

# Final Report: Executive Summary

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## 2nd Follow-up Study

Assessing the Impact of Fairtrade on Poverty Reduction and Economic Resilience through Rural Development

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## Executive Summary

In 2021, Fairtrade Germany and Fairtrade Austria commissioned Mainlevel Consulting to implement an applied research project that aims at identifying the contribution of Fairtrade on poverty reduction through rural development. It is a second follow-up study, after two impact studies (CEval 2012, CEval, 2018) had already been conducted in 2011/2012 and 2017/2018. The research assesses Fairtrade's contribution across four different sustainability dimensions – economic resilience, social well-being, good governance and environmental integrity. It focuses on Fairtrade certified and non-certified Small Producer Organization (SPOs)<sup>1</sup> in three product settings, i.e. cocoa in Central Ghana, banana in Northern Peru and coffee in Central Peru. Whereas in the cocoa and coffee setting one Fairtrade-certified cooperative was examined, in the banana case several certified cooperatives were part of this study.

Whereas the two previous studies were based on indicators by the Committee on Sustainability Assessments (COSA), the current study is based on the Sustainability Assessment of Food and Agriculture (SAFA). It is a framework introduced by the Food and Agriculture Organization (FAO) that is based on COSA and specifically designed to assess SPOs in agricultural settings. Following a case study approach, the findings are based on primary qualitative data derived from Focus Group Discussions (FGDs) and Key Informant Interviews (KIIs). In addition, quantitative data on key variables (such as household income, trainings received and price received) was collected at producer level and participatory observations were conducted. Data collection across the three different contexts took place between June and October 2021. Findings are structured along the economic, social, governance and environmental themes of the SAFA dimensions and include cross-sectional, i.e. Fairtrade and non-Fairtrade case study comparison, and longitudinal, i.e. comparison over time (2012 – 2018 – 2021) results. Findings for each case are summarized as follows.

### The case of cocoa in Ghana

On **economic resilience**, it can be positively noted that the Government of Ghana, with the pro-active support of Fairtrade, strives towards establishing living income for their cocoa farmers and enhancing value creation in the country. The increase in farm-gate **price**<sup>2</sup> represents a key achievement but is compromised by **cost of production** and living costs rising simultaneously. Thus, Fairtrade farmers interviewed in this study do not yet perceive a substantial improvement in their **net income**. Indeed, this study as well as other research strongly suggests that **product diversification** is key to achieve a living income in the long term. The Fairtrade cocoa cooperative examined acknowledges this need and has started several support projects, together with Fairtrade and other international organizations, to promote diversification. In times of Covid-19, the study showed that the Fairtrade community can represent an important **safety net** to support SPOs and their producers. During the pandemic, relief projects supported the cooperative in introducing necessary Covid-19 measures to maintain production. Nevertheless, challenges such as low market volumes and a resulting low amount of Fairtrade Premium money obtained limit direct support and relief to members of the Fairtrade cooperative. The Fairtrade Premium obtained has to be spread across a very large number of members and their societies, leading only to punctual **investments** at **community** level.

On **social well-being**, although the working conditions in cocoa farms continue to be labor-intensive and demanding, Fairtrade farmers involved in the study are not dissatisfied with their **quality of life**. According to discussions led, they are less exposed to food insecurity than independent farmers, who do not belong to any Fairtrade-certified cooperative. Prior to the pandemic, Fairtrade farmers mostly benefitted from **capacity building** provided by their Fairtrade -certified organization. They highly value trainings received and attribute positive outcomes on farm maintenance, safety measures and productivity to the same. Fairtrade farmers interviewed showed high awareness on **child labor** issues and were well informed about detailed norms and standards. They emphasized, during discussions, the value of education, and claimed that many youths are rather disinterested in farming activities. Once grown up, most of their offspring has gone to look for other

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<sup>1</sup> While for cocoa and coffee one FT certified cooperative was examined, for the banana case several certified banana SPOs were included. This allows to understand the potential difference the duration of being certified makes.

<sup>2</sup> Text marked in green in this executive summary represent SAFA sub-themes that were examined in this study.

occupations than farming. As challenges might occur in the future regarding intra-generational sustainability of cocoa production as a whole, it already puts pressure today on elderly cocoa farmers who then highly dependent on external labor to maintain their farmland. Eventually, the study confirmed that women in cocoa farming still face discrimination. The cooperative's gender unit intends to support **gender equality** and income diversification for female members but is not yet in the position to break through established stigma and attitudes. Lastly, **the support to most vulnerable groups** is not yet structurally anchored in policies or actions of the Fairtrade cooperative.

The **good governance dimension** shows, that the cocoa Fairtrade cooperative has established itself as professional organization with several business units and departments and a **clear mission statement**. Their members, however, seem to be more detached from the mission-driven operations. The size of the SPO as a whole – more than 100,000 members spread over several districts - impedes direct involvement of most of the farmers in decision-making processes, questioning effective and meaningful **participation** of farmers. **Stakeholder engagement** is found to be fruitful as the cooperative has set up a strong network and partnerships and is engaged in my initiative to promote sustainability in cocoa production.

From an **environmental integrity perspective**, **climate change** is acknowledged as a great threat, and farmers interviewed perceive that it impacts their productivity and hence their income and livelihood. The cooperative proactively participates in support projects on e.g. stopping deforestation and other mitigation measures. Their farmers, however, do not always have the awareness that their own actions contribute to changes in the climate they observe. Soil improvement is high on the SPO's agenda and translates in good satisfaction levels on soil quality of their farmers. **Water conservation practices and water quality** are yet issues to be tackled more structurally.

Figure 1 summarizes findings of SAFA themes for the cocoa case in a polygon.

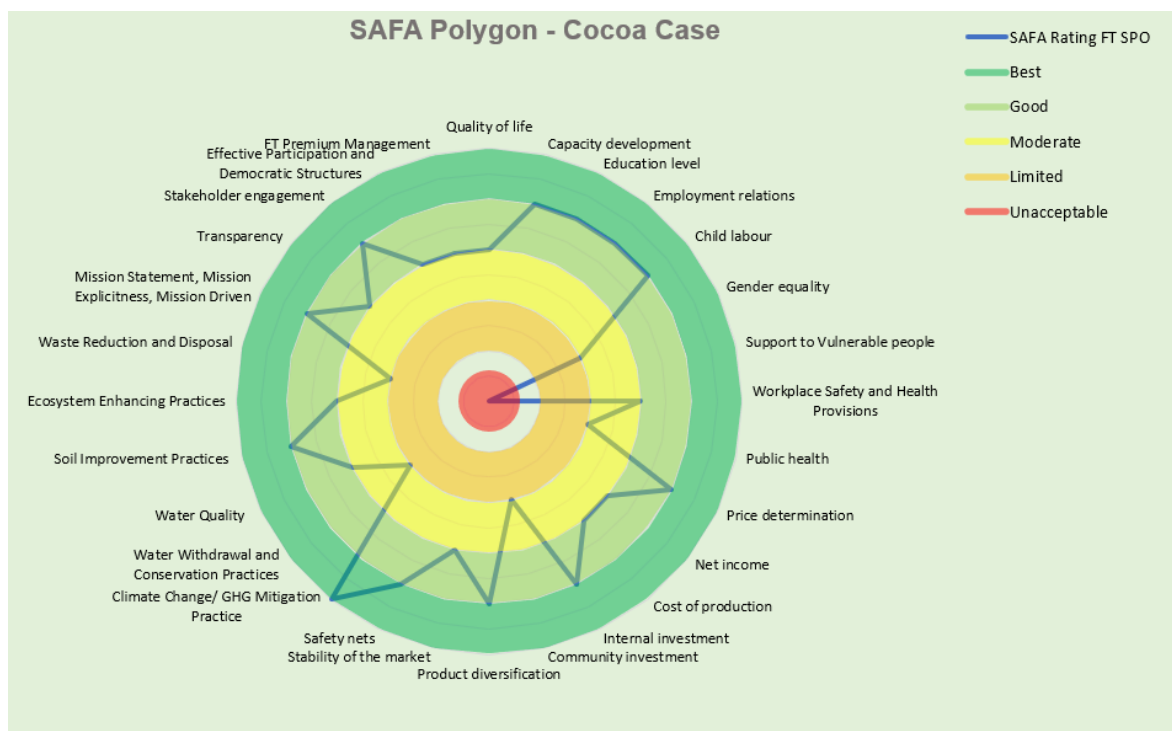


Figure 1: SAFA Polygon - Cocoa Case

## The case of banana in Peru

In this study, rating for SAFA themes and indicators were provided for the strongest among the three banana Fairtrade SPOs that were visited, to show the potential impact of Fairtrade to contribute to different spheres of sustainability.

**On economic resilience**, the study confirmed that the global **price** pressure on banana as a product is severely felt by SPOs in Northern Peru, even by the strongest one. At the point of the study, the difference between price received for banana and the production costs for many producers interviewed are at minimum levels. However, it appears that Fairtrade also enables SPOs to strengthen their market position and bargaining power. The strongest Fairtrade cooperative, currently, achieves a substantial higher price than recently or non-Fairtrade certified organizations and has maintained a **stable market** position in the last years. Current **net income** levels of their farmers are sufficient to meet basic needs but are not perceived as utterly attractive. Quite different, recently certified or non-certified producers and their SPOs at the moment of the study struggle with making profits at all. Interviews with SPO management revealed that, given the current price pressure, SPOs need at least 10 containers per week to reach a break-even point, considering occurring costs, including those of the certifications. Higher revenues than the **costs of production** are crucial for final income at both producer and organizational level. The Fairtrade cooperative manages costs effectively, but many farmers still struggle to keep records of their costs or sales. Fairtrade already developed record-keeping tools to strengthen financial literacy of banana farmers, which require further institutionalization. Here, the support of the Fairtrade can be crucial to bring costs down. It was, indeed, found that the Fairtrade Premium is used both for **internal investments** at organizational level, but also to cover production costs and some other type of expenses, such as costs for health services and safety measures. The well-established SPO is in the position to also use the Fairtrade Premium for **community investments**, based on the demand of their members and their surrounding villages. They have invested in, for instance, community health care, cultural events or educational centres. **Product diversification** has not yet advanced among banana producers of all cooperatives visited. Despite the notable effects of a changing climate, only a small minority of farmers has initiated the cultivation of other products, such as lemons. Eventually, the study confirms once more that the Fairtrade Premium serves as **safety net** for Fairtrade cooperatives: it can be used, in times of crisis, to e.g. mitigate negative effects that were observed in the banana case - emerging fungus diseases, heavy floods, and the current Covid-19 pandemic.

Examining **social well-being** shows that Fairtrade banana farmers are, generally, satisfied with their **quality of life**, their spare time and diet and nutrition. Some evidence was found that non-Fairtrade farmers are more prone to food insecurities due to the pressing income situation. **Capacity building**, financed by the Fairtrade Premium, continues to be an important service for both the cooperative and producers to professionalize their activities. While **education** levels of elderly farmers are still only basic, the study, like the predecessor one, reinforces that their children had the opportunity to access secondary or even higher education. As a consequence, they often turn away from banana farming and agriculture per se. The study assesses **child labour, gender equality, the support to vulnerable people within the society and health and safety provisions** as rather good for the Fairtrade cooperative. Their organizational structure as well as additional resources through Fairtrade Premium money allow the organization to set up various support activities and awareness creation.

Findings from the study showcase evidence that Fairtrade, among other factors, continues to be of key support for the evolution and strengthening of producer organizations and the development of **good governance** systems. The Fairtrade cooperative is transparent in its activities, engages with a broad range of stakeholder groups and supports lobbying activities to strengthen the banana cluster in their valley, where banana cultivation is the dominant land use and economic sector. The organization has a strong **democratic system**, but also reduced regular and personal meetings due to Covid-19. It is one of the only organizations that can really actively invest in their communities with the help of the **Fairtrade Premium** and provides support to infrastructure projects, social welfare and health and community activities. Weaker, more recently certified or non-certified SPOs cannot afford to support investments in their communities.

Within the **environmental integrity dimension**, the issue of **climate change** remains underestimated and calls for more intensified attention towards adaptation measures. Product and income diversification could

decrease dependency on the cultivation of banana, which might be highly affected by a changing climate in the future. The Fairtrade cooperative implements different measures in regard to environmental issues: they put high value in **soil improvement practices**, but yet look less after **water conservation and ecosystem enhancing practices**. With waste management being an issue that remains unresolved, the strongest Fairtrade cooperative started to explore the topic of **waste reduction and disposal** and, currently, pilots a circular economy project.

Figure 2 summarizes SAFA themes for the banana case in a polygon.

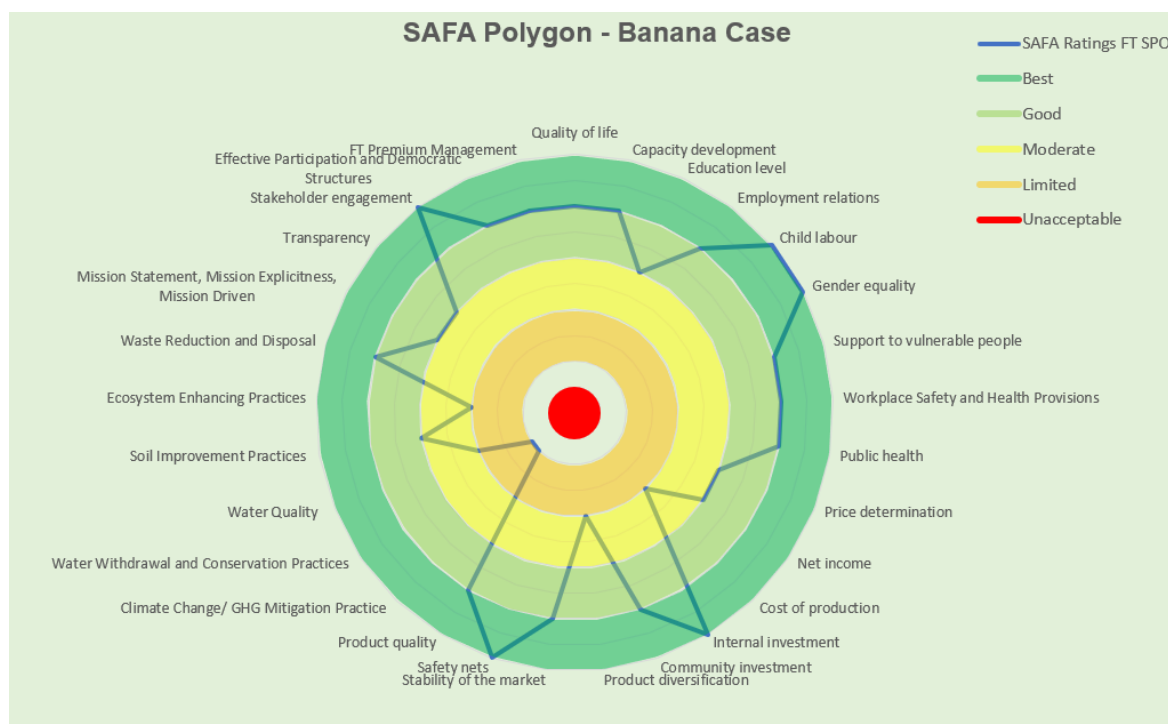


Figure 2: SAFA Polygon - Banana case

### The case of Coffee in Central Peru

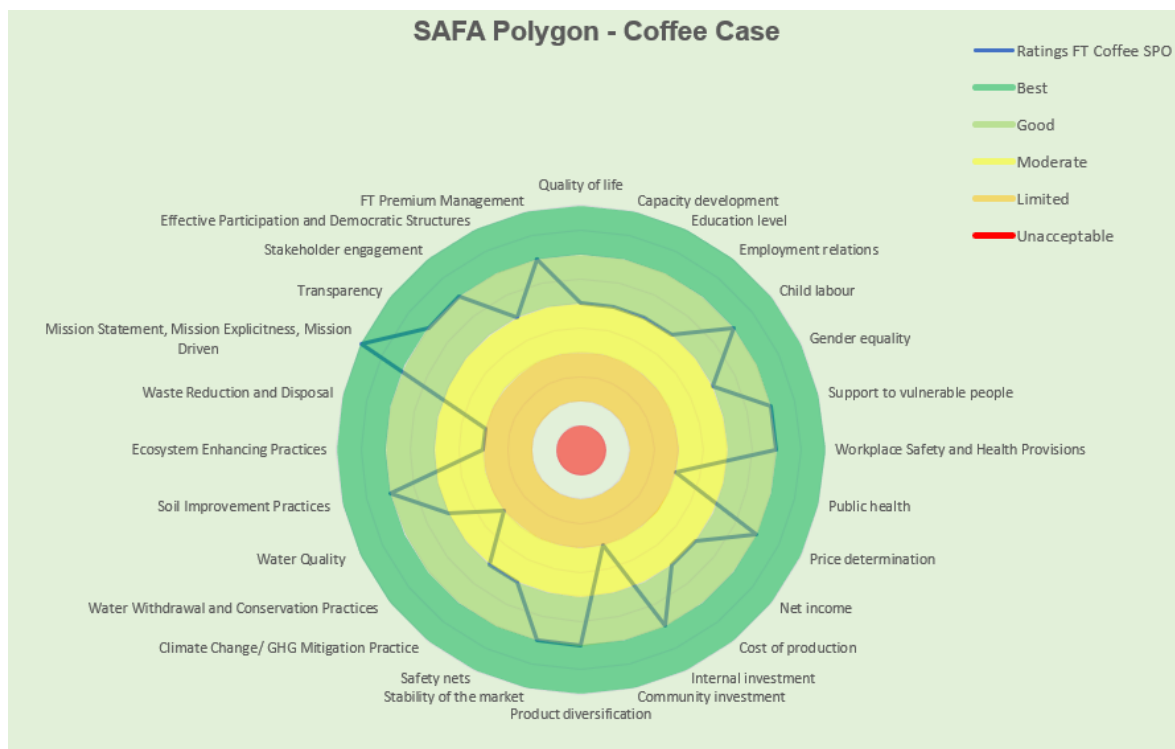
On **economic resilience** of coffee farmers interviewed in the Central Amazon of Peru, the aftermath of the coffee rust crisis is still felt, and producers find themselves in a very vulnerable position. Many of them are struggling to pay back loans, which they had to take up to renovate their farms. The cooperative's new management has introduced strict austerity measures to ensure the pay-back of debt at organizational level. The study, however, also shows that in the last four years the Fairtrade minimum price and long-term contractual agreements have provided stable **prices** in times when global coffee market prices are very volatile. Fairtrade certified producers achieve higher prices than non-certified producers. With prices being higher than four years ago, **net income** of Fairtrade certified producers is slightly improving, but still very limited and compromised by the obligation to pay back loans and rising costs of living. Cost of production continue to be a crucial determinant of final profits and keep fluctuating, especially since the outbreak of Covid-19. The biggest support the cooperative can currently provide in this situation of continued **vulnerability** is to use the Fairtrade Premium for in-cash payments to their producers. This supports their members to handle their situation of debt as well as rising cost of production and living. The Fairtrade coffee cooperative is found to be very conscious about **vulnerable sub-groups** within the communities and provides selected support measures, such as incentivizing indigenous community member to become part of their cooperative. Recognizing the urgent need for diversification, the cooperative also initiates support projects, e.g. on fish farming, to diversify income sources. Fairtrade Premium money is otherwise used to **invest** and improve **internally**, while **community support** measures are barely provided at the moment of the study. While the situation continues to be precarious, the study shows that Fairtrade is a substantial **safety net** for their producers and allows the SPO and their members to continue with coffee cultivation.

On the **social well-being** dimension, **quality of life** is moderate, as a tight economic situation affects the hiring of external labor, leaving more hard work to producers themselves. Farmers are also more prone to food insecurity than during the predecessor studies. **Education levels** remain unchanged but farmers, at least before the pandemic, received regular **capacity building** and technical visits, which positively affected their farm management. Awareness of Fairtrade certified farmers on **child labor** continues to be high, while there are some indications that children of non-Fairtrade farmers have started to engage again in farm activities when the pandemic did not allow them to attend school regularly anymore. **Gender equality** is assessed as moderate, as measures to strengthen women empowerment are restrained. The cooperative supports **safety and health** of their farmers but has less impact on public health in general. At the moment of this study, the Fairtrade cooperative has not initiated any special support measures on **vulnerable people** in the communities or indigenous groups.

On **good governance** related themes, producers voiced satisfaction regarding the new management, the cooperative's **transparency**, and the **engagement with stakeholders** both within the respective communities, collaborating with public institutions, and at regional level, e.g. the cooperative's proactive role in forming a Coffee Cluster in the Central Amazon. Farmers, are in general, satisfied with their **participation and influence in decision-making**, even though the recent austerity measures adopted by the cooperative's leadership were not appreciated by everyone, leading to some members leaving the cooperative.

On SAFA themes related to **environment integrity**, awareness on **climate change** is high and consequences are perceived and observed. However, concrete **mitigation practices** are not yet be proactively installed by the cooperative. Water is abundant in the region of La Florida and no specific **water conservation or improvement practices** are followed. **Soil quality** is important for the growth of coffee and farmers show good capacities in managing soils, whereas outside the cooperative practices to burn land and forest still exist or were resumed by non-certified farmers. **Waste management** continues to be an unresolved issue in coffee communities visited. For this specific case, it is important to understand that the cooperative, besides the Fairtrade and several organic certifications, is also labeled by UTZ. Advances in environmental practices can therefore not only be attributed to Fairtrade but also to other certifications and initiatives.

Figure 3: SAFA Polygon - Coffee Case





**Figure 3: SAFA Polygon - Coffee Case**

## Conclusion and recommendations

Findings across the three case study settings corroborated and allowed the research team to identify overarching conclusions, from which a set of key recommendations, directed to different actors, were derived. Conclusions and recommendations are presented as follows.

### Directed at the SPOs involved in cocoa, banana and coffee cultivation

Climate change and other external risks increasingly pose an inevitable threat to crops, putting in particular farmers who only focus on one product, in a highly vulnerable position. This study along with other research shows that diversifying income sources is indispensable to ensure economic stability, an acceptable quality of life and even food security. The case of coffee has shown how vulnerable farmers can be in times of a climate change-induced crises (“La Roya”/coffee rust fungus disease), jeopardizing their existence and livelihood. It could also be shown that, especially with small farm sizes, building only on one type of product, makes the achievement of a living income impossible.

R1: It is recommended that SPOs across all supply chains, with the help of Fairtrade and producer networks, proactively support product and income diversification of their members to reduce vulnerability, enhance their resilience and ensure that they continue their farming activities even in times of crisis. The issue of food security, for now rather largely voiced by non-certified farmers, emerged in all three settings and requires careful observation and attention.

The study also illustrates that farmers require support to invest in the modernization of their farms. The acquisition of funds for necessary investments remains challenging and technical capacities on modern techniques could be enhanced. Especially female farmers are rather left behind in this regard.

R2: It is recommended that SPOs either assist in the actual acquisition of funds, e.g. by setting up credit schemes, or explore alternative ways that support farmers in the modernization of their farms, e.g. by providing new techniques or machinery inputs via the Fairtrade Premium. The use of machinery should be integrated in trainings, so that farmers have the technical know-how to operate modern technical devices that positively affect farm productivity.

Study evidence has shown that farmers tend to not appropriately monitor their farm expenditures and sales revenues. Record-keeping tools are meant to facilitate better decision-making and planning to optimize farmers’ income.

R3: It is recommended to provide trainings on financial literacy for coffee, cocoa and banana farmers. In order to ensure efficient use of business tools, trainings need to be tailored and implemented to guide farmers. Alternatively, training-of-trainers could be given to technical staff of cooperatives, who would then train their peers on financial literacy and raise awareness about the importance of record keeping. In addition, training on how to invest, understanding banking institutions and the processes in acquiring loans, were demanded by cocoa farmers.

In all three settings, trainings, capacity building but also physical meetings, such as general assemblies, were put on hold due to the on-going pandemic. While obeying to necessary health and safety measures continues to be important, it was found necessary to again increase transparency towards producers, create awareness on their rights to participate and showcase the value added of being a member of the cooperative. Benefits are mutual, as cooperatives depend on their farmers to deliver their product in the quality that is required.

R4: It is recommended to develop materials to explain to the producer and their children how they benefit from the SPO both in terms of revenue and services. Benefits of being member of a Fairtrade cooperative should be transparently communicated when payments are delivered. Especially Ghanaian Fairtrade cocoa farmers would require more awareness on their right as a member to enhance meaningful and effective participation.

### Directed to Fairtrade regional networks level (CLAC and Fairtrade Africa)

In situation of price pressure, production volumes matter both at producer but also at organizational level of the SPO. Research suggests that producers with a small land size to cultivate their product are barely in the position to ever achieve a living-income. In addition, small-scale SPOs also struggle to become profitable when their weekly production is low but cost of production, including certification cost, remain high. The banana case showed that the profitability of an SPO highly depends on the overall volume that can be exported.

R5: In the banana case, at organizational level, it is recommended to encourage SPOs to achieve larger export volumes that allow to cover all running costs. To do so, it is found necessary to promote and incentivize the non-break up of cooperatives and encourage them to acquire and maintain a larger number of members that produce sufficient volumes per week.

Over the last decades, it became evident that smallholder farmers in general receive a very small share of the actual product value, i.e. of the supply chain value. Accordingly, the younger generation often turn away from agricultural practice, jeopardizing intra-generational sustainability of cocoa/banana/coffee production.

R6: It is recommended that regional network organizations support SPOs in identifying strategies for enhanced value creation, such as the use of by-products to produce e.g. coffee-cherry infusion, or processed products based on banana or cocoa. Networks with their resources available could promote pilot projects or bring together SPOs to discuss how value creation could be enhanced within the respective settings.

### Directed to Fairtrade Germany and Fairtrade Austria

This study found thorough evidence that climate change increasingly impacts banana, coffee and cocoa producers negatively. Actors along the supply-chain, who have a continued business interest in sourcing agricultural products, must urgently expand their responsibility and support cooperatives and producers in implementing climate change adaptation measures.

R7: Fairtrade plays a pivotal role to mobilize actors and funds and to raise awareness on the effects of climate change at the beginning of the value chain. It is recommended that Fairtrade continues its strong stand to support the implementation of climate change adaptation projects and to create awareness at both retailer and consumer level

This study elaborated on how Fairtrade has contributed to influencing the Ghanaian government towards implementing a living income strategy that includes a raise in farm-gate price. It is considered positive that Fairtrade supports this strong position despite knowing that this would have a negative effect on some of the buyers of Fairtrade cocoa. The same challenge can be seen across all value chains. Products, above all banana, are highly price-sensitive, while at the same time, farmers are very cost-sensitive: The recent Covid-19 crisis showed that current prices might be too low to achieve adequate livelihood with food prices and production costs rising.

R8: It is recommended that Fairtrade keeps up a strong position, continues to critical reflect on minimum prices across different Fairtrade contexts and further fosters the political discourse on prices set on products cultivated in the Global South.

Covid-19 has caused challenges for producers worldwide. Besides economic hardship and risks to one's own health, the study also indicates that women and marginalized groups face additional constraints. Support measures to women and to vulnerable groups within the communities have come to a hold or receive substantially less attention.

R9: Following the United Nations' call to "Leave no one behind", it is recommended that special attention is given to sub-groups of producers that might be even more prone to poverty, food insecurity and health issues. Fairtrade could initiate research and collect thorough disaggregated data to understand the situation of vulnerable groups better and to act accordingly..