

## Understanding the impact of Fairtrade

### Presentation summary

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### 1. Why is it important to measure impact?

First of all, it's important to understand what we mean by 'impact'?

*Lasting or significant changes – positive or negative, intended or not – in people's lives, brought about by a given action or series of actions. (Chris Roche, Oxfam, 1999)*

Impacts are the end result of a chain of events, known as the '*impact chain*'. The impact chain starts with the *inputs and activities* of an intervention (e.g. training) which can be traced directly to particular *outputs* (e.g. increased knowledge and skills). The outputs then lead to short or medium term *outcomes* (e.g. improved production techniques, higher yields) which in turn will lead to *impacts* (e.g. higher income, reduced vulnerability). As you go along the impact chain the influence of *external factors* (e.g. weather, market prices) increases, making impacts difficult to predict.

So why do we need to measure impacts in Fairtrade? There are two main reasons: i) **Accountability** to consumers, funders and businesses which invest in Fairtrade, as well as to the people Fairtrade sets out to support: small-scale farmers and workers in developing countries; ii) Need for continual **learning and improvement** in the Fairtrade system, identifying what works well and why when it comes to supporting small-scale farmers and workers.

As a member of ISEAL<sup>1</sup>, which seeks to promote good practice in sustainability standards systems, Fairtrade International is required to develop a credible and transparent system for measuring impacts by 2013.

### 2. What are the challenges of measuring impacts?

Most people agree on the importance of measuring impact, but in a complex system like Fairtrade there are both practical and methodological challenges, including:

- **Dealing with the scale and diversity of Fairtrade producers:** There were 991 Fairtrade Producer Organisations in 66 countries covering 20 product categories at the end of 2011. It would be too costly to study impact in every Producer Organisation, but with such diversity it is impossible to generalise about impacts from studying only a few.

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<sup>1</sup> <http://www.isealalliance.org/>

- **Capturing the range of impacts:** Fairtrade can have economic, social and environmental impacts, and impacts at individual, household, community, organisational, regional and national levels. Trying to capture all impacts is difficult and costly, but who decides which areas of impact to prioritise? Stakeholders in Fairtrade have different views on what the most important impacts to focus on are.
- **Establishing the role of Fairtrade in bringing about change:** A key challenge is identifying the contribution of Fairtrade vs. other factors (e.g. producer and worker organisations' own efforts, other certification schemes and development interventions, changes in market prices or government policies, etc.). Changes are often not attributable to a single cause.
- **Understanding *how* and *why* Fairtrade has brought about change:** Impact studies often focus on identifying *what* has changed, but don't fully explore or explain how or why - this is needed in order to assess how to maximise and improve impacts, but it makes studies more complex.
- **Ensuring reliable and credible findings, at reasonable cost:** Sound scientific methods and independent researchers are needed. Some academics think that the only way to *prove* impact is to use statistical analysis to compare Fairtrade groups with non-Fairtrade groups over time (i.e. using experimental and quasi-experimental study designs). However, this approach can be technically challenging (e.g. finding adequate control groups) and costly. Qualitative and participatory methods are typically less expensive and potentially more useful for understanding the 'how and why', but provide less concrete findings on impacts and are sometimes not applied well (e.g. failure to investigate the 'counterfactual' - what would have happened without Fairtrade?). Ideally a mix of methods is used, but this is not always feasible.
- **Maximising utility for producers and workers:** Impact studies require significant investments of time and resources by producer/worker organisations, but they do not necessarily see a direct benefit, and there may be risks (i.e. if there are any negative findings). Finding ways to maximise the usefulness of studies for all stakeholders is important for both practical and ethical reasons.
- **Committing to transparency and improvement:** Fairtrade needs to be transparent and accountable - this means publishing independent impact studies. Not all findings will be positive - in some cases Fairtrade will have little or no significant impact, and sometimes negative changes may occur. Rather than trying to keep this under wraps, the focus should be on learning from these cases and making sure that action is taken to improve.

### 3. What do we know about Fairtrade impact?

There are now a large number of studies on Fairtrade, and two meta-reviews which aggregate the findings<sup>2</sup>. Although the studies use different methodological frameworks, and look at different things, some general findings emerge:

- Many studies show that Fairtrade brings **higher income and/or greater income security** for small producers and their organisations. Protecting producers from extreme price fluctuations is important for reducing vulnerability to poverty and supporting long-term investments at household and organisational levels. However, the **impact on income**

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<sup>2</sup> See Bibliography for studies used as the basis for this presentation.

**levels depends on prevailing market prices and the scale of production and sales.** When commodity prices are high (as in recent years) there may be little effect on income levels. If farmers only produce small volumes or their organisations only sell a small percentage as Fairtrade, the effect will be minimal - usually not enough to escape from income poverty - but for higher volumes/sales the effect can be transformative.

- Income effects are mainly due to the Fairtrade Minimum Price guarantee, but also relate to **improvements in productivity and quality**. High quality is required for Fairtrade market access, potentially excluding some producers, but higher prices and Premium investments can provide a means and an incentive for improvements.
- Many studies also show that through the standards and auditing process, as well as the provision of support for organisational strengthening, Fairtrade **enhances or reinforces democracy and transparency in producer organisations**. This provides assurances that Fairtrade benefits at the organisational level will translate into benefits for individual farmers and their households and communities. In turn this means Fairtrade **empowers producers** to decide for themselves how to make use of economic benefits such as the Fairtrade Minimum Price and Fairtrade Premium, in line with their practical needs and strategic priorities. In reality the extent of participation of members in decision-making varies greatly, depending on factors such as the size of the organisation and the socio-cultural context, but in general producers report relatively high levels of satisfaction in relation to their organisations.
- Fairtrade monitoring data<sup>3</sup> indicate that the average Premium earned by Small Producer Organisations in 2009-10 was €80,000. 30% was spent on improving production and processing at the farmer level, while 24% was spent on investments in developing the producer organisation business. Only 14% was spent on **social investments** (education, health, community, etc), which is perhaps counter to common perceptions about Fairtrade, but this still equates to €4.6M invested globally in 2009-10 (average €11,200 per organisation). Impact studies report a wide range of outputs from these investments, but tend not to detail the outcomes or long-term impacts of social investments (e.g. on health and education).
- **Increasing the strength and bargaining power of Small Producer Organisations as businesses** was considered the single most important impact of the Fairtrade approach in one of the meta-reviews<sup>4</sup>. This is a result of income effects, as well as various other direct and indirect effects. For example, Fairtrade certification can make it easier to achieve other certifications - thereby opening up new high value markets - because of similarities in some areas of the standards (e.g. environmental and labour issues). It can also provide links to buyers and market information. Importantly, Fairtrade increases **access to working capital** due to prefinance requirements and enhanced access to ethical banks. This is a significant benefit as lack of access to affordable capital is a key constraint for SMEs<sup>5</sup> in developing countries, and makes it hard for cooperatives to compete with large

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<sup>3</sup> See: [http://www.fairtrade.net/fileadmin/user\\_upload/content/2009/resources/Monitoring\\_the\\_scope\\_and\\_benefits\\_of\\_Fairtrade\\_2011.pdf](http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/Monitoring_the_scope_and_benefits_of_Fairtrade_2011.pdf)

<sup>4</sup> Nelson and Pound 2009

<sup>5</sup> Small and Medium Enterprises

national and multinational buyers. However, prefinance is not always made available from buyers, due to their own financial constraints.

- It is important to recognise that Fairtrade producer organisations often receive substantial support from NGOs and buyers both prior to and after certification, to enable compliance with standards and to help them become effective organisations and businesses. Impact is typically strongest where ongoing external support has been provided. However, Fairtrade certification can also itself **increase access to various types of support** - financial, technical and organisational.
- There are relatively few studies on Fairtrade impact for workers, but those that exist provide concrete evidence that the standards and auditing process have led to a range of **improvements in working conditions** (at study sites), particularly in recent years as auditing has become more effective. An important impact is **formalisation of employment** which in turn guarantees access to entitlements under national labour laws such as paid annual leave, sick leave, overtime pay and maternity benefits.
- In Hired Labour settings the Premium investments tend to be experienced more directly by workers (rather than indirectly through investments in production and business development as is often the case with small producers), with 61% (€7.4M in total, average €48,800 per organisation) spent on education, health and community projects in 2009-10, and a further 22% on direct support to workers (e.g. provision of child-care, subsidized goods, improvements in housing, emergency financial support etc.)<sup>6</sup>. These **social investments** are widely appreciated by workers, and are seen as a **key benefit of employment** on Fairtrade farms. However, there are various cases where the benefits are **unevenly distributed**, with temporary, casual and migrant workers less likely to benefit, and in some situations the Premium is used to cover costs related to meeting Fairtrade standards which should actually be the responsibility of employers.
- The evidence suggests that Fairtrade leads to **improvements in worker income**, through assurances that workers receive at least national minimum wages, access to wage-related entitlements, and Premium benefits. However, in the cases studied **wages do not always meet 'living wage' standards**, i.e. a wage which adequately covers basic needs, beyond poverty levels, without the need for welfare assistance.
- There is a lack of clarity on whether and how Fairtrade affects business profits in Hired Labour situations, and how this translates into change for workers.
- Fairtrade has led to the **formation and strengthening of democratic worker organisations** to promote and defend workers rights. These have had some success in representing workers, negotiating with employers and achieving improvements in terms and conditions of employment. However, in most cases they are not linked to independent trade unions and therefore lack the support and institutional backing to bargain effectively and achieve more substantial change.

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<sup>6</sup> See: [http://www.fairtrade.net/fileadmin/user\\_upload/content/2009/resources/Monitoring\\_the\\_scope\\_and\\_benefits\\_of\\_Fairtrade\\_2011.pdf](http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/Monitoring_the_scope_and_benefits_of_Fairtrade_2011.pdf)

- **Fairtrade impacts for women are mixed.** In some cases it has empowered them through new economic opportunities, formalisation of employment, and better representation in producer and worker organisations, as well as providing social benefits through Premium investments (e.g. investments in community infrastructure and services which reduce their workload). However, in many small producer settings their contribution to Fairtrade production remains largely 'invisible' as they are not members of producer organisations, and in Hired Labour settings they are typically still less likely to be employed in skilled positions - this has the effect of reinforcing gender inequalities.
- There is evidence that **Fairtrade complements other sustainability initiatives in promoting environmentally-friendly production**, including through playing an enforcement role and/ or financing investments in this area with the Premium, but there is insufficient evidence to draw conclusions about the scale and significance of impact. Importantly, Fairtrade also encourages and enables uptake of organic production, through price incentives and Premium investments. 61% of SPOs and 26% of Hired Labour producers have organic certification<sup>7</sup>, although in many cases this pre-dates Fairtrade certification. Where small producers are already farming without extensive use of chemicals (e.g. in coffee) this can significantly increase income as well as bringing environmental and health benefits (the latter are also an effect for workers). But where chemical use is more intense (e.g. cotton) the impact on yields may reduce the net income benefits.

#### 4. How and why does Fairtrade bring about impacts?

Fairtrade involves two types of intervention:

- A set of standards which establish the 'rules' for fair trading practices and for engagement in Fairtrade:** These include key principles of Fairtrade such as: sustained and equitable trading relations; collective empowerment of producers and workers; democracy, transparency and non-discrimination in organisations; respect for internationally agreed labour rights; and respect for the environment.
- Strategies and policies which enable engagement in Fairtrade:** These include building Fairtrade markets, providing support to producer and worker organisations, developing networks and alliances between Fairtrade actors, facilitating civil society action around fairness in trade, establishing good governance in the Fairtrade system, and ensuring growth with integrity.

Analysis suggests that it is the **combination of these different strategies and tools which enables Fairtrade to achieve its goals**. Although some strategies will bring significant direct impacts by themselves (notably the FTMP and the Premium), the benefits are far greater when the different strategies work in harmony. For example, if there is insufficient market demand for a product, producers will not be able to sell enough on Fairtrade markets to build strong businesses and raise incomes beyond poverty levels, and it is easier to build

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<sup>7</sup> See: [http://www.fairtrade.net/fileadmin/user\\_upload/content/2009/resources/2012-Monitoring\\_report\\_web.pdf](http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/2012-Monitoring_report_web.pdf)

markets in contexts where civil society is engaged in campaigning for fairness trade. Equally if buyers do not respect principles of long-term trading relations and provide some guarantee of purchases, investments in Fairtrade production can be wasted and the viability of producers businesses may be undermined. The provision of organisational, technical and financial support has been critical in many of the most impressive examples of impact, especially in terms of enabling compliance with Fairtrade standards and building business management capacity which in turn provides access to market opportunities and the economic benefits of Fairtrade. But capacity for providing support from within Fairtrade is limited, and so partnerships and alliances need to be built with other organisations to ensure producers can access the benefits. Linked to this, support for producers often comes from ethical buyers (e.g. fair trade companies), but these types of companies are at risk of being squeezed out of Fairtrade markets unless there are adequate processes to recognise their contribution and allow growth with integrity in markets. For workers achieving lasting change means increasing awareness of their rights *and* their ability to act on this knowledge, and this requires linkages to be made with labour rights organisations outside their plantations, but it also requires buyers to pay high enough prices for products that it is possible for employers to raise wages to living wage levels. Detailed studies on Fairtrade impacts suggest there is currently insufficient attention paid to these dynamics between Fairtrade strategies and the need for synergistic relationships between them.

## **5. What is being done by Fairtrade to better understand and learn from impacts?**

Fairtrade International is in the process of developing a global system for monitoring and measuring impacts. This is based around a theory of change which draws on Fairtrade's agreed goals of making trade fair, empowering small producers and workers, and promoting sustainable livelihoods. The theory of change makes explicit the need for processes of change in multiple domains - with producer/worker organisations, along supply chains, with consumers and among civil society. The system will involve a range of methods and tools to address some of the issues outlined at the start, e.g. a global M&E system with set of core indicators to track impacts across all certified producers; a number of longitudinal impact studies with control groups to provide concrete evidence on impacts; in-depth qualitative studies on specific themes to deepen understanding on complex themes. This should help ensure that in future Fairtrade can better track experiences for producers and workers on the ground. It will be critical that Fairtrade creates effective feedback and learning processes within its systems, and commits to responding proactively to lessons arising out of impact findings. Only if it does so will both objectives of impact assessment - accountability and learning - be achieved.

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