

## Management response of Fairtrade Germany, Mach Havelaar Switzerland and Fairtrade Austria to the findings of the CEval follow-up Study 2018 on Fairtrade Impact on Poverty Reduction through Rural Development

For the second time, Fairtrade Germany and the Max Havelaar Switzerland Foundation, now jointly with Fairtrade Austria and the Swiss State Secretary of Economic Affairs (SECO), commissioned the Center for Evaluation (CEval) to conduct a study aiming at identifying the contribution of Fairtrade (FT) on poverty reduction through rural development. The study at hand is a follow-up impact research to the study published in 2012<sup>1</sup>, assessing the changes that occurred towards the findings back then. It includes the same products (i.e. banana, cocoa, coffee, cotton, flower and tea), producer types (i.e. Small Producer Organizations (SPO), Hired Labor (HL) and Contract Production (CP) as the 2011/12 study.

In the study at-hand, a theory-based contribution analysis was applied, considering FT's Theory of Change (ToC) and the research areas of the COSA indicators. Data collection across the six different contexts took place between October 2017 and January 2018. Findings are structured along the economic, social and ecological dimensions of the COSA indicators and include cross-sectional (FT and non-FT case study comparison) and longitudinal (comparison over time) results. The following findings can be reported on each specific case:

### *Banana/ Peru*

In the economic dimension, FT continues to contribute to a great extent to the strengthening of SPOs in the *Chira Valley*. This has several effects, being one of them that income stability for most FT farmers, members of the FT certified SPOs, has further improved. This in turn has enabled the FT farmers to invest in the education of their children and their housing and mobility. It has not only brought changes to their households but improved the entire reputation of the village. Strong FT cooperatives are capable of supporting their members in emergency situations (e.g. caused by the El Niño phenomenon), whereas non-FT cooperatives stated to not have the means to provide similar support. Nevertheless, rising competition through large-scale plantations were acknowledged by both FT and non-FT cooperatives as major threat, which could jeopardize the sustainability of small scale *bananeros* of the valley in the future.

Compared to the first study five years earlier, in the social dimension, it could be identified that some banana cooperatives have turned into important actors in local development. Also, Women appear to show enhanced participation and self-esteem and also claim to have more equal say in their households. Despite economic improvements, some FT farmers, however, have perceived a decrease in social satisfaction. One reason mentioned was that due to improved education and job opportunities, many children move away from their villages which leads to the separation of families. In the ecological dimension, the study revealed that climate change already impacts on the resilience of producers and will do even more so in the future. Against the background of the increasingly evermore felt impact of climate change, water shortage remains one of the most pressing problems for the farmers and the adjacent communities.

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<sup>1</sup> See: [https://www.fairtrade-deutschland.de/fileadmin/DE/mediathek/pdf/fairtrade\\_impact\\_study\\_ergebnisse\\_wirkungsstudie\\_de.pdf](https://www.fairtrade-deutschland.de/fileadmin/DE/mediathek/pdf/fairtrade_impact_study_ergebnisse_wirkungsstudie_de.pdf)

### *Cocoa / Ghana*

Looking at economic indicators, FT cocoa farmers generally reported higher incomes than their non-FT counterparts, which stands in close relation to productivity enhancement and reduced costs for farm inputs, as these are partially provided by the cooperative. Indeed, already in the 2011/12 study it was observed that the traditionally low productivity in the Ghanaian cocoa sector had improved – a development that was again highlighted by FT cocoa farmers in this follow-up study. In contrast, the issue of limited access to loans for cocoa farmers remains unresolved with potential negative implications for sustainable cocoa farming in general.

When looking at social indicators, the existence of child labor was identified as a problem five years back, but in the current study no cases were identified or discussed as on-going practice. Awareness on the issue of illegal child labor and its importance has definitely increased among FT farmers due to systematic sensitization measures. In terms of participation, it was found that thanks to intensive trainings, five years later, farmers show better understanding on FT processes. Likewise, participation continues to be strong thanks to a well-functioning system of extension officers.

One focus of capacity building is the implementation of environmental awareness raising measures on sustainable agricultural practices, which have been continued and were progressively extended by the FT cooperative over the last years. Farmers see this as one of the most valued benefits from cooperative membership. a. Lastly, FT cocoa farmers continue adopting environmentally friendly farming techniques such as composting and planting of shade trees.

### *Coffee / Peru*

Coffee farmers in the Peruvian *Chanchamayo* province have experienced a range of setbacks in the last five years. The most prevalent crisis they encountered was the emergence of *La Roya* (coffee rust), a fungus disease whose epidemic spread is widely perceived as a climate change effect, and that has aggressively destroyed coffee plants and led to a dramatic loss of coffee plants across the Amazonian region. At the same time, the price for coffee in the world market dropped drastically and internal issues of the FT cooperative led to bad managerial practices and distrust among producers. Negative consequences caused by climate change were not shared equally among supply chain actors but solely borne by the cooperative. Furthermore, the occurrence of ‘ghost-cooperatives’, set up by local companies who list members that do not actually exist, while instead sourcing from the street, represent further illegal competition for the FT cooperative. Non-FT farmers experienced the same shock in prices and have been exposed to even greater exploitation when selling on conventional terms. They reported robberies of coffee, fraud in weighing, and random price fluctuations. Contrary to FT-farmers, a large share of non-FT farmers had left their homes and coffee production due to the bad income situation and took on low income jobs in more urbanized regions. Both FT and non-FT farmers had to take up credits by the Peruvian governmental bank and are in debt today with pay back starting from this year’s harvest on. Awareness on the diversification of income sources for both FT and non-FT farmers has increased during the crisis but is still too low to enable living income for farmers in the region.

Social satisfaction is strongly correlated with the economic situation, and social indicators showed that, farmers appear to have experienced a fall in self-confidence and pride and have lost trust in the promise of coffee. Feelings of helplessness, fear and despair were prevalent among all coffee producers. Nevertheless, despite their precarious situation, the FT cooperative continues its operations and has been able to set-up a Public Private Partnership (PPP) to implement a holistic vocational training course, which goes far beyond the support they provided in 2011.

In the environmental dimension, the 2011/12 study concluded increased awareness regarding environmental practices (e.g. composting), mainly due to trainings under UTZ and Rainforest Alliance (RA) certification. This trend continues as FT farmers stick to environmental policies established by the cooperative. In contrast, non-FT farmer stated to have resumed damaging practices such as burning of fields. Lastly, in the current study, all farmers complained about changing weather patterns, leading to heavier rain and stronger sunlight.

#### *Cotton / India*

Income for the FT organic cotton farmers was reported to be higher than for the non-FT (BT cotton farmers), both in 2011/12 and in the follow-up study. However, while FT group in the 2011/12 study was characterized by higher productivity, this was not echoed in the follow-up study. Income differences were rather driven by higher crop purchase price and lower production costs through the provision of farm inputs (e.g. provision of seeds, picking up crop at the farm) with the help of the CPO scheme.

In the social dimension it was identified that, awareness on the issue of child labor and the importance of education has risen among FT farmers, while this does not seem to be the case for non-FT cotton farmers. Deeply rooted gender bias is still an issue, but girls' scholarships, provided by the FT premium, aim at increasing the number of female students pursuing higher education. While access to public primary education up to 8<sup>th</sup> grade is given, the quality of education raises cause for concerns.

In terms of environmental changes, water scarcity clearly remains one of the most pressing problems for both FT and non-FT cotton farmers. Acknowledging this need, a drip irrigation project is on the verge of entry. Awareness about the benefits of environmentally friendly farming practices for the whole community continues to be much higher among organic FT cotton farmers.

#### *Flowers / Kenya*

In terms of economic power, workers of visited flower farms complained about disproportionately high living costs, which were not reflected sufficiently in their wage increases. While there have been improvements in wages in the last six years, in line with Fairtrade's respective HL standard, they do not yet resemble the suggested Global Living Wage for the Kenyan horticulture sector. Political instability and gentrification have recently exacerbated this perception. On a different note, the very high appreciation and importance of the FT farm's savings and credit scheme was again confirmed.

In the social dimension, both, five years ago and today, the FT flower farm in Kenya provides educational support financed by the FT premium and has enhanced their scope of education activities aiming at benefitting the whole community. The non-FT farm examined also invested in single education initiatives, but these were solely directed at their workers and did not show larger impact at community level.

Environmentally friendly agricultural practices such as prohibition of waste burning, use of micro-organisms for soil protection, compliance with criteria for occupational health and safety and composting of green waste are still in place and implemented. Furthermore, the FT farm has stepped up and continued its efforts regarding water management and preventing pollution of water bodies.

#### *Tea / India*

In the tea case, no suitable comparison group could be identified and thus only a longitudinal comparison over time of one FT tea garden was conducted. In respect to economic indicators, the study must acknowledge that tea pickers are still paid below the agricultural minimum wage as was the case at the time of the 2011/12 study. Trade unions have been pursuing a minimum wage for the

Indian tea sector, but the Government of West Bengal does not seem to act in this regard. Despite a low share of tea that is actually sold under FT terms and thus limited financial additions provided by the FT, in-kind transfers and infrastructure developments financed by the premium were and are still valued as alternative means for (individual) economic improvement. In the social dimension, women-specific issues that were already identified in the previous study have not yet been solved and the women's committee appears to be inactive.

Positive changes regarding the environmental dimension, such as increase in biodiversity, were primarily attributed to the fulfilment of requirements under the organic certification – an observation that can be concluded also in this follow-up study.

Aggregating findings of all case studies, the following recommendations, directed to different actors, could thus be drawn accordingly:

*Directed to Fairtrade International / NFOs and Fairtrade Licensees*

**R1: Raise investments for climate change adaptation.** This study found thorough evidence that climate change is already impacting marginalized producers. Actors along the supply-chain should expand their responsibility and support cooperatives and producers at the end of the resource chain in implementing climate change adaptation measures.

**Response of commissioning parties:** Fairtrade producer organisations have unanimously identified climate change impact as the biggest threat problem. At the organizational level, Fairtrade has responded to this by implementing through the continental producer networks a programmatic approach focusing on climate change adaptation measures. Increasingly, such measures are supported by projects financed jointly by Fairtrade and licensees to invest into climate change adaptation. Safeguarding supply chains against climate change impact is the driving force behind this new development, which will become more important in the future. To make this happen, Fairtrade needs to increase its international climate expertise as well as the operational capacity on the ground. The latter requires the provision of increased financial resources to the producer networks.

Furthermore, the Fairtrade Climate Standard is another instrument to engage in more climate friendly production generating Fair Carbon Credits and thereby providing another source of income to invest into climate change adaptation measures. For licensees this standard offers a chance to compensate unavoidable emissions, in particular within their Fairtrade-supply chains. However, the uptake of the Fairtrade Climate Standard by POs, NFOs and licensees needs to be increased significantly in order to be meaningful. FTG, MHCH and FT Austria are working towards that objective.

**R2: Facilitate (supply chain) stakeholder support in times of crisis.** The study revealed that externalities can trigger a profound crisis for producers/workers. Fairtrade should continue to mobilize and sensitize their vast network of supporters to join their efforts in providing emergency support and ensure efficient and timely mechanisms to implement the same.

**Response of commissioning parties:** As standards setter, capacity building NGO and being a system co-owned by Fairtrade producer organisations, the Fairtrade system is already investing significantly in adaptation measures against climate change. This includes e.g. funding of construction works to prepare for emergencies, such as safeguarding of

warehouses, cooperatives operational facilities, preparing feeder roads against flooding and inundations, etc., better water management, improvement of microclimatic conditions, and so on. However, the resources of Fairtrade alone are not sufficient for this. Fairtrade will therefore continue to dialogue with licensees to take their share of responsibility of their supply chains by supporting producer organisations' efforts to prepare for climate change-induced emergencies. Another important line of action is the dialogue with public donors about their ability to support such initiatives. The most relevant actor in climate change adaptation measures as well as in reacting to crises are strong and resilient producer organizations. Therefore, the organizational development itself, which is a slow and steady process, is at the heart of all Fairtrade project work and of the standard setting

**R3: Improve resilience of small-scale farmers and workers.** It is important to enhance long-term resilience of producers and workers. Serious efforts should go into finding solutions for affordable, effective and sustainable agricultural insurance and pension systems, which further enhance farmers' trust, willingness and self-esteem to engage in agricultural activities.

Response of commissioning parties: Whereas some Fairtrade-certified HL organisations already have such systems in place, the majority of Fairtrade POs have not, in particular not small producer organisations (SPOs). In many cases not all certified products can be sold on Fairtrade markets/under Fairtrade conditions, and the income obtained through such is not sufficient to cover the costs of insurance and pension schemes.

The ability of a farmer/worker to put aside from their monthly income for pension is an integral part of the definition of a Living Income and Living Wage. The Fairtrade Minimum Price setting needs to this factor more into account. On the other hand, the Fairtrade minimum price can only impact if the Producer Organization is able to find buyers and can sell their produce under Fairtrade terms. Therefore, the price-setting effort needs to go hand-in-hand with committed supply chain partners that are willing to pay prices that enable pensions for their suppliers as part of their efforts towards stable supply chains where human rights are respected.

In addition to the market facing work with licensees and importers Fairtrade will continue to advocate for this in sector initiatives, forums, and the permanent dialogue with is licensees.

**R6: Continue to work on strategies to increase sales under FT.** This study found that low shares of FT in respect to total sales are still a crucial limiting factor for larger impacts. Achieving an increased market penetration should continue to be a top priority. In specific, the tea case represents major challenges due to its political context and, generally, low tea consumption in countries like Germany.

**Response of commissioning parties:** With the finding that below 30% of sales under Fairtrade terms there is no significant impact to be found at producer organisations' level, the 2012 forerunner of this study had conveyed a major message to companies working with Fairtrade that they would need to increase their commitment and source more volume under Fairtrade terms to see more meaningful impact of their commitment. In the meantime, with the Fairtrade sourced ingredient (FSI) model the Fairtrade system developed an second model for companies to work with Fairtrade. This is showing positive results in cocoa, and has therefor been extended to all products except coffee and banana, to enable higher sales of Fairtrade producers

**R11: Create attractive opportunities for the next generation of farmers.** This study revealed that in most SPO settings, children of current members show disinterest in pursuing agricultural activities of their parents. New opportunities for youth must be identified to improve the image of agricultural practice and find areas of work that match with their interests and talents. It is recommended to conduct more research on aspirations and perception of the younger generation of farmers to adequately cater to their needs in the future.

**Response of commissioning parties:** *to support better qualification for jobs within a given sector (coffee, cocoa etc.), Fairtrade International and FT regional networks (Fairtrade Africa, NAPP, CLAC) to liaise with vocational training institutions? With GIZ? To come up with training concept on job qualification?*

*Directed to Fairtrade International, FT regional networks (Fairtrade Africa, NAPP, CLAC)*

**R4: Examine sustainability of capacity building measures financed by the premium.** Long-term benefits of premium investments implemented by some POs raised doubts and might often only yield rather individual benefits than institutional learning. It is recommended that POs are better guided in usage of the premium to jointly identify the best cost-benefit measures as per specific context.

**Response of the commissioning parties:** Fairtrade is adding more guidance in regards of Premium Use to the Small Producer Standard that is currently being revised. The intention of the guidance is to support management of the SPOs in preparing premium plans that are indicated to strengthen the organizations in the middle and long run. It is clear from Fairtrade MEL data and field expertise that usually investments into production infrastructure and XXX are enabling sustainable organizational development better than for instance direct payments to members or investments in community welfare. The management of the SPO can use the guidance also to ensure support from SPO members when these plans are then submitted to vote for the General Assembly of the organization, where small holders tend to be more supportive of projects that will have direct, tangible results in the short run, as their income and living situation is usually precarious.

**R7: Improve capacities in social program design.** The research revealed that some FT POs are now mature enough to not only handle well the premium but also to constitute an important player in rural community development, partnering e.g. with municipalities. To do so, better capacities in results-based social program design are required to move beyond mere infrastructure projects or one-time trainings.

**Response of commissioning parties:** The country and product networks of the producer networks in Asia, Africa and Latin America and the counselling work of the Producer Network staff to the organizations will address this and offer tailor made support in line with level of development of an organisation

**R8: Create a space for knowledge sharing among FT POs.** Several POs mentioned that there is a need of learning and knowledge exchange. Best practices on FT premium investment should be shared more frequently, and both online and offline settings could be created to facilitate these processes. Actors must not necessarily be brought together on a national or supranational level but could for instance

also entail having monthly meetings between POs in the same product category and region or annual competitions.

**Response of commissioning parties:** Based on various research findings, Fairtrade is aware of the need to provide more guidance as regards better targeting of capacity building measures and the identification and implementation of premium-funded projects. Whereas the Hired Labour Standard already features an [“Explanatory Document for the Fairtrade Premium Committee”](#) to provide guidance on identification and sustainability of premium investments, this document does so far not exist for the Standard for Small Producer Organisations.

However, in the currently ongoing fundamental review of this standard, how to deal with the question of providing more guidance on premium investments of SPOs – without touching on their autonomy - is part of the respective project assignment. The SPO-Standard review is planned to be finished in Q1 2019.

In terms of knowledge exchange between Fairtrade PO – be it in terms of best practice premium investment or other topics – the Fairtrade Producer Networks are the best positioned actors in the Fairtrade system. They are routinely carrying out learning visits between producer organizations at country level as well as between countries. In addition, the Fairtrade governance meetings such as national and continental general assemblies are used for information exchange. In Africa, Asia and Latin America the Fairtrade product-related sub-networks have been set-up with the specific intention of continental exchange of best practices.

*Directed to Fairtrade International, FT regional networks (Fairtrade Africa, NAPP, CLAC) and FLOCERT*

**R5: Investigate the occurrence of so-called ‘ghost-cooperatives’.** The emergence of ‘ghost-cooperatives’ is of high concern since the Fairtrade system appears to be misused by local private companies. The issue must be examined in more depth by integrating the observations by local FT organizations and solutions to prevent the same in the future must be articulated promptly.

**Response of commissioning parties:** ‘ghost-cooperatives’ usually appear, when Fairtrade sales in a certain region and product are starting to be relevant, and/or market prices are very low, so that a Fairtrade-certification seems to be an attractive market opportunity. However, ‘ghost-cooperatives’ have no intention to comply with Fairtrade’s development approach.

While the emergence of ‘ghost-cooperatives’ cannot be controlled by Fairtrade, their certification can be. The Fairtrade system has already started several workstreams as regards this challenge. Workstreams that have already been initiated towards that end, are the introduction of additional criteria such as determining the “development potential” and the introduction of a requirement of a general assembly vote as a precondition for certification against the Fairtrade SPO-standard. In Q1 2019 the revised standard is due for publication.

**In the meantime, FLOCERT** is open to receive allegations and to react quickly when these indicate need for unannounced audits at suspected ‘ghost-cooperatives’

*Directed to SPO /CPOs and FT regional networks (Fairtrade Africa, NAPP, CLAC)*

**R9: Improve scale-up strategies of cooperatives.** Distance is a crucial factor in price determination as well in retrieving benefits from the FT SPO. Different pathways of scaling are followed across the case studies and it is recommended to examine scaling strategies in more detail to identify the ones that yield benefits for all farmers, including the ones who are settled in remote areas.

**Response of commissioning parties:** FTG, MHCH and FT Austria will inform all POs taking part in the follow-up study them accordingly. Also, FT regional networks will be made aware of this recommendation.

**R10: Promote income diversification.** Diversification is to some extent difficult for SPO management, as they sometimes struggle to assure that members hand in enough produce to fulfill trading contracts. Nevertheless, diversifying income channels is indispensable to ensure stability, an acceptable quality of life level, and in some cases even survival of farmers. POs should promote diversification of their members to ensure that they continue their farming activities even in times of crisis, instead of migrating to cities.

**Response of commissioning parties:** Improving income diversification is of increasing importance, especially in times of climate change, when a particular crop might fail partially or completely due to e.g. fungus diseases or pest epidemics. Due to this background the topic of diversification as a means to better adapt to climate change is part of the ongoing SPO standard review. In Fairtrade project work there are several examples that promote diversification, for example in Ghana (ITC project with FTA)

**R 12: Explore opportunities to help farmers invest in the modernization of their farms.** The study showed that especially for self-employed smallholder farmers, the acquisition of funds for necessary investments into their farms poses a huge challenge – especially for female farmers. SPOs /CPOs may 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 seedlings or other farm inputs).

**Response of commissioning parties:** Research has already confirmed that in some cases, a Fairtrade certification made it easier for cooperatives to get access to credits. However, this is not a general picture and there is room for improvement. Fairtrade will continue its efforts to facilitate investment opportunities in cooperatives, e.g. by means of its programmatic approach and multi-stakeholder projects including joint projects with supply chain actors.

*Directed to HL POs*

**R13: Take action on the call for living wages.** FT has obliged their POs to move towards *living wages*, at least in terms of income increase above inflation rate. Whereas in the flower case improvements can be slowly recognized, no change in implementing a fair minimum wage has occurred in the tea case. Instead, colonial structures are preserved and an increase in power of tea garden workers is feared by key stakeholders. Hence, FI and its HL POs should examine if and to what extent the current



situation on tea farms in West Bengal is still in line with the FT approach and its principles and identify key stakeholders to take actions accordingly.

**Response of commissioning parties:** In 2014, Fairtrade has published the fundamentally revised Hired Labour Standard. In 2014 requiring measurable steps toward living wages and has set a timebound deadline for achieving living wages in the Fairtrade Textile Standard. However, Fairtrade standards alone are not sufficient to introduce living wages in a given sector. They can only be implemented with Fairtrade POs; and if they alone would introduce living wages, but not the rest of the sector, Fairtrade POs would be outpriced immediately in the markets. Therefore, at the same time, Fairtrade is working to create the necessary conditions for achieving living wages. Since there are no internationally binding rules or universal references for living wages, the most important prerequisite is the country-specific determination of living wages by means of an internationally recognized and verifiable method. Fairtrade is doing this with other members under the umbrella of the Global Living Wage Coalition:

- Implementing surveys to determine living wage benchmarks in 12 different sectors/countries under the umbrella of the ISEAL Global Living Wage Coalition: <https://www.isealalliance.org/about-iseal/our-work/global-living-wage-coalition>
- Cooperate with other certification systems, non-governmental organizations, employers, unions and retailers along the value chain to achieve viable wages.

Fairtrade has also taken a lot of action to further push the call for living wages:

- Several projects with workers and unions in East Africa set up to enhance their negotiation capacities for collective bargaining
- Proactively pushing for right the unionize in all Fairtrade certified POs and beyond
- Cooperation with the International Union of Food, Agriculture, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF)
- Membership in many national and international initiatives related to advocacy for living wages and Human Rights in global supply chains, for example:
  - Gender Equity Task Force of the World Banana Forum
  - Global Coffee Platform
  - Global Deal Partnership
  - German Alliance for sustainable Textiles (Textilbündnis)
  - German Cocoa Forum (Kakaoforum)
  - Living Wage Lab (NL)