made by Fairtrade POs to incorporate women in positions of responsibility. | No clear changes in gender equality resulting from Fairtrade.                    | No clear changes in gender equality resulting from Fairtrade.                   |
| <b>Indicator: Improving terms and conditions for workers</b>                    |  |  |   |
| Mexico  | Peru   | Tanzania   | Indonesia   |
| No clear changes resulting from Fairtrade in conditions/wages for hired labour. | No clear changes resulting from Fairtrade in conditions/wages for hired labour.  | No clear changes resulting from Fairtrade in conditions/ wages for hired labour. | No clear changes resulting from Fairtrade in conditions/wages for hired labour. |

| <b>Theme: Enhanced benefits for producers and communities</b>   |  |  |  |
|---|--|--|--|
| <b>Indicator: Improved services and support for PO members</b>  |  |  |  |
| Mexico  | Peru   | Tanzania   | Indonesia  |
| Fairtrade farmers receive substantially more services and training than non-Fairtrade farmers and most are satisfied. | Fairtrade farmers receive substantially more services and training than non-Fairtrade farmers and most are satisfied except for coffee prices. | Positive results in survey, but less positive feedback in FGDs.        | Fairtrade farmers receive substantially more services and training than farmer of the non-Fairtrade PO, levels of satisfaction were similar. |
| <b>Indicator: Improved services and infrastructure in communities</b>   |  |  |  |
| Mexico  | Peru   | Tanzania   | Indonesia  |
| Some of the POs have successfully lobbied for improvements in   | None reported.   | School fees funded, but this is not making a significant difference to | Very positive benefits in one community and some benefits in other   |

|                 |  |                      |  |
|-----------------|--|----------------------|--|
| infrastructure. |  | the wider community. | communities, although more mixed response. |
|-----------------|--|----------------------|--|

| <b>Theme: Protection of the environment and adaptation to climate change</b>  |   |   |  |
|---|---|---|--|
| <b>Indicators: Elimination of harmful production practices; Sustainable management of natural resources; Development of environmental services; Implementation of adaptation strategies</b> |   |   |  |
| Mexico  | Peru  | Tanzania  | Indonesia  |
| Organic cultivation and environmental protection resulting from organic certification, but supported and reinforced by Fairtrade. Water source protection supported by Fairtrade.           | Organic cultivation and environmental protection resulting from organic certification, but supported and reinforced by Fairtrade. | Some minor improvements reported by farmers (e.g. in safe disposal of agrochemical containers). | Farmers have changed their farming practices mainly due to organic farming, but Fairtrade supports their organisation and farming generally. |

| <b>Theme: Increased influence for small producers</b>   |   |  |   |
|---|---|--|---|
| <b>Indicator: Ability to influence Fairtrade policies and regulations</b>   |   |  |   |
| Mexico  | Peru  | Tanzania   | Indonesia   |
| Involvement in active Fairtrade producer networks, with concrete achievements, but recent entrance of more traders offering Fairtrade seen as a threat. | Involvement in active Fairtrade producer networks.                          | Participation in active Fairtrade regional network building the confidence of PO leaders.  | Participation in active Fairtrade regional and new national network building the confidence of PO leaders and recent collective agreements to fund awareness raising activities for membership. |
| <b>Indicator: Ability to influence local, regional and international policy</b>   |   |  |   |
| Mexico  | Peru  | Tanzania   | Indonesia   |
| Participation in national fora and development of Chiapas coffee strategy.  | Participation in national fora and example of influence on national policy. | Participation in national stakeholder coffee processes, although attribution to Fairtrade is mainly based on confidence building | Relations with government are strained. Attempts made by Fairtrade POs to lobby government for improvements in credit and extension for smallholders, but no success on the ground.             |

We present the overall findings of the study on Fairtrade outcomes in Box 43 below.

#### Box 43: Overall findings on Fairtrade outcomes

Overall, Fairtrade outcomes in the case study countries were assessed as follows:

- **Resilient and viable producer organisations:** POs and Fairtrade farmers with substantial assets to improve quality and processing, but economic performance needs improvement; bargaining power with buyers is improving but dependent on coffee quality.
- **Strong and inclusive POs:** Leaders are generally responsive but support needed on how to achieve gender and hired labour empowerment.
- **Enhanced benefits for producers and their communities:** Fairtrade farmers received substantially more services and training than non-Fairtrade farmers.
- **Protection of the environment and adaptation to climate change:** Environmental benefits from organic production reinforced by Fairtrade environmental standards.
- **Increased influence for small producers:** Influence in International Fairtrade conditions of trade and local and national coffee policies a major achievement

## 6. Assessment of changes resulting from Fairtrade – impacts

The nine impact areas identified by Fairtrade in its theory of change, which contribute to the interlinked overall goals of Sustainable Livelihoods; Empowerment; and Make Trade Fair, are as follows:

1. Improved household incomes and livelihoods of producers
2. Less risk and vulnerability
3. Improved access to basic services (education, health, water etc.)
4. Increased environmental sustainability and resilience to climate change
5. Inter-generational sustainability of rural communities
6. Increased equality, cooperation, and unity within households and communities
7. Dignity, confidence, self-esteem, and sense of control over the future
8. Enhanced influence and status of small producers
9. Fairer and more sustainable trading system

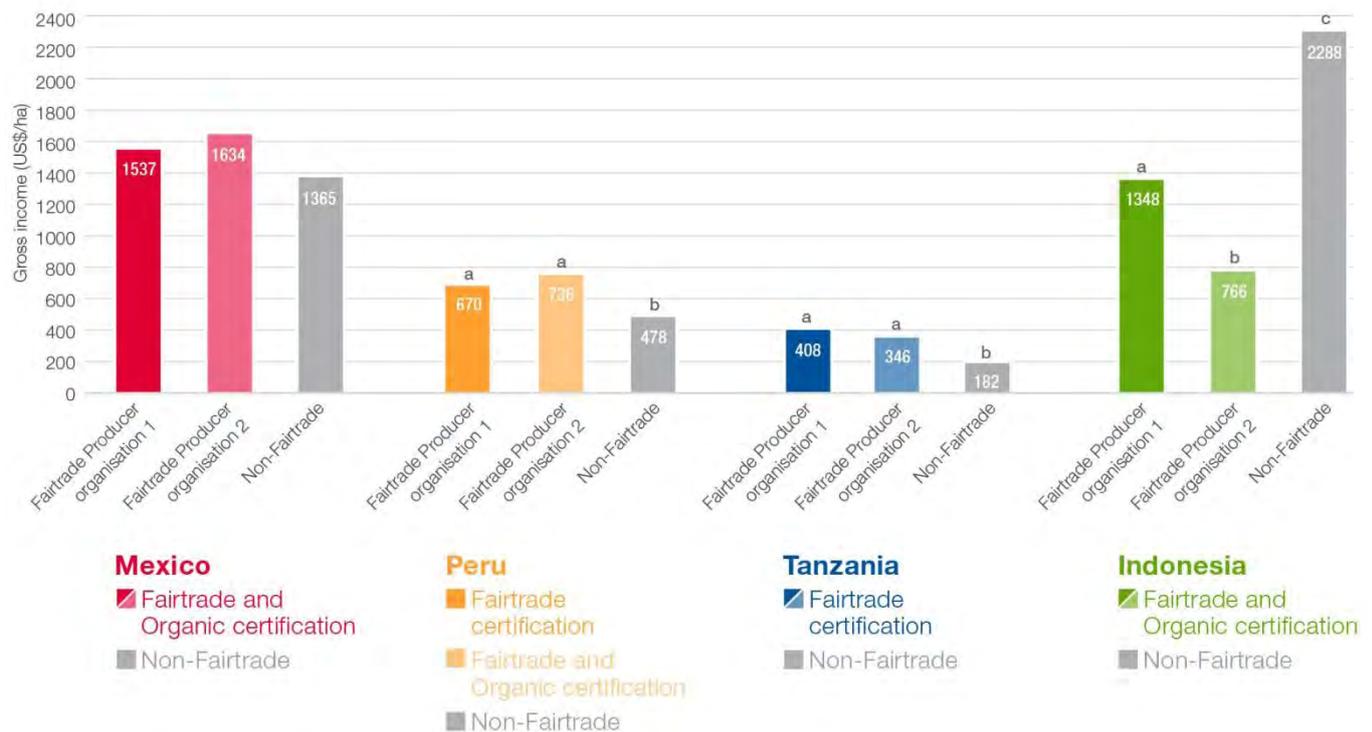
In any given context there are other factors than Fairtrade which shape impacts for producers, their organisations and the environment. However, we have sought to tease out a ***plausible analysis*** by building up evidence along the theory of change. It is easier to gather rigorous data in terms of Fairtrade interventions (inputs) and outputs. For outcomes and impacts, the influence of other factors increases and it is more feasible to validate plausible outcomes and impacts only.

### 6.1 Improved household income, assets and standard of living

Fairtrade aims to improve the incomes and livelihoods of disadvantaged smallholder producers. This can be achieved in a number of ways.

From the farmer surveys we have calculated gross income based on the sales reported by each farmer; this does not account for the costs of production. Relative reliance on coffee income is an important aspect of household livelihood strategies and the extent to which Fairtrade can make a difference. We also explore farmers' perceptions of the importance of coffee in terms of their overall livelihood strategies. Finally, we explored farmers' perceptions of whether they consider their economic status has changed or not, although this is influenced not only by Fairtrade, but by other contextual factors, which we detail in the following sections where relevant.

**Figure 21: Gross household income from coffee production (USD) per hectare for 2013**



Note: Letters above the columns indicate the presence or absence of statistically significant differences between the values for Fairtrade and non-Fairtrade farmers. Different letters within countries indicate that the differences between the values are statistically significant.

### Peru

The Peruvian Fairtrade and Fairtrade-organic producers had a significantly higher gross income from coffee production in 2013 due to higher prices, and slightly higher productivity (see Figure 21).

In terms of relative reliance on coffee income, the Fairtrade-organic farmers in Peru are still highly dependent on coffee for their income. Farmers who are only Fairtrade and non-Fairtrade farmers have used their larger land holdings to develop other sources of income such as livestock and other crops, while some seek off-farm employment (See Figure 22 below).

In the Peruvian FGDs, a majority of farmers – both men and women – considered that they had more assets now than five years ago, and they have made improvements to their houses or bought more land or animals during the period of high prices. The fall in income from coffee production due to coffee rust has led to many coffee farmers abandoning coffee cultivation and migrating to look for work elsewhere. The members of the PO felt that the technical support they were getting from their organisations enabled them to stay on their farms, try to recover their coffee production, and avoid the need to migrate for work. All the farmers in the focus groups were investing in renovating their coffee plantations.

### Mexico

The Fairtrade producers had higher gross income due to the higher prices obtained from Fairtrade-organic markets (see Figure 21). The Fairtrade farmers (PO1) are highly dependent on coffee and this is the same for most of the non-Fairtrade farmers (no statistical difference between the two groups). The PO1 farmers have few other income generating options, but the non-Fairtrade farmers had

access to more alternative income sources, although even then, less than half of the farmers have such alternative income sources and many are reliant on government subsidies. Thus, it is clear that in Mexico overall coffee income is critical to the livelihoods of all of these families (See Figure 22).

### Tanzania

Fairtrade Producers in Tanzania have greater coffee production, as they have more coffee plants, for which they obtain a higher price. These combined factors have led to Fairtrade producers having a higher gross income from coffee production (see Figure 21).

The Tanzanian producers rely much less on coffee income compared to their counterparts in the other countries. PO1 Fairtrade farmers have significantly different primary income sources, with coffee of greatest importance, compared to non-Fairtrade producers, while PO2 is intermediate between the two. Many farmers grow bananas, keep livestock and engage in horticulture (see Figure 22).

In Tanzania, substantially more Fairtrade farmers thought they were worse off than non-Fairtrade farmers (see Table 34 below). Further investigation is needed into why Fairtrade farmers reported more negative perceptions of their economic status. The challenge with gathering data on perceptions is that it is highly subjective and may not take into account the starting point. It is possible that, in the past, Fairtrade farmers have received more support through their cooperative as a result of Fairtrade compared to now. For example, there was disgruntlement amongst the PO1 members that they had not yet received their second payment. The PO actually could not afford to make this payment due to low world coffee market prices, but had not adequately communicated this to members, which could have affected their views.

For farmers that are more specialised in coffee, these challenges may seem more intense than for those that focus more on other cash crops such as banana. It is probable that the difference between the Fairtrade and non-Fairtrade farmers, in terms of their views on their economic status has arisen because the Fairtrade farmers are more dependent on coffee for their income as explained above and because prices have fallen. The Kilimanjaro area is fairly well connected to markets, and has high levels of intercropping of coffee with other cash crops compared to other coffee growing areas of Tanzania.

Few of the farmers interviewed (Fairtrade and non-Fairtrade) mentioned significant changes in assets over the past five years and there were no significant differences between the Fairtrade farmer groups and the non-Fairtrade PO farmers in this regard.

A complicating factor in exploring perceptions of change with regard to the uptake of Fairtrade is the trajectory of impact. Sometimes more benefits are felt in preparing for certification and just after, than for organisations which have been part of Fairtrade for many years. This is certainly the case in Tanzania where the POs have been part of Fairtrade for some years, especially PO1. Although continual improvement is part of the Fairtrade standards and approach, it may be that there is unevenness in the impacts of Fairtrade, and influencing factors vary over time and with locality. More time in the field is needed to understand these dynamics and the underlying factors influencing different farmers' perceptions of economic status. It was clear in the FGDs, which individual farmers are not realising major benefits through membership of their POs, although for PO2 returns were better for a several years before being halted with the financial crisis in the PO.

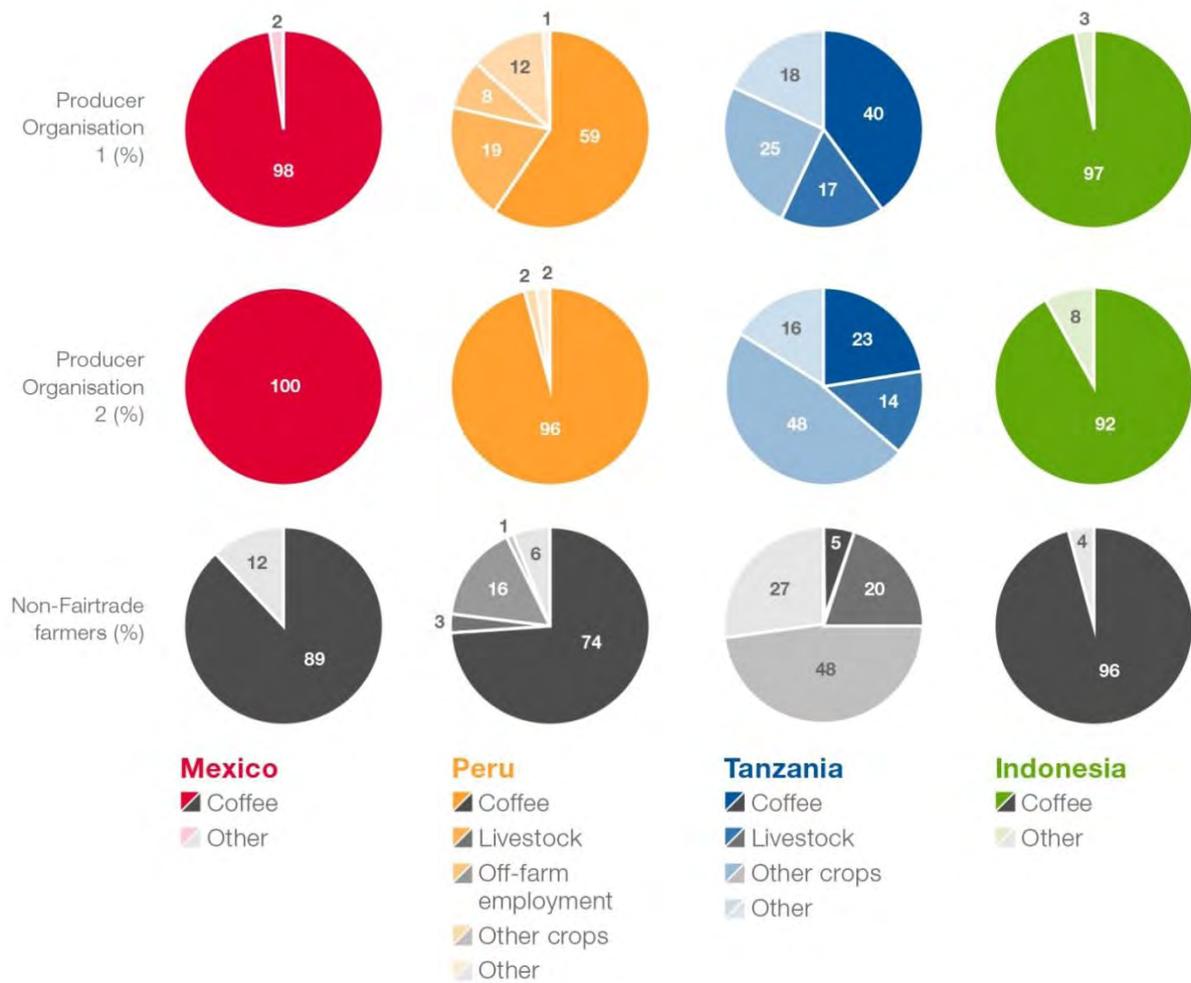
## Indonesia

The non-Fairtrade farmers had a higher gross coffee income than the Fairtrade-organic farmers due to higher productivity and higher prices (Figure 21). The higher productivity is thought to be due to the higher density of coffee plants on the non-Fairtrade farms and because 40 percent of the non-Fairtrade farmers were using chemical fertiliser (while the Fairtrade farmers were using organic farming practices). The higher prices are thought to be due to the non-Fairtrade farmers producing under more favourable conditions in terms of production and quality, and a locally more competitive market. It should be noted that the study Fairtrade and non-Fairtrade POs are located in different regions, and the Fairtrade POs were in more marginal areas and had been more affected by recent unrest. The general socio-economic characteristics of the Fairtrade and non-Fairtrade farmers indicate they may not come from the same socio-economic group or status which would be expected to affect their capacity to generate income.

Indonesian Fairtrade and non-Fairtrade farmers rely mainly on coffee production which is complemented by vegetable production (e.g. chilli, tomato, potatoes) for some farmers, while others intercrop coffee with orange and avocado trees. The main source of income for over 90 percent of households in all the groups is coffee farming, followed by income from other crops and trade (See Figure 22 below).

In terms of their perceptions of economic status, a majority of Fairtrade and non-Fairtrade farmers perceive their status to have improved over the past five years.

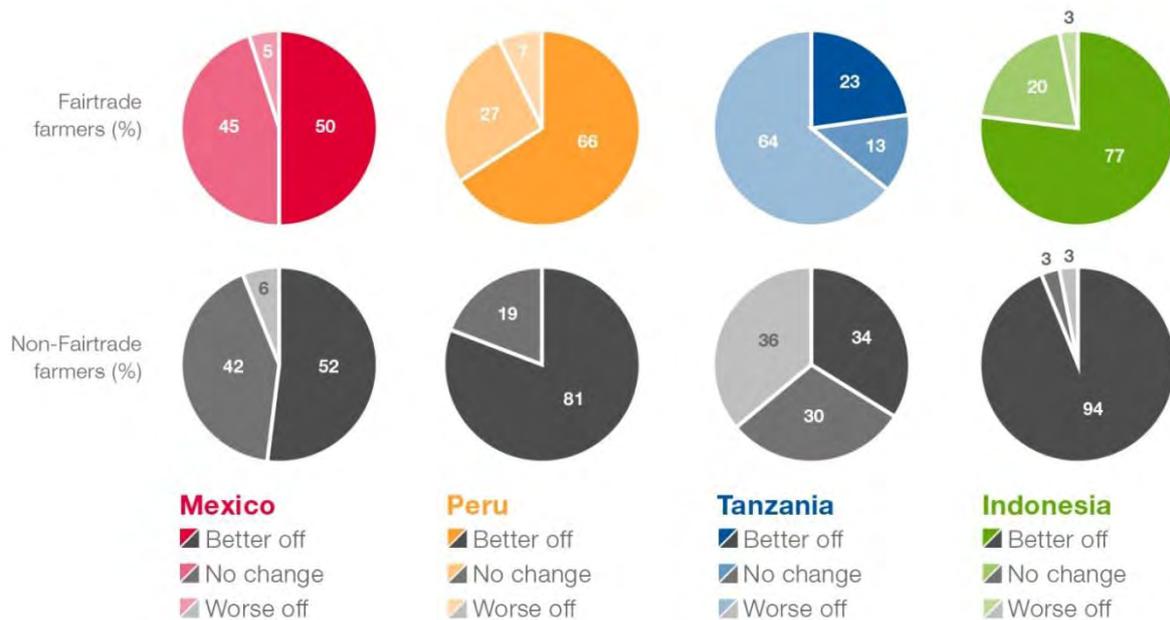
Figure 22: Farmers' most important source of income



Note: Percentages may not sum to 100 due to rounding.

Overall, farmers' perceptions of how their economic status has changed are very similar across Fairtrade and non-Fairtrade groups and seem to be largely affected by external factors. However, in all case study countries apart from Mexico, fewer Fairtrade farmers think their situation has improved compared to non-Fairtrade farmers (Figure 23). This is probably due to the falling price on coffee markets over the past three years. Although Fairtrade farmers were getting a slightly better price, their greater investment and dependence on coffee would be likely to make them feel more affected. Nevertheless, we should not generate general conclusions from the impacts of a short-term change in the market.

**Figure 23: Chart showing Fairtrade and non-Fairtrade producer perceptions of change in their economic status over the past five years**



**Box 44: Summary of findings on improved household income, assets and standard of living**

In this study we compared gross household income from coffee. We found that gross income from coffee production was in general greater for Fairtrade producers than non-Fairtrade producers in three out of the four case study countries. The exception is Indonesia where non-Fairtrade producers are more productive and get higher prices, due to having more favourable production conditions and having been less affected by conflict.

More Fairtrade households felt they were worse off than non-Fairtrade households. We consider that this is because they have invested more in coffee production, are more dependent upon coffee, and less willing to leave coffee. As coffee prices have fallen sharply over the past three years, they have felt this change more severely.

**6.2 Less risk and vulnerability**

In this section we discuss our findings on whether Fairtrade has led to individual Fairtrade coffee farmers experiencing less risk and vulnerability, and if so, how.

Our evidence shows that Fairtrade supports smallholders by enabling them to achieve improved income in years of low prices. This safety net function can be overlooked or its importance undervalued, especially in periods of high prices. The coffee market has regular cycles of over and under production, because of the time lag involved in growing a tree crop and responding to market

signals. A review of the International Coffee Organization (ICO) data<sup>28</sup> indicates that roughly each decade there is fall in coffee prices, which can lead to serious difficulties for disadvantaged smallholder producers for a period of two to three years. This study was undertaken in 2013, at a time when prices had dropped significantly, and except for in Indonesia, the Fairtrade farmers had a higher gross income than their counterparts.

Fairtrade smallholder organisations are strengthened as a result of participation in Fairtrade, although there is room for improvement in transparency and communication with individual members, building active participation by members to enable them to hold their leaders to account, strengthening the leadership of the PO leaders (e.g. through training) and increasing organisational efficiencies, for example through local business service centres). Having a stronger, more accountable organisation is important in the longer term for reducing the risks posed to smallholders. In Latin America there is competition from international traders who are reportedly offering similar terms to Fairtrade to non-Fairtrade farmers, without supporting their organisation. This means that while these farmers may achieve improved short-term benefits, in the longer term they may depend upon international companies which are profit driven, and given their lack of organisation will have less influencing power in the future – whether in terms of bargaining power in the value chain or wider advocacy capacity to claim rights with respect to the state.

In Peru (and many other countries of Latin America), the recent outbreak of coffee rust has severely impacted livelihoods, with a 60 percent fall in income in the case study POs in Peru. Farmers who are members of Fairtrade POs have benefited in two ways. Firstly the POs have obtained support (some from Fairtrade Premium funds) to provide their members with training and some inputs to recover from coffee rust. Secondly the POs are negotiating with the government to restructure the financing the farmers took out before the rust outbreak occurred, but which they are currently not capable of repaying. Thus the PO is providing the farmers with the support they require to overcome this threat.

Given the widespread occurrence of gender inequality and the lack of progress found in the cases studied, it is clear that risks, vulnerabilities and lack of human rights associated with gender inequality are not being tackled.

#### **Box 45: Summary of findings on reducing risk and vulnerability**

The risks faced by Fairtrade farmers are the same as for all farmers, but being a member of a strong PO provides them with the social capital to respond to these threats more effectively. Key areas for improvement in the functioning of the POs in terms of realising benefits to members to reduce their risk and vulnerability include: tackling gender inequality, improving organisational efficiencies and governance. It is important that Fairtrade continues to build up the producer networks and reflect on areas for improvement, both at national and regional levels, to ultimately strengthen producer empowerment.

<sup>28</sup> <http://www.ico.org/prices/p2.htm>

### 6.3 Improved access to basic services

Fairtrade seeks to have an impact by improving access to basic services, such as education, health and water for disadvantaged smallholder producers. Strengthening the capacity of PO members and their households is also a way in which Fairtrade can improve farmers' education more directly.

In terms of improved access to basic services for smallholder farmers, our evidence shows that there are instances in which Fairtrade has directly or indirectly improved access to services, but only on a very limited scale. Direct impact has occurred through the investment of the Fairtrade Premium in agricultural extension and investments in community infrastructure (e.g. electricity and ambulances in Indonesia, school scholarships in Tanzania, etc.) PO staff members have received training on Fairtrade standards, including issues of democratic organisation, business skills and human rights issues, and in some cases this has been cascaded to members. But these direct impacts are limited in nature, as much of the Premium funds are used at the organisational level. Indirectly, Fairtrade can enhance the reputation of a producer organisation and attract funding from external agencies, which can improve farmers' access to training and agricultural extension.

#### Box 46: Summary of findings on improving access to basic services

Fairtrade has led to improved access to basic services for members, and training on Fairtrade issues, though this has been on a limited scale, because much of the Fairtrade Premium funds are used at an organisational level. Fairtrade does improve a PO's attractiveness to external agencies, helping them to leverage funding for training and agricultural extension.

### 6.4 Increased environmental sustainability and resilience to climate change

Indicators of increased environmental sustainability and climate change resilience include levels of afforestation, biomass production, soil and water technology use, uptake of renewable energy, as well as improved awareness of environmental and climate change risks, and perceptions of access to natural resources and the quality of the natural resources upon which households depend. Other indicators include the protection of biodiversity, reduction in the use of firewood, and water table levels.

In this study we were not able to measure environmental impacts directly, e.g. changes in biomass production, or soil quality. However, we did explore farmers' understanding of and commitment to sustainable agriculture and environmental conservation. In Indonesia, Peru and Mexico we found environmental awareness and commitment to be very strong amongst farmers, with Fairtrade reinforcing their existing values embodied and certified by organic farming. Fairtrade reinforces organic production through training farmers on the Fairtrade environmental standards, and enabling farmers to continue with their organic farming through Fairtrade Premium investments.

In general, we would expect that the farmers who implement sustainable production practices will be more resilient to climate-related and other environmental changes. The high level of training on sustainable production practices provided by Fairtrade POs (and in some cases support for producing organic inputs etc.) should result in improved soil conditions, reduced negative environmental

effects and increased environmental services sustaining hydrological services, biodiversity and climate change mitigation. In one case, PO members were even receiving support from a conservation NGO under a payments-for-environmental services framework.

In terms of leveraging external funds, Fairtrade certification helps POs to attract additional funding, although sometimes POs receive support from donors for other reasons. Many of the funds attracted to POs by Fairtrade certification provide support for producers for agricultural extension and cover initiatives on environmental conservation.

#### **Box 47: Summary of findings on environmental sustainability and resilience to climate change**

There is plausible evidence that the high levels of investment by POs in training their members in sustainable coffee management is resulting in more environmentally beneficial farms. Farmers' knowledge of and commitment to sustainable agriculture and environmental conservation was particularly strong in three of the four case study countries. Fairtrade reinforces the involvement of farmers in organic production, through its standards and in some cases investments of the Fairtrade Premium funds.

### **6.5 Inter-generational sustainability of rural communities**

The Fairtrade theory of change includes an impact indicator of the 'inter-generational sustainability of rural communities'. This is something that can only be assessed properly over a long time period, because of its long-term temporal horizons and because its achievement is very ambitious. There are a number of indicators on this theme, namely:

1. The age profile of PO members
2. The area of farm land being managed by adult children
3. The amount of land being owned by young adults
4. The development of young agriculturalists
5. The number of youth starting a new business in the community
6. Children's attitudes towards Fairtrade farming

We were not able to measure these indicators, but we did explore some of them in the qualitative discussions; we present the findings below.

All of the producers in the study place a high priority on their children's education, but there are strong indications that their offspring may not be attracted into coffee farming, unless there are significant changes in coffee prices (overall prices and degree of stability) and increased support for them to learn skills in coffee cultivation, and improved access to inputs and crucially to land etc.. There is frequently an association between coffee cultivation and cultural identity, but this may not be enough to retain youth in the sector.

In Tanzania the farmers interviewed in the FGDs reported their concerns that their children are not able to gain access to land for cultivation. In the Kilimanjaro region farmers are facing pressures of outmigration of young people who leave to take up more lucrative work elsewhere. Those that are

successful are building homes in the Kilimanjaro area which they then rent out – this is adding to the pressure on available land for cultivation. Land fragmentation has been a longstanding problem in the area. On a positive note, strong and accountable producer organisations should be able to support their members in a range of agricultural activities – directed by their interests and aspirations. It is thus important that individual members are able to actively participate in PO decision-making and goal setting.

The Indonesian villagers interviewed in Aceh also said that their children will struggle to gain access to land, because of population growth and land fragmentation, although some examples were given of young people in Fairtrade farmer households learning coffee skills and entering coffee production.

*“We want their lives to be better than us, but coffee farming is our identity. Some of our children may want to be coffee farmers, and with better knowledge they may be better farmers. We focus on their education and invest our income in it. The farm is getting smaller here. More land is needed for housing as the number of people increases. At the same time we are not allowed to convert the protected forest around us for farming, so this will be very difficult. Our children must have other options.”* (Men’s FGD, Fairtrade PO2, Indonesia)

Some of the Mexican and Peruvian POs provide employment to members’ adult children when there are positions available. Most PO staff, extension agents, quality control agents, warehouse workers and roasters are children of members, and these positions provide an avenue for children to gain new skills, but also takes advantage of the better education they have received compared to their parents. Nevertheless, in the Tanzania and Indonesia FGDs, farmers indicated that to retain youth in coffee farming requires a significant improvement in coffee returns and increased access to land for their offspring. In Peru smallholders are struggling with the outbreak of coffee rust and this has led many coffee farmers to abandon coffee cultivation and seek work elsewhere. The technical support from the POs is, however, helping some of the farmers to stay on their farms to try and recover their coffee production.

In Latin America there was feedback that Fairtrade is not supporting the ‘training of young agriculturalists’, because of the child labour restrictions. It is possible that there is confusion about the extent of the Fairtrade standards, which prevent children from working in school hours, for example, rather than from engaging in farming *per se*. If there is confusion, this should be tackled by the Fairtrade producer support officers, but also it is important that Fairtrade seeks to respond to this issue of youth gaining adequate skills in coffee cultivation from their parents, and with support from external trainers or peers.

We recognise that Fairtrade is making a positive contribution, by delivering benefits to smallholder farmers and their organisations. In this report we note many areas for improvement, for example, through achieving increased efficiency of POs based on greater cooperation, and an urgent need to scale up benefits to individual members of POs, scaling up action on gender inequality etc.. However, Fairtrade can only do so much alone. Broader structural trends in outmigration, population, land

fragmentation, and continuing gender inequality in rural areas, which farmers mention when discussing their own future and that of their children, are far reaching in nature and scale. Fairtrade can only make a contribution, but further reflection will be important on how best to engage in wider rural development dynamics, particularly through the producer networks, engaging with global citizens and advocacy on trade justice.

#### **Box 48: Summary of findings on inter-generational sustainability of rural communities**

Assessing Fairtrade impact on inter-generational sustainability of rural communities requires a longer timeframe than feasible here, but it is clear that while Fairtrade provides relevant benefits which may help to retain youth in agriculture, many of the issues which are challenging rural sustainability are more structural and policy-related in nature, requiring a range of interventions. There is the potential for Fairtrade to explore how it can work with other actors in a particular locality or country to tackle such issues.

### **6.6 Enhanced influence and status of small producers**

In this section we summarise our findings on the influence and status of small producers and the difference made by Fairtrade. We consider the extent to which POs have been strengthened through participation in Fairtrade and changes in voice and representation within Fairtrade and in policy debates.

#### **Peru**

At the PO level, Fairtrade has supported the POs in devising clear goals and strategies, and has increased the confidence of the leaders to participate in public events.

The Peruvian POs aim to include increasing sales, increasing coverage of technical assistance and increasing processing capacity. Achieving more sales requires a combination of improved quality and diversifying buyers to reflect the different qualities available. Advances have been made, but one PO still cannot find a Fairtrade buyer for their 'lower' quality coffee and has to sell as conventional.

Currently the POs only buy in about half the production of their members. This is due to a combination of factors. Firstly, the PO lacks timely finance to buy the coffee of members. Secondly there is a lack of a differentiated market for the 'lower' quality coffee. Thirdly, there are logistical limitations for farmers to deliver 'higher' quality coffee from remote areas. Equally both POs have made substantial investments in equipment and infrastructure mostly financed from development funds, but with counterpart funding from the Fairtrade Premium.

At the same time, both POs recognise that they have very high operational costs due to the fact that they are trading in small volumes of coffee relative to the capacity of their infrastructure. The high operational costs incurred reduce the prices that can be offered to farmers and thus the incentive for farmers to sell to the PO. Fairtrade could help break this vicious cycle by helping to find markets for the 'lower' quality (coffee of low acidity, but free of defects); and potentially broker alliances between POs to share their processing capacity to reduce costs.

At the individual farmer level, the impact of Fairtrade is less visible for individual producers' status and influence. However, in Peru the support from Fairtrade is important as producers struggle with the outbreak of coffee rust ('roya' in Spanish) and so Fairtrade is in a sense at least helping to sustain their sense of dignity and security of livelihood in a major crisis. Fairtrade also contributes to the ability of farmers in Indonesia, Peru and Mexico to adopt and maintain organic practices – something which is a strong part of their cultural identity. More action is needed to tackle gender inequality.

### Mexico

At the PO level Fairtrade has supported the POs in devising clear goals and strategies, and has increased the confidence of the leaders to participate in public events. Mexican Fairtrade PO leaders said that the support from the Fairtrade producer support officers is valued, but they would be keen to see it increased in scope. Participation in the Fairtrade networks and associated events has helped PO leaders to gain confidence in public speaking and in lobbying, especially in Latin America. While initially the POs concentrated on developing their independence from traders, subsequently they have been in a position to also defend the interests of their members to local and national government.

The Mexican POs plan to grow their sales of coffee as they have more demand than they can supply: one PO said that Fairtrade has helped to motivate them to set goals. The main goal is to be able to offer competitive prices to their members for their coffee, and Fairtrade is the best means available to them for achieving this, through the Fairtrade minimum price and organic premium. The demand from farmers to join the POs has occurred, because the Fairtrade POs offer the security of better prices when world prices fall. The PO strategy for improving prices is by seeking to reduce their costs by having larger volumes from increased productivity and increased membership. The Fairtrade Premium enables them to invest in the business and to support their members. They are investing in providing training and some inputs to farmers to increase productivity. One PO has recently admitted over 100 new members who are currently in transition to organic production. In the past they have invested in processing equipment and infrastructure, part of which has been financed from the Fairtrade Premium.

At the individual farmer level the impact of Fairtrade is less visible for individual producers' status and influence, but the farmers are part of a stronger PO as a result of Fairtrade. Fairtrade also contributes to the ability of farmers in Indonesia, Peru and Mexico to grow organically – something which is a strong part of their cultural identity. More action is needed to tackle gender inequality.

### Tanzania

Fairtrade requires POs to develop clear goals and strategies. It has also increased the confidence of the leaders to participate in public events and the support from the Fairtrade producer support officers is valued, although could be greater. Participation in the Fairtrade networks and associated events has helped PO leaders to gain confidence in public speaking and in lobbying, but the PO leaders were concerned that they have been told they now have to cover the costs in the future and they feel this means they will not be able to participate.

In Tanzania Fairtrade PO1 has been part of Fairtrade since 1993 and Fairtrade PO2 since 2004. While the PO managers say that Fairtrade supports them via the producer standards and Fairtrade Premium, both organisations face certain challenges relating to their capacity and governance. The

leaders said that the organisation markets coffee on behalf of smallholder farmers, mobilising finance for advance payments to farmers, but only communicating the final price to them after auction. Fairtrade is supporting the PO helping them to access Fairtrade markets and Premium funds are used at an organisational level strengthening service provision, for a Fairtrade officer post and funding school fees. The PO also has a long-term strategy for conversion to organic agriculture. The managers are keen for sales to increase and for Fairtrade buyers to stay in Fairtrade when world market prices rise. The extent to which benefits are realised at the local level by farmers appears somewhat limited, however, and the PO needs to improve its services, supply of inputs and prices if it is to satisfy members and meet its overall goals. There is a good match between Fairtrade and producer organisation goals, but the issue is more the extent to which the Fairtrade mechanisms are able to deliver the change needed.

The second Tanzanian PO aims to increase the income of individual members who are committed to producing high quality coffee. It also seeks to assist the affiliated member groups with linkages to input suppliers, credit access, advisory services, and ultimately provision of market information, market linkage and bulking the remaining coffee to the auction (2012 audit report). These goals were reiterated by the board members who said that their overarching goal is to improve incomes for farmers, who have been suffering since liberalisation and the subsequent fall in quality. Initially, this PO seemed to be relatively successful according to the qualitative discussions with farmers, but it has recently suffered from members not being able or willing to pay back loans for the processing equipment and has lost some of its membership. Furthermore, it is now suffering a financial crisis having borrowed too much from the bank leading to mounting debts and an inability to raise working capital to buy coffee in the current season.

At the individual farmer level the impact of Fairtrade is less visible for individual producers' status and influence. More action is needed to tackle gender inequality.

### Indonesia

The Indonesia POs articulate clear plans for their organisations and Fairtrade is helping them to achieve these goals to a certain extent. The POs have become Fairtrade certified relatively recently (both were also suspended from certification for a time). In Indonesia, Fairtrade PO1 has a one-year plan, which sets out some key aims, including: producing better quality coffee to meet customer demands, broadening market outreach by increasing Fairtrade sales volumes, giving more support to the members through microfinance, facilitating sustainable farming practices and environmental conservation, and developing a model cooperative based on quality coffee, Fairtrade, sustainability and transparency (audit report, 2013). Managers are keen to export their own coffee, build up their organisational assets, move the organisation into credit, expand the reach of the ICS and grow overall membership. They are also keen to improve extension to farmers, particularly in non-productive areas.

Indonesia Fairtrade PO2 has a three year plan and seeks to buy all members' coffee, but they need more working capital, plus increased processing capacity to reach export quality instead of the Medan exporters. They are keen to buy roasting equipment, as well as to invest in more vehicles for their ICS staff. They are keen to strengthen the relationship between the PO and members, to improve coffee quality and to focus on environmental issues (audit report, 2013). According to managers they aim to improve the welfare of their members, spread benefits to the wider

communities by extending their current health services (e.g. purchase of more ambulances) and provide educational scholarships for the children of the poorest families. To overcome declining production they seek to establish coffee nurseries in each village and are planning to propose reforestation activities in their next annual meeting, in response to the risks posed by climate change (increased floods and landslides are likely). Finally, the managers mentioned their current work with a private company to supply a certified bio-organic fertiliser to the PO members to support increased production. By 2014 the PO aims to be the main supplier of this fertiliser in the area.

The leaders of both POs said that their participation in Fairtrade has increased their confidence to speak at public events and to participate in local, national and international fora. More action is needed to tackle gender inequality.

#### **Box 49: Summary of findings on enhanced influence and status of small producers**

Overall, we found plausible evidence that Fairtrade has led to enhanced influence and status for small producers. The individual POs are stronger businesses as a result of participation in Fairtrade, although improvements are still needed, and leaders have greater confidence to participate in public events. The regional and national producer networks are providing POs with opportunities for peer learning, some influence within the Fairtrade system and in Latin America there are concrete examples of influence over national policy and/or local development programmes. We did not find evidence of major progress in the areas of women's empowerment and gender equality, despite the efforts of a few POs; more action is needed to ensure that Fairtrade can make a positive contribution in this regard.

## 6.7 Summary of overall findings on Fairtrade impacts

In this section we summarize the overall findings on Fairtrade impact in coffee in the four country cases. See Table 34 below.

- Fairtrade producers get more gross coffee income than non-Fairtrade farmers.
- Fairtrade-organic farmers highly dependent on coffee.
- Fairtrade and non-Fairtrade farmers have larger landholdings and more diversified livelihood activities.

**Table 34: Fairtrade impacts in the countries studied**

| <b>Theme: Improved household income, assets and standard of living</b>   |   |  |  |
|--|---|--|--|
| <b>Indicator: Gross income</b>   |   |  |  |
| Mexico   | Peru  | Tanzania   | Indonesia  |
| High reliance on coffee and Fairtrade producers get more gross coffee income than non-Fairtrade farmers.   | <ul style="list-style-type: none"> <li>• Fairtrade producers get more gross coffee income than non-Fairtrade farmers.</li> <li>• Fairtrade-organic farmers highly dependent on coffee.</li> <li>• Fairtrade and non-Fairtrade farmers have larger landholdings and more diversified livelihood activities.</li> </ul> | Fairtrade producers get more gross coffee income than non-Fairtrade farmers.   | No conclusion possible as groups not comparable.   |
| <b>Indicator: Standard of living</b>   |   |  |  |
| Mexico   | Peru  | Tanzania   | Indonesia  |
| Half of farmers say their economic status has improved, No difference between Fairtrade and non-Fairtrade.   | More Fairtrade farmers feel their economic status has worsened than non-Fairtrade farmers.  | Fairtrade producers more dissatisfied than non-Fairtrade producers, although all say their economic status has improved. | All farmers say their economic status has improved, but non-Fairtrade farmers even more positive than Fairtrade.                                   |
| <b>Theme: Reduced risk and vulnerability</b>   |   |  |  |
| Mexico   | Peru  | Tanzania   | Indonesia  |
| Reduced risk and vulnerability at organisational level and for members.  | Reduced risk and vulnerability at organisational level and for members.   |  | Reduced risk and vulnerability at organisational level and for members.  |
| <b>Theme: Improved access to basic services</b>  |   |  |  |
| Mexico   | Peru  | Tanzania   | Indonesia  |
| Not evaluated  | Not evaluated   | School scholarships, but limited scale.  | Some improvements (e.g. electricity).  |
| <b>Theme: Increased environmental sustainability and adaptation to climate change</b>  |   |  |  |
| Mexico   | Peru  | Tanzania   | Indonesia  |
| Fairtrade reinforces organic and environmental conservation values and practices indicating plausible improvement in environmental sustainability. | Fairtrade reinforces organic and environmental conservation values and practices indicating plausible improvement in environmental sustainability.  | Some minor plausible improvements.   | Fairtrade reinforces organic and environmental conservation values and practices indicating plausible improvement in environmental sustainability. |

| Theme: Inter-generational sustainability of rural communities   |  |  |   |
|---|--|--|---|
| Mexico  | Peru   | Tanzania   | Indonesia   |
| Insufficient data   | Insufficient data  | Insufficient data  | Insufficient data   |
| Theme: Dignity, confidence, self-esteem and sense of control over the future  |  |  |   |
| Mexico  | Peru   | Tanzania   | Indonesia   |
|   | Organisational level improvements, although limited at individual producer level.  | Organisational level improvements only at one PO, although limited at individual producer level.   | Organisational level improvements, although limited at individual producer level.   |
| Theme: Enhanced influence and status of producers   |  |  |   |
| Mexico  | Peru   | Tanzania   | Indonesia   |
| <ul style="list-style-type: none"> <li>Organisational level improvements, although limited at individual producer level.</li> <li>Fairtrade national and regional networks give producers a much stronger voice than they would otherwise have and there are clear, concrete achievements.</li> </ul> | <ul style="list-style-type: none"> <li>Organisational level improvements, although limited at individual producer level.</li> <li>Fairtrade national and regional networks give producers a much stronger voice than they would otherwise have and there are clear concrete achievements.</li> </ul> | <ul style="list-style-type: none"> <li>Organisational level improvements, although limited at individual producer level.</li> <li>The PO does have a slightly improved voice and status as a result of Fairtrade, but not significantly so. (We lack some information here from PO2).</li> </ul> | <ul style="list-style-type: none"> <li>Organisational level improvements, although limited at individual producer level.</li> <li>Improved influence in Fairtrade through the networks and growing confidence, but limited engagement with government.</li> </ul> |

We present the overall findings of the study on Fairtrade impacts in Box 50 below.

#### Box 50: Overall findings on Fairtrade impacts

Overall, Fairtrade impacts in the case study countries were assessed as follows:

- **Improved household income, assets, and standard of living:** Gross household income generally greater for Fairtrade producers than for non-Fairtrade producers in three out of the four countries. More Fairtrade households felt they were worse off than non-Fairtrade households, most likely due to their greater reliance on coffee production and price fall over the preceding three years.
- **Reduced risk and vulnerability:** Improvements for most producers, although still many risks and vulnerabilities, given the challenges of coffee markets.
- **Increased environmental sustainability and resilience to climate change:** Evidence of plausible impacts.
- **Enhanced influence and status for small producers:** Strong evidence of improvements of stronger organisations.

## 7. Conclusions

Our study finds plausible evidence that Fairtrade has a positive impact in Fairtrade coffee. There are differences between the four countries studied and at the individual PO levels, because of the different contexts within which Fairtrade is being adopted. We also indicate areas where there is room for improvement and note other important contextual factors influencing change in a particular locality.

Firstly, we summarise our findings in relation to the theory of change. See Table 35 below which synthesises the findings against the Fairtrade interventions, and the subsequent outputs, outcomes and impacts. Secondly, we present a diagram which provides a summary of our findings on inputs and outputs and plausible outcomes and impacts (see Figure 24). Thirdly, we summarize our findings against the evaluation questions, which relate to the impact of Fairtrade at the organisational level, the relevance and inter-relationship between Fairtrade and producer organisation goals, the impact of Fairtrade at the individual farmer level in Fairtrade organisations, the relationship between Fairtrade and organic certification, and the extent to which Fairtrade is supporting individual Fairtrade farmers to achieve their goals. In the final section we present our recommendations.

### 7.1 Synthesis of findings against the theory of change

Table 35 below presents a summary of our overall findings organized against the main themes and indicators of the Fairtrade theory of change.

**Table 35: Findings by theme and indicators in the theory of change**

| Fairtrade interventions - inputs                                   |  |
|--|--|
| <b>Standards for small producers organisations and for traders</b> | <ul style="list-style-type: none"> <li>Standards have been developed and are being followed, except for the provision of pre-finance by traders.</li> <li>Good support has been provided by the Fairtrade producer support officers, but this is widely thought to be insufficient in scale, given the needs of the POs and the challenges they face.</li> </ul> |
| <b>Building Fairtrade markets</b>                                  | Fairtrade markets have grown, but there is room for expansion as supply has also increased.  |
| <b>Support for small producer organisations</b>                    | Positive, but limited in scale.  |
| <b>Developing networks and alliances</b>                           | <ul style="list-style-type: none"> <li>Three regional producer networks established and three national networks (of four study countries).</li> <li>Strong participation in regional producer networks and national networks in Indonesia, Peru and Mexico.</li> </ul>   |
| <b>Support from external agencies</b>                              | Additional support from other development agencies and traders, in part leveraged by participation in Fairtrade.   |

| Outputs  |   |
|--|---|
| <b>Fairer trade for producers:</b> Fairtrade farmers received better prices during periods of low international prices |   |
| <b>Significant and sustained Fairtrade market access</b>   | <ul style="list-style-type: none"> <li>All POs make significant Fairtrade sales in all years. In Peru, Indonesia and Mexico Fairtrade and Fairtrade-organic sales represented over 80 percent of total sales. In Tanzania, Fairtrade sales were around 30 percent of total sales.</li> <li>For those with both high quality and organic status this can rise to about 90 percent of sales.</li> </ul> |

|  |  |
|--|--|
|  | <ul style="list-style-type: none"> <li>• Buyers for just Fairtrade and lower quality coffee are more limited.</li> </ul>   |
| <b>Supportive trading relations with buyers</b>  | In general POs have long-term relations with more than one trader, and there has been some increase in independence in trading relations with buyers, but there are still some issues of dependency and quality challenges.  |
| <b>Fairer prices and protection from price volatility</b>  | <ul style="list-style-type: none"> <li>• Fairtrade farmers received better prices during periods of low international prices.</li> <li>• Fairtrade buyer prices to POs have been generally substantially above Fairtrade minimum and above price of sales to non-Fairtrade buyers.</li> <li>• Prices to farmers are generally higher during periods of very low international prices, during other periods of higher prices depends on organic status and/or quality; price volatility only marginally reduced.</li> </ul> |
| <b>Strengthened small producer organisations:</b> POs with improving organisational capacity, but still challenges remain to fully empower members and ensure transparency.  |  |
| <b>Democracy, transparency and participation of members</b>  | <ul style="list-style-type: none"> <li>• Strengthening of existing practices and positive appraisals from PO leaders, but in a couple of cases individual members were less positive about leadership and governance.</li> <li>• Need for improved accountability in some cases.</li> </ul>  |
| <b>Participation in Fairtrade networks and governance</b>  | Active participation in regional and national networks. Variable strength of networks themselves.  |
| <b>Investment in producers and their organisations:</b> Fairtrade POs have made substantial investments in their businesses through access to Fairtrade Premium, although this limits support directly to members and communities. |  |
| <b>Collective investments using the Fairtrade Premium</b>  | <ul style="list-style-type: none"> <li>• Used for organisational development (e.g. substantial investments in organisational infrastructure for some POs), which means benefits not directly visible at individual member level. Some examples of price support to individual members, educational funds, technical assistance and inputs for members etc.</li> <li>• Fairtrade Premium has been critical in leveraging access to other sources of investment.</li> </ul>  |
| <b>Increased PO access to working and investment capital</b>   | All POs obtain finance from alternative lenders, local banks or a few directly from traders, but amounts are still limiting to commercial operation.   |
| <b>Increased knowledge and capacity:</b> Technical capacity has improved, but is often limited by access to external funding; environmental awareness generally high especially among organic producers.                           |  |
| <b>Increased management and technical capacity</b>   | <ul style="list-style-type: none"> <li>• Majority of POs have improved their independent management and technical capacity although capacity can always be improved.</li> <li>• Some POs are effectively independent in their management while others depend on some support from development funds or traders for provision of services to members.</li> </ul>  |
| <b>Greater capacity to protect health and environment, and to adapt to climate change</b>  | <ul style="list-style-type: none"> <li>• Synergies between organic and Fairtrade certification.</li> <li>• Some cases of big improvement in awareness supported by donor and NGO programmes.</li> <li>• Extension services to farmers limited in many POs and dependent on donor funding.</li> </ul>   |
| <b>Awareness of human rights</b>   | <ul style="list-style-type: none"> <li>• Training provided on Fairtrade principles, but in larger organisations especially, limited capacity to cascade information to members.</li> <li>• Starting point levels of challenges in relation to human rights issues also vary by study area.</li> </ul>  |
| <b>Understanding of Fairtrade principles and practices:</b> Good understanding among PO leaders, but less clear understanding at individual farmer levels.   |  |

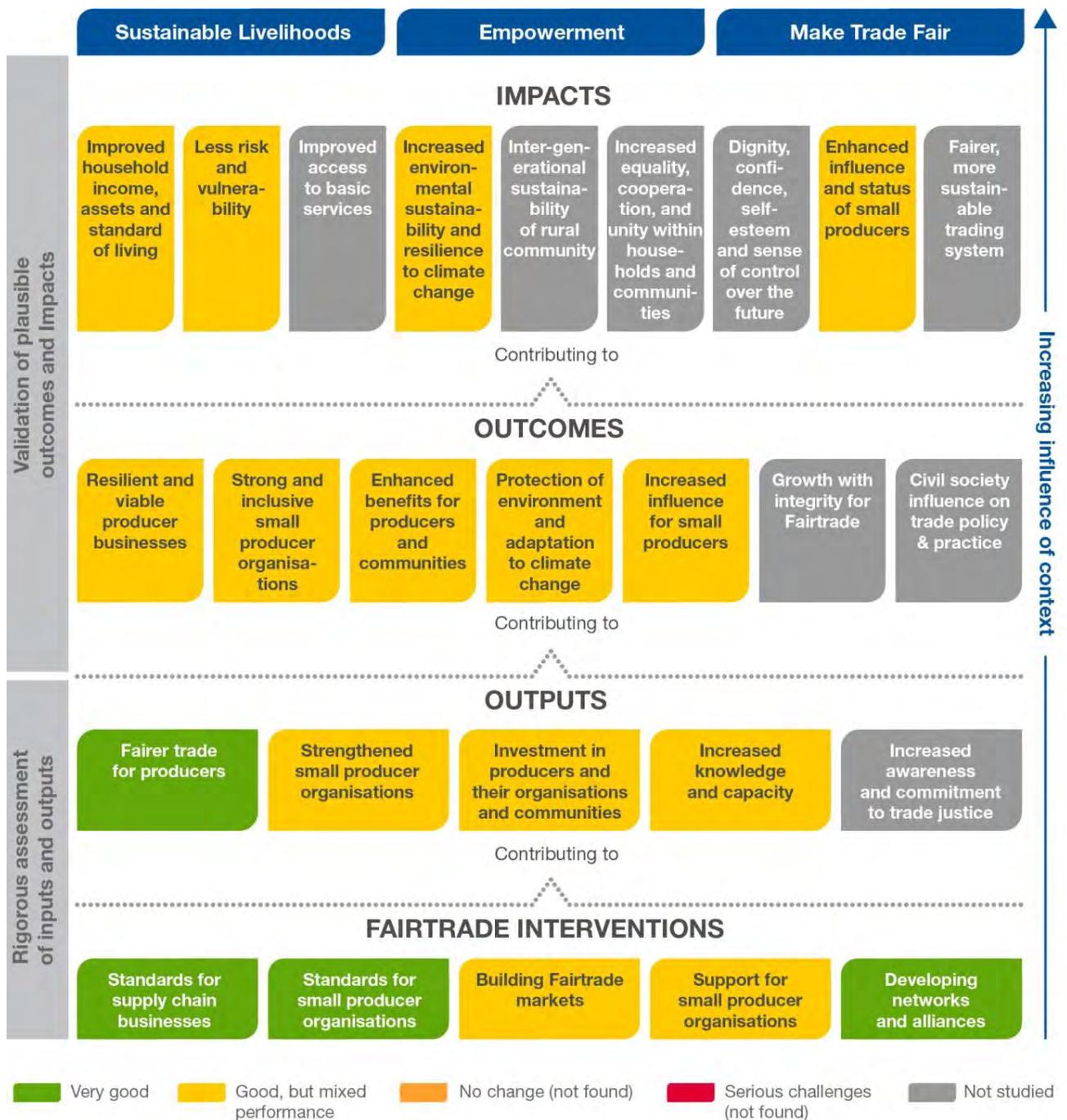
| Outcomes  |   |
|---|---|
| <b>Resilient and viable producer organisations:</b> POs and Fairtrade farmers with substantial assets to improve quality and processing, but economic performance needs improvement; bargaining power with buyers is improving but dependent on coffee quality. |   |
| <b>Good business management systems and practices</b>   | Limited data, although development of internal control systems (ICS) for capacity building.   |
| <b>Increased productivity and quality</b>   | <ul style="list-style-type: none"> <li>Productivity differences are country-specific. Mexico and Peru Fairtrade producers have similar productivity to non-Fairtrade.</li> <li>Tanzania Fairtrade producers have higher productivity and Indonesia lower productivity.</li> </ul>   |
| <b>Improved smallholder and PO assets</b>   | <ul style="list-style-type: none"> <li>PO assets have increased considerably in part due to external agencies, but co-financing from the Fairtrade Premium has been essential to leverage funds.</li> <li>Fairtrade coffee farmers generally have greater assets for coffee production, but no clear differences identified for other household assets.</li> </ul>  |
| <b>Development of markets</b>   | Most POs have improved their market access diversifying buyers and in several cases selling roast coffee to local markets.  |
| <b>Enhanced negotiation and decision-making power of POs</b>  | In all countries POs have achieved improvements in their negotiating power, although still wide variation in relative power within relationships.   |
| <b>Increased profitability and reduced risk</b>   | <ul style="list-style-type: none"> <li>Individually gross income from coffee was 16-100 percent higher for Fairtrade farmers during periods of low prices in three of the four countries; but investment in production may be higher; and impacts of price variation and production risks are similar to non-Fairtrade farmers.</li> <li>PO costs of operation are higher than competing traders limiting profitability (and benefits to members).</li> </ul> |
| <b>Strong and inclusive small producer organisations:</b> Leaderships are generally responsive, but support needed on how to achieve gender and hired labour empowerment.   |   |
| <b>Strong and accountable leadership</b>  | <ul style="list-style-type: none"> <li>Most leaders are held accountable if they depart from members interests.</li> <li>Some challenges relating to accountability of senior leadership to individual members in larger POs, and at local group level of leaders to members.</li> </ul>  |
| <b>Improved gender equality and equity in POs</b>   | <ul style="list-style-type: none"> <li>Most POs have attempted to increase participation of women but with limited success, except for one PO in Mexico.</li> <li>Little progress observed in tackling gender inequality in the cases studied.</li> </ul>   |
| <b>Inclusion of young adults</b>  | Limited analysis. In Peru and Mexico there was a concern to enable young people to learn and practice coffee cultivation.   |
| <b>Improving terms and conditions for workers</b>   | Limited analysis, but no major changes identified in discussions with PO leaders and smallholder farmers.   |
| <b>Small producer influence on policy and regulations within and outside Fairtrade</b>  | <ul style="list-style-type: none"> <li>Latin American PO managers said they have had influence in negotiations over Fairtrade Minimum Price and Fairtrade Premium.</li> <li>Others report greater confidence through participation, but limited influence within Fairtrade as yet although most participate in national coffee forums.</li> </ul>   |
| <b>Enhanced benefits for producers and communities:</b> Fairtrade farmers received substantially more services and training than non-Fairtrade farmers.   |   |
| <b>Improved services and support for PO members</b>   | Access to services is better for Fairtrade farmers, although in Tanzania the qualitative data indicate less positive findings.  |
| <b>Improved services and infrastructure in communities</b>  | <ul style="list-style-type: none"> <li>POs have had some role and influence in improving services in communities, such as investments in school fees for children, but limited impact at community level.</li> <li>Mixed findings in Indonesia – in one village positive transformation from access to electricity.</li> </ul>  |

|  |  |
|--|--|
| <b>Support for vulnerable and marginalized people</b>  | <ul style="list-style-type: none"> <li>• No major progress on tackling gender inequality, or on hired labour on smallholder farms.</li> <li>• There has been awareness raising of issues at PO leaders level on gender, hired labour, child labour etc. but cascading this through organisations, especially larger ones is not straightforward.</li> <li>• Retaining youth in agriculture is challenging without changes in structural issues.</li> </ul> |
| <b>Increased influence for small producers:</b> Environmental benefits from organic production reinforced by Fairtrade environmental standards.  |  |
| <b>Increased ability to influence Fairtrade policies and regulations</b>   | <ul style="list-style-type: none"> <li>• Latin American PO managers said they have had influence in negotiations over Fairtrade Minimum Price and Fairtrade Premium.</li> <li>• Others report greater confidence through participation, but limited influence within Fairtrade as yet.</li> </ul>  |
| <b>Ability to influence local, regional and international policy:</b> Influence in International Fairtrade conditions of trade and local and national coffee policies a major achievement. |  |
| <b>Influence in decision-making fora</b>   | Most POs have influence in local and national forums that set policy for the coffee sector.  |

| <b>Impacts</b>   |   |
|--|---|
| <b>Improved household income, assets and standard of living:</b> Gross household income generally greater for Fairtrade producers than for non-Fairtrade producers in three out of the four countries. More Fairtrade households felt they were worse off than non-Fairtrade households, most likely due to their greater reliance on coffee production and price fall over the preceding three years. |   |
| <b>Gross income</b>  | Fairtrade producers generally obtain greater gross household income compared to non-Fairtrade producers in three of the four countries (16 percent higher in Mexico, 47 percent higher in Peru and 107 percent higher in Tanzania).   |
| <b>Standard of living</b>  | Fairtrade producers report feeling worse off compared to their non-Fairtrade counterparts, but this is likely to be because they are more reliant on coffee relatively speaking and there has been a price fall in recent years, which therefore affects them disproportionately. |
| <b>Reduced risk and vulnerability:</b> Improvements for most producers, although still many risks and vulnerabilities, given the challenges of coffee markets.   |   |
| <b>Increased environmental sustainability and resilience to climate change:</b> Evidence of plausible impacts.   |   |
| <b>Enhanced influence and status for small producers:</b> Strong evidence of improvements of stronger organisations, less visible impacts at individual level. Need for more action on gender equality.  |   |

Figure 24 below provides a visual summary of our findings in analysing Fairtrade impact in terms of the Fairtrade interventions, and the actual achievements against the intended outputs, outcomes and impacts.

Figure 24: Visual summary of findings



## 7.2 Synthesis of findings on the evaluation questions

### 7.2.1 The difference made by Fairtrade at an organisational level

#### Organisational strength and resilience

At an organisational level we found that Fairtrade helps to strengthen POs in diverse ways. Coffee markets are highly volatile, and Fairtrade can play an important role in supporting the organisation of smallholders, alongside other development agencies. Fairtrade is often not the only actor working with a producer organisation – which may be certified to other sustainability standards and engaging

with other NGOs, etc.. On occasion, other interventions from government or development agencies and buyers may be as, or more important than Fairtrade. Fairtrade always operates in a wider context of socio-economic and institutional forces in which other actors can influence the trajectory of a PO. Fairtrade can assist POs to move towards being more viable businesses, but the mechanisms for support need to be more clearly structured and improved in terms of reach and intensity.

Fairtrade can provide support, alongside (and often leveraging) investment from others. Currently, Fairtrade enables investments in PO systems, structures and business development by generating Fairtrade Premium funds for investment by the PO, facilitating linkages to buyers and improving technical assistance and inputs for members. But the intensity of this support is limited per PO and needs scaling up. Fairtrade Premium investments can enable POs to purchase collective assets, such as land and processing facilities, which can be used as a guarantee to access much needed working credit. We found that many Fairtrade POs have used Fairtrade Premium funds or leveraged external development support to invest in the business in terms of covering business costs and organisational development. However, there are notable trade-offs involved in investing in business and organisational development, as this means less funds to benefit members. Moreover, this funding, when used to support business development, can limit short-term price benefits to farmers. There is a need for good rural leadership in an area, from local government, NGOs, or producer networks, as well as business leadership development to help counteract these tendencies – to push POs to find ways to reduce their costs through collaboration and internal improvements etc.

#### Increasing service delivery to members

Fairtrade Premium investments have been used by the POs to increase service delivery to members, but there is still a large capacity gap in terms of the reach of agricultural advisory services. Investment in agricultural extension and coverage of members varies by PO and by country, but most of the POs are keen to increase coverage of technical assistance to support their members' livelihoods and to increase volumes available for purchase. The Fairtrade Premium investments help to ensure that the PO can deliver a product that meets market demands.

A viable PO needs to be able to attract and retain individual farmer members and to do this requires the ability to provide useful services at a reasonable cost. The ability of the PO to provide services to members, such as extension and credit, was found to be higher at Fairtrade organisations compared to comparison groups (e.g. non-Fairtrade farmers), although there is room for improvement in a few cases and the capacity gap in agricultural extension is often significant and may be growing where climatic and pest-related factors are increasingly challenging. All smallholder organisations face organisational efficiency issues, but a question arises as to whether Fairtrade is helping to overcome these issues, or if they risk sustaining inefficiencies in some instances. Supporting POs in staffing and coffee infrastructure through Fairtrade Premium funds may reduce pressures on an organisation to adapt and make savings.

The accounting of the Fairtrade Premium is sometimes weak and there are varying understandings at PO leader levels of what is acceptable within Fairtrade rules in the different countries.

#### PO access to finance

Many of the POs still have significant needs in terms of organisational working capital to enable them to buy coffee in a timely manner, but much of the finance Fairtrade POs are currently

accessing from alternative financiers and banks, is as a result of the fact that they are Fairtrade certified. Lenders use this as a criterion to lend to them, and buyers to guarantee the loans. But POs still need access to more finance. Volume sales to Fairtrade buyers have increased over the past three years for most of the study POs and Fairtrade sales are mostly over 80 percent of their sales. The POs generally receive higher prices from Fairtrade buyers than from non-Fairtrade buyer, at prices above the Fairtrade minimum (plus organic differential where relevant). The Fairtrade Minimum Price and organic differential are seen by many PO managers as the best means to achieve competitive prices for members. However, achieving larger volumes (e.g. from increased productivity and higher membership levels), and greater organisational efficiencies, is necessary to improve prices that the organisation can offer. Achieving the quality requirements demanded by buyers is challenging in all of the study cases. In Mexico and Peru the POs cannot currently supply more coffee even though the demand may be there, due to supply side constraints.

### Fairtrade markets

Some of the POs are not able to buy all of their members' coffee, because of the lack of timely finance to buy coffee, the lack of a differentiated market for 'lower quality' coffee and logistical limitations for some farmers in more remote areas.

Some of the POs have developed their own roasting facilities and brands, something which may be part-funded by the investments of the Fairtrade Premium, and are selling small quantities of coffee on local markets. They are keen to expand these markets further.

### Organisational costs

Smaller POs have high operational costs due to trading in small volumes of coffee relative to the capacity of their infrastructure, which can reduce prices that can be offered to farmers and the incentives for farmers to sell to the PO. Very large POs can also incur costs from the evolution of excessive bureaucracy and inefficiencies. At the same time Fairtrade POs provide farmers with a viable alternative to private traders, who might offer lower prices were the POs not to exist. It is not straightforward, however, to generate evidence on this given that there is no real counterfactual comparison to determine what would happen in the absence of the Fairtrade POs.

### Sustainable agriculture and environment

All of the POs in Indonesia, Peru and Mexico have a high level of awareness and commitment to sustainable agriculture and natural resources management; this actually forms part of their identity and is articulated within their organisational goals. Several have support from donors and NGOs to conduct reforestation and conservation agriculture activities and training, most of which is leveraged because they are Fairtrade certified. This support is assisting the PO to train members on sustainable agricultural practices and to fund usually fairly small-scale environmental conservation activities, but the scale of the challenges is great and resources (in a system of 'sustainable' trade) are limited and so landscape level partnerships are likely to be needed.

Many of the Fairtrade POs are already organic as well, and this generates an additional premium on their sales. The demand in markets is for the combined Fairtrade, organic certification. In Tanzania organic certification is less widespread. This is a strategy for the Tanzanian cooperative union in the long term and they have invested significantly in supporting 10 primary societies to achieve organic

production, but they have a task ahead to retain these groups in organic production and to expand further.

#### Ability to deliver benefits to members

Many of the POs are keen to deliver improved welfare to members, and to spread benefits to their members' communities. Their ability to do this is limited ultimately by the size of the Fairtrade Premium and the extent to which Fairtrade Premium funds are spent on realising direct benefits for members and communities through community development projects, and how far they are spent on (possibly more strategic) business and organisational development priorities and/or price support for members. Fairtrade Premium funds have largely been used for organisational development, but there were also some social uses reported, such as the funding of school scholarships in Tanzania (positively appraised, although not large enough to have a significant community impact), and in Indonesia one village reported very positive impacts resulting from their access to electricity, which had been supported by Fairtrade Premium funds facilitated by the PO.

#### Attracting external support

Participation in Fairtrade frequently enables an organisation to leverage development funding, which it might not otherwise attract. In some cases, donors sought out POs because they were certified. However, in other cases, such as in Peru, government support was offered to the POs because they were considered to be viable business operations, which can be attributed, in part, to Fairtrade. Furthermore, support from buyers has been unlocked, including both Fairtrade and non-Fairtrade buyers. In many ways this support from buyers is forthcoming, because the buyer is keen to secure the supply of a quality product, but certification may increase the attractiveness of the organisation. Fairtrade sales are important for business development, facilitating a PO's access to buyers, especially those that have experience of buying from smallholder organisations and in some cases buyers with a commitment to support small farmers.

Compliance with the Fairtrade standards can strengthen organisational democracy. Much depends upon the existing national legislation and historical evolution of producer organisations in a particular country or region, but the requirements of the Fairtrade standards and the monitoring through the auditing process help to ensure that basic democratic procedures are followed. However, more could be done to engage members *actively* in cooperative operations.

Our findings on leadership quality are variable. In many cases Fairtrade organisations are on a positive trajectory, building up a membership base, and leaders received positive appraisals. The support from Fairtrade and associated organisations (buyers and development organisations) can be important in this regard in building up leaders' confidence, skills, exposure to buyers etc. Where organisations have been temporarily suspended, this has led to the renovation of leaders or managers and can help to spark improvements within the organisation. Larger, long-established POs tend to be less accountable to members and concerns were raised by individual members about the quality and culture of leadership at different scales. Individual farmers' understanding of Fairtrade is weak, and this means that individual members are less likely to be able to hold leaders to account, whether at the first tier or in senior levels.

### Gender equality and hired labour on smallholder farms

Most POs still face challenges in encouraging women to participate, either as members or by taking up a position of responsibility. In one case where this was successful their participation reversed discrimination on the price received by women outside the PO. Challenging entrenched gender norms in coffee production is not a straightforward task, but progress has been limited in many organisations. Frequently, membership of a PO is based on owning land, which disadvantages women. In most of the other POs, the leaders said they have made efforts to include women membership and on committees, but with limited success. In terms of achieving inclusive producer organisations, terms and conditions for hired labour need greater attention, but largely fell beyond the scope of our study. It is important to note that any action to improve conditions for hired labourers on smallholder farms should take into account the affordability of interventions for the smallholders themselves who generate work for others, but more exploration of strategies to reach hired labourers is important.

### PO influence and status

The regional producer networks vary in their length of establishment and strength, but they are highly valued by PO leaders as a means by which they can participate in the governance of Fairtrade and in some cases enable them to influence negotiations over key mechanisms, such as the level of the Fairtrade Minimum Price or Fairtrade social or organic Premiums. Leaders of some POs identified areas where they are keen for changes to occur in terms of the Fairtrade approach, for example, how older youth can gain experience in coffee cultivation and learn from their parents on the farm. The regional producer networks now have 50 percent of the votes on the Fairtrade International board of directors so they are now in a position to be heard.

Participation in regional or national producer network meetings and sharing of information and experiences has enabled PO leaders to gain confidence in public speaking, which is critically important if they are to actively participate in Fairtrade governance, and also in wider local, national, regional or international policy-making. In some cases Fairtrade PO leaders are now participating not only in local policy processes and bodies, but also in national ones and can point to significant, concrete achievements, such as getting organic production accepted as a national strategy.

### Organisational independence and market competition

In some cases organisations have been created by exporters to fulfil the requirements of Fairtrade and so in a sense their existence and the service they provide to smallholders is stimulated by the existence of Fairtrade, as well as the interests of the buyers. Dependency on exporters can be an issue, but we found clear progress where this has been the case, with producer organisations diversifying the exporters they work with and beginning to find potential buyers to sell to. In one country there was concern from POs that traders were now offering Fairtrade terms to individual farmers or groups, undermining the competitive advantage of the POs, but they were uncertain whether this offer was legitimate. In one case a producer organisation managed to achieve direct sales, circumventing the costs and challenges of the national auction system, by focusing on a high quality product.

### **7.2.2 *Producer organisation goals and Fairtrade***

POs have their own goals and strategies; we explored how and to what extent Fairtrade supports the POs in achieving these goals. Interestingly, several POs indicated that Fairtrade has encouraged them to invest in setting clear goals for their organisation. In terms of whether Fairtrade helps the POs to achieve their goals, the overall response from leaders is that Fairtrade is a valuable support to them, although there are of course many ways in which they would like the support to be scaled up or adapted.

There are goals which are common to most of the POs: essentially becoming or remaining a viable business is a top priority, because unless this happens they cannot support their members. Specific and common PO goals include offering competitive prices to their members for their coffee, improving services to members, increasing the productivity, quality and sustainability of production and expanding processing capacity. Achieving exporter status is a key goal for the POs which have not yet achieved this, but they will need even higher investment in processing infrastructure and business management capacity. The producer organisations are independent, private sector businesses, and while Fairtrade standards and auditing can help them to become more viable businesses, with more democratic systems, etc., much depends upon the leadership of each PO and the extent to which members can hold their leaders to account. Ideally the intensity of Fairtrade (or leveraged) support per PO needs increasing – certainly to achieve the dual goals of a viable, resilient business *and* allowing members to realise benefits.

PO leaders clearly and consistently value the support and engagement they receive from participating in Fairtrade and also the greater access to markets and voice in Fairtrade and sometimes national policy which this gives them. The regional producer networks are still evolving and present a huge opportunity for mobilising smallholder producers' voice and agency.

### **7.2.3 *Relationships between Fairtrade and organic certification***

There is considerable synergy between Fairtrade and organic certification. Firstly, a synergy arises because Fairtrade certification includes a minimum premium for organic status, and this gives an economic incentive for organic producers. Secondly the internal control systems for organic production are readily adapted to meet the increased producer-level standards for Fairtrade, and they reinforce some of the same criteria. Finally, and most importantly, the demand for Fairtrade-organic coffee is perceived to be (and presumably is) greater than for organic or Fairtrade alone.<sup>29</sup>

### **7.2.4 *The difference made by Fairtrade for individual members of Fairtrade organisations***

At an individual member level, Fairtrade farmers receive 8–32 percent higher prices during periods of low coffee prices while at other times price differentials depend on quality and/or organic status. There was no consistent trend in differences in productivity between Fairtrade and non-Fairtrade farmers across countries, and changes in productivity appeared to be largely a function of local conditions (e.g. coffee rust or recovery after natural disasters). In three of the countries Fairtrade

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<sup>29</sup>In many consumer markets it is rare to see organic-only coffee being sold, as generally the market is reluctant to pay price premiums for organic production methods. A consumer premium, is however often enjoyed when products are sold as under dual certification as Fairtrade-organic, with 39 percent of global Fairtrade coffee exported as dual certified.

farmer revenue per hectare was between 12 and 90 percent higher than non-Fairtrade farmers in the same communities due to the higher prices and other country-specific factors. Nevertheless, when costs of production were included this higher revenue was often consumed by greater costs or investment in production. In Mexico a large number of farmers have recently sought to join Fairtrade POs as coffee prices were low, and one PO in Peru has also recently admitted new members as farmers seek the price security of Fairtrade during periods of low coffee prices. The Fairtrade Minimum Price and organic differential have an infrequent, but important function as a safety net, which can be undervalued when coffee prices are high.

Some of the POs have been able to provide better training and agricultural extension to members via their technical staff. This is most marked where additional support has been leveraged from external agencies. Questions arise as to 'Who is responsible for providing and for funding agricultural extension to farmers, and what responsibility and role can Fairtrade play?' The quantitative data indicate that Fairtrade farmers have better access to services (extension and sales, and in some cases credit and inputs) and receive a broader range of training topics than non-Fairtrade farmers. Generally, over half of Fairtrade farmers were satisfied with the services received from the POs, although the largest organisations had lower scores, but even then satisfaction was higher than for non-Fairtrade farmers. The qualitative discussions in a few cases indicated concerns regarding the quality, frequency and extent of agricultural extension.

The main difference perceived by Fairtrade farmers in Latin America between members of the POs and other farmers is in the management of the land. PO members who are organic contrast their farms as being friendly to the environment, not damaging the health of the farmers and their families, and although their farms are not highly productive, they are more resilient to environmental shocks and stresses.

### ***7.2.5 Individual producers' goals and Fairtrade***

The study explored individual producers' own development goals and aspirations and the extent to which Fairtrade can meet these goals. Coffee is part of the cultural identity of producers in all four countries, and in three of the four countries farmers are reliant upon coffee for their household incomes, although in the study area in Tanzania there is competition from other cash crops, such as bananas, as well as off-farm wage labour and employment. Producers prioritise their children's education and covering their basic household needs, but there are strong indications that farmers do not aspire for their children to remain in coffee farming, unless there are significant changes in overall coffee prices and the degree of stability, more support for them to learn coffee cultivation skills and obtain access to inputs. Land availability is increasingly a limiting factor for the children of current coffee farmers.

In Peru the outbreak of coffee rust has led to many coffee farmers abandoning coffee cultivation and seeing work elsewhere. The technical support from the POs is helping some of the farmers to stay on their land and to recover their coffee production. Some of the Mexican and Peruvian POs provide employment to members' adult children when there are positions available, but to retain youth in coffee farming requires a significant improvement in coffee returns. It is important for the coffee industry that coffee supply is assured in the future and for consumers, it is important that the cost does not render coffee a luxury item. For smallholders themselves and for their children, the

question arises as to whether it is better to stay in coffee farming and how much they should diversify into other crops, or even livelihood strategies. What is clear is that the scale of the challenges in these rural economies in which coffee production is prominent will not be solved by Fairtrade alone.

### *7.2.6 Assessing the relative efficacy of Fairtrade interventions*

It is important to reflect upon the relative efficacy of the different Fairtrade interventions, and whether additional mechanisms may be needed or existing ones adapted.

Fairtrade certification provides POs with the legitimacy to negotiate support from development funds; and the Fairtrade Premium provides the financial reserves to take on investments for which they would otherwise not be eligible. The Fairtrade Minimum Price would appear to offer some benefit to farmers in years of very low prices; 2013, the year of the study, was the first time the prices had fallen below the Fairtrade minimum since 2004 – according to the farmers and POs leaders interviewed. Outside these periods of low prices any price differential is more a function of the quality of the product the farmer/PO can offer to the market. But the Fairtrade Premium helps the POs to make the investments in quality control, processing equipment and training needed to achieve that quality.

At the same time the availability of the Fairtrade Premium could be seen as a subsidy that allows POs to maintain inefficient practices. In those cases where we had access to costs structures of the PO it would appear that much of the Fairtrade Premium is used to cover the operational costs of the PO. There a number of potential contributory factors: small volumes of coffee relative to PO processing capacity; frequent turnover of boards of directors (as required for democratic decision-making), who then have to learn the business; the costs of providing services to between hundreds or even tens of thousands of members each with small to micro amounts of product, and of course the costs of certification. Some of these are inherent costs of running a social business with large numbers of members. Other issues such as investment in infrastructure could possibly be done better collectively between cooperatives. The regional and national Fairtrade networks would benefit from a more detailed economic and business analysis of how they operate to identify the best options to increase their competitiveness and such as study should also include a political analysis to understand their accountability and efficacy in advocacy.

In Chiapas, southern Mexico, Fairtrade is seen by all the POs present at the stakeholder meeting POs as critical to their development. It also enables them to compete with international traders in providing an alternative to farmers for the sale of their products. They have expressed their concern at losing that 'advantage' with the advent of international traders and some local intermediaries offering Fairtrade conditions.<sup>30</sup> A positive picture also emerged from the Tanzania workshop of the role of Fairtrade in supporting producer organisations, but stakeholders also noted the need for greater transparency within the POs, and were concerned at the high costs of certification. The

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<sup>30</sup> As indicated earlier in the report, it is worth also noting there is other academic research which finds that healthy local competition can be generated by strong Fairtrade farmer organisations operating alongside private exporters, to the likely benefit all farmers in the locality, (see Milford, 2004).

Indonesia PO leaders also value Fairtrade, for the market linking, business investment, exposure to public speaking and opportunities to link with peers etc..

In summary, Fairtrade has an important role to play in supporting producer organisations to achieve greater viability as businesses. The challenges of operating in volatile international coffee markets cannot be underestimated, though the difficulties are significant for smallholder organisations. The POs are supported by Fairtrade during periods of low prices. Where POs manage to achieve prices above the Fairtrade base price, it is because of their ability to deliver on quality, which incurs costs for the cooperative and members. There may also be disincentives at work as a result of Fairtrade which prevent POs from improving their efficiency (and this has an influence on whether the PO can offer improved prices to members) and realise benefits to individuals and their communities. The Fairtrade Premiums could be seen as a subsidy to the running costs of the organisations, limiting their need to improve efficiency. Efficiencies are difficult to achieve while businesses are still developing and this journey of development may be hard to make visible and to explain to members, where internal PO communications are poor and literacy levels low. Cooperatives need to reduce costs and operate more efficiently. External assistance is needed to try and encourage this shift and to provide good quality business development support. PO leadership and improved efficiencies signify that benefits can be realised by members – for continuing credibility of the PO (retaining members) and so that Fairtrade is achieving its goals.

Fairtrade provides smallholders with a safety net mechanism, which may only be important when prices fall below the Fairtrade minimum – about 20 percent of the time over the past 25 years, but as seen in last year's low coffee prices, it does play an important role in protecting coffee smallholders from the extremes of market volatility. We found that Fairtrade farmers are achieving higher prices when local coffee prices are low, for example, and they also generally receive more training than non-Fairtrade farmers. When prices are higher, the effects of Fairtrade are less clearly felt. Farmer organisations may need to capitalise their organisations through retaining a greater share of the Fairtrade Premium when market prices are high, so as to strengthen the organisation and build the asset base, thereby ensuring increased collateral against which the organisation can secure additional working capital in future. However, it is also the case that benefits for individual farmers and households need to be scaled up. We recognise the scale of the challenges faced by smallholders and that Fairtrade often works with more marginal groups of smallholder coffee farmers. Smallholder livelihoods are inherently uncertain and risky, and they generally face increasing intersecting pressures (e.g. climate change, outmigration of youth, loss of soil fertility and environmental degradation, foreign land acquisitions etc.) in addition to market variations.

## 8. Recommendations

In this final section of the report we set out our key recommendations for Fairtrade and in relation to key actors, such as national governments and commercial buyers to improve outcomes and impacts for smallholder coffee producers.

### 1. Fairtrade should continue to support POs in strengthening their organisations, and Fairtrade, government and other actors should improve their support to enable POs to become viable, resilient businesses.

We recommend that Fairtrade carries on supporting coffee farmer producer organisations. Participation in Fairtrade is important for the organisational development of POs as viable businesses, and becoming a stronger business is a pre-requisite for delivering benefits to members.

There are a number of specific measures which should be considered by Fairtrade (both Fairtrade International and Fairtrade buyers), governments and other actors to improve their support for coffee smallholder producer organisations:

- *Improving leadership, management and technical capacity*

Improving the leadership, management and technical capacity of POs is critical in shaping impact. While PO leaders have been supported in an ad hoc way through exposure to trade fairs and buyers, increasingly participation in the evolving producer networks provides an opportunity to learn from peers. But it may be worth considering what leadership training can be provided via the producer networks and what institutional regulations are needed to ensure good practice is implemented.

Pilots for a more intensive, structured approach to developing PO leadership and business skills are needed, possibly through rural business centres or regional academies, and in areas where there are multiple POs in an area. Fairtrade could support these approaches, in partnership with other actors. This is a long-term investment in a specific locale and will involve the participation of local NGOs, development researchers, as well as local government and private sector actors.

- *Increase PO accountability to members*

Fairtrade should encourage and support POs to be more accountable to members with greater transparency on how they spend the Fairtrade Premium funds and in providing more effective communication to individual members. Innovations in information and communication technologies (ICTs) such as mobile phones, can improve communication, and interactive radio programmes can improve two-way communication between PO leadership and members. These technologies will need to be coupled with education and resourcing to improve transparency and members' engagement.

- *Increase market demand for Fairtrade to enable the POs to achieve their goals and help POs to find markets for 'lower quality' coffee*

Fairtrade International actors should continue to grow Fairtrade coffee markets and seek to help POs to find Fairtrade markets for the 'lower' quality (coffee of low acidity, but free of defects).

- *Pilot provision of advice on strategic use of Fairtrade Premium*

We recommend running pilots of more strategic advice to POs on using the Fairtrade Premium, with a greater emphasis placed on organisational, business and production usages (or benefits from other cash crops), rather than community projects, which tend to be fragmented. This should be combined with the recommendation above (to increase Fairtrade market demand), so that there is good communication to members on Fairtrade Premium decision-making and active participation, but also more informed debates on what might be the most effective use of the funds. This can support greater understanding among members of the Fairtrade system and how Premium funds are generated by their own sales.

**2. Fairtrade should study how to incentivise POs to achieve greater organisational efficiencies.**

The competitiveness of Fairtrade organisations depends on improving their efficiency as businesses, primarily by spreading their costs over a larger volume of product. For larger POs this may mean increasing the proportion of Fairtrade sales; for smaller POs, this means seeking alliances with other POs to share the investments and costs of finance, processing and marketing. Even then there are considerable efficiencies that could be achieved within the PO's business, but they are currently limited by the lack of management experience by the staff and directors and again this would indicate the need for more intensive capacity strengthening in business management. Cost effective ways of delivering business management training need to be found for coffee producers.

**3. Fairtrade should support POs to improve individual members' understanding of how their organisation operates, but particularly of their rights and responsibilities under Fairtrade.**

National producer networks could collaborate in this task (as is being proposed in Indonesia), and should use ICTs innovatively with support from Fairtrade International and/or other development agencies (e.g. Sustainability Xchange). Development of farmers' videos could enable some informed farmers to communicate to their peers how Fairtrade works and how their organisations operate. Beyond communication tools, participatory video processes should be integrated within landscape based learning alliance processes to promote engagement by disadvantaged producers in ways that can overcome literacy barriers.

**4. Fairtrade should review its Trader Standard to increase fairness in the value chain and promote better understanding of current rules on issues such as exporter participation in Fairtrade and premiums/discounts system in relation to the New York 'C' price.**

- The Trader Standard needs to be reviewed, in particular the criterion on pre-finance provided by buyers – in our study we found that only a few buyers were providing this. Fairtrade should lobby for more capital investment by alternative financiers. More buyers should facilitate finance from these specialist agencies against contracts, as some buyers currently do. A review of the Fairtrade International Generic Trade Standard is underway within Fairtrade, with a consultation process, to be followed by the publication of the revised Standard.
- Fairtrade should clarify the rules and conditions under which exporters can engage in the Fairtrade system, and communicate them to all Fairtrade POs. These rules especially pose a challenge for more long-standing Fairtrade POs, which have fewer resources and economies of scale.

- Greater understanding amongst producer organisations must be achieved on the relationship between Fairtrade pricing and the premiums/discounting system in relation to the New York 'C' price.

## **5. Fairtrade should study how farmers can be assured benefits from minimum pricing and premiums**

POs receive minimum prices, organic differentials and the Fairtrade Premium, but they do not ensure that farmers generate a reasonable living. Often these economic benefits are consumed by the management costs of the POs. We recommend that Fairtrade conducts an in-depth assessment of the pros and cons of establishing a minimum farm-gate price or minimum percentage of export price to be received by farmers. While there are potential downsides to such a change, it is recommended that a detailed analysis is conducted to establish if in fact the benefits might outweigh the costs. The potential benefits include:

- a) Ensuring farmers truly receive a price that covers their costs of production and possibly receive greater benefits during periods of higher prices
- b) b) That adequate payment of hired labour is included in that payment
- c) c) Puts pressure on POs to reduce their costs of operation

A more in-depth economic and market study would be required to determine the possible benefits of such as step, but it is highly recommended, in order to increase the benefits realised by individual members of Fairtrade producer groups.

## **6. Fairtrade should intensify and scale up its producer support services to benefit POs and the individual members of POs**

Fairtrade producer support should be enhanced with a focus on providing improved business development services, facilitating stronger internal PO communication and accountability and active participation by members, and increasing the benefits realized at the individual farm level. Furthermore, there is scope to encourage the producer networks to play a role in brokering change in the rural economy.

Currently, there are no consistent mechanisms for the provision of producer support within Fairtrade. The overall offer of services for smallholder producer organisation development should be expanded and improved, based upon a clear strategy. It is most likely that this can only be achieved in partnership with other organisations, but a strategic vision is a first step to improving the offer to POs and refining the theory of change accordingly.

Fairtrade should also explore how cost-effective support can be given to POs to improve their business management systems, and to ensure that their business management and documentary systems help the organisation to attain multiple certifications, as a way of expanding market access and capturing market premiums.

Operating in a challenging global market, and as a market mechanism, as opposed to funder aid, we recognise that Fairtrade has limits to the staff capacity which can be fielded in any particular region. However, it is clear that more intensive support is needed for POs in any particular place. According to the audit reports reviewed, although POs may comply with the standards, and are investing in

their own organisations using the Fairtrade Premium, they need *significant* investment and accompaniment to become resilient, viable and efficient businesses in a volatile international market *and* at the same time empower and to deliver benefits to their members. Finding the resources for such investment is not easy, but efforts need to be made to scale up this support.<sup>31</sup>

Improving productivity and income of smallholders is dependent on the provision of technical services and access to inputs and long-term finance. Currently, most POs rely upon external assistance to do this. Increasing efficiency in processing and marketing could release funds for the POs to sustain their own technical services to their members, which at least one PO appears to have achieved. A minimum farm-gate price rather than the export price could also enable farmers to increase investment.

#### **7. Fairtrade should actively seek to broker partnerships (or support existing collaborations) in a particular territory or landscape to benefit Fairtrade POs**

Fairtrade has an important role to play in sustainable trade, but the overall enabling environment is generally not supportive of the development of smallholder cooperatives and capacities, and the capacity gaps are too great to be tackled by Fairtrade alone. The structural and institutional barriers need multi-actor alignment and action in a particular locale. Fairtrade, particularly the Fairtrade Producer Networks, could play an increasingly important role in this regard, alongside other forms of producer and community representation in decision-making in a particular landscape or country. Collaborations with other actors are also more likely to be needed, but a politically informed approach is also needed in choosing appropriate strategic partners.

Focal areas should be chosen where the commodity in question, such as coffee, is of high significance to rural livelihoods, and where there are now multiple certified POs, and/or where producers are highly disadvantaged in order to maximise Fairtrade impact. By partnering with development agencies and other actors, and working with clusters of Fairtrade organisations, there may be opportunities to scale up producer services or market building, for example. Furthermore, collaboration could be facilitated between the POs, for sharing processing and organisational costs to be more competitive vis-à-vis traders. Collaboration should also be undertaken by POs collectively to inform and support producer members about Fairtrade and coffee trading, as the Indonesia network is proposing to do. Participation and support for learning alliances where resources are available in a particular territory is recommended, as a means of promoting innovation in the POs and within Fairtrade. A small number of landscapes/territories could be chosen to pilot such an approach in the first instance.

#### **8. Fairtrade should improve its communications to consumers and global citizens about how it works and where partnerships and other measures are needed.**

Our research demonstrates that benefits accruing at the organisational level are not always sufficiently visible to outsiders or even to individual members. The complexities of rural

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development processes and how market based mechanisms such as Fairtrade intervene, mean that demonstrating clear results can be difficult. Furthermore, because many of the benefits derived at organisational level are limited in their visibility, this also means that they are not necessarily clearly communicated to the market and the public. Currently, Fairtrade does not adequately communicate how it supports POs to become viable businesses and should improve this. While the standards can ensure basic democratic standards are met, more should be done to engage members actively in the operations of their organisation and this will require training and investments.

The inherent limitations of Fairtrade also need to be communicated. As a market-based mechanism there are limits to what Fairtrade can achieve on its own, particularly in view of more structural trends and challenges, such as increasing market volatility and climatic variability, land fragmentation and insecurity, lack of infrastructure, gender inequality, social protection needs etc. It is important that Fairtrade considers strategically how it may seek to have an influence over such structural issues, for example through advocacy work and partnerships, but also by communicating the limitations on what can be achieved in order to manage expectations.

**9. Fairtrade should seek to influence governments so that they support improved business development services for smallholder coffee producer organisations and tilt the enabling environment (policy, investments and regulatory) to be more favourable for coffee producers**

It is often overlooked that smallholder investments in agriculture far outweigh that of large-scale investors, yet the enabling environment in many countries frequently favours large-scale investors. It is important that governments realign their policy levers to support smallholder agriculture, including coffee producers, and provide support for more effective investment in business development services for smallholders.

Fairtrade should continue and increase its advocacy work on trade justice and to demand policy reforms to support smallholders and workers, such as stronger national regulations (e.g. on labour rights), changes in legislation (e.g. on land), investments (e.g. in infrastructure to facilitate smallholder value chain development in domestic crops as well as export ones, and promoting sustainable procurement.

The regional and national producer networks should seek to demand such investments and policies from governments – national and local – and from development agencies, on behalf of their members. There are examples of the Latin American networks achieving influence at the local and national scales, and there may be opportunities for peer learning on advocacy approaches between the networks, which Fairtrade should investigate.

**10. Fairtrade should continue to strengthen and extend the producer networks as a means of enabling greater representation and voice of small producers**

The regional and national producer networks offer significant potential to strengthen producers' voice both within Fairtrade, in local and national government policies and to engage with development agencies and programmes, other private sector actors etc.

Continued support is needed to build their capacity, particularly in Asia and Africa, and to ensure that they represent all key constituencies (e.g. coffee producers as well as tea producers; workers as well as smallholders). Gaps in representation should be systematically analysed and addressed – whether by commodity, participant (workers and smallholders), or geography. If landscape or sub-regional pilots are implemented, a local level network should be established as part of a learning alliance – although this would likely require external funds. A landscape pilot should involve a joint scoping of key actors of the likely and desired scenarios or trajectories for the rural economy and society to identify strategies for change. This type of approach would create solidarity and a platform for broader influence – both in the horizontal dimension, but also in the vertical value chain dimensions.

More peer-learning between the networks is feasible and recommended. More rapid diagnosis (e.g. by email survey) could be undertaken to establish how POs would like their producer networks to operate more effectively to meet their needs, i.e. to ensure that the networks are demand driven. A study is needed to understand the effectiveness of the producer networks in their role in facilitating producer representation in different spaces, but also in building markets, providing producer support and engaging in advocacy.

The achievements of the producer networks should also be communicated more clearly by Fairtrade, as they are an under-recognised, unique element of the Fairtrade system in discussions on Fairtrade impact, and particularly in comparisons with other voluntary sustainability standards.

Regional and national Fairtrade networks would benefit from a more detailed economic and business analysis of how they operate to identify the best options to increase their sectoral competitiveness and such a study should also include a political analysis to understand their accountability to members and their effectiveness in advocacy.

#### **11. Fairtrade should seek to implement practical actions to tackle gender inequality**

Given the origins of Fairtrade in social justice concerns, it is a particular concern that there is so little progress apparent in terms of tackling gender equality through Fairtrade. While training has been provided through the producer support officers on various human rights issues, we did not find evidence of change on the ground within the producer organisations in terms of women's empowerment and participation.

Closing the gender gap in agriculture is critical from an economic and efficiency perspective as it can improve productivity, raise the incomes of female farmers and increase the availability of food. Improving the equality of outcomes is important for women and men from a human rights perspective (FAO, 2011; World Bank, 2009). Policy changes are needed, but entrenched gender norms and practices need to be tackled through affirmative actions, such as measures to tackle specific constraints faced by women (Fraser, 2009), which include time constraints resulting from domestic responsibilities; improved education and constant political pressure to ensure access to critical services and decision-making fora (Vorley *et al.*, *ibid.*). As we have seen in this study, the specific gendered structures of constraint, e.g. in the availability and acceptability of different kinds of work, the organisation of kinship and family relations etc (Kabeer, 2013), vary by context. Therefore, it is likely that Fairtrade responses to tackling entrenched gender norms will need to be

tailored to context, and involve locally developed solutions through engagement of women and men smallholders and community members.

Peer learning is a very important way to challenge fixed notions of roles and there are opportunities for Fairtrade to facilitate gender focused learning between producer organisations in similar or more distant regions. The Fairtrade producer support officer in Indonesia noted the existence of a non-case study PO which is led by a woman and has fairly high levels of women members.

To improve women's participation and challenge gender inequality, Fairtrade should fund action research-based pilots to work out how to achieve positive change in a particular locality – again in partnership with other agencies. Tackling gender inequality requires in-depth facilitation and is highly context specific – thus pilots are needed to explore what can be done, in partnership with NGOs or government.

**Some examples of discrete actions include:**

- Peer visits to successful role models (individuals or organisations) represent an opportunity for learning and action. To change fixed notions of gender relations it is essential to promote learning and experiences of alternative ways of being and relating, as well as to combine this with other sources of pressure for change and external investments.
- In contexts where there are legislative restrictions on gender equality, the development of POs led by women may represent an effective strategy.
- If regional academies for business leadership were established, women should be given special consideration in the selection of trainees.
- Furthermore, advocacy actions by the producer networks will be needed to tackle structural causes of gender discrimination.

Overall, it is recommended that much clearer, transparent strategies are devised for action on gender inequality by Fairtrade International, Fairtrade POs and producer networks.

**12. Fairtrade should seek to take action to better understand how to effectively reach hired labour on smallholder farms and youth**

Fairtrade needs more understanding on if and how Fairtrade has an impact on hired labour on smallholder farms. Our study explored this issue with PO leaders and managers, but due to resource limitations we could not explore it in depth with hired labourers themselves. Further, more macro-economic data are needed on labour markets in different contexts. This research should identify potential strategies for action where improvement is needed and should consider affordability for disadvantaged producers. Clearly, there are limitations to what can be done via a market-based mechanism, especially given the starting point poverty levels of many smallholder employers. To increase poverty impact, it is likely that changes within Fairtrade mechanisms will be needed to reach casual workers on smallholder farms. It will be necessary to run pilots in a specific landscape, prioritising where there are multiple Fairtrade POs, to develop feasible strategies.

Similarly, engaging with development partners (e.g. NGOs, governments, private sector, churches) to identify strategies to attract and retain youth in agriculture, including coffee, is desirable.

### **13. Revision of the Fairtrade strategies as encapsulated within the Fairtrade theory of change**

It is laudable that Fairtrade has not only articulated its vision in a public theory of change, but more importantly, that this has been achieved through a process of extensive consultation with producers and producer networks.<sup>32</sup> However, it is also important that revisions to the theory of change are allowed based on internal learning and feedback from independent impact assessments and research. Above, we have outlined various ways in which Fairtrade could alter its interventions or change the scale of focus.

We have suggested further research on specific changes such as the introduction of a farm gate price for producers or made recommendations where improvements are needed, for example in the type of producer support provided. Fairtrade also needs to ensure that auditors receive more training in auditing the financial data reported by the POs and that the accuracy of the PO data recorded in the audit reports is improved. In the longer term it is important to explore different approaches to auditing, given the high cost to producers of payments for the certification and time. Significant resources are invested in third party auditing and while this provides the all-important market assurance, it consumes resources that could otherwise be invested in POs. Increased flexibility and decentralisation are likely to add to Fairtrade's credibility as a social movement focused on empowerment. Equally, approaches to monitoring, evaluation and learning should seek to emphasise quality and learning to guide future practice within Fairtrade and to scale up impact. Long-term commitments to particular pilot locales would support this approach to learning alliances, which might more directly engage actors to create change.

Some areas of the theory of change did not fall within the scope of the study and more work is needed to analyse fairness along the value chain, for example. The notion of fairness in the value chain and achieving positive impact is a challenging one for Fairtrade, because it involves balancing approaches which work within the mainstream market, and others which seek to establish alternative forms of trading. While there has been much focus on cooperatives within Fairtrade, there has been less analysis in international development generally of the potential for 'regionalised' trading systems in which solidarity approaches are scaled up, facilitated by a supportive enabling environment. This also relates to the idea that to achieve sustainable and equitable food systems, requires a reduction in resource-intensive consumption and waste and that rural communities have certain rights to self-determination. There is a real opportunity for Fairtrade to build on its excellent work so far in raising awareness amongst consumers, and to focus on mobilising citizens via this broader agenda for transforming food systems.

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<sup>32</sup> For more information, see: <http://www.fairtrade.net/resources/our-theory-of-change.html>

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## **Annex 1: Terms of Reference**

### **Understanding the impact of Fairtrade certification for smallholder coffee farmers**

#### **Terms of reference, July 2013**

##### **1. CONTEXT**

Coffee is integral to the Fairtrade system. Historically, coffee was the first commodity to be certified and sold as 'Fairtrade' when Max Havelaar Netherlands sold the first Fairtrade product into Dutch supermarkets in 1989. In the last two decades coffee has grown to assume high significance within the Fairtrade system – both in terms of its production in Fairtrade origin countries and in terms of its sale in Fairtrade markets. According to Fairtrade International's monitoring and evaluation report for 2011, 36 percent of producer organizations (329 out of a total 905) within the Fairtrade system hold a certificate for production of Fairtrade coffee and 48 percent of all farmers and workers in the system are involved in the production of coffee. On the sales side, Fairtrade coffee sales volume touched 103,222 MT in 2009-10 with sales income from coffee reaching 242.8 million Euros, reflecting a high market price.

With over twenty years of engagement in Fairtrade coffee and with over half a million farmers directly involved, it is critical to undertake a robust assessment of what impact Fairtrade certification has had on coffee farmers and their organizations. Additionally, with several other certification schemes (notably Rainforest Alliance and UTZ) becoming increasingly visible in many markets, protecting the Fairtrade coffee market by clearly communicating what the unique features of Fairtrade certification are that result in particular benefits to certified farmers and organizations, has assumed significance.

This document details what the scope, focus, objectives and intended outputs of such an impact assessment would be. It draws from the feedback given from various labelling initiatives within the Fairtrade system on what the data needs are, as well as drawing from the Global coffee strategy developed by the office of Global Product Management – Coffee at Fairtrade International. It also aims to build on the recent research that other external institutions / researchers have undertaken in various regions relating to Fairtrade coffee.

##### **2. BACKGROUND**

###### **2.1 Fairtrade International's Coffee Action Plan**

The five principles underlying Fairtrade International's Coffee Action Plan are:

- Improve the lives of coffee farmers
- Ensure the viability and sustainability of producer organizations
- Ensure the prompt delivery of coffee at the quality and price specified in a contract
- Minimize the risk exposure of any one party in the chain
- To create a win-win situation that is perceived as fair for the producers and fair for the market.

## 2.2 External research relevant to Fairtrade coffee

By virtue of being the oldest commodity within the Fairtrade system, Fairtrade coffee has been subject to wide analysis by the academic and business communities. In terms of geographic scope, most studies have focussed on Fairtrade certified coffee production in Latin America with only a few studies (notably the ODI research on Ethiopia and Tanzania) in other regions. The main findings emerging from the studies seem to point to the fact that the institutional and social benefits of Fairtrade certification may be as important – or even more important than - direct economic impacts for farmers through income or price increases. However, there is no global study yet that researches these aspects of Fairtrade coffee certification to make robust conclusions. This creates a further impetus for this study.

## 2.3 Internal research relevant to Fairtrade coffee

There are other research projects underway within the Fairtrade system that are also relevant to Fairtrade coffee and will inform this impact research.

The first of these is a research project being led by Fairtrade International's GPM (Global Product Management) – Coffee office. The purpose of this project is to provide guidance on how different types of coffee producer organizations operate as a mean to support more sustainable supply chains in Fairtrade coffee. An important first work stream of this project will be to analyse the various kinds of certified coffee producer organizations within the Fairtrade system and come up with an appropriate taxonomy and classification for them. This work stream is planned for September – November 2012 and the outcomes of this will feed into this coffee impact research project in helping determine which category of producer organizations the impact research will focus on.

The second is a short piece of research being undertaken by Fairtrade International's Standards and Pricing unit on the cost-benefit ratio of Fairtrade certification for small producer organizations. The outcomes of this research will also help inform the impact study and its ability to collect data on costs of production and benefits specific to coffee producers.

## 3. OBJECTIVES

As a movement committed to continual improvement, it is important for us to understand the impact that Fairtrade is having for farmers and workers and learn. Fairtrade's approach to impact assessment aims to not only measure impact, but also identify how to improve impact, i.e. an *improving* as well as a *proving* approach. As this is the first system-wide study on Fairtrade coffee, it will be important for the research to contribute to both *proving* the current impacts of Fairtrade certification on coffee farmers and their organizations and providing useful and evidenced insights into how our approach can be *improved* to broaden and deepen impacts in coffee. Consequently, the objectives of this study speak to both needs.

### Primary Objective:

To provide a clear understanding and articulation of the impact of Fairtrade certification for coffee producers and their organizations, drawing on a range of cases that capture some of the important diversity within Fairtrade coffee producing contexts.

The study will aim to capture impact of Fairtrade certification both at the organizational level and at the household level guided by the three main impact goals of the Fairtrade system as articulated in its Theory of Change (see section 4).

The main questions the study will seek to answer are as follows:

### **Impact at the organizational level (Essential)**

- a. Evaluate **what** benefits Fairtrade certification brings to smallholder coffee cooperatives (and other forms of organizations) in relation to facilitating organization and thereon organizational growth, empowerment and stability. In particular, focus on what benefits being part of Fairtrade brings that goes beyond the Minimum Price and Premium guarantees of the Fairtrade system.
- b. Evaluate what benefits Fairtrade certification brings to smallholder cooperatives (and other forms of organization in economic terms, capturing trends in production, productivity, price negotiations, market access, place in the value-chain terms of trade and financial stability).
- c. Analyse **how** Fairtrade's approach and strategies (as articulated in the Theory of Change below) have led to the benefits identified. Consider which approaches and strategies are working well, in which contexts, and why. In particular, consider whether organization typology has an impact on the effectiveness of the Fairtrade approaches and strategies.
- d. Assess the impact of Fairtrade and organic combined certification on producer organizations. What is the added value and relative contribution of Fairtrade and organic certifications respectively to impact?
- e. Understand the development and economic goals of the Fairtrade certified organizations. What progress are they making, and what challenges do they face in trying to meet these goals?

### **Impact at the individual farmer / household level (Essential)**

- a. Drawing from the above, evaluate what the benefits are that accrue to individual households from being a part of Fairtrade certified coffee cooperatives. To what extent and how is Fairtrade contributing to sustainable livelihoods and empowerment at the level of farmer members and their households?
- b. Analyse to what extent Fairtrade certification is enabling households to meet their own developmental goals / aspirations.
- c. Analyse the counterfactual i.e. what would the economic and social status of these households be if they were not part of a cooperative that was Fairtrade certified
- d. Explore to the extent feasible, how Fairtrade benefits extend beyond the farmer members and their households to the wider community?

### **Recommendations and learning (Essential)**

Based on the research findings and analysis, propose clear recommendations and learning for the Fairtrade system. Recommendations and learning should focus on how the Fairtrade approach and strategies can be improved to deliver greater impact.

## **4. OVERALL APPROACH**

This study should be guided by Fairtrade's overall Theory of Change which is detailed in Annex 1. In particular, the study must aim to develop a sense of how this general Theory of Change applies to Fairtrade coffee and what additional factors and assumptions need to be accounted for in enabling Fairtrade's to achieve the desired change in the context of coffee. With regard to Fairtrade's

approach, also detailed in the annex, the study will aim to evaluate if, how and to what extent particular interventions have contributed to the desired change for coffee farmers and their organizations.

## **5. STUDY DESIGN, METHODS and SCOPE**

### **5.1 STUDY DESIGN**

The objective of this study is *'to provide a clear understanding and articulation of the impact of Fairtrade certification for coffee producers and their organizations, drawing on a range of cases that capture some of the important diversity within Fairtrade coffee producing contexts'*.

The definition of impact is important, because it determines the concept of causality applied (what produces impact) and the impact design (how to estimate impact). This study will use the definition of impact used by OECD-DAC (see glossary, 2002): *'positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended'*. We use this definition, because it is broader than those offered by some who offer definitions narrowly focussed on measurement and attribution. We believe that it is more appropriate for Fairtrade, because of the complexities of the system's own attributes, and because the study has not only accountability related objectives, but also learning elements. Finally, this definition of impact, because it allows for different kinds of links between intervention and effect and the associated impact designs, fits more squarely within the ethos of Fairtrade.

Recent debate within the field of evaluation points to the limitations of experimental and quasi-experimental impact designs in situations of complexity, because the conditions required for such studies do not hold. Sources of complexity within the Fairtrade system include emergent features of the system itself, variable elements in the mechanisms, non-stable trajectories of impact, indirect delivery, changing contextual conditions etc. These complexities mean that it is necessary to explore alternative methods of causal inference. We are proposing to 'theory based' case oriented evaluation (which is based on 'generative causation' to establish impact using techniques such as process tracing with stakeholders) and combining this with counterfactual logics where feasible and appropriate. Bias can enter studies which only include participants of a project (or in this case Fairtrade certified producers), so it is also important to include non-certified groups to counteract this bias and to explore and eliminate rival explanations with stakeholders.

It is also important that an impact design is not only appropriate to the particular attributes of the programme or initiative (e.g. Fairtrade), but also to the underlying and stated ethos of the organization. Given that Fairtrade seeks to support producer empowerment and ability to decide on their own future it is important that the impact design supports learning – including by producers.

### **5.2 METHODS**

This study seeks to assess impact by looking primarily at changes at the individual farmer level and at the producer organization level, but also to a lesser extent exploring the wider community and territory and exploring changes in relationships in the value chain. To be able to do so a variety of methods will need to be employed that collectively ensures that all the data needed to answer the

key research questions will be collected. The table below maps out the key research questions of the study as from section 3 above and the main methods and tools this study will use to answer them.

Table 1: Research questions

| Research Questions  | Methods  |
|---|--|
| Organizational & economic benefits  | <ul style="list-style-type: none"> <li>• PO workshops, HH questionnaire &amp; FGDs – explore organizational &amp; economic benefits drawing on the theory of change (&amp; explore plausible rival explanations )</li> <li>• Contribution ‘causal pies’ / ranking</li> <li>• Assess changes along the value chain (scoring of perceptions of change on indicators of fairness) e.g. possible online survey for traders; stakeholder &amp; management workshop discussions)</li> </ul>  |
| Analyse <b>how</b> Fairtrade’s approach & strategies lead to impacts  | <ul style="list-style-type: none"> <li>• Theory of change – via chain wide workshops or more likely in stakeholder KIIs</li> <li>• Management workshops (checklists, but PRA techniques possible to score/rank, force field analysis etc).</li> </ul>  |
| Explore the relative contribution (Fairtrade/Organic)   | <ul style="list-style-type: none"> <li>• Flowing from Theory of Change – analysis of contribution of Fairtrade/Organic (and interactions between factors); Also Contribution ‘causal pies’ / ranking</li> </ul>  |
| Understand development & economic goals   | <ul style="list-style-type: none"> <li>• PO management workshop – discuss key outcomes and objectives –(e.g. OM light; SWOT analysis)</li> </ul>   |
| Impact at individual farmer level – Fairtrade certified and non-certified farmers (detailed more in text below) | <ul style="list-style-type: none"> <li>• Relatively short questionnaire survey of both certified and non-certified farmers using mobile phone/IT software to input and analyse data</li> <li>• Participatory gross margin analysis (PGMA) with certified and non-certified farmers</li> <li>• Management workshops – discussion of benefits &amp; services</li> <li>• FGD e.g. satisfaction with PO (e.g. scoring and ranking of service provision &amp; PO management, leadership, transparency etc; knowledge of Fairtrade; Premium projects and the difference they have made)</li> </ul> |
| Enabling HHs to meet their developmental goals  | FGDs   |
| Analyse the counterfactual  | Questionnaire and PGMA with both certified & non-certified farmers; PO workshops & FGDs with non-certified groups as well, but more  |

|                                      |                                  |
|--------------------------------------|----------------------------------|
|                                      | limited in scope                 |
| Benefits to wider community & beyond | Limited key informant interviews |

Specifically, the study will analyse impact at the individual producer level (certified and non-certified) through a combination of the following methods:

- Conduct a **participatory gross margin analysis FGD** –a method already developed by NRI. A FGD is held with farmers at each selected PO (Fairtrade and non-Fairtrade) where the inputs and all the costs involved in production are identified, the yields and outputs and the sales and any additional returns. This can be both interesting and empowering for individual farmers, since in the majority of cases they have never worked out their overall margins in this way. The figures can be entered into a spread sheet and used for sensitivity analysis - e.g. if prices of fertiliser change what happens; if market price changes what happens. What would a resource poor family look like/richer farmer etc. This will cover non-certified individual producers as well (as long as there is not some in country reason why the comparison is not there .e.g. there are no farmers who are not already Fairtrade certified).
- Conduct a short **questionnaire survey** which would draw on a small number of indicators (e.g. number of coffee trees, relative importance of coffee income, use of family versus hired labour etc), that in combination with the results from the exercise outlined above, would allow the calculation of the income from coffee of the household. If we can adapt this to add in a recall element (i.e. you repeat the questions for now and x years ago) then we can use this with certified and non-certified farmers to indicate a) whether households are below a given poverty line now and x years previously and b) the differences between certified and non-certified farmers.
- Conduct **3 FGDs per PO** (2 with certified POs - 1 with women and 1 with men and 1 with non-certified PO) to have in-depth discussions and some participatory quantification.

The indicators for use in the research will be agreed by the project team, and will draw on the work done for the Fairtrade Theory of Change, which has proposed a draft set of indicators for Fairtrade monitoring and impact evaluation.

### 5.3 GEOGRAPHIC SCOPE

There is a wide spread of Fairtrade-certified producer organizations across the world. In order to present a global picture on the impact of Fairtrade certification, it will be important for the study to cover all three main geographic regions. However, the number of certified organizations varies greatly within each region – 268 in Latin America, 32 in Africa and 29 in Asia – Oceania.

The research will include a range of case studies, drawn from Latin America, Africa, and Asia/Oceania that is a sufficiently robust sample of the total number of producer organizations certified to produce Fairtrade coffee. Although the overall distribution of Fairtrade coffee producing organizations is heavily weighted towards Latin America, this research recognizes that African and

Asian coffee co-operatives have not been sufficiently covered in previous research in Fairtrade coffee, and aims to redress that balance in some way. The case studies have to reflect some of the important diversity within Fairtrade coffee contexts.

The shortlist of countries and organizations has to follow the following criteria:

- the number of certified Arabica ONLY producer organizations which have been certified prior to 2010 onwards) drawing on excel files shared by Fairtrade International;
- Fairtrade certified production (drawing on excel files shared by Fairtrade International);
- percentage of the Fairtrade market (drawing on excel files shared by Fairtrade International);
- Fairtrade coffee exports for the top 10 countries (Fairtrade International Monitoring Report, 2012);
- percentage sold on Fairtrade terms (Fairtrade International Monitoring Report, 2012).

For country selection:

- Having a regional spread (i.e. selecting at least one country from South America, North & Central America, Africa and Asia)
- Security concerns
- Level of study of the country in question
- Known research contacts

Based on initial analysis, the following shortlist has emerged which the study will work with. The final selection will be done by the project core team.

Table 3: Shortlist of countries for inclusion in study

|                        | 1st choice and secondary alternatives | Reasons for choice   |
|------------------------|---------------------------------------|--|
| <b>Asia</b>            | Indonesia                             | - Scores highest on all criteria (production; no. of POs; sales on Fairtrade terms etc).   |
| <b>South America</b>   | 1. Peru; 2. Colombia                  | - Peru has most Fairtrade POs, but Colombia produces more and has higher share of Fairtrade market. Peru sells more coffee on Fairtrade terms though, but Colombia is second in South America.   |
| <b>Central America</b> | 1. Guatemala; 2. Mexico               | - Honduras is too insecure. Guatemala and Costa Rica produce more, but Mexico has more certified POs. and sells most on Fairtrade terms. Good research contacts and fewer other studies in Guatemala. First choice is Mexico, then Guatemala |
| <b>Africa</b>          | 1. Tanzania; 2. Kenya                 | - Rwanda has most POS, but Kenya is 2nd. Kenya produces more & has highest share of global Fairtrade market than other countries, Tanzania is  |

|  |  |   |
|--|--|---|
|  |  | <p>second. But Tanzania sells more on Fairtrade terms.<br/>So first choice Tanzania, followed by Kenya.</p> |
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## 6. OUTPUTS

- Brief report of methodology and data analysis tools used and research ethics and protocol followed
- Detailed narrative report that is a good balance of narrative explanation and data representation through clear graphs, tables and any other statistical comparison. The final report will follow a structure decided on jointly by NRI and Fairtrade International. The report should provide detailed country case studies but also an overall synthesis of findings and observations / learning on key themes outlined in this ToR.
- Detailed and focused recommendations on how Fairtrade can deepen impact for coffee farmers
- A clear powerpoint presentation that summarises the main findings and key recommendations
- Collection of high-quality photographs (based on ethical guidelines for undertaking field photography and its use)
- All raw data collected through the research process (including longitudinal production data for organizations)

