



Policy Brief No. 40

Impacts of Fair Trade-Certified Coffee in Nicaragua, Brazil, Honduras, and Peru: Implications for livelihoods and empowerment of farm workers and independent smallholder producers

Key messages

- *The use of food standards and certification schemes by coffee producers as a means to improve their livelihoods and empowerment in Honduras, Nicaragua, Peru, and Brazil could have a strong influence on rural development policies.*
- *Fair Trade USA (FTUSA) certification for farm workers has a positive effect on empowerment and welfare. However, it is important to note that significant fluctuations in coffee market prices, low demand for Fair Trade coffee, internal problems among stakeholders, farm size and their compliance with other certification schemes can reduce these effects.*
- *The main impact of the FTUSA certification, though small, was in terms of empowerment. It increased awareness about the importance of having an organizational process inside the farms or among smallholders and improved perception of welfare. However, due to the lack of market options, the certification strategy was not economically sustainable, especially in the case of small pilots.*
- *Concerning the FTUSA certification for independent smallholder producers, the market access partner (MAP) is critical in achieving and maintaining the certification. The MAP has the same role and responsibilities as a cooperative and should support organizational processes with farmers.*
- *The research study framed within this brief contributed to the revision process of the FTUSA Farm Workers Standard and Independent Smallholders Standard. FTUSA launched the new Agricultural Production Standard (APS) in February 2017.*

Context

Fairtrade (FT) is one of the most well-known Alternative Trade Organizations (ATOs). The FT movement intends to develop mutually beneficial partnerships, support organizational capacity building, guarantee prices higher than market prices, and provide a social premium to finance community projects (Wunderlich, 2011). Millions of smallholders and farm workers, however, have

not traditionally been included in the FT certification either because they do not belong to farmer coops or because they work in medium-to-large farms. Starting in 2011, Fair Trade USA (FTUSA), under the FT4All initiative, began to certify pilot coffee estates and independent smallholders with the aim of improving the livelihoods and labor conditions of the most vulnerable farm workers and producers.

Certification schemes promote enhanced welfare of certified producers and increased environmental sustainability, and there is growing interest in understanding their effectiveness. In rich and emerging economies, consumers are willing to pay higher prices for coffee, cocoa, and other certified agricultural products that guarantee a sustainable production process and enhance producers' and workers' livelihoods (Chiputwa et al., 2015). Indeed, FTUSA Standard involves four principles: empowerment, economic development, social responsibility, and environmental stewardship. However, the impact of food standards and certification schemes on the welfare of rural workers and farmers has been widely discussed and is still subject to an ongoing debate.

Based on FTUSA concepts and principles related to independent smallholder producers' (IS) and farm workers' (FW) welfare and empowerment, and the Theory of Change (ToC) of FT4All pilots (see Figure 1),¹ an assessment of the effectiveness of this ToC was conducted by the International Center for Tropical Agriculture (CIAT) through the research project "Measuring and assessing impacts of Fair Trade for All on farmers, farm workers, and the overall Fair Trade market system," supported by the Ford Foundation and Keurig Green Mountain.

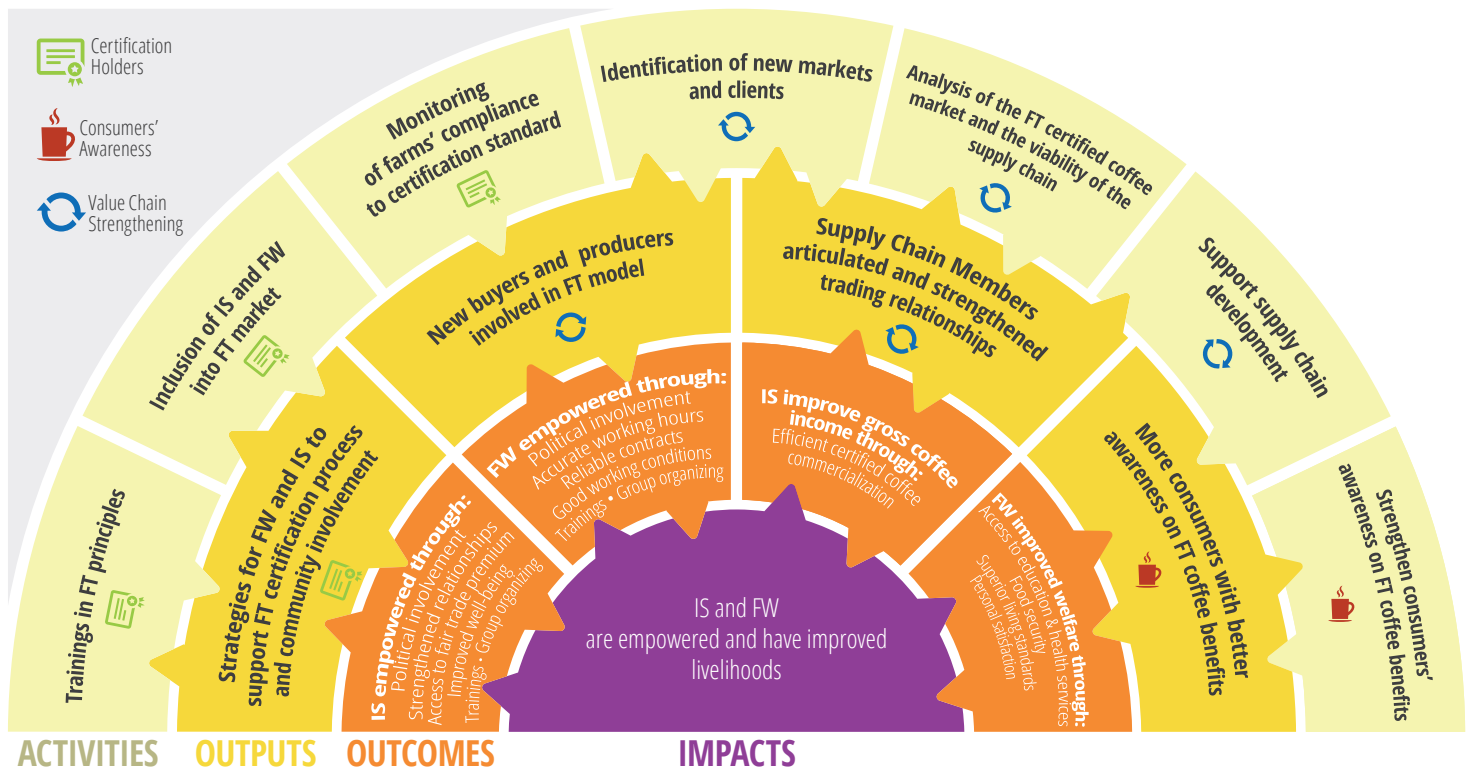


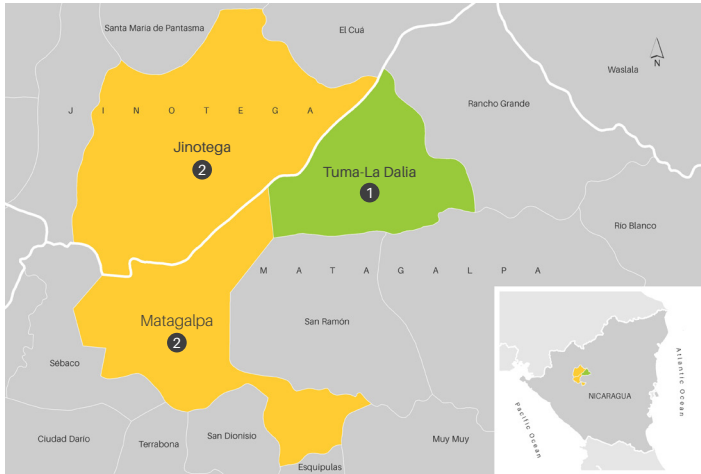
Figure 1. ToC of FT4All pilot adapted by CIAT

Coffee production – both in terms of export volumes and employment in the sector – represents one of the most important crops in the four countries where the research was conducted (see Figure 2) – Honduras, Nicaragua, Peru, and Brazil. According to the United Nations Comtrade, coffee is the most important export in Honduras, the fifth in Nicaragua, the seventh in Peru, and the eleventh in Brazil. Moreover, in the case of Honduras, 1 out of 10 workers is employed

in the coffee sector (World Bank Group, 2015). Additionally, the share of people employed in coffee production is between 20% and 40% of the total rural labor force in Nicaragua (Vakis et al., 2004) and 5.8% in Brazil, as estimated by the Brazilian Institute of Geography and Statistics (IBGE). Peru's coffee sector generates 855,000 jobs (USDA, 2013) and, according to the National Institute of Statistics (INEI-Peru), it represents approximately 21% of the total rural labor in the country.

1 The ToC was adapted by the International Center for Tropical Agriculture (CIAT).

Nicaragua



Legend

- Estate with FTUSA certification
- Estate without FTUSA certification
- 2 Number of estates

Number of farm worker surveys			
Baseline	Monitoring	End-line	Total
550	190	508	1248

Honduras

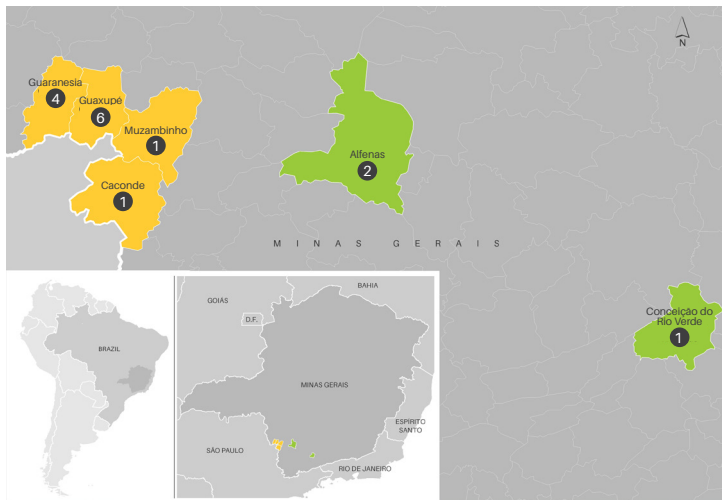


Legend

- Small farms surveyed
- Departments of study

Number of independent smallholder producer surveys			
Baseline	Monitoring	End-line	Total
506	95	476	1077

Brazil



Legend

- Estate with FTUSA certification
- Estate without FTUSA certification
- 4 Number of estates

Number of farm worker surveys
625

Peru



Legend

- Small farms surveyed
- Departments of study

Number of independent smallholder producer surveys			
Baseline	Monitoring	End-line	Total
453	119	331	903

Figure 2. Research sites

Approach

The impact assessment conducted in Nicaragua, Brazil, Honduras, and Peru had two objectives at two different levels.

Objective at a micro level: Assess the impact in terms of economic and social development, and environmental stewardship on small-scale independent coffee producers and estate workers of FT4All pilots.

Objective at a meso level: Analyze organizational empowerment processes and changes over time on Fair Trade-certified independent small-scale coffee producers and farm workers.

CIAT applied a *mixed-method research* approach that integrates quantitative and qualitative data. This interdisciplinary collaboration allows profound understanding of the short- and long-term changes in economic, social, empowerment, and environmental dimensions. Evaluations based on mixed-method research are essential for optimizing the impact of coffee certification schemes (see Figure 3).

With the aim of comparing the livelihoods and empowerment between farm workers and smallholder producers participating in the Fair Trade system vs. those from noncertified farms, CIAT collected data on certified and noncertified estates in Nicaragua and Brazil; and

on certified and noncertified independent smallholder producers in Honduras and Peru. At a *micro level*, a quasi-experimental design was employed among participants and non-participants, applying surveys in three research cycles: baseline, monitoring, and evaluation. And at a *meso level*, a mix of qualitative and quantitative analysis was conducted based on semi-structured interviews, focus groups, and surveys in each country.

Measuring the impact

For the quantitative analysis, different indicators were designed for each type of producer. For farm workers' benefits, *welfare* and *empowerment* indexes were developed. For independent smallholder producers, the benefits were assessed using the growth rate of gross coffee income and the empowerment index. To complement the quantitative data, a performance story was developed, describing how the FTUSA certification has contributed to both expected and unexpected outcomes in empowering farm workers in Nicaragua and Brazil and smallholder coffee producers in Honduras and Peru (see Table 1).

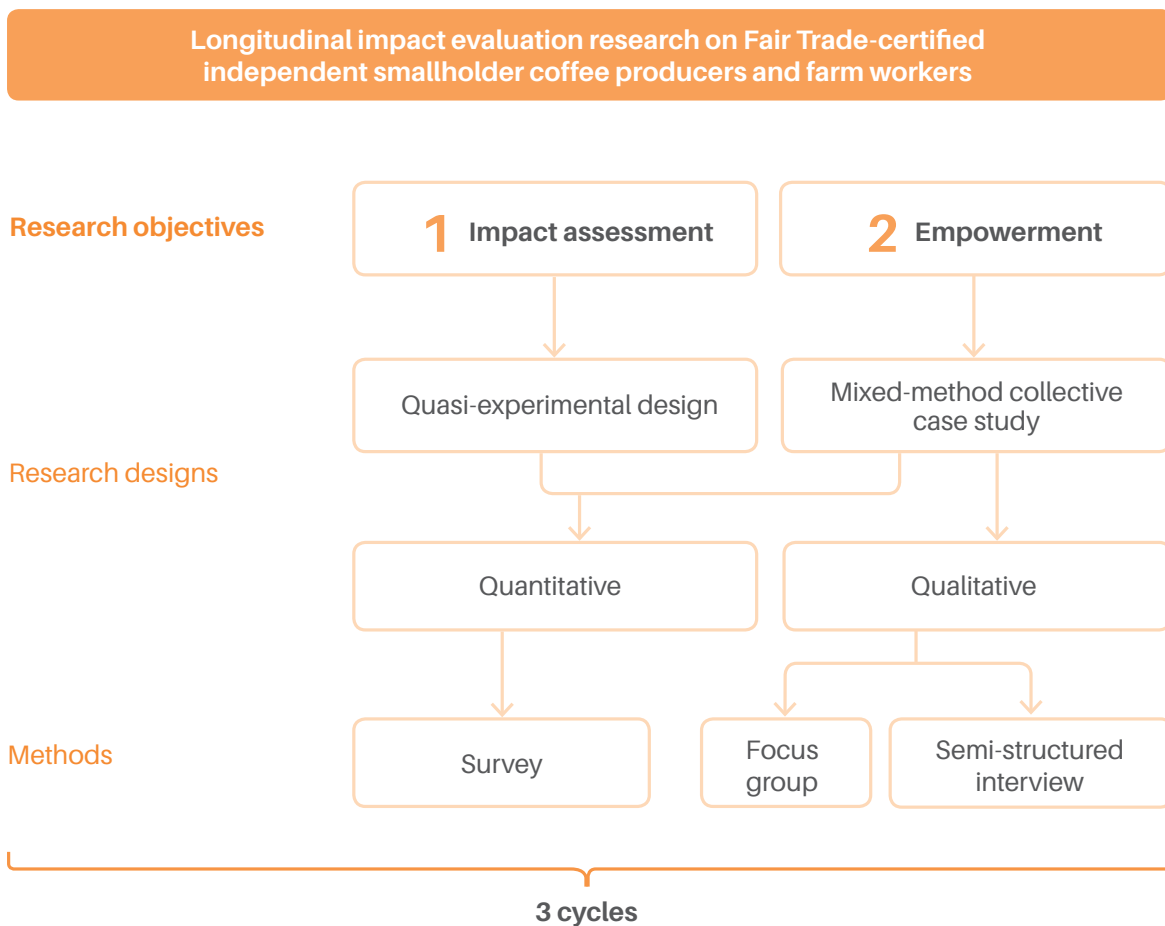


Figure 3. Applied methodology



Analyzing the empowerment. Focus group El Ermitaño-Honduras

Table 1. Indexes to measure outcomes

	Farm workers	Independent smallholder producers
Quantitative approach	Economic Development	
	<p>Index of welfare</p> <ul style="list-style-type: none"> • Health • Education • Food security • Living standards • Satisfaction with life 	<p>Income</p> <ul style="list-style-type: none"> • Growth rate of gross coffee income
Qualitative approach	Index of empowerment	
	<ul style="list-style-type: none"> • Involvement in political life • Working hours • Contracts • Working environment • Training • Organization • Financial services 	<ul style="list-style-type: none"> • Involvement in political life • Relationship with coffee buyers • Fair Trade premium • Well-being • Training • Organization
	<p>Empowerment: Capacity of individuals and groups to make choices and transform those choices into desired actions and outcomes.</p> <ul style="list-style-type: none"> • How the organizational processes of the independent smallholder coffee producers and farm workers have evolved because of the Fair Trade certification, and how it could be improved. • What are the changes in the individual, relational and collective empowerment of farmers and farm workers over time? 	

Findings

Farm worker welfare index

For farm workers in both Nicaragua and Brazil, the improvement in welfare was small and due mainly to (i) enhanced health and education; (ii) households' increased perception of accessibility to education (through subsidies) and health services; and (iii) reduced distance to the closest healthcare center.

Brazilian farm workers showed a positive effect on their living standards, as evidenced by the increased number of assets owned by the household, such as bikes, computers, and internet access, and improved house quality.

Farm worker empowerment index

The FTUSA certification contributed more to the empowerment of farm workers in Nicaragua than in Brazil. In the case of Nicaragua, participation in decision-making processes was limited to the investment of the Fair Trade Premium initially. In 2016, the certification process opened additional spaces to discuss claims and concerns, and farm workers perceived that they had gained more freedom to express disagreement and demand their rights. In addition to the certification, in the Nicaraguan estate, United Farm Workers (UFW) advised the farm administration on the design of a business model. The relationship with the UFW resulted in positive changes in workers' empowerment. In the Brazilian case, the effect of FT4All on empowerment was not statistically significant. The significant change needed for compliance was the establishment of the Fair Trade Committee and the management of the Fair Trade Premium. However, many participants stated that usually they do not approach management or direct supervisors to complain about work issues. Workers' involvement and participation in the Fair Trade Premium have not been substantial enough to suggest empowerment since the coffee estate only invested one premium during our research study. Furthermore, there are indications that workers' representatives have benefited more in terms of empowerment than other workers. Additionally, workers' participation in decision-making processes is mainly limited to union negotiations and the investment of the Fair Trade Premium. The Brazilian estate did not make any significant changes to become Fair Trade Certified due to previous compliance with multiple additional certifications.

Along with the introduction of certification, in both Nicaragua and Brazil, farm workers indicated a lack of communication with the management board, due to fear of retaliation. This might be a reflection of the increased pressure that farm owners are putting on farm workers, in order to increase their coffee quality and to sell more under the FTUSA certification.

In conclusion, the Fair Trade Premium benefited workers and community members. However, the sales income was not significant enough to generate meaningful impact on a coffee estate with more than 1,000 farm workers, such as in Brazil.

Growth rate of gross coffee income in independent smallholder producers

For independent smallholder producers in both Honduras and Peru, there was no significant impact on coffee income due to the FTUSA certification. The FTUSA certification suffered from a lack of

market opportunities, and coffee growers do not rely solely on trade certifications to improve household income. They actively invest in other opportunities such as crop diversification. Furthermore, the MAP in each country struggled to find clients interested in FTUSA-certified coffee, which discouraged participating farmers. The Honduran case was the most extreme with all the coffee sold with FT4All certification in 2015 coming from only one of the three pilot sites. Following this experience, these participating farmers left the pilot and the FTUSA certification scheme.

Independent smallholder empowerment index

The effect of the certification on the organizational processes in Peru was positive. Despite discouraging previous experiences in the region with community organization, mainly related to violence against community leaders and mismanagement of cooperatives, which led to a decay in collective action and organization, government programs along with the FT4All certification process have provided incentives to encourage farmers to work together and organize themselves once again. On the other hand, in Honduras, the effect of FT4All on empowerment was not statistically significant. Moreover, the Honduran pilot process did not comply with the FT4All participation rules. FT4All explicitly specified that certified producers could not be affiliated to a cooperative, nor the MAP could buy FT4All coffee beans from producers that were part of any of them. However, some producers were already part of a full-fledged cooperative, which caused a distortion in the analysis of the role of a certification in the organizational process.

Agricultural Production Standard (APS): current status and ongoing improvements of FTUSA's Standard

Finally, FTUSA's strategy related to the pilots changed. Now that the pilots are integrated officially in the certification, the category ("pilots") disappeared. During the last year, FTUSA developed the Agricultural Production Standard (APS). APS covers diverse groups and farm sizes and associated processing facilities under one standard. Farms and facilities are audited using criteria applicable to their farm and facility size (small, medium, large). The parameters for farm/facility size were as follows: (a) Small Farm and Small Facility (SF): ≤ 5 permanent workers and no more than 25 total workers on-site at the management unit any given time; (b) Medium-sized Farm and Medium-sized Facility (MF): 6–25 permanent workers and no more than 100 total at the management unit at any time; (c) Large Farm and Large Facility (LF): all others.

According to these standards, FTUSA will continue to accept producers who are certified by FLO-Cert against Fairtrade International (FLO) standards. Producers certified by Scientific Certification Systems (SCS Global Services – certification body auditing the Fair Trade USA standards) will transition to being certified against the APS. The principles followed by Fair Trade USA are the same as those of Fairtrade International.

Policy recommendations

Farm workers standard and large farms in Fair Trade Certification

- FTUSA included diverse size farms and facilities under the same standard and the same level of compliance requirements. APS should adopt different criteria and thresholds to define small, medium, and large farms. Certifiers need to take into account farm size in terms of workers in peak and low seasons, and of facilities to audit with realistic criteria.
- United Farm Workers (UFW) was a key determinant of success in the Nicaraguan case. The estate did not sell Fair Trade-certified coffee, but they were able to sell with the new business model implemented by UFW. Future initiatives should consider this type of partnerships as catalysts of certification with farm workers in medium and large farms.
- FTUSA certification should foster the engagement of temporary farm workers to enhance their empowerment. So far, this group has remained invisible throughout the certification process and in the Premium benefits.

Independent smallholder producers

- The role of MAP was a key driver of change in empowerment. Furthermore, its technical assistance, as part of the FTUSA certification, was highly valued by farmers. This figure needs to reach more farmers and to address more consistently farmers' needs and expressed challenges.
- Farmers need to secure better prices for their products, as they are not always guaranteed by access to fair trade markets, since adverse weather conditions or the presence of pests might hinder full compliance with quality standards. Furthermore, due to uncertainties involved in coffee production and marketing, some coffee growers are not relying solely on certified crops to improve household income, but are now actively investing in other opportunities. Therefore, to improve smallholder farmers' livelihoods, FTUSA should be more active in finding long-term buyers and propose, promote, and help introduce risk management and risk transfer tools to address loss and damage associated with climate change.
- Well-being is now perceived by farmers at the pilot sites as more achievable through association than through individual efforts. Hence, for producers who are more advanced in their organizational process, training activities should aim to strengthen their organizations' administrative and managerial capacity so they can establish relationships with external actors and access resources more effectively.
- Independent smallholder pilots allowed the inclusion of a large group of small-scale coffee producers, who represented new regions within the mainstream fair trade coffee market. Fair Trade USA provided the certification to independent smallholder producers who are not yet organized in cooperatives and supported them to become part of organizations under the umbrella of the Fair Trade market philosophy. Coffee buyers should offer more support to these kinds of groups. During the pilots evaluated, there was a lack of market demand for certified coffee from independent smallholder producers, which made the certification strategy economically unviable.
- Participating groups should be evaluated strictly from the beginning to ensure compliance with the FTUSA rules. Premium disbursement rules should be revised to ensure producers access those resources on time, and a mechanism should be established to solve disputes between producers and MAP around premium access.

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Correct citation

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