



Centre for International Development Issues Nijmegen

FWDi

FAIRNESS
Research Network on Fair Trade



THE FAIR TRADE BALANCE: Lessons & Challenges after 25 years of Fair Trade

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Fair Trade

- **1988: Introduction Max Havelaar coffee**
 - Minimum price guarantee (set by FLO)
 - Pre-finance & Fairtrade Premium
 - Environmental + Labour conditions
 - Market share: 2-3 %
- **1996 : Fair trade fruit (bananas,mango, citrus)**
 - Turnover Euro 80 mln (2008)
 - Annual growth 40%, Net profit 1.5%
 - Market share: 5-15 %
- **2012 : €3,5 billion - 700 organizations - 1.500.000 families**



The Development Impact of Fair Trade

Proliferation of Labels



C.A.F.E. Practices





The Development Impact of Fair Trade

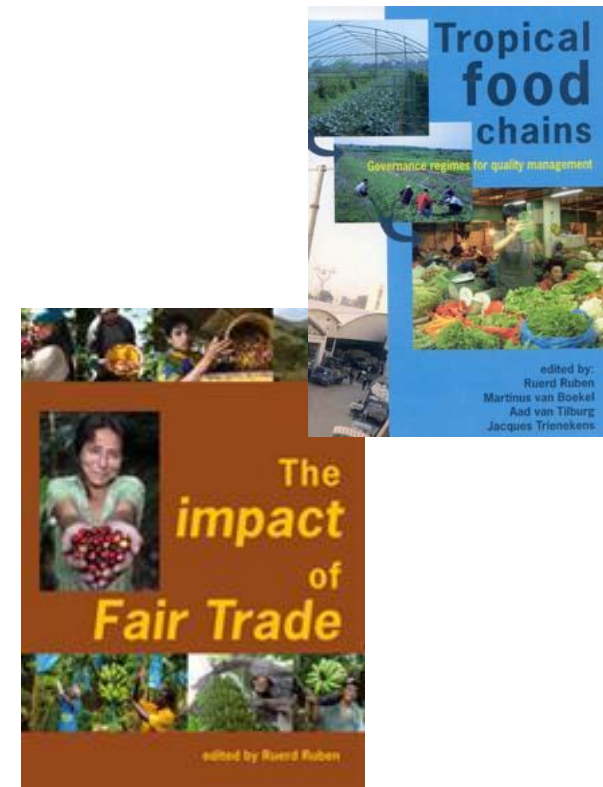
Diversification of deliveries





Impact assessment

- Un-biased impact measurement (with *counterfactual*)
- Control for self-selection & unobserved heterogeneity
- Micro + Regional analysis
- Plot, household & village level
- Life cycle effects
- Cross-country comparison
- Smallholders & plantation production





Study design

- Focus on 2 commodities: coffee & bananas
- 5 countries: Peru, Costa Rica, Kenya, Uganda, Ghana
- 1000 farm households: 500 FT & 500 non-FT farmers

- Conventional & organic production
- Old & younger farmers
- Different standards ('fair', 'responsible', 'sustainable')

- Approach: Propensity score matching (PSM)
& Difference in Difference Analysis (DiD)



Impact Assessment

- **Impact assessment at producers' level**



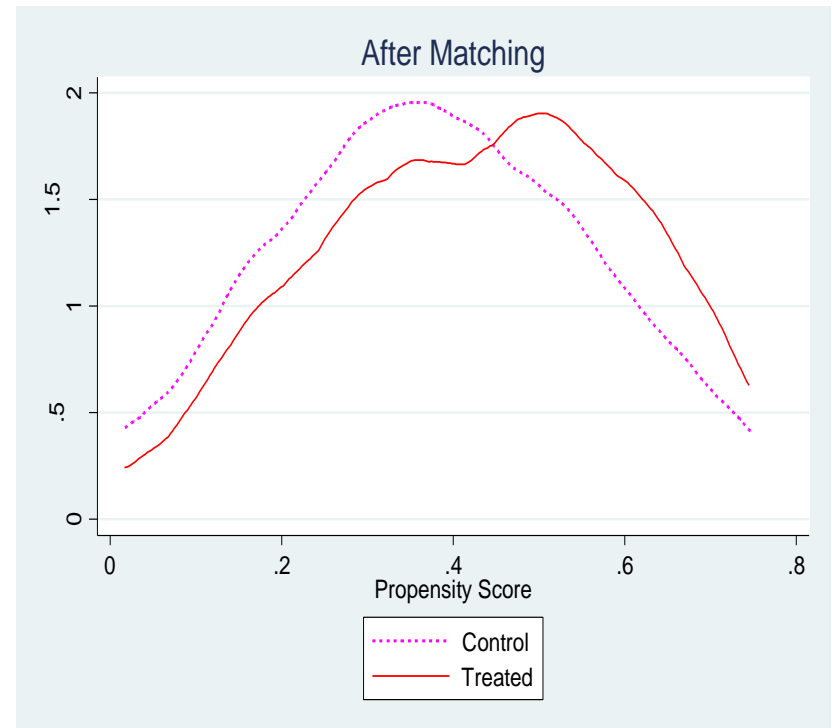
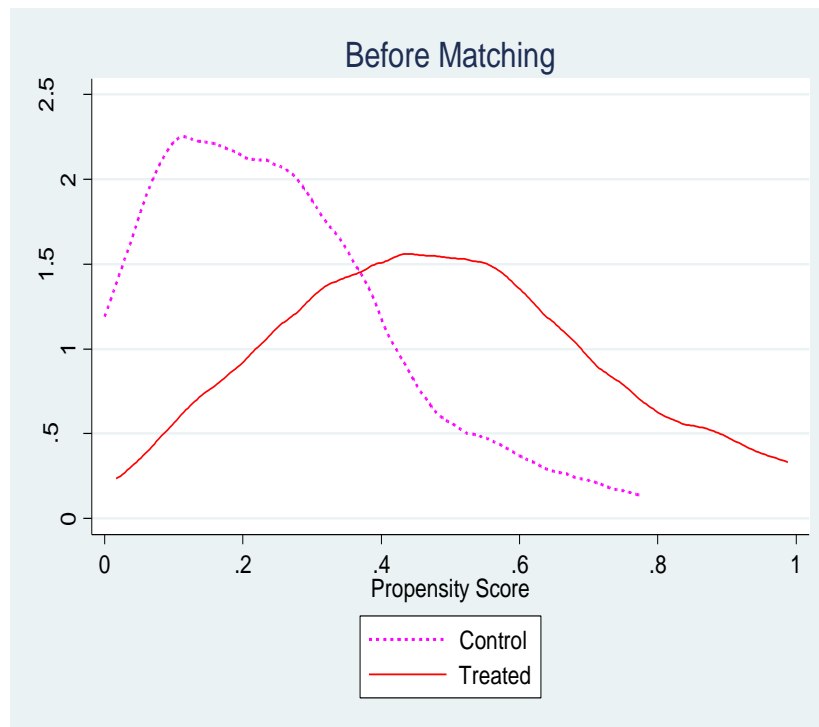
- Direct Income & welfare effects
- Expenditure effects
- Organizational impact
- Gender & Environment

- **Externalities & Spillovers:**

- Other household activities
- Regional level (prices, wages, FT premium)
- Risk attitudes & behaviour



Matching: nearest neighbour



Number of observations on Common Support

	ON-CS	• OFF-CS	Total
FT	42	6	48
Organic	97	6	103
FT	39	9	48
Conventional	30	6	36



Difference – in Difference Method (DiD)

	Intervention group	Control group	Difference across groups
Baseline	I_0	C_0	$I_0 - C_0$
Follow-up	I_1	C_1	$I_1 - C_1$
Difference across time	$I_1 - I_0$	$C_1 - C_0$	$(I_1 - C_1) - (I_0 - C_0) = (I_1 - I_0) - (C_1 - C_0)$

→ **Change in performance before / after the program between target and control group**



Results (1)

Indicator	FT	non-FT	sign
Household Net Income	+	-	n.s
Crop Yield	+	-	*
Crop Price	+	+/-	**
Other household income	-	+	*
Expenditures to Education	++	-	**
Expenditures to Housing	+	-	*
Asset ownership	+	-	**
Credit access	++	-	**
Input use	+	0	*
Soil quality investments	0	0	n.s

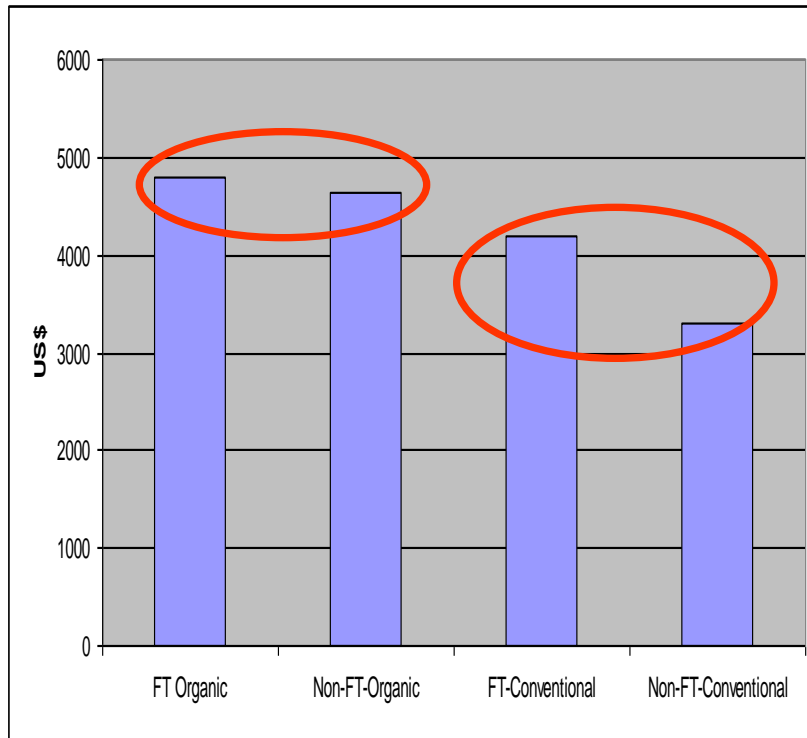


Results (2)

Indicator	FT	non-FT	sign
Organizational force	++	-	**
Cooperative service provision	+	-	n.s
Cooperative identification	+	-	***
Female participation	-	+	*
Gender empowerment	-	+	n.s
Sustainability	+	-	n.s
Risk acceptance	++	-	**



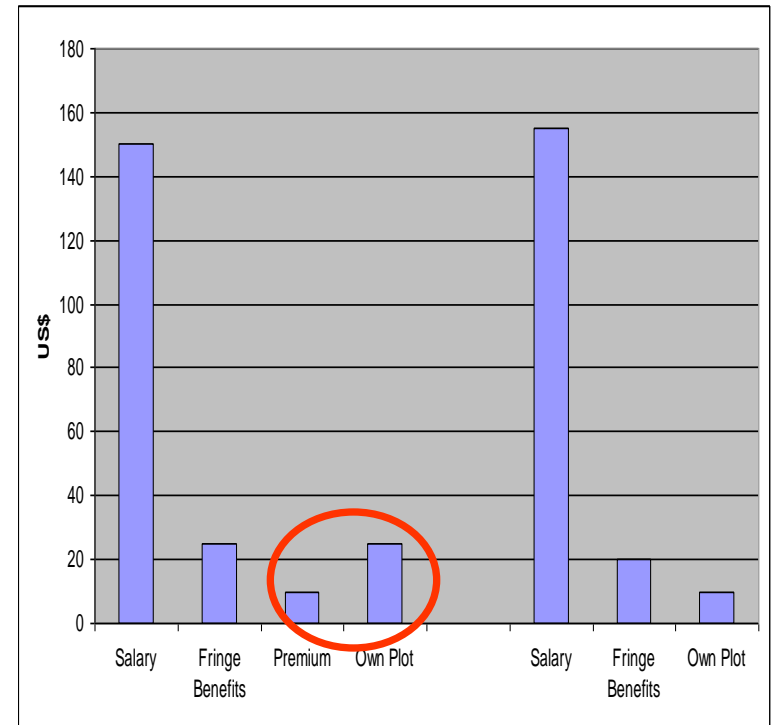
Smallholders & plantation workers



Organic

Conventional

Peru: Coffee Farmers



Fair Trade

Non FT

Ghana: banana workers

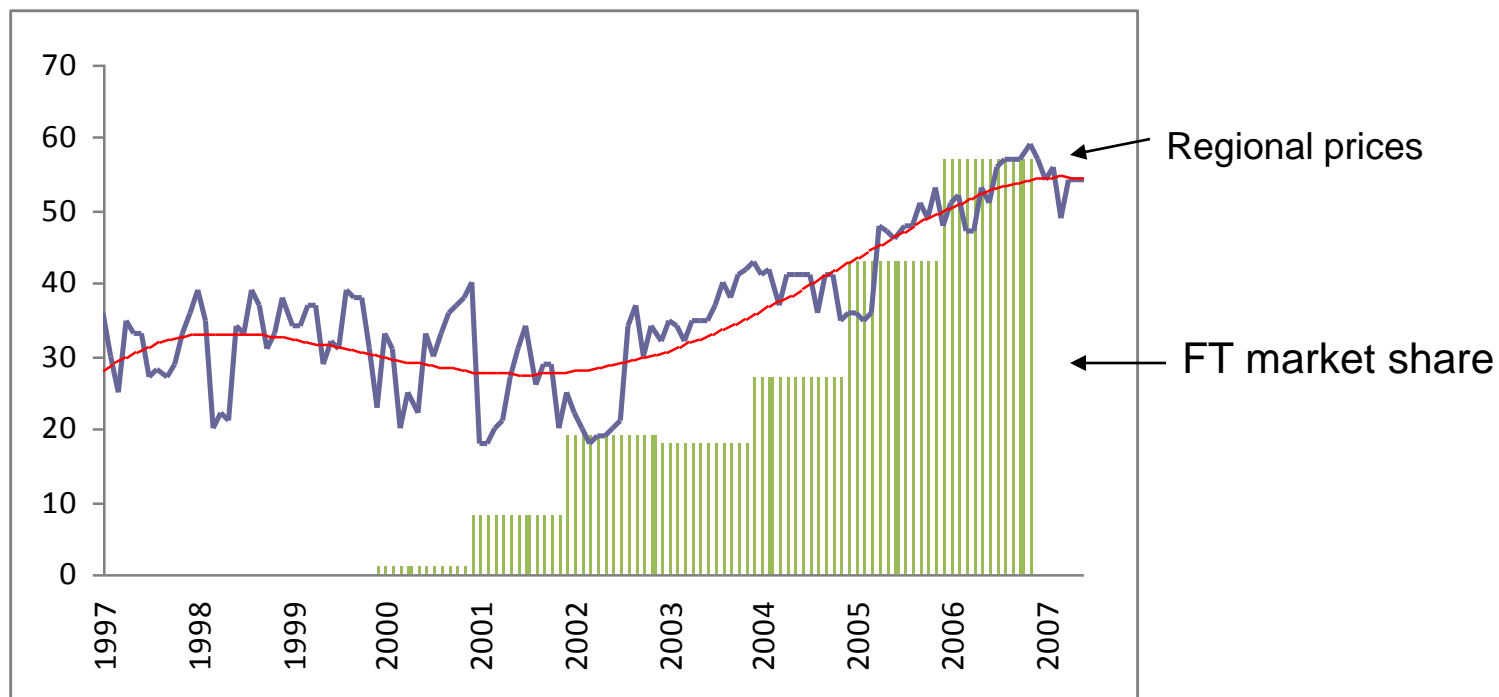


Fair Trade Premium

- Investments in community services
- Social services: education, health care
- Physical infrastructure: roads, electricity, water
- Upgrading: microfinance, crop renovation, insurance

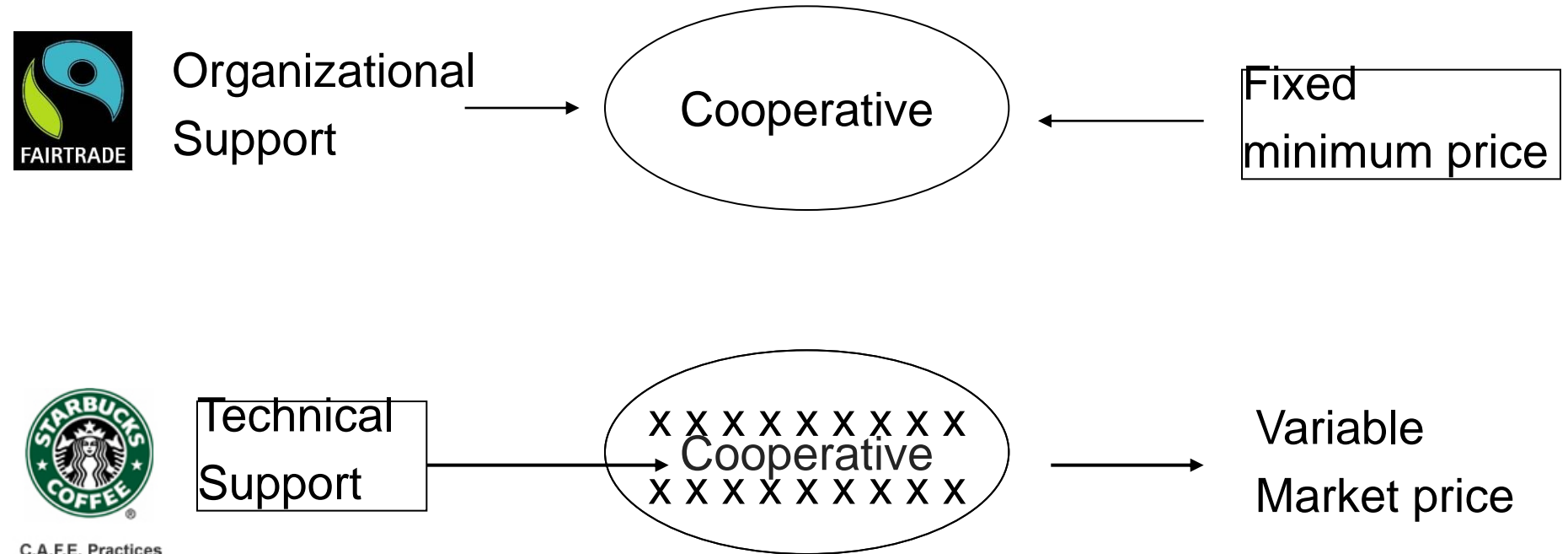


Externalities (Peru)





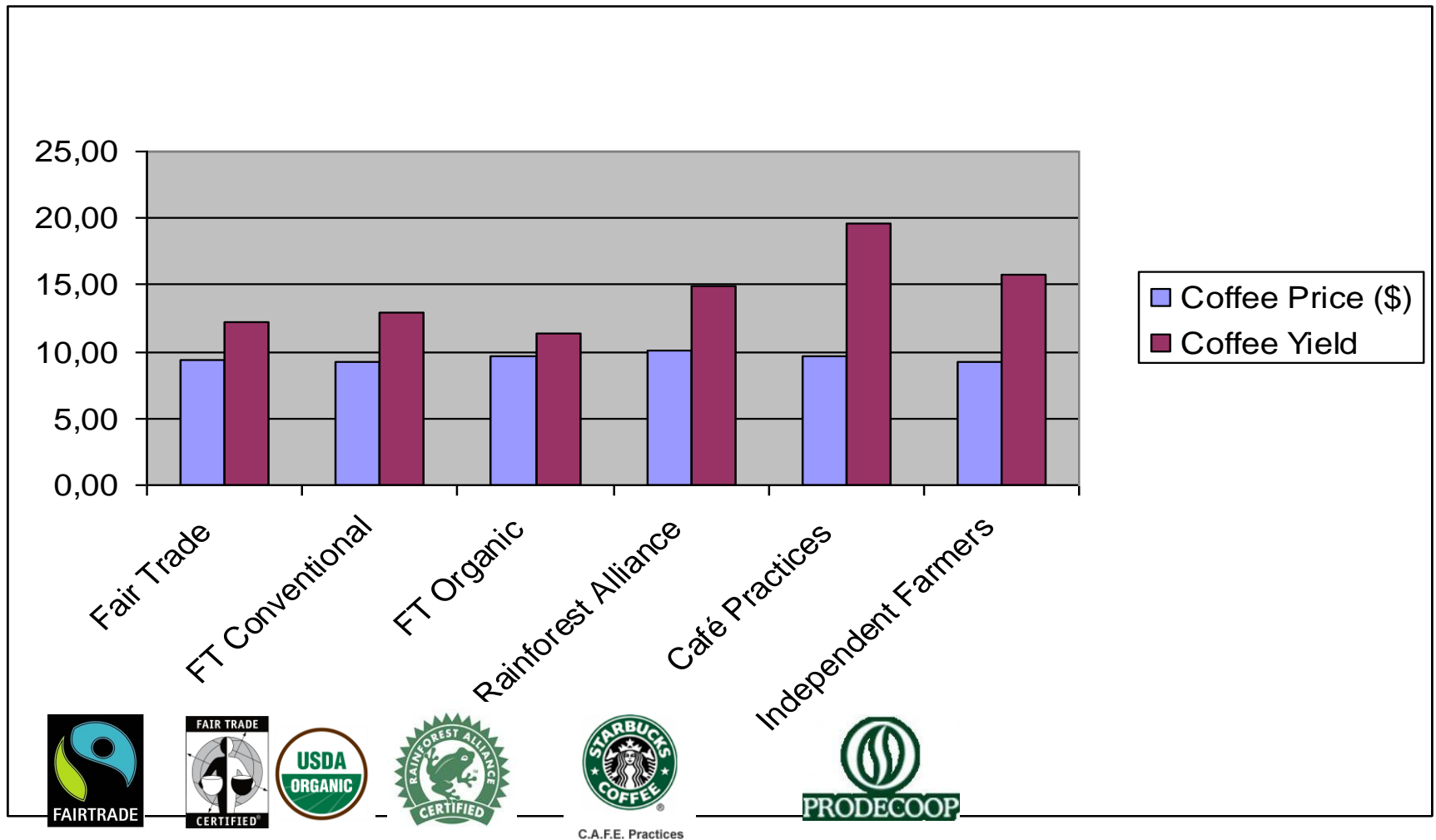
Fair Trade & Private Standards





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Comparison of Standards (Nicaragua)





Comparison of Standards (Nicaragua)

Indicator	FT	B2B
Income	-	+
Productivity & Quality	-	+
Farmers Organization	+	-
Gender Participation	-	+
Sustainable Practices	-	+
Coffee renovation	+	-
Solidarity	+	-
Loyalty	-	+



Policy Implications

- Limited/modest direct FT income effects
- Stronger asset & credit-access effect (wealth)
- Clear behavioral changes (risk, farmers' organization)
- Substantial externalities (through prices & wages)
- Limited spillovers (negative in coffee)
- Scarce FT ownership feelings (limited loyalty)
- Potential regional multipliers





Outlook & Challenges



- *Role of FT*
 - Providing initial market access ('infant industry')
 - Only temporary support (max 5 years)
- Support for FT
 - Focus on regional market share at buyers side (>30%)
- *Strengthening FT*
 - Focus on quality upgrading through B2B linkages
 - Cooperation with private labels
- *Multiplying FT*
 - Linkages with finance & community organizations



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Thanks for your attention

