



# Fairtrade Mark Denmark



**EVALUATION STUDY**

2015/2



**Evaluation Study**  
**Fairtrade Mark Denmark**

**January 2015**

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The views expressed in this study are those of the authors and do not necessarily represent the views of the Ministry of Foreign Affairs of Denmark. Errors and omissions are the responsibility of the authors.

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Annexes to the report are available at [evaluation.um.dk](http://evaluation.um.dk)

# List of Acronyms

3iE	Danish funded International Initiative for Impact Evaluation
CBO	Community Based Organization
CLAC	Coordination of Fairtrade in Latin America and the Caribbean
CNCRE	Carbon Neutral Climate Resilient Economy
COMESA	Common Market for Eastern and Southern Africa
CSA	Climate Smart Agriculture
CSI	Climate Smart Initiative
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee
DAG	Development Assistance Group
Danida	Danish International Development Assistance
DFID	Department for International Development (British)
DKK	Danish Kroner
EACC	Economics of Adaptation to Climate Change
EDF	European Development Fund
EFTA	European Fair Trade Association
EU	European Union
FAO	Food and Agriculture Organisation
FLO	Fairtrade Labelling Organisation
FLO-CERT	Fairtrade Certification Organisation
FT	Fair Trade
FTM-DK	Fairtrade Mark Denmark
FTMP	Fairtrade Minimum Prices
GAP	Good Agricultural Practices
GDP	Growth Domestic Product
GE	Danida Growth and Employment Strategy
GHG	Green House Gases
GIZ	Gesellschaft für Internationale Zusammenarbeit (German)
HRBA	Human Rights Based Approach
IBC	Institute for Biodiversity Conservation
ICT	Information and Communication Technologies
IDH	Dutch Sustainable Trade Initiative
IFAD	International Fund for Agricultural Development
IIED	International Institute for Environment and Development
ILO	International Labour Organisation
ISEAL	International Social and Environmental Voluntary Standards System
IUCN	International Union for Conservation of Nature
LBC	Licensed Buyer Company
M4P	Markets for Progress / Making Markets Work for the Poor
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MEL	Monitoring, Evaluation and Learning – Fairtrade
MRV	Monitoring Reporting and Verification
NEC	Danida Strategic Framework for Natural Resources, Energy, and Climate

NEPAD	New Partnership for Africa Development
NGO	Non Governmental Organisation
NRI	Natural Resources Institute
NRM	Natural Resource Management
OECD	Organization for Economic Co-operation & Development
OHS	Occupational Health and Safety
PO	Producer Organisation
RA	Rainforest Alliance
SACCO	Savings and Credit Cooperative
SCSKASC	The Steering Committee on the State of Knowledge Assessment Standards and Certification
SEVSS	Social and Environmental Voluntary Standards Systems
SHF	Small holder farmer
Sida	Swedish International Development Agency
SLM	Sustainable Land Management
SO	Strategic Objective
SOAS	School of Oriental and African Studies
SPO	Small Producer Organisation
TOC	Theory of Change
ToR	Terms of Reference
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNISDR	United Nations International Strategy for Disaster Reduction
USAID	United States Aid
USD	United States Dollar
VSS	Voluntary Sustainability Standards
WB	World Bank
WFP	World Food Programme
WFTO	World Fair Trade Organization
WWF	World Wild Life Fund

Exchange Rates as per 2 January 2015

1.00 USD = 6.07 DKK

1.00 EUR = 7.44 DKK

# Acknowledgements

The Evaluation Team would like to thank all the stakeholders who have participated in the Evaluation Study. The team would especially like to thank Fairtrade Mark Denmark and Fairtrade International that have taken time out of their busy schedules to respond to phone calls, questionas and requests for information via e-mail and telephone interviews. Their input has been invaluable.

# Executive Summary

Danida has commissioned a study to evaluate Fairtrade Mark Denmark (FTM-DK) a commercial foundation which is affiliated to Fairtrade International. FTM-DK has been receiving grant funds from Danida since 1999, and is reporting on activities funded by Danida, and since these activities take place in Denmark, there is limited reporting on the indirect development effects of the Danida grant to the Fairtrade system. The Evaluation Study was undertaken by NIRAS A/S from September 2014 to January 2015.

The **purpose** of the Evaluation Study is to provide Danida with a basis for future funding decisions to FTM-DK by providing better documentation of the development effects for producers in developing countries of the Fairtrade certification and FTM-DKs contribution to this. The Evaluation Study will hence take a broad approach and not be limited to evaluating Danida's funding of FTM-DK.

The **specific objective** of the Evaluation Study is to document the development effects of FTM-DK through a combination of review of internationally available evidence and data collection in Denmark/ Europe, and to expound on the economy and financial flows of the FTM-DK operations.

This Evaluation Study Report documents the findings of this assessment as outlined in the assignment Terms of Reference (ToR), where in accordance with Danida Evaluation Guidelines, the OECD/DAC criteria for evaluation are to be considered: relevance, efficiency, effectiveness, impact and sustainability. The contents of this report have been developed through dialogue with the Danida's Evaluation and Green Growth Departments and concerned stakeholders, more particularly FTM-DK and Fairtrade International.

The international Fairtrade system represents the world's largest and most recognized fair trade system. It is made up of Fairtrade International, FLOCERT, three producer networks and 25 national Fairtrade organisations, of which FTM-DK is one. The Fairtrade system certifies different types of producer organizations to standards covering terms of trade, working conditions, and production practices, and sets minimum prices and premiums for selected products, which the primary beneficiaries can use for development of their local communities and production systems. Fairtrade is increasingly known by consumers and experience continued growth in sales of Fairtrade products and number of participants. The growth potential in Denmark is deemed to be very large, taking the relatively low per capita consumption and low market share into consideration. With the support of Danida, FTM-DK is working towards realizing this potential, aiming at DKK 500 per capita consumption in 2020. FTM-DK has received support from Danida since 1999, totalling DKK 35.8 million.

The Evaluation Study has focused as much as possible on the three priority Fairtrade products – banana, coffee and sugar, which are important as commodities traded in Denmark. A review of the findings, lessons learnt and conclusions from this study for these products against the OECD/DAC evaluation criteria are presented below.

## Findings of the Evaluation Study

**Relevance:** The assessment of relevance and coherence focuses on the Danish development strategies for growth and employment, green growth, poverty alleviation and gender equality. The findings of the assessment of impact and sustainability have been used in the assessment of relevance regarding beneficiaries and local impact, especially for the producers of the three priority products and the geographical location of the producer countries.

The geographical spread of the producer countries for the FTM-DK imported products that are the focus of this study (i.e. banana, coffee and sugar), was found to be fully coherent with that of Danida's bilateral development programme and its support through civil society organisations, which targets not only the LDC's, but other low-income countries, lower and upper middle-income countries, all of which have varying degrees of poverty and livelihood deprivation.

Overall, there is a good level of coherence between the strategic objectives of the Growth and Employment Strategy (GE) and the FTM-DK programme, especially in respect to improving developing countries' access to global and regional markets, improving local frameworks for economic growth, advancing access to new technology and innovation, increasing production and processing (value chains), and working with the most vulnerable. Similarly the Evaluation Study found that the level of coherence between the FTM-DK programme and Danida's Strategic Framework for Natural Resources, Energy and Climate Strategy (NEC) was also generally good with overall positive impacts on the environment, particularly where Fairtrade is linked to organic certification.

Core to Denmark's development agenda is poverty alleviation and the Evaluation Study has found that this focus is central to the activities of FTM-DK particularly for the LDC's and other developing countries in which Danida is operating. The findings show that there have been improvements in addressing the issue of livelihoods, where the actual scale of economic benefits from Fairtrade certification has on the whole been positive but relatively modest, and where social benefits from Fairtrade in other aspects, namely: wellbeing, health, education and increased advocacy for example, have generally been highly positive. The assessment of Fairtrade's focus on gender equality, in respect to its relevance with Denmark's development programme is positive, but the achievements are again modest, where it was found that certification has led to small gains, particularly in regards to the greater empowerment of women, and their being better represented in producer organisations. It is recognised that the situation as regards to gender equality is complex, where the major constraints that women face in relation to land ownership/access are important, and that this has a big influence on the extent to which they are likely to benefit from Fairtrade, and which is something over which Fairtrade has little influence.

**Efficiency:** It has not been possible to identify comparable Fairtrade and non-Fairtrade products within the selected product categories of banana, sugar and coffee. Consequently it has not been possible to estimate price differences between Fairtrade and non-Fairtrade sugar and coffee. According to interviewed retail buyers, there is no price premium for consumers to buy the Fairtrade quality on bananas, as all Fairtrade bananas in the Danish market are organic, and prices are set according to the organic quality standards.

For Fairtrade products in general, there seems to be a trend towards declining price premiums for consumers in the Danish market. Increasingly, there may not be a price premium at all on individual Fairtrade products. The majority of Fairtrade products are also organic, and the share of Fairtrade products being organic seems to be increasing. Several traders seem to prefer to combine the organic and Fairtrade labels in order to target an attractive consumer segment characterised by consciousness of sustainability in a wider sense and loyalty to labels.

It seems that in general traders do not directly benefit financially more from trading in Fairtrade products than in non-Fairtrade products. Several companies experience more administrative work involved when trading in Fairtrade products, and also mentions the license fee as a financial cost. The Fairtrade certification is to a large extent used for branding and positioning in competitive markets. Traders' value for money of Fairtrade seems to a large extent to lie in branding, attracting or keeping customers and thereby maintaining or increasing sales of both Fairtrade and non-Fairtrade products.

As the price premium that consumers pay for Fairtrade in the Danish market is not known, it has not been possible to establish which share of the price premium is earned by the Fairtrade producers. Independently of the level of price premiums paid by consumers, sales of Fairtrade organic banana generate a Fairtrade Premium to producers of DKK 0.34 per kg. Sales of Fairtrade sugar generate DKK 0.37 per kg and DKK 0.49 per kg for conventional and organic quality respectively, and sales of Fairtrade coffee generates DKK 2.68 per kg. Danish licensees pay a license fee to FTM-DK of DKK 0.30 per kg banana traded, and a license fee of DKK 0.52 per kg of sugar traded. Licensees trading in coffee pay a license fee of DKK 1.14 per kg coffee sold, and DKK 2.83 per kg of instant coffee.

It is difficult to answer the question as to whether it is good value for money for a consumer to support development through purchasing of Fairtrade products. When buying Fairtrade products consumers support the whole Fairtrade system and its approach to development. It would be necessary to know when consumers themselves feel that it is good value for money to pay a price premium for Fairtrade products. According to a survey commissioned by the Danish Agriculture and Food Council, up to 57% of Danish consumers are willing to pay a price premium for Fairtrade products. Hence, it should be good value for money for those consumers willing to pay a price premium when purchasing Fairtrade bananas, as there seems to be no price premium for Fairtrade bananas in the Danish market. As the price premiums for Fairtrade sugar and coffee are not known, it has not been possible to say whether it is good value for money for consumers to support development through the purchasing of these products. Knowing the actual financial benefits of Fairtrade certification for producers would require in-depth analyses to get a realistic picture of the differences in prices at producer level with and without the various types and combinations of certification.

There is a risk of creating negative displacement effects for other development oriented brands when supporting FTM-DK. However, it is a perception among several traders and others, that through promotion of the Fairtrade Mark, other development oriented certification brands could benefit from the increasing exposure of the CSR issues linked to international trade. However, this could not be confirmed in the market.

**Effectiveness:** FTM-DK has been effective in branding and creating support for the Fairtrade Mark in Denmark. This applies to consumers as well as traders. FTM-DK is given the full credit for the high level of awareness and credibility in Denmark.

During the period of the two Result Contracts with Danida, covering 2007-2009 and 2010-2012 respectively, FTM-DK priorities and activities have by and large remained the same, focusing on branding activities in particular. Now, FTM-DK has strengthened its efforts to developing strategically important business relationships with retailers and traders in order to turning the high awareness of the Fairtrade Mark into actual purchases.

Looking at estimated volumes of Fairtrade products sold in the Danish market, there has been a steady increase from 2008 to 2013 of the three most important products sold in the Danish market. The volumes of sugar have more than doubled since 2008, volumes of coffee have increased 34% since 2008, bananas 52%.

In 2013, the consumption of Fairtrade products per capita was estimated at DKK 108, having increased from DKK 69 in 2008. It represents an increase of more than 50% in 5 years, but during the last three years the level has not changed much. Additionally, the level of spending is rather low, in particular considering the high level of awareness and credibility of the Fairtrade brand.

It seems like several licensees and retailers are generally satisfied with their cooperation with FTM-DK and think that FTM-DK is doing a very good job branding Fairtrade. Still, some licensees and retailers have expressed a need and wish for more information about the extent to which producers benefit from

the extra costs involved in the trade. Also, licensees are looking for other and additional ways of positioning themselves with a high CSR profile in a competitive environment, and with a view to securing sustainable supplies in the longer run, thinking that it will be difficult to scale up Fairtrade supplies.

The fact that most companies combine Fairtrade with organic pose a challenge for both the companies as well as FTM-DK in turning the high public awareness and credibility into actual business. For licensees it puts a limit to the adding of a price premium on their Fairtrade products as they already carry an organic premium. For FTM-DK this is a challenge because then companies' chances of transferring the additional costs of Fairtrade licensing, certification, the Fairtrade Premium for producers as well as extra administration and handling on to the consumers are reduced. It could then become more difficult for FTM-DK to turning the high awareness and credibility into actual business.

FTM-DK has also contributed to putting Fairtrade on the public agenda and is perceived to represent high CSR standards.

The primary source of income for FTM-DK is license fee. Since 2007, the licence fee accounts for an increasing share of total revenues, having increased from 39% in 2007 to 70% in 2013. The remaining part of the revenue comprises contributions from Danida and other grants, as well as income from advertisements and various sources. Hence, FTM-DK is increasingly self-financed. The Danida grant is the second most important source of income for FTM-DK, representing 21% of total revenues in 2013. While the annual total grant from Danida has been reduced steadily since 2007, from 3 million to 1.5 million in 2013, the Danida grant also represents a declining share of total revenues. In 2007, the Danida grant represented 40% of FTM-DK total revenues, reaching 21% in 2013.

FTM-DK is still dependent on external funding for around one quarter of its budget. FTM-DK is vulnerable to Danida withdrawing or reducing further its financial support, as Danida covers the lion's share of the external funding. FTM-DK does not have an exit strategy if Danida should choose to end or reduce its financial support and it is a challenge for FTM-DK to find other sources of financial support.

**Impact and Sustainability:** The main focus of the literature review has been on the three priority products (banana, coffee and sugar) where it was found that a considerable number of studies have been undertaken on coffee as compared to banana and sugar. Overall, the quality of the documentation which was reviewed was of a reasonably high standard and where half of the studies reviewed had been undertaken during the last five years.

The lessons learnt from this analysis and review of the impact and sustainability of Fairtrade interventions on the producers of the priority products are listed as follows:

- **Livelihood and economic impacts:** The findings from many of the sources cited in the review suggest that Fairtrade does achieve many of its intended goals in relation to improvements in income, although on a comparatively modest scale. Counter to this other studies conclude that Fairtrade producers achieved only slightly better yields but required considerable higher labour efforts; the net result being that the increase in farm income proved to be minimal and that many farmers remained in poverty despite being connected to Fairtrade system. These differing views suggest that there is still some uncertainty as regards to the income benefits of Fairtrade for the producers. Generally, Fairtrade farmers do on average receive higher prices, have greater access to credit, perceive their economic environment as being more stable, and are more likely to engage in environmentally friendly farming practices. Other significant positive outcomes from Fairtrade certification include: (a) where extra income from certification has allowed producer organisations

to invest in processing equipment; (b) facilitated quality improvements and/or provision of community facilities and training; (c) where extra income has been substantial enough to reduce individual producers debt; (d) reduced their vulnerability to external economic shocks; (e) allowed producers to purchase new assets; (f) and/or permitted them to invest in new income-earning activities. However, these positive findings need to be balanced against the fact that some aspects of Fairtrade and its consequences are not yet well understood, where there is evidence that farmers in Fairtrade cooperatives may not be fully aware of the details and implications of Fairtrade and where mistrust within a cooperative for a variety of reasons can be an issue.

- **Social impacts for the primary producers:** Impacts in respect to the social benefits of Fairtrade to the primary producers were for the most part highly positive. The most common positive social impacts found for producers in SPOs (cooperatives) were: improved skills and knowledge (marketing, technical, general business skills), improved self-confidence/esteem and improved access to basic rights (e.g., improved participation in decision-making, prolonged schooling for children), improved nutrition and food security, reduced vulnerability to external shocks, better health and physical well-being, and improved household stability/cohesion. It was also found in many cases that the Fairtrade Premium was used to invest in improved access to health care, education and housing.
- **Impact on farm workers on plantations:** The benefits from Fairtrade on plantation workers, especially in the banana sector, were also found to be significant, namely: better working conditions and better worker/management relations, improved unionisation and assistance in addressing workers' rights issues, workers having higher salaries than workers on non-Fairtrade plantations, improved job security, and where the Fairtrade Premium has boosted health, housing and education prospects. Challenges still remain, where: workers wages are still too low although conforming to legal minimums, women are not sufficiently represented, Fairtrade Premium is not benefitting migrant workers, Fairtrade Workers' Committees are sometimes 'competing' with trade unions, and the understanding of Fairtrade amongst workers is sometimes limited.
- **Impacts on producer organisations:** Fairtrade has played a role in supporting farmers' efforts to build strong collective enterprises and to secure decent returns for their products, helping them to overcome challenges associated with the dominance of multinational companies and supermarkets.
- **Gender impacts:** It was found that women were only moderately better off from being involved in Fairtrade as compared to conventional production systems. Where certification has led to modest gains, in regards to the greater empowerment of women, and their being better represented in producer organisations. The general lack of evidence on this issue either way; has made it difficult to draw strong conclusions on what is a complex issue, and where issues such as the problem of women's access to land for example are outside the influence of organisations like Fairtrade.
- **Environmental impacts:** Fairtrade was found to have a positive impact on the environment, more especially when Fairtrade and organic production are combined . The main types of positive environmental impacts as a result of Fairtrade certification were: reduced use of inorganic pesticides/use of more environmentally friendly pesticides, improved soil fertility and structure, reduced use of inorganic fertilisers, reduced use of water resources (e.g., through more efficient irrigation), reduced contamination of water resources, more environmentally friendly waste disposal practices, improved conservation of biodiversity, reduced energy use/carbon emissions, and conversion to organic farming for Fairtrade commodities such as banana and coffee. However, the question of how sustainable these actions are, has not been well documented or proven. There is little literature on the impacts of climate change on the commodities traded under Fairtrade (especially for banana, coffee and sugar), let alone specifically on Fairtrade trading itself. When reported, it was found that the cultivation of long term crops like coffee, banana and sugar which if properly managed can enhance the natural resource base by preventing soil erosion and the loss of

essential nutrients through improved land management practices, with potential beneficial impacts as regards to mitigating climate change. Fairtrade have tried to address this issue through its recently developed Fair Climate Standard as a response to climate change and an innovative business approach.

- **Limiting factors and conditions for success:** The literature review indicates that little thought was paid to identifying conditions for success and/or limiting factors, despite the fact that these are critical in learning lessons about how to improve the impacts of certification in the future. The exception in this regard being those research studies which are commissioned by Fairtrade where there is a focus on learning and improvement.
- **Sustainability of Fairtrade:** Most of the studies reviewed, particularly the earlier impact studies, were generally weak at assessing whether the positive impacts identified are/will be sustained over time. This is partly due to the lack of counterfactual and longitudinal impact studies, and partly to researchers not paying much attention to this issue. However, several studies did find that certain positive outcomes of certification had led to substantial improvements in the sustainability of producer livelihoods, including importantly where Fairtrade had deterred significant numbers of producers from migrating and/or prevented them from losing their land.

## Recommendations

The recommendations for further support for Fairtrade system in general and more particularly FTM-DK, and for Danida can be listed as follows:

### *Recommendations to FTM-DK and the Fairtrade system in general:*

- **FTM-DK license fees:** It is recommended that FTM-DK be careful not to raise the license fee any further, and considers possibilities of reducing the fees.
- **Double certification:** It is recommended that FLOCERT and Fairtrade International continue efforts in exploring possibilities of close cooperation with organic certification bodies and/or develops its own certification and/or inspection services for organic labelling.
- **Increasing sales:** As the organic label is the most known and trusted label in the Danish market, and as many traders seem to want to combine Fairtrade labels with organic labels in order to attract a particularly interesting consumer segment, it is recommended that FTM-DK explore possibilities of benefitting from this situation towards improving chances of turning high awareness and credibility into business.
- **More information on Fairtrade benefits for producers:** It is recommended that with the aim of increasing sales, FTM-DK improves information to key personnel, in particular buyers, with existing and potential new trade partners, including retailers and licensees, about how and to which extent Fairtrade producers benefit from the extra costs involved in trading with Fairtrade products.
- **Business development:** It is recommended that FTM-DK continues its move towards strong focus on business development, and evaluates its present support and communications activities in light their effectiveness in increasing sales.
- **Scaling up:** It is recommended that FTM-DK and Fairtrade International communicate to the traders the possibilities of scaling up moving away from a niche product approach, including the new sourcing programs, for which there seems to be a good potential for developing sales of Fairtrade products further.
- **Denmark's development support programmes:** It is recommended that greater emphasis needs to be placed by Danida gaining a better understanding of the impacts which the Fairtrade support programme has had globally on the producers, producer organisations and workers, especially in respect to ensuring that poverty alleviation and gender equality are properly addressed.

- **Environmental and Climate Change Monitoring:** While it was found that the level of coherence between the FTM-DK programme and the NEC Strategy was generally good with overall not any negative impacts on the environment particularly where Fairtrade is linked to organic certification, more needs to be done by Fairtrade and the producer organisations to better monitor these impacts and to take into account the ensuing issue of climate change. It is important to ensure that the implementation of the Fair Climate Standard takes these issues into account in a comprehensive manner.
- **Theory of Change and FTM-DK:** Fairtrade International has developed a Theory of Change as a framework under the Fairtrade Monitoring Evaluation and Learning (MEL) system for various activities related to Fairtrade. It is recommended therefore that FTM-DK and Danida work together to ensure that this becomes an integral component of any future Fairtrade support programme and has particular implications for Danida's GE strategy.

### *Recommendations for Danida:*

- **FTM-DK self-financing:** It is recommended that Danida and FTM-DK work towards reaching a common understanding on strategic goals for FTM-DK regarding self-financing. Danida and FTM-DK have different expectations in this regard.
- **Branding:** It is recommended that Danida explore possibilities, as well as pros and cons, of establishing cooperation with FTM-DK on how to maintain and develop further branding of high CSR related to international trade and development.
- **Development policies and initiatives:** In this Evaluation Study, while a number of studies mention a dramatic improvement in livelihoods, some studies emphasise that producer families are still only surviving and covering basic needs. This is an issue that needs to be addressed; where the Fairtrade programme could be supplemented by other development policies and initiatives to raise rural livelihoods to a more sustainable level; and is therefore an issue for consideration by Danida regarding future support to Fairtrade in general and FTM-DK in particular.
- **Fairtrade and environmental sustainability:** A core element of Denmark's NEC Strategy is green growth and addressing the issues related to environmental degradation and the mitigation of the effects of climate change. Current literature on the impact of Fairtrade certification schemes indicates that further understanding of these issues is required, hence it is recommended that Danida ensures that FTM-DK working with Fairtrade International address this critical issue.
- **Greater strategic understanding of Denmark's trading situation in relation to Fairtrade:** This study has shown the complexities of the trade in Fairtrade products and has identified a number of critical issues which need to be addressed. This in particular applies to Danida's Growth and Employment Strategy (GE) where the issues are explained in detail in Section 3.1 of the Main Report; where issues such as the need to work towards increased free trade, market access for developing countries and better integration in the global economy are highlighted. All of these issues are applicable to Fairtrade products especially as regards to employment and trade, and further work is therefore required to fully understand the trade in Fairtrade and other certification programmes/products along the whole value chain.

# 1. Introduction

Danida has commissioned a study to evaluate Fairtrade Mark Denmark (FTM-DK) a commercial foundation established in 1994 and operated as a non-profit organisation, and an organisation which is affiliated to Fairtrade International. FTM-DK has been receiving grant funds from Danida since 1999, and is reporting on activities funded by Danida, and since these activities take place in Denmark, there is limited reporting on the indirect development effects of the Danida grant to the Fairtrade system. This evaluation is based on a request by the Danida Department for Green Growth for the Evaluation Department to undertake an Evaluation Study of the organisation Fairtrade Mærket Denmark.

The **purpose** of the Evaluation Study is to provide Danida with a basis for future funding decisions to FTM-DK by providing better documentation of the development effects for producers in developing countries of the Fairtrade certification and FTM-DKs contribution to this. The Evaluation Study will hence take a broad approach and not be limited to evaluating Danida's funding of FTM-DK.

The **specific objective** of the Evaluation Study is to document the development effects of FTM-DK through a combination of review of internationally available evidence and data collection in Denmark/Europe, and to expound on the economy and financial flows of the FTM-DK operations.

Furthermore, the Evaluation Study is to analyse the linkages between FTM-DK's work, the sale of Fairtrade products in Denmark and the development effect of Fairtrade certification with special emphasis on priority selected products. The geographic scope of the evaluation study will to a large extent be defined by the selected Fairtrade products sold in Denmark. In terms of time period covered, the Evaluation Study will focus on how the system is presently operating, but will to a large extent be based on studies undertaken within the last 5-10 years.

This Evaluation Study Report documents the findings of this assessment as outlined in the assignment Terms of Reference (ToR) presented in Annex A, where in accordance with Danida Evaluation Guidelines, the OECD/DAC criteria for evaluation are to be considered: relevance, efficiency, effectiveness, impact and sustainability.

The report comprises four Sections and includes in addition to the Executive Summary, the following: Section 1 – Introduction; Section 2 – Evaluation Methodology and Approach; Section 3 – Evaluation Study Findings focusing on the study evaluation questions in relation to the five criteria – relevance, efficiency, effectiveness, impact and sustainability; and Section 4 – Conclusions and Recommendations. Attached to the report are 24 Annexes.

## 2. Evaluation Methodology and Approach

This Section briefly outlines the evaluations teams' methodology and approach to this review. There are considered to be two broad aspects to the Evaluation Study. The first was to evaluate the historical performance of the activities being funded, which was a conventional look at performance, based on the OECD/DAC criteria. Measuring and assessing that the extent interventions were relevant in the context of the contemporary strategies and priorities, how effective they were in delivering the required results, how efficient was the use of resources and to what extent were the desired outcomes and impact achieved and potentially sustained. The second was to take the evaluation information and analyses and use them to look forward and consider the lessons learned from past experience and how the best use could be made in formulating a new strategy for Danida support to the Fairtrade system designed around a new and innovative approach.

### 2.1 Study Evaluation Questions

In accordance with Danida Evaluation Guidelines, the OECD/DAC criteria for evaluation should be considered: relevance, efficiency, effectiveness, impact and sustainability. However, these five criteria have been given different weight and priority in the study as indicated in the evaluation questions below (Box 1).

#### Box 1: DAC Criteria and Study Evaluation Questions

Relevance: The study should assess the relevance of Danida support to FTM-DK primarily by assessing how the Fairtrade cooperation system is aligned to Danida policy objectives [*priority weighting: medium*]:

- Are the objectives and the implementation of the Fairtrade system in coherence with the Danida Growth and Employment Strategy from 2011 and the Strategic Framework for Natural Resources, Energy and Climate from 2013?
- Are the producers of selected Fairtrade products sold in Denmark (and hence the beneficiaries of the Fairtrade certification system) coherent with the objectives of the Danish Development policy in terms of poverty orientation and gender equality?

Efficiency: The aspect of efficiency should be focused on a value for money perspective from the Fairtrade product consumer [*priority weighting: medium*]:

- How much is the price difference for the consumers in Denmark between comparable Fairtrade and non-Fairtrade products? What is the added financial benefit for retailers/importers of Fairtrade products in Denmark?
- How much of this is channelled to producers through the price premium and other Fairtrade certification benefits, and how much is paid to FTM-DK for using the Fairtrade brand?
- Is it good value for money for a consumer to support development through the Fairtrade system?
- Is Danida promoting FTM-DK with the risk of creating negative displacement effects for other development oriented certification brands?

Effectiveness: The study should assess the effectiveness of the FTM-DK secretariat in promoting the brand towards consumers and commercial partners in Denmark [*priority weighting: high*]:

- Is the FTM-DK effective in marketing and building support for the Fairtrade brand in Denmark?
- To which extent does Danida's support to FTM-DK supplement or substitute for funding provided from other sources (input additionality)?

Impact and sustainability: Possible development impacts for producers in the Fairtrade certification system are diverse and may include for instance financial rewards, strengthened human resources, social services, organisational strengthening or environmental benefits. However, the issue of the development impact of Fairtrade certification is disputed. The key questions are [*priority weighting: high*]:

- On the basis of the available literature and impact studies, what can be concluded regarding the development impact for Fairtrade producers from being involved in the Fairtrade system? Is the development impact sustainable?
- Have there been any adverse consequences for Fairtrade producers from being involved in the Fairtrade system?
- Have there been direct or indirect, positive or negative effects of other producers or communities (not directly involved in the Fairtrade system), through for instance copying, linkages (positive) or displacement (negative)?

Source: Danida (2014) Evaluation Study of Fairtrade Mark Denmark – Terms of Reference

As seen from Box 1 above the priority weighting is considered to be medium for the two criteria – relevance and efficiency, and high for the criteria – effectiveness, impact and sustainability, based on discussions with Danida Evaluation Department and the Green Growth Department. This is on the basis that the onus of the Evaluation Study is to ascertain how effective has FTM-DK been in achieving its goals in Denmark as regards to Fairtrade, and the important need to determine the impact and sustainability of these achievements in relation to the producers in the exporting countries, as to whether their wellbeing and livelihoods have been positively (or negatively) affected by these actions.

Given the short duration of the assignment the team feel that the 12 evaluation questions presented in the ToR are considered sufficient to make an objective assessment of the actions and outcomes of FTM-DK in relation to Fairtrade in Denmark and more broadly of the producers in the exporting countries. It is important to note that this is a low level and less comprehensive evaluation according to Danida as compared to a fully detailed Evaluation for large scale projects and programme; on the basis of the grant funding provided to FTM-DK and hence is termed an "Evaluation Study".

Based on the evaluation questions as outlined in the review ToR and further augmented by the evaluation team after discussions with key stakeholders have been used to prepare the Evaluation Matrix which is presented in Annex E. For each major evaluation question, a set of indicators have been prepared and means of verification identified. This matrix provides a comprehensive framework to evaluate the Fairtrade support provided by Danida to FTM-DK. Details on the methodology and approach are presented in Annex D. The list of persons interviewed/contacted is presented in Annex C and the work plan in Annex B. A summary of the assignment methodology and approach is presented below.

## 2.2 Methodology

The Evaluation Study consists of a combination of review of existing studies and primary data collection. It was envisaged to focus the Evaluation Study primarily on three product categories selected on the basis of their importance in the Danish market. The selection of product categories has been undertaken by the Evaluation Team in consultation with the FTM-DK secretariat, and approved by the Danida Evaluation Department. The criteria for selecting product categories include their importance in the Danish market and an assessment of the feasibility of obtaining the relevant information for the products.

## Data collection instruments and analysis

Several different tools and modalities were used during the Evaluation Study covering three aspects: (a) review of available literature, (b) key informant interviews, and (c) primary and secondary data collection; the modalities of these are outlined below.

### *Literature Review*

The scope of this evidenced based literature review is outlined as follows. The main keywords for the document search focused on: *fairtrade, priority products (important to Danish market e.g. coffee, sugar, banana), certification, farmer groups, cooperatives, poverty, gender equality, consumer demand, climate change, low and middle income countries, Danida priority countries*. The full list of references cited in this report is presented in Annex M.

Literature selection guidelines are: (a) peer reviewed documents with quality empirical data and/or the presentation of a rigorous qualitative analysis of the issues where possible, (b) priority products – focusing on the key products identified in association with FTM-DK, (c) Danida development priorities as regards to geographical location and low income countries and middle income countries, (d) Danish documentation on Fairtrade issues, and (e) international documentation on Fairtrade particularly in regards to priority products and countries. As a caveat to point (a) it is important to note that very little of Danida's aid is tested using rigorous impact evaluation, so it is considered too restrictive to only allow only empirical evidence based references in this study.

An annotated bibliography of key literature is presented in Annex K. This annotated bibliography provides a summary of the most relevant literature consulted in this review and a description of the literature type (categorised according to: (a) primary and empirical (experimental or observational-method), (b) secondary (systemic review or other review), or (c) theoretical and conceptual). Furthermore, a summary list of the key Fairtrade impact reports is presented in Annex L.

### *Key Informant Interviews*

This tool uses a semi-structured approach with a checklist (Annex F), based on the Evaluation Matrix, to guide the process as well as interview guides. It provides one of the major information/data collection methods. Key Informants are the contact and management level stakeholders associated with Fairtrade in general, trade in Fairtrade products in Denmark, FTM-DK and MFA/Danida associated with the funding mechanisms. Interviews were conducted partly in person (Denmark), and via telephone links (Germany, Sweden and UK). In addition to these key informants, private sector entities and other stakeholders in the certification and Fair Trade sector, were interviewed to gain their perspective of Danida support in the broader picture of development partner activities and priorities.

### *Primary and Secondary Data Collection*

In addition to interviews, information on prices, volumes of Fairtrade products traded in the Danish market as well as costs associated therewith (*e.g.* license fees, certification costs, Fairtrade Premiums) was collected from existing databases, statistics, reviews etc. available within the Fairtrade system, in particular FTM-DK, FLOCERT and Fairtrade International. This included raw data as well as data collected from reviews and statistics already processed and analysed by the Fairtrade system.

## 2.3 Product Selection Criteria and Selected Categories

According to the ToR, the Evaluation Study is to focus on 3-5 product categories. The criteria for selecting product categories include their importance in the Danish market and an assessment of the feasibility of obtaining the relevant information for the products. The evaluation was based on a combination of review of existing studies as well as primary data collection.

Primary product category selection criteria are as follows: (a) importance of the product in the Danish market, (b) feasibility of obtaining the relevant quality information from existing studies, and (c) feasibility of obtaining the relevant information from primary data collection. Secondary product category selection criteria are as follows: (i) involvement of both smallholder farmers and hired labour, and (ii) included in the new Fairtrade Sourcing Programs

The most important products in the Danish market are banana, sugar, cocoa and coffee. In order to finalise a priority list of three products these four products were evaluated using three indicators of market importance, namely: volume (un-processed), turn-over at retail level, and share of FTM-DK income from licenses. In conclusion it was recommended that the following three product categories be selected for the Evaluation Study: **banana, coffee and sugar**.

## 2.4 Context of Danida's Support for Fairtrade

To avoid confusion it is important to clarify the definitions for "fairtrade/fair trade" and associated terms used in this Evaluation Study. A full glossary of terms related to Fairtrade is presented in Annex N. In order to avoid risk of confusing a price premium in the marketplace with the Fairtrade Premium paid to Fairtrade producers, the following terms are used consistently:

- Fairtrade Premium: the extra sum of money paid to Fairtrade producers for investment in developmental projects
- price premium: the percentage by which a product's selling price exceeds that of its benchmark or competition

MFA/Danida has supported FTM-DK since 1999 through singular grants and framework agreements with a total of DKK 35.8 million. The results of FTM-DKs work is monitored on a continuous basis, looking at indicators such as per capita consumption, retail sales, consumer awareness, income from licensees and Fairtrade Premiums generated by farmers and workers. A full overview of the context of Danida's support to Fairtrade is presented in Annex G.

## 3. Evaluation Study Findings

### 3.1 Relevance

#### Coherence of objectives/implementation of Fairtrade system with Danida GE and NEC

*Question 1: Are the objectives and the implementation of the Fairtrade system in coherence with the Danida Growth and Employment Strategy from 2011 and the Strategic Framework for Natural Resources, Energy and Climate from 2013?*

An assessment has been made of the level of coherence and conformity of the Fairtrade system with Danida strategies: (a) Growth and Employment Strategy (GE Strategy) from 2011; and (b) Strategic Framework for Natural Resources, Energy and Climate (NEC Strategy) from 2013. This was particularly important in regards to FTM-DK actions in satisfying Danida's development agenda and its three core values: (i) of working towards increased free trade, (ii) market access for developing countries and better integration in the global economy, and (iii) the promotion of growth and employment particularly in Africa.

Denmark's development cooperation strategy, **The Right to a Better Life**, adopted by the Danish Parliament in May 2012, includes green growth as one of four priorities for Denmark's development policy engagement. The objective of the NEC Strategy, together with the GE Strategy, is to jointly set the priorities and define the instruments for Denmark's development cooperation for green growth. The focus therefore in this evaluation is to determine if the actions of FTM-DK are commensurate with these aims and objectives.

The **GE Strategy** covers six focus areas improving developing countries' access to global and regional markets, improving local frameworks for economic growth, advancing access to new technology and innovation, increasing production and processing (value chains), strengthening tax systems and working with the most vulnerable (Table 1). The strategy presents detailed tools and approaches for implementing these six focus areas, all of which are highly relevant to implementing these development aims. Moreover, the GE Strategy outlines the main principles and priorities for instruments that directly engage the Danish business community in fostering growth and employment.

As a starting point with regards to the actions of FTM-DK it was deemed important to determine for the three priority products – bananas, coffee and sugar – which are the main countries from which Fairtrade commodities are imported into Denmark. In order of relative importance, these are as follows:

- Bananas – Dominican Republic and Peru.
- Coffee – Kenya, Uganda, Ethiopia, Latin America (Nicaragua, Guatemala, Honduras, Mexico, Colombia and Brazil) and Indonesia.
- Sugar – Mauritius, Malawi, Paraguay and India.

In comparison, the main emphasis of Denmark's bilateral development cooperation is the support of Denmark's 21 priority countries, these being:

- Latin America (1 country) – Bolivia
- Sub-Saharan Africa (12 countries) – Mali, Burkina Faso, Ghana, Niger, Uganda, Zimbabwe, Mozambique, Tanzania, Kenya, Somalia, Ethiopia and Southern Sudan

- Middle East (1 country) – Palestine
- South Asia ( 4 countries) – Afghanistan, Pakistan, Nepal and Bangladesh
- South East Asia (3 countries) – Burma (Myanmar), Vietnam and Indonesia (note Danida is moving out of Vietnam in 2015)

Further to the country focus of Denmark's bilateral development programme, Danish aid is also provided through civil society organisations and NGO's where fewer restrictions apply. The private organisations, like FTM-DK, are not, in principle, bound by the concentration of the Danish bilateral governmental assistance to a limited number of partner countries. To the extent the activities of civil society organisations are directly targeted to poor audiences and not be disseminated in a way that may be construed as legitimising the political systems which are not founded on democratic principles, there will be only few restrictions in the organisations' country selection. Furthermore, it is clear that also the State-funded efforts through organizations under certain circumstances, be the subject of any Danish so-called "negative measures" (trade embargo, the temporary freezing of assistance programmes, etc.) in relation to the countries concerned, as long as there is work in the poorest countries, the Danish organisations can apply for funding for activities in developing countries in accordance with the the requirement that the GNI countries income limits are applicable for Danish development assistance, based on the country classification, carried out by OECD's Development Assistance Committee (DAC).

This provision broadens the scope and coverage of Danida's aid programme globally in the sense that countries and programmes located not only in the least developed countries, but can also include those in other low-income countries, as well as those in lower and upper middle-income countries as defined in the DAC of Official Development Assistance (ODA) recipients. This highlights the appropriateness and relevance of the the FTM-DK countries which produce the three selected priority Fairtrade commodities to the Danish development programme.

The evaluation of the GE Strategic objectives is compared against the actual outcomes of the FTM-DK grant funding activities in regards to their relevance and coherence is presented in Table 1.

**Table 1: Coherence of FTM-DK Actions Compared to GE Strategy Objectives**

GE Strategic Objective	FTM-DK and Fairtrade Actions
1 Work towards increased free trade, market access for developing countries and better integration in the global economy	<ul style="list-style-type: none"> <li>• The actions of the Fairtrade initiatives as supported by Danida are completely compatible in respect of improving market access for developing countries.</li> <li>• All the countries that export Fairtrade commodities (bananas, coffee &amp; sugar) are Danida priority countries, either coming under the bilateral development programme or within the civil society (NGO) programme support.</li> </ul>
2 Support partner countries in establishing the framework for market-based economic growth with a focus on employment	<ul style="list-style-type: none"> <li>• Partner countries are well represented when compared to the FTM-DK producer countries.</li> <li>• Market based economic growth is positively supported through Fairtrade, providing income generating activities for the small-scale farmers and enhanced employment opportunities for the workers associated with large-scale commercial &amp; cooperative Fairtrade activities especially for sugar and also banana.</li> </ul>

GE Strategic Objective	FTM-DK and Fairtrade Actions
3 Advance developing countries' access to new technology and innovation	<ul style="list-style-type: none"> <li>There is a predominance of advanced developing countries (upper middle-income countries), which export Fairtrade products to Denmark, and through the actions of FT International &amp; FTM-DK are benefiting from the support given to producers for improved technologies &amp; innovation all associated with certification of both Fairtrade and/or organic production.</li> </ul>
4 Work with all aspects from production to processing so that jobs are created and a more versatile production is established in partner countries	<ul style="list-style-type: none"> <li>The value chain development approach is the key to Fairtrade certification which is fully supported in the actions of the FTM-DK grant.</li> <li>More however, could be done in support of greater value-addition for the producers to enhance the premium paid for their products. It should be noted here that the new technical programme of the Fairtrade Sourcing Programme will be addressing this particular issue.</li> </ul>
5 Strengthen tax systems so that over time developing countries become capable of financing their own development	<ul style="list-style-type: none"> <li>Not applicable to this Danida supported intervention.</li> </ul>
6 Contribute to safety nets that empower the poorest to improve their living conditions	<ul style="list-style-type: none"> <li>This is perhaps one of the most important contributions from these supported actions, where the evidence has shown that improved income generation for the poor is for the most part positive under Fairtrade, and where empowerment of the poor and the provision of safety nets is a key and positive component of certification.</li> </ul>

The **NEC Strategy** provides the framework and demonstrates opportunities for pursuing greener pathways across all instruments and intervention areas in Danish development cooperation, and this is the key approach for mainstreaming environment as a crosscutting issue in Danish development cooperation. Consequently, the strategy is the framework to be applied by stakeholders involved in the implementation of Danish policy and support to natural resources, energy, and climate change interventions in Danish priority countries (Poverty Frame) and in some middle-income countries (Global Frame). It establishes the parameters to guide Danish partners such as governments and local public authorities, multilateral and other international organizations, the private sector, CSOs, and research institutions who may participate or have specific interests in the roll-out of Danish support to NEC-related interventions. The strategy is further supplemented by the Danida Green Growth Guidance Note (2014), including a catalogue on green growth cases and interventions previously supported by Denmark.

Climate change, increasing resource scarcity, population growth, and urbanization are global challenges that have local impacts. These challenges affect people's livelihood and well-being through access to food, water, and energy – resources critical to the reduction of poverty. The concepts of green growth and green economy are increasingly becoming part of international and national responses to address these development challenges, and to decouple growth from environmental degradation. In this context the actions of the FTM-DK support to producers in the core developing countries as identified by Danida need to be assessed.

There is little literature on the impacts of climate change on the commodities traded under Fairtrade (especially for banana, coffee and sugar), let alone specifically on Fairtrade trading itself. However, it is concluded (e.g., bananas in Peru – COPLA, 2009) that there are overall positive effects Fairtrade on the environment as compared to conventional production which is further augmented when Fairtrade and organic production of banana are combined. Additionally, the cultivation of long term crops like coffee, banana and sugar which if properly managed can enhance the natural resource base by preventing soil erosion and the loss of essential nutrients through improve land management practices (Nelson et al, 2010).

A number of studies have reported conversion to organic agriculture while under Fairtrade, where certification has permitted farmers to continue and expand on more ecologically friendly farming practices (e.g., shade coffee). Both of these trends have significant implications in terms of improving/maintaining the overall environmental sustainability of farm agro-ecosystems, and could have significant livelihood implications if these outcomes are maintained over time (Pay, 2009; Kilian et al, 2004). None of the studies in this review reported any negative environmental impacts of Fairtrade certification, apart from the cases where certification had encouraged crop specialisation, where the environmental consequences of reduced crop diversity are mentioned.

A detailed review on climate change, agricultural adaptation and Fairtrade has been undertaken by Nelson et al (2010). This review documents the current status of the impact of climate change and selected mitigating green growth interventions and these are presented in Annex X for the three priority FTM-DK products.

### **Coherence of selected Fairtrade products with Danida policies for poverty and gender**

*Question 2: Are the producers of selected Fairtrade products sold in Denmark (and hence the beneficiaries of the Fairtrade certification system) coherent with the objectives of the Danish Development policy in terms of poverty orientation and gender equality?*

An assessment was made of the level of coherence of producers of selected Fairtrade products sold in Denmark with poverty orientation and gender equality objectives of the Danish Development policy, namely: (a) Danida Strategy for Gender Equality 2013; and (b) Priorities of the Danish Government for Danish Development Assistance 2012. Consideration was also given to the priorities for Denmark's development assistance which reflect the ongoing implementation of the strategy for Denmark's Development cooperation "The Right to a Better Life", where poverty reduction is the overarching goal.

This aspect of the evaluation links closely with the impact and sustainability analysis of Fairtrade which is presented in Section 4.4. The main points as regards to poverty orientation and gender equality can be summarised as follows:

- **Poverty orientation:** The existing evidence suggests that Fairtrade does achieve many of its intended goals, although on a comparatively modest scale relative to the size of national economies. Fairtrade farmers do on average receive higher prices, have greater access to credit, perceive their economic environment as being more stable, and are more likely to engage in environmentally friendly farming practices, than conventional farmers. It should be noted however, that some aspects of Fairtrade and its consequences are not yet well understood, where evidence shows that farmers in Fairtrade cooperatives may not be fully aware of the details of Fairtrade and can sometimes mistrust those who run the cooperative. Another issue is the trade-off between limiting certification to small-scale disadvantaged

producers, which is the current objective of Fairtrade International, and allowing larger plantation-style producers to also become certified. By scaling-up Fairtrade and increasing entry into certification, where it is perceived that the increased entry of large scale plantations may dissipate some of the monetary benefits of certification which could negatively impact on the smallholder producers (Dragusanu et al, 2014).

- **Gender equality:** A number of recent studies reviewed reported evidence that Fairtrade certification has facilitated the empowerment of women, including women having greater access to support projects and the establishment of income-generating activities, increased participation and power of women in decision-making processes at the producer organisation/community enterprise level, and assistance with child care (sugar – Escalante, 2013; coffee and sugar – Frank and Penrose Buckley, 2012; multiple Fairtrade products – Chan and Pound, 2009). This is balanced against the findings of other studies which have indicated that Fairtrade certification has for the most part not led to any greater empowerment of women (Jaffe, 2008), and similarly women in the main are not better represented in producer organisations as a result of certification (Le Mare, 2008; Ronchi, 2002). Overall, it can be stated that impacts on gender equality are limited, but there are positive examples as shown in the literature review, more especially from recent impact studies. Important to note the huge impact of context on this aspect – for example with regard to land ownership rules, crop ownership norms, etc. – on which Fairtrade is not in a position to affect all of the customary norms within a community; this being a much longer term and complex issue. Also it is not a simple issue as just ‘targeting women’, but more about working with SPOs to find the best opportunities to support improvements in gender equality, building understanding among both men and women, etc.

### 3.2 Efficiency

*Question 3: How much is the price difference for the consumers in Denmark between comparable Fairtrade and non-Fairtrade products?*

For the three products in this Evaluation Study, it has not been possible to find fully comparable Fairtrade and non-Fairtrade products, on which base the price difference for consumers could be established. For bananas there seem not to be a price premium for the Fairtrade quality, whereas for sugar and coffee it has not been possible to estimate price differences for consumers.

All Fairtrade bananas sold in the Danish market are organic. According to retailers, there is tough competition on bananas at the moment, and prices are low. Retailers do not seem to add a price premium for the Fairtrade quality on the organic Fairtrade bananas, as pricing is based on the organic quality. Because of the competitive environment, it is not possible for retailers to increase prices further without losing sales. Consequently any price premium charged by importers due to the Fairtrade quality is “invested” in getting the customers into the shops, in particular those consumers which are conscious about social and environmental issues and loyal to brands. So the Fairtrade Mark is used for attracting customers and increasing sales of certified bananas and other products rather than increasing profits per unit.

There is some speciality sugar cane products available at retail level, which are Fairtrade certified. However, these speciality sugars seem not to be available in non-Fairtrade quality, and therefore cannot be used for estimating price premiums at retail level. Granulated cane sugar is available in Fairtrade organic as well as organic quality, often in 1 kg bags. However, in order for these products to be comparable they should originate from the same country. Different countries of

origin apply different cost sharing models for producers and sugar mills, and EU sugar imports are regulated, where there is free entry for sugar from LDC and ACP countries. It has not been possible to identify two comparable Fairtrade and non-Fairtrade cane sugar products at retail level with known or same country of origin and same level of refining.

Denmark is a coffee loving nation with a relatively high consumption of coffee per capita. However, the volume of coffee sold is falling. At the same time the price of green coffee is increasing - having increased 56% since January this year<sup>1</sup>. Consequently, traders are looking towards positioning themselves and being competitive. The trend is increasing demand for convenience and specialty coffee, including certified labelled coffee guaranteeing responsible sourcing and environmental friendliness<sup>2</sup>. Volumes of certified coffee seems to be increasing, for example volume sales of premium positioned players like Peter Larsen Kaffe saw an increase in volume share from below 1% in 2008 to 2% in 2013. Peter Larsen Kaffe is the market leader in Fairtrade coffee in Denmark with a market share of around 65%<sup>3</sup>. Peter Larsen Kaffe carries UTZ and Rainforest Alliance certified products as well. Most Fairtrade coffee is also organic, and Fairtrade coffee tends to apply to the specialty and high quality end of the coffee product range, and packed in bags with less volume. It is estimated that certified coffee (including organic, Fairtrade, UTZ and Rainforest Alliance) represent 10% of the total coffee market in Denmark, and 40% of the market for bean coffees. Certified coffee may represent around 6% of ground coffee<sup>4</sup>.

Against this background of volumes under pressure, increasing world market coffee prices and increasing importance of branding, coffee is a product which is highly promoted and very often sold on special offers. Such offers may vary within a very short time. Consequently, it is very difficult to estimate price differences between Fairtrade and non-Fairtrade coffee. This picture is confirmed by one buyer at one of the leading retail groups, who declines to even try to give any indication of price differences between Fairtrade and non-Fairtrade coffee.

Estimating price differences is further complicated by the fact that it seems not to be possible to find two types of coffee of same quality and origin for which one is Fairtrade. Coffee varies with type and quality, packaging etc. Coffee may even have the same origin, same producer, and still the quality may be different. Quality seems to be a highly determining factor for the price, so differences in quality would influence observed differences in retail prices between Fairtrade and non-Fairtrade coffee.

There seems to be a general perception that it is very difficult to say whether there is a price premium or not for Fairtrade coffee at retail level. Basically, there seems to be a premium, but because of the often use of special offers, and because other factors, in particular quality, are determining for the price, it is not possible to say to which extent there is a price difference for consumers. When looking at prices in different retail stores, Fairtrade coffee can also sometimes be found to have a lower price than non-Fairtrade coffee within the same type of coffee. It seems that primarily Fairtrade is used for positioning and differentiating products in the market.

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<sup>1</sup>Own calculation based on ICO Composite Price for January and October 2014, available at <http://www.ico.org/prices/p2.htm>

<sup>2</sup> Source: Interview with coffee traders as well as Euromonitor (2014): Coffee in Denmark. Executive Summary available at <http://www.euromonitor.com/coffee-in-denmark/report>

<sup>3</sup> Peter Larsen Kaffe CSR Strategy 2014, p. 8. Available at <http://www.peterlarsenkaffe.dk/f/f1/CSR-2014.pdf>

<sup>4</sup> Figures indicated by one important player in the coffee market based on internal market research

For Fairtrade products in general, there seems to be a trend towards declining price premiums in the Danish market. Increasingly, there may not be a price premium at all on individual Fairtrade products. This trend is confirmed by Fairtrade International as a typical development in a more mature market like the Danish and UK markets<sup>5</sup>. Price premiums may be higher on Fairtrade products offered from companies which trade in Fairtrade products only, because they do not have the possibility of adding the price premium on to other non-Fairtrade lines.

*Question 4: what is the added financial benefit for retailers/importers of Fairtrade products in Denmark?*

For retailers it appears to be a general perception that bottom line there may not be an added financial benefit linked to trading in Fairtrade products. Naturally, individual product lines could represent financial benefits at certain times, but then others may represent a deficit. Banana is one example of the latter. The benefit seems to lie in branding. In particular, combining organic and Fairtrade labels seem to attract a consumer segment which is conscious of environmental and social issues, loyal to brands and willing to pay a price premium for preferred labels. It seems that the share of Fairtrade products, which are also organic, is increasing. Retailers report that those products which are certified both organic and Fairtrade seem to represent relatively strong sales, in particular banana. While retailers do not seem to know the specific effect of the Fairtrade Mark on sales, they are generally sure that Fairtrade does increase sales.

Interviewed importers and processors do not report added financial benefits from trading in Fairtrade products. Some carry Fairtrade products in their assortment in order to be able to service customers who want Fairtrade products. If Fairtrade products are not included in the product range of the trader, an important retail or other customer may choose other suppliers. An often mentioned reason for including Fairtrade products in the assortment is branding.

Importers and processors also mention that trading in Fairtrade products involves more administrative work, which represent an extra cost. For example, traders must allocate personnel to ensure that requirements of documentation and traceability are complied with in order to obtain or maintain certification. Secondly, Fairtrade products require separate packaging and handling. Thirdly, sourcing from Fairtrade producers sometimes implies working with countries which are less developed in terms of logistics and handling, communication, and cooperation on quality issues.

*Question 5: How much of this is channelled to producers through the price premium and other Fairtrade certification benefits, and how much is paid to FTM-DK for using the Fairtrade brand?*

It has not been possible to find companies, who are willing to open up files so that a full supply chain could be analysed in order to identify financial benefits and costs of trading in Fairtrade products in comparison with non-Fairtrade products. Even if it had been possible, it seems that companies often benefit financially in a more indirect way, keeping and developing sales through branding, broader assortment and targeting of an attractive consumer segment. Such benefits would be very hard to measure financially.

Typical supply chains for Fairtrade banana, sugar and coffee sold in the Danish market are illustrated in Annex W. A large part of the Fairtrade bananas imported into Denmark is produced by smallholder cooperatives. The bananas originate primarily from the Dominican Republic, including from the exporter Banamiel. Banamiel buys Fairtrade banana from different

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<sup>5</sup> Interview with Harriet Lamb, CEO, Fairtrade International, on 17 December 2014

plantations and SPO's. Lidl, however, gets their Fairtrade bananas from the APPBOSA cooperative in Peru.

Fairtrade sugar in the Danish market originates from India, Malawi, Mauritius and Paraguay. Specialty sugar originates primarily from Malawi and Mauritius. Most sugar for consumption is imported directly from the producer countries and refined in Denmark. A minor part of the Fairtrade sugar is imported to Denmark via importers in other European countries, e.g. in Switzerland. Fairtrade sugar is produced by smallholder cooperatives. One example is the Kasinthula Cane Growers Association in Malawi, who supplies cane sugar to Lidl, amongst others. The sugar is processed and exported by Illovo Sugar Ltd. Another SPO is the ASOCACE Cooperative in Paraguay, which delivers its sugar cane to the mill La Felsina and supplies cane sugar to the Danish market via an importer in Switzerland.

Fairtrade coffee in the Danish market originate from several of the coffee producing countries, including Colombia, Ethiopia, Guatemala, Honduras, Indonesia, Kenya, Mexico, Nicaragua, Peru and Uganda. One example is the Peter Larsen Fairtrade coffee from the Othaya Farmers Cooperative Society in Kenya (OFCS), which is exported to Denmark via Kenya Cooperative Coffee Exporters (KCCE) and the Swedish importer Löfbergs.

Independently of the financial implications for traders in Fairtrade products, the producers get the Fairtrade Premium, and they are guaranteed the Fairtrade Minimum Price. Similarly, licensees will have to pay license to FTM-DK for using the Fairtrade Mark. The Table 2 below shows the Fairtrade Premium, the Fairtrade Minimum Price as well as the license fee for banana, sugar and coffee.

**Table 2: Fairtrade Minimum Price (FOB), Fairtrade Premium and FTM-DK License Fee for Banana, Sugar and Coffee Arabica, natural**

		Fairtrade Minimum Price		Fairtrade Premium		FTM-DK License Fee
		USD/kg	DKK/kg	USD/T	DKK/kg	(DKK/kg)
Banana <sup>6</sup> , organic	From Dom. Republic	0.74	4.53	55.13	0.34	0.30
	From Peru	0.66	4.02	55.13	0.34	
Sugar	Conventional	-	-	60	0.37	0.52
	Organic	-	-	80	0.49	
Coffee <sup>7</sup>	Conventional	2.98	18.11	440.92	2.68	1.14
	Organic	3.63	22.13	440.92	2.68	
	Instant					2.83

Source: FTM-DK as well as <http://www.fairtrade.net/price-and-premium-info.html> An exchange rate of USD 1 corresponding to DKK 6.0838 is applied

<sup>6</sup> For Dom. Republic, the Fairtrade Minimum Price for organic banana is USD 13.50 per box of 18.14 kg. For Peru, the Fairtrade Minimum Price for organic banana is USD 12 per box of 18.14 kg. The Fairtrade Premium is USD 1 per box of 18.14 kg.

<sup>7</sup> The Fairtrade Minimum Price for conventional Arabica Coffee, natural, is USD 1.35 per pound. For the organic quality there is a price differential of USD 0.30 per pound. The Fairtrade Premium is USD 0.20 per pound. The Fairtrade Premium is USD 0.20 per pound for organic as well as conventional, of which USD 0.05 per pound should be used for productivity and quality improvements. 1 pound = 0.45359237 kg.

In Denmark, the Fairtrade license fee is DKK 0.30 per kg bananas traded, as shown in Table 2. This is the rate that importers based in Denmark pay for applying the Fairtrade Mark on the bananas. For sugar, traders pay a license fee of DKK 0.52 per kg. Coffee traders pay DKK 1.14 per kg for ground as well as whole bean coffee Arabica, and DKK 2.83 per kg of instant coffee.

According to Fairtrade International<sup>8</sup> the Fairtrade Minimum Price for banana is usually above the market price, meaning that Fairtrade certified producers get a higher price for their bananas than producers who are not Fairtrade certified. One exception is Peru, where the market price is often above the Fairtrade Minimum Price, on which basis Fairtrade certified farmers will get the market price.

Unlike for many other products, there is no Fairtrade Minimum Price for sugar. A Fairtrade stakeholder review of the sugar standards in 2009 highlighted the complexities of price setting in the sugar sector – a sector that is characterised by structural differences in sugar supply chains, government-set prices and quota. The conclusion was that it would be more effective for sugar prices to be negotiated between producers and traders rather than through the minimum price mechanism.

The main economic provision of Fairtrade Sugar Standards is the Fairtrade Premium of USD 60 per ton of sugar and USD 80 per ton for organic sugar. The sugar Fairtrade Premium has stayed the same for several years, and some believe it should be raised.

The price of coffee may fluctuate considerably, as indicated in the figure in Annex T. In 2000-2004 the international conventional price reached a historical low and thus fell below the Fairtrade Minimum Price. Between 2010 and 2013, the average composite price for coffee was above the Fairtrade Minimum Price, suggesting that only the Fairtrade Premium resulted in added financial value to coffee producers over these years. The figure also shows that the Fairtrade Minimum Price for coffee was increased in 2011. Thus, the Fairtrade Minimum Price has acted as a safety net for producers several times during the past 25 years.

Producers, exporters, importers, processors and packers are certified by FLOCERT and pay for certification services. The price for certification is the same for actors in the banana, sugar and coffee supply chains, but may vary according to volumes, number of products, processing installations, etc. For producers, the Fairtrade certification costs depend, amongst other things, on the size and the type of the SPO. When looking at the number of members only, the annual certification fee is in the range of EUR 1,170 – 2,770.

For traders dealing with the Fairtrade Minimum Price and Fairtrade Premium, the annual fee is EUR 2,730. This may apply to exporters as well as importers. If volumes are above 1,000 tons annually, an additional annual fee of EUR 1,050 applies.

Table 3 below suggests the certification costs applicable for each actor in a sugar supply chain.

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<sup>8</sup> E-mail correspondence with Martin Blaser during week 51, 2014

**Table 3: Estimated Annual Fairtrade Certification Costs for Sugar Supply Chain Actors (EUR)**

Actor	SPO	Exporter Sugar Mill	Importer Refinery	Trader Packer	Retailer
Certification	1,790	2,730	2,730	1,890	0
Cost		+1,050	+1,050		

Source: FLOCERT Certification Fee Lists, available at <http://www.flocert.net/fairtrade-services/fairtrade-certification/fees/>

For coffee, a roaster may benefit from a provision in the FLOCERT fee structure charging a reduced annual fee for “small customers”. If the annual revenue turnover is EUR 5 million or less, annual certification fee is reduced from EUR 2,730 to EUR 1,260<sup>9</sup>. Warehouses are registered as additional entities either of the importer or the roaster. Certification costs are EUR 315.

In 2013, an estimated total of 3,485.2 tons of Fairtrade bananas were sold in the Danish market, generating an estimated DKK 920,965 license income for FTM-DK and DKK 1,037,481 Fairtrade Premium for producers.

In 2013, 409.2 tons of Fairtrade granulated sugar for consumption was sold in the Danish market, generating DKK 150,263 Fairtrade Premium for producers and DKK 213,546 license income for FTM-DK. Including sugar for industrial use, a total of 894.3 tons of sugar were sold in the Danish market, generating an estimated DKK 328,398 Fairtrade Premium. It should be mentioned that the new Fairtrade Sourcing Programme is expected to increase trade in Fairtrade sugar. This potential is confirmed in the Danish market.

In 2013, an estimated 1,230.9 tons of Fairtrade coffee (green bean) was sold in the Danish market, generating DKK 1,842,951 license income for FTM-DK and an estimated DKK 4,475,614 Fairtrade Premium for producers. 18% of the total Fairtrade coffee sales in Denmark (raw coffee) was sold as instant coffee. The figures are summarised in Table 4.

**Table 4: Estimated Sales Volumes (Tons) of Fairtrade Bananas, Sugar (for Consumption) and Coffee in the Danish Market, estimated Total License Income to FTM-DK (DKK) and estimated Generated Fairtrade Premium (DKK), 2013**

	Sales (Tons)	FTM-DK License Income (DKK)	Estimated Fairtrade Premium generated (DKK)
Banana	3,485.2	920.965	1,037,481
Sugar for Consumption	409.2	213,546	150,263
Coffee (raw)	1,879.7	1.842.951	4,475,614

Source: FTM-DK

<sup>9</sup> Source: FLOCERT Trade Certification Fees. Available at <http://www.flocert.net/wp-content/uploads/2014/03/TC-FeeSys-ED-83-en1.pdf>

Annexes Q, R and S shows the development in volumes, value and generated Fairtrade Premium for Fairtrade bananas, sugar and coffee respectively, sold in the Danish market in the period 2008-13.

*Question 6: Is it good value for money for a consumer to support development through the Fairtrade system?*

This is a very difficult question to answer. The Fairtrade system works towards connecting disadvantaged producers with consumers, promoting fairer trading conditions, empower producers to combat poverty and strengthening their positions. So, when buying Fairtrade products consumers support the whole Fairtrade system and its approach to development.

It would be necessary to know when consumers themselves feel that it is good value for money to pay a price premium for Fairtrade products. According to a survey commissioned by Danish Agriculture and Food Council<sup>10</sup>, 43% of the Danish consumers do not want to pay a price premium for Fairtrade products. Close to 25% of the consumers are willing to pay up to 5% in price premium, and 22% indicate that they are willing to pay up to 10% in price premium for Fairtrade products in comparison with conventional products. As Fairtrade bananas seems to be sold in the Danish retail market without a price premium for the Fairtrade certification, those consumers, who are willing to pay a price premium for Fairtrade products, should be getting good value for money. As it has not been possible to estimate the difference between prices of Fairtrade and non-Fairtrade coffee and sugar at retail level, it is difficult to say whether or to which extent it is good value for money for the consumers to buy those products. However, with the present competitive coffee market in Denmark, where traders generally do not seem to gain financially more from trade in Fairtrade products in comparison with non-Fairtrade products, and where consumer prices may be under pressure, value for money for the consumers could possibly be on the rise.

Looking at it from a purely financial perspective, it would be relevant to know to which extent producers benefit financially from sales of Fairtrade products in the Danish market, relative to producers of non-Fairtrade products, and relative to the price premium that consumers pay. This is a complex issue. One important difference between Fairtrade and non-Fairtrade producers is the Fairtrade Premium. Sales of Fairtrade bananas generate the Fairtrade Premium to the producers of DKK 0.32/kg, while sales of Fairtrade sugar generates DKK 0.37 and DKK 0.49 for conventional and organic cane sugar respectively, and Fairtrade coffee sales generate the Fairtrade Premium of DKK 2.68 per kg. The Fairtrade Premium is paid to Fairtrade producer organisations for investment in development projects, it is not a direct financial benefit to the farmers, though they may benefit financially over time. Secondly, the majority of the Fairtrade products sold in the Danish market are organic, and the difference between the producer prices of Fairtrade organic and non-Fairtrade organic products is not known. Finally, it is not known to which extent the Fairtrade Minimum Price has come into effect and to which extent it has played a role in improved financial benefits for producers of Fairtrade banana and coffee sold in the Danish market. It would require in-depth analyses to get a realistic picture of the differences in prices at producer level, as well as the actual financial benefits for the producers with the various types and combinations of certification. Secondly, at the market level traders are most likely adding lost profits on one product line to other product lines, resulting in higher prices on the latter.

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<sup>10</sup> Landbrug & Fødevarer: Markedsanalyse 3. juli 2014. "Flere danskere lægger Fairtrade i indkøbskurven"

Looking at the financial benefits to producers relative to the price premium in the market, it would be relevant to know how much of the price premium consumers believe should reach the producers in order for them to feel that it is good value for money. As none of this information is available, hence no conclusions can be made.

It should be noted that the time line could be important in the discussion on financial benefits. With producers facing increasing challenges in terms of climate change and price volatility, the application of a minimum price could be increasingly important in order for farmers to sustain their livelihood.

*Question 7: Is Danida promoting FTM-DK with the risk of creating negative displacement effects for other development oriented certification brands?*

Interviews have been carried out with several traders in the Danish market as well as in Sweden, including the largest players Merrild, BKI, Mondelez International (owner of the brand Gevalia) and Peter Larsen, as well as traders in banana, including Chiquita, retailers, and several organizations, including the Danish Consumer Council, Rainforest Alliance, Fairtrade International and FTM-DK. Some of the traders cooperate with just one of the development oriented certification schemes, e.g. Mondelez and Chiquita (both cooperating with Rainforest Alliance), whereas others have products carrying several of these labels, e.g. BKI, Peter Larsen and Merrild (primarily UTZ but also some Fairtrade).

It has not been possible to establish a clear answer as to the risk of creating negative displacement effects by supporting FTM-DK. On the one hand there seems to be a general perception that by supporting FTM-DK, the competitive position of the Fairtrade brand would be improved relative to other development oriented brands. On the other hand, several actors also were of the impression that promoting the Fairtrade brand increases general awareness of development aspects of international trade and consumer purchases, from which other development oriented brands like UTZ and Rainforest Alliance may benefit, simply because the majority of the consumers are believed not to know the differences between these brands.

One perception, which was often mentioned, was that the overall aim of the schemes behind the development oriented brands is the same, and that this is the most important issue to bear in mind when discussing displacement effects. Also, the Fairtrade scheme is open to all companies, no one is excluded from joining in and benefitting from high awareness and credibility of the brand among consumers.

### **3.3 Effectiveness**

*Question 8: Is the FTM-DK effective in marketing and building support for the Fairtrade brand in Denmark?*

FTM-DKs work is based on business strategies, which define strategic goals, as well as contain priorities and planned activities for each business area. The two sets of strategy papers share strategic goals of developing sales of Fairtrade products through promotion of the Fairtrade Mark. For each year, measurable goals and indicators are established for each business area and included in the Danida Result Contracts. Annex O contains a summary of FTM-DK's priority activities and goals towards marketing and building support for the Fairtrade brand in Denmark.

During the period of the two Result Contracts with Danida, covering 2007-2009 and 2010-2012 respectively, FTM-DK priorities and activities have by and large remained the same. However,

FTM-DK has increased its focus on improving visibility on the internet as well as strengthened its efforts to developing strategically important business relationships with retailers and traders.

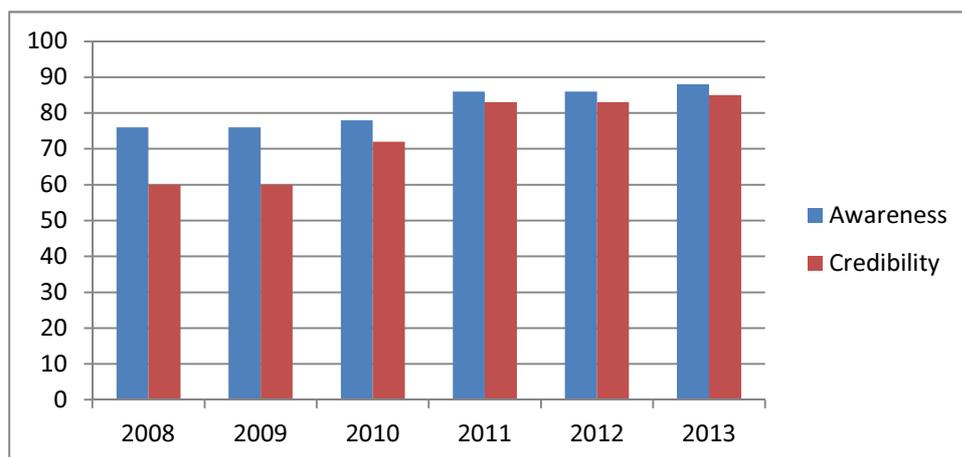
Throughout the period from 2007 to 2012, it has been one strategic goal of the Result Contracts to increase annual retail turnover<sup>11</sup> of Fairtrade products. From 2008 till 2013, turnover at retail level increased from an estimated DKK 382 million to DKK 605 million, representing an increase of 58%.

Reflecting increasing focus on turning awareness of the Fairtrade mark into actual purchases, the main goal in 2013 was increasing per capita spending.

#### Consumers

Actual purchases as well as the level of awareness and credibility of the Fairtrade brand are important indicators of the effectiveness of FTM-DK's marketing activities towards consumers. Figure 1 below shows that there is a high degree of awareness and credibility of the Fairtrade Mark in Denmark, and that awareness and credibility has increased continuously from 2008 to 2013.

**Figure 1: Level of Public Awareness and Credibility of the Fairtrade Mark in Denmark (%), 2008-2013**



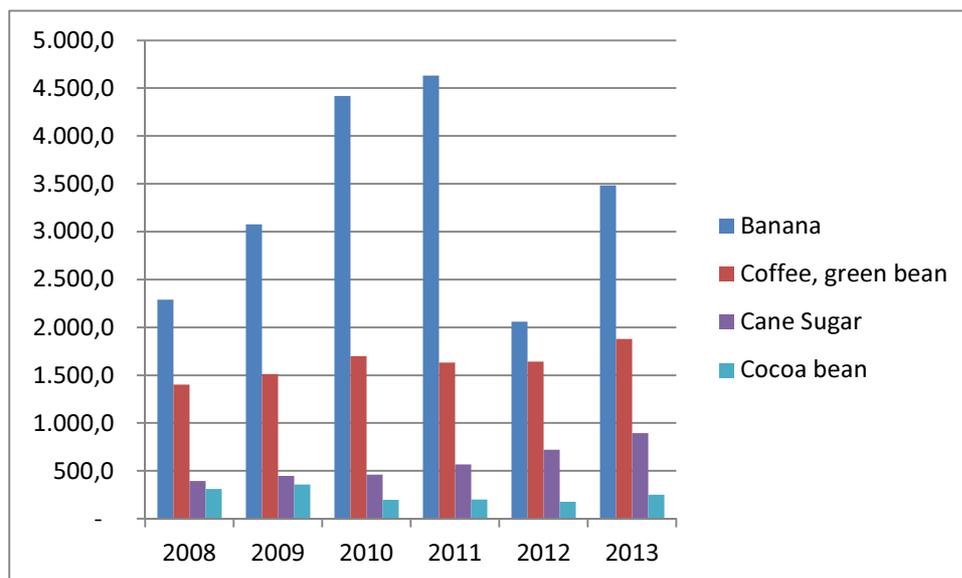
Source: FTM-DK Reports to Danida

Looking at estimated volumes of Fairtrade products sold in the Danish market, there has been a steady increase from 2008 to 2013 of the four most important products sold in the Danish market, as shown in Figure 2 below.

The volumes of sugar have more than doubled since 2008, whereas volumes of cocoa have gone down. Volumes of coffee have increased 34% since 2008, bananas 52%. The drop in banana volumes in 2012 was caused by the fact the Coop removed Fairtrade banana from their assortment due to difficulties obtaining stable supplies of adequate quality. From third quarter 2013, Coop again has Fairtrade banana in their assortment.

<sup>11</sup> In the Result Contracts covering 2007-2012, one strategic objective is to increase wholesale turnover. The development in estimated retail turnover is used as indication of this objective

**Figure 2: Sales of most important Fairtrade Products in the Danish Market (T), 2008-2013**



Source: FTM-DK

In 2013, the consumption of Fairtrade products per capita was estimated at DKK 108, having increased from DKK 69 in 2008. It represents an increase of more than 50% in 5 years, but during the last three years the level has not changed much. Additionally, the level of spending is rather low, in particular considering the high level of awareness and credibility of the Fairtrade brand. This picture is confirmed when looking at Sweden. In Sweden, the level of public recognition of the Fairtrade Mark is 78% in 2013, whereas the per capita consumption of Fairtrade products is EUR 24.3, compared to EUR 14 in Denmark<sup>12</sup>.

In conclusion, FTM-DK has been effective in branding Fairtrade towards consumers. However, it seems that consumption is still relatively low. This is recognized by FTM-DK, and in the FTM-DK strategy for 2013-15, FTM-DK seeks to translate the high awareness into higher consumption, aiming at a fivefold increase in per capital spending by 2020<sup>13</sup>. FTM-DK will seek to improve consumer involvement in developing the Fairtrade sales, getting inspiration from Sweden, amongst others, who has succeeded creating a Fairtrade consumer movement.

#### *Licensees*

FTM-DK main commercial partners are licensees and retailers. In 2013, the total number of licensees was 156, comprising both foreign and Danish companies. From 2008 to 2010, the number of licensees increased from 99 to 158, but since 2010, the number of licensees has remained stable. While the number of foreign licensees has increased slightly, the number of Danish licensees declined from 55 in 2010 to 45 in 2013.

In 2012, FTM-DK forwarded a questionnaire using SurveyMonkey<sup>14</sup> to 223 staff members of licensees and traders carrying Fairtrade products (agents) in order to assess the level of

<sup>12</sup> Source: Key Performance Indicators (KPI) for NFO in Denmark and Sweden, Fairtrade International, via FTM-DK

<sup>13</sup> FTM-DK Business Strategy 2013-15

<sup>14</sup> <https://da.surveymonkey.com/>

satisfaction with the cooperation with FTM-DK. 43 of the 223 staff members completed the questionnaire, corresponding to 19%. Perceptions of the individual marketing and branding activities carried out by FTM-DK according to this survey are shown in Annex U. The figure in Annex U shows that the majority of the respondents are satisfied with FTM-DK's efforts within most of the marketing and branding activities. In the same survey, the majority of the respondents indicated that the majority of the FTM-DK marketing and branding activities were important. This picture is confirmed through interviews with selected licensees. It is a general perception that FTM-DK does a very good job branding Fairtrade and that it is because of the FTM-DK that there is such a high level of awareness and credibility in Denmark. Branding seems also to be the main reason that companies become licensees. Several licensees mentioned that there may not be financial benefits for them being licensees, because of the license fee and the extra work involved, but that they are licensees because of the branding. Some traders express concern that the license fee is relatively high and that they would expect it to be reduced.

Some traders also mention that they know too little about what the producers get out of being Fairtrade certified and how much they benefit from the extra costs involved in trading in Fairtrade certified products. For sugar, one trader believes these issues represent extra costs which in fact make the Fairtrade Premium seem relatively small. There seems to be a need for more information on how and to which extent producers benefit from the Fairtrade certification and trade.

This is in line with the fact that there seems to be a tendency towards companies getting involved directly in development projects, like for example Peter Larsen, I. M. Frellsen, Kraft Foods, and also Coop. This is also good branding and shows commitment to CSR. Some traders also believe that Fairtrade will remain a niche, being difficult to scale up, because the Fairtrade certified producers are relatively small and because of the relatively high costs. Therefore some companies believe that other types of actions are needed as well, where both high CSR profiling as well as security of supply base in a competitive environment with outlook for increasing demand combined with challenges of climate change, are taken into consideration. Several companies also carry products with different development oriented labels. While this is a positive trend because it increases awareness of and focus on sustainability in international trade, it also represents a challenge for Fairtrade.

In conclusion it seems like several licensees are generally satisfied with their cooperation with FTM-DK and think that FTM-DK is doing a very good job branding Fairtrade. However, licensees are also looking for other and additional ways of positioning themselves with a high CSR profile in a competitive environment, and also with a view to securing sustainable supplies in the longer run, thinking that it will be difficult to scale up Fairtrade supplies.

The fact that most companies combine Fairtrade with organic pose a challenge for both the companies as well as FTM-DK in turning the high public awareness and credibility into actual business. For licensees it puts a limit to the adding of a price premium on their Fairtrade products as they already carry an organic premium. For FTM-DK this is a challenge because then companies' chances of transferring the additional costs of Fairtrade licensing, certification, producer premium as well as extra administration and handling on to the consumers are reduced. It could then become more difficult for FTM-DK to turning the high awareness and credibility into actual business.

### *Retailers*

Retailers, in particular supermarkets, remain, by far, the dominant outlets for Fairtrade. The main activities that FTM-DK carries out in cooperation with the retailers include the annual three weeks of Fairtrade campaigns, input to retail campaigning and in-store point-of-sale material.

In 2012 FTM-DK carried out a survey using SurveyMonkey in order to assess retailers' satisfaction with the work of FTM-DK. The questionnaire was forwarded to 165 retail staff members, of which 45 answered some questions and 28 answered all questions, meaning 17% completed the questionnaire. The result of the questionnaire is shown in a figure in Annex V. The figure shows that in general respondents are satisfied with FTM-DK's marketing work. In that same survey, respondents also indicated that the most important activities are information on new products, the FairNOK magazine as well as the cooperation on three Fairtrade campaign weeks. Again, interview with retailers confirm that FTM-DK has done a good job creating awareness of and support to Fairtrade. One large retailer mentions the importance of FTM-DK acting as a lighthouse and providing a frame for priorities and actions on CSR. However, some buyers ask for more information about how the producers benefit from Fairtrade and the extra costs involved.

One retailer estimates that around 75% of the Fairtrade labelled products in the Danish market are also organic<sup>15</sup>, an estimate which other traders agree with. Some retailers believe that Fairtrade products should also be organic, as to a large extent the two labels are preferred by the same kind of consumers – the consumers, who are conscious about social and environmental issues, and loyal to preferred brands. One large retailer was considering splitting the two in order to reduce prices. More information seems to be needed on how much of the extra money involved in Fairtrade actually reaches the producers.

From 2008 to 2013 the number of product codes at retail level has increased from 480 to 1,260, the main increase taking place from 2008 to 2010. Number of Fairtrade products with discounters stayed in the range of 41-51 between 2009 and 2012, and jumped to 64 in 2013. In conclusion, FTM-DK has succeeded building support for the Fairtrade Mark at retail level, improving the availability and visibility of Fairtrade products. A main recent success is the introduction of Fairtrade products with several discounters. However, so far, no retailer has entered into a strategic cooperation with FTM-DK, - a move which carries a potential to increase sales considerably, as seen in the UK, for example. This is now a focus area of FTM-DK, together with establishing alliances with new and existing licensees.

### *The Public Scene*

FTM-DK has participated in the work towards increasing public attention towards the social and economic aspects of sustainability as well as commitment to fair trade, for example through motivating municipalities, universities, etc. to commit themselves to Fairtrade. From having one Fairtrade City in 2008, there were 7 in 2013. Cooperation with the local authorities in Arhus has also led to the fact that public authorities are now allowed to favour ethical trade in public procurements. Playing an active role in putting Fairtrade on the agenda is a high priority of FTM-DK, and various activities are carried out to that effect.

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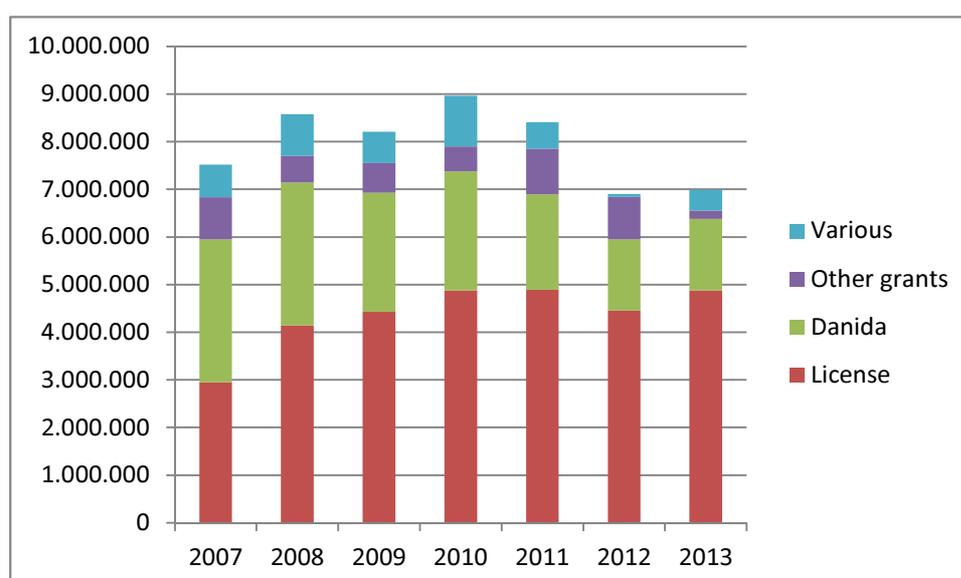
<sup>15</sup> Source: Rema 1000 on their homepage <http://rema1000.dk/social-ansvarlighed/fairtrade/>

*Question 9: To which extent does Danida's support to FTM-DK supplement or substitute for funding provided from other sources (input additionality)?*

The primary source of income for FTM-DK is the license fee. Since 2007, the licence fee accounts for an increasing share of total revenues, having increased from 39% in 2007 to 70% in 2013. The remaining part of the revenue comprises contributions from Danida and other grants, as well as income from advertisements and various sources.

The Danida grant is the second most important source of income for FTM-DK, representing 21% of total revenues in 2013. While the annual total grant from Danida has been reduced steadily since 2007, from 3 million to 1.5 million in 2013, the Danida grant also represents a declining share of total revenues. In 2007, the Danida grant represented 40% of FTM-DK total revenues, reaching 21% in 2013. At the same time, grants from other external sources have also been reduced. In 2013, grants from other sources than Danida came exclusively from "Tips & Lotto" (The Danish Culture Agency), representing less than 3% of total revenues. The various sources of income are shown in the Figure 3, covering the period from 2007 when the first Result Contract came into force.

**Figure 3: FTM-DK Sources of Revenue 2007-20013 (DKK)**



Source: Own calculations based on FTM-DK's annual accounts

FTM-DK's decreasing dependence on external grants represents increasing self-financing. FTM-DK's self-financing has increased from 48% in 2007 to 76% in 2013<sup>16</sup>. Details on revenues are presented in Annex P.

While it is a positive development that FTM-DK is increasingly self-financed, FTM-DK is still dependent on external funding for around one quarter of its budget. FTM-DK is vulnerable to Danida withdrawing or reducing further its financial support. Danida covers the lion's share of the external funding, and FTM-DK does not have an exit strategy if Danida should choose to end or reduce its financial support.

<sup>16</sup> License income and various income, excluding grants

According to FTM-DK business plans, the primary source of income will continue to be license fees, and it is a strategic intent to increase this source of funding. FTM-DK also wishes to continue cooperation with Danida and to a larger extent base cooperation on a private public partnership. FTM-DK perceives its work to be of interest to the general public and important in terms of improving value chains for disadvantaged producers. Because Fairtrade represents and works towards high CSR standards, focusing on the social and economic aspects of sustainable supply chains, it is felt that full self-financing cannot be expected based on license fees solely.

In 2012, the FTM-DK board established an internal funding group aiming at identifying and developing new sources of funding. As a result, FTM-DK will explore possibilities of applying crowd-funding as one new source of income.

### 3.4 Impact and Sustainability

The focus of the literature review has been on the three priority products – banana, coffee and sugar – and while it is important to cover all of these products the large amount of information that is forthcoming from these studies means that a focused rational approach has been followed. In this regard the main focus of the following analysis will be mainly on coffee for which there is a large number of quality citations, while drawing on lessons learnt from the other two products – sugar and banana – where appropriate. Furthermore, the review has tried to target the countries where the three products are important for Fairtrade in Denmark as outlined in Section 4.1, however, where this has not been possible due to the dearth of appropriate literature the findings of other impact studies from countries which do not come under Denmark's direct development agenda have also been assessed.

#### Reviewing the current evidence base

The key findings in terms of the characteristics and strength of the evidence base for the review of literature for banana, coffee and sugar are as follows:

- **Products:** The majority of the studies found were conducted on coffee, with relatively less coverage of the other two products; of the 79 case studies reviewed, a total of 62 are of Fairtrade coffee, 18 studies of banana and 6 of sugar. Some studies duplicated products.
- **Geographical coverage:** In terms of geographical coverage, the majority of studies were conducted in Latin America or the Caribbean (47 studies), with relatively fewer impact studies in Africa (16), Asia (3) or the Pacific region (1).
- **Quality of the studies reviewed:** As regards to the quality of the studies a total of 34 (43%) were from recognised peer reviewed journals from which it can be perceived that the quality of the information and empirical analysis is of a reasonably high standard, and where confidence levels are considered to be high. The quality of the evidence base was therefore judged to be reasonably good, but there were however some limitations. The methodologies used, where reported were mostly sound, but there were only a few participatory research studies, comprehensive cost-benefit analyses or longitudinal studies. Moreover, only a small number of studies provided solid evidence of impacts – most focused on inputs, outputs and/or outcomes of certification. Also, only some citations really assessed the poverty impact of certification, i.e., how the individual impacts identified influenced overall household well-being and quality of life. It should be noted however that as this is an

evolving field, where some of the earlier studies have a slightly less critical approach than later studies; of the 79 studies reviewed a total of 50% were undertaken in the last five years.

- **Scale and scope of the evidence base:** The scale of the evidence base on the social and economic impacts of sustainability standards is quite substantial, less so for environmental impacts. The review included as far as possible only those studies that focused on Fairtrade and where a few included other certification standards organisations (Utz and Rainforest Alliance). Between them, these covered a large number of producers and producer organisations in the countries important to Fairtrade in Denmark, covered interviews with a wide range of stakeholders, and included a significant number of multi-country comparative studies.
- **Weakness of the studies reviewed:** A key weakness of the studies reviewed was that few of the studies provided a real assessment of the extent to which Fairtrade certification reduces the poverty (or increases the well-being) of producers, workers or other intended beneficiaries. This was due to a mixture of the following three factors: (a) most studies only provided an assessment of outputs or outcomes, and not impact; (b) many impact studies did not try to assess the scale of impacts identified (e.g., amount of extra income, percentage reduction in healthcare costs); and (c) where studies did try and measure the scale of impacts identified, these were usually not assessed in terms of their contribution to the overall household income, healthcare costs, credit needs etc. Exceptions were the few studies that used a livelihoods framework or similar approach to assess whether certification had led to significant increases in livelihood assets.
- **Limitations of the review:** While every effort was made to ensure that as many of the topical quality references were reviewed, but due to the time constraints on conducting the literature search, it is entirely possible that there are other relevant impact studies in existence that were not identified, and therefore were not cited in this review. The above figures for Fairtrade impact studies should therefore not be seen as a definitive inventory of the absolute numbers of impact studies available, but rather an indication of the extent to which the impact of Fairtrade certification have been assessed to date. Furthermore, the review builds on the findings of other systematic reviews (Chan & Pound, 2009; Nelson & Pound, 2009; CEval, 2012).

### **Development impact and sustainability for producers and workers in Fairtrade system**

*Question 10: On the basis of the available literature and impact studies, what can be concluded regarding the development impact for Fairtrade producers from being involved in the Fairtrade system? Is the development impact sustainable?*

A number of key issues are addressed in order to answer this question on development impact and sustainability, namely: (a) impact on income, (b) impact on other economic benefits from Fairtrade, (c) environmental impacts, (d) social impacts at the primary beneficial level (producer and workers), (e) gender and access to basic rights, (f) broader social impacts at the organisational level, and (g) wider impacts of Fairtrade (value chains, national policy and regional economic impacts). The analysis concluded with an assessment of the sustainability of these impacts, and comments are made on poverty profiling of the impact of Fairtrade interventions.

Where applicable a distinction has been between different types of producers, including small producer organisations (SPO), plantations and their workers, co-operative members and cooperative employees. This is considered important as Fairtrade places a lot of emphasis on its

certification effects with producer organizations, as this is the route through which any Fairtrade impacts are mediated.

#### *Impact on Income*

The effects of Fairtrade certification for coffee producers and their organisations have been analysed in several recent studies, where different studies provide, however conflicting results. Case studies from coffee cooperatives in Mexico (Calo & Wise, 2005; Jaffee, 2007; Milford, 2004), Costa Rica (Ronchi, 2002) and Nicaragua (Bacon, 2005; Bacon et al, 2008) find that Fairtrade strengthened producer organisations and suggest that Fairtrade standards improved returns to smallholder producers, positively affected their quality of life and reinforced the strength of local organizations. Furthermore, other studies reveal that Fairtrade initiatives improved the wellbeing of small-scale coffee farmers and their families, particularly due to better access to credit facilities and external funds, as well as through training and improved product management (Murray et al, 2003; Taylor, 2005). It was also found that Fairtrade farmers were successful in expanding their production, experienced greater satisfaction with the prices obtained for their crop, and reached improvements in food consumption and living conditions that resulted in a significant drop in child mortality (Becchetti & Costantino, 2008).

A positive impact on household income from Fairtrade was also highlighted in a detailed study by Nelson & Haggard (2014) which assessed the impact of Fairtrade coffee smallholders and producer organisations in Indonesia, Mexico, Peru and Tanzania. In this study it was found that gross income from coffee production was in general greater for Fairtrade producers than non-Fairtrade producers in three out of the four case study countries (16% higher in Mexico, 47% higher in Peru and 107% higher in Tanzania)s. The exception is Indonesia where non-Fairtrade producers are more productive and get higher prices, due to having more favourable production conditions and having been less affected by conflict.

These positive benefits from Fairtrade for a wide range of products have been recently documented by Dragusanu et al (2014), where they summarised their main findings as follows: *“The existing empirical evidence, based primarily on conditional correlations, suggests that Fair Trade does achieve many of its intended goals, although on a comparatively modest scale relative to the size of national economies. Fair Trade farmers do on average receive higher prices, have greater access to credit, perceive their economic environment as being more stable, and are more likely to engage in environmentally friendly farming practices. However, some aspects of Fair Trade and its consequences are not yet well understood. There is evidence that farmers in Fair Trade cooperatives may not be fully aware of the details of Fair Trade and can sometimes mistrust those who run the cooperative. Another issue is the trade-off between limiting certification to small-scale disadvantaged producers and allowing larger plantation-style producers to also become certified. By scaling-up Fair Trade and increasing entry into certification, the increased entry may dissipate some of the monetary benefits of certification”*.

However, other coffee studies that used quantitative survey approaches for comparing Fairtrade farmers with nonparticipants have reached far more critical conclusions. Fairtrade organic coffee production in Nicaragua (Valkila, 2009; Valkila & Nygren, 2009) and Mexico (Barham et al, 2011) achieved only slightly better yields but required considerable higher labour efforts. The result being that while farmers were less poor, the increase in farm income however proved only to be modest and many farmers remained in poverty despite being connected to Fairtrade organic markets, a finding that is further supported by Bacon et al (2008). Furthermore, off-farm employment and migration opportunities generated more income than coffee production.

Mendez et al. (2010) conclude that Fairtrade farmers may reach higher gross coffee revenues, but net contributions to improved livelihoods remains limited since many farmers could not sell their entire production at guaranteed prices, where often a considerable proportion of the produce was sold in the open market at a lower price. It was also argued by Arnould et al (2007, 2009) for coffee grown in Latin America (Nicaragua, Peru and Guatemala) that economic results of Fairtrade participation are indisputable, but effects on education and health are highly uneven. Therefore, perceived changes in the quality of life show no significant difference between farmers participating in conventional and alternative trade networks. Results of focus group interviews as reported by Raynolds (2002) suggest that income from coffee sales to Fairtrade markets is often insufficient to offset other adverse factors that provoke the perceived fall in life quality (e.g., higher input costs and steadily increasing consumer prices, fuel and communication costs).

A significant number of coffee studies reviewed here reported increased income levels for producers, and increased income security as a result of Fairtrade certification. However, these findings mask a more mixed picture of income impact, namely: (a) even where increases in income as a result of certification are relatively small, the social impacts of a guaranteed price and/or income source can be significant (Terstappen et al, 2012); and (b) even with Fairtrade, the scale of income benefits for producers can be limited by a number of factors, these include: (i) only a proportion of the guaranteed price paid to the producer organisations go directly to individual farmers; (ii) where output exceeds demand, only a proportion of the produce is actually sold as Fairtrade, the rest is sold at lower (non-premium) prices to conventional markets; and (iii) inefficiency of the Fairtrade value chain, especially in areas such as processing, trading and marketing lead to reduced returns for producers (coffee in Bolivia – Imhoff and Lee, 2007; coffee in Uganda – Romero and Ana, 2010).

A number of studies reviewed as part of this Evaluation Study of the three products also identified, in addition to the above economic/financial benefits (positive or negative) for producers, economic benefits for plantation and cooperative workers, where several studies identified improved income, i.e., higher wages/salary levels for workers, and others identified greater income security, i.e., better job security and/or increased employment opportunities for workers (banana Peru – CEval, 2012; coffee Costa Rica – Dragusanu and Nunn, 2014; coffee Nicaragua – Gingrich and King, 2012; sugar Malawi – Frank and Penrose Buckley, 2012). The main positive economic impacts for workers were: improved wage levels, improved job security and greater employment opportunities. Furthermore, the review found that some impact studies mentioned the high direct and indirect costs of certification as mentioned above. In most cases, it was not specifically assessed whether the identified economic benefits outweighed these costs, as regards to whether there was an increase in net as opposed to gross incomes. Furthermore, at least two studies (for banana – COPLA, 2009; coffee – Pay, 2009), that covered organic and Fairtrade certification, explicitly indicated that the additional organic premium was outweighed by the associated costs (particularly additional labour required).

As regards the banana sector, a detailed study of banana sector in Colombia, was conducted recently by Max Havelaar Netherlands, in close collaboration with Fairtrade International, the Fairtrade Foundation, and the Dutch Embassy in Colombia (CODER, 2014). This study assessed the impact of Fairtrade certification for banana growing smallholders and their cooperatives in the Magdalena Department and for hired workers in banana plantations in the Urabá region, in northern Colombia. The study assessed the impact of Fairtrade (production and

trade norms, prices and Premium, certification, support to producers and market access) on economic, environmental and social development conditions of participating smallholders and hired workers; smallholder and hired-worker organizations; the ability to organize and strengthen the organization; development at the family and community level, and the impact on the smallholder's position in the banana production chain at the national level. The study confirmed that Fairtrade has had a very positive impact in the last three years at the level of smallholder households and farms, smallholder cooperatives, and neighbouring communities. Premium investment has been an essential factor for achieving this impact, where on average, 35% of the Fairtrade Premium is invested in on-farm productivity and lowering banana production costs; 15% is spent to cover administration costs; 12% is used to pay for Fairtrade-norm maintenance; and 10% is expended for social welfare in the community.

In summary, it can be concluded that the findings from many of the sources cited in the review suggest that Fairtrade does achieve many of its intended goals in relation to improvements in income, although on a comparatively modest scale. In comparison other studies have found that Fairtrade producers achieved only slightly better yields but required considerable higher labour efforts. The net result of this being that the increase in farm income proved to be minimal and that many farmers remained in poverty despite being connected to Fairtrade system. This dicotomy in views seems to suggest that there is still some uncertainty as regards to the income benefits of Fairtrade for the producers.

#### *Impact on Other Economic Benefits from Fairtrade*

A summary of the other economic benefits (positive/ negative) from Fairtrade as regards to: diversification of incomes sources, improved market access, economic impacts on workers (plantation and cooperative), access to credit, and improved product quality or value-added are presented in Box 2.

#### **Box 2: Other economic benefits from Fairtrade**

##### **Diversification of incomes sources**

Evidence showed that participation in Fairtrade schemes have allowed producers to diversify their income sources, as a result of one or more of the following: (i) improved income and/or access to credit as a result of certification has allowed them to invest in new income-generating activities, (ii) several sustainability certification schemes actively encourage producers to diversify their farming practices, (iii) scheme provided training on diversification, and assistance on marketing of diversified products, (iv) cultivation of shade-grown coffee means that coffee farms provide fruit, firewood and timber as well as coffee (Blackmore & Keeley, 2012). Additionally, some studies provided evidence that diversification led to improved incomes and positive economic outcomes, while others reported instances where certification had led to crop specialisation (sole cropping as in the case of sugar) and therefore had negative impacts on income diversity. It is also noted that, with the increasing emphasis on quality, there is a danger that there will be a shift towards higher input coffee farms that are poorer in bio-diversity and secondary income sources. Such specialisation might disadvantage smaller and more marginal producers without the conditions or resources to meet quality requirements (Ruben and Fort, 2011; SOAS, 2014).

##### **Improved market access**

Participation in Fairtrade has led to improved market access, as a result of: (a) investment in organic certification where many Fairtrade producers invest in organic certification in an effort to further improve incomes, therefore gaining access to organic export markets; (b) improved quality of their products; (c)

improved confidence and negotiating/commercialisation skills, exposure to export partners and/or access to market information (some Fairtrade programmes actively provide capacity-building, market information and contacts to support producers improve market access); and (d) improved marketing skills and information has in some cases allowed producer organisations to develop their own export arms or cut out intermediaries in other ways (Nelson & Pound, 2009).

#### **Economic impacts on workers**

Workers benefited from participation of producers in Fairtrade certification schemes, through increased wages, improved job security and employment opportunities and/or improved ability to invest in new income-generating activities. These types of impact are significant in terms of their contribution to worker overall economic status and security. However, improvements in wages were a result of bringing wages in line with the national minimum wage, rather than ensuring workers were being paid a living wage; note minimum wages in developing countries are often significantly less than a living wage (Arnould et al, 2009).

#### **Access to credit**

It was found that participation in Fairtrade had led to improved access to credit, as a result of: (a) the scheme providing direct pre-financing or other forms of credit with relatively favourable terms and conditions, and/or (b) traditional credit sources seeing participating farmers as having a better credit rating than others, and/or (c) delivery contracts for certified produce acting as collateral for loans. However, it was cautioned that the success of providing alternative credit sources depends on careful management by both the producer organisation and members who borrow from it – there have been several allegations of mismanagement and poor transparency made against producer groups more especially with cooperatives (Ruben, 2008).

#### **Improved product quality and/or value-added**

Evidence shows that Fairtrade had allowed producer organisations and/or individual producers to invest in improving the quality of their product, and/or invest in processing facilities that have allowed producers to move further down the value chain. This has been the result of: (a) improved income allowing farmers to invest in converting traditional extensive farming systems into more intensive and productive systems producing higher quality crops; (b) schemes providing training on quality and processing skills; and (c) schemes funding the purchase of processing equipment. Notwithstanding, a number of assessments (reviewed by Chan and Pound, 2009). did question whether the incentives from Fairtrade work effectively to encourage producers to increase quality, where a guaranteed minimum price can bring complacency among producers.

### *Environmental Impacts*

In the literature review (COSA, 2013; Frank & Penrose Buckley, 2012; Nelson et al, 2010; Ruben, 2008), the main types of positive environmental impacts as a result of Fairtrade certification were found to be as follows: (a) reduced use of inorganic pesticides/use of more environmentally friendly pesticides, (b) improved soil fertility and structure, reduced use of inorganic fertilisers, (c) reduced use of water resources (e.g., through more efficient irrigation), reduced contamination of water resources, (d) more environmentally friendly waste disposal practices, (e) improved conservation of biodiversity, and (f) reduced energy use/carbon emissions. The other positive environmental impact found was associated with the conversion to organic farming as was found to be the case for Fairtrade banana in the Dominican Republic (Roquigny et al, 2008).

A significant number of studies reporting conversion to organic agriculture as well as Fairtrade, and that there were cases where certification has permitted farmers to continue with more ecologically friendly farming practices (e.g., shade coffee, mulching, integrated pest management). These trends have significant implications in terms of improving/maintaining the overall environmental sustainability of farm agro-ecosystems, and could have significant

livelihood implications if these outcomes are maintained over time (Pay, 2009; Kilian et al, 2004). None of the studies in this review reported any negative environmental impacts of certification, apart from the cases where certification had encouraged crop specialisation, where the environmental consequences of reduced crop diversity were mentioned (Williams, 2014).

Many of the studies on Fairtrade did not provide any form of a detailed, methodical assessment of different types of environmental impact, where studies only presented evidence of improved environmental management practices rather than actual positive environmental impacts. None of the studies reviewed had undertaken a detailed environmental impact assessment. Furthermore, it was reported that impacts appeared to be relatively small-scale and isolated, although there was some limited evidence of more systemic environmental impacts (coffee – Raynolds et al, 2007; coffee in Asia – IIED, 2012). None of the citations provided a methodical assessment of the application of FLO environmental standards or of the impacts of this application.

#### *Social Impacts at the Primary Beneficial Level*

The most common positive social impacts found for Fairtrade producers were improved skills and knowledge (marketing, technical, general business skills), improved self-confidence/ esteem and improved access to basic rights (e.g., improved participation in decision-making, prolonged schooling for children), and reduced vulnerability to external shocks as reported in Chan & Pound (2009) and Nelson and Pound (2009).

The majority of the studies reviewed did assess one or more aspects of the social impact of Fairtrade certification at the individual producer/worker level, although in some cases the papers only provided evidence of activities undertaken (inputs) rather than actual outputs, outcomes or impacts of these activities (coffee in Nicaragua – Valkila and Nygren, 2008). There was also evidence of positive empowerment type impacts (e.g., improved respect for union rights, improved knowledge/skills, or reduced gender discrimination). Valkila (2009b) reported that the most frequent positive impacts for workers were related to improved physical well-being and health (from reduced working hours, improved occupational health and safety (OHS) and living conditions).

A summary of the other social impacts at the producer/worker level from Fairtrade as regards to impacts on: nutrition and food security, vulnerability to external shocks, health and physical well-being, improved self-confidence/esteem, improved skills and knowledge, and improved household stability/cohesion are presented in Box 3.

#### **Box 3: Other social impacts at the producer/worker level from Fairtrade**

##### **Nutrition and food security**

A minority of documents cited evidence that Fairtrade certification had led to improved nutrition and/or food security for producers, and Fairtrade had led to higher food consumption and improved dietary quality (Terstappen et al, 2012).

##### **Vulnerability to external shocks**

Some studies found that Fairtrade had increased the resilience of producer households, increasing their ability to withstand external shocks such as price crises and weather-related difficulties. Largely the result of the guaranteed price provided by Fairtrade, but also the extra income obtained. When Fairtrade had led to better access to credit, this also played a role: the availability of credit at reasonable rates helped see farmers through difficult times (Ruben, 2008).

### **Health and physical well-being**

There was some positive impacts on the health and physical well-being of producers, where some showed that more certified producers had attending training on (OHS) when compared to their non-certified counterparts and that infant mortality rates were lower in Fairtrade as opposed to non-Fairtrade groups (Terstappen et al, 2012; Vagneron and Roquigny, 2011). Other positive outcomes were from: (a) improved practices, e.g., improved awareness of health risks of pesticides, reduced need for medical assistance; (b) improved living conditions for workers, including better housing, toilets, and provision of potable drinking water; and (c) reduced working hours to ensure compliance with maximum working hours legislation.

### **Improved self-confidence/esteem**

Fairtrade certification schemes had led to increased self-confidence/esteem of producers. Specific examples include: (i) members of Fairtrade producer organisations becoming involved in politics (e.g., local government); and (ii) participation in participatory group-based organic schemes meant that smallholders were treated with greater respect by technical/scientific staff and the urban population generally. It was also reported that any positive impacts of certification on the self-confidence/esteem of workers, where it was found that training providing through the certification scheme has improved the self-esteem of estate workers, including female workers (Ruben, 2008; Nelson & Pound, 2009).

### **Improved skills and knowledge**

The literature review found that Fairtrade had led to the provision of training for producers on marketing, farming and processing skills. Evidence shows that this had led to improved knowledge, skills and access to information, and that this had in turn resulted in the application of these new skills to other crops and/or allowed producers to access new markets and trading partners (Max Havelaar France, 2009). Fairtrade certification schemes seem to place emphasis on provision of capacity-building of this nature (Blackmore and Keeley, 2012). Types of support provided include: (a) provision of market information and contacts, and training on marketing skills; (b) training on general business and organisational skills; (c) training on various aspects of the sustainability standards themselves (e.g., integrated pest management, labour rights issues); and (d) technical training – improved farming and processing techniques.

### **Improved household stability/cohesion**

Improved household stability and cohesion as a result of Fairtrade was reported in a number of studies (CEval, 2012; CODER, 2011). These were assessments of Fairtrade, and it was found that increased income opportunities from Fairtrade had reduced the need for migration to look for work, and so had contributed to maintaining family cohesion/stability.

### *Gender and Access to Basic Rights*

A moderate number of studies reported evidence that certification has facilitated improved access to basic rights of producers and hired workers (sugar – Escalante, 2013; coffee and sugar – Frank and Penrose Buckley, 2012). Reported benefits in this category as reported by Chan and Pound (2009) included: (a) increased participation and power of individual producers in decision-making processes at the producer organisation/community enterprise level, including in some cases improved participation of women; (b) prolonged schooling of children, increased access to schooling through funding of scholarships, and improving the quality of local schooling; (c) greater voice given to indigenous peoples rights, including land and resource tenure rights in particular; and (d) improved empowerment of women, including greater access to women's support projects and establishment of income-generating projects for women.

Furthermore, an assessment by Jaffee (2008) of Fairtrade coffee in Mexico it was found that certification had led to greater empowerment of women. Other reports looked at whether

women were better represented in producer organisations as a result of certification, and found no impact (Le Mare, 2008; CIDIN, 2014). Income-generating initiatives for women were also reviewed (Ronchi, 2002), but these were found to be fairly weak and required greater co-ordination and support. A real issue in trying to substantiate the true impact on gender equality, is that few of the citations analyse the gender dimensions of Fairtrade and few disaggregate data along lines of gender or social difference (notable exceptions are: Ronchi, 2002a; Le Mare, 2008; Smith, 2009).

One study looked at whether certification had led to greater participation of both men and women producers in decision-making at the producer organisation level, but again found no impact (coffee and banana – Solidaridad, 2008). However, in a review by Chan and Pound (2009) it was stated that there was evidence that Fairtrade certification had improved respect for the basic rights of workers. Coles (2011) looking at the coffee value chain in Tanzania, also reported that certification had led to the issuing of formal, written employment contracts for Fairtrade workers and found that certification increased the level of worker organisation, namely having a trade union or other worker organisation on-site.

#### *Organisational Level Social Impacts*

A large number of the studies reviewed provided some assessment of impacts of certification on the producer organisation, cooperative or community enterprise (CODER, 2014; COPLA, 2009). Positive impacts were found at the producer organisation/community enterprise level, where the most common benefits were improved strength, management and/or credibility of the producer organisation/community enterprise, and better democratic processes/ level of participation in the organisation. Impacts further down the value chain were found, including increased transparency and co-operation between value chain actors (Fairtrade banana – Smith, 2010). Detail about the main generally positive impacts found is provided in Box 4 below.

#### **Box 4: Social impacts of Fairtrade at the organisational level**

##### **Increased advocacy influence**

Evidence found that Fairtrade had increased producer organisations/community enterprises influence at national level over policy-makers and via participation in national organisations and forums. However, in one example of Fairtrade in Tanzania, although Fairtrade had increased the influence of the coffee cooperative participating in the scheme, a parallel model (support from Technoserve) had enabled coffee associations to have a significantly higher impact at the national level (Parrish et al, 2005).

##### **Improved management, strength and credibility**

Overall, a significant number of studies found that Fairtrade had led to the strengthening of the producer organisation/community enterprise, in terms of improved management, greater credibility and/or continued survival of the organisation. This has been supported by the following: (a) the requirement for certified producer organisations/community enterprises to put in place business management and quality control systems and plans; (b) schemes provide training for producer organisations/community enterprises on business management and administration, leadership and/or organisational skills; and (c) Fairtrade certification schemes help put producer organisations in touch with marketing contacts, donors etc., thus helping to increase their credibility (Laroche and Guittard, 2009). Counter to this is the higher cost of management, monitoring and reporting required by Fairtrade.

##### **More democratic processes/increased levels of participation**

Fairtrade certification has led to more democratic processes and increased levels of participation in producer organisations/community enterprises. This was at least in part due to the emphasis placed by some schemes

(including Fairtrade, FSC, and organic Participatory Guarantee Schemes) on the values and principles of democracy, participation and transparency. Such principles are embedded in FLO's organisational standards (Laroche & Guittard, 2009).

More specifically with regards to the impact that Fairtrade has had on SPOs and plantation workers in the banana sector, an Institute of Development Studies (IDS) study (Smith, 2011) conducted for Fairtrade Foundation in UK, tried to ascertain the difference that engagement with Fairtrade has made to participating producers and workers, and their households, as well as to producer and worker organisations and the wider community. The research involved three Fairtrade small producer organisations (co-operatives) and three Fairtrade plantations in four locations: Ecuador, the Dominican Republic, Ghana and the Windward Islands. Farmers, traders, farm workers and communities were interviewed. Findings from the research presented in Table 5, highlight the important role Fairtrade has to play in supporting farmers' efforts to build strong collective enterprises and to secure decent returns for their bananas. This has helped them overcome challenges associated with the dominance of multinational companies and supermarkets in the banana sector, including long-term decline in prices.

**Table 5: Impacts/Challenges for Fairtrade Banana SPOs and Plantation Workers**

Entity	Positive Impacts	Challenges
Impact on Small Producer Organisations (Co-operatives)	<ul style="list-style-type: none"> <li>• Higher prices than conventional market, leading to higher and more stable incomes</li> <li>• Improved market access</li> <li>• Improved bargaining power with traders</li> <li>• Increased ability to save for small farmers</li> <li>• Improved access to health, education (especially for children) and housing through Premium investments</li> </ul>	<ul style="list-style-type: none"> <li>• Rising cost in banana production means Fairtrade is having an income stabilising rather than a boosting effect</li> <li>• Fairtrade benefits not effective enough for very small farms</li> <li>• Potential producers are wary of the opportunities for Fairtrade sales</li> <li>• Long-term trading relationships sometimes difficult to maintain</li> <li>• Over-reliance on single trading partner</li> <li>• Worries about competition from Fairtrade plantations</li> <li>• Little impact on gender discrimination in certain countries</li> </ul>
Impact on Farm Workers on Plantations	<ul style="list-style-type: none"> <li>• Better working conditions and better worker / management relations</li> <li>• Fairtrade has helped unionisation and is helping addressing workers' rights issues</li> <li>• Workers have higher salaries than workers on non-Fairtrade plantations</li> <li>• Premium has boosted health, housing and education prospects</li> <li>• Improved job security</li> </ul>	<ul style="list-style-type: none"> <li>• Workers wages still too low, although conforming to legal minimums</li> <li>• Women not sufficiently represented</li> <li>• Fairtrade Premium not benefitting migrant workers</li> <li>• Fairtrade Workers' Committees are sometimes 'competing' with trade unions</li> <li>• Understanding of Fairtrade amongst workers is sometimes patchy</li> </ul>

Source: Smith (2011)

Furthermore, the report by Smith (2011) cites the progress that has been made in achieving better terms and conditions for plantation workers, including tackling the widespread use of casual employment as a way for employers to avoid their obligations to workers. The research findings also highlight the contribution that Fairtrade has made in encouraging more environmentally sustainable production among banana farmers. However, challenges remain in addressing poverty and unequal power in value chains. The report also identifies some

weaknesses in the Fairtrade system for dealing with issues of poverty and inequality, lack of organisation among workers and the greater political and economic influence wielded by large organisations involved in buying and selling bananas. Some of the key recommendations for Fairtrade stakeholders (primarily small producers and workers) from this case study review are as follows: (a) strengthen worker empowerment in Fairtrade, recognising and raising awareness of the inherent challenges this involves and developing a clear focus on independent worker organisation as key to success; (b) work towards a living wage for Fairtrade workers, ensuring additional profits earned by plantations are shared with workers; (c) work to overcome differential impacts within small producer and worker categories, including extra support to vulnerable groups of workers, such as migrants, women and illiterate people, to enable them to participate fully in their organisations; and (d) strengthen gender perspectives in Fairtrade, including development of gender specific criteria in the FLO Producer Standards which go beyond non discrimination clauses to promote gender equity more directly.

### *Wider Impacts of Fairtrade*

This literature review identified a number of impact studies which provided some assessment of wider impacts of Fairtrade certification particularly those that refer to the three priority product, these being, impacts beyond the immediate target beneficiaries (i.e., workers, producers and producer organisations/community enterprises) as reported in the review undertaken by Chan and Pound (2009). However, most studies did not address such wider impacts in a systematic way. Other studies identified wider impacts on a number of issues, namely: value chains, national policy and regional economic impacts:

- **Value chains:** Coles (2011) reported for coffee in Tanzania that there was some evidence that Fairtrade had led to impacts further down the value chain that could have positive impacts for certified producers and workers in the longer term. These include: (a) increased transparency, communication and strengthened relationships between actors along the value chain participatory organic schemes and non-FLO fair trade, and (b) reduction of number of intermediaries between the producer and final consumer.
- **National policy:** Fairtrade certification has also led in some cases to changes in national policy that could have a positive impact for poor producers and workers in the longer term, including: (a) raising the profile of Fairtrade/organic farming at a national level; and (b) where certification has occasionally stimulated the implementation of a particular law or policy, or the award of dispensation from a particular legal requirement (Gingrich and King, 2012)
- **Regional economic impacts:** Positive regional economic impacts, such as improved product price and/or quality for non-certified as well as certified producers, and improvements in wages and working conditions on non-certified farms within the region, plus positive impacts on national policy. The impact studies reviewed were generally weak at assessing unintended and/or negative impacts of certification, and where these were studied, the most common negative impacts identified were the high direct and indirect costs of Fairtrade certification both in terms of financial and time costs (Ronchi, 2006).

### *Sustainability of Impacts*

Critical to this Evaluation Study of the producers for the three priority products is the main issue of sustainability. Apart from the standard meaning of sustainability which is the endurance of systems and processes, the Fairtrade vision is that 'sustainable' also means businesses more

widely adopting 'fair' practices – so that eventually all products would be produced under 'fair' conditions.

For this analysis it is useful to consider two separate interlinked issues regarding sustainability, in terms of the impacts of Fairtrade certification, these being: (i) the extent to which the positive impacts of certification that have been identified will be sustained over time, and (ii) the degree to which the impacts identified contribute to improving the sustainability of livelihoods.

With regards to the first issue, it should be noted that the existing evidence base is weak being in part due to: (a) the lack of longitudinal studies that track impacts over time, and (b) the fact that few studies actually tried to explore this issue with beneficiaries and stakeholders in any detail. Only a small number the total number of studies reviewed provided substantial comments on the sustainability of impacts, and these were mainly conjectures about the factors most likely to encourage sustainability. The types of factors identified included: (a) existence of clear exit strategies for Fairtrade schemes; (b) provision of strong and continued capacity building elements; (c) provision of support on market access – linking producers to other, mainstream markets; (d) adoption of good organisational systems (good business plans, etc.) by producer organisations; (e) ensuring producer organisations are well linked into external NGO and government support; and (f) the promotion and adoption of sustainable farm management practices.

In relation to the second issue, in terms of economic and social sustainability, a significant number of citations point out the sustainability implications of certain socio-economic impacts (Smith, 2011; Nelson and Pound, 2009). Examples of these sustainability issues are as follows: (a) some studies demonstrated that increased income from certification had led to the purchase of new household or transport assets (household durables, transport assets, land and cattle), thereby improving livelihood security; (b) several impact studies also showed that Fairtrade had deterred many producers from emigrating and/or prevented them from losing their land (while other non-Fairtrade farmers were losing theirs), thus supporting social cohesion and maintaining farmers very means of survival.; (c) in some cases, the extra income from certification (organic, Fairtrade) had been sufficient to allow the producer organisation to invest in processing equipment, thus allowing the producers to move further down the value chain; (d) the extra income from certification had allowed producer organisations to invest in community infrastructure improvement and training for members which could increase their future income-earning opportunities; (e) evidence also showed that improved incomes and access to credit had allowed producers to invest in new income-earning activities/small-scale businesses; (f) that Fairtrade had allowed producers to reduce their debt and prolong their children's education; and (g) in the case of the coffee crisis, there was evidence that Fairtrade had helped to prevent remote, indigenous communities from disintegrating completely through mass emigration.

In this Fairtrade review, while a large number of studies mention a dramatic improvement in livelihoods, others emphasise that producer families are still only surviving and covering basic needs, and that Fairtrade needs to be supplemented by other development policies and initiatives to raise rural livelihoods to a more sustainable level; an issue for serious consideration by Danida regarding future support to Fairtrade and FTM-DK.

In addition to this many studies reviewed in this Evaluation Study note that sustainability for income and Fairtrade Premium effects, depends on sustained trade and market access on Fairtrade terms, which is one of the main aims of FTM-DK.

It should be noted at this juncture, that it is clear that Fairtrade can only ever be one component of an overall development strategy for any given region/community. Given the fact that Fairtrade is only able to impact on the aspect of producer livelihoods that relate to cash crop production – this may only reflect on a part of a household’s overall livelihood strategy; and given that development and poverty depend on many other factors that Fairtrade does not directly influence. The evidence as shown in this literature review is that Fairtrade is having a strengthening effect on livelihoods but that there are limits to how far it can achieve, as defined by the wider context and Fairtrade will always need to be part of a wider mix of interventions (e.g. healthcare, access to education, road building, subsistence agriculture, land access, housing, governance, corruption, democracy, gender relations etc). Important therefore to clearly recognise that improving the profitability and terms of trade of export commodities for small farmers/improving worker situations is just one part of a complex picture.

When considering environmental issues, a number of studies looked at whether certification had led to more environmentally sustainable farm management practices, and concluded that as a result of Fairtrade certification the impact on the environment was positive, but as to how sustainable these actions were, has not been well documented or proven. Furthermore, most treated improvements in an isolated manner. Few studies sought to assess whether the isolated improvements in, e.g., pesticide use, water resource management, really amounted to a systemic shift in overall management systems.

In summary, the studies reviewed were generally weak at assessing whether the positive impacts identified are or will be sustained over time. This is partly due to the lack of counterfactual and longitudinal impact studies, and partly to researchers not paying much attention to this issue. However, several studies did find that certain positive outcomes of Fairtrade certification had led to substantial improvements in the sustainability of producer livelihoods, including importantly where Fairtrade had deterred significant numbers of producers from migrating or prevented them from losing their land through improved land tenure options.

#### *Poverty Profile of the Impact Fairtrade Interventions*

The lack of comparative data on the poverty status of Fairtrade and non-Fairtrade producers precludes the preparation of detailed poverty profiles for producers and workers involved in the production of the three major commodities exported under Fairtrade to Denmark. Furthermore, the majority of studies did not explore in-depth whether and to what extent certification led to improved long-term social and economic sustainability of livelihoods; and only a few studies provided a holistic assessment of the impact of certification on overall household income, quality of life and well-being, taking into account other sources of income and what impact the combination of impacts had on the overall poverty status of households/beneficiaries.

#### **Are producers involved in Fairtrade system suffering from adverse effects**

*Question 11: Have there been any adverse consequences for Fairtrade producers from being involved in the Fairtrade system?*

In spite of a significant number of studies showing Fairtrade impact as positive, as outlined above, some studies have shown limitations to Fairtrade benefits. Sometimes the criticism is intrinsic to Fairtrade while it also can depend on the broader context such as the lack of government help or volatile commodity prices in the global market (Utting-Chamorro, 2005).

Consumers have been shown to be content paying higher prices for Fairtrade products, in the belief that this helps the very poor (Niemi, 2010; Trudel and Cotte, 2009; Winter, et al, 2006). The main ethical criticism of Fairtrade is that this price premium over non-Fairtrade products does not, in a minority of cases, reach the producers and is instead collected by businesses, employees of co-operatives or used for unnecessary expenses. Furthermore, research has cited the implementation of certain Fairtrade standards as a cause for greater inequalities in markets where these rigid rules are inappropriate for the specific market (Booth, 2009; Booth and Whetstone; 2007; Griffiths, 2010; Carimentrand and Ballet, 2010; Doppler and Cabañas, 2006).

Other issues surrounding the draw backs to Fairtrade to the producer are related to the following: (a) inefficient marketing system as a result of Fairtrade farmers having to sell through a monopoly (cooperative) and where corruption can be an issue in a minority of situations (Kilian, et al, 2006; Valkila, 2009; Wilson, 2009; Reynolds, 2009; Valkila et al, 2010); (b) other ethical issues related to secrecy (Griffiths, 2011) , imposing politics(Booth and Whetstone, 2009; Boersma, 2009), and unethical selling techniques (Booth and Whetstone , 2007); (c) failure to monitor standards (Utting-Chamorro, 2005; Moberg, 2005; Valkila, 2009); and (d) issues surrounding trade injustice and Fairtrade (Boris, Jean-Pierre, 2005).

In a literature review of sustainability standards and their poverty impact by Chan and Pound (2009), the limiting factors and conditions for success for Fairtrade were accessed. The review highlighted a number of issues as regards to the success or otherwise of certification systems like Fairtrade, including: (a) the importance of local context (social, economic, agro-ecological and policy context) – impacts vary hugely between countries, and between regions within one country; (b) the importance of price differentials between certified and non-certified products in determining the levels of impact, which in turn is influenced by fluctuations in world commodity prices and markets; (c) smaller/poorer producers face significant barriers to entry; and (d) costs of certification and/or compliance can be high and constitute a significant barrier to entry and/or significantly affect the net benefits obtained from certification.

### **Impacts on other producers/communities not directly involved in Fairtrade**

*Question 12: Have there been direct or indirect, positive or negative effects of other producers or communities (not directly involved in the Fairtrade system), through for instance copying, linkages (positive) or displacement (negative)?*

A number of studies in the literature review found evidence of positive local and regional economic impacts, namely benefits for producers and workers in the locality/region who are not directly participating in Fairtrade certification schemes (Chan and Pound, 2009; CEval, 2012). These included: (a) Premium price paid for certified products has pushed up the standard price paid by middlemen for the commodity in the region, thus benefiting other local producers; (b) improvements in weighing and grading practices for purchased product introduced through certification scheme has encouraged/ pressurized conventional traders to follow suit; (c) improvements in overall pay and conditions for workers on certified farms had improved working conditions in the region; (d) improvements in product quality achieved through certification have pushed up the quality and price of the commodity generally in the region; and (e) creation of employment.

The negative impacts of Fairtrade on non-participating producers include the following: (a) where Fairtrade harms other farmers especially with regards to the issue of over production

negatively impacting on the sale of non-certified produce; and (b) the diversion of aid and other development support away from other farmers, namely the "honeypot effect" (Utting, 2009; Murray et al, 2003). In the latter case it was not possible to determine to what degree this effect has on development support to those farmers not involved in Fairtrade.

## 4. Conclusions and Recommendations

### 4.1 Conclusions

The objective of this Evaluation Study has been to determine how well the Danish development grant support to FTM-DK has done in regards to the five OECD criteria – relevance, efficiency, effectiveness, impact and sustainability, and more broadly provide an assessment of the Fairtrade system. The evaluation has focused as much as possible on the three priority Fairtrade products – banana, coffee and sugar, which are important as commodities traded in Denmark. A summary of the findings, lessons learnt and conclusions from this study for these products against these evaluation criteria are presented below.

#### Relevance

The assessment of relevance has been based on a review of the available documentation more particularly Danish development strategies which focus on growth and employment, green growth, poverty alleviation and gender equality. Furthermore, the results of the assessment of impact and sustainability have been used in the assessment of relevance regarding beneficiaries and local impact, especially in regards to the producers of the three priority products and the geographical location of the producer countries.

The geographical spread of the producer countries for the FTM-DK imported Fairtrade products (banana, coffee and sugar) are fully coherent and compatible with Danida's bilateral development programme and its support through civil society organisations, which targets not only the LDC's, but other low-income countries, lower and upper middle-income countries, all of which have varying degrees of poverty and livelihood deprivation.

For the most part there is a high degree of coherence between the strategic objectives of the GE Strategy and the FTM-DK programme, especially in respect to improving developing countries' access to global and regional markets, improving local frameworks for economic growth, advancing access to new technology and innovation, increasing production and processing (value chains), and working with the most vulnerable. The Evaluation Study found the level of coherence between the FTM-DK programme and the NEC Strategy was generally good with overall not negative impacts on the environment particularly where Fairtrade is linked to organic certification, as in the case of banana in the Dominican Republic and Peru. However more needs to be done by Fairtrade and the producer organisations to better monitor these impacts and to take into account the ensuing issue of climate change.

Fairtrade International's first system-wide strategic framework “unlocking the power of the many” underpins the organisations new system of global planning, helps to focus on building Fairtrade's unique strengths and deliver impact for smallholders and workers, growing the grassroots social movement and market, and strengthening the global Fairtrade system. The framework is relevant to the Evaluation Study as it demonstrates how Fairtrade International intends to deliver in the Danida GE strategy focus areas, including (new) market development and increased efficiencies in value chains.

A central issue of Denmark's development agenda is poverty alleviation and the Evaluation Study in this regards highlights that this focus is central to the activities of FTM-DK particularly for the LDC's and other developing countries in which Danida is operating. The findings are

that there have been improvements in addressing the issue of livelihoods, where the actual scale of economic benefits from Fairtrade certification has on the whole been positive but relatively modest. Additionally, social benefits from Fairtrade in other areas, namely wellbeing, health, education and advocacy for example, have generally been much more positive.

The assessment of the Fairtrade programme and its focus on gender equality, in respect to its relevance and coherence with Denmark's development programme is positive, but the achievements are again modest. In general, the Evaluation Study has found that certification has led to modest gains in certain countries and with specific commodities, particularly in regards to the greater empowerment of women, and their being better represented in producer organisations. It is however essential to recognise that there is generally a lack of evidence on this point, making it difficult to draw strong conclusions either way. It is recognised that the situation as regards to gender equality is complex, where the major constraints that women face in relation to land ownership/access, and that this has a big influence on the extent to which they are likely to benefit from Fairtrade – which is something over which Fairtrade has little influence.

It is important to note that recent work commissioned by Fairtrade includes the design of a specific gender strategy aiming to contribute to gender equality and women's empowerment through promoting women's and men's active participation in Fairtrade certified producer organizations and enabling them to access equally the benefits of Fairtrade. It is understood that gender equality and women's empowerment will include, at all appropriate levels, a focus on girls and boys as well. Fairtrade International is currently in the process of hiring a gender specialist who shall be responsible to support the Fairtrade system in the implementation of this strategy.

### **Efficiency**

It has not been possible to identify comparable Fairtrade and non-Fairtrade products within the product categories of banana, sugar and coffee. Consequently it has not been possible to estimate price differences between Fairtrade and non-Fairtrade sugar and coffee. According to interviewed retail buyers, there is no price premium for the Fairtrade quality on bananas, as all Fairtrade bananas in the Danish market are organic, and prices are set according to the organic quality.

The majority of Fairtrade products are also organic, and the share of Fairtrade products being organic seems to be increasing. Several traders seem to prefer to combine the organic and Fairtrade labels in order to target an attractive consumer segment characterised by consciousness of sustainability in a wider sense and loyal to labels. In general, price premiums for the Fairtrade quality seem to be under pressure and are believed to follow a downward trend.

It seems that in general traders do not directly benefit financially more from trading in Fairtrade products than in non-Fairtrade products. The Fairtrade certification is to a large extent used for branding and positioning in competitive markets. In the Danish market, the traders' value for money of Fairtrade seems to a large extent to lie in branding, attracting or keeping customers and thereby maintaining or increasing sales of both Fairtrade and non-Fairtrade products.

As the price premium that consumers pay for Fairtrade in the Danish market is not known, it has not been possible to establish which share of the price premium is channelled to producers. Independently of the level of price premiums paid by consumers, sales of Fairtrade organic banana generate a Fairtrade Premium to producers of DKK 0.34 per kg. Sales of

Fairtrade sugar generate DKK 0.37 per kg and DKK 0.49 per kg for conventional and organic quality respectively, and sales of Fairtrade coffee generates DKK 2.68 per kg. Danish licensees pay a license fee to FTM-DK of DKK 0.30 per kg banana traded, and a license fee of DKK 0.52 per kg of sugar traded. Licensees trading in coffee pay a license fee of DKK 1.14 per kg coffee sold, and DKK 2.83 per kg of instant coffee.

According to a survey commissioned by the Danish Agriculture and Food Council, up to 57% of Danish consumers are willing to pay a price premium for Fairtrade products. Hence, it should be good value for money for those consumers buying Fairtrade bananas, as there seems to be no price premium for Fairtrade bananas in the Danish market. As the price premiums for Fairtrade sugar and coffee are not known, it is not possible to say whether it is good value for money for consumers to support development through the purchasing of these products. Knowing the actual financial benefits of Fairtrade certification for producers would require in-depth analyses to get a realistic picture of the differences in prices at producer level with and without the various types and combinations of certification.

There is a risk of creating negative displacement effects for other development oriented brands when supporting FTM-DK. However, it is a perception among several traders and others, that through promotion of the Fairtrade Mark, other development oriented certification brands could benefit from the increasing exposure of the CSR issues linked to international trade. However, this could not be confirmed in the market.

### **Effectiveness**

It can be confirmed that FTM-DK has been effective in marketing and creating support for the Fairtrade brand in Denmark. This applies to consumers as well as traders. FTM-DK is given the full credit for the high level of awareness and credibility in Denmark.

However, traders are continuously looking for ways to differentiate themselves in the market highlighting CSR issues, while improving competitiveness, *i.e.* cutting costs. The organic brand is still the most important green label for consumers, and it may be difficult for traders to add or keep one more certification, pay license fee as well as additional premium at production level, in a competitive market. This situation may represent a challenge for FTM-DK in terms of increasing license income and increasing its level of self-financing. Traders are exploring different ways of establishing high CSR profiling, and some have engaged in own development projects. Several traders also carry other development oriented brands in addition to the Fairtrade brand. It seems that actors involved would benefit from reducing the distance between consumers, traders and the beneficiaries, and a better understanding of to which extent producers benefit from the extra costs involved in the trade.

FTM-DK has also contributed to putting Fairtrade on the public agenda and represents high CSR standards.

FTM-DK is increasingly self-financed. FTM-DK is still dependent on external funding for around one quarter of its budget. FTM-DK is vulnerable to Danida withdrawing or reducing further its financial support, as Danida covers the lion's share of the external funding. FTM-DK does not have an exit strategy if Danida should choose to end or reduce its financial support and it is a challenge for FTM-DK to find other sources of financial support.

## Impact and Sustainability

The assessment of impact and sustainability in this Evaluation Study has primarily been based on a detailed review of existing studies and literature focusing primarily on the three selected FTM-DK priority products. Overall, the quality of the documentation which was reviewed was generally of a high standard with a reasonable proportion cited from peer reviewed journals and similar high quality documents.

The Evaluation Study has endeavoured to present the key arguments from the literature regarding both the positive and negative impacts of Fairtrade certification and review the relevant studies to assess to which degree these arguments are substantiated. The review has tried to target the countries which produce the three products important for the Danish Fairtrade market and FTM-DK, but where this has not been possible due to the dearth of appropriate literature the findings of other impact studies from countries which do not come under Denmark's direct development agenda have also been assessed.

The lessons learnt from this analysis and review of the impact and sustainability of Fairtrade interventions on the producers of the three priority products are listed as follows:

- **Livelihood and economic impacts:** It has been found from a large number of existing empirical and other quality evidence, studies based on an indepth analysis of the economic benefits, that Fairtrade does achieve many of its intended goals in relation to improvements in income, although on a comparatively modest scale. However, other studies conclude that Fairtrade producers achieved only slightly better yields but required considerable higher labour efforts, with the net result being that the increase in farm income often proved to be minimal and that many farmers remained in poverty despite being connected to Fairtrade system. These differing views seems to suggest that there is still some uncertainty as regards to the income benefits of Fairtrade for the producers. Furthermore, Fairtrade farmers do on average receive higher prices, have greater access to credit, perceive their economic environment as being more stable, and are more likely to engage in environmentally friendly farming practices. There was evidence in some cases of significant positive outcomes from certification (e.g., Fairtrade organic banana in the Dominican Republic), including where extra income from certification has allowed producer organisations to invest in processing equipment, quality improvements and/or provision of community facilities and training; and where extra income has been substantial enough to reduce individual producers debt, allow them to purchase new assets and/or permitted them to invest in new income-earning activities. These positive findings however, need to be balanced against the fact that some aspects of Fairtrade and its consequences are not yet well understood, where there is evidence that farmers in Fairtrade cooperatives may not be fully aware of the details and implications of Fairtrade and can sometimes mistrust for a variety of reasons those who run the cooperative. Another issue is current focus of Fairtrade on supporting SPOs and plantation workers, where the trade-off between limiting certification to small-scale disadvantaged producers and allowing larger plantation-style producers to also become certified needs to be carefully assessed. By scaling-up Fairtrade and increasing entry into certification, the increased entry may dissipate some of the monetary benefits of certification.
- **Social impacts for the primary producers:** The most common positive social impacts found for Fairtrade producers in SPOs (cooperatives) were: improved skills and knowledge (marketing, technical, general business skills), improved self-confidence/esteem and

improved access to basic rights (e.g., improved participation in decision-making, prolonged schooling for children), improved nutrition and food security, reduced vulnerability to external shocks, better health and physical well-being, and improved household stability/cohesion. It was also found in many cases that the Fairtrade Premium was used to invest in improved access to health care, education (especially for children) and housing.

- **Impact on farm workers on plantations:** The benefits from Fairtrade on plantation workers, especially in the banana sector, were also found to be significant where it was found that there were: better working conditions and better worker/management relations, Fairtrade has helped unionisation and is helping addressing workers' rights issues, workers have higher salaries than workers on non-Fairtrade plantations, the Premium payment has boosted health, housing and education prospects, and there had been an improvement in job security. However, some challenges still remain, namely: workers wages are still too low although conforming to legal minimums, women are not sufficiently represented, Fairtrade Premium is not benefitting migrant workers, Fairtrade Workers' Committees are sometimes 'competing' with trade unions, and the understanding of Fairtrade amongst workers is sometimes limited.
- **Impacts on producer organisations:** Findings also highlight the important role Fairtrade has played in supporting farmers' efforts to build strong collective enterprises and to secure decent returns for their products. This has helped them overcome challenges associated with the dominance of multinational companies and supermarkets in for example the banana sector, including a long-term decline in prices.
- **Gender impacts:** The general conclusion was that women were only moderately better off from being involved in Fairtrade as compared to convention production systems. Where it was found that certification has led to modest gains in certain countries and with specific commodities, in regards to the greater empowerment of women, and their being better represented in producer organisations. The general lack of evidence on this issue either way makes it difficult to draw strong conclusions. As mentioned above gender equality is a complex issues which is notably influenced by factors (e.g., land tenure) which are outside the control of Fairtrade.
- **Environmental impacts:** Overall, the impact of Fairtrade was found to have a positive effect on the environment. The main types of positive environmental impacts as a result of Fairtrade certification were: reduced use of inorganic pesticides/use of more environmentally friendly pesticides, improved soil fertility and structure, reduced use of inorganic fertilisers, reduced use of water resources (e.g., through more efficient irrigation), reduced contamination of water resources, more environmentally friendly waste disposal practices, improved conservation of biodiversity, and reduced energy use/carbon emissions. Another positive environmental impact found was associated with the conversion to organic farming for Fairtrade commodities such as banana and coffee. While it is concluded that as a result of Fairtrade certification the impact on the environment was positive, the question of how sustainable these actions were, has not been well documented or proven. Linked to the issues of sustainability is climate change. It was found that there is little literature on the impacts of climate change on the commodities traded under Fairtrade (especially for banana, coffee and sugar), let alone specifically on Fairtrade trading itself. When reported, it was found that the cultivation of long term crops like coffee, banana and sugar which if properly managed can enhance the natural resource base by preventing soil erosion and the loss of essential

nutrients through improved land management practices, with potential beneficial impacts as regards to mitigating climate change.

- **Systematic assessment of the distribution of impacts:** Generally, it was found in the reviewed literature that they were weak in terms of providing an in-depth and systematic assessment of the distribution of impacts between different social groups (including between men and women), although a number did try to disaggregate impacts to some extent. There are recent indications however that Fairtrade International is addressing this issue.
- **Limiting factors and conditions for success:** The review showed that more thought was needed to identify conditions for success and/or limiting factors. Those studies that did identify success and limiting factors provided some useful insights, including: (i) the importance of local context (social, economic, agro-ecological and policy context) – impacts vary hugely between countries, and between regions within one country; (ii) the importance of price differentials between certified and non-certified products in determining the levels of impact, which in turn is influenced by fluctuations in world commodity prices and markets, as well as the sustainability standard in question (whether/how much price premium they offer and whether this is guaranteed); (iii) smaller/poorer producers face significant barriers to entry; and (iv) costs of certification and/or compliance can be high and constitute a significant barrier to entry and/or significantly affect the net benefits obtained from certification.
- **Sustainability of Fairtrade:** A number of the studies reviewed, particularly the earlier impact studies, were generally weak at assessing whether the positive impacts identified are/will be sustained over time. This is partly due to the lack of counterfactual and longitudinal impact studies, and partly to researchers not paying much attention to this issue. Several studies did however, find that certain positive outcomes of certification had led to substantial improvements in the sustainability of producer livelihoods, including importantly where Fairtrade had deterred significant numbers of producers from migrating and/or prevented them from losing their land.

## 4.2 Recommendations

The recommendations for further support for Fairtrade in general and more particularly FTM-DK and for Danida can be listed as follows:

### Recommendations to FTM-DK and the Fairtrade system in general:

- **FTM-DK license fees:** It is recommended that FTM-DK be careful not to raise the license fee any further, and considers possibilities of reducing the fees. Traders in Fairtrade products are operating in competitive environments, in which it is often not possible to add the extra costs of Fairtrade certification and/or licensing onto the product prices.
- **Double certification:** Considering that fact that a very large share of the Fairtrade products are also organic, and that it has important financial and competitive implications for Fairtrade traders involved having both Fairtrade and organic certification, it is recommended that FLOCERT and Fairtrade International continue efforts in exploring possibilities of close cooperation with organic certification bodies and/or develops its own certification and/or inspection services for organic labelling.
- **Increasing sales:** As the organic label is the most known and trusted label in the Danish market, and as many traders seem to want to combine Fairtrade labels with organic labels in order to attract a particularly interesting consumer segment, it is recommended that

FTM-DK explore possibilities of benefitting from this situation towards improving chances of turning high awareness and credibility into business.

- **More information on Fairtrade benefits for producers:** It is recommended that with the aim of increasing sales, FTM-DK improves information to key personnel, in particular buyers, with existing and potential new trade partners, including retailers and licensees, about how and to which extent Fairtrade producers benefit from the extra costs involved in trading with Fairtrade products.
- **Business development:** It is recommended that FTM-DK continues its move towards strong focus on business development, and evaluates its present support and communications activities in light their effectiveness in increasing sales, including the effectiveness of the magazine FairNOK. A good job has been done on branding, and now is the time for marketing and sales.
- **Scaling up:** There seems to be a perception among traders that Fairtrade is a niche and will remain a niche. It is recommended that FTM-DK and Fairtrade International communicate to the traders the possibilities of scaling up, including the new sourcing programs, for which there seems to be a good potential for developing sales of Fairtrade products further.
- **Denmark's development support programmes:** Greater emphasis needs to be placed by Danida gaining a better understanding of the impacts which the Fairtrade support programme has had globally on the producers, producer organisations and workers, especially in respect to ensuring that poverty alleviation and gender equality are properly addressed. Lessons learnt from Fairtrade programmes in the developing countries which predominate in the export of certified products to Denmark will be important in this respect.
- **Environmental and Climate Change Monitoring:** While the Evaluation Study found the level of coherence between the FTM-DK programme and the NEC Strategy was generally good with overall no negative impacts on the environment particularly where Fairtrade is linked to organic certification, however more needs to be done by Fairtrade and the producer organisations to better monitor these impacts and to take into account the ensuing issue of climate change.
- **Theory of Change and FTM-DK:** Fairtrade International has developed a Theory of Change as a framework under the Fairtrade Monitoring Evaluation and Learning (MEL) system for various activities related to Fairtrade. The theory describes how the work of national Fairtrade organisations and Fairtrade International is actioned in respect to building fair trade markets, setting standards and supporting farmer associations would lead to increased investments for farmers and enhanced capacity of their organisations, and hence further enhance the benefits for producers and their families as well as empower them in further. It is recommended therefore that FTM-DK and Danida work together to ensure that this becomes an integral component of any future Fairtrade support programme and has particular implications for Danida's GE strategy.

#### **Recommendations for Danida:**

- **FTM-DK self-financing:** It is recommended that Danida and FTM-DK work towards reaching a common understanding on strategic goals for FTM-DK regarding self-financing. Danida and FTM-DK have different expectations in this regard.
- **Branding:** FTM-DK has been effective branding Fairtrade in Denmark and thereby contributed to highlighting fair trade and social responsibility in international trade. With potential limited financial benefits, or even costs, some companies engage in Fairtrade in

order to position themselves with a high CSR profile. However, companies are also looking towards new and additional ways of positioning themselves with a high CSR profile in the market. It is recommended that Danida explore possibilities, as well as pros and cons, of establishing cooperation with FTM-DK on how to maintain and develop further branding of high CSR related to international trade and development. Exploring pros and cons include considering potential benefits of the high awareness and recognition of the Fairtrade Mark in Denmark; ensuring that direct financial support to branding of the Fairtrade Mark complies with regulations; and need for better understanding and more information on certain aspects of impact and financial efficiency.

- **Development policies and initiatives:** In this Evaluation Study, while a number of studies mention a dramatic improvement in livelihoods, some studies emphasise that producer families are still only surviving and covering basic needs. This is an issue that needs to be addressed; where the Fairtrade programme could be supplemented by other development policies and initiatives to raise rural livelihoods to a more sustainable level. This is an issue for consideration by Danida regarding future support to Fairtrade in general and FTM-DK in particular.
- **Fairtrade and environmental sustainability:** A core element of Denmark's NEC Strategy is green growth and addressing the issues related to environmental degradation and the mitigation of the effects of climate change. Current literature on the impact of Fairtrade certification schemes indicates that further understanding of these issues is required, hence it is recommended that Danida ensures that FTM-DK working with Fairtrade International address this critical issue.
- **Greater strategic understanding of Denmark's trading situation in relation to Fairtrade:** This Evaluation Study has shown the complexities of the trade in Fairtrade products and has identified a number of critical issues which need to be addressed. Further work is required to fully understand the trade in Fairtrade and other certification programmes/products along the whole value chain.

Published by:  
Ministry of Foreign Affairs of Denmark  
Evaluation Department  
Asiatisk Plads 2  
1448 Copenhagen K  
Denmark  
E-mail: [eval@um.dk](mailto:eval@um.dk)

The publication can be downloaded from:  
[evaluation.um.dk](http://evaluation.um.dk)

ISBN: 978-87-90656-19-5 (HTML version)

ISBN: 978-87-90656-18-8 (PDF version)

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