



## **Summary of the Final Report**

### **Fair Trade programme evaluation**

#### **Impact Assessment of Fair Trade Programs for Coffee and Bananas in Peru, Costa Rica and Ghana**

**Study Assignment by Solidaridad**

**Coordinated by the Centre for International Development Issues (CIDIN),  
Radboud University Nijmegen, The Netherlands**

**Research Team:**

**Prof. dr. Ruerd Ruben (CIDIN, Radboud University Nijmegen)**

**Dr. Ricardo Fort (Grade, Lima, Peru)**

**Dr. Guillermo Zuniga (CINPE, San Jose, Costa Rica)**

# Summary and Main Findings

We distinguish the impact assessment into three types of criteria:

- (1) standard welfare effects (i.e. income, consumption expenditures and assets)
- (2) behavioral responses (i.e. changes in livelihoods, attitudes, gender empowerment and environmental care),
- (3) institutional implications, e.g. changes in farmers' organization and regional externalities that may result from FT involvement.

Although common problems related to attribution and complementarities should be acknowledged, the before outlined matching framework permits to make a largely unbiased assessment of the importance of these less-tangible benefits of Fair Trade.

## 1. Direct Welfare Effects

### 1.1. *Farm production, yields, prices and profit*

In most case, involvement in FT has a clear and discernable impact on the production efforts made by farmers to improve output and/or yield of their key crops. This is particularly evident for banana farms, whereas in some coffee farms the relative expansion came at the expense of reduced efforts devoted to other (food) crops, thus leading to a greater dependency on FT sales.

On the other hand, FT involvement tends to increase input applications and strongly improved crop productivity (particularly in organic banana and coffee production in Peru). Guaranteed market outlets and stable prices appear to give a strong incentive to FT producers to engage in yield-enhancing investments. There are still major margins available for further productivity improvement e.g. through innovative precision-farming production and harvesting regimes and by upgrading the quality of deliveries.

Most important net income and profit effects are generally found amongst organic FT producers. Even while they make substantial more costs for input use and the adaptation of their crop management systems (and price differences between FT and organic products that are rather small), the positive pay-off for organic FT producers is quite considerable and compares favourable to the smaller differences in net returns realised by conventional FT producers. This may be a clear indication that intensification of input use pays off, while FT producers that stay in traditional segments are facing major constraints.

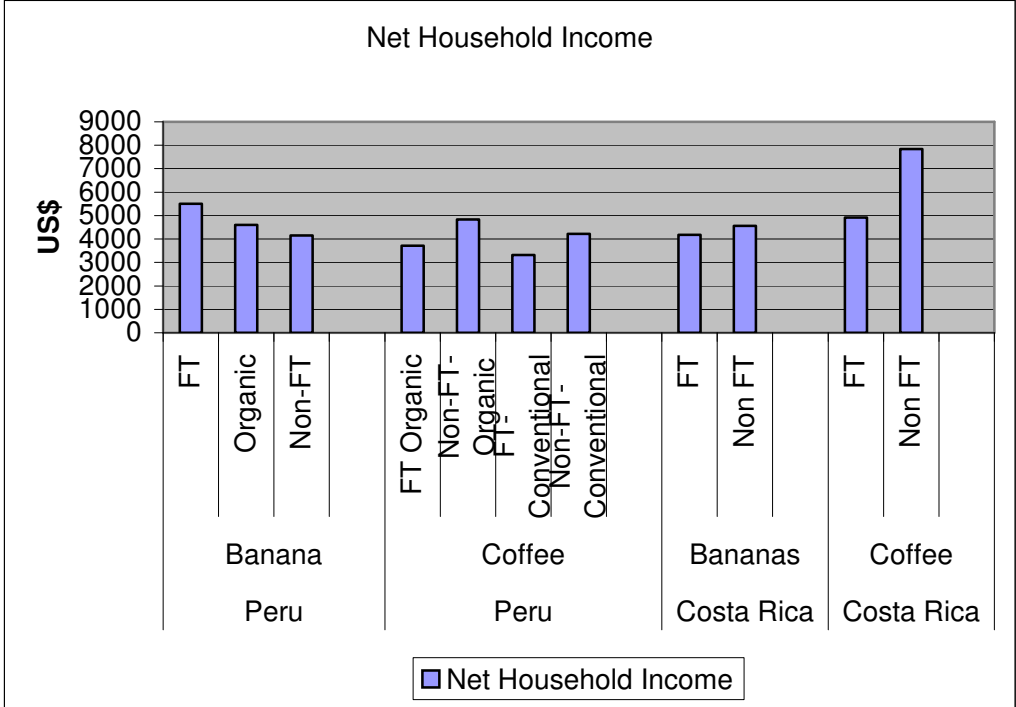
### 1.2 *Household income*

Fair trade producers receive stable (and sometimes higher) prices with the primary aim to increase their farming returns and household income. The household income includes net returns both from the production and sales of FT crops as well as from other farming and non-farming activities. This criterion thus captures the overall implications of FT production, including the possible substitution effects with other household activities.

The majority of the case studies clearly suggest that higher net incomes from FT production can be reached particularly in the FT + Organic segment. Income differences in the regular segment are usually smaller or occasionally not significant (Bacon, 2005). With the exceptions of (conventional) coffee production in Peru and Costa Rica, positive average net household income effects are registered (see Figure 1). This implies that net FT returns

generally more than compensate for changes in income generated from other activities (like food crops, off-farm work and non-farm activities). When this is not the case, this can be attributed to (a) reduced returns from food production or (b) less labour time available for off/non-farm activities. Several case studies indicate that - even while income from other crops declined - food consumption and dietary intake of FT households consistently improved, partly due to their larger purchasing power. Otherwise, also some positive spill-over effects from the FT crop to domestic food production are registered, based on improved input use (seeds, fertilizers) in other cropping activities funded by returns from FT production.

**Figure 1: Net Household Income Effects of Fair Trade**



In addition to net household income, attention should be given to differences in factor productivity. When a higher production volume is reached with far more use of land, labour or capital resources, marginal factor returns may decrease. Many FT producers devote considerable more labour resources to crop management and quality maintenance activities, particularly when organic practices are used. This may lead to only small gains in terms of net daily labour rewards. The increased labour requirements can either be filled-in with family labour or hired (wage) labour. Interestingly, we observe in the case studies on bananas in Peru that FT production enhances the use of hired labour, thus occasioning additional local employment opportunities. This additional demand is, however, only leading to a slightly higher rural wage in the Peruvian case of organic bananas. At the same time, family labour use sometimes declined and is partly substituted by hired labour (thus increasing home leisure time). An opposite situation is found in (organic) coffee production in Peru and Costa Rica, where less hired labour is used.

In most of the case studies, revenues derived from FT activities represents by far the major income component, with an average income share between 70 to 90 percent. As shown most explicitly in the Costa Rican coffee case, FT tends to enhance activity specialisation and thus reduced the degree of income diversification. This tendency is particularly observed in settings where cooperatives are able to sell a major share of their production to FT outlets. A

noteworthy exception is found amongst employees of the banana plantations in Ghana that derive less than half of their monetary income from wage earnings. This low but stable income component provides, however, the starting capital for other family-based operations in small-scale business or trade that generate important additional revenues. Moreover, employees of the FT plantation have considerably more time and resources available to invest in their own family plots, thus realizing significantly higher food production both for sales and for self-consumption. Whereas the FT salary only represents a minor income share, it enables important income diversification activities that reduce vulnerability and stabilize household livelihoods.

### *1.3 Household expenditures*

Differences in household expenditures are by far the most important overall indicator of FT impact and are generally considered as key welfare indicator. Even when some (significant) positive net revenues or total income effects are registered, minor differences appear in total household expenditures: only in banana production higher expenditure for FT producers are found, while significant negative effects appear in the Costa Rican coffee case.<sup>1</sup>

More detailed analyses of the composition of household expenditures over different spending categories reveal, however, that FT producers show consistently higher relative expenditure shares devoted to long-term investments in household durables, house improvements and particularly education (even when – like in the Costa Rican coffee case – total FT expenditures are lower). This implies that FT farmers may not appear directly as wealthier, but that they allocate their disposable income to other spending purposes that are likely to improve – in the medium and long run – their welfare and asset position.

### *1.4 Capital, wealth and credit*

Another important aspect for impact analysis refers to observed changes in assets or capital stocks. This indicates whether (past) returns have been invested in capital accumulation, and if FT households could benefit from improved credit access. Both capital resources and savings contribute to better economic prospects for future investments in income-enhancing activities that reinforce the capacity of households to withstand adverse shocks.

Almost without exception, the case studies reveal substantial and significant positive effects for FT households with respect to credit access and asset value. The delivery contracts with FT market outlets appear to offer a suitable collateral for increased borrowing with financial institutions. Most investments in assets concern household durables, some acquisition of cattle, and – to a minor extent – investments in land improvements and the acquisition (by hire or purchase) of new land.

### *1.5 Welfare perceptions*

In line with the earlier discussion on income and expenditures, welfare perceptions of FT producers regarding changes experienced during the last five years and expected changes in the next five years reveal minor and mostly non-significant differences with non-FT

---

<sup>1</sup> The difference between income and expenditures can be attributed to several unregistered revenue components (i.e. remittances, returns from informal exchange and omitted irregular incomes) or under-stated cost components (i.e. costs of family labour, home-produced organic inputs, certification costs, etc.).

producers. Only banana producers in Costa Rica are somewhat sceptical about the future, mainly due the critical current margin between production costs and prices.

It should be noted that the questions about past and future welfare perceptions capture the subjective overall feelings of FT/non-FT producers within similar local and macro-economic settings. They do consider, however, the implicit appreciation for community-wide social investment made from the FT premium that accrue – by definition – to all households, independently of their FT affiliation.

## **2. Changes in Livelihoods**

### *2.1 Spill-over effects*

Spill-over effects refer to the implications of fair trade engagement for other economic household activities. This aspect is frequently neglected in many FT studies, that focus almost exclusively their attention on the additional income received from FT sales. In practice, however, FT producers are usually engaged in a wide range of activities, including food production (for consumption and sales), (seasonal) off-farm wage employment and non-farm own-account activities (trading, processing, repair, etc). It is likely that the expanded opportunities for FT sales also have implications for the restructuring of these other activities.

The case studies from banana producers indicate that substitution of activities in this sector is barely occurring, since other activities are rather scarce. In the coffee sector, however, farm households are usually involved in multiple activities. It is indeed observed that income derived from these other farming activities significantly decreased, while also the contribution from off-farm and non-farm activities became reduced. The slightly negative productivity effect for conventional FT coffee in Peru could possibly be attributed to reduced family labour efforts, indicating that part of the FT price effects is ‘consumed’ in the form of higher leisure.<sup>2</sup> Similar effects are registered in Costa Rica as the result of the strongly increasing dependency of household income on returns from coffee production.

Full specialization on the FT crop could increase the vulnerability of rural households to (climatic and market) shocks. Producers that are engaged with several different market outlets - since FT delivery contracts cannot always absorb the full harvest – can also take advantage of risk diversification. Also plantation workers benefit from spill-over effects, especially if their wage income is supplemented with food production on own plots and with income from trading and simple processing activities. Somewhat lean labour conditions enable the plantation workers to devote considerable time to these other activities, in such a way that the salary represents only half of family income (and a third of household expenditures). Nevertheless, the stable wage income provides the necessary guarantee for engagement in these other, more risky activities. In a similar vein, most of the case studies confirm that household food expenditures have increased as a result of FT engagement, even when direct income effects were sometimes negligibly small or even absent.

### *2.2 Risk attitudes & behavioural responses*

Involvement in FT is believed to strengthen some of the behavioural attitudes that are considered critical for household poverty alleviation. In our farmers’ field survey, questions

---

<sup>2</sup> Note that higher leisure in a peasantry environment should be considered as a welfare-improving device, in line with the view of Chayanov that welfare is based on a combination of income and leisure (see: Ellis, 1986).

were incorporated related to farmers' risk attitudes, time preferences and willingness to invest, giving indications on their entrepreneurial potential and capacities (see Chapter 2-5 and 7). In addition, the plantation workers survey involved a series of attitudinal questions regarding their feelings of job security, job satisfaction, corporate identification and sense of co-ownership.

With the only exception of some coffee farmers<sup>3</sup>, FT producers are generally found to be significantly less risk averse. This implies, that the guaranteed sales to the FT market enable them to undertake other - sometimes risky - activities that can reinforce in the medium and long run their household economy. This is also confirmed when analysing differences between FT and Non-FT producers with respect to their longer time horizon and their higher willingness to invest. In both cases, the FT engagement provides a kind of 'financial floor' that permits farmers either to intensify their production systems or to diversify their household livelihood activities.

### 2.3. *Gender and Environment*

Involvement in Fair Trade is frequently advocated because of its expected implications for greater gender empowerment and improved environmental care (see: Milford, 2004; Murray et al., 2003; Ronchi, 2002). Empirical evidence on these effects is, however, rather scarce and largely descriptive. The common idea is that fair trade guarantees could provide opportunities for more involvement of women in the production and processing activities, whereas stable prices are generally considered as a positive incentive for realizing long-term investment in ecosystem improvement and quality enhancing production and quality management practices (Bacon et al., 2008).

Regarding gender empowerment, the case studies from Peru and Costa Rica provide rather mixed evidence. In banana production, the contribution of females to household income seems to decline, whereas the role of the male household head in five key decision domains (i.e. purchase of food, purchase of housing durables, education of children, agricultural production plan and credit request) became reinforced. In coffee production, similar but somewhat less pronounced tendencies are registered. Only in organic coffee production, joint decision making became more common, related to the greater labour demands for maintenance activities that reinforce the bargaining position of female household members. It is likely that these limited effects of FT on changing gender roles can be largely attributed to the dominant male control on monetary income sources (coffee revenues and FT premium). Moreover, membership of the cooperatives and is still strongly male-biased.

With respect to sustainable land use practices, FT shows positive effects on the use of organic inputs and some reduction in the reliance on chemical fertilizers. Even while changes in variable inputs use are frequently observed, investment in land-attached improvements (e.g. soil conservation structures, terraces, contour rows, drainage, etc.) still remain scarce. Apparently, the lump-sum required for realizing these investments is still prohibitively high and the FT premium is hardly available for these activities. Otherwise, it is also possible that insecure land rights could have inhibited in-depth investments in land improvements (Fort, 2007).

---

<sup>3</sup> Most likely, FT coffee farmers that become more specialized in coffee production exhibit a higher risk aversion. These farmers are, however, willing to invest in new land to further increase coffee production.

Wherever improvements for making production systems more sustainable rely on intensification of labour use (i.e. for mulching, composting, manual weeding, etc), FT can provide a positive contribution. In combination with the registered improved access to credit (necessary for purchasing substitutes for chemical fertilizers), the prospects for more sustainable practices applied in FT systems are likely to be high.<sup>4</sup> This is also confirmed in our comparison between FT and non-FT banana farmers in Ecuador that clearly point to the fact that a shift from chemical to organic fertilization and *sigatoka* control measures has the greatest potential for improving local farming systems and rural livelihoods.

### **3. Institutional implications**

#### *3.1. Farmers' Organization*

The overall positive and significant effect of FT involvement on the strengthening of local farmers' organisations and trade unions is a very important result of the impact assessment. Whereas organizational consolidation of cooperatives and farmers' associations has been mentioned from the outset as one of the key FT objectives, empirical evidence is still largely descriptive (see: Murray et al., 2003; Ronchi, 2002).

We applied a wide range of different indicators to analyse in depth the potential implications of FT on local organisations. In most of the cases, members' opinion regarding the enhanced bargaining power of their organisation was strongly and favourably influenced by their FT affiliation. Moreover, the satisfaction rates regarding service provision (technical assistance, trade, etc) proved to be high (except for coffee in Costa Rica). Many farmers thus perceive their organisations as a vital link to the FT channel, and also consider the support received from their organisation as an important guarantee for upgrading the quality and reliability of their deliveries.

In a similar vein, fair trade in a plantation setting proved to have a positive effect on workers' feelings of job security, corporate identification and even reinforces their sense of co-ownership. This latter aspect deserves close consideration, since the principle of worker participation tends to be increasingly considered as one of the key distinguishing criteria for fair trade (Murray and Reynolds, 2007). Interestingly enough, the indicator developed to measure 'organizational identification' appears to largely not significant for most of the cooperative and associative enterprises (with the positive exception of organic FT coffee producers in Peru). This may point to some important deficiencies in terms of information provision, membership involvement in internal decision-making procedures, and renovation of genuine leadership that many of the cooperatives are currently facing. As also indicated by answers to questions regarding familiarity with fair trade, the general knowledge about the significance of fair trade and the information on the use of the FT premium funds is not always widely distributed amongst the members.

It was originally envisaged that cooperatives with a longer trajectory of FT involvement are likely to be better off compared to recently affiliated FT producers. This so called 'life cycle' effect would indicate the advantages of prolonged FT participation. Empirical evidence points, however, in a somewhat different direction. Some of the early FT coffee cooperatives from Costa Rica seem to suffer from limited incentives for improving their production and

---

<sup>4</sup> Note that organic production using more labour use may eventually reduce returns to land and labour in the short run, particularly when complementary inputs (that provide necessary nutrients and organic matter) are not sufficiently available.

organisation systems and might have lost their initial advantage. Otherwise, the detailed comparison of three cooperatives with a different number of years of FT deliveries in Peru reveals that FT cooperatives with a longer time period of affiliation poses significantly more assets and animal stock and have better access to credit, whereas more recently involved cooperatives still suffer from credit constraints and risk-averse behaviour. But this does not imply that coffee yields, net returns and profits are necessary higher in the 'older' cooperatives. Their established position may even give rise to certain neglect of production innovations and further engagement with conventional market channels. Finally, a positive initial but clearly non-linear life cycle effect – with declining marginal return over a longer time span – is confirmed in the study of FT artisan cooperatives in Peru (Becchetti & Constantino, 2008). This is mainly attributed to strong learning effects in the early stage that reinforce bargaining power.

### 3.1. *Regional externalities*

Most impact studies limit their attention only to the farm-households that have been directly involved in fair trade deliveries. This implies that positive or negative implications for other farmers living in the same region are largely neglected. Theory predicts that Fair Trade may cause a negative demand externality for producers outside FT cooperatives. Focussing on poorer farmers that still have a large scope for productivity improvement might therefore be an appropriate strategy for improving farm-household welfare without affecting other (non FT) farmers. This requires, however, that additional benefits from FT are mainly invested in quality upgrading and not simply used for horizontal area expansion. This is indeed the strategy observed in the case studies from Ecuador (banana farmers shifting towards precision farming to increase yields) and Peru (coffee farmers investing a major share of the FT premium in credit and technical assistance).

Important positive spatial externalities from FT are registered in the Northern Peruvian region of *Valle de Chira*, where the strong expansion of (mainly organic) FT production leads to a general rise in market prices for non-FT bananas. Given the particular geographic properties of this area, it is unknown whether similar externality effects are to be expected elsewhere as well. In areas where FT production has reached a substantial market share (roughly beyond 30 %), options for exercising local market power clearly become apparent. Otherwise, the Costa Rican coffee case study indicates that full dependence on the FT channel may easily result in a monopsonic market structure that reduces incentives for activity diversification and quality upgrading.

In addition to price externalities, FT may also have a significant impact on the contract conditions for wage labour. This is clearly confirmed in the case of the Ghanaian banana plantations, where the collective labour arrangement signed with the FT firm VREL proved to provide the regional floor conditions for hiring wage labour. Basically, stipulations on salaries, working conditions and fringe benefits are incorporated by the Labour Union into the contract with other private plantations one year after they have been signed by the FT firm. This indicates that FT plantations and cooperatives might be able to exercise regional market power to influence general market conditions.

A particular type of externality is related to the FT Premium. According to FLO regulations, this premium accrues to the whole community and should therefore be invested in collective goods (like schooling, health care services, water and electricity, road infrastructure, etc.). In practice, many FT farmers express preference for using the FT premium to enhance their

individual household welfare. Some intermediate solutions are therefore found by allocating the FT premium into programs for microcredit, school fees, health insurance, input provision and technical assistance activities (mostly limited to FT farmers).<sup>5</sup> As indicated in several of the case studies, the FT premium can represent a substantial amount of money that could also benefit the wider community, but in practice the rather ‘isolated’ management of the premium resources – without establishing effective interfaces with other community-oriented programs operated by local NGOs, voluntary groups (like funeral associations or savings and credit unions) as well as churches, strongly limits the possibilities for reaching the desired multiplier effects.

Finally, we should acknowledge that the presented impact studies hardly considered possible implications of FT for changes in the value distribution throughout the supply chain. Since this was not part of the primary design of the study, capturing such dynamic effects requires a more thorough value chain approach (see: Ruben et al., 2007; Ruben et al., 2006; Gereffi and Korzeniewicz, 1994). On average, the stage located within developing countries captures between 9 and 32 percent of the f.o.b. (free on board) value, while the value share received by the growers ranges from 4 to 14 percent of the total retail price (Ruben and van Eyk, 2007). This indicates that the ‘struggle on the margin’ still opens scope for further bargaining, particularly since current tendencies towards vertical supply chain integration and upcoming new outgrower schemes tend to shift a larger share of the quality surveillance costs towards primary producers.

#### 4. Summary

In an effort to synthesize the key findings of the different case studies - while recognizing the diversified picture that emerges from reality – we present a concise overview of the most important FT impact effects (see Table 1).

**Table 1: Summary finding of FT impact**

<i>Indicator</i>	FT	Non FT	Remarks
<i>Production &amp; Income Effects</i>			
Crop production	+	-	Particularly in bananas.
Crop yield	++	-	Major effect in organic production
Crop price	+	n.s.	Higher price mainly for organic crops
Other crops	-	+	More specialisation (esp. in coffee)
Non/off-farm income	-	+	FT demands more on-farm labour use
<i>Household Expenditures</i>			
Net Household Income	+	-	Except in conventional coffee
Household Expenditures	n.s.	n.s.	
Past/future perceptions	n.s.	n.s.	
<i>Wealth &amp; Investments</i>			
Durable Assets	+	-	Mainly household durables
Credit Access	++	-	
Land investments	+	-	Mostly hire/lease, sometimes purchase
Housing investments	+	-	
Educational investments	+	-	Even when total FT income is lower

<sup>5</sup> Occasionally, the FT premium is maintained on a bank account and used for short-term loans. This is particularly the case when the local FT committee faces constraints in reaching mutual consent for allocating the premium to collective investments.

<i>Organizational reinforcement</i>			
Organizational Force	+	-	Decreasing with older cooperatives
Organizational Satisfaction	++	-	Except when FT is only buyer (CR case)
Organizational Identification	n.s	n.s	Positive in organic FT coops (Peru)
<i>Gender &amp; environment</i>			
Sustainable input use	+	-	Particularly in organic systems
Soil conservation investment	n.s	n.s	
Female-based Decisions	-/+	n.s	Mostly negative (except organic coffee)
<i>Regional externalities</i>			
Prices	+	+/-	Particularly for (organic) bananas
Wages	+	+	Occasionally higher wage labour demand
FT Premium	n.s	n.s	Accrues to all households
<i>Risk behaviour</i>			
Risk Acceptance	+	-	n.s for FT coffee producers
Willingness to invest	+	-	

Note: + = general significant positive effect ; ++ strong positive effect ; - = general significant negative effect ; +/- = mainly positive effects, but some negative outcomes ; -/+ = mainly negative effects, but some positive outcomes ; n.s. = not significant

## 5. Limitations

Some important caveats of these results need to be acknowledged. First, a major limitation to observe long-term changes in FT impact is the notable absence of base-line studies.<sup>6</sup> Even while we applied careful matching, it remained sometimes difficult to select farmers in similar agro-ecological conditions and to include some FT cooperatives that have been subject to long-term targeted assistance, due to the absence of suitable comparative non-FT enterprises located in a similar production environment.

Second, most data was collected at household level, thus partly ignoring welfare effects derived from community-level activities. Institutional data regarding FT premium allocation was scarcely available (requests to FLO were denied with arguments of confidentiality). In most cases, we were able to reconstruct FT premium use over the last few years, also including questions regarding farmers' preferences for FT premium allocations. This provides useful insights in some current trade-offs between individual and collective decision-making. Also the costs for (organic, FLO, ISO and Eurepgap) certifications that are usually covered by the cooperatives are not fully considered.<sup>7</sup>

Finally, the impact analysis for the coffee and banana cases involves some major differences in terms of internal organization (i.e. cooperatives/associations vs. plantation-type production) and related livelihood strategies for farmers and workers. Some FT banana plantations are involved in a process towards strengthening of co-ownership. This motivated to include a specific appraisal of ownership feelings of FT plantation workers and the organizational strength of FT cooperatives as key dimensions of the empowerment process. Within the sector of agrarian cooperatives, major differences in terms of the degree of collective action and

<sup>6</sup> We originally conceived the option to build upon earlier field studies and repeat visits to the same - or similar - farmers, but this proved to be rather impossible due to insufficient registration of farmers' coordinates (e.g. hardly any names or GPS coordinates of producers were available).

<sup>7</sup> A detailed cost-benefit analysis of FLO certification is not readily available. At current (2007) prices, organic certification certainly pays off, whereas FT certification costs are sometimes considered prohibitively high, particularly for cooperatives with a large number of smallholder producers. See: Jaffee (2007) and Fridell (2007) for other critical remarks regarding current FT certification systems.

shared innovation are registered. This makes it complicated to identify whether and how FT is tailored in line with the idiosyncrasy of local organisations. In general terms, there is little doubt that FT has reinforced the organisational potential of farmers and workers. Otherwise, evidence regarding the dynamics of organisational renewal and innovation is scarce (the case of Asoguabo presented in Ecuador is a positive example), and general consciousness about the significance of fair trade is fairly limited. This points to the fact that further deepening of FT might be required in order to be able to create and capture not only static, but particularly dynamic welfare effects.

## Conclusions & Outlook

The different impact analysis studies included in this volume all focus primarily at the micro-economic level of producer/worker households and their organisations. These insights can be, however, relevant starting points for further discussions about the perspectives of Fair Trade for reducing rural poverty and transforming global trade regimes.

Acknowledging the FT household-level advantages and constraints provides insights in the realistic dimensions and transfer mechanisms that are in force within FT supply chains. Even while important effects on asset accumulation, credit use, investments, expenditure patterns and organizational force are registered, the direct tangible net income effects remain fairly modest.<sup>8</sup> Externality effects on local prices and wages - reinforced through the FT premium use - that offer FT benefit to non-FT producers deserve far more attention. In addition, most significant changes are observed in several attitudinal aspects (i.e. improved risk behaviour, larger time-horizon and higher willingness to invest) that point to entrepreneurial responses to improved income certainty. Spill-over and outreach effects thus tend to dominate direct income effects. This may indicate that long-term delivery contract and the assurance of stable and large-scale market outlets are far more important FT features than the price advantage. Even while such messages might be more difficult to communicate towards large segments of consumers, it is more in line with FT reality than the simple transfer of an extra price margin.

In the current discussions on the future development potential of FT major attention is given to horizontal growth for improving market outlets and sales volumes. This seems fully justified, given the still limited share of FT sales in total commodity trade (i.e. FT coffee represents about 1.2 % of the European market). With this small market size, many FT cooperatives can currently only sell part of their production directly to FT outlets (Renard, 2005). Consequently, the FLO price advantage and social premium transferred to producers represent in 2004 together roughly US\$ 50 million in a total FT market valued at US\$ 1.6 billion, thus offering a small, albeit important 3 % extra value. Even while large annual FT growth rates are registered (up to 30-40% in terms of volume and value), the total marketed volume still remains small and further expansion depends on the involvement of large-scale retail networks and possibly mainstreaming of key elements of the FT approach to towards international corporations.

This is a highly debated issue within the FT movement, where proponents of horizontal expansion and growth (i.e. involving more producers and finding additional market outlets) and other groups that advocate instead for deepening fair trade (i.e. FT as an alternative business model challenging the power structures of global capitalism; see Fridell, 2007) represent contesting viewpoints. Considering this debate against the background of the results from our impact analysis, the different positions might be less contradictory. Reaching scale in FT purchases at local level is found to be of fundamental importance for generating lasting behavioural and organizational effects. Moreover, sizable upwards trends in prices and wages can be realised once fair trade becomes a competitive regional player (i.e. capturing up to 30% or more of total regional production). It is therefore highly important for reinforcing its structural impact that fair trade reaches a stable and recognizable regional market share. On the other hand, full dependence only on single FT outlets is also not to be preferred, since this may reduce incentives for upgrading and affect their bargaining power position.

---

<sup>8</sup> Note that this limited direct income effect is partly due to relative high market prices during the period of field research, that reduce the influence of the FT price advantage.

Other emancipatory aspects of the FT – related to its impact on gender empowerment, sustainable environmental management and organizational strength – still deserve key attention in shaping alternative business models. We found only scarce evidence of female empowerment in FT organisations and limited changes in household decision making procedures of FT farm-households. Attitudinal changes require better linkages between farm (production) and household (consumption) decisions. With respect to environmental implications, FT has most impact on (short-term) sustainable input use, but still remains short in stimulating (long-term) in-depth investments in soil quality and quality upgrading investments. This implies that due attention should be given to effective strategies for reinforcing positive gender and environment changes that are considered critical to guarantee the translation of fair trade into household welfare

The institutional strengthening of local organizations is one of the main results of the FT system. Farmers and plantation workers benefit from improved service provision, technical assistance, market outlet assurance and better access to credit facilities that lead to higher certainty and less risk-avoiding behaviour. This insurance function of FT that triggers local investments and asset accumulation might indeed be more relevant than the direct income-generation effects, and provides important prospects for durable poverty reduction (Lybbert et al., 2004; Zimmerman and Carter, 2003). The FT premium could further support this process if it is allowed to use premium funds for joint investment programs (in farmers' cooperatives) or for the transition to co-ownership regimes (in plantations). The parallel structure of premium committees is not always favourable for strengthening farmers organization, and better alliances with other community networks (i.e. credit unions, village committees, etc) can contribute to large multiplier effects.

Finally, even while this study did not focus explicitly on the character of the supply chain relationships and the procedures for value added distribution throughout the supply chain, many FT farmers express a high esteem of their local organization but limited influence on downstream linkages with other supply chain agents. Current certification systems are strongly focussed on upstream linkages with producers' organizations and provide little incentives for strengthening downstream cooperation (i.e. co-ownership and profit sharing in processing and distribution networks). When FT mainstreaming is further explored, it is likely that attention is broadened from common bargaining issues between FT producers and traders/importers towards strategies based on long-term business partnerships with shared strategic principles and common values (Kolk, 2005; Fowler, 2000). This may also imply that the current emphasis on producer/product certification needs to be broadened towards a strategy of full supply chain certification. Ultimately, the challenge then shifts to questions regarding how fair trade standards can become a public good that is considered of fundamental value for improving worldwide welfare distribution.