AN INVESTIGATION INTO THE IMPACT OF FAIRTRADE IN SOUTH AFRICA

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ABSTRACT

World international trade is moving towards more free trade, through globalization and trade liberalization. These moves are guided by trade theories which state that on an aggregated level, nations involved in free trade should benefit, and further that free trade is fair. However, in practice, contradictory views have been raised, stating that free trade may not necessarily be benefiting all participants equally. Rather, other nations, especially developing nations, have become worse-off after opening up their markets for free trade. On the other hand, many developed nations have benefited substantially from free trade. Among other factors, the difference in benefits is believed to have been influenced by the types of commodities being traded (where developing nations mainly trade in primary goods and developed nations in manufactured goods) and unequal power relations (some nations for example, the EU and the US, still adopt protectionism in their agricultural sector). In order to address market imbalances resulting from free trade, Fairtrade has arisen. Fairtrade aims to improve international trading conditions in order to benefit small-scale farmers and farm workers in the developing nations. The Fairtrade organization further claims that its principles are in line with sustainable development. However, Fairtrade suffers a credibility gap because there is a lack of independent research to support their claims.

To date in South Africa, there is little research examining the claims of the Fairtrade organization. In order to contribute to the Fairtrade discussion in South Africa, this study has investigated the validity of Fairtrade‘s claims that it contributes towards sustainable development. The study utilised primary data, which was collected from ten commercial farms and two small-scale farmer cooperatives located in the Eastern Cape

and Western Cape provinces that are/were Fairtrade certified. The main reason for including commercial farmers and small-scale farmer cooperatives in the study was for comparing relative impacts in the two Fairtrade structures. The data was then analysed using a sustainable livelihoods framework, which was developed in the study.

The study focussed on investigating the impact of Fairtrade tools, which are minimum prices, premiums, pre-financing and support for long-term relationships, on its intended beneficiaries. Minimum prices offered to producers cover production costs and are above market prices, and Fairtrade premiums are to be invested in developmental projects. Therefore, examining the influence of Fairtrade tools on individuals and communities provides an overview of how Fairtrade influences development.

The results of the study show that sampled Fairtrade beneficiaries in South Africa have witnessed substantial positive changes as a result of Fairtrade. The Fairtrade initiative has managed to empower small-scale producers and farm workers, as well as leverage development opportunities for their wider communities. It has supported organizational development in the supply chain, facilitated investment in community development projects and in business-related training. Producers, both commercial and small-scale producers, managed to access a market that offers stable prices, and have gained from minimum prices. Furthermore, small-scale farmers have been allowed an opportunity to expand their business into export markets, and enjoyed an increase in incomes. Fairtrade benefits further trickle down to non-Fairtrade community members, in the form of employment creation and community development. Despite positive effects, Fairtrade producers faced challenges, including high Fairtrade administration costs and a small market for Fairtrade commodities.

The study concludes that in the face of challenges, Fairtrade brings economic, social and environmental benefits, but as compared to economic and social development, the impact on environmental development is rather limited. Even though that is the case, Fairtrade offers valuable development opportunities to producers in South Africa.

KEY WORDS: Fairtrade, fair trade, sustainable development, social premium, minimum price, Local Economic Development, New Institutional Economics, plantations, small-scale farmer cooperatives

DECLARATION

I, Bridget Jari, hereby declare that this thesis is a result of my research investigations and findings. All the work that was written by other authors and used in the thesis is fully acknowledged and a reference list is included. This work has not been previously submitted in part or entirety for degree purposes to any other university.

Submitted in fulfilment of the PhD degree in Economics degree at Rhodes University.

Signature……..
Bridget Jari

Date……..

DEDICATION

This thesis is dedicated to my first-born son Craig with whom I was pregnant towards the end of the study.

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LIST OF ACRONYMS

AgriBEE	Agricultural Black Economic Empowerment
ATO	Alternative Trade Organization
BEE	Black Economic Empowerment
B-BBEE	Broad Based Black Economic Empowerment
Coop	Cooperative
DAS	Directorate of Agricultural Statistics
DFID	Department for International Development
DTI	Department of Trade and Industry
DPLG	Department of Provincial and Local Government
EC	Eastern Cape
EFTA	European Fair Trade Association
EMG	Environmental Monitoring Group
EO	Export Orientation
EU	European Union
FACSA	Fairtrade Association of Craft South Africa
FAO	Food and Agriculture Organization
FAOSTAT	Food and Agriculture Organization Statistics
FFFECF	Fairtrade Fresh Fruit and Empowerment Consultation Forum
FINE	Common term for FLO, IFAT, NEWS and EFTA
FLO	Fairtrade Labelling Organization
FLO-CERT	Fair Trade Labelling Organization – Certification
FLSA	Fairtrade Label South Africa
FTF	Fair Trade Federation
FTTSA	Fairtrade tourism in South Africa
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GMOs	Genetically Modified Organisms
HDI	Human development index
IDP	Integrated Development Planning
IFAT	International Fair Trade Association
ILO	International Labour Organization
IMF	International Monetary Fund

IS	Import Substitution
IUCN	International Union for Conservation of Nature and Natural Resources
JB	Joint Body
km^2	square kilometres
LED	Local Economic Development
mm	millimetre
MUV	Manufactures export unit value
NAFTA	North American Free Trade Agreement
NDA	National Department of Agriculture
NEWS	Network of European Worldshops
NI	National Initiative
NIE	New Institutional Economics
NGOs	Non-Governmental Organizations
R	South African Rand
RDP	Reconstruction and Development Programme
RSA	Republic of South Africa
SACCI	South African Chamber of Commerce and Industry
S&D	Special and differential treatment
SLF	Sustainable Livelihoods Framework
StatsSA	Statistics South Africa
TNCs	Transnational Corporations
UCN	Union for Conservation of Nature
UK	United Kingdom
UNCTAD	United Nations Commission on Trade and Development
UNDP	United Nations Development Programme
US	United States
USA	United States of America
WC	Western Cape
WCED	World Commission on Environment and Development
WDM	World Development Movement
WFTO	World Fairtrade Organization
WTO	World Trade Organization
Yr	Year

CHAPTER 1
INTRODUCTION

This chapter gives background information of the study, and presents the premises for formulating research questions and the main objectives. The study focuses on investigating the impact of Fairtrade on the welfare of small-scale farmers, farm workers and their communities in South Africa. It investigates Fairtrade as a potential approach to including marginalized agricultural producers in international markets, in the face of globalization and unequal competition in agricultural markets. Furthermore, the claimed Fairtrade sustainable development through cooperative relations among the participants is examined.

1.1 Background to the study

World trade has been growing rapidly, opening up possibilities for free trade between poor and rich nations, through changes such as globalization and trade liberalization. These trading deals have raised questions as to whether they actually benefit the producers in the poor nations or further marginalize them. Law (2005) believes that conventional trade has greater negative effects on the producers in poor nations because free trade between the rich and the poor seldom takes place on equal grounds. Whereas traders in richer nations have the ability to influence trading conditions, traders from poor nations cannot. Producers from poor nations, particularly the small-scale farmers, still face challenges in controlling production conditions, let alone marketing in the global trading system (Bhagwati, 1995; 2004). Under the prevailing free trade terms, producers from poor nations receive low market prices for their goods but they continue selling in these markets because they face difficulties in switching between markets. On the other hand, producers from richer nations are not confined to specific markets because they are able to set a take-or-leave condition. With the given situation, small-scale producers cannot compete in the global trading system without intervention and support (Kruger and Du Toit, 2007; WDM, 2008).

Fairtrade has arisen as a way of responding to the market imbalances of free trade in trying to incorporate marginalized farmers from developing countries in international trade (FLO International 2007a). Thus, Fairtrade is not a critique of free trade *per se*,

but of the structures governing market relationships, which may exclude some producers, and increase poverty. The proponents of Fairtrade claim that Fairtrade deals are aimed at alleviating poverty and improving the social and economic well-being of small-scale farmers and farm workers through ethical trade. Fairtrade allows farmers in developing countries to participate in international trade, bypassing intermediaries and giving them a chance to sell their produce at a _fair' price. By so doing, money is transferred from rich countries to poorer countries and the producers from the poor countries are empowered (Raynolds, 2000; Pierre, 2007). Irrespective of Fairtrade claims, the topic has attracted some criticisms. Lindsey (2003), Jaffee (2007) and Sidwell (2008), among others, oppose the Fairtrade movement because it deviates from free trade and it upsets the free interaction of supply and demand. They argue that the Fairtrade movement distorts market prices by setting price controls, thereby fostering overproduction. In addition, based on the classical theory of international trade, the type of market intervention used in Fairtrade does not maximise the purchaser's financial utility. Therefore, the critics of Fairtrade regard the movement as irrational and inefficient (Nicholls and Opal, 2005; Trebilcock and Howse, 2005; Raynolds, 2009). The differing views on Fairtrade raise the question of whether the movement can be regarded as the best tool to serve the marginalized producers in international trade.

Based on its poverty alleviation objective, Fairtrade can be considered a potentially useful tool for developing poor economies. However, Miller (2007) states that economics should not just look at the immediate, but at the longer-term effects of a policy, including its consequences for all groups. Therefore, an investigation of Fairtrade as a whole may help in identifying the movement's longer-term effects and unintended outcomes. For instance, problems of adverse selection and free riding in Fairtrade may be evident. This line of argument can be based on the idea that Fairtrade may only serve certain groups and precludes farmers who cannot form associations or cooperatives. In addition, Fairtrade market information may not be equally available to all members. As a result, some producers may not benefit from the movement and some stronger members within the value chain may benefit at the expense of others (Gomory and Baumol, 2000; Pierre, 2007). The other issue that may arise is that Fairtrade does not help the producers move up the value chain. Rather, it acts as an incentive for them to continue in primary production. This raises concern as to what will happen to the producers if Fairtrade becomes non-operational (Miller, 2007).

When the Fairtrade movement started, it was initially limited to improving the lives of small-scale and peasant farmers, through certification of their goods. Only the small-scale farmers who were organized in cooperatives or associations qualified for Fairtrade certification (FLO International, 2007b). Partly due to the growing demand for Fairtrade commodities and the recognition of poverty among farm workers, produce from commercial farmers is now being accepted for sale under the Fairtrade label. In such instances, the Fairtrade system requires that the benefits be channelled to the farm workers and their families, rather than the farm owners (Redfern and Snedker, 2002; Besky, 2008). There is concern that the inclusion of the commercial farmers in Fairtrade may result in ―unfair competition" with the small-scale farmers and may end up pushing them out of the deal through entrenched economies of scale. At the same time, the small-scale producers cannot meet the growing demand for Fairtrade produce, especially for commodities, which are predominantly produced by commercial farmers, necessitating produce from commercial farmers to cater for the deficit. However, due to opportunistic behaviour, a problem may arise, where the Fairtrade benefits may not be entirely passed on to the workers, causing the movement to lose its focus.

1.2 Theoretical framework

This research analyses Fairtrade in the contexts of New Institutional Economics (NIE) and Local Economic Development (LED). These two economic frameworks are aimed at economic development, and suggested that it can be achieved through the cooperation of economic agents (Ensminger, 2000; Dunning, 2006). In addition, Fairtrade is aimed at empowering and developing small-scale farmers and farm workers through cooperative relations in international trade.

1.2.1 New Institutional Economics (NIE)

The NIE framework explains that economic decision-making and action is shaped by the shared values, norms, rules, beliefs and procedures of the formal and informal institutions of the society (North, 1990). NIE emphasizes the importance of the interdependence of economic agents in business transactions and economic growth. According to Kherallah and Kirsten (2002), NIE is comprised of several branches; but this research focuses on branches related to social capital, which is defined as social networks, which facilitate cooperation in a society. Such networks support entrepreneurial culture through knowledge transfer and innovation, and ultimately

influence economic performance and development (Ensminger, 2000; Kherallah and Kirsten, 2002). The NIE framework acknowledges the importance of cooperation in cutting down on middlemen and reducing transaction costs. However, Pierre (2007) explained that when agents cooperate, it does not imply that all the members will benefit equally. Some agents may reap greater benefits from social networks, due to opportunistic behaviour and asymmetric information. Under such circumstances, problems of free-riding, adverse selection and moral hazard will surface. Using the NIE framework, the social capital that is created by Fairtrade, the extent to which it influences economic development, and the challenges associated with it, will be analysed.

1.2.2 Local Economic Development (LED)

LED theory postulates that development should start from the bottom, with the networking and cooperation of local public and private economic actors, hence LED is also known as bottom-up development (Blair and Carroll, 2008). The LED framework, which identifies the link between economic and social issues, is built on new institutionalism (Nel, 2001). LED identifies the role of locality and the need for inclusive institutions for sustainable development patterns. The framework emphasizes that local economies are the building blocks for national ones; therefore, projects implemented for local development benefit the nation at large. Bottom-up development requires that communities examine opportunities for improving their economic base and then assume a key initiating role towards local development. For significant economic development, there is a need for the integration of economic actors into mainstream international business activity (Stiglitz, 2003; Dunning, 2006). In theory, when communities form effective business partnerships, both within and outside their locality, the local resources are likely to multiply and lead to economic development. Thus, local economic development projects should benefit everyone in the community, regardless of the households‘ direct involvement in the project (Blair and Carroll, 2008). Based on LED theory, the research examines how Fairtrade influences the development of local economies by working with small-scale farmers and farm workers.

1.3 Problem statement

Small-scale farmers and farm workers in South Africa receive minimal benefits from the efforts they put into farming. The small-scale farmers are faced with increasing

competition in markets, and they find it difficult to penetrate international markets, in addition to production challenges (Bhagwati, 2004). Many farm workers receive low wages, work under unsafe conditions, have poor housing conditions, and sometimes lack job security (Hartwig, 2004; Schweitzer, 2008). Fairtrade has been proposed as a way of addressing the challenges faced by both the small-scale farmers and the farm workers, through market assistance and community development projects. Statistics show that there has been a significant growth, both locally and internationally, in the availability of Fairtrade labelled products since the 1990s and the market for Fairtrade goods has shown a steady expansion (FLO International, 2009). However, questions arise regarding the impact of Fairtrade on the targeted groups of people, requiring an assessment of the realities of this institutionalized movement. This study investigates the impact of Fairtrade in South Africa in order to determine whether Fairtrade has achieved its objectives of contributing towards sustainable development.

1.4 Research questions

- Can Fairtrade be regarded as an LED strategy in South Africa?
- To what extent do the Fairtrade institutional network arrangements reduce poverty and encourage growth in the communities served by Fairtrade producers in South Africa?
- Do the Fairtrade social networks in South Africa result in job creation and economic growth?
- Are there economic challenges that are faced by South African farm workers and producers when they work collectively under Fairtrade?
- Is Fairtrade in commercial farms justifiable?

1.5 The goals of the research

The main objective of this study is to investigate a number of aspects of Fairtrade in South Africa, *inter alia*:

- The impact of Fairtrade movement in changing the lives of farm workers and small-scale farmers and on community development
- The significance of Fairtrade as an LED tool
- The role of Fairtrade producers in economic development
- The relevance of embracing commercial farms in Fairtrade

- The effect of Fairtrade social networks in the communities served by Fairtrade producers

1.6 Hypotheses

In order to investigate the impact of Fairtrade in South Africa on certified producers, farm workers and their communities, and the importance of Fairtrade in achieving sustainable development, three main hypotheses have been formulated and will be tested:

H_1: Fairtrade makes it possible to balance economic growth, social equity and environmental protection.

The first hypothesis has been motivated by the claim that Fairtrade supports sustainable development in areas where Fairtrade is practised, where sustainable development is measured by social, economic and environmental development indicators. The first hypothesis is the basis for the second and third hypotheses.

H_2: Fairtrade has a positive impact on the welfare of the farm workers, small-scale farmers and their communities.

The second hypothesis looks at the specific benefits that have accrued to communities and producers, because of Fairtrade certification.

H_3: Social capital that is created by Fairtrade is important for economic progress.

All things being equal, the social networks that are created by Fairtrade have a positive impact on economic development and social welfare.

1.7 Justification of the study

International markets have been experiencing an increasing number of products that are labelled as Fairtrade, especially since the movement was introduced to the agricultural sector. A number of researchers have shown some interests in the way Fairtrade operates, including the structure and challenges associated with the scheme. Raynolds (2000; 2004; 2009), Renard (2003), Nicholls and Opal (2005), Fridell (2007) and Pierre (2007) are amongst the authors who have investigated the commodity value chains associated with Fairtrade. The studies carried out by these and other authors have contributed to a comprehensive understanding of the role of Fairtrade and the stages through which Fairtrade products are passed before they reach the final consumer.

Taylor (2002) identified the positive impact of Fairtrade on poverty alleviation among small-scale farmers. Giovanucci and Ponte (2005) have emphasized the importance of social capital in Fairtrade for high economic benefits. Despite the positive effects of Fairtrade that were discussed, Raynolds (2009) pointed out that social inequalities have resulted in rural communities due to Fairtrade activities. Contradictory findings on the effect of Fairtrade on producers highlight the need to investigate further the impact of Fairtrade and the usefulness of social capital in promoting sustainable development in South Africa.

A number of Fairtrade researchers focussed on coffee production (Renard, 2003; Giovanucci and Ponte, 2005; Fridell, 2007; Pierre, 2007). The reason for this emphasis might be because Fairtrade in agriculture started with coffee, and it still constitutes more than 50% of goods traded under Fairtrade (Redfern and Snedker, 2002). However, the popularity of other agricultural products in Fairtrade is also growing, which requires an investigation to determine the impact of Fairtrade on these other commodities. This study seeks to contribute through investigating a number of different commodities that are traded under Fairtrade. Looking at a variety of commodities, such as tea and fruits, might help identify strengths and challenges, which are specific to these Fairtrade commodities, rather than generalizing results of one to all commodities.

In South Africa, Fairtrade in agriculture was established in 2003 and is therefore, still relatively new. There are a few studies that have been carried out to investigate Fairtrade, particularly its impact on the producers (authors include Samnegård, 2007; Moseley, 2008; Raynolds and Ngcwangu, 2009). Samnegård (2007) investigated the influence of Fairtrade on international markets, where the main emphasis was on investigating whether Fairtrade prices could be regarded as efficient. Moseley (2008) focussed on Fairtrade and the wine industry in South Africa. Raynolds and Ngcwangu (2009) limited their research to Fairtrade *rooibos* tea, where they analysed the value chain of tea from the South African producers until it reaches American markets. They were more interested on the effectiveness of the value chains, and did not investigate the impact of Fairtrade on the tea producers. Despite the availability of literature, the researcher of the present study is not aware of research in South Africa, which analyses the impact of Fairtrade on both farm workers and small-scale farmers, especially relating Fairtrade‘s social capital to Local Economic Development (LED).

This research stands as a preliminary study to investigate the effects of social capital on the economic development of small-scale farmers and farm workers. It seeks to identify strengths, weaknesses and opportunities that are related to Fairtrade in South Africa, looking at a number of commodities, and suggest areas that need to be addressed in order to improve Fairtrade as a sustainable development tool. In the process, this study contributes to the literature on Fairtrade in the South African agricultural sector, and how Fairtrade influences social and economic conditions that resulted from the apartheid policy in the sector.

As of 2009, Fairtrade South Africa had 64 certified commercial farmers and 22 more in the process of certification, and three certified cooperatives of small-scale farmers (FLO-cert, 2009; Raynolds and Ngcwangu, 2009). The larger number of certified commercial farmers, in a scheme that was initially aimed at improving the welfare of small-scale farmers, raises questions. In order to examine the relevance of including commercial farmers in Fairtrade, the research makes an investigation on what motivate commercial farmers to be certified as Fairtrade producers. It also analyses Fairtrade benefits that are accrued when commercial farms are certified by Fairtrade and to whom they are directed, and compares them to those that are accrued in Fairtrade certified small-scale farmer cooperatives.

1.8 Methods/Procedures

This research analysed the impact of Fairtrade in South Africa, by looking at the benefits that are acquired by the farm workers, small-scale producers and the local communities, which are served by Fairtrade producers. A case study approach was used to achieve this aim. The study focuses on the agricultural producers in the Eastern Cape and Western Cape provinces, who have received Fairtrade certification. It looked at the South African producers and not the consumers because there is still limited data on the consumption of Fairtrade produce in South Africa (FLO International, 2009). Although Goossens (2010a) explained that the launch of the Fairtrade Label in South Africa has allowed Fairtrade products to be available in South African retail shops like Pick n‘ Pay and Ultra liquors, the range of such goods remains limited, therefore, cannot give reliable data.

1.8.1 Data collection

The research utilised primary data, which was collected from sampled commercial and small-scale Fairtrade certified producers. The main reason for including the two types of producers is for comparing the relative impacts in different Fairtrade structures (including certification process, the challenges faced and benefits gained through Fairtrade marketing) and be able to identify the most sustainable. Representatives from two of the three Fairtrade certified small-scale farmer cooperatives were interviewed. From commercial producers, a representative sample of 10 farms was selected. The farmers were divided into groups, based on the three main produce categories (wine, fruit, tea)[1] sold from South Africa through Fairtrade, but available from farmers located in the Eastern Cape (EC) and Western Cape (WC) provinces (Table1.1). A sample was chosen using quota sampling method. In each chosen commercial farm, the farm manager and the Joint Body committee were interviewed. A semi-structured questionnaire was administered to the selected respondents through conversational interviews. In addition to the interviews, organizational websites, Fairtrade internal reports, that include certification and progress records, were used as sources of data.

Table 1.1: Fairtrade producers in South Africa

Produce category	Commercial farmers		Small-scale cooperatives	
	Total no.*	Sample	Total no.*	Interviewed
***Rooibos* tea**	5	1	2	2
Fruit	23	4	1	-
Wine	36	5	-	-
Total	**64**	**10**	**3**	**2**

*Source: FLO-cert (2009)

1.8.2 Data Analysis

A predominantly qualitative analysis was carried out because the data that were collected from the interviews were mostly qualitative. The study used a deductive analysis, a method that analyses data under an already existing framework (Patton, 2002). In this case, data were analysed under NIE and LED theoretical frameworks. To asses the significance of Fairtrade as an LED tool, data related to human and physical

[1] Further divided into 12 products

capital development in communities served by Fairtrade producers were used. In the NIE context, the study analysed the significance of Fairtrade social networks in creating an entrepreneurial culture and in economic development. Data related to social network creation for Fairtrade, power-sharing arrangements among networking groups and the link between networks and community development were utilised.

Based on the impact assessment framework developed for analysis, a comparison of the impact of Fairtrade on small-scale producer cooperatives and on farm workers in commercial farms, and their communities was made. The data indicators were assessed from the date of producer certification. Therefore, the periods for the different producers were noted because they were different.

1.9 The definition of terms

This section gives the definitions of words and phrases that are often used in this document. Unless otherwise stated or the context indicates to the contrary, the words are defined in the agricultural and economics contexts.

Economic development refers to growth in the standard of living of people and in economic health includes growth in human capital, health, safety, social inclusion, infrastructure and competitiveness (Lynn, 2003).

Empowering is promoting self-actualization among individuals so that they realize their maximum potential and possibilities and use them to improve their economic situations (Fairtrade Foundation, 2010).

Fair price means a price paid on produce that allows producers to cover their production costs and remain with a profit that will keep them in business (FLO International, 2007b).

Institutions are governance mechanisms that guide the way individuals cooperate and/or compete. They can be either formal or informal in nature (North, 1990).

Marginalized agricultural producers are agricultural producers (farmers) who are deprived to operate optimally due to a number of factors for example lack of resources, law and rules (Duncker *et al,* 2007).

New Institutional Economics is an interdisciplinary perspective combining economics, law, organization theory, political science, sociology and anthropology to understand the institutions of social, political and commercial life (Klein, 1999).

Peasant farmers are farmers who practice agriculture on a small scale, as determined by the amount of yields produced (Kirsten and van Zyl, 1998). *See also small-scale farmers*.

Plantations are commercial farms, which rely on hired labour in production (FLO International, 2007b).

Small-scale farmers are farmers who produce agricultural yields on relatively small plots of land (less than 5 ha), are labour-intensive, operate their farms directly and rely mostly on family labour (Kirsten and van Zyl, 1998).

Social capital is the social relations and the role of collective action towards achieving economic results (Joskow, 2008).

Sustainability refers to the long-term maintenance of resources for future use, which has environmental, economic and social dimensions (Kemp *et al*, 2005).

1.10 Outline of the thesis

The study is comprised of eight chapters. After this introductory chapter, the second chapter presents the background of international trade theories and discusses the Fairtrade scheme. The same chapter gives a working definition and aims of Fairtrade, before discussing potential benefits and criticisms of the Fairtrade movement.

The third chapter gives details of the theoretical framework of the study - NIE and LED theories. Under NIE, emphasis is placed on the concept of social capital, based on Putnam‘s conceptualization (Putnam, 1993), without neglecting contributions of the other social capital authors. An overview of the LED policy and its growth in South Africa is discussed, highlighting areas that need to be improved.

Chapter four provides an outline of Fairtrade in South Africa, particularly Fairtrade in agriculture. It gives the general overview of the nation‘s economic development, and the agricultural sector‘s contribution to the economy. The chapter further explains the

distribution of agricultural land in South Africa and the need for enhancing social justice in the sector.

In the fifth chapter, the methods that are used for collecting and analysing data are presented. A predominantly qualitative approach is followed in both data collection and analysis methods. An impact assessment framework used for analysis, is built in this chapter, using concepts gathered from chapters two and three.

The results of the study are presented in chapters six and seven. Chapter six presents the main findings on farm cases, using data collected from interviews. Research findings presented in chapter six represent the central elements used for analysis and discussion. Chapter seven is devoted to the analysis and discussion of results based on the impact assessment framework developed in chapter five. This chapter is aimed at presenting the different avenues through which Fairtrade impacts on farmers, farm workers and communities.

Chapter eight summarizes the key arguments presented in the thesis and provides conclusions of the study. It offers answers to the research questions posed in chapter one. The chapter offers recommendations and suggests areas, which require future investigation within the Fairtrade topic.

CHAPTER 2
FAIRTRADE: EXPANSION OF INTERNATIONAL TRADE

Neoclassical economics holds that the economic growth and development of a particular nation are closely associated with its interaction with the rest of the world through trade. Trade is advocated because it is deemed an engine for economic development and growth (Stiglitz, 2006). While there is general agreement amongst economists that trade is essential for the growth and development of economies, there is disagreement on the degree to which a nation should be open to foreign goods. The degree of openness to trade is considered an important factor in determining the rate of a nation‘s development process.

There is a growing body of literature relating trade to development, where either free trade or protectionism is advocated by different authors. Those who support opening up markets for free trade, point to success stories from some industrialized countries and others use India and China as examples (Bhagwati, 1995; Park, 2002; Suranovic, 2007). On the other hand, those who disagree use examples of failure resulting from opening markets in various African countries (Clark, 2001; Dasgupta, 2004; Goldin and Reinert, 2007). Furthermore, economists have differing views on following either Import Substitution (IS) policies or Export Orientation (EO) policies as stimulants for economic development. The different views on free trade and protectionism have led some authors to advocate Fairtrade in international markets for agricultural commodities and handicraft (Redfern and Snedker, 2002; Nicholls and Opal, 2005).

This chapter commences by presenting arguments on economic development and international trade. The views presented in the chapter are not on trade versus autarky, but on trading arrangements and rules that position a nation for economic growth and development. A brief theoretical discussion of concepts in trade and historical trading relations amongst nations is included. The chapter further relates Fairtrade to development. Fairtrade is then discussed in detail, including its history, aims, operations and value chains. Criticisms of Fairtrade are also discussed before concluding the chapter.

2.1 International trade theory and development

Traditional economic theory suggests that, to obtain economic efficiency and growth, a complete liberalization of the global markets is required. Thus, traditional economic theory supports free trade between nations (Lynn, 2003). This model rests on Adam Smith‘s theory of absolute advantage and David Ricardo‘s theory of comparative advantage. These theorists were among the first to recognize the importance of international trade. Both absolute advantage and comparative advantage theories identify the importance of free trade, and explain that it is beneficial for the global economy (Suranovic, 2007). The theories assume international trade where there are only two countries and two commodities, where each country has to specialize in producing only one commodity. Costs are assumed constant at all levels of production, with zero transportation costs between and within countries. Resources used in production are assumed mobile within a country but immobile between countries and production always occurs at full employment, where global labour is scarce (Daly and Farley, 2004).

The theory of absolute advantage states that if trade was left to operate freely, then nations will reap maximum benefits from trade. Absolute advantage theory asserts that all nations have superior capabilities in the production of certain goods and services. Therefore, they need to specialize in producing such goods and trade for the other goods in which they have inferior production capabilities. The global result is an efficient use of resources, increased production and consumption, and lower prices, benefiting all (Stopford, 2009). The comparative advantage theory is an extension of the absolute advantage theory. Comparative advantage theory acknowledges the possibility of some nations having inferior capabilities in the production of all goods, but maintains that all nations can still engage in some form of trade, even if they lack absolute advantage. Such nations should specialize in the production of goods and services in which they have the greatest relative cost advantage, thus they should produce goods in which they have a lower opportunity cost of production. When these nations trade for goods in which they have a higher opportunity cost of production, overall productivity is enhanced (Lynn, 2003). Both theories of absolute advantage and comparative advantage maintain the argument that economic growth and development are possible due to specialization and division of labour, which result in optimized global output, leaving all nations better off when they exchange in open economies (Trebilcock and Howse,

2005; Suranovic, 2007). It has to be pointed out that both the theories of absolute advantage and comparative advantage recognize the overall gains from trade, without explaining the distribution of benefits among nations and households, and the relationship between the type of traded goods and resulting benefits.

In international trade, most developed countries may be regarded as having a comparative advantage in the production of capital-intensive goods. On the other hand, developing countries are thought to have a comparative advantage in the production of primary goods, using cheap labour, for example, in agricultural commodities (Brown, 1993; Dutt, 2004). As such, comparative advantage theory suggests that developed and developing countries should specialize in the production and trading of manufactured goods and primary goods, respectively, in order to reap maximised gains from trade that benefits all nations.

2.2 Conventional trade policy

The functional conventional trade policy is based on the concepts of free trade theories. Trading arrangements for this policy support the functioning of open and free markets, through a reduction or complete elimination of trade barriers, such as tariffs, import bans and quotas (Trebilcock and Howse, 2005). It acknowledges the importance of free interaction of market forces of supply and demand in determining market exchanges. For free exchange of goods between nations, trade policy requires that the nations‘ trading rules be harmonized. Harmonization of trading rules is aimed at reducing conflicts that may result from different rules governing nations engaged in international trade (Hayes and Moore, 2005; Stopford, 2009).

Advocates of conventional trade, view barriers to trade as restrictions causing price distortions and market imperfections, leading to market inefficiencies (Singh, 2001). Conventional trade policy emphasizes that trade amongst nations should occur under perfect competition in order to allocate resources efficiently and reap maximum trade gains (Trebilcock and Howse, 2005). Conventional trade advocates an open global market, where traders can operate freely across all national boundaries. The ―invisible hand” of the market mechanism plays a role in directing self-seeking households and nations towards the most beneficial global economic situation (Stopford, 2009). Under such conditions, free trade is believed to create a win-win situation among efficient

organizations participating in trade. Based on the economic efficiency argument, conventional trade policy encourages a movement towards globalization, trade liberalization and market deregulation (Bhagwati, 1995).

Most nations have already liberalized their markets for trade, with the anticipation of economic growth. Currently, for the nations participating in conventional trade under trade liberalization and globalization, the World Trade Organization (WTO) offers the main discussion forum. Prior to 1995, before the implementation of the WTO, the General Agreement on Tariffs and Trade (GATT) was responsible for trade liberalization negotiations through the Uruguay Round. It is through the Uruguay Round agreements and now, the Doha Development agenda that requirements were discussed for nations to remove trade barriers (Singh, 2001; Stopford, 2009).

By design, GATT was focused on reductions of trade barriers through mutually agreed terms, and support for non-discriminatory treatment between nations. However, before 1994, GATT rules were functional in the manufacturing sector, where they succeeded in freeing trade, but excluded the agricultural sector (Lynn, 2003). In fact, developing countries, most of which relied on the production of primary goods such as agricultural goods, had fewer obligations to liberalize based on the principle of special and differential (S & D) treatment (Stopford, 2009). Since developing nations were not actively involved in liberalization, GATT rules worked for the manufacturing sector, promoting free trade for products of export interest to developed countries. Even though GATT rules claimed to support freer trade, major trading countries such as the US and the EU insisted on getting permission from GATT to continue providing subsidies to the agricultural sector. Such actions resulted in high levels of production and dumping of agricultural commodities. Thus, industrialized countries benefited from opening markets for manufactured goods, but contributed to creating distortions in the agricultural sector (Lynn, 2003). The existence of distortions in agricultural trade pushed some nations to demand the establishment of trade rules that create a fairer market-oriented agriculture trading system. In particular, the S & D treatment was criticized in the Uruguay Round, which led to the integration of developing countries in the trading system, by requiring them to liberalize their trade regimes. Agreements to liberalize the agricultural sector were made in 1995 when the WTO succeeded GATT (Lynn, 2003; Subramanian and Wei, 2006).

The WTO claims that its commitments are to facilitate the creation of free trading grounds for all nations and promotion of fair competition in trade, without either bias or discrimination (WTO, 2007). Despite its claims, the WTO, like its predecessor GATT, cannot be expected to solve world problems. As it stands, there are cases where the WTO seemed to favour certain nations (Mahdi, 2009). The WTO rules for the agriculture sector make subsidy reduction slow in some developed countries while it forbids new subsidies in developing countries. For example, the Uruguay Round on agricultural commodities put pressure on developing countries to eliminate subsidies and open up their markets while the US, EU and Canada continued to subsidize the agriculture sector and keep trade barriers (Helling *et al*, 2008). This creates an unequal footing in the agricultural sector, where dumping may still occur. Based on dumping activities, the existence of agricultural subsidies in some nations is thought to contribute towards depressing world market prices (Mahdi, 2009; Helling *et al*, 2008). As such, the WTO policies in agriculture are criticized for acting against developing countries, which regard agricultural commodities as central to the development of their economies (FAO, 2004). In addition, the WTO is sometimes criticized for lack of transparency among some of its members, particularly towards developing countries. Such conditions make it difficult for developing countries to participate in decision-making and negotiations (Bagwell and Staiger, 2004).

There are nations that have benefited from opening the agricultural sector for international trade, regardless of the seemingly unfair WTO policies. Some developing countries that were net food exporters gained from liberalization, whilst some net food importers were hurt. Some countries, for example China (in the 1980s), have realized an increase in foreign investments and rapid economic growth after liberalizing their economies (Park, 2002). On the other hand, there are countries, like Ghana, where the liberalization of markets reduced competitive capacity of local goods, crippling local industries, due to the availability of cheaper similar imports (Mahdi, 2009). The availability of both success and failure stories resulting from liberalization and WTO policies have led some nations to consider alternative trading arrangements.

2.2.1 Conventional trade: Global North and South Countries[2]

Historical trading trends show that most global South countries tend to rely on the exports of primary commodities for a significant share of their export earnings while global North countries rely more on the exports of capital-intensive goods. Table 2.1 shows the contribution of different categories of exports to the national economies, where countries from the North and South are represented.

Table 2.1: Share in economy's total merchandise exports (%)

	Agricultural Commodities		***Fuels and Mining***		***Manufactures***	
Country/Yr	**2000**	**2008**	**2000**	**2008**	**2000**	**2008**
Canada	12.6	11.9	17.5	35.3	63.5	46.9
Mexico	5.5	6.2	11.0	20	83.3	72.9
US	9.1	10.9	3.6	9.8	83.0	74.8
Malawi	90.2	88.3	0.5	0.7	9.3	10.0
Tanzania	65.9	60.1	12.0	13.6	22.1	26.3
Uganda	63.4	56.9	20.8	26.4	9.8	16.7
Kenya	61.3	69.5	19.8	18.3	18.9	12.2
Ethiopia	83.5	85.5	9.7	8.2	6.2	6.3

Source: WTO (2009)

The North, as represented by Canada, Mexico and the US in table 2.1, export more manufactures, as compared to other goods. On the other hand, agricultural commodities take a larger share of the South's exports, as represented by Malawi, Tanzania, Uganda, Kenya and Ethiopia. These trends signify some form of comparative advantage. However, the differences in the types of goods traded between the North and the South have led some authors to conclude that such differences have contributed towards widening the economic gap between nations (Khor, 1993; Rodrik and Rodriguez, 2001; Suranovic, 2007). Their main argument stems from the fact that manufactured goods, unlike primary goods, experience relatively rapid growth. Moreover, technological improvements in such industries upgrade the quality of their goods. For example,

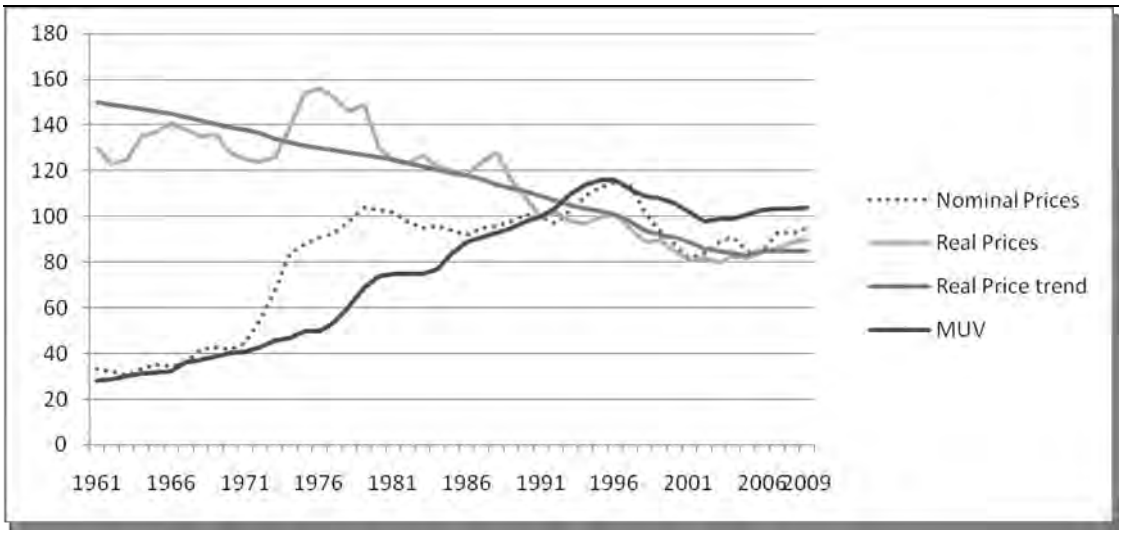
[2] North countries refer to economically developed countries with Human development index (HDI) of greater than eight, most but not all located in the northern hemisphere. South countries refer to developing (5< HDI< 8) and least developed (HDI<5) countries.

automobile models show tangible improvements with time. As a result, prices of capital-intensive goods usually increase with improvements. On the other hand, the improvements in primary commodities, especially in agricultural commodities cannot be easily identified, despite technological changes. In addition, primary commodities generally receive lower prices as compared to manufactured goods, especially as consumers move towards processed goods. Therefore, due to the nature of the goods, it has been argued that production of manufactured goods by the North puts them in a better bargaining position in trade and these countries are likely to reap larger benefits from trade (Khor, 1993; Suranovic, 2007).

Historic activities partly influence trade and development for both the North and South. For instance, slave trade and colonialism placed some developing countries at a disadvantage while supporting growth in some developed countries (Brown, 1993). When these formerly disadvantaged South countries started trading in goods with the North countries, they were already lagging behind and in trying to bridge the gap, they imported capital goods (machinery, technology and investment capital) anticipating an increase in local traded output. However, the income received on their exports could not totally pay for the imports. Therefore, some of these South countries had to borrow money payable with interest from the North countries, in order to finance the imports. This resulted in increased foreign debts for such nations (Khor, 1993). Faced with such a situation, some nations relying on primary commodities used most of their exports to pay debts instead of using them for local development purposes. In trying to clear debts, more and more primary commodities were made available for trade, while demand either remained constant or decreased, leading to oversupply in markets. Since primary commodities, particularly agricultural commodities, cannot be held off-market once produced, their proliferation in markets found prices of such goods declining significantly (Dutt, 2004; Stopford, 2009).

The relationship between prices and traded goods was researched and presented in the Prebisch-Singer thesis, where a decline in the prices of primary commodity exports relative to the prices of manufactured goods was identified. It is explained that the fall in primary commodity prices is influenced by the income elasticity of demand for commodities (Chen and Stocker, 1997). In addition, the downward trend in prices of agricultural commodities relative to manufactured goods can be closely related to

fluctuations in supply and the economic conditions of nations supplying them (Sarris and Hallam, 2006). Global trading trends show a prolonged decline in most agricultural commodity prices from the 1960s while prices of manufactured goods remained either constant or increased. Figure 2.1 illustrates a decline in the prices for agricultural commodities, where the real prices have declined by almost 50% from 1977 to 2009.



MUV- Manufactures export Unit Value Index (1991-92 = 100)

Figure 2.1: Agricultural commodity prices, 1961-2009

Source: FAO (2009a); UNCTAD (2009)

In the agro-food sector, value addition has gained popularity amongst consumers and that partly explains the limited returns received by the producers who are not involved in value adding. Instead, agricultural profits are increasingly being concentrated in the manufacturing and packaging of ready-to-consume food products (Dreher and Gaston, 2008). Daviron and Ponte (2005) found out that in the coffee value chain, farmers continue to receive low prices for the coffee beans. However, the high coffee prices paid by consumers are mainly distributed to packaging firms and café outlets. When analysed from a development perspective, such findings suggest that producers need to pursue product upgrading and move forward along the value chain, in order to capture higher profits from their produce.

Lower prices may seem favourable to consumers, but may not necessarily stimulate economic growth. Thus, a continuous fall in the prices of agricultural commodities poses economic development challenges to commodity-dependent nations. For instance,

a fall in price erodes the income of households depending on such commodities, and shrinks the foreign exchange received on traded goods (FAO, 2004). Huq and Tribe (2004) reported that poor households have become more vulnerable to international price slumps with increased globalization and liberalization of markets, because the price risks were shifted from governments to households. Based on the Prebisch-Singer thesis, it can be concluded that even though opening markets for trade makes economic sense, nations and households do not benefit equally from trading activities. Instead, some nations are made worse off, especially those that rely heavily on primary commodities in international trade (Chen and Stocker, 1997).

2.2.2 Economic globalization

Globalization is a process of interconnecting and integrating national economies into an international economy (Dinello and Squire, 2005). The resulting international economy allows trade among nations, without being limited by national boundaries. Therefore, the platform set in the markets, as a result of globalization, gives the buyers a wide variety of goods and promotes competition within and between countries (Acocella, 2005). When firms compete, they are usually given an incentive to improve on both quality and quantity, in an effort to withstand competition. Moreover, increased competition can act as an incentive to improve technology and management. The positive effects of such trading activities spill over to non-exporting sectors, contributing towards growth in the productivity of individual nations. Thus, competitive markets resulting from globalization are understood to ensure efficiency, prevent exploitation, and reduce corruption and rent-seeking associated with trade intervention (Dinello and Squire, 2005). Bhagwati (2004) terms the activities that follow globalization, as _virtuous economic cycles‘ that facilitate faster economic growth. In supporting globalization, the proponents of the process state the three-fold possible benefits of globalization, which are stimulation of trade and economic growth, reduction in poverty and, contribution towards economic and political stability among participating nations (Bhagwati, 2004; Acocella, 2005).

According to Chang (2003), policies that support globalization and the opening up of markets for trade, were used by some industrialized countries as a way of setting out a development path, and most of these nations succeeded. Whereas, it can be acknowledged that opening up markets for global competition may bring economic

benefits, it is worth mentioning that tangible benefits are normally realized in a mature economy, with full employment, relatively scarce labour and good risk markets (Stiglitz, 2006). Some of these conditions are not satisfied in developing countries; therefore, global competition may threaten producers and economies of developing countries. Empirical studies show that globalization has brought benefits to some countries, but not all. Examples of countries that benefited include Japan, the United States, China and some countries in Asia, whereas losers are mostly found in sub-Saharan Africa and Latin America (World Bank, 2002; Maddison, 2003). Before globalization, from 1960 to 1980, per capita income in Latin America grew by 4% per year. However, after implementing policies of corporate globalization in the region from 1980 to 2000, change in per capita income dropped to 0.5% per year (Wallach and James, 2006). On the other hand, change in per capita income increased in China, from 4% per year before globalization to 10% per year between 1970 and 2000 (World Bank, 2002).

The differences in economic changes resulting from globalization, has led to criticisms of the WTO model of globalization (Mahdi, 2009). The case against global competition is partly based on the integration of economic actors in the value-chain when markets are opened up for free trade. Market integration has tended to increase significantly with globalization, placing actors forming part of the integration in a position of competitive advantage (Dreher and Gaston, 2008). Increased market concentration leads to domination by a few companies while leaving others with little or no market power. In the food industry, manufacturers often favour integration with large-scale producers and this has put the small-scale producers at a disadvantage, which makes it difficult for the latter to participate in mainstream markets (Reardon and Barrett, 2000).

Competition resulting from globalization is more challenging to small-scale farmers in developing countries, especially when they have to contend with competition from subsidized farmers in industrialized countries (FAO, 2004). For this reason, it is stated that the agricultural industry is dominated by policies that create artificial competition, which is unfair to other producers in the industry (Babbili, 2005).

2.2.3 Unfair Competition in Agricultural markets

Changes in trade policies following liberalization and globalization have seen a decline in worldwide protectionism in the markets, especially in the manufacturing sector. However, the agricultural sector in both developing and developed nations has not completely liberalized and still gets some form of protection, where the EU and the US adopt high levels of protectionism (Babbili, 2005). The presence of trade barriers creates unfair competition[3] in the agricultural industry, which in turn overshadows the positive impact of trade barrier reduction. Unfair competition is intensified when some countries open up their markets, while some continue to subsidize their farmers (Stopford, 2009). When the goods that are received from nations providing subsidy support are traded in markets, they become artificially competitive, marginalizing producers without subsidies. As such, countries, which depend mostly on the exports of agricultural produce, acquire limited economic benefits, hence, less economic development from international trade activities (FAO, 2004). The presence of unfair competition in international trade has led to promotion of Fairtrade, where producers in developing countries are supported to gain access to markets in developed countries. It is argued that the support would assist the nations to kick-start their economic growth and development (FLO International, 2009).

2.2.4 Infant industries Argument

Nations that protect certain local industries from international competition, sometimes justify their actions based on the _infant industry argument‘ (Suranovic, 2007). The infant industry argument states that new industries, in their early stages, find it difficult to compete in international markets. The reason is that domestic markets are usually small, preventing firms from reaching the most efficient level of output, even though the firms may have potential to grow in future. Under such conditions, it could be acceptable to protect temporarily such industries, until they have matured (Lynn, 2003). Thus, the infant industry argument advocates protectionism as a way of boosting economic growth in early stages of development.

Some industrialized countries, for instance, some countries in East Asia and North America, have protected some industries in the past, and have succeeded in setting a

[3] Unfair competition is defined as unequal footing in the market where some gain competitive advantage over others

development path. Currently, there are nations, which protect some of their industries in order to allow them to grow. For example, although the North American Free Trade Agreement (NAFTA) supports free trade, it permits Canada and Mexico to protect certain industries (such as the agricultural industry) in order to safeguard them from foreign competitors (Schaffer *et al*, 2009). When NAFTA was negotiated, nations identified possible threats of economic disruptions in uncompetitive companies, due to increased competition. As a way of protecting such companies, nations were granted some protective power to allow such industries to grow (Khor, 1993; Schaffer *et al*, 2009). Therefore, it is concluded that there are nations which still use trade restrictions to allow growth and development, even when free trade policies are advocated. The same ‗infant industry' argument can be used by Fairtrade to protect marginalized agricultural producers in the global South. However, it is worth noting that protectionism is hardly risk-free and may bring inefficiencies that may be difficult to reverse in the long run (Suranovic, 2007).

2.3 Free trade criticisms

According to Pierre (2007), free trade is criticized, partly because it is not morally sound and it is built on fallacious assumptions. Moral criticisms of free trade include widening income disparity among households, environmental degradation, child labour and accentuating poverty in developing countries.

Free trade emphasizes the survival of the fittest in international markets, implying that the weak are marginalized. In other words, it favours the successful investors (Trebilcock and Howse, 2005). This widens the income and economic assets gap between the strong and the weak. According to Bernstein (2008), globalization has caused inflation-adjusted incomes of highly skilled households to rise rapidly, while those of the low-skilled rise more slowly or even fall, widening the gap. Jalloh (2003) explains that free trade does not just harm weak people from developing countries, but also, the weak in industrialized nations. Since free trade strengthens the big and strong whilst marginalizing the weak, it is criticized for ignoring social justice in trade (Pierre, 2007).

Under free trade, participants are more concerned about being powerful in the markets. As long as there is an economic advantage, the market participants can overuse the

available resources. Thus, environmental degradation is a likely consequence of free trade (Bhagwati, 1995). The environmental degradation argument against trade liberalization stems from the reluctance of private agents to invest in environmental protection, which has public benefits. Trade liberalization proponents argue that it is the government‘s role to protect the environment, not private agents (Pierre, 2007). Even if private agents have to pay for negative effects of their production activities (in the form of a tax), there is no guarantee that the money will compensate for their activities, and will be completely directed towards environmental investment. In addition, free trade is criticized because the research carried out by Clark (2001) and Pierre (2007) found out that certain powerful industries operating under free trade sometimes use cheap labour, as well as child labour in order to maximize profits.

Free trade is also criticized based on its theoretical assumptions. It assumes perfect market information among individuals and nations, and that producers have the ability to switch production techniques in response to market information. This assumption is challenged in agriculture and in developing countries, where market information is usually asymmetric (Gomory and Baumol, 2000). In agriculture, the deployment of modern production techniques takes longer and farmers cannot easily change their output and products when market conditions change (Jalloh, 2003). Another free trade assumption, which states that economic institutions and organizations in trading nations are favourable to the free operation of market forces, is contested. In developing countries, the economic institutions are often either non-existent or partly operational (Kherallah and Kirsten, 2002).

2.4 Alternative trade to free trade

A growing debate on free trade and its negative consequences, has led to a search for alternative trading models. Among other alternatives, trading models such as balanced trade, ethical trade, protectionism and Fairtrade, have been developed to address the challenges brought about by free trade (Dunkley, 2004; Cooke, 2008). Dunkley (2004) divided the alternatives to free trade into three broad categories namely, managed trade, self-reliant trade and fair trade. Managed trade holds that intervention in markets brings optimum trade results as compared to unrestricted markets. Self-reliant trade is a trading situation where nations use trade to supplement a democratically self-determined development model. Fair trade concerns schemes that encourage trade for the benefit of

developing countries (Dunkley, 2004). This research focuses on fair trade, particularly the ‗Fairtrade Organization', as an alternative to address the likely failures resulting from free trade.

2.4.1 Fairtrade as an alternative to free trade

Fairtrade contests the survival of the fittest model on an international scale because the model is believed to marginalize some people. Proponents of Fairtrade claim that unlike free trade, Fairtrade seeks to create an equitable balance in trade by encouraging fair access to markets and offering ‗fair' prices (Raynolds, 2000; Singh, 2001; Pierre, 2007). The Fairtrade model is related to the post-Keynesian model of economics where the prices offered in the markets are closely associated to the cost of production (Redfern and Snedker, 2002). Through Fairtrade, producers in developing nations, especially small-scale producers, are encouraged to participate in international trade through some form of marketing support. The support given by Fairtrade organizations is not considered unnecessary intervention in markets, but is seen as some degree of protection to allow development of certain sectors, for world market competition (a form of infant industry argument). Thus, industries in developing countries are given a chance to grow and be able to compete in global markets (FLO International, 2007a). Fairtrade is believed to work against labour exploitation because it has trading rules, which protects the rights of the workers, as well as preventing child labour. In addition, it is believed to consider environmental protection because it prohibits the use of certain chemicals in production, and it invests in community development (Nicholls and Opal, 2005; Raynolds, 2009).

2.5 Trade theory summary

So far, the chapter has pointed out that trade remains good for economic growth and development, but needs to be supported by flanking policies. Conventional trade policy supports minimal use of trade barriers, explaining that opening markets brings about the greatest benefits. Removing trade barriers to allow free trade makes economic sense through an increase in trading opportunities and enhanced incomes. However, competition resulting from opening markets creates both winners and losers. In cases where the chances of losing from opening markets are high, nations sometimes use instruments which control trade to limit loss. Such instruments are usually used where prevailing economic and marketing conditions are not conducive to the survival of local

producers. In such instances, protectionism is intended to shield local producers from external competition.

Generally, the presence of free trade in the agricultural sector is questioned; especially where some nations protect their farmers whilst some are required to liberalize the industry and reduce trade barriers. Drawbacks related to free trade include marginalizing people with weak market power, widening income inequalities and increasing environmental degradation. In order to combat challenges brought about by free trade, Fairtrade is considered as one of the alternatives in international trade for agricultural commodities. Fairtrade proponents state that the movement mitigates some of the failures that result from free trade, for example, the potential to address exploitation of labourers, as well as social, economic and environmental issues. It is also considered ethical because it seeks to encourage trade amongst people who might not have been able to trade without support. A detailed history, aims and debate surrounding Fairtrade is presented in the next sections.

2.6 The Fairtrade scheme

This section reviews literature on the Fairtrade movement, including the stages through which Fairtrade passed since the 1950s, when the idea was conceived. The pioneers of the movement had a motive of assisting small-scale producers in the South, in order to eradicate the pervasive poverty conditions among these people (Renard, 2003). To achieve their aim, they created a trading culture with small-scale producers, rather than using donations for assistance (Nicholls and Opal, 2005). Ever since its conception, the Fairtrade movement has grown and now trades a range of goods in the market, including handicrafts and agricultural goods. The movement is governed by a set of standard rules for certifying producers and goods that are marketed under its trade name (Renard, 2003; FLO International, 2009).

2.6.1 Fairtrade Background

Fairtrade emerged as a developmental movement for alleviating poverty among small-scale farmers and farm workers in developing countries by using trade, rather than aid, in achieving its aims (FLO International, 2007a). The reasoning behind using trade was that trade gives the producers a sense of being rewarded for their efforts, therefore, induces a willingness to increase production (Stiglitz and Charlton, 2005). If

properly managed, trade allows economic growth and ensures sustainability among producers, even without further assistance (Gomory and Baumol, 2000).

The main difference between Fairtrade and other development programs is the source of financial support, where Fairtrade is ‗development through trade' (Raynolds *et al*, 2007). Fairtrade is financed by consumers who voluntarily purchase Fairtrade goods offered at higher prices. Thus, Fairtrade products are sold at a price that exceeds the equilibrium price and consumers purchase such goods with the intention of helping producers. Part of the extra amount paid on Fairtrade commodities reaches the producers as a premium, which has to be used for improving production conditions among small-scale farmers and for community welfare development (Poret and Chambolle, 2007). Also, small-scale farmers receive the other part of the extra amount of money paid on Fairtrade commodities as a price benefit. In other words, higher prices received by the producers, position their communities for growth, and welfare development for households within the community. In theory, an improvement in welfare among small-scale farmers and farm workers empowers them for growth. As a result, economic power is shifted towards marginalized producers (Barrett *et al*, 2007; Lamb, 2008).

2.6.2 Historical Dimension of Fairtrade

From a historical perspective, the grassroots movement for Fairtrade emerged in the 1950s, as an alternative to free trade. This type of trade was initiated by European and American Non-governmental Organizations (NGOs), religious and political groups who worked in developing countries. These groups of people had witnessed poverty in developing countries and were willing to improve the conditions. Therefore, they started collecting handicrafts made by people in developing countries and sold them directly in European and American markets. Their main aim was to give producers of these goods a chance to participate in trade and provide them with income (Redfern and Snedker, 2002). The link that they created between developed and developing nations had a double motive: 1) they wanted to improve the welfare of producers in developing countries, and 2) to educate the Northern consumers about the negative effects of conventional trade and production conditions in the South (Nicholls and Opal, 2005). When fair trade emerged in the 1950s, trade exchange was based on handicraft (Renard, 2003; Stenzel, 2008).

In the 1960s, the alternative trade idea extended to several international NGOs. Oxfam (UK-based NGO) was the first European organization to be formally involved in alternative trade between Southern producers and Northern consumers. In 1967, a Dutch Alternative Trade Organisation (ATO) was formed. During that time, alternative trade systems offered fairer trading deals to the producers, when compared to conventional trade, hence, it became known as ‗fair trade' (Raynolds *et al*, 2007; Raynolds, 2009). The first European fair trade shop started to operate in 1969. In the 1970s, the fair trade idea grew in popularity and more consumers became aware of poverty conditions in developing countries, and were therefore, prepared to pay an extra amount for the goods coming from these countries (Nicholls and Opal, 2005). Demand for fair trade goods increased and fair trade shops sprang up to take advantage of the growing popularity. By then, the goods that were exchanged included handicrafts and agricultural produce. Coffee and tea were the first agricultural products to be traded under fair trade, followed by sugar, fruit and nuts (Redfern and Snedker, 2002).

By the 1980s, the number of shops selling fair trade products had grown. Different fair trade organizations started pushing for supermarket space. In order to differentiate fair trade products in the market, labelling was introduced. Fairtrade labelling commenced in 1988, in the Netherlands with "Max Havelaar" as the first fair trade certification label (Redfern and Snedker, 2002; Raynolds *et al*, 2007). Several other fair trade labels were developed, but as more labels were introduced, there was a fear of losing some consumers, because of the confusion caused by the plethora of different fair trade labels (Nicholls and Opal, 2005). Market participants such as traders and retailers formed associations in order to co-ordinate their efforts, and develop common brands and labels. In 1997, the Fairtrade Labelling Organization (FLO), which coordinated different fair trade initiatives, was formed (Renard, 2003).

Today, the Fairtrade movement has grown into a global movement and it continues to grow. Fairtrade goods can now be obtained through online retail services. The FLO has the responsibility of setting international Fairtrade standards for certifying producers and ensuring that goods received for Fairtrade exchange are produced under the required conditions (Poret and Chambolle, 2007; Ruben, 2008). As of 2009, Fairtrade operated in 70 nations across 5 regions: Africa, Asia, Europe, Latin America and North American. Produce came from 58 developing countries, where about 632 producer

organizations were certified, representing 1.5 million farmers and workers. Approximately 7.5 million people (farmers, workers and their families) were believed to benefit directly from Fairtrade (FLO International, 2009). Latin America is the main supplier of Fairtrade produce, where their produce accounts for about 75% of the Fairtrade market. Fairtrade consumption has been historically concentrated in Europe, but the United States market has grown rapidly, between 2004 and 2009, with an annual growth rate of 60% (FLO International, 2009). Table 2.2 shows the growth of Fairtrade products sold in the UK from 1998 to 2008. As shown in the table, there is notable yearly increase for all the products. However, there is no guarantee that the demand for Fairtrade commodities will continue rising, especially considering the impact of the global financial and economic crisis of 2007 - 2009. It is possible that the demand for luxury goods (including Fairtrade commodities) will fall as consumers respond to the crisis (Crotty, 2009).

Table 2.2: Sales of Fairtrade certified products in the UK

Product/Year	***1998***	***1999***	***2000***	***2001***	***2002***	***2003***	***2004***	***2005***	***2006***	***2007***	***2008***
Coffee:	13.7	15.0	15.5	18.6	23.1	34.3	49.3	65.8	93.0	117.0	137.3
Tea:	2.0	4.5	5.1	5.9	7.2	9.5	12.9	16.6	25.1	30.0	64.8
Chocolate/cocoa:	1.0	2.3	3.6	6.0	7.0	10.9	16.5	21.9	29.7	25.5	26.8
Honey products:	n/a	n/a	0.9	3.2	4.9	6.1	3.4	3.5	3.4	2.7	5.2
Bananas:	n/a	n/a	7.8	14.6	17.3	24.3	30.6	47.7	65.6	150.0	184.6
Flowers:	n/a	n/a	n/a	n/a	n/a	n/a	4.3	5.7	14.0	24.0	33.4
Wine:	n/a	n/a	n/a	n/a	n/a	n/a	1.5	3.3	5.3	8.2	10.0
Cotton:	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.2	4.5	34.8	77.9
Other:	n/a	n/a	n/a	2.2	3.5	7.2	22.3	30.3	45.7	100.8	172.6
TOTAL	16.7	21.8	32.9	50.5	63.0	92.3	140.8	195.0	286.3	493.0	712.6

The figures give estimated UK retail sales by real price value 1998-2008 (£ million)

Source: FLO International (2009)

2.6.3 Definition and Aims of Fairtrade

The term _fair trade/Fairtrade[4]‘ is broad and has several definitions attached to it, such that at present there is no universally accepted definition. Generally, fair trade can be defined as an international trading approach that aims to offer a _fair‘ trading deal to

[4] When written as _fair trade‘, two words, it refers to any fair trade movement that seeks equity in markets but when written as _Fairtrade‘, one word it refers to trade which is certified and labelled by FLO. This study is more concerned about Fairtrade.

producers in developing countries. A fair trading deal is represented by above market-equilibrium prices for goods, long-term relationships in markets, and decent working conditions for the producers and workers (Fararik and Law, 2006). The most widely used definition for Fairtrade was devised by FINE[5] in 2001. It defines Fairtrade as:

> "A **trading partnership**, based on dialogue, transparency and respect, which seeks **greater equity** in international trade. It contributes to **sustainable development** by offering better trading conditions to, and securing the rights of marginalized producers and workers, especially in the South. Fairtrade organizations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade" (FINE, 2001: 1)

Based on the FINE definition, it is gathered that Fairtrade deliberately creates market opportunities for disadvantaged producers and workers in international trade. Through trading activities, and accessing markets under beneficial rather than unfair terms, disadvantaged producers in developing countries have a chance of moving out of poverty (FINE, 2001). Fairtrade claims to assist producers to move from a condition of vulnerability under conventional trade to economic sufficiency (Pierre, 2007). It encourages workers and producers to play a significant role in international trade and, in the process, they are empowered to improve the conditions of their communities (Fararik and Law, 2006).

Fairtrade states that its practices are justifiable for social, environmental and economic growth (FLO International, 2007b). It maintains that it alleviates poverty, enhances gender equity, ensures safe working conditions, protects the environment and encourages justice in international trade (Nicholls and Opal, 2005). If these claims hold true, then Fairtrade has the potential to create good trading conditions for the growth of small-scale businesses. In addition, if Fairtrade embraces sustainability concepts, then it can possibly support trade over a long period of time (Robinson, 2004). The broad aims

[5] FINE (got its name from first letters of **F**LO, **I**FAT, **N**EWS and **E**FTA) is the informal umbrella association of these four international fair trade networks

of Fairtrade are generally agreed, but debatable in practice because merely offering a ‗Fairtrade label' does not imply fulfilling stated aims.

2.6.4 Fairtrade Federations

The major national and international Fairtrade federations are Fairtrade Labelling Organisation International (FLO), International Fair Trade Association (IFTA), Network of European Worldshops (NEWS) and European Fair Trade Association (EFTA). Together, these federations work towards promoting, coordinating and facilitating the activities of the Fairtrade organizations (FLO International, 2009).

The main purposes of the Fairtrade federations are given by Lee Velly (2007) and FLO International (2009) as:

- **FLO** was established in 1997. It mainly works towards marketing the Fairtrade certification mark and its labelling system is most widely recognized in Fairtrade goods. It mostly works with producers in Asia, Africa and Latin America.
- **IFTA** is also known as World Fairtrade Organization (WFTO). It was created in 1989 and is more concerned with identifying the organizations that are registered under Fairtrade. It identifies the trade network of all the participants in the Fairtrade value chain, starting from the producer up to the retailer.
- **NEWS** was established in 1994. It is a network of all the Worldshop[6] associations in Europe.
- **EFTA** is a network of alternative trading organizations, which are based in Europe. It was created in 1990 and is mainly concerned with importing products from the producers in an efficient and effective way.

2.7 Fairtrade producers

Agricultural Fairtrade producers consist of farming households, which grow produce for sale under the Fairtrade label. Initially, Fairtrade was limited to improving the lives of small-scale and peasant farmers, through certification of their goods (Raynolds and Ngcwangu, 2009). However, due to growing demand for Fairtrade commodities and the recognition of poverty among farm workers, produce from commercial farmers is accepted for sale under the Fairtrade label (Law, 2005). Presently, Fairtrade producers

[6] Worldshops are retail outlets offering and promoting Fairtrade products

are divided in two groups, namely plantations relying on hired labour, and small-scale farmer organizations (Dillenseger, 2005; Poret and Chambolle, 2007).

The inclusion of commercial farmers in Fairtrade caused debate. The main argument against the idea was the fear that small-scale producers would be marginalized in markets because they find it difficult to compete with estates (Redfern and Snedker, 2002). However, Mann (2008) argues that the standards[7] that are set by FLO for the different producers enable them to coexist without directly competing against each other.

2.7.1 Small-scale farmer organisations in Fairtrade

FLO International (2007b) defines small-scale farmers as agricultural producers who use their own land for farming, and do not depend on hired farm workers for labour. They make use of family labour for both management and manual labour. Their farming land is relatively small, as compared to plantations. To qualify for Fairtrade certification, small-scale farmers need to be organised in cooperatives because the ATOs do not work with individual small-scale farmers (Renard, 2003). Cooperatives which are certified by FLO are often made up of self-selected individual farmers who see the opportunity of integration in production and marketing (Valkila and Nygren, 2009).

2.7.2 Commercial farms using hired labour in Fairtrade

Commercial farms or estates, relying on employed labour are referred to as plantations by FLO. Commercial farmers are certified by Fairtrade in order to influence development among farm workers (FLO International, 2007a). Fairtrade requires all plantations to have a Joint Body (JB) committee at their farms. A Joint Body can be defined as a legal and independent entity, which is comprised of representatives of management, workers[8] and other stakeholders in the farming business (FLO International, 2007c; Pierre, 2007). Figure 2.2 schematically presents how a Joint Body is formed.

[7] http://www.fairtrade.net/fileadmin/user_upload/content/Generic_Fairtrade_Standard_SF_Dec_2005_EN.pdf
[8] All farm worker categories should be represented, for example, women workers, permanent workers and seasonal workers.

The JB committee is required to be comprised of more workers than management, but the total number of committee members is determined by each farming unit (Dillenseger, 2005). Management representatives in a JB committee have a duty of mentoring (not enforcing decisions on) the worker representatives, and of helping the workers to develop good management skills (FLO International, 2007a).

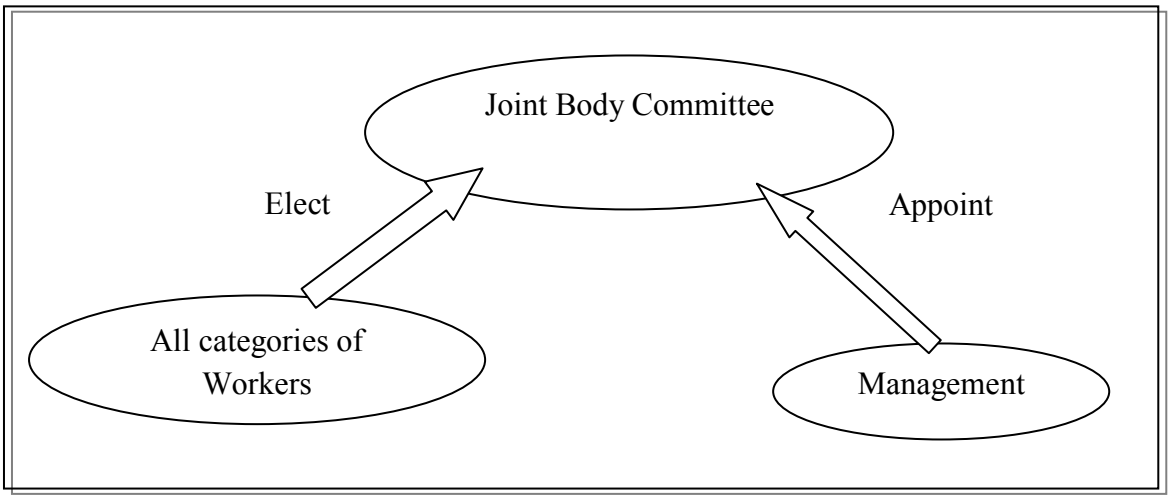


Figure 2.2: Fairtrade Joint Body

Source: FLO International (2007c)

2.8 How Fairtrade works

The primary tool used by Fairtrade organizations to help small-scale farmers and farm workers in international markets is through minimum prices, premiums, pre-financing and producer training (Fridell, 2007; FLO International, 2009). Certified producers attach labels to their produce which meet Fairtrade quality standards, before they are sent for sale. Then, Fairtrade certified importers and traders take responsibility for making Fairtrade produce available to consumers. Trading transactions occur through Alternative Trading Organisations (ATOs), which are specially formed for Fairtrade purposes (Becchetti and Huybrechts, 2008).

Fairtrade provides a set of detailed guidelines to both producers and workers in certified farms. To mention a few, Fairtrade requires certified producer organizations to hold a general meeting every year that all members are required to attend (Moore, 2004). Since every member has voting rights, the meetings offer a chance for members to give their views on progress and future plans (Mann, 2008). Farm workers are encouraged to form workers‘ unions, which are aimed at protecting and supporting the rights of the workers.

The unions' main function is to observe activities related to discrimination among workers, forced labour and workers' housing and working conditions (Nicholls and Opal, 2005). Fairtrade certified producers are required to consider environmental protection during production, and are not allowed to employ children who are under 15 years old (FLO International, 2009).

Principles that guide Fairtrade in achieving its aims, as given by Pierre (2007) and FLO International (2009) are listed below:

- Democratic organization, where one farmer, one vote principle has to be applied in decision making
- Formation of recognized workers' trade unions
- No slave and child labour
- Decent working conditions
- Environmental sustainability
- Minimum prices that cover the cost of production
- Provision of social premiums to support community development
- Transparent long-term relationships
- Partial payment in advance to avoid indebtedness

2.8.1 Fairtrade Certification standards

Fairtrade certification consists of three phases, *viz* application, initial certification and renewal certification (FLO International, 2009). Small-scale and commercial farmers take the initiating role by applying for Fairtrade certification. The applicants are evaluated to see whether they meet minimum entry requirements. Producers who qualify are certified and given a set of generic and product standards with which to comply. Generic standards, which apply to both plantations with hired labour, and small-scale farmer organizations, include social, economic and environmental development (NEWS, 2007; Raynolds *et al*, 2007). Product standards provide the conditions under which Fairtrade goods should be produced, including production of high quality produce (NEWS, 2007). The requirement for high product quality in the market has been argued to act as an entry restriction to producers with limited resources in production (Valkila and Nygren, 2009). This issue is disputed in view of Fairtrade's aim of demonstrating solidarity among marginalized producers. On the other hand, FLO

International (2009) argues that the idea of helping producers should not disadvantage consumers who are willing to pay higher prices. Therefore, FLO maintains that products need to be appealing to the consumers, in order to encourage them to buy Fairtrade products.

After initial certification, producers are continuously monitored for Fairtrade progress, requirements which include improving product quality and working conditions, environmental awareness and investment in community development projects (Matthews, 2009). Producers showing some positive progress are granted a renewal certification. The cycle for getting a renewal certification varies between one year and three years. In the case of non-compliance, the producers are warned to take remedial action; but if they still cannot correct the situation, they are decertified from Fairtrade (Becchetti and Huybrechts, 2008).

2.8.2 The Fairtrade labelling system

Fairtrade labelling was initiated in the 1980s, as a way of seeking access to conventional markets for fair trade goods. Labelling was used to gain shelf space for fair trade products in conventional shops and supermarkets (Fridell, 2007). Thus, labelling helped Fairtrade enter mainstream business. Fairtrade labelling was also developed as a way of generating trust in Fairtrade goods among consumers (Poret and Chambolle, 2007). Max Havelaar, TransFair and Fair Trade Federation (FTF) were among the first labelling initiatives. At present, FLO-Cert, an FLO affiliated company, is responsible for certifying producers, setting international Fairtrade standards and for labelling produce. FLO also audits product quality standards, and monitors production conditions (Raynolds, 2009).

Fairtrade goods that are ready for trade are identified by a sticker carrying a Fairtrade logo (see Appendix 7), which was developed by FLO in 2002. According to Matthews (2009), the goal for launching a Fairtrade Certification mark was to improve visibility of Fairtrade goods on shelves. The Fairtrade logo was designed in such a way that it sends a message to the consumers, that ‗Fairtrade guarantees a better deal for third world producers' (Moberg, 2008). Apart from the logo, certified goods' source of origin is specified. The source of origin is made known to the consumers to allow them to track the goods back to their production source (traceability) when the need arises

(Nicholls and Opal, 2005). Traceability is becoming very important in the food industry because it contributes towards monitoring food safety (Raynolds *et al*, 2007).

2.8.3 Monetary benefits and product pricing under Fairtrade

A number of studies have been carried out on the Fairtrade topic, and authors concur on the benefits that accrue to producers (Taylor, 2002; Giovanucci and Ponte, 2005; Nicholls and Opal, 2005; Raynolds, 2009). Probable monetary benefits to Fairtrade producers and their workers can be divided into minimum[9] prices and Fairtrade premiums (FLO International, 2009). Producers often receive minimum prices that are above market prices for their produce, and these are regarded as fair. Even farm owners in plantations receive minimum prices for traded commodities. The minimum price is determined by adding up the running costs (the cost of production) of the farming business, the cost of complying with Fairtrade standards, a living cost and a profit (return) that will keep the farmer in business (Nicholls and Opal, 2005). Minimum prices have to be paid to the producers even when world market prices fall below the price. Thus, minimum prices guarantee producers an acceptable income from the farming business, unlike in conventional markets. In cases where the minimum (floor) price is lower than the market price, farmers receive the market price as the minimum price (Redfern and Snedker, 2002). Figure 2.3 illustrates the Fairtrade minimum pricing mechanism for Arabica coffee, from 1988 to 2009.

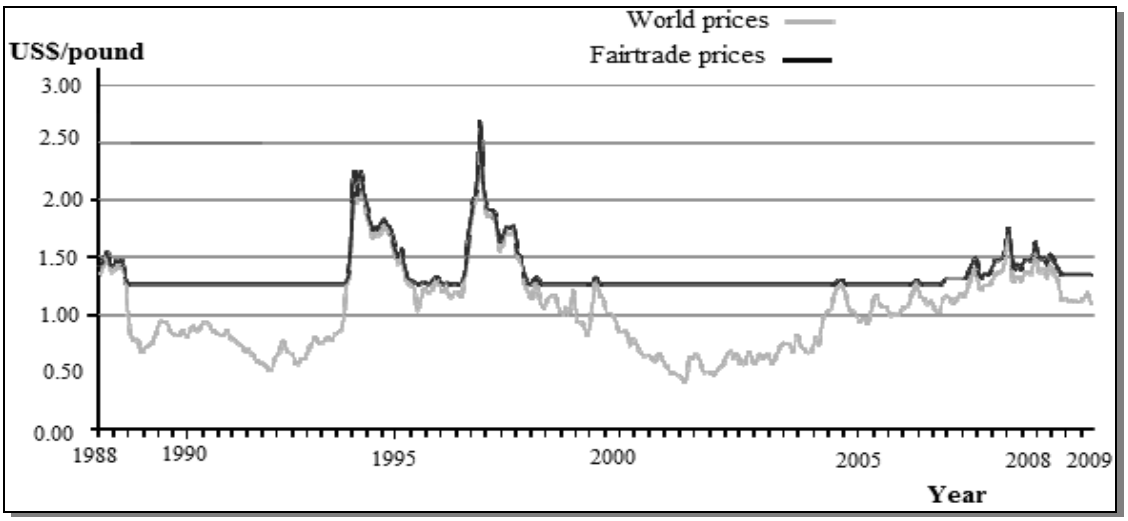


Figure 2.3: Arabica coffee World prices versus Fairtrade prices

Source: Laroche and Guittard (2009)

[9] Minimum prices are set based on the type of product and region of origin, for example Arabica coffee has a different minimum price from Robusta coffee. Minimum prices are normally reviewed every 5years.

In some cases, for example *rooibos* tea, the price structure is different between cooperatives and commercial producers, where the former receive higher prices. The difference in these FLO prices is intended to account for different production costs. Also, relatively higher prices received by cooperatives are meant to encourage production by farmers who labour directly in production (Raynolds and Ngcwangu, 2009).

The Fairtrade premium, also known as social premium, is an amount of money received in addition to the minimum price. According to FLO International (2009), the premium is between 7% and 15% of the total price for the product. Thus, the total amount of the premium received depends on the quantity of produce sold. The premium must be spent on community development projects and cannot be distributed among the farmers or workers in cash or kind (Renard, 2003). In most cases, the premium is invested in projects that do not have a direct link to the farming business itself, for example in investments in education facilities. Only under special cases, such as in small-scale farmer organizations, are producers allowed to invest the premium in the farming business because it is believed that a productive small-scale famer business improves the community at large (Dillenseger, 2005). To ensure efficient handling of the premium in plantations, the premium is received and managed by the Joint Body (JB) committee. In the case of small-scale farmer organizations, a democratically elected premium committee manages the premiums. These committees decide on how the Fairtrade premium is spent to benefit their communities, depending on the projects suggested by farm workers and cooperative members (Renard, 2003; Raynolds, 2009).

Rules that regulate the use of the Fairtrade premium are fewer for small-scale farmer organisations than they are for plantations (Ronchi, 2002). In the case of small-scale farmers, the premium committee has to choose developmental projects democratically, draft a yearly premium work plan, document premium use and be transparent in all activities related to the use of the premium (FLO International, 2007b). In addition to rules that govern small-scale farmer cooperatives, the JB in plantations is required to create a bank account into which the social premium is paid directly, without passing through the farmer‘s account (Redfern and Snedker, 2002). The administration of the premium has to be transparent, where all the workers and the certification body should have access to JB records (Dillenseger, 2005; FLO International, 2007c).

2.9 Value chain for Fairtrade

The activities in the Fairtrade value chain begin with certified primary producers (Figure 2.4). Their produce, which complies with the FLO standards, is sold to a FLO registered importer. To initiate the exchange, the importer submits a formal purchase order to the producer, who contracts and gives a specific date for the transportation of the produce (Nicholls and Opal, 2005).

The price quotation for the produce must be a FLO minimum price, and where the producer needs pre-financing, a payment of up to 60% of the total amount must be made by the importer (FLO International, 2007c). After all the arrangements are settled, the producers report to FLO, giving details of the importer, transportation date, the container number and the price paid for transportation. In addition, the importer reports to FLO, specifying the transportation date, container number and proof of the amount of money paid (Nicholls and Opal, 2005).

Once the produce is with the importers, they can process it if they own the required processing facilities. The produce can now be marketed to the next stage of the value chain as semi-processed products. From the importers, the goods are passed on to FLO licensed manufacturers. The manufacturers then give information to FLO, about the goods exchanged and the prices charged on the goods (Pierre, 2007). The continuous flow of information in the value chain is maintained to enable traceability and transparency of the Fairtrade activities. Produce is further processed by the manufacturers and converted into finished produce. The packed finished goods are given a Fairtrade logo, and distributed to licensed wholesalers and retailers. For the traders to be licensed, they need to pay a license fee to National Initiatives[10] (NI). The traders will then sell the goods to the final consumers (Nicholls and Opal, 2005).

Consumers make up the last stage of the value chain and yet make the most important contribution towards paying the minimum prices and the social premium (Redfern and Snedker, 2002). They voluntarily purchase Fairtrade goods, which often have a higher price than conventional goods. At present, Fairtrade consumers are comprised mainly of the households in developed countries (Raynolds, 2009).

[10] Labelling initiatives that promote and market the Fairtrade certification mark in specific countries.

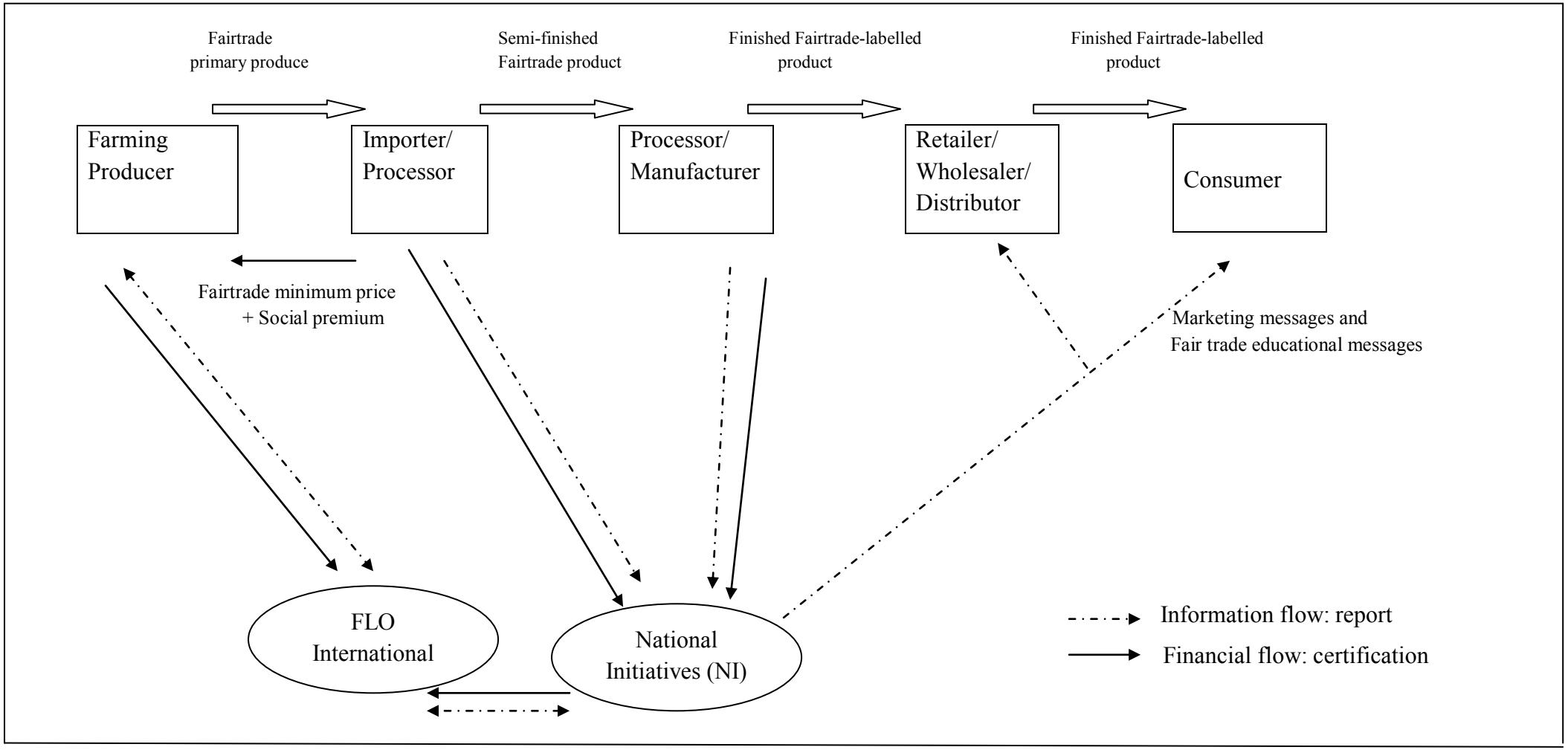


Figure 2.4: Fairtrade product, information and financial flows

Source: Nicholls and Opal (2005)

2.10 Other Fairtrade benefits for the producers

In addition to monetary benefits, there are purported non-monetary, direct and indirect Fairtrade benefits. Among others, non-monetary direct benefits include international market access, relatively direct trade and organizational structural support (Nicholls and Opal, 2005; Raynolds *et al*, 2007). Monetary benefits, such as fairer prices and a social premium, can trigger reinvestments in an economy (FLO International, 2009).

2.10.1 Price stability

Fairtrade minimum prices promote price stability in markets. These prices cover production costs, thereby promoting production sustainability and livelihood development among certified producers (FLO International, 2009). In contrast, price stability is unlikely in conventional markets due to continuous changes in demand and supply, making prices highly volatile. Sometimes, producers who supply conventional markets receive lower prices, even lower than their production costs (Murray and Raynolds, 2007). Empirical evidence from the Brazilian coffee markets in 2007 shows that the minimum prices for Fairtrade coffee beans was $1.26 per pound. This price was about twice as high as the conventional prices (Fridell, 2007).

Price stability is an advantage, for example, in coffee beans and fruit plantations, because they take longer to mature once they are grown (Ronchi, 2002). Therefore, it is difficult to switch to other goods when their prices fall in conventional markets. The guaranteed minimum prices received by producers may assist them in estimating future incomes and allow them to make plans (Mann, 2008).

2.10.2 Income

Reduction in the number of intermediaries by Fairtrade, and promotion of information flow along the value chain is supposed to encourage direct and transparent trade between producers and consumers (FLO International, 2007c). With more direct trade, producers receive a greater share of the export price for their produce. In addition, producers earn higher incomes through minimum prices, especially when world prices fall (Redfern and Snedker, 2002; Jaffee, 2007). For example, in 2008, small-scale producer cooperatives producing Fairtrade coffee, in Nicaragua received an income double that of non-Fairtrade farmers selling through conventional export companies (Valkila and Nygren, 2009).

2.10.3 Market access

Farmers, especially small-scale farmers, who would not otherwise have been able to compete and sell in international markets, may get a chance to access the markets through Fairtrade (FLO International, 2007c). Factors that make small-scale producers uncompetitive in international markets, and also limit their participation in international markets, are product quality, trade regulations, small volumes of individual produce and finance (Raynolds *et al*, 2007). Based on their objectives, Fairtrade seeks to address these constraints. For example, creation of a niche sector by Fairtrade allows farmers to overcome trade regulations (Nicholls and Opal, 2005). Organization of small-scale farmers into cooperatives and long-term relationships between producers and traders, can position the producers on a competitive level in trade (Raynolds *et al*, 2007). In Mexico, La Selva cooperative learnt to export through Fairtrade. Once they started exporting, they were exposed to updated market information, such as on importers and other buyers (Taylor, 2002). Certified plantations also may gain easy access to international markets through Fairtrade (Pierre, 2007).

2.10.4 Capacity building

Fairtrade asserts that it encourages long-term relationships and social networks among producers, Fairtrade organizations and traders, which set the stage for partnerships in markets (FLO International, 2009). These partnerships have a possibility of contributing towards capacity building in production and marketing management, quality control and access to financial support (Farnworth and Goodman, 2006). The resulting gains in capacity building may include increased production, improved quality of produce, ability to negotiate and producer empowerment. Moreover, farmer cooperatives can enhance credibility and attract other developmental institutions, such as government institutions and banks, to provide finances for development (Valkila and Nygren, 2009). In production, farmers are provided with knowledge and skills to meet product standards. Workshops and training courses are used as sources of imparting knowledge and skills (Raynolds, 2009). In plantations, workers are given a chance to learn from management through the Joint Body mentorship (FLO International, 2009).

2.10.5 Social networking

Social networks that are developed through Fairtrade are a means of strengthening the voice of its members. For example, worker organizations may allow individuals to be

heard when they speak out about the need for improvement in working conditions. Unlike an individual voice, organizations are more likely to be heard (Raynolds *et al*, 2007). Moreover, Fairtrade encourages joint decisions, which can strengthen productivity and lead to developments, both in plantations and in cooperatives. Farmers are encouraged to interact, share ideas and work together towards a set goal (Fridell, 2007). Additionally, existing Fairtrade cooperatives can have a positive influence on other cooperatives. Tzotzilotic, a Mexican cooperative, started selling Fairtrade coffee in 2001, with the help of Majomut, another cooperative in the same area (Taylor, 2002). In relation to plantations, workers and management are encouraged to work together under Fairtrade. The social link between the workers and management creates transparency and honesty in the business, which leads to productivity improvements on the farm (Raynolds and Ngcwangu, 2009).

2.10.6 Decent working conditions

All producers who are certified by Fairtrade are required to observe social, sanitary, medical and environmental standards. They have to provide proof of health and safety policies for their workers. Moreover, producers are required to train staff on health and safety issues (FLO International, 2009). If producers abide by Fairtrade standards, employees benefit from working in a safe and healthy environment. In addition, employee working hours need to comply with the conditions of the International Labour Organization (ILO). It is also required that pregnant employees are given special health and safety attention (Valkila and Nygren, 2009). By observing the rights of the workers, Fairtrade gives producer communities a chance to join in international solidarity movements for equity and worker rights (Ronchi, 2002).

2.11 Fairtrade community development projects

The Fairtrade social premium that is paid to the small-scale producer cooperatives and farm workers has to be used for community development projects. The recipients of the premium collectively decide on the projects that benefit the community at large. They are required to provide annual feedback to FLO about the projects (Jaffee, 2007; Pierre, 2007). Since the developments are aimed at communities, the premium benefits can spill over to non-Fairtrade households residing in communities where Fairtrade is practised (Redfern and Snedker, 2002).

Social projects may further provide indirect benefits to the communities. Employment opportunities may increase for the community residents when social projects are implemented. In addition, well-chosen projects can position the communities for local economic growth and development (Murray and Raynolds, 2007; Mann, 2008). A Ugandan Fairtrade cooperative in Busamaga contributed to community development through projects in road construction, and building a health centre and a secondary school (Bigirwa, 2005). These projects benefit the community at large and may lead to economic development in the long run.

2.12 Criticisms of Fairtrade

Fairtrade, as a developmental tool for helping marginalized producers move out of poverty, has attracted a number of criticisms. It has been criticized for violating free market forces, eliminating competition and encouraging inefficiency in markets. In addition, it is believed to cater only for a small number of producers, while further marginalizing the majority of non-Fairtrade producers (Jaffe, 2007; Sidwell, 2008). Lindsey (2003) argues that in certifying producers, Fairtrade discriminates against poor households who cannot form part of cooperatives.

2.12.1 Fairtrade as a violation of the free market

Economic theory suggests that free interaction of market forces produces the most efficient results (Trebilcock and Howse, 2005). Therefore, Fairtrade is mainly criticized because it influences the market forces by setting a price floor, above the market price, thus supporting inefficiency. It is argued that the high prices induce existing producers to produce more and at the same time, encourages new entrants, leading to oversupply. Using the laws of demand and supply, prices are forced to drop in the non-Fairtrade market in response to oversupply (Levi and Linton, 2003; Jaffe, 2007). Thus, minimum prices offered to Fairtrade producers may further reduce commodity prices for non-Fairtrade producers. As such, it may drive the producers who are not included in the Fairtrade safety network into poorer conditions. Lindsey (2003) emphasizes that Fairtrade benefits some producers in the short run, but does not consider the long run effects on development and economic growth. This line of argument is also applicable during unpredictable economic climate, for example, as influenced by the 2007 - 2009 financial crisis (Kenc and Dibooglu, 2010). A resulting decline in economic development of major markets has a potential negative influence on the long run

sustainability of the Fairtrade market. Thus, as demand of luxury goods decreases as consumers respond to the economic crisis (Crotty, 2009), the problem of oversupply is made worse.

The criticism of market intervention has been countered by Hayes (2006) and Mann (2008), among others. They contend that the exchange of commodities in the agricultural sector does not occur in a perfectly competitive environment because some nations protect their farmers. For example, the American cotton farmers are offered subsidies by their governments. According to Hayes (2006), market prices in the sector reflect market power, rather than productivity of the producers. Therefore, it should not be a problem when producers in the South are protected to allow their businesses to grow. In addition, Torres and Acosta (2007) noted that the price distortion argument does not take into account the product differentiation that is brought about by Fairtrade. The quality standards and the production techniques, which consider environmental awareness and social responsibility, differentiate Fairtrade commodities from non-Fairtrade commodities. Such attributes suggest that Fairtrade can be regarded as a different market to the conventional market. In this sense, Fairtrade does not just fix prices, but the producers are paid for the extra effort they put into production (Torres and Acosta, 2007). In further justifying price floors, it is pointed out that consumers voluntarily buy Fairtrade commodities. This shows the probability that consumers take into account the other Fairtrade attributes in accepting higher prices (Mann, 2008). Even during the financial crisis, the Fairtrade Foundation (2011) remains positive that public loyalty to Fairtrade induces consumers to continue demanding Fairtrade goods.

The argument that high prices in Fairtrade encourage new entrants is dismissed by the certification process. FLO certifies new producers, only after identifying additional demand in the market. Thus, Fairtrade does not support oversupply in its market, it just seeks to offer fair prices to the producers (Mann, 2008). Minimum prices that are offered to producers can be viewed as their fundamental rights, when analysed from the minimum wages point of view (Brown, 1993).

2.12.2 Distorts market signals

According to Sidwell (2008), Fairtrade ignores market signals, leading to inefficiencies. For example, world prices in the coffee industry drop due to overproduction and

oversupply. Therefore, the low prices act as an indicator for producers to diversify into the production of other commodities. However, the guaranteed prices received from Fairtrade encourage producers to continue supplying the industry with such commodities, regardless of oversupply (Lindsey, 2003). In other words, Fairtrade promotes the underperformance of markets by focusing on prices. According to Lindsey (2003: 6), Fairtrade is just a ―misguided attempt to make up for market failures."

The proponents of Fairtrade admit that the argument about prices as a market signal is valid in economic theory (Brown, 1993; Dreher and Gaston, 2008). However, they counter this argument by explaining the reasons for offering price support to the producers. According to Brown (1993), players in world trade are not on an equal footing, where the South has been disadvantaged partly due to slavery and colonialism in some countries, the slow pace of industrialization, overreliance on primary goods and limited support in the markets. These conditions have influenced the economies of the South to lag behind when compared to the North. With the limited economic growth, producers in the South may need support in gaining market access, which may help boost their economies (Mann, 2008).

Pierre (2007) argues that marginalized agricultural producers continue to export certain goods even when their prices fall because they have difficulties in switching to other goods. Generally, due to the nature of agricultural goods in production, diversification in the sector takes a long time. Moreover, the alternatives to most farmers in developing countries are limited. If producers diversify, there is still no guarantee of getting higher prices because world prices for all commodities are volatile (Hayes, 2006; Jarrett and Kobayakawa, 2008). Therefore, producers in the South can only be encouraged to participate in trade through offering higher prices for the goods that they already are producing.

2.12.3 Discriminates against other farmers

When dealing with small-scale producers, Fairtrade limits itself to certifying small-scale producer organizations. As such, Fairtrade is criticized because it fails to reach poor small-scale farmers who do not form part of cooperatives due to lack of resources (Sidwell, 2008). When such households sell in conventional markets, they receive low prices. Lindsey (2003) argues that these poor households need more help with welfare

development compared to the producers who are certified by Fairtrade, and yet they are excluded.

The counter argument for encouraging cooperatives relies on the benefits that are accrued by small-scale farmers when they cooperate (Murray and Raynolds, 2007). Small-scale producers in cooperatives are able to pool their resources for increased production and they can share production and marketing knowledge in the group. As a result of cooperation, they are able to improve their competitiveness in the market and reap greater profits (FLO International, 2007b). Households which fail to form cooperatives due to limited resources may need to benefit from other developmental projects. The proponents of Fairtrade explain that the movement does not claim to help all the producers, but it forms part of a wider range of social movements that help marginalized producers (Law, 2005; Ruben, 2008). If resource-poor producers are to be included in Fairtrade, their chances of meeting the quality requirements of the consumers are limited. With lower quality goods, consumers will not be motivated to pay higher prices (Valkila and Nygren, 2009). Non-Fairtrade producers residing in the same communities with Fairtrade producers can still benefit from Fairtrade premiums through community development projects (FLO International, 2009).

2.12.4 Disincentives to improve quality

Another criticism of Fairtrade suggests that guaranteeing minimum prices to producers does not give them an incentive to improve quality. Levi and Linton (2003) claim that when the producers are assured of getting a higher price in the markets, they will not be motivated to improve the quality of their commodities. Moreover, when competition is eliminated, producers lack the motivation to make their commodities appealing in the market (Fridell, 2007). Fairtrade proponents see the argument that states the possibility of compromising quality in Fairtrade as weak. Instead, they pointed out that producers have an incentive to improve quality when they are paid prices which cover production costs (Law, 2005; Stiglitz and Charlton, 2005). Apart from that, Fairtrade has a set of regulated quality standards, which certified producers are required to meet. If certain commodities fail to meet the standards, they are not acceptable for sale, and if the problem persists, it may lead to decertification of the producers (FLO International, 2009).

2.12.5 Labour market distortions

Jaffee (2007) argues that when Fairtrade workers receive higher wage payments as compared to non-Fairtrade workers residing in the same community, it distorts the labour market. Thus, it is unfair to the non-Fairtrade workers, who may be driven to leave their jobs to move to Fairtrade certified employers. When Fairtrade employers fail to absorb all the people who are willing to work under their organizations, it may lead to some workers losing their jobs (Hayes and Moore, 2005). Jaffee (2007) suggested that it would have been better if Fairtrade certified plantations were encouraged to hire more employees in order to extend Fairtrade benefits to a lot of people. Raynolds (2000), with an opposing view, pointed out that Fairtrade offers equal opportunities to all the people who are willing to work. Also, because Fairtrade certified plantations are in profit maximising business, they should hire labourers that they consider to be most efficient for the business (Hayes and Moore, 2005). Rather, the higher wages paid to Fairtrade employees should compel non-Fairtrade employers to offer wages closer to those offered by Fairtrade producers in order to keep their workers. In such situations, wage benefits are spread to both Fairtrade and non-Fairtrade workers (Murray and Raynolds, 2007).

2.12.6 Inefficient method of passing the benefits

Sidwell (2008) criticized the process through which the extra amount of money paid for Fairtrade commodities is passed to the producers, and regarded it as inefficient. The argument is that some retailers may overcharge for Fairtrade goods, where retailers gain more from the higher prices, than the producers. Jaffee (2007) and Sidwell (2008) suggest that passing the money to the producers in the form of aid is a better option than through the value chain. On the other hand, FLO International (2007a) is totally against aid, and emphasizes that Fairtrade is about trade where producers receive prices that reflect the cost of production. In addition, international market exposure given to the producers is important for their growth. Thus, Fairtrade discourages dependency on handouts. Moreover, FLO monitors all stages of the value chain, which may reduce the chances of overpricing goods (Nicholls and Opal, 2005).

2.13 Conclusion

The introductory sections of the chapter gave background information of trade and international trade theories. Conventional trade advocates free trade as a way of

boosting economic growth, but the evidence at hand shows that free trade works for some nations while disadvantaging others. Moreover, free trade in the agricultural sector does not exist. The international agricultural sector remains relatively protected as compared to the manufacturing industry, where there has been a decline in protectionism, following substantial reform of trade policies. Although the WTO agreement on agricultural commodities initiated a process of reducing trade barriers in the sector, protectionism remains evident. These conditions hurt small-scale farmers more than they do commercial farmers, especially when they need to participate in international markets. With the given situation, Fairtrade has emerged as a potentially effective way of including marginalized farmers, particularly small-scale producers, in international trade.

Fairtrade benefits that can potentially accrue to producers include price stability, increased incomes and market access. In addition, the community as a whole may benefit from Fairtrade through development projects. However, Fairtrade is criticized for being inefficient, distorting market signals and discriminating against other producers. There are also doubts raised as to whether or not Fairtrade can be regarded as a potentially useful tool for sustainable development. The next chapter presents the theoretical framework that is used in this study to investigate the contribution of Fairtrade South Africa towards sustainable development.

CHAPTER 3

THEORETICAL FRAMEWORK: FAIRTRADE AND SUSTAINABLE DEVELOPMENT

Fairtrade claims that it seeks to achieve sustainable development within communities, in order to benefit groups of small-scale farmers and farm workers (FLO International, 2009). Based on these claims, this research investigates and analyses Fairtrade as a tool for sustainable development in South Africa. According to Kennedy (2007), when analysing factors that contribute towards sustainable development, there is a need to consider social capital aspects because they have a significant influence on development. In order to investigate the influence of Fairtrade on social capital and sustainable development, New Institutional Economics (NIE) is used. Furthermore, the research investigates whether Fairtrade qualifies to be regarded as a Local Economic Development (LED) tool in the South African context. This chapter analyses the two theoretical frameworks and their conceptualization. Both the NIE and LED concepts are relevant to the study because they are based on cooperative relations, a concept which forms the backbone of Fairtrade, and illustrate how sustainable community development could be facilitated through social capital. Lieberherr (2009) suggested that NIE can be used to analyse economic relationships in different social settings. In this case, the NIE framework is suited for this study, as it looks at various Fairtrade social groups located in a sample of geographical areas in South Africa.

The chapter commences by presenting the concepts of sustainable development from different schools of thought. Thereafter, the NIE framework is discussed, including its historical background and its branches. However, an in-depth explanation is given of the social capital aspect, emphasizing its connection to sociology and economics. The conceptualization of social capital used in the study is based on Putnam (1993), although the study acknowledges work from Bourdieu (1986) and Coleman (1988). An LED framework, as applied in South Africa, is then presented. The growth of LED in South Africa, its goals, implementation and outcomes is discussed in detail.

3.1 Sustainable development

Sustainable development is defined differently by different authors (some overviews are presented in Pezzoli, 1997; Mebratu, 1998; Gibson, 2002). Since its emergence in the 1980s, the concept of sustainable development has been dynamic (Gibson, 2002). According to Robinson (2004), the concept of sustainable development originated as an attempt to solve ecological damages caused by increasing human activities. One of the early authors, Brown (1981) defined sustainable development as development that requires institutional changes in order to create a society that has an ability to survive indefinitely within environmental limitations. Thereafter, the concept of sustainable development was built on and popularized through the "Brundtland Report", which defines it as:

> "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development (WCED), 1987: 23).

From the definition, it can be gathered that the Brundtland Report argues against environmental deterioration on one hand, and supports human development on the other. Thus, it advocates for a type of development that caters for human needs, but at the same time, considers the impact of people's activities on the environment. In such cases, both environmental and developmental issues need to be balanced and solved in a mutually reinforcing way. Developmental projects should be chosen such that they allow continued use of resources by enabling an improvement of existing, or creation of other, resources (WCED, 1987; Lynn, 2003). The Brundtland report calls for technological improvements and competence in order to achieve sustainable development. Also, it suggests collective institutional responses, efficiency gains and social responsibility for sustainable development, rather than individual responsibility (WCED, 1987).

The Brundtland Report was further developed by, among other authors, the International Union for Conservation of Nature and Natural Resources (IUCN) (commonly known as the Rio Earth Conference in 1992). In a document entitled "Caring for the Earth", IUCN (1992) defines sustainable development as "improving the quality of human life while living within the carrying capacity of supporting ecosystems." In the 1990s, the conceptualization of sustainable development attracted

criticism. Authors such as Alder and Wilkinson (1999) argued that it is impossible to have sustainable development because economic growth and environmental protection are contradictory in nature. These and other criticisms of sustainable development were discussed, and partly addressed by the World Summit on Sustainable Development, which was held in Johannesburg in 2002. The Johannesburg Summit concluded that sustainable development can be achieved, and is possible through balancing economic growth, human development and the conservation of natural resources and the environment (Marong, 2003; Earth Negotiations Bulletin, 2006). Although the concept of sustainable development was partly addressed, some authors still argue that the concept is a disguise used by organizations, governments and enterprises to do ―business as usual", and do not necessarily protect the environment (Davidson, 2005). Despite its criticisms, the concept of sustainable development continues to be recognised. Kemp *et al* (2005) and Nurse (2006) regard sustainable development as useful in addressing the issue of economic growth, whilst taking care of the environment.

There is a multiplicity of definitions for sustainable development, but there is a general agreement in the definitions, which focuses on the relationship between economic growth and environmental support (for example in WCED, 1987; Nurse 2006; Holder and Lee, 2007). Therefore, development, which considers the environment, while supporting the inhabitants, is generally accepted as sustainable. Sometimes sustainable development is referred to as ―intergenerational equality" because of its idea of sharing natural resources between the present and future generations (Kemp *et al*, 2005).

In general, development is about continued advancement and creation of improved services for more households in a nation. It is made possible by innovation in both institutions of governance and socio-technical systems (Kemp *et al*, 2005). National development is sometimes measured by economic growth. Galtung (1996) relates development and economic growth as:
Development = Growth = Economic growth = GDP growth

Where development is equated to economic growth, sustainability paths can be illustrated graphically as shown in figure 3.1.

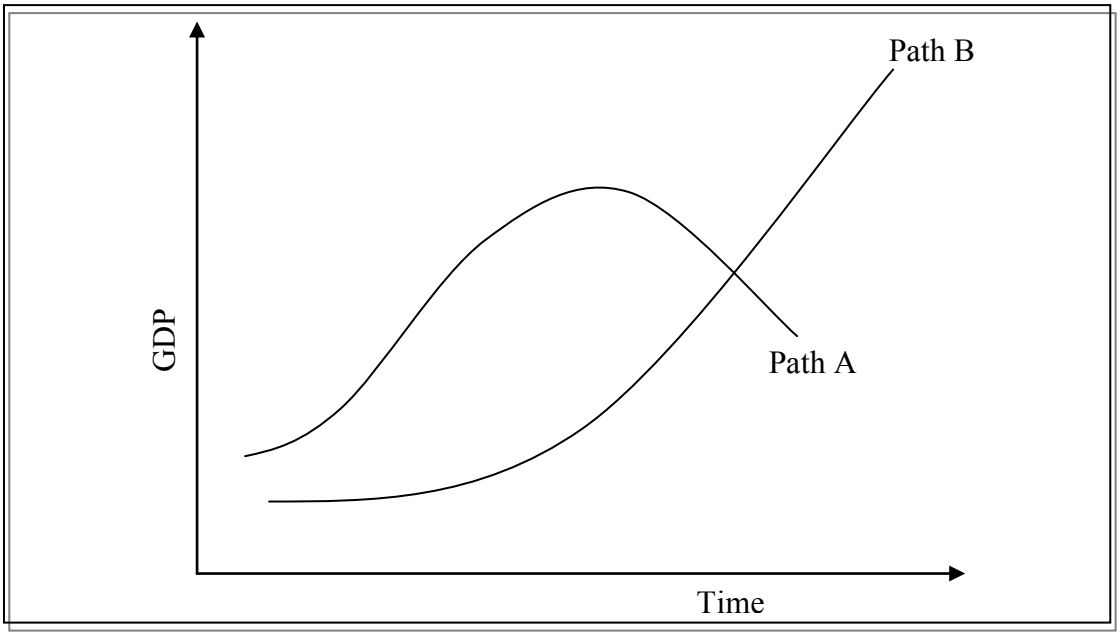


Figure 3.1: Unsustainable and Sustainable Growth paths

Source: Lynn (2003)

Figure 3.1 shows two possible development paths, where path A is unsustainable and path B is sustainable. Path A represents a condition where resources are not conserved. It shows a faster growth initially, but as the resources are depleted, growth begins to slow down and may lead to a halt. Path B shows a continuous growth pattern. As compared to path A, path B starts more slowly, at the stage when the resources are being preserved through either investing in renewable resources or replacing used ones. The preservations may then allow future output to rise consistently over a longer period of time (Galtung, 1996; Lynn, 2003). Davidson (2005), among other critics of sustainable development, argue that developing countries are persuaded to follow path B, while developed countries continue to pursue path A. Thus, it is argued that sustainable development is aimed at limiting development in developing countries, while developed countries were not limited during their development phase, but they acquired growth in GDP (Davidson, 2005; Brunel, 2008).

3.1.1 Elements of Sustainable development

Traditionally, sustainable development followed the environmentalist framework where it prioritized working against ecological degradation (Daly, 1996). Whereas it is acceptable that environmental issues form the cornerstone of sustainable development, it should be noted that sustainable development is broader than just environmental

concerns. The usefulness of economic and social aspects in sustainable development has been clarified as the concept matured (Gibson, 2002; Bell, 2003). Currently, contemporary sustainable development is portrayed as a tri-dimensional concept, which embraces social, economic and environmental sustainability as a whole (Nurse, 2006).

Diagrammatically, sustainable development can be illustrated by an area where circles of economic, social and environmental quality overlap (Figure 3.2). The diagram stresses the link between all three dimensions, where sustainability is only achieved when the three spheres are intertwined. The diagram also shows the results of addressing only two dimensions, showing how they lie outside sustainability realm (Robinson and Tinker, 1997; Kemp *et al*, 2005).

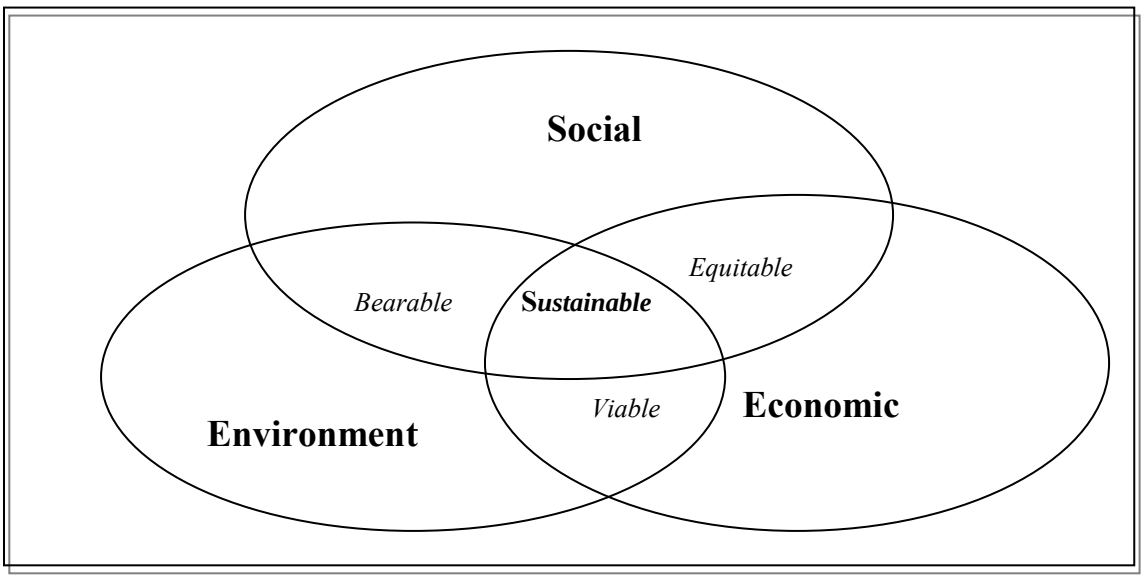


Figure 3.2: Three pillars of sustainability
Source: Robinson and Tinker (1997); UCN (2006)

The Social aspect of sustainability relates to the state of governance that determines people‘s activities, how they live and how their needs are met. It covers both political and community values, where security and democracy should be considered. Social values are intangible but they can be identified because they relate to value systems, ethics and attitude (amongst others) that influence societal relations (Gibson, 2002). In addition, social sustainability prioritizes the satisfaction of basic human needs, and seeks to improve households‘ living standards. For the social aspect to be regarded as

sustainable, human activities should promote equality, participation and the spread of knowledge in communities (Robinson and Tinker, 1997; Gibson, 2002).

The Economic aspect refers to the material standard of living for the households, such as wealth, employment and technology. It reflects the need to weigh the costs and benefits of an economic activity to the community as a whole, taking into consideration the carrying capacity of the environment (Munro, 1995). The sustainable economic aspect should encourage competitiveness in world markets, but it should not occur at the expense of intergenerational equity (Kemp *et al*, 2005).

The Environmental aspect is more considerate of the Earth, where it practises conserving limited resources. This dimension seeks to protect the environment, for use by future generations (Bell, 2003). Environmental sustainability requires that the current activities of interacting with the environment be pursued while maintaining the quality of the environment on a long-term basis. All activities should be confined to the carrying capacity of the planet and natural capital should not be used more than it can be replenished (Robinson, 2004; Nurse, 2006). If resources are replenished, they will be used to meet the needs of future generations (WCED, 1987).

Although only three pillars of sustainable development are mostly identified, culture is sometimes recognized as an additional category, forming the fourth pillar. The suggestion of including culture is based on the idea that sustainable development is achievable if there is harmony between cultural diversity on one hand, and the other three pillars on the other hand (Hawkes, 2001; Nurse, 2006).

The conceptualization of sustainable development (sometimes referred to as sustainability) is generally accepted, but it continues to raise a number of concerns in theory and in practice.

3.1.2 Concerns about sustainable development

One of the main concerns about sustainable development is the vagueness in its definition where there is no one accepted scientific definition. As such, ever since the development of the concept, the term has been adapted to suit the objectives and needs of different institutions (Robinson, 2004). It has tended to reflect the political and

philosophical positions of different organizations and institutions. For some, sustainable development is more about sustainable economic growth whereas others put emphasis on sustainable environmental management (Redclift, 2005). The differences in the definitions may pose problems when sustainable development needs to be measured in practice (Rigby and Caceres, 2001). The definition provided by the Brundtland report is generally accepted, but it still creates debates. The idea of providing for the needs of present and future generations presented in the report brings it into question. The main argument rests on the ~~"n~~eeds", a term that is understood differently in different locations and cultures. Moreover, it seems difficult to identify the needs of all the households and to know the needs of future generations (Redclift, 2005). However, Robinson (2004) argues that lack of precision in the definition of sustainable development should not be a problem, but it may represent an opportunity to develop further the concept. For example, Redclift (2005) suggests that it is better to focus on rights, rather than needs, as a yardstick for measuring sustainability.

Sustainable development is sometimes accused of shifting away from mainstream economic theories that prioritise economic growth, without focussing on ecology and social justice (Langhelle, 1999). Thus, sustainable development is considered to challenge neo-liberal economic theory. A close analysis of the concept of sustainable development however, indicates that it co-opts, rather than challenges neo-liberal economics (Nurse, 2006). Both neo-liberal economics and sustainable development economics support capital accumulation, growth and efficiency. The only difference is that sustainable development does not solely focus on the economic dimension, but also takes note of the social and environmental dimensions (Gibson, 2002; Suranovic, 2007).

3.1.3 Sustainability and Fairtrade

This research uses the Fairtrade standard principles, which claim that they consider the three pillars of sustainable development as a framework to measure sustainability in community development. The economic, social and environmental aspects, as related to Fairtrade, are used in the study.

The economic aspect of Fairtrade relates to the business activities and benefits that are accrued due to Fairtrade exchanges, such as pre-finances, minimum prices and premiums (FLO International, 2009). The pre-finances assist producers with capital for

production purposes, and help to overcome financial challenges in development. Valkila (2009) explains that the availability of capital for production purposes promotes entrepreneurship, which leads to local economic benefits. The minimum prices can assist producers to invest in productivity improving technologies. Properly chosen technologies can allow continuous production over a long period. Moreover, the technologies may result in improvements of product quality, which can improve the competitiveness of their commodities in world markets (Diza and Karaan, 2006). The premium can be invested in education, health, housing and the environment, all of which can lead to economic development and create a platform for further development (Suranovic, 2007).

In relation to the economic aspect of sustainable development, this study investigates the uses of Fairtrade finances and the resulting changes in resources. Thus, it investigates Fairtrade activities that influence sustainable local economic development. The Local Economic Development (LED) framework is used for analysing the economic aspect of Fairtrade.

Fairtrade claims that it takes into account the environmental aspect of sustainable development because it has specific standards that encourage producers to use agricultural practices that are environmentally sound (FLO International, 2009). Fairtrade‘s idea of discouraging the use of some agrochemicals, while encouraging maintenance of soil fertility can help to keep the environment closer to its natural form (Redclift, 2005; Raynolds, 2009). Also, rewarding organically produced goods with a higher price contributes towards protecting the environment, thus encouraging sustainable production and development. This study investigates the strictness of environmental standards and the measures that are used for monitoring producers.

Fairtrade, as a social development movement claims to offer _fair‘ wages to the producers, support gender equality, promote safe working conditions and encourage cooperation and transparency in production and marketing (FLO International, 2007b). In justifying their claim to supporting gender equality and empowerment of women, FLO International (2007b) uses an example of Fairtrade handicrafts, which are mainly made by women. Safe working conditions for employees have a possible positive

impact on development, when they induce employees to develop a sense of security, leading to creativity and increased productivity (Mann, 2008).

As part of social development, Fairtrade requires producers, particularly small-scale farmers, to form organizational structures (Renard, 2003). Organizations are required to make democratic, non-discriminatory decisions, and transparency is encouraged. Involving all members in the organizations' activities strengthens member relationships and contributes to building trust (Pierre, 2007). Social networking is also encouraged between all producers, and other actors in the Fairtrade value chain, in the form of long-term marketing contracts (FLO International, 2009). Organizational relations that are created by Fairtrade have led to claims that social capital has great importance in sustainable development (Milford, 2004; Giovanucci and Ponte, 2005). New Institutional Economics (NIE) is used to elaborate on the concept of social capital.

3.2 New Institutional Economics (NIE)

New Institutional Economics (NIE) is an economic paradigm that attempts to include the social aspects that influence economic activity in mainstream economics (Alston, 2008). Joskow (2008) defined NIE as a multidisciplinary field interested in the social, economic, historical, psychological, business and political institutions that govern daily behaviour. The various fields covered in NIE explain the broadness of the theory. Although NIE tends to borrow from various disciplines, it is primarily in the field of economics. NIE builds on Coase's 1937 article entitled _The nature of the firm,' but the term _new institutional economics' was originated by Williamson in 1975 (Kherallah and Kirsten, 2002).

NIE has its roots in old institutional economics, which was formulated as a critique of neoclassical economics (Menard and Shirley, 2005). Old institutional economics posited the importance of institutions in structuring human and economic behaviour, but it lacked a –systematic theoretical framework and empirical analysis" (Hodgson, 2000; Groenewegen, 2005). Due to the weaknesses related to old institutional economics, NIE attempts to develop a theoretical framework for institutionalism. As such, NIE accepts the economic theories that were developed by neoclassical economists and seeks to merge them into institutionalism. It extends and modifies neoclassical theory, such that institutions are analysed with –economic theory tools" (Williamson, 2000). NIE accepts

the basic assumption of scarcity between individuals, and the issues of choice and competition (North, 2004). NIE moves beyond neoclassical economics because it acknowledges the importance of institutions. Moreover, NIE discards neoclassical economics' assumption which states that actors involved in trade simultaneously maximise their gains from trade. Instead, NIE identifies disequilibria in markets, leading to market failures which require solutions that can be provided by institutions (Chhotray and Stoker, 2009).

NIE further considers issues related to policy goals, human behaviour, learning and beliefs, and identifies the influence of the social aspect on economic activities (Hodgson, 2000). It explains that economic action and decision-making is governed by shared values, norms, rules, beliefs and procedures of the formal and informal institutions of the society (North, 1990). Further, NIE encourages cooperation among economic agents in business transactions, stating that collective, rather than individual, action has potential to increase economic benefits (Klein, 1999; Coase, 2000).

Williamson (1998) sub-divided NIE into two broad categories which are: institutional environment and institutional arrangements. The institutional environment refers to the _rules of the game' that guide households' behaviour, whereas institutional arrangements refer to the _governance structures' that are designed to mediate certain economic relationships (Williamson, 1998; Kirsten and Karaan, 2009). The NIE framework is further delineated into several branches, such as transaction cost economics, property rights, economics of information and social capital and collective actions (Kherallah and Kirsten, 2002; Alston, 2008).

3.2.1 NIE Branches

There remains a debate about the definition of NIE and what falls under its banner. However, there seems to be some agreement on the different fields that are accepted under the NIE framework and these are included in the eight branches proposed by Olson and Kähkönen (2000). The branches of NIE are: new economic history, public choice and political economy, theory of collective action, law and economics, transaction cost economics, economics of information, the legal environment and property rights, and new social economics (Olson and Kähkönen, 2000; Kherallah and

Kirsten, 2002). This present study provides more detail for the new social capital and collective action branches because these are closely related to the focus of the research.

New economic history attempts to explain how and why economic and political institutions that create the economic environment evolve, develop and function over time (North, 1990; Williamson, 2008). The public choice and political economy branch of NIE is based on the rational-choice approach to politics, which supports the idea that political institutions can be explained in terms of decisive human choice (Weingast, 1996; De Gorter, 1999; Klein, 1999). The purview of the theory of collective action explains how people with the same interests use collective action to achieve common goals (Ostrom, 1990; Kherallah and Kirsten, 2002; Shiferaw *et al,* 2009). The law and economics branch, also known as the _economic analysis of law', has been developed to allow the application of economic analysis to the field of law and regulations (Posner, 1998; Harnay and Marciano, 2009). The economics theory of transaction costs focuses on micro-analytic methods, paying attention to the institutional arrangements that sustain and monitor transactions (Williamson, 2000; Menard, 2004). Central to the economics of information branch of NIE is the point that searching for market information involves some costs (Stiglitz, 2006). The legal environment and property rights branch involves the application of economics to the design of legal rules and the legal system (Hart and Moore, 2006). The new social economics branch involves the formal and informal rules that structure social conduct (DeFilippis, 2001; Keefer and Knack, 2005).

Theory of collective action

The theory of collective action is useful in analysing and devising possible ways of overcoming the free-rider challenges in cooperative relations, and it can provide solutions on how to manage common-pool resources or public goods, such as land and water (Kherallah and Kirsten, 2002). Shiferaw *et al* (2009) used the theory to investigate the use of water in semi-Arid India. Factors that determine the success of collective action have been noted and they include group size, its homogeneity and purpose of forming the group. Ostrom (1990) identified institutional arrangements, such as customs and social conventions, as possible solutions for overcoming collective action challenges.

New social economics

New social economics makes a distinction between informal institutions and formal institutions, where the former refer to non-legal rules that are enforced by peers and these include norms, traditions, customs, value systems, religions and sociological trends (Kherallah and Kirsten, 2002). Informal rules are usually taken as exogenous factors because they change slowly and may involve agreements or habits that last a long time, even if they have become less suitable. North (1990) suggested that the governing structure is overwhelmingly defined by informal rules, because once they are established, they constrain individual actors. Formal rules refer to legal rules such as laws, contracts, constitutions, political systems and markets. The formal rules are usually enforced by the government. North (1990) is of the view that the law can only shape the outcome of private bargaining by serving as a backup mechanism for resolving disputes that cannot be resolved privately.

NIE, as highlighted in its _new social economics' and _theory of collective action' branches, emphasizes the importance of social norms and cooperative action. These are predicted to have an influence on the economic prosperity enjoyed by households and nations (North, 1990). In fact, there is ample evidence to support the idea that social norms encouraging cooperative relations have a significant impact on community development (Putnam, 1993; Siisiäinen, 2000; DeFilippis, 2001; Keefer and Knack, 2005). However, much of the evidence is found in research conducted in the _social capital' field, from which NIE seems to borrow some concepts. For that reason, it is worth reviewing the main ideas underlining social capital, paying attention to the role of norms and institutions in economic development.

3.2.2 The Social Capital concept

The appeal of the theory of social capital stems from its ability to integrate sociology and economics. NIE, through incorporating social capital into its framework, has earned some attention in the literature of the social sciences (Joskow, 2008) and in economic development issues (Groenewegen, 2005). The theory of social capital in NIE is concerned with how economic performance and human wellbeing can be improved through an understanding of people's preferences, perceptions, beliefs, incentives and decisions (North, 2004). In other words, NIE recognizes the need to explain how economic behaviour can be influenced by social networks.

There are various views and definitions attached to the concept of social capital. Words used to define social capital range from social glue, community spirit, social bonds, community networks, social ozone, social resources, informal and formal networks and community life, amongst others (Schuller *et al,* 2000; National Statistics, 2001; North, 2004; Joskow, 2008). Claridge (2004) explains that the use of different conceptualisations of social capital closely depends on the different theoretical backgrounds. The early attempts to identify the theory of social capital are associated with Bourdieu (1986), Coleman (1988) and Putnam (1993).

3.2.3 Integration of Social Capital concepts for analysis

There are various definitions for social capital; therefore, it is important to choose specific views, which are suited for a certain study. This study investigates whether social capital, which exists under Fairtrade, is important for sustainable community development. Putnam‘s (1993; 2000) work on social capital is highly related to development and therefore proves useful. However, it is worthwhile to give a summary of how social capital is defined by other authors, and be able to justify the reason for using a certain conceptualization.

3.2.3.1 Overview of Social Capital

What can be gathered from the three pioneer authors of social capital is that social networks are an important resource. It is argued that social capital creates a sense of belonging amongst individuals, which motivates them to work towards a set goal. If managed properly, social capital brings along benefits, which will accrue either to individuals or to communities (Bourdieu, 1986; Coleman, 1988; Putnam, 1993).

Bourdieu defines social capital as:

> ―The aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition …. The volume of social capital possessed by a given agent … depends on the size of the network of connections that he can effectively mobilize” (Bourdieu, 1986: 248-249).

Bourdieu‘s definition identifies social capital as a resource that is associated with networks and group memberships, where it is considered to have an influence on other

forms of capital (Siisiäinen, 2000). Bourdieu (1986) explains that people join groups in order to work towards a specific objective, or else different groups are formed.

The definition provided by Coleman (1990) states that:

> „Social capital is defined by its function. It is not a single entity, but a variety of different entities having two characteristics in common: They all consist of some aspect of social structure, and they facilitate certain actions of individuals who are within the structure" (Coleman, 1990: 302).

Although Coleman's conceptualization of social capital is based on its functional dimension, it suggests that social capital helps facilitate action in groups. Thus, social groups enable individuals to perform certain actions over and above those that can be achieved independently (Adam and Roncevic, 2003).

Putnam (1993) defines social capital as:

> „Social connections or networks, norms and trust, all of which can facilitate cooperation and coordinated actions in society and ultimately have effects on economic performance" (Putnam, 1993: 167).

Putnam's conceptualization of social capital explains that cohesion of the community based on a set of social networks, which in turn, are built on trust and norms, foster the pursuit of shared objectives (Putnam, 1993; 2000; Halpern, 2009).

Putnam, Coleman and Bourdieu agree on the importance of social capital, but they present the concept from different and sometimes conflicting points of view. Bourdieu applies the social capital concept in class struggles, where social capital strengthens the power of the elite group (Bourdieu, 1986; 2000). On the other hand, Coleman identifies the importance of social capital to both the privileged and the disadvantaged groups, but he bases the definition of social capital on its functionality (Coleman, 1990). Portes (1998) explains that there are other factors influencing functionality, such as physical capital. Therefore, Coleman's view of social capital is weakened because the outcomes of social capital are also influenced by other factors. Bourdieu (1986) and Coleman (1988) agree on certain aspects but disagree with Putnam (1993). Bourdieu and Coleman argue that social capital is embedded in people's social relationships, rather than embodied in people. Conversely, Putnam argues that social capital is a resource that is possessed by groups of people and its benefits are realized by the

community at large (DeFilippis, 2001). There exists empirical evidence to support Putnam‘s argument (Worthington and Dollery, 2000; Halpern, 2009; Dasgupta, 2009). Halpern (2009) identified that communities with a ‗good stock‘ of social capital enjoy high economic growth. The World Bank (1999) found social cohesion to be an important determinant of economic growth and sustainable development. Based on these and other results, which are related to social capital and community development, Putnam‘s work is seen as an important reference point when relating social capital to community and economic development. As such, Putnam‘s ideas are used in this study to assess the usefulness of Fairtrade social capital to rural development.

Putnam‘s views of social capital are useful for analysing community development, but they also have some weaknesses. Putnam (1995) creates the impression that social capital only brings benefits. Much of Putnam‘s discussion treats social capital as inducing cooperative relations, which lead to positive outcomes. His views omit the potential negative impacts of social capital (Field, 2003). The World Bank (1999) provides evidence showing that social capital can be used by organizations and groups with cooperative relations to eliminate and subordinate others. Bourdieu and Coleman do however identify the possible problems associated with social capital (Coleman, 1990; Bourdieu, 2000). Coleman further explains that social capital also affects people, other than those participating directly in social groups (Schuller *et al*, 2000).

Putnam’s conceptualization of Social Capital

Robert Putnam was the first author to relate social capital to community development, and he is believed to be the most influential in that field. As such, he is generally noted for popularizing social capital and its relationship to economic growth (DeFilippis, 2001; Keefer and Knack, 2005).

Putnam‘s conceptualization of social capital embraces three core features, which are:
(a) *social networks,* made up of a group of individuals who work towards certain goals;
(b) *norms*, representing the rules governing the networks; and
(c) *trustworthiness,* arising from norms and repeated exchanges, which fosters cohesion among people.

Putnam (1995) explains that inter-relations between individuals translate to economic development and provide mutual benefits to the economies of the participants involved. In relation to development, Putnam (1993) regards social capital as an indispensable ingredient for rural development. He further identified and explained four reasons why social capital is important. Firstly, social capital permits citizens collectively to resolve their conflicts; secondly, social capital helps reduce transaction costs; thirdly, social capital enables people to test the veracity of their views and be able to improve; and lastly, social capital acts as the channel for the flow of useful information that aids in achieving set goals (Putnam, 2000; Halpern, 2009).

3.2.3.2 Social capital and the principal-agent theory

The principal/agent[11] theory stresses the understanding of social capital within an organization, as it focuses on the relationship between the agent and the principal in one organization (Kešeljevič, 2007). The principal/agent theory explains rational behaviour between individuals engaging in a contractual relationship while pursuing their own interests. These individuals have different amounts of information at their disposal, where agents have access to a larger amount of information as compared to principals, which possibly gives rise to a problem of opportunism (Jones, 1999). However, the opportunistic behaviour can be prevented by appropriate agreements and market control. In addition, trust needs to be created between the principal and the agent, which in turn, increases mutual benefits, facilitates knowledge transfer, reduces the problem of control and increases the sustainability of the organization (Furubotn and Richter, 2000; Collier, 1998). In this study, the principal/agent construct is analysed by looking at farm level relationships, thus between farm workers and farm owners, and between cooperative management and cooperative members. These relationships have an influence on the farming activities and yields, hence their participation in Fairtrade. For example, if farm workers are not motivated to produce Fairtrade quality produce, they can pursue their own interests, other than those of the farm owner. As a result, participation in Fairtrade can be compromised.

[11] An agent is a person or entity that negotiates or acts on behalf of another (principal), for example, a farm worker, and a principal is the person or entity with higher authority who assigns duties to the agent (Kešeljevič, 2007).

3.2.3.3 Measures of social capital adopted in the study

The availability of varied definitions for the social capital concept, and its multidimensional nature makes it difficult to measure social capital directly. However, the presence of social capital can be inferred from its effects. Therefore, social capital indicators can be used for measuring the existence of social capital (Adam and Roncevic, 2003). The proximal indicators that are used in this study are sometimes referred to as the ‗Putnam instrument' of social capital. The instrument includes four indicators, namely, networks formed for a specific goal, membership in voluntary associations, trusting in, and trustworthiness of people and institutions, and norms of reciprocity (Adam and Roncevic, 2003; Claridge, 2004).

3.3 Local economic development (LED)

Fairtrade claims to influence economic development of local communities through offering premiums that are directed towards development projects (FLO International, 2007b). In order to examine these claims, this research uses the LED theory. The reasons why Fairtrade lends itself to investigation through a LED lens are; LED and Fairtrade are aimed at influencing development, and they both support cooperation of economic agents, in order to achieve their goals (Nel and Rogerson, 2007; Raynolds *et al*, 2007).

Local economic development (LED) may be defined as a process of increasing the economic capacity of a locality to create wealth for, and improve the economic future of, all local people residing in a certain area or community, including the poor and the marginalized (Bartik, 2003). In order to stimulate the economic increase, it is required that local resources, such as land and labour are used more productively. For example, a project that promotes local job growth in a specific area and makes use of unemployed labour stimulates economic development of a locality (Blair and Carroll, 2008). It is worth noting that LED projects encourage the use of resources for economic growth of a defined geographic area, but the resources need to be used in a sustainable way (Nel, 2001). A more formal LED definition that can be used is:

> ―LED is essentially a process in which local governments and/or community based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each other, to create new jobs and stimulate economic activity in an economic area" (Zaaijer and Sara, 1993: 129).

As highlighted in the definition, the LED process involves collective action between local public and private economic actors, in pursuance of creating a favourable environment for local economic growth and development. LED is driven by the local communities, unlike former capital-intensive development projects, which were imposed at national level (Rogerson, 2008). Different actors, such as community groups, local government, NGOs and private companies are encouraged to establish partnerships, which allow them to work together on LED projects. Development projects, which are proposed by the community, are required to follow a plan that enables the creation of community growth that can serve the short-run and long-run interests of the local population (Stöhr, 1990; Zaaijer and Sara, 1993). Similarly, Bingham and Mier (1993) defined LED as a process of creating jobs and wealth for the local communities, through combining different concepts and tools. Thus, collaboration is emphasized, and communities are expected to develop economically because of combined efforts. In sum, LED can be seen as a participatory process that combines efforts from different community participants, in stimulating local commercial activities that build a sustainable economy. Local participants are able to share ideas, materializing as community development.

The LED process can arise when individual people or agencies take an initiative and become involved in certain actions that encourage unity in communities and businesses in a local area. Their main goal should be directed towards improving economic and social conditions (McQuaid, 1997). Through LED, local stakeholders involved in community projects are encouraged to jointly design and implement a development strategy. Together, the stakeholders examine their opportunities for improving their economic base, weigh their strengths and resources, and then assume a key initiating role in local development. Thus, stakeholders collaboratively attempt to find solutions to common local economic challenges. Under such instances, LED can be seen as a process of improving an area‘s productivity factors by investing in the comparative and competitive advantages of the community (Clarke and Gaile, 1998; Stiglitz, 2006).

In private businesses, the participants are encouraged to synchronize and jointly develop the economic base of the community, rather than focus only on individual profits. When businesses and communities work together, the LED process involves a movement away from bureaucratic procedures towards decentralization and bottom-up approaches.

In such systems, all the participants, even grassroots workers, are involved in decision-making, where they are motivated to suggest ways of strengthening the competitiveness of the businesses for local development (McQuaid, 1997). The bottom-up approach is encouraged because it is assumed to utilize local resources and capacities, as it uses ideas from different people. Workers‘ skills may be improved, as well as their motivation, when they are involved in decision-making (Turok, 2005). Therefore, LED processes are argued to empower participants to utilize effectively business enterprises, in order to achieve local development and growth (Blair and Carroll, 2008). The LED ideas seem useful in coordinating businesses, but the evidence in South Africa shows the failure of many LED projects in rural areas due to lack of a market-driven approach (Rogerson, 2008). Nel (2001) explains that LED projects need to be profitable for individual businesses for them to be sustainable in the long-run. Moreover, a bottom-up approach can delay decision-making, and it can be difficult to involve all parties when making decision, due to lack of human capital at local level (Nel and Rogerson, 2007).

3.3.1 Goals and components of LED

Local economic development is achieved when a project is able to preserve and increase a community‘s standard of living. This is made possible by a process of human, economic and physical development, which is based on principles of sustainability (Malizia and Feser, 1999; Bartik, 2003). In terms of employment, it is not only the number of jobs created that matters, but jobs that provide wages high enough to allow households to move out of poverty. When firms invest in an area to make use of cheap labour, thereby generating low-wage jobs, the World Bank (2009) argues that these firms do not raise the communities‘ standard of living and neither do they build a foundation for sustainable development. Therefore, it is argued that LED projects should create jobs that improve the living standards of the existing and future populace and should build institutions that expand the potential of the population. In addition, an increase in living standards is associated with an improvement in housing, educational and medical facilities (Wolman and Stoker, 1992; Malizia and Feser, 1999).

LED seeks to achieve a number of objectives including human empowerment, job creation, community development, broad economic development and growth, growth in economic diversification, and positioning a locality as a vibrant entity for sustainable

development. To achieve its objectives in a certain community, LED makes use of natural, human and institutional resources that are available in that locality (Nel and Rogerson, 2007). Blakely and Leigh (2010) identified four main goals of LED and explained that all the other goals form part of these. The goals are:

1) Provision of quality jobs for the local population
2) Achieving local economic stability
3) Building a diverse economic and employment base, and
4) Promoting local sustainability (Blakely and Leigh, 2010)

For an LED project to be successful, it should be able to achieve all the four goals. However, there are diversified strategies for reaching the goals, based on different geographical scales. Communities may choose to use either market-led approaches (aimed at business development) or bottom-up approaches (aimed at community development). In each case, they decide whether to direct their resources towards physical planning, natural resources or business and marketing development (Rogerson, 2008; Blakely and Leigh, 2010). Considering that each local area has a unique economic base and institutions, strengths and opportunities are likely to be different, as are the development strategies. It does not matter what development strategy is followed, as long as the strategy is designed to meet the specific needs of each locality sustainably (World Bank, 2009). For rural communities in South Africa, bottom-up approaches have been common because poorer communities are often excluded from market-led approaches. However, empirical evidence shows that the choices of bottom-up approaches used in the rural areas have not been very successful (Nel, 2001). The strategies for LED need to be chosen based on a joint consideration of resources and capacity of the community. Economic theories that support the rationale of LED summarize components that influence development in a form of an equation (Blakely and Leigh, 2010). The equation is expressed as:

Local and regional development = c x r

Where c represents an area‘s economic, technological, social and political capacity and r represents the area‘s resources. The resources may include natural and human, capital, transportation and communication links, and entrepreneurial climate, among others (Malizia and Feser, 1999; Blakely and Leigh, 2010). The factors that influence community development are divided into four categories as shown in table 3.1.

Table 3.1: Components of Local Economic development

Component	Concept
Locality	A high quality environment and strong community capacity multiply natural advantages for economic growth
Business and economic base	Clusters of competitive industries linked in a regional network of all types of firms create new growth and income
Employment resources	Comprehensive skill development and technological innovation lead to good quality jobs and higher wages
Community resources	Collaborative partnerships of many community groups are needed to establish a broad foundation for competitive industries

Source: Blakely and Leigh (2010)

3.3.2 Overview of LED in South Africa

The LED framework is believed to have its origins in the global North and is thought to have developed as a response to liberalization and privatization. Evidence proves that since the initiation of the LED framework, it has been widely accepted as a development strategy in a number of global North countries where it is used at both community and local government levels (Simon, 2003; World Bank, 2009). On the other hand, the implementation of LED is still minimal in global South countries, including South Africa (Nel *et al*, 2009).

In the South African context, LED is motivated by high levels of poverty, underutilization of human potential and the need to address the country‘s apartheid legacy. As such, LED tends to focus on pro-poor strategies, and the national state offers significant support to local government projects aimed at alleviating poverty (Rogerson, 2008). The pro-poor motive to implement the LED policy is additional to other common international motives of growth in employment and wealth as a response to globalization, liberalization and deindustrialization (Nel, 2001).

LED in South Africa involves decentralization of power and resources from the central government to local governments. The national government has recognised the role of local governments as agents of change in their localities. As such, local governments

were given the task of responding to the development needs of their localities. It is believed that decentralization of tasks allows for developments that are well suited to specific local areas and stakeholders. The strategy is based on the idea that governments at local level are more informed about their local situations and needs, as compared to the central governments. Therefore, development strategies implemented at local level have a possibility of bringing about more local economic improvements, which may positively impact economic development at national level (Simon, 2003; Rogerson and Nel, 2005). Although local governments play a central role in policymaking and as public institutions in South Africa, other local groups such as NGOs, community groups and private companies, are equally involved in local economic development. LED can occur through private or community-level initiatives alone, or together with local governments (Rogerson, 2006; Nel *et al*, 2009).

Four alternatives of LED currently functional in South Africa, as identified by Nel (2001) are:

a) Local Government-led LED: In this case, a local authority is elected and is expected to be the main agent in developmental projects.
b) NGO- or Community-led LED: Within this variant, NGOs or Communities take the leading role.
c) Development Corporation or Section 21 Initiatives: Includes development agencies which may have been specifically chosen by local government to pursue LED.
d) Top-down LED: Government or external resources are directed towards a specific area, to mobilize LED. This type of LED is aimed at helping disempowered communities, especially those lacking resources and leadership capacity.

3.3.3 Growth of LED policy in South Africa

The application of LED policy in South Africa commenced with the 1994 Reconstruction and Development Programme (RDP). During that time, it was focussed on small towns and rural areas where support was offered for community-based development and locality based initiatives. The developmental role of local government in RDP was initiated by the national Department of Provincial and Local Government (DPLG) and stated in the 1996 Constitution. Therefore, LED activity in South Africa

was formally adopted as legislation in 1996. DPLG directed LED activities towards poverty alleviation (Nel and Rogerson, 2007). After its initiation, LED has been sustained by several policy measures. After 1996, the legislative context for LED was further emphasized in the 1998 Local Government White Paper. The document stated the role of local governments in working with „citizens and groups of organizations within a community to find sustainable ways of meeting social, economic and material needs, and help improve people's wellbeing" (RSA, White Paper on Local Government, 1998). Thus, the local governments were expected to facilitate economic and social conditions of localities towards creating employment opportunities.

The 2000 Local Government Municipal Systems Act followed, which contained the statutory principles and duties of municipalities. The major component of the Act is that it required all municipalities to engage in „Integrated Development Planning (IDP)" (Nel, 2001). IDP was conceived as a tool for assisting local authorities in achieving their mandated development goals. The IDP definition provided by DPLG (2000) is:

> „Integrated Development Planning is a participatory approach to integrate economic, sectoral, spatial, social, institutional, environmental and fiscal strategies in order to support the optimal allocation of scarce resources between sectors and geographical areas and across the population in a manner that provides sustainable growth, equity and the empowerment of the poor and the marginalized" (DPLG, 2000: 15).

Apart from focussing on small towns and rural areas, LED was applied in major urban areas. By 2001, major urban areas had formed LED Units and Economic Development Departments to work towards economic development. They received support from the Department of Trade and Industry (DTI) and other initiatives from the private sector, NGOs and communities were developed to support economic growth and to alleviate poverty (Nel and Binns, 2001; Rogerson, 2006; Xuza, 2007). In 2002, the LED policy was mainly directed towards supporting the poor, as was specified in the document entitled „Refocusing Development on the Poor' (DPLG, 2000). LED targeted the marginalized as well as low-income communities, even though LED projects were also operational in wealthier urban municipalities.

During the period from 1994 to 2004, LED was authorized, but local authorities received minimal guidance and there were no policy documents highlighting how to implement LED. Some municipalities were not sure what LED really meant and what was supposed to be done. In some cases, the provincial government took over the role of leading LED activities (Meyer-Stamer, 2004; Marais and Botes, 2007; Nel and Rogerson, 2007). As a way of addressing the problems, a basis for reconstituting the role of local authorities in LED was provided in the 2005 Policy Guidelines and the 2006 National Policy Framework (DPLG, 2006). The 2005 and 2006 policy documents provided a set of LED guidelines for local authorities. It contained four themes, namely, promoting competitive economies, good governance, enterprise development, and the informal economic sector (second economy). The 2006 policy document was identified by Nel and Rogerson (2007) as demonstrating a new policy maturity surrounding LED in South Africa. The new policy maturity provided a basis for combining LED activities and planning. As a result of the 2005 and 2006 policy initiatives, the period 2005-2007 is considered a positive turning point in the development of LED in South Africa. Even though there are noted developmental changes, Nel *et al*, (2009) state that LED in South Africa remains unevenly developed in different areas. Notable divisions are seen in policy development, LED institutionalization and applied practice between major urban municipalities, small urban areas and rural areas (Rogerson, 2006).

A general view of LED in South Africa points out that LED seems to be more successful in urban areas where market-based approaches are followed. On the other hand, there is noticeable LED failure in rural areas, particularly in poor communities, which are excluded from using market-based approaches (Nel and Rogerson, 2007). Market-based approaches are biased to urban areas because rural areas are faced with problems related to lack of proper infrastructure, lack of human capital and poorly developed markets and networks. The Frances Baard District can be used as an example where LED has not been very successful, due to lack of project funding, skills and resources (Rossouw-Brink, 2007). In the Free State, LED also shows a limited success rate. LED projects in the Dihlabeng and Xhariep areas, were poorly managed and lacked financial support from the municipalities, which limited the long-term viability of such projects (Davies, 2006).

Differences in LED strategies and outcomes have raised debates as to whether local strategies applied in South Africa are working and generating pro-poor development, or are causing more uneven development (Marais and Botes, 2007; Xuza, 2007; Nel *et al*, 2009). Irrespective of the debates, LED is still useful because it has contributed to local economic growth in some areas in South Africa. For example, Nel and McQuaid (2002) use the LED initiative in Stutterheim to show the usefulness of LED in supporting locality-based development for disadvantaged and poor communities. The study reveals the importance of social and human capital development relative to business environment and physical infrastructure. However, there is a need to rethink the LED strategy, in order to include the majority of rural communities in market-based approaches, and identify areas which need intervention. Possible ways of improving LED can be through encouraging private businesses, community-based projects and NGOs to be actively involved in LED issues (Rossouw-Brink, 2007; Blakely and Leigh, 2010).

3.3.4 Integration of LED Concepts for Analysis

South African LED is mainly aimed at alleviating poverty. Similarly, Fairtrade seeks to improve the welfare of people and their communities through marketing. Although Fairtrade is not a government initiative, it has the possibility of improving local economies, which may qualify it to be analysed in the LED context. As already pointed out, market-based LED approaches have proved to bring more successful results in South Africa, Fairtrade may be used as a LED market-based approach for rural communities. Evidence from a Bolivian coffee cooperative demonstrates how Fairtrade successfully contributed towards local economic development in the Yungas Mountains. Some of the developments that were brought about by Fairtrade in the area include creation of new sources of employment and improvement in educational infrastructure (Imhof and Lee, 2007).

The similarities in LED and Fairtrade goals allow one to analyze Fairtrade using LED concepts. As highlighted earlier, LED requires that local people propose development paths that are well suited to their areas. This concept will be applied to communities where Fairtrade is operational, looking at how the premium money is used for development. The role of local Fairtrade participants in suggesting possible community improvement strategies, which make use of the premium money, is investigated. Also,

the usefulness of the LED concept of the bottom-up approach is evaluated in Fairtrade organizations.

3.4 Conclusion

This chapter presented the theoretical framework of the study. Fairtrade‘s claims to achieve sustainability were discussed. In the study, sustainability includes economic, environmental and social aspects, which have to be mutually reinforcing (Daly, 1996). The Fairtrade standards, which claim to encompass the three pillars of sustainability, is used as a measure. It will be investigated whether or not Fairtrade in South Africa is able to contribute to the social, economic and environmental development of the members and their communities.

The theory behind NIE and LED frameworks was reviewed. NIE places great emphasis on the importance of social capital and LED highlights the importance of locality in economic development. Fairtrade social capital is in the form of Fairtrade cooperatives and long-term relationships in the value chain. Fairtrade has similar objectives to LED initiatives in South Africa, and can therefore be seen as a possible LED market-based approach that can be used in rural communities. Before applying NIE and LED frameworks to investigate Fairtrade in South Africa, it is useful to give an overview of the environment in which Fairtrade producers under investigation exist. The next chapter discusses key characteristics of South Africa and Fairtrade in the country‘s context.

CHAPTER 4
FAIRTRADE IN THE SOUTH AFRICAN CONTEXT

South Africa is a relatively new participant in Fairtrade, but is seen increasing numbers of agricultural producers certified by Fairtrade, particularly for wine and fresh fruit. Fairtrade has also spread to non-agricultural sectors such as tourism and crafts in the country. Regardless of the growth, South Africa still captures a tiny section of the global Fairtrade market (FLO International, 2009). Fairtrade in South Africa has additional goals to its international ones, where it is aimed at addressing social and economic imbalances brought about by the apartheid legacy in the country. Therefore, the Fairtrade standards in the country are designed to include measurements of the national Black Economic Empowerment (BEE) policy (Raynolds and Ngcwangu, 2009). This chapter gives an account of Fairtrade in South Africa. It starts by giving an overview of the country, including its geographic location and economic conditions. Further, the chapter discusses the conditions of agriculture in South Africa and its contribution to gross domestic product (GDP) and employment. Fairtrade in different sectors of South Africa is then discussed, pointing out government initiatives that are linked to Fairtrade.

4.1 Overview of South Africa

South Africa is an emerging economy, and had an estimated population of 49.32 million, as of mid 2009 (StatsSA, 2010). As compared to other African countries, South Africa has a relatively developed economy with well-developed infrastructure and good transportation links. For that reason, the country is sometimes used as a gateway to a number of African markets (SACCI, 2010). In addition, South Africa plays a significant role in supporting trade, investment and growth on the continent (StatsSA, 2010). Although South Africa‘s economy is more developed than many other African countries, it has a marked duality. A developed financial and industrial economy coexists with an underdeveloped informal economy. The economic duality in the country is partly a result of apartheid rules, which were operational prior to 1994, where the white minority had complete political power over the black and coloured majority (IMF, 2010). Apartheid was abolished in 1994, but its effects remain evident, where the majority of black South Africans are vulnerable to poverty, unemployment and hunger (Magruder, 2010). In addition, income, wealth and development are unevenly

distributed among households (Snowball and Courtney, 2010). The figures provided in mid-2010 show that the country has a Gini[12] coefficient index of 0.679 (StatsSA, 2010).

4.1.1 Geographic characteristics

South Africa is located on the southern tip of Africa, and has an area of 1.22 million km^2 (Odedina and Afullo, 2008). Generally, South Africa has a temperate climate, but specific climatic conditions vary with different locations. The climate ranges from Mediterranean in the south-west region of the country, to temperate in the interior plateau and subtropical in the northeast. There is also a small area in the northwest which has a desert climate (Fènyes and Meyer, 2003; Ross, 2009).

South Africa‘s summer, like all countries in the Southern hemisphere, occurs from December to March, autumn from April to May, winter from June to August and spring from September to November (Odedina and Afullo, 2008). The seasons in the Southern hemisphere are opposite of those in the Northern Hemisphere, thus, the Southern hemisphere experiences winter at the time when the Northern hemisphere experiences summer. This difference in the times of the season contributes towards reducing market competition between agricultural produce, particularly fresh fruits, from the Southern and Northern hemispheres. It also allows for the availability of fresh produce in the market all year round (Goetz and Grethe, 2010). In other words, producers in the Southern hemisphere have a chance of exploiting out of season markets in the Northern hemisphere. Getting supplies from the South during the North‘s off-season period gives an opportunity to Southern producers for receiving higher prices on produce as compared to supplying during the season (Götz and von Cramon-Taubadel, 2008).

South Africa as a whole has a mean annual rainfall of 502mm, which is well below the world average of 857mm (Odedina and Afullo, 2008). It experiences a considerable variation in the annual average amount of rainfall, from the west to the east part of the country. The northwest often receives annual rainfall below 200mm, whereas the eastern Highveld receives between 500mm and 900mm. Areas which are to the far east of the country, in KwaZulu-Natal and Mpumalanga provinces occasionally receive

[12] The Gini coefficient is a summary statistic of income inequality that varies from 0 (in the case of perfect equality where all households earn equal income) to 1 (in the case where one household earns all the income and other households earn nothing).

more than 2 000mm of rainfall per year (Wessels *et al*, 2007). As a result of different rainfall conditions, vegetation types vary in the country, ranging from sparse shrubs and acacia trees in the northwest region, to a dense bush savannah in the northeast region and a forest vegetation in the humid coastal of KwaZulu-Natal (van der Merwe and van Niekerk, 2006). The types of agriculture practised in different parts of the country also vary, as influenced by climatic conditions (Lindesay, 2009).

4.1.2 Economic aspects

Based on *per capita* terms, South Africa is an upper-middle income nation (StatsSA, 2010). From 1999 to 2007, the country‘s economy had been in an upward phase of the business cycle, with a GDP growth rate of 5.4% in 2006, which is the highest recorded value since 1981 (SACCI, 2010). However, South Africa‘s real gross domestic product (GDP) growth (Figure 4.1) has shown a significant decline from 2007 to 2009 due to the global financial crisis (StatsSA, 2009; Global Economics, 2010). South Africa experienced a growth deceleration of more than 5% from 2007 to 2009. The decline mainly affected the manufacturing and mining industries of the country, where a drop in export demand led to a sharp decrease in private investment and subsequently, less employment (SACCI, 2010). Nevertheless, South Africa showed signs of recovery from the downturn, starting from the fourth quarter of 2009 and in 2010 (StatsSA, 2010). In 2011, economic growth is positive, but declined as compared to the previous year (Global Economics, 2011).

Developed countries were also negatively affected by the financial crisis in 2009 (Annual GDP growth rates shown in Appendix 8), which has a potential negative effect on South Africa‘s economic growth. As developed countries become more concerned with their own growth problems, and as households in developed countries reduce the consumption of certain goods (Kenc and Dibooglu, 2010), there is likely to be a contraction in markets for South Africa‘s exports, and a reduction in earnings from export commodities. These changes potentially undermine long-term development of South Africa (Crotty, 2009).

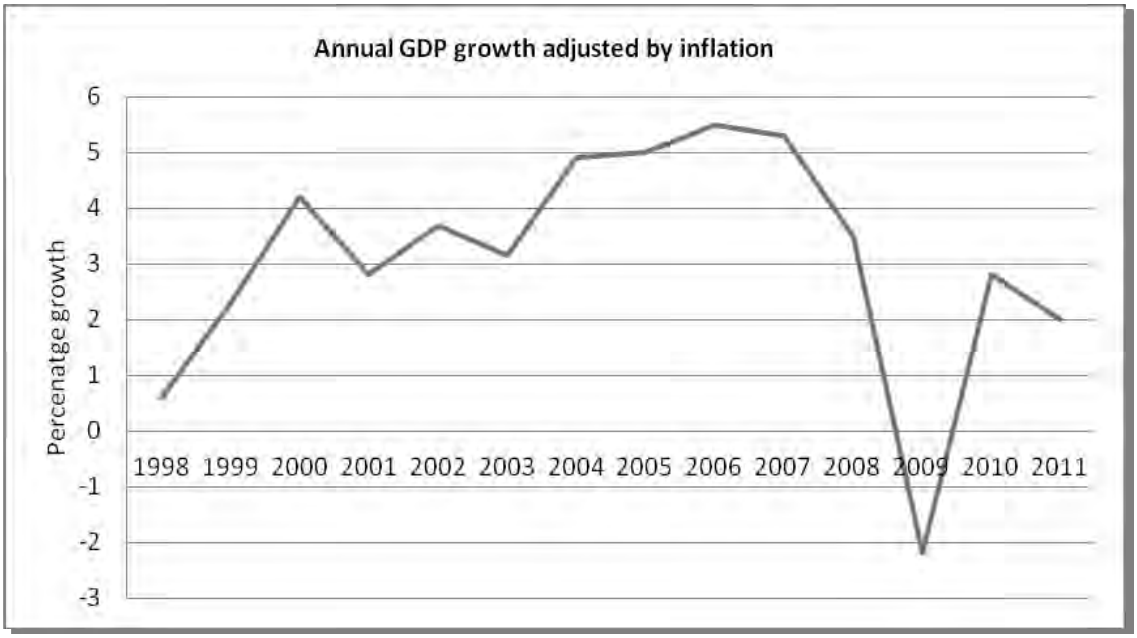


Figure 4.1: South Africa GDP growth rate

Source: Source: Global Economics (2011)

In general, the IMF (2009) rates South Africa's economy as relatively stable, showing growth, although the country's economic growth occurs on a canvas of unemployment, poverty and wealth disparities.

Third quarter 2011 statistics shows that South African unemployment[13] rate is 25% (StatsSA, 2011). Unemployment is high among the black South Africans, with an unemployment rate of 41.2%, while 5.1% of the white South Africans and 19.8% of the mixed-race (coloured) population are unemployed (IMF, 2009). The year-on-year comparisons show that the number of unemployed persons increased by 292 000 in 2009 and 46 000 in 2011. In 2009, the annual increase in unemployment was 18.1% (327 000) among men and a decrease of 1.8% (37 000) among women (StatsSA, 2010; 2011). Sectors that showed a significant loss of employment in 2009 (during the financial crisis) included agriculture, with a job loss of 38 000 people between the third and fourth quarters of 2009. Between the fourth quarter of 2009 and first quarter of 2010, the agricultural sector showed a 5.7% increase in employment whilst employment continued to decrease in other sectors (Table 4.1). An increase in the number of persons employed in the agricultural sector between 2009 and 2010 indicates that the sector has

[13] Unemployment rate based on a narrow definition of unemployment, which includes only those who are willing to work and are actively searching for jobs

potential to increase employment in the country, particularly among the rural population.

Table 4.1: Employment Distribution in South Africa by industry

YEAR	Oct-Dec 2008	Jul-Sep 2009	Oct-Dec 2009	Jan-March 2010	Jul-Sep 2011
		Thousands			
Total	**13 844**	**12 885**	**12 974**	**12 814**	**13 318**
Agriculture	764	653	615	650	624
Mining	321	299	296	296	324
Manufacturing	1 944	1 723	1 742	1 709	1 737
Utilities	86	81	98	70	73
Construction	1 191	1 057	1 085	1 021	1 086
Trade	3 164	2 852	2 873	2 825	3012
Transport	774	737	739	767	756
Finance	1 636	1 682	1 759	1 633	1 768
Community and social service	2 661	2 627	2 628	2 657	2 836
Private Households	1 298	1 166	1 135	1 189	1098

Source: StatsSA (2011)

According to the UNDP (2009), 42.9% of South Africans live below the poverty line of USD$2 per day. In 2009, the richest 10% of households, equal to 7% of national population, earned 40% of national income, while the poorest 40% of households earned 11% of national income (Bhorat and van der Westhuizen, 2009). The majority (72%) of people living in poverty are located in the rural areas, and 45% of the total population of South Africa is rural. While poverty in South Africa is not confined to any one racial group, it is concentrated among the black population, who also have lower educational and skills levels (Klasen and Woolard, 2009). The government‘s efforts to encourage participation of black population in the economy has so far shown limited progress, firstly, because employment creation in the country has failed to keep up with the growing labour force, and secondly, the restructuring of industry has shifted employment to more skilled jobs (Ponte *et al*, 2007; Melkeraaen, 2009).

The IMF (2009) suggested that poverty and unemployment challenges in South Africa could be overcome by integrating previously disadvantaged households into economic activities, particularly through trading activities. Activities, which directly involve the rural population, stand a higher chance of benefiting the poor, rather than depending on trickle down effects of economic growth (van den Brink *et al*, 2009). With the same views, Fraser *et al* (2003: 182) identified the need ~~to~~ develop policies and programmes capable of supporting what poor people already do, which will require a multidisciplinary approach with well co-ordinated and targeted interventions." For that reason, prioritizing development of the agricultural sector has potential to improve food security, rural incomes and employment because most rural households already have some farming background knowledge (Fraser *et al,* 2003).

4.2 Agriculture in South Africa

South Africa has approximately 100 million hectares (ha) of agricultural land of which 17 million ha is viable for arable farming, and 4 million ha is classified as high potential arable land (Fènyes and Meyer, 2003). The remainder of the land faces challenges of poor soil content, soil erosion and degradation, but is used for other agricultural activities. Seventy-two million hectares of the land is used for extensive grazing (Fènyes and Meyer, 2003). Areas with most arable land include the Western Cape, Mpumalanga, Free State, North West and Gauteng provinces, but KwaZulu-Natal and Mpumalanga have most of the high potential arable land (Vink and Kirsten, 2003). Amongst other challenges, the main factor limiting agricultural potential in South Africa is the availability of water for production purposes. Irrigation may seem like an obvious means of supplementing rainfall in order to improve soil moisture and increase productivity in the country. However, increasing irrigation in other areas may not work for South Africa because all of the irrigable land (estimated at 1.2% of the country) is already cultivated under irrigation. Irrigation has already expanded into unsuitable areas and is now negatively affecting the environment (Nell and van den Berg, 2001; van den Brink *et al*, 2009).

South Africa is self-sufficient in major agricultural commodities and even supplies some export markets (DAS, 2009). Nonetheless, the agricultural sector, like the country's economic structure has a marked duality, comprised of a well-developed commercial sector and a subsistence-oriented small-scale sector. As a result, most of the

agricultural produce, especially for export, comes from the commercial sector rather than the small-scale sector (Duncker *et al*, 2007).

Agricultural activities in South Africa include crop production, horticulture and livestock farming. Livestock farming in South Africa includes cattle ranching and sheep farming in semi-arid areas of the country, mainly the southern and western interior areas (Liebenberg and Pardey, 2010). Horticulture production includes fruits, flowers and vegetables, where fruits are mainly farmed in the Western Cape and Eastern Cape provinces, along the Orange River in the Northern Cape, and in Lowveld areas of Limpopo and Mpumalanga (Vink and Kirsten, 2003). More than 70% of the fruit produced in South Africa is exported, but less than 5% of vegetable output is exported. Maize, sugar and wheat constitute the most important field crops produced in South Africa. Maize, as the main crop in South Africa, is produced in most arable areas all over the country, but the largest volumes are produced in the Highveld areas of the Free State, North West and Mpumalanga provinces (Vink and Kirsten, 2003).

Livestock production accounts for a significant component of agricultural output in South Africa, since 72% of agricultural land that is not suitable for cultivation, is devoted to livestock farming. The livestock sector constitutes up to 44% of agricultural output, and South Africa produces 85% of its meat requirements. Field crop production represents 30% of total agriculture output (DAS, 2009). Horticulture production contributes the smallest percentage, but has shown a notable increase, in comparison to the other agricultural commodities (Figure 4.2) (Liebenberg and Pardey, 2010). An increase in horticulture was influenced by liberalization of foreign trade as well as South Africa‘s re-entry into international markets (Vink and Kirsten, 2003). As in other developing countries, growth in horticultural goods in South Africa provides an opportunity for export diversification and a chance for farmers to compete for a share in export markets (Lambaste, 2005).

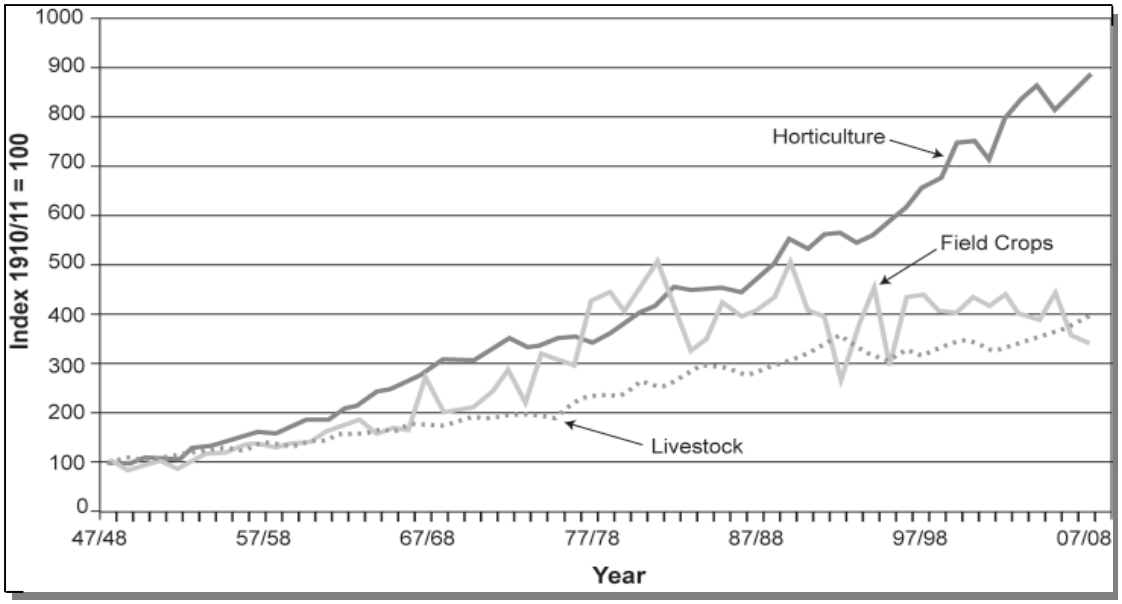


Figure 4.2: Growth in agricultural output in South Africa

Source: Liebenberg and Pardey (2010)

4.2.1 Agriculture in the South African economy

As of 2009, primary agriculture in South Africa contributed 3.1% to total gross domestic product (GDP). The value shows a slow recovery after a sharp decline from 4.15% in 2002 to 2.71% in 2005. Agriculture‘s current contribution to total GDP in the country shows a significant decrease, compared to its 12.3% contribution in 1961, and as compared to an increased contribution of the manufacturing sector (World Bank, 2010). Exports from the agricultural sector account for 6.9% of the total national exports (DAS, 2009). Although the agricultural sector‘s contribution to GDP and total exports is small, the sector plays a significant role in providing for domestic consumer requirements (Liebenberg and Pardey, 2010). Moreover, a decrease in GDP contribution does not imply that agricultural output has decreased over the years. It only shows that the other sectors, such as the manufacturing and trade sectors have grown at a faster rate than the agricultural sector (Vink and Kirsten, 2003). Table 4.2 shows that agricultural output, in value terms, has increased over the years, but the GDP contribution has declined.

Table 4.2: Changing economic contribution of South African agriculture

	1940s	1950s	1960s	1970s	1980s	1990s	2000 to 2009
Value of Agricultural Output (R million)	14 130	39 906	48 458	57 810	58 756	47 586	55 567
Contribution to GDP (Percentage)	17.2	15.2	12.0	6.8	5.0	3.7	3.0

Source: Liebenberg and Pardey (2010)

Both South Africa's agricultural exports and imports have been increasing since 2000, but the imports have been increasing faster than the exports (Figure 4.3). Duncker *et al* (2007) identified market liberalization in the agricultural sector and globalization as main influences of growth in imports of South Africa. Liebenberg and Pardey (2010) explained that a rapid increase in imports and a slow increase in exports poses problems of increased competition to local producers, and can lead to a trade deficit. Moreover, imports are leakages in an economy, which can slow down economic growth (Pundo, 2005).

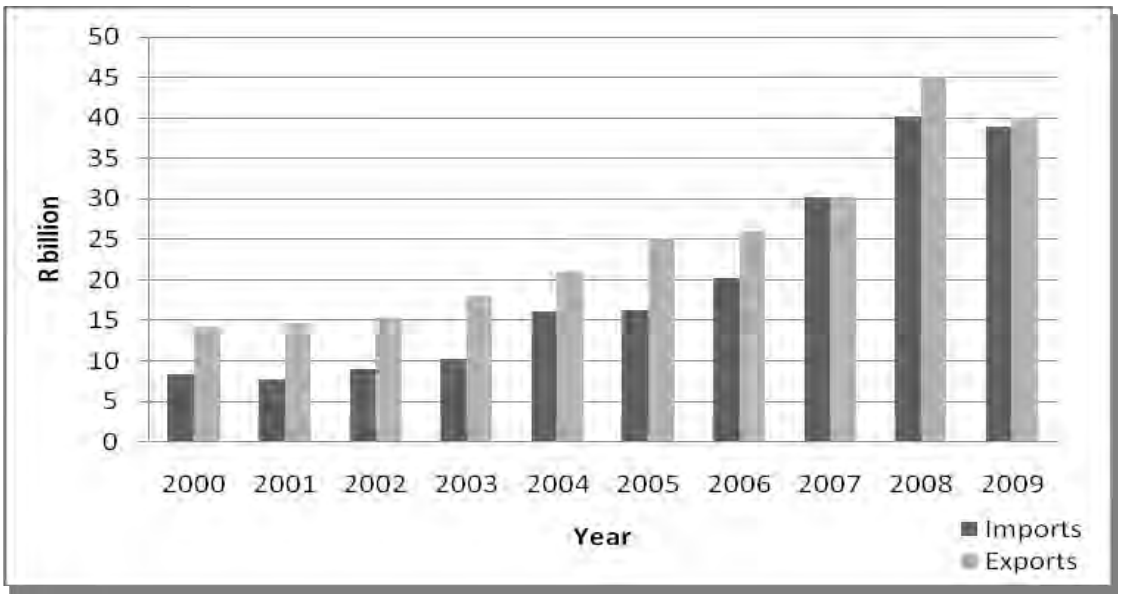


Figure 4.3: South African Agricultural trade

Source: NDA (2009)

To combat the challenge of trade deficit and increase economic growth, there is a need to boost agricultural exports such that exports exceed imports. In addition to increasing exports, boosting the agriculture sector has a potential impact on job creation (Duncker

et al, 2007). In 2010, the sector contributed about 5% to formal employment and almost 10% to total employment when seasonal employees are counted (StatsSA, 2010). The contribution of agriculture to employment increases further if the small-scale agricultural sector is included in total employment (Matungul *et al*, 2002). Moreover, the contribution of the sector to employment increases when the forward and backward linkages created by the sector are considered (Fènyes and Meyer, 2003). Therefore, an improvement in primary agriculture has ripple employment effects in other linked sectors. According to Pundo (2005), the agricultural sector in South Africa had an employment multiplier of 11.688 in 2000. The value means that every extra unit of employment in the agricultural sector of South Africa in 2000 triggered an 11.688 increase in employment in other sectors in the country.

4.2.2 Changes in the structure of the Agricultural sector of South Africa

Historically, in the colonial and apartheid eras, agriculture in South Africa was controlled by the white minority, limiting black farmers' participation in markets. Black[14] farmers practised agriculture in crowded and low productivity areas, with poor soils and rainfall (Meyer *et al*, 2002). These policies created a divide between commercial farmers and subsistence small-scale farmers. During the same period, farm workers did not have legal protection and were, therefore, prone to exploitation by farm owners (Schweitzer, 2008). To counter this legacy, the post-Apartheid government has implemented several changes aimed at redressing the disparities. The main changes include implementation of land reform programmes and Agricultural Black Economic Empowerment (AgriBEE) policies, and the introduction of a minimum wage for farm workers (NDA, 2009). These changes were aimed at integrating the formerly marginalized and small-scale farmers into agricultural markets, encouraging participation of black people in the economy, as well as protecting farm workers (Duncker *et al,* 2007). Other changes, which have occurred in the agricultural sector, include reduction in direct subsidization, liberalization of agricultural trade and deregulation of agricultural markets (Meyer *et al*, 2002).

The effect of government efforts to include formerly disadvantaged farmers in the agricultural markets is still limited (IMF, 2010). Small-scale farmers in South Africa

[14] Refers to black Africans, coloureds, Indians and Asians who are South African citizens and were disadvantaged under apartheid policy

continue to produce under poor conditions and face a number of institutional and technical constraints in marketing. Limiting factors in marketing include poor infrastructure, lack of market transport, dearth of market information, insufficient expertise on grades and standards, inability to have contractual agreements and poor organizational support (Jari and Fraser, 2009). Farm workers continue to receive low levels of income in the formal economy, and signs of poverty and hunger remain evident amongst them (Schweitzer, 2008). In addition, farm workers are at risk of losing their jobs because a number of farmers are responding to the minimum wage policy by reducing the number of permanent workers and relying on temporary and seasonal workers (du Toit, 2004).

National and international NGOs, through rural development projects, are complementing the South African government in trying to support small-scale farmers' participation in markets. Fairtrade stands as one of the initiatives aimed at improving the welfare of small-scale farmers and farm workers through interventions in the markets.

4.3 Fairtrade in South Africa

Fairtrade in South Africa is divided into agricultural commodities, tourism services and handicraft products. Of the three Fairtrade sectors, the agricultural sector is the most developed whilst Fairtrade in handicrafts is the least developed (Fararik and Law, 2006). All three sectors share common aspects, such as focussing on formerly marginalized people, relying on an international consumer base and the existence of a set of regulations. In addition, all the sectors apply the Fairtrade principles of fair wages, good working conditions, support for sustainable development, and respect for human rights, culture and environment. However, there is a difference in the mechanism of regulations applied in each sector (Fairtrade South Africa, 2010). A brief overview of all three sectors is given, although this study mainly focuses on Fairtrade in the agricultural sector.

4.3.1 Fairtrade in South African Agriculture

Fairtrade in South African agriculture was established in 2003, because of the Fairtrade Fresh Fruit and Empowerment Consultation Forum (FFFECF) held in May 2003. The initial enquiries on the possibilities of getting agricultural Fairtrade commodities from South Africa started with citrus in the Netherlands (Fararik and Law, 2006). Although

Fairtrade certification was made official in 2003, some producers, especially for *rooibos* tea, had already started supplying European fair trade markets as early as 1999. Ever since Fairtrade certification in agricultural commodities was made official, it has expanded in the country, and now covers *rooibos* tea, fresh and dried fruit, wine and fruit juice (Raynolds and Ngcwangu, 2009). Presently, the South African agricultural sector supplies 12 products into the Fairtrade market (Figure 4.4)[15].

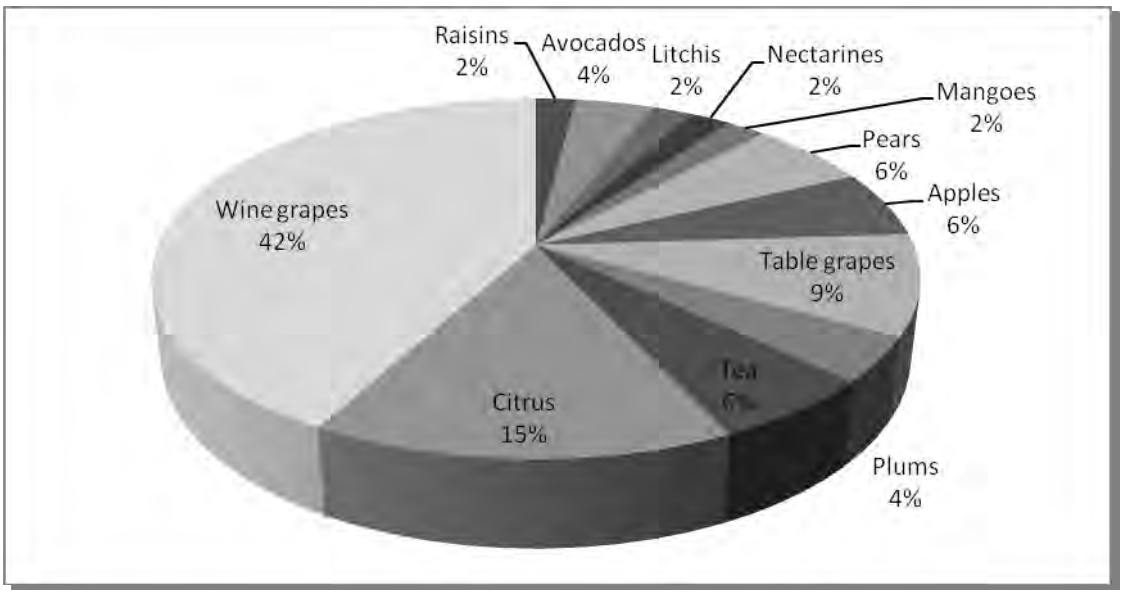


Figure 4.4: Agricultural Fairtrade products supplied by South Africa
Source: FLO-cert (2010)

Fairtrade producers in South Africa are guided by a set of international standards[16] for hired labour and small-scale farmer cooperatives (Fairtrade South Africa, 2010). The number of Fairtrade certified producers for agricultural commodities in South Africa has increased from 30 in 2005 to 67 in 2009 (distribution shown in Figure 4.5). There are currently three Fairtrade certified small-scale farmer organizations in the country and the rest are plantations that depend on hired labour. Approximately in total, Fairtrade deals with 15 000 workers and 327 small-scale famers in South Africa (Fairtrade Foundation, 2010). South African producers mainly export to the UK, the Netherlands, Germany, Sweden and the USA (Fairtrade South Africa, 2010). In the year 2011, the market for Fairtrade labelled products was small in South Africa itself, but

[15] The percentages represent the number of suppliers for the product, but note that some farmers supply more than one product in the Fairtrade market.
[16] Discussion in chapter 2 of this thesis

was expected to increase with the establishment of the Fairtrade Label South Africa (FLSA) in 2009. FLSA is a labelling organization aimed at certifying agricultural commodities for marketing in Africa (Goossens, 2010b).

Figure 4.5: Distribution of Fairtrade Producers[17] in South Africa

Source: Fairtrade South Africa (2010)

[17] The distribution includes 22 commercial farmers who are already in the process of certification

4.3.2 Fairtrade in South African Tourism

Fairtrade in tourism South Africa (FTTSA) was initiated in 2001 after a two-year pilot project test by the International Union for Conservation of Nature and Natural Resources (IUCN), but the first round of FTTSA approved tourism products was launched in 2003 (Ottosson, 2008). Fairtrade in tourism emerged in order to capture a niche market for socially conscious tourists. FTTSA includes accommodation (hotels, guest houses, safari lodges and backpacker hostels), activities (hiking trails, whale watching, township tours and open safari tours) and attractions. In 2010, there were 68 FTTSA-certified establishments, where 40% and 24% were in the Western Cape and Eastern Cape respectively, and the rest were distributed in the other seven provinces (FTTSA, 2010).

FTTSA follows a two-pronged approach which, firstly, aims at imparting knowledge about, and raising awareness of, Fairtrade principles in the tourism industry, and secondly, certifying tourism establishments that comply with Fairtrade principles (FTTSA, 2010). Certified establishments are awarded a FTTSA logo (Appendix 7). In order to qualify for the logo, tourism services need to meet six FTTSA principles namely, democracy, transparency, respect, reliability, sustainability and fair share (Mahony, 2007). FTTSA focuses on improving the conditions in immediate local communities, rather than on reducing poverty *per se* (Hill *et al*, 2006).

FTTSA is financed by local and international donors, as well as revenue generated through certification and related services (Fararik and Law, 2006). South Africa‘s main international source markets for tourists are France, Netherlands, Germany, USA and the UK (FTTSA, 2010).

4.3.3 Fairtrade in South African Crafts

The Fairtrade Association of Craft South Africa (FACSA) was formally established in 2004. FACSA is tied to the IFAT network, which was formed to allow craft producers access to global fair trade markets (Fairtrade South Africa, 2010). Ever since its establishment, the Fairtrade crafts sector in South Africa has shown only slow growth, the main reasons being delivery of poor quality products, weak supply chains between producers and traders and lack of standardization in the goods (Fairtrade South Africa, 2008). The sector lacks standardization because it is difficult to set Fairtrade standards

at product level as each handicraft good is unique. Even at an international level, there is no worldwide accepted standard system for Fairtrade handicrafts (FLO International, 2009). Lack of standards opens the sector to _unfair' treatment by traders who may not pay fair prices for the handicrafts, especially if they are not fully aware of the production conditions. Fairtrade South Africa (2008) explained that crafts in South Africa are usually bought in bulk for resale by non-profit organizations that pay producers based on their own assessment. The non-profit organizations then bear the responsibility of communicating the fair trade nature of the product to the consumers. Despite its challenges, FACSA has potential to grow, particularly through pursuing its possible synergies with Fairtrade in tourism (Fararik and Law, 2006).

Producers of Fairtrade crafts in South Africa supply items ranging from traditional handicrafts (goods symbolizing a cultural group or geographic area), to textiles, fashion garments, accessories or jewellery, ceramics and musical instruments (Fairtrade South Africa, 2008). In South Africa, handicrafts are usually made by informal crafters; therefore, it is difficult to have a complete record of all the crafters, as some are not formally recorded.

4.4 Government initiatives related to Fairtrade in South Africa

Inequality in land ownership for agricultural production purposes remains a challenge in South Africa, where large areas of fertile arable land are owned by commercial farmers, while poorer quality land is mostly owned by small-scale farmers (van den Brink *et al*, 2009). Even Fairtrade in the agricultural sector of South Africa mirrors land ownership inequalities, where there are more commercial farmers certified for Fairtrade than small-scale farmers (Raynolds and Ngcwangu, 2009). The government, through land reform policies and Black Economic Empowerment (BEE) policy, has made efforts to address the land issue and empower disadvantaged farmers and workers. Fairtrade standards in South Africa are uniquely designed to complement these national land ownership and empowerment policies, particularly BEE (Fairtrade South Africa, 2010). The BEE equity schemes in the agricultural sector are considered a part of the post-apartheid land reform effort (Ponte *et al*, 2007), therefore, Fairtrade contributes to the land reform policy to a certain extent.

4.4.1 Land Reform Policy

The land reform policies in South Africa were introduced in 1994, and were divided into three: land restitution, land redistribution and land tenure (NDA, 2001; van den Brink *et al*, 2009). Land restitution involves restoration of land or provision of financial compensation to people who were dispossessed of land. Land tenure reform is a process of giving people security of tenure on land through private ownership, communal ownership or renting. Land redistribution involves transfer of land for agricultural, settlement or non-agricultural enterprise purposes to the disadvantaged through voluntary market transactions (some discussions of the land reform policy are presented in NDA, 2001; Lyne and Darroch, 2003).

Of the three components of land reform policies, land redistribution has proved to be the most important, even though its progress has been slow (van den Brink *et al*, 2009). The government had targeted a 30% transfer of land by 2014, but so far transferred only 4% (Langford, 2010). Although the process has been slow, it remains relevant and has continuously being revised to encourage redistribution of land from commercial farms that use hired labour to the farm workers. Fairtrade certified commercial farmers are required gradually to transfer 25% ownership of their farms to the workers (Fararik and Law, 2006). Since most Fairtrade certified producers in South Africa are commercial farms, successful transfer of land ownership to workers is expected to create self-governing communities (Fairtrade South Africa, 2010). However, transfer of land to farm workers has been debated. Concerns are raised as to whether the farm workers, who usually lack skills and knowledge, will be able to produce for, and effectively compete in, the Fairtrade markets (du Toit *et al*, 2008). On the other hand, Fairtrade also encourages skills training through incorporating BEE policy.

4.4.2 Black Economic Empowerment (BEE)

BEE is a policy used by the post-apartheid South African government to bridge the racial divide in resource ownership created during apartheid. The concept emerged in the 1990s but was rebuilt in 2003 into a _Broad Based' BEE (B-BBEE) strategy (DTI, 2007). The policy is aimed at promoting business ownership, growth in knowledge and management skills, and capacity building among the people who were marginalized by apartheid laws (Ponte *et al*, 2007).

B-BBEE is formally defined as:

> –the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies that include, but are not limited to increasing the number of black people that manage, own and control enterprises and productive assets; facilitating ownership and management of enterprises and product assets by communities, workers, cooperatives and other co1lective enterprises; human resource and skills development; achieving equitable representation in all occupational categories and levels in the workforce; preferential procurement; and investment in enterprises that are owned or managed by black people" (Government of South Africa, 2004: 4).

The focus areas of the BEE policy are divided into human resources, direct empowerment and indirect empowerment, where BEE compliance is measured using a scorecard with a maximum of 100 points (DTI, 2007). Scores are earned using seven elements and different types and sizes of organizations are dealt with differently, in the codes (Table 4.3).

The codes recognise five different types of organizations, which are:

- **Large Enterprises**: Annual turnover greater than R35 million. Measured using the Generic scorecard.
- **Qualifying Small Enterprises (QSE):** Annual turnover between R5 million and R35 million. Measured using the QSE scorecard.
- **Exempted Micro Enterprises (EME):** Annual turnover of less than R5 million. Automatically get Level 4 BEE status unless they are over 50% black owned, in which case they get Level 3 status.
- **Specialised Enterprises:** These are organizations having no direct shareholding, for example section 21 companies, non-profit organizations, organs of state and higher education institutions. Measured using the adjusted generic scorecard or adjusted QSE scorecard depending on the turnover.
- **Foreign Owned Multinationals:** Companies that are 100% owned by a foreign entity. May obtain ownership points by contributing to an Equity Equivalent programme instead of selling shares.

Table 4.3: The BEE Scorecard

Element	Generic Weighting	QSE Weighting	Adjusted Scorecard for Specialised Enterprises	
			Generic Weighting	QSE Weighting
Ownership	20	25	N/a	N/a
Management	10	25	15	25
Employment Equity	15	25	15	25
Skills Development	15	25	20	25
Preferential Procurement	20	25	20	25
Enterprise Development	15	25	15	25
Socio-economic Development	5	25	15	25
TOTAL	**100**	**100***	**100**	**100***

* The scorecard for Qualifying Small Enterprises (QSE) only requires the entity to be measured on 4 out of the 7 elements, therefore, the total score is out of 100 points.

Source: DTI (2007)

Depending on the scores earned, a business organization is placed in one of eight BEE recognition levels, where level one represents the highest level of BEE contribution (Table 4.4). The B-BBEE recognition level of an enterprise has an effect when the enterprise seeks to make a transaction with the state, for example, the granting of duty free access to export markets, access to government funds and state research funding, access to DTI incentives and granting of licensing (DTI, 2007). Thus, using the B-BBEE criteria, enterprises with a high contribution level, stand a better chance of receiving support from the state (Ponte *et al*, 2007).

Table 4.4: B-BBEE recognition levels

Level	B-BBEE score	B-BBEE recognition level
1	100	135% (R1 = R1.35)
2	85-100	125%
3	75-85	110%
4	65-75	100% (R1 = R1)
5	55-65	80%
6	45-55	60%
7	40-45	50%
8	30-40	10%
Not compliant	<30	0%

Source: FLO-cert (2007)

In 2007, The Fairtrade certification policy for South Africa adopted the codes of the BEE strategy into the Fairtrade standards. Fairtrade now requires all South African Fairtrade certified producers that depend on hired labour to contribute to BEE targets through worker empowerment (Fairtrade South Africa, 2008). The standards include representation of farm workers in management, and worker participation in skills development and capacity building programs (Raynolds and Ngcwangu, 2009). Indicators for management representation include writing an Employment Equity Plan, attendance of employee representatives during farm budget planning and holding regular consultative meetings with employees. Reports have to be submitted to the Department of Trade and Industry (DTI). In terms of skills development, farm owners are required to submit a written workplace „skills development programme' to DTI, where all the reports need to be updated regularly (Fairtrade South Africa, 2008). Using the BEE scorecard, Fairtrade certified enterprises are expected to contribute towards human resources development and direct empowerment through ownership, management control, skills development, employment equity and socio-economic development initiatives (FLO-cert, 2007).

All Fairtrade certified commercial farms in South Africa should achieve a level 4 B-BBEE recognition level within three years (DTI, 2007). For initial inspection by FLO, the Fairtrade policy requires a certified enterprise to conduct self-assessment against the B-BBEE scorecard and submit an Employment Equity plan. In the first year of certification, the entity should include its B-BBEE score in its annual work plan, as well as the procedure it plans to follow, in order to achieve B-BBEE recognition level 4. At the end of the third year of certification, enterprises are assessed against the B-BBEE scorecard to check if they have met their target (FLO-cert, 2007).

The appropriateness of integrating B-BBEE and Fairtrade is contested in practice. Fararik and Law (2006) pointed out that although B-BBEE and Fairtrade have similar aims of helping the formally marginalized population, the two part ways at a significant point of their processes: whereas Fairtrade ensures an „above-market price', B-BBEE enterprises need to deliver at a competitive price. For this reason, enterprises, which are governed by both B-BBEE policies and Fairtrade standards, are caught between the two aims, and, according to du Toit *et al* (2008), have so far delivered limited gains to B-BBEE targets and to the workers. Research carried out by Melkeraaen (2009) in the

wine industry confirms that there has been limited BEE impact on Fairtrade certified farms. There is minor successful black involvement in the industry, with less than 1% of the land used for wine grapes under black ownership, management or control. Evidence provided by Raynolds and Ngcwangu (2009) shows that BEE share-equity schemes in Fairtrade *rooibos* tea are not significantly improving black worker ownership or control of rural enterprises. Instead, the equity benefits are asymmetrical, where most gains are received by enterprise owners.

Some Fairtrade certified farmers are reluctant to apply B-BBEE standards because they argue that the standards create unequal playing fields in Fairtrade international markets, as B-BBEE standards apply to South Africa only (Melkeraaen, 2009). Arguments are also presented that black empowerment means nothing to international consumers who are concerned about the social improvement of producers regardless of race (du Toit *et al*, 2008). Seif and Spenceley (2009) argued that focussing on BEE in Fairtrade tourism overshadows other development priorities. Their research revealed that BEE objectives often conflict with priorities such as encouraging environmental sustainability, supporting local business and developing small businesses. In that case, BEE growth may occur at the expense of FTTSA principles.

4.5 Conclusion

South Africa is a country of contrast both in its economy and in the agricultural sector. In the economy, there is a large wealth gap between the richest and the poorest, whereas in agriculture there is a defined divide between commercial farmers and small-scale farmers. The country is rated as upper middle-income, but there is a large population still living in poverty, especially in rural areas and among the black population. Even though the manufacturing industry makes the highest contribution to the country‘s GDP, the agricultural sector still plays an important role in local food supply and in the economy. Growth of the agricultural sector, particularly in the markets, has potential to improve the welfare of the rural population.

Fairtrade has emerged in South Africa to promote international marketing, in order to benefit formerly marginalized producers, and has established an alternative international market for handicraft, the tourism sector and the agricultural sector. The Fairtrade policy in the country includes B-BBEE standards that are required of all Fairtrade

certified commercial farmers. Concerns have been raised as to whether B-BBEE and Fairtrade are compatible. However, such an investigation is outside the aims of this study, which investigates the impact of Fairtrade in South Africa. The next chapter provides the methods that are used in carrying out the present research.

CHAPTER 5
RESEARCH METHODS

This chapter reviews the research methods used in investigating the impact of Fairtrade on farm workers, small-scale farmers and their communities in South Africa. The research method follows a predominantly qualitative approach, because the impact of Fairtrade is measured mainly by non-quantifiable elements and changes. The method was chosen based on background information from literature, and involved carrying out in-depth research with a sample of Fairtrade certified producers in South Africa. Selection criteria for respondents ensured a cross-section of Fairtrade commodities and producers. The chapter further give a description of data collection tools and procedures, as well as the methods of analysis used in the research. The method of analysis was chosen to suit the predominantly qualitative data collected from a sample of respondents. The analytical method is based on an impact assessment framework arising from a multidisciplinary approach that combines economics and social sciences concepts. Furthermore, the choice of the analytical method is justified, and the potential weaknesses associated with it are noted. Thereafter, a set of research limitations is presented.

5.1 Research design

Research can be conducted through various paradigms. Lincoln and Guba (2005) identified five main paradigms, which are positivism, postpositivism, critical theories, constructivism and participatory-cooperative paradigms. Depending on the purpose of a research study, paradigms are used to classify research into qualitative, quantitative or a mixture of the two (Teddlie and Tashakkori, 2003). This study employs a mixture of qualitative and quantitative research approaches, but follows mainly a qualitative research approach because it seeks to understand the impact of a phenomenon (Fairtrade) by using in-depth research methods. Traditionally, research was divided into two, where quantitative research followed a positivist paradigm while qualitative research followed a postpositivism paradigm (Lincoln and Guba, 2005). Based on the traditional view, this study therefore, follows a postpositivist paradigm. Postpositivism refers to a family of paradigms that includes positivism and empiricism (Teddlie and Tashakkori, 2003). The postpositivist paradigm examines the relationship between

theory and practice, and explains that new knowledge gathered from research is used to challenge, and sometimes add to, theory (Ryan, 2006). Although mainly based on qualitative methods, the results of this study made use of numerical data whenever it looked suitable, and conclusions were drawn based on both qualitative and quantitative evidence.

A predominantly qualitative approach is well suited to assessing the impact of Fairtrade because of the nature of the subject matter, where impact cannot be measured in numeric terms. There is a quantifiable impact of Fairtrade, such as prices received on Fairtrade goods, but it constitutes a small part of the changes resulting from producer involvement in Fairtrade (Nicholls and Opal, 2005). The strategic intension of Fairtrade (as stated in Fairtrade public statements) is aimed at improving the situation of small-scale producers and workers. Therefore, more useful data to measure the impact of Fairtrade is related to human development and social outcomes, including community level changes (Raynolds, 2009). In order to gather data related to these themes, this research makes use of the opinions and perceptions of primary stakeholders.

5.2 Data collection

Data were collected from a sample of producers involved in Fairtrade. The process of data collection in this study involved the use of both primary and secondary sources to provide data. A questionnaire was designed as a tool for primary data collection and the fieldwork was carried out in May 2010 (a pilot study), and then in October 2010 and March 2011. The questionnaire was administered to the people who were identified as key informants in a farm set-up. They provided data related to their conditions before and after involvement with Fairtrade. Secondary sources that were used included documents available from the farmers, the Fairtrade organization in South Africa, and from Fairtrade producers‘ organizational websites.

5.2.1 Sample selection

Respondents were chosen to represent both Fairtrade certified commercial farmers and small-scale farmer cooperatives, from the Western Cape and Eastern Cape provinces of South Africa. The two provinces were selected because of their close location to the

researcher, and the larger numbers of Fairtrade producers available in the provinces[18]. It therefore made logistical sense to target respondents from these two provinces and at the same time get a representative sample. Moreover, examples of all agricultural Fairtrade labelled products from South Africa are available in the two provinces (Fairtrade Foundation, 2010).

All certified Fairtrade producers appearing on the list available from the Fairtrade organization in South Africa were notified of the research interests through electronic messages, requesting their assistance with Fairtrade related data. Quota sampling was then used to select respondents. Quota sampling was chosen for this study because some of the Fairtrade producers did not show an interest in providing data; therefore, a sample had to be drawn only from those producers located in the two selected provinces who were willing to provide data. In choosing respondents, an attempt was made to include as wide a range of Fairtrade agricultural commodities as possible from those produced in South Africa, as well as representative groups from both large commercial and small-scale operations.

Quota sampling is a non-probability method, which has its advantages and disadvantages (Groves *et al*, 2009). The quota sampling method is usually used because it is less costly and can be used when some people appearing on the sampling frame are not available for providing data (Bless *et al*, 2006). In addition, quota sampling addresses the issue of representativeness, thereby increasing the chances of generalizing the results from the sample to the whole population (Babbie, 2008). However, since quota sampling is a non-probability method, it is biased because selection of the respondents depends on the researcher‘s judgement. Thus, some people in the sampling frame may have a greater chance of being selected, depending on who the researcher thinks can provide reliable data (Leedy and Ormrod, 2004). In addition, it is impossible to assess sampling error in non-probability methods, and quota sampling may not represent other characteristics of the population, which are not set in the quotas (Groves *et al*, 2009). For example, in this research, geographic characteristics of Fairtrade producers are not considered since data were drawn from two provinces only.

[18] Distribution of Fairtrade producers shown in chapter 4, Figure 4.5.

Two of the three Fairtrade certified cooperatives were chosen to allow comparison between producers at the same level of production. From the cooperatives, most of the data were obtained from the management committee because they are the persons involved with day-to-day farm activities as well as keeping records of production and marketing performance of the farm. The management committee was allowed to consult other cooperative members whenever it proved necessary. Commercial farmers were interviewed to capture the impact of Fairtrade on hired labour and their communities. In commercial farms, data were obtained from two sources: the farm manager; and the Joint Body committee members. The manager provided data related to farm production and marketing, where other members in the management team could be consulted. In some cases (where a number of them were available), Joint Body members were convened and interviewed as a group, in order to obtain data on community development and to increase the reliability of data. According to Berg (2009), group interviews have the advantage of getting shared views from participants and can reduce data inconsistency. Group interviews also allow the researcher to focus on the most important issues of the research rather than individual respondents‘ personal aspects (Bless *et al*, 2006). On the other hand, group interviews lack confidentiality and, as such, some people may fail to express themselves freely, especially on sensitive issues that may affect them negatively (Denzin and Lincoln, 2000).

5.2.2 Questionnaire Design

Three semi-structured questionnaires were designed to gather data from small-scale farmer cooperative representatives, commercial farm managers and Joint Body committee members, where each questionnaire was specifically designed for each group. Semi-structured questionnaires contain a combination of predetermined questions with possible answers to choose from, and open ended questions, which allow detailed explanation from the respondents (Groves *et al*, 2009). When using semi-structured questionnaires, responses are guided to remain focussed while detailed responses provide an in-depth knowledge of the research field (Opdenakker, 2006). In order to encourage respondents to participate, all three questionnaires were short and precise, taking an average of 30 minutes each to be completed.

Questionnaires for commercial farm managers and Joint Body committee members were pre-tested at the closest Fairtrade certified commercial farm, Riverside Enterprises

(the researcher was given permission by the farm owner to reveal their name), which is located in Fort Beaufort in the Eastern Cape Province. Pre-testing is important because it allows the identification of repetition, lack of clarity in some questions and general glitches in question wording (Babbie, 2008). In the present research, pre-testing the questionnaire allowed restructuring of some questions to improve data capturing. It also helped in identifying sections of the questionnaire, which required closer focus, when conducting interviews, as compared to the others.

The final questionnaires were then administered to the selected respondents through face-to-face (interviewer-administered) interviews. All the interviews were carried out at the respondents‘ farms to allow participant observation. Questionnaires can be administered in other ways, such as self-administered questionnaires and telephone surveys (Leedy and Ormrod, 2004). Face-to-face interviews were chosen because they have several advantages over the other methods. According to Bless *et al* (2006), an interviewer-administered interview is an ideal tool for data collection because it reduces omission of difficult questions by respondents. In addition, it reduces the problem of word or question misinterpretation (misunderstandings) by respondents and can be administered to people who can neither read nor write. The presence of the interviewer also increases the quality of the responses since the interviewer can probe for answers that are more specific and is able to read the respondent‘s body language and expressions (Leedy and Ormrod, 2004). Thus, the use of interviewer-administered questionnaires supports minimal loss of data, although the method is relatively expensive especially if the respondents are highly dispersed (Berg, 2009).

The main questionnaires were designed in English (copies of the questionnaires are attached in appendices 1, 2 and 3) but interviews were conducted in English and Afrikaans, depending on the respondents‘ choice. To facilitate responses, interviews were conducted by interviewers proficient in the language of choice. Respondents often feel freer to express themselves when they are using a language they are comfortable with, but there is a risk of losing data during language translations (Babbie, 2008).

The main topics discussed during interviews were commodity production, terms and channels of sales, Fairtrade premium for social development, social networks, hired labour and farm working conditions. The types of social development projects were

identified by the respondents, and follow up questions, which are specific to the projects, were added as the interviews progressed. Where necessary, interviewers requested to be shown tangible evidence related to complete and/or in-progress social development projects (see appendix 4 for photographs of some of the projects).

Conversations conducted during the interviews were recorded using a voice recorder. This allowed transcription and capturing of data that was missed during the interviews. According to Halcomb and Davidson (2006), voice recording for later transcription is important because it records data that cannot be recalled from memory, and allows repeated and thorough analysis of people‘s responses. Voice recording is reliable when reporting the results of the research and where direct quotes are used (Marshall and Rossman, 2006). During the interviews, voice recording allowed the interviewer to focus on the conversation, which reduced the time that was spent on making notes. The main disadvantage of voice recording is that some people do not feel comfortable with being recorded and might be inhibited to respond truthfully, for fear that the responses may be used against them (Opdenakker, 2006).

Marshall and Rossman (2006) explained that to get reliable data, limit data losses, and have control over analysis, it is preferable to make a full record of the interview immediately afterwards. Following Marshall and Rossman (2006), voice responses (dialogues) in the present research were transferred to written documents as soon as possible after the interview.

Photographs were used to capture the general physical conditions of the different farming locations visited. Some photos were taken to provide evidence of the physical Fairtrade projects that were implemented on the farms. Photographs are an important data collection tool because of their authenticity, but some people are not comfortable when strangers take photographs of their belongings, especially when they are not sure what they may be used for in the future (Noland, 2006).

5.2.3 Fairtrade Documents

Fairtrade records were requested from farm managers, which were then used as another source of data. Fairtrade documents were used for capturing data, which was relevant for the research but had been omitted in the questionnaire, and for capturing quantitative

data. According to Berg (2009), written documents are useful for both complementing primary data and comparing the accuracy of interview responses. It was assumed that all farmers kept records because Fairtrade requires all certified farmers to keep full farm records (FLO International, 2009). Most of the records available from the farmers dated back several years, allowing data gathering of the changes that occurred at the farms since their certification. Other documents were obtained from the Fairtrade organization in South Africa. All certified farmers are required to provide annual written reports to the organization (FLO International, 2009). As such, detailed documentation for all the farmers was available from the organization, although some of the information was not available to the public due to confidentiality agreements.

5.2.4 Research ethics

When conducting research, especially involving human subjects, it is important to consider ethical issues (Koller, 2008). The researcher should be able to collect data but still be able to protect the interests of human participants providing the data. Considering ethical issues may help assure trust from the respondents, who may be motivated to contribute more openly to the research (Israel and Hay, 2006). Ethical issues were considered in the present research and efforts were made by interviewers to build an environment of trust and confidence with the respondents. The researcher explained the nature of the research and given consent by all respondents before interviewing. Respondents were assured that their responses would not be used for any purpose other than the output of this research, and that they would remain anonymous. Interviews were conducted in a language in which the respondents were comfortable, and they were not forced to answer any questions that they were uncomfortable answering and which they considered sensitive. While interviewing, caution was taken not to question the participants‘ religious or cultural beliefs. At the beginning of interviews, respondents were made aware of the presence of the voice recorder and were asked for permission to record responses. The interviewer also asked for permission to take photographs before doing so. Where farm documents were requested, the interviewers made it clear that the documents were specifically used for the research. After the interviews, the researcher offered to send respondents, who had requested, the final results of the study to check for accuracy of the recordings.

5.3 Data analysis

Data analysis is a process of reducing accumulated data to a manageable size in order to highlight useful information, develop summaries, look for patterns and support decision making (Cooper and Schindler, 2003; Babbie, 2008). Approaches to data analysis need to be sensitive to the research design being implemented (Teddlie and Tashakkori, 2003). Following a predominantly qualitative design, this thesis adapted a qualitative analysis. The analytical method is qualitative in nature, but has some quantitative aspects, particularly for analysing Fairtrade's financial impact. Marshall and Rossman (2006) explained that qualitative analysis is useful when one seeks to have a more complete picture of a certain research subject, unlike quantitative analysis where conclusions are drawn based on numeric data. Thus, qualitative analysis allows for the interpretation of a dataset as a whole and can be used when data cannot be easily converted to numerical values. However, qualitative analysis is sometimes criticized because it relies on the researcher's interpretations of a dataset (Denzin and Lincoln, 2000).

In any study, whether qualitative or quantitative, analysis can be in the form of inductive or deductive analysis (Teddlie and Tashakkori, 2003). In this present research, theory is related to practice using a deductive (theory-based) analysis method.

5.3.1 Deductive Analysis

Gilgun (2001) defined deductive analysis as a method used for testing and/or reformulating a theoretical model. Thus, deductive analysis uses field data to search for evidence that either supports or challenges a given framework. Before carrying out data analysis, the deductive method requires the researcher to have a theoretical model through which research findings are tested. The theoretical model is used to identify categories (codes) in which data are placed for analysis (Patton, 2002). Various codes developed from a theoretical framework can be presented on a list, in tables or on a diagram (Gilgun, 2001). After data is collected, it is broken down in such a way that the components of the data are classified under specific codes. Analysis is then performed based on the codes. Deductive analysis has certain advantages over inductive analysis. Whereas inductive analysis starts by exploring data, when employing a deductive approach, the researcher uses theory to look for specific characteristics in a dataset, therefore, research results are more likely to be focussed (Hyde, 2000). Again, using

theory in qualitative research is useful in generating analytical concepts, especially if the researcher needs to analyse large quantities of data (Berg, 2009).

The World Bank (2007) summarised the general process of carrying out a deductive analysis as follows:

1. Review the project model or framework
2. Identify categories or groupings for data prior to data analysis
3. Read the qualitative data carefully and fully
4. Label statements (or phrases) in the qualitative data with the appropriate category or grouping based on the project model or framework
5. Make a conclusion and present the results.

5.3.2 Design of an Impact Assessment Framework

An impact assessment framework was designed for this study, to assess how Fairtrade influences farm worker and small-scale producer livelihoods in South Africa. Figure 5.1 illustrates the design of the framework which was developed from the LED and NIE literature, and the Sustainable Livelihoods Framework (SLF) provided by the Department for International Development (DFID) (1999). The architecture of the impact assessment framework is the same as that of SLF, but is adapted to the scope of the study. The framework shows different impact categories, and these are set as the main codes used for analysis.

Using frameworks in carrying out investigations has gained popularity as shown by growing numbers of researchers who use formal frameworks in analysing research data (Utting, 2009). Frameworks help to simplify processes in research because they provide a checklist of core issues, and sketch how different processes are linked to each other. Moreover, frameworks show multiple interactions between processes and factors, which influence activities when it is applied to development studies (DFID, 1999). However, when constructing frameworks, integrity is important because it determines how helpful the framework can be in drawing conclusions (Utting, 2009).

Stages in a framework are determined by the approach that is used in a certain research project (DFID, 1999). Four main stages were developed for the impact assessment framework applied in this research (Figure 5.1).

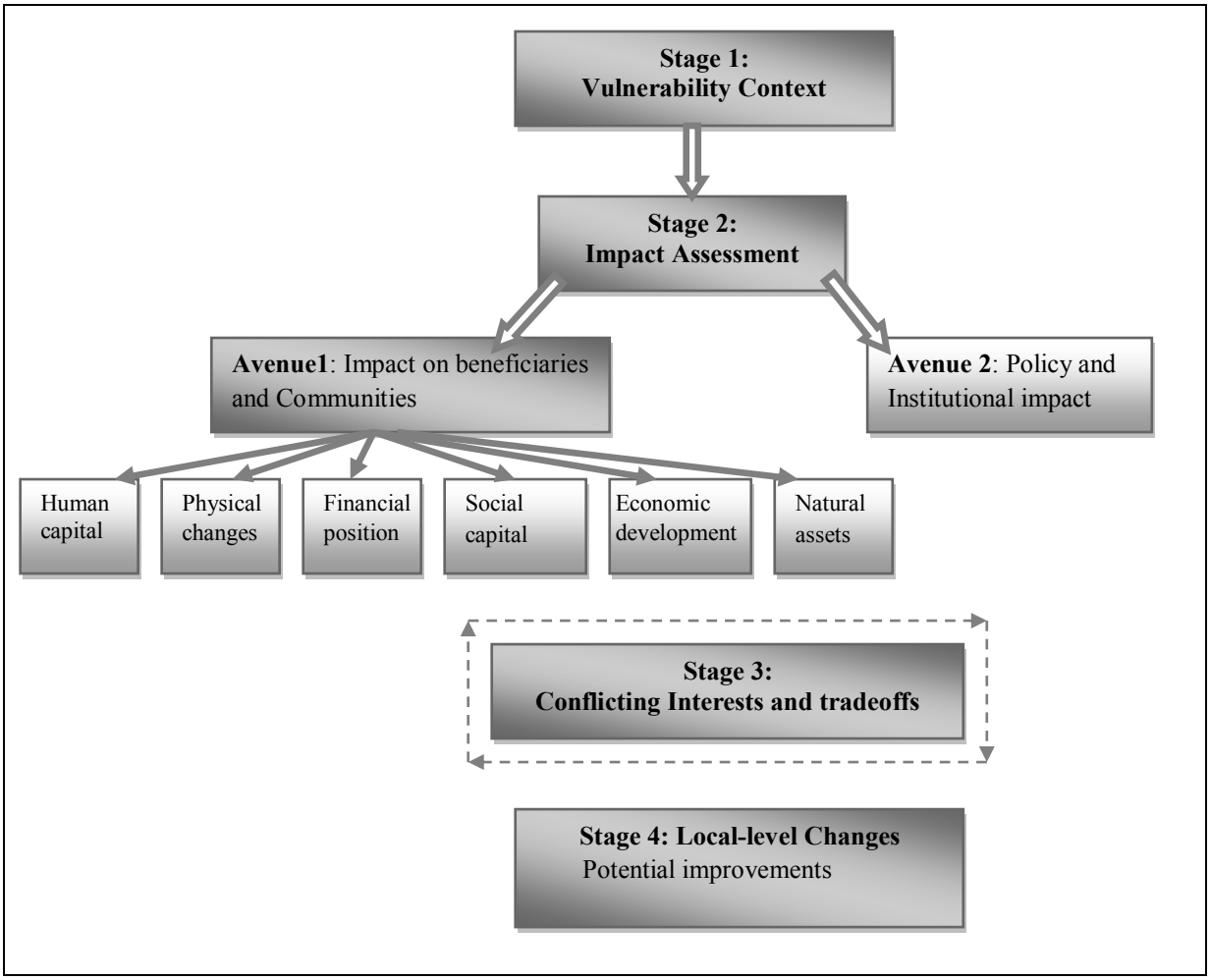


Figure 5.1: Impact assessment framework for Fairtrade

Source: derived from the Sustainable Livelihoods framework in DFID (1999)

Stage one: Vulnerability context

The first stage in the impact assessment framework, the vulnerability context, is adapted from the Sustainable Livelihood Framework. It involves identifying and framing the external conditions of the ―environment in which people exist" (DFID, 1999: Section 2.2). The vulnerability context identifies the factors that influence people's livelihoods and the availability of assets, therefore their stage of development (Scoones, 1998). Knowledge gathered from the vulnerability context enables one to understand the reasons for adopting development initiatives such as Fairtrade. The literature, which has already been reviewed in this study (Chapters 2 and 4), explains the vulnerability position of small-scale farmers and farm workers at an international level, as well as in South Africa.

Stage two: Impact assessments

The impact assessment stage identifies the different categories through which field data is compared. The second stage entails assessing the impact of Fairtrade on farm workers and small-scale producers in South Africa, where it is divided into two avenues: the impact on beneficiaries and their communities; and the policy and institution impact. Six categories (defined in Table 5.1), which are used to assess the impact on beneficiaries and communities, were developed using sustainable development, LED and NIE literature. This first avenue of stage two links development, sustainability and cooperative relations by investigating how the three processes are influenced by complying with Fairtrade standards. Scoones (1998), using the SLF, identified the importance of social, physical and financial capital in generating sustainable livelihoods in rural settings. Nevertheless, as development occurred over time, there were notable changes in the extent and availability of other forms of capital as well (Scoones, 1998; Gibson, 2002). This study is based on six development indicator categories, where both negative and positive impacts are used to determine the extent to which Fairtrade has had an influence on sustainable development.

Table 5.1: Description of impact indicators for primary stakeholders and their communities

Indicator	Description and examples
Human capital	Development of work abilities through Fairtrade, such as capacity building, skills and knowledge. Measured using attendance and regularities of training workshops
Physical changes	Changes in physical goods, services and infrastructure; buildings, roads, security
Financial position	Represents Fairtrade financial resources used to support livelihood, for example wages and incomes
Social capital	Network[19] development, ability to participate in groups, trust in decision-making
Economic development	Local economic development issues such as job creation, growth in health and educational facilities
Natural assets	Environmental resources

[19]Networks within and between Fairtrade producer groups and with other stakeholders

The policy and institution impact avenue is derived from DFID (1999: Section 2.3). It is used to determine whether Fairtrade policies create an enabling environment for sustainable development in rural settings. It is also used to assess the prospects of continued operation of Fairtrade initiatives in local areas. Data related to this impact avenue may not be easily available because data was collected from uninformed producers. As such, this present research did not focus on an investigation of this avenue, but only contributed to a certain extent.

Stage three: Conflicting interests and trade-offs

The third stage in the impact assessment framework identifies conflicts and trade-offs occurring among households where Fairtrade operates. This stage includes conflicting interests in decision making in cooperative set-ups and in commercial farms. In a commercial farm, the farmer‘s views on Fairtrade cost-effectiveness are weighed against Fairtrade‘s impact on farm workers and communities. The dotted arrows in this stage indicate relationships created within the Fairtrade production unit. This stage determines how different interests and views between local stakeholders contribute to, or limit, sustainable development. It further looks at how agreements are reached when stakeholders have different interests and views. Utting (2009) identifies the importance of assessing stakeholders‘ interests when carrying out a research study, and explains that it helps to identify the people who are targeted by a certain development project and those who actually benefit.

Stage four: Local level changes

In this context, the last stage of the framework identifies potential areas for innovation and practical changes to the Fairtrade producers and initiatives to enable them to better meet their stated objectives. It critically evaluates the characteristics, which are unique to local-level stakeholders and their local resources, and how they can be used to support sustainable development within the Fairtrade context. Thus, the last stage in the framework involves giving informed recommendations, based on the findings.

5.3.3 Framework Application

A framework serves two purposes in a research study: 1) to assess the progress of an existing development activity and 2) to plan new development activities (DFID, 1999). The framework built in this study served the purpose of assessing the impact of

Fairtrade activities. It allows the researcher to explore the impact of Fairtrade in one farm (Figure 5.2) or in two or more farms (Figure 5.3) where the initiative has been implemented.

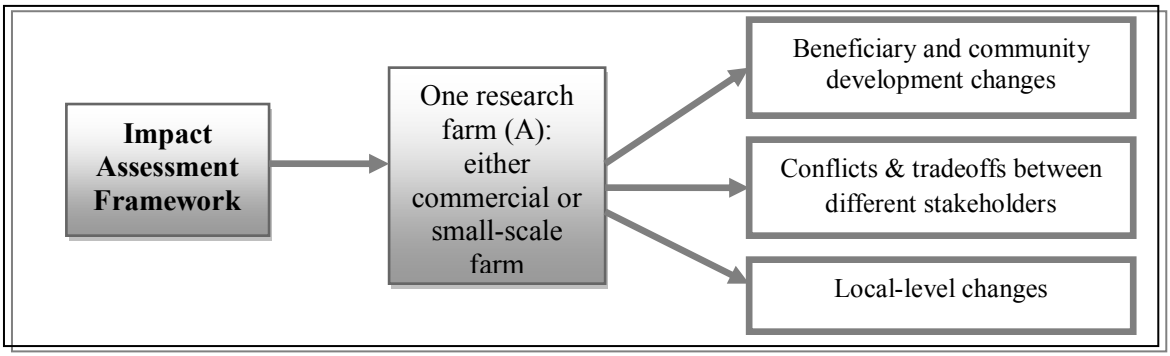


Figure 5.2: Framework application in one farm

When the framework is applied to one farm only (case study), it allows for an in-depth analysis of that study, but the results cannot be easily generalized (Cooper and Schindler, 2003). In the case of this research, the results for the impact of Fairtrade on a small-scale farmer cooperative cannot be generalized to commercial farmers. As such, applying the framework to two or more farms may be useful, since it allows for comparison and generalization of results.

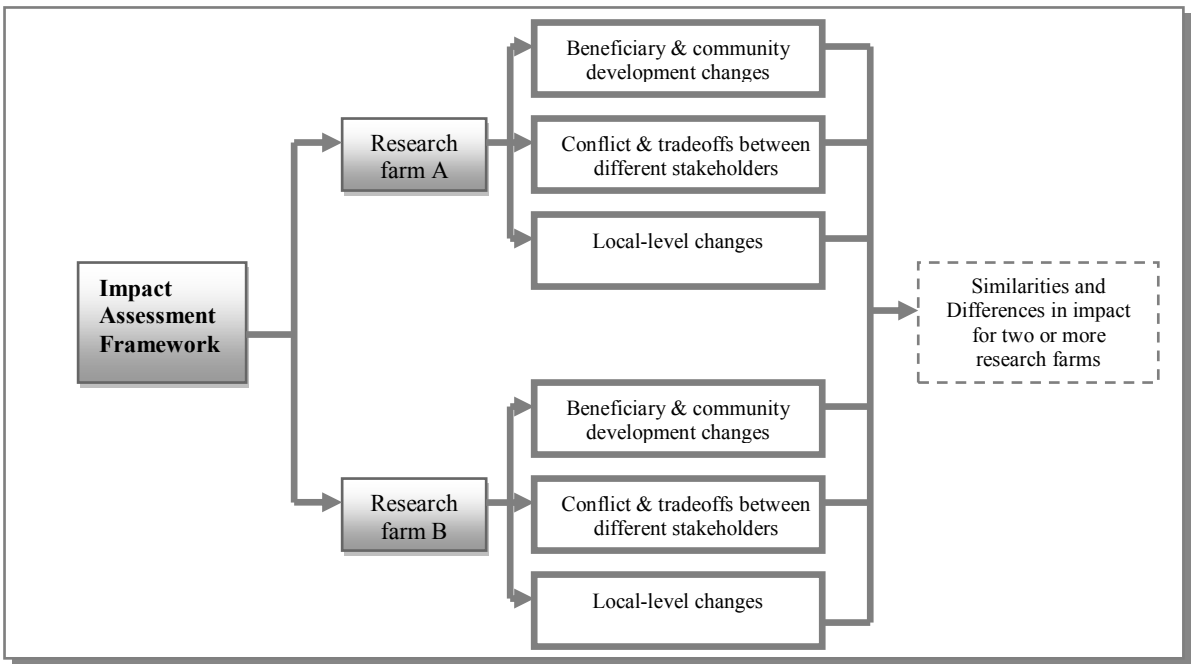


Figure 5.3: Framework application in two or more farms

In Figure 5.3, the farms under comparison can be at the same level (for example two commercial farms) or at different levels (small-scale cooperatives and commercial farms). Identifying the differences and similarities in either cases helps in guiding policy decisions, as well as, areas requiring changes by the stakeholders. In this study, producers were divided into two broad categories, small-scale farmer cooperatives and commercial farms, and analyses were made within and between these categories.

5.4 Limitations of the analysis tool

In carrying out ex post impact assessment studies, two methods that can be followed are 1) measuring the effect of a change by comparing the performance of a treatment group before and after introducing a change, and 2) measuring the effect of a change by comparing a treatment group with a control group. However, the most reliable approach is a combination of these two approaches (Khandker *et al*, 2010). The current study used the first method, where it measured the impact of Fairtrade by comparing the situation of farm workers, small-scale farmers and communities, before and after their involvement with Fairtrade. It did not investigate the condition of non-Fairtrade producers residing in the same area as Fairtrade producers, thus potentially introducing bias in its conclusions. The main disadvantage of using one method is that social and economic factors may influence the course of the intervention. In this study, comparing non-Fairtrade and Fairtrade producers was important, but could not be done due to financial limitations. Therefore, for one to have well informed conclusions on the impact of Fairtrade, the situation of non-Fairtrade producers needs to be investigated, which is why this type of investigation was included in the areas for further investigation. In order to increase the usefulness of the results of the study, the researcher focussed on investigating the factors that are directly influenced by Fairtrade, for example projects that were funded by Fairtrade.

5.5 Validity and reliability

Patton (2002) emphasises the importance of testing for validity and reliability in qualitative research. While validity refers to the dependability of the study, reliability refers to trustworthiness of the study, but the two aspects are closely related (Creswell and Miller, 2000). Validity and reliability can be tested when the research is still in progress or at the end of the research, using various methods (examples in Lincoln and Guba, 2005). A form of data triangulation, where data were obtained from different

sources, was used to test for validity and reliability in this study. Data were obtained using interviews and from written documents. To increase the chances of capturing all the important data, a questionnaire was filled in and conversations were recorded during the interviews. In the case of a commercial farm, Fairtrade views were gathered from Joint Body committees and from the manager on the same farm.

A member check, also known as informant feedback, was used for testing validity and reliability. Member checking was done during the interview process where the researcher summarized information at the end of each interview to confirm accurate recording. Member checking is useful in decreasing the incidence of using incorrect data, although it can be boring and time consuming to some respondents (Lincoln and Guba, 2005). Results of the research were made available to participants who had requested, which allowed participants to comment on the reliability of findings.

5.6 Conclusion

This research applied a predominantly qualitative design in collecting and analysing data. Respondents for the research were selected using the quota sampling method, and the sample was drawn from the Eastern Cape and Western Cape provinces of South Africa. From these respondents data were collected using semi-structured questionnaires which were adapted for different groups of respondents. The questionnaires were filled in by the interviewers in conversation with the respondents, and interviews were also recorded using a voice recorder. In data analysis, an impact assessment framework was developed to assess the impact of Fairtrade on small-scale producers, farm workers and their communities. The impact assessment framework is divided into four main stages, and is expected to apply both to individual, and to a number of, Fairtrade certified units. The results of the research follow in the next two chapters.

CHAPTER 6
RESEARCH FINDINGS ON PRODUCER CASES

Fairtrade producing units around the world produce diversified economic goods, based on the assets available to them for the production of such goods, and sometimes, as influenced by location (Nicholls and Cho, 2006). As already mentioned, Fairtrade certified producers in South Africa produce and market a range of commodities, as such, the findings of this research represent a number of Fairtrade commodities available from the Western Cape and Eastern Cape Provinces. The results of the study are discussed in Chapter 6 and Chapter 7, where the former mainly presents descriptive results and the latter analyses the impact of Fairtrade. Chapter 6 commences by summarizing characteristics of, and background information for, the two cooperatives and 10 plantations selected for the study. As part of confidentiality agreements, plantations in the study were referred to as Farm 1, Farm 2 up to Farm 10, and the cooperatives as Coop 1 and Coop 2.

6.1 Characteristics of interviewed producers

This section presents the general characteristics of plantations and cooperatives being studied, including the amount of land used for production purposes, type of commodity under production and year of Fairtrade certification. Of the commercial farms studied, the owners of all except three are either second or third generation farmers on the areas of land they were farming. They were all involved in export marketing before they were certified by Fairtrade (Interview data, 2011). When asked about what motivated them to join Fairtrade, all farm owners in plantations who were interviewed regarded Fairtrade as one of their marketing strategies. Thus, they joined Fairtrade in order to gain a new consumer group for their produce. The danger related to this response is that, in the event of Fairtrade not being sufficiently profitable, they can withdraw from the Fairtrade system, disturbing the long-term relationships that are promoted by Fairtrade in order to humanize trade relationships (FLO International, 2007b). Respondents also highlighted other motives like the need to improve their workers‘ welfare and bringing development to communities, but gave these as secondary motives. Judging from these responses, certification of plantations by Fairtrade has potential benefits for both the plantation owners and their workers. However, the fact that farm workers do not have

control over farm production and marketing activities of the farms they do not own, means that they continue to depend on the farm owner‘s decisions related to Fairtrade. Further analyses of the study will identify Fairtrade activities in a plantation setup, as well as Fairtrade benefits to the farm owner and to the workers.

In the case of small-scale farmer cooperatives in the study, Fairtrade is responsible for the creation of one cooperative and helped to strengthen the organizational and technical capabilities of the other that was already in existence. Both cooperatives started exporting after they were involved with Fairtrade. Before their engagement with Fairtrade, small-scale farmers forming the cooperatives survived under conditions of poverty, with high unemployment rates. Research carried out by Binns *et al* (2007) in the Coop 2 community, identified about 80% unemployment in the area and limited sources of income, with households mostly relying on *rooibos* tea farming. These challenges are closely linked to their small scale of operation and a history of being denied direct access to markets, which made them reliant on middlemen who paid them lower than market prices for their produce (Binns *et al*, 2007). Interviewees from Coop 1 and Coop 2 reported that they continued to depend on these traditional distribution chains, until they were engaged with Fairtrade. When asked about what motivated them to join Fairtrade, responses from cooperative interviewees were different from those of plantation interviewees. Respondents from both cooperatives highlighted the difficult conditions they were experiencing, so they had an aim of improving their wellbeing through Fairtrade. They do not regret the decision to become Fairtrade producers because their situation has changed for the better because of Fairtrade. Based on the evidence from the research, the involvement of Coop 1 and Coop 2 members with Fairtrade created an opportunity for cooperative members to access both local and international markets.

The ability to gain market access (for Coop 1 and Coop 2) cannot be attributed entirely to the cooperative model. Small-scale farmer cooperatives in South Africa have since 1996, been advocated for as potential drivers of economic and social development (Ortmann and King, 2007), but agricultural cooperatives‘ success in the country have so far been minimal (van der Walt, 2005). The reasons provided included poor management, lack of training, conflict among members, lack of funds and lack of operations after registration (van der Walt, 2005). A number of these cooperative

challenges were addressed by cooperatives in the study. Both Coop 1 and Coop 2 received extra funds through Fairtrade, made use of hired trained management, and offered training to their members. Therefore, Fairtrade presents opportunities for cooperatives to move towards achieving their goals.

Fairtrade certified cooperatives in South Africa have relatively few members, with Coop 1 and Coop 2 having 170 and 60 members, respectively. In other countries, Fairtrade certified cooperatives are relatively large. For example, in Bolivia members range from 370 to one thousand (Imhof and Lee, 2007), in Mexico cooperatives supplying Fairtrade markets can have more than 3 000 members, with small cooperatives within the main cooperative (Torres and Acosta, 2007). Due to their relatively smaller size, cooperatives in the study (in South Africa) are at an economic disadvantage. The results show that the cooperatives market smaller volumes of produce as compared to Fairtrade certified commercial farms in the country, which limits their gains from economies of scale. For example, each cooperative sells 100 tonnes of *rooibos* tea or less, but Fairtrade certified commercial farms producing *rooibos* tea export 200 tonnes or more. The larger volumes of produce supplied by plantations to the Fairtrade markets further threatens the survival of small-scale producer cooperatives in the market, by creating competition (Interview data, 2010).

There are advantages associated with keeping cooperative groups small. Smaller cooperative sizes allow for closer relationships among members, as it is easier to communicate in a smaller rather than a larger group (Torres and Acosta, 2007). Also, it is easier to monitor activities in a small group, thus reducing possibilities for free-riding behaviour among members. Using evidence from the study, Coop 2 interviewees reported that they have not faced problems related to income distribution among its members after selling produce. They further claimed that the cooperative administration explains the relationship between the prices, output and income to all members. On the contrary, Coop 1 (with more members than Coop 2) has faced problems of member conflicts caused by lack of transparency in income distribution. Further, a lack of adherence to certain Fairtrade standards by some members led to the decertification of the cooperative. Thus, Coop 1 was decertified because the cooperative had lower quality produce for two seasons, members were clashing in decision-making and some cooperative members were breaching Fairtrade contracts (Interview data, 2010).

Table 6.1: Characteristics of case study FT producers

Producer (Location, Province)	Type of produce	Amount of land (ha)	Workers/ members[20]	Fairtrade certification year	% volume exported under FT
Coop 1 (WC)	*Rooibos* tea	Average of 3.5 ha per farmer	170 members	2005	60% to 70% (before decertification)
Coop 2 (WC)	*Rooibos* tea	Average of 3.5 ha per farmer	60 members	2001	90%
Farm 1 (EC)	Citrus	300 ha	150 permanent 160 seasonal 120 casual	2004	10% to 20%
Farm 2 (WC)	Wine and table grapes	27 ha table grapes 1.2 ha wine grapes	95 permanent 45 seasonal 100 casual	2003 table grapes 2004 wine grapes	58%
Farm 3 (WC)	Apples, pears and table grapes	318 ha	40 permanent 300 seasonal	2004	14%
Farm 4 (EC)	Citrus	245 ha	24 permanent 11 temporary 14 seasonal	2003	15%
Farm 5 (WC)	Pears, apples, plums, wine and table grapes	200 ha	250 permanent	2003	8%
Farm 6 (WC)	Olives, Wine grapes	700 ha	94 permanent 71 temporary	2007	10% to 20%
Farm 7 (WC)	Wine, wine grapes	136 ha	17 permanent	2009	2%
Farm 8 (WC)	Wine, wine grapes	800 ha	210 permanent 195 temporary	2005	65%
Farm 9 (WC)	Citrus, *Rooibos* tea	4 000 ha	330 permanent	2004 citrus 2007 *rooibos* tea	15%
Farm 10 (EC)	Apple and Apple juice	250 ha	65 permanent 200 seasonal	2006	12%

WC stands for Western Cape Province
EC stands for Eastern Cape Province

Source: Interview data (2010; 2011)

According to Fairtrade South Africa (2010), all Fairtrade certified producers in South Africa received certification after 2000, with Coop 2 being amongst the first to be certified in the country. Coop 1, although certified later (in 2005), was already

[20] Cooperative members in case of cooperatives

engaged[21] with Fairtrade from around 1999. Coop 1 lost its Fairtrade certification recently (at the beginning of 2010), but is pursuing recertification.

Plantations in South Africa started the process of certification at almost the same time as cooperatives in the country. The reason is linked to their exposure to Fairtrade information. Both cooperatives in the study reported that they only learnt of Fairtrade in the late 1990s from NGOs. On the other hand, Farm 4 and Farm 5 (which are among the first plantations to be certified by Fairtrade in South Africa) learnt of Fairtrade from consumers in international markets. For these plantations, the growing popularity of Fairtrade in international markets in the late 1990s encouraged them to seek certification after Fairtrade was formalised in South African agriculture in 2003 (Interview data, 2010). Seven of the plantations being studied have been certified by Fairtrade for at least five years (certified between 2003 and 2005, as shown in Table 6.1).

Empirical evidence of the study shows that the number of workers employed by producers depends on the size of the farm, the type of commodity under production and the season of the year. They all hired additional labour during harvesting and when these employees are included, total farm employment, in most cases, almost doubles and sometimes trebles. When asked, seven of the 10 farmers on plantations explained that they prefer temporary employment because it is less costly; as temporary labourers do not receive wages throughout the year (temporary labourers do not get a wage in periods when they are not employed). These results supplement the findings of du Toit *et al* (2008), which pointed out that a number of commercial farmers in South Africa resorted to temporary employment after the introduction of minimum wages for farm workers. The existence of a large number of temporary farm employees raises questions as to what happens to these workers when they are not working and how Fairtrade influences their situation. Even small-scale producers in cooperatives employ paid labour, especially during harvesting, with most employing between three and four additional labourers. Such labourers, although anecdotal evidence[22] of the study suggests otherwise, are at risk of underpayment because Fairtrade‘s standards of hired

[21] Before Fairtrade was made formal in South Africa, an NGO collected *rooibo*s tea from Coop 1 and marketed it in Fairtrade markets.

[22]Cooperative respondents said that they paid their employees well, but did not give the actual figures. They only explained that they decide on employees‘ wages based on how other farmers in the area paid their employees.

labour do not include labourers hired by individual small-scale farmers (Poret and Chambolle, 2007).

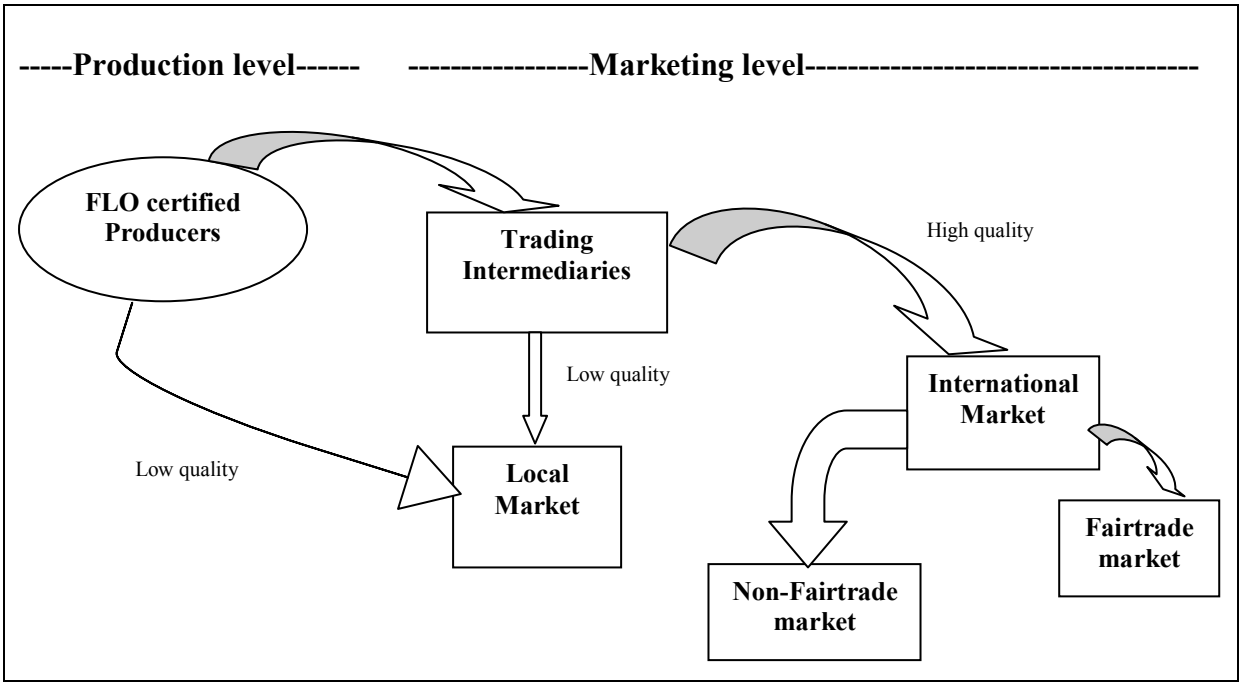
As shown in Table 6.1, a number of Fairtrade certified producers who were interviewed focus on a single commodity[23]. Focussing on a single commodity exposes producers to possibilities of suffering economic losses in cases of unfavourable production conditions, like disease outbreaks and drought affecting a specific commodity. The challenge faced by Fairtrade producers is that the Fairtrade organization does not change its standards to accommodate producers facing unfavourable production conditions. As a result, Fairtrade producers face increased risks and losses when they focus on one commodity. For example, in 2004, Coop 2‘s output quality was affected by drought conditions, and Fairtrade could not accept it for marketing under its label. Members of the cooperative ended up selling their produce in other markets (Interview data, 2010). Given that Coop 2 depends greatly on the Fairtrade market (with 90% of its produce sold under Fairtrade), cooperative members suffered great losses, from adverse production conditions and made worse because they had to look for another market. On the other hand, producers farming with two or more commodities (like Farm 5 and Farm 9) can rely on the other commodity if the harvest of the other one is bad for that year.

Another challenge for all interviewed producers (except for wine) is that they cannot supply finished products in the Fairtrade market because Fairtrade labelling prefers to deal in raw materials or partially processed goods from producing countries. For example, tea, coffee and cocoa have to be supplied as raw materials by producing countries (Bigirwa, 2005). This condition deprives producers of the opportunity to move up the value chain.

All interviewed producers market only a portion of their produce on Fairtrade markets (percentages in Table 6. 1), which forces them to pursue a diversified marketing strategy. Generally, plantations sell smaller percentages of their total volumes through Fairtrade markets as compared to cooperatives because their output is much higher and they are exposed to a number of markets. Based on data gathered from interviews, all

[23] This condition is not specific to Fairtrade producers and neither is it influenced by being Fairtrade certified.

producers (except for Farm 3 and Farm 7, which have the local market as their main market) follow a marketing path as illustrated in Figure 6.1. A considerable amount of Fairtrade quality produce not sold through Fairtrade channels is sold on conventional markets (with some producers selling more than 60% on such markets). These findings substantiate findings of Lewin *et al* (2004), which state that about 20% of global Fairtrade production capacity is sold at Fairtrade prices, with the rest ending up on conventional markets. There is a high probability that some consumers may buy Fairtrade quality produce at conventional prices without knowing it.



Note: Both local markets and non-Fairtrade markets on the diagram represent conventional markets

Figure 6.1: Marketing paths followed by Fairtrade producers in the study

Source: Interview data (2010)

Figure 6.1 shows that higher quality produce is sold in international markets, both in Fairtrade and non-Fairtrade conventional markets. All interviewed producers concur that they receive higher prices from selling in Fairtrade markets, but they cannot sell all their produce in these markets. For this reason, they end up selling on conventional international markets at lower prices, but still higher than prices they would receive in local markets. According to Farnworth and Goodman (2006), Fairtrade quality produce ends up on conventional markets because the Fairtrade market is not growing fast enough to accommodate a larger increase in supply. The question that arises from this

data is; if supply of Fairtrade commodities is higher than demand, why does the Fairtrade organization continues to certify producers, especially plantations?

All interviewees in the study identified the slow market growth of Fairtrade as a huge restriction to their growth. Due to this slow market growth, interviewees are concerned about the sustainability of Fairtrade. One respondent complained that:

> "After following Fairtrade production requirements, every season we end up with large volumes of Fairtrade quality produce which is not marketed under Fairtrade. If given a chance, we would like to increase our Fairtrade sales, that way; we can survive market challenges in the future."

From these respondent's statements, it can be gathered that Fairtrade suppliers often end up with excess supply of Fairtrade quality produce, which they have to market elsewhere, other than the Fairtrade market. The availability of excess supply creates a risk to both the Fairtrade and the non-Fairtrade systems. To the Fairtrade system, excess supply can affect the marketability of the Fairtrade label if firms, which receive Fairtrade quality produce in the conventional markets, decide to communicate the lack of difference of the commodities available from the two markets. Under such circumstances, consumers might end up doubting the credibility of the Fairtrade label. As a result, they might opt for conventional markets, undermining the Fairtrade system.

The excess supply of Fairtrade quality produce becomes a challenge to non-Fairtrade farmers when it affects prices. Imhof and Lee (2007) explained that if Fairtrade excess supply is sold in non-Fairtrade markets, it might contribute to a fall in the industry world market price, lowering incomes of non-Fairtrade farmers. Currently, Fairtrade cannot significantly influence world market prices because Fairtrade goods represent 0.01% of the world market (FLO-cert, 2010). However, considering a "50% growth rate" of the Fairtrade market (Murray and Raynolds, 2007: 9), in future, Fairtrade might have an influence. The Fairtrade organization is aware of the likely risks of excess supply, one of the reasons why it prefers that Fairtrade producers use their additional price benefits from Fairtrade to invest in other areas, like in quality improvement, rather than in increasing production (FLO International, 2007c).

6.2 Background information of producer units

This section gives the background information of producing units (cooperatives and plantations) in the study. They are divided into *rooibos* tea, wine grape/wine and fruit producers, based on the type of produce supplied by each unit. It is possible for a cooperative or plantation to belong to more than one group, but its background is given only in one group.

6.2.1 *Rooibos* tea producers

Rooibos tea is entirely produced in the *Fynbos* biome in the Cape region (northern part of the Western Cape Province) by both commercial and small-scale farmers (Binns *et al*, 2007). Amongst these producers, two small-scale farmer cooperatives were certified by Fairtrade, and both of them form part of the present study. There are five Fairtrade certified *rooibos* tea plantations in South Africa.

Coop 1

Coop 1 was formed in 1998 by a group of 16 small-scale *rooibos* tea farmers. They formed a cooperative with the help of an NGO and the provincial Department of Agriculture. Founding members of Coop 1 formed the cooperative as a strategy to increase their income and market competitiveness, and fight poverty in their community. Before they were organized into a cooperative, these small-scale farmers did not have direct access to markets, so they sold their produce through middlemen. They supplemented their farming produce with gathering natural food products and low wages earned from commercial farm employment. Ever since 1998, the cooperative has achieved notable changes, such that it now has 170 members and its production has risen from 16 tonnes to about 100 tonnes a year. After certification by Fairtrade in 2005, Coop 1 was decertified at the beginning of 2010, but is in the process of seeking recertification. Involvement with Fairtrade exposed Coop 1 to the benefits of becoming certified as organic producers, as well as exposure to international markets. When it was still Fairtrade certified, Coop 1 used the social premiums mainly to fund farm and processing improvements, such as constructing a cooperative tea court, buying a community tractor and training cooperative members. The premium was also used to support local schools and eight disadvantaged members (orphans and the sick) of the community (Interview, 28-10-10).

Coop 2

Coop 2 was founded by 14 small-scale *rooibos* farmers in 2000, and currently has 60 members. It was founded with an aim of building social and economic development in its community. As with Coop 1, the Coop 2 community has a history of poverty and discrimination; farmers had poor access to markets and received low prices from middlemen. Coop 2 members were introduced to the benefits of collective marketing by Coop 1, and were inspired to organize themselves into a cooperative. Through the assistance of two NGOs and the provincial Department of Agriculture, Coop 2 members visited Coop 1 to collect information on collective processing and marketing, and on Fairtrade markets, leading to the creation of Coop 2. Coop 2 now markets between 45 and 55 tonnes of *rooibos* tea annually to Fairtrade markets in North America, Europe and Australasia. This represents 90% of its total produce. So far, projects that have been implemented include buying tea chopping equipment, training cooperative members, construction of a tea court for the cooperative and installation of a photovoltaic solar power system at the tea court. Coop 2 also invested in a value-adding packaging venture with Coop 1. Community projects include providing educational scholarships, financial support to local schools, church and disadvantaged members of the community (Interview, 28-10-10).

Summary for small-scale farmer cooperatives

The way small-scale farmer cooperatives included in the study operate is different from that of plantations in the study. Members of the two small-scale farmer cooperatives produce *rooibos* tea on individual farms which they own customarily, then pool the commodities for marketing. All plantations have legal rights to their farms and all, except for one[24], supply the market with commodities produced under the same conditions. The fact that produce from Coop 1 and Coop 2 is gathered from different producers can compromise the quality of their produce. This, together with relatively small marketed volumes and, the one-commodity focus, are the reasons why members in both cooperatives being studied are threatened by the expansion of other plantations into *rooibos* tea marketed under the Fairtrade label. However, the small-scale farmer cooperatives have certain strengths and opportunities that allow them to survive market

[24] Farm 8 is a cooperative for commercial farmers so individual commercial farmers pool their produce when marketing.

pressures. The type of commodity they produce is unique to South Africa; therefore, they only face challenges of local competition in production. Moreover, the fact that the two cooperatives work together and even share a value-adding packaging facility, shows that they are already implementing strategies that allow them to survive competition. Cooperative members can utilize this facility as an asset to gather and exchange ideas and experiences, which can be ploughed back into the communities.

Farm 9

Farm 9 is a family farm that has been in the hands of its owners since 1927, and is among the largest citrus exporting farms in South Africa. In the 1960s, it diversified into *rooibos* tea farming, and now supplies national and international markets with both organic and non-organic *rooibos* tea. Farm 9 has citrus as its main export commodity, but the management interviewee at the farm highlighted that their *rooibos* tea sells better in the Fairtrade market compared to their citrus. The total land area of Farm 9 is 5 000 hectares, spread over eight farms, with part of the land used for employee housing, cattle grazing and for a nature reserve. Permanent farm workers on Farm 9 have an 11% ownership share in the farms. Social premiums at Farm 9 have been invested in renovating farm worker houses and a clinic, building a day-care centre and a community hall, offering educational bursaries to fifteen disadvantaged students, and to support worker training and youth development programmes (Interview, 13-03-11).

6.2.2 Fruit producers

Fruits that are supplied to the Fairtrade market by South Africa are divided into fresh and dried fruits. As with *rooibos* tea, Fairtrade has certified plantations and (one) small-scale cooperative to supply fruit under its label. Only Fairtrade certified fruit plantations are considered in this study, because the only Fairtrade certified cooperative (for dried fruit) is located in Northern Cape Province, an area outside the boundaries of the study.

Farm 1

Farm 1 is a family owned and managed business, which has been involved in citrus production since 1904. It specializes in three types of citrus, *viz* oranges, lemons and soft citrus, with oranges grown on 65% of the farm. Of the farm‘s total land, two areas of 30 hectares and 25 hectares are leased and managed by the Joint Body, respectively.

The farm harvests approximately 250 000 cartons of citrus a year, and markets between 10% and 20% of its total volumes through Fairtrade, 55% to 60% on international markets, and the remainder in local markets. Since their first premiums in 2005, the farm has engaged in a number of projects, including, constructing a training centre, reconstructing a day care centre, buying uniforms and equipment for the community-policing forum, constructing sewing and computer training centres and funding sporting tournaments (netball and soccer) for two years. Part of the premium is used to fund training and capacity building programmes on the farm, held once every year since 2005. Fairtrade projects at Farm 1 have attracted other farmers, such that Farm 1 has assisted two emerging farmers in its neighbouring area to become Fairtrade certified (Interview, 10-06-10).

Farm 3

Farm 3 is a commercial table grape, apple and pear farm which is owned entirely by a workers' trust, representing all permanent workers. The farm was purchased by farm workers in 2002, in line with South Africa's post-apartheid support for BEE. When the farm workers acquired the farm, it was in a state of neglect, with almost 58% of the trees past their period of maximum production (over 16 years old). Ever since acquiring the enterprise, the owners have been using their profits to reinvest in the business, such that they have replanted new trees on 40 hectares of the farmland. Farm 3 still depends on the local market, as it exports about 40% of its total apple and pear produce, and sells all of its grape produce to local markets. Social premiums at Farm 3 have been used for renovating a community crèche, funding a clinic, giving bursaries for tertiary education to local financially disadvantaged students, giving education vouchers to all employees with school age children, supporting employee training and adult education, improving a local football and rugby field, and sponsoring sporting competitions. Other projects include supporting a women's crafts club, sponsoring children's outings and Christmas parties, installing a satellite television and pool table in the community hall and supporting a community vegetable garden (Interview, 28-10-10).

Farm 4

Farm 4 was a family owned business from 1967, and then decided to merge with its neighbouring farm in 2002 in a joint venture arrangement. The farm acquired additional production land, but the business was financially unstable, forcing the owners to rely on

third-party investment. Having been in support of their local farm workers' empowerment, the farm owners reported that they saw the government's support for employees land ownership as an opportunity to access government funds. Therefore, the business was converted into a joint equity scheme by making a workers' trust the third shareholder. The workers' trust comprises all permanent workers, and owns 40% of shares. So far, the social premiums at Farm 4 have been invested in renovating crèches in two communities, buying school uniforms for all workers' children, paying fees for orphans in the community, paying university fees for nine students, investing in adult education and training among the employees, constructing a community training centre and installing a satellite television in the training hall (Interview, 30-10-10).

Farm 10

Farm 10 is a privately owned farm, of which 32% is owned by farm employees. It produces eight varieties of apples, which are sold in both local and export markets. The farm sells 30% of its total fruit volumes to local markets (supplies Pick _n Pay, Woolworths, Checkers and Shoprite) and the rest to export markets. Farm 10 has its own fruit packaging facility, which was partially funded by the government, as part of a job creation and empowerment programme in the country. Therefore, after harvesting, the fruit is sent to the pack-house, where it is washed, sorted, packed and stored for delivery. Also, since 2006, the farm has been involved in processing a fraction of its apple volumes (in 2009, 15% of total volumes was processed) into apple concentrate juice. Apart from farming activities, Farm 10 contributes to Fairtrade tourism in South Africa. The farm accommodates its visitors in straw-bale cottages for a fee. Social premiums at Farm 10 have been used to construct a gym and a crèche, to fund a local clinic and children's outings, installing a satellite television in the community hall, paying salaries for crèche teachers and a nurse, and to support the running of government sponsored adult basic education and training classes (Interview, 04-05-11).

Summary for fruit producers

The five Fairtrade certified fruit plantations in the study (including Farm 9) signify three land ownership structures in commercial farms of South Africa: 1) total ownership by farm workers, 2) share ownership between farm workers and their employers, and 3) sole farmer ownership. All the three ownership structures have related advantages and disadvantages. For example, in the first structure where farming land is totally

owned by farm workers, the owners face problems of managing the farm. However, the esteem built by ownership can allow them to learn by doing, as well as exercising control over Fairtrade decisions. In the second structure, workers have a greater chance of learning from management on the same farm, but are at risk of depending on management in matters concerning the running of the business (Sefoko *et al*, 2007). The decision-making process has a tendency to take a long time in both structures one and two because of a decentralized formation. This is opposed to a centralized approach which is followed in the third structure (du Toit *et al*, 2008).

In the third structure, farm workers can be demoralized to work, especially if they lack a sense of ownership. Nevertheless, this structure is assumed to operate more efficiently compared to the two former structures, when analysed using the common property resources model (see Dasgupta, 2005). Farm workers in the third structure can benefit if more of the produce is sold through Fairtrade, implying a greater social premium. Although the third structure is assumed to be more efficient, the first and second structures favour equity, since workers earn a wage and a share of the enterprise‘s profits (Todaro and Smith, 2003), and have some influence in production and marketing decisions. Ownership structure on the fruit farms studied is of land only, unlike on wine grape farms, where farm workers can have ownership of wine brands. For example, farm workers at Farm 7 have shares in wines brands which are produced using grapes produced on Farm 7.

6.2.3 Wine grape/wine producers

Of the commercial farms in the study, five supply the Fairtrade market with wine grapes and/or wine. Those who are certified to supply wine, use wine grapes supplied from a Fairtrade certified farm. Therefore, there is a close link between Fairtrade certified wine producers and certified wine grape farmers in the study. In some cases, certified grape farms and wine cellars are owned by the same people, whereas in others, grape farmers own shares in the wine cellars. All wine grapes and/or wine producers in the study are commercial farms because wine grapes are extensively cultivated on plantations in South Africa.

Farm 2

Farm 2 is a privately owned joint enterprise, which was established in 2002 between four brothers and a farm workers' group. The enterprise is divided into two, a group of farms that grow wine and table grapes, and a winery that produces and packs wine. Farm 2 uses organic methods to produce both grapes and wine[25], where almost 75% of its produce is organic. All permanent farm and winery employees own 26% and 50% shares in the winery and farming sectors of the business, respectively. In order to acquire part ownership of the enterprise, farm workers collectively took a commercial loan because the government grant programme, which could have funded them, as part of BEE, was suspended. Fairtrade premiums at Farm 2 have been invested on fencing workers' yards and gardens, buying laptop computers for the community training centre, constructing a training facility for adult education, constructing a crèche, offering college bursaries, buying soccer kit for a community football team, offering on-farm canteen and locker security services to workers, sponsoring a commercial community organic vegetable garden and an organic vineyard project used for educational purposes. In addition, part of the Fairtrade premium was used to pay back the loan and its interest (Interview, 29-10-10).

Farm 5

Farm 5 was established in 1996, for farm workers who were moved off their community land by a forestry company in the area aiming to protect the forest. The farm owner employing these people sold 100 hectares to the farm workers under the BEE program, and the forestry company leased them another 100 hectares, forming a 200 hectare farm for the workers. Initially, this workers' farm was planted with pears, apples and plums, but, in 1999, the owners increased investment in the production of wine grapes, decreasing fruit production. At present, about 70% of its land is devoted to wine grape production, which they supply to a winery, in which they own 55% shares. Of the farm's total volumes, 95% of wine and 90% of fruit is exported. Fairtrade premiums at Farm 5 have been used for constructing and running a crèche where 40 children are enrolled, supporting adult education and employee training, supplying stationery to a community primary school, paying school fees for financially disadvantaged school children and paying fees for one postgraduate student. They also invested in viticulture

[25] No sulphur is added during winemaking

studies for selected people and in educational tours. Since 2009, Farm 5 has been saving its premium for investment in a housing construction project for the workers (Interview, 30-10-10).

Farm 6

Farm 6 has been a family owned business from 1895 and farms with wine grapes. Farm 6 farms with 11 types of grapes, where seven are red and four are white. Its total farming area is divided into six farms, where 524 hectares are used for wine grape farming, 100 hectares for *Fynbos* nature reserve for endangered types of vegetation (mainly indigenous plants), and the remaining area is used for olives. As part of BEE, one of the six wine grape farms at Farm 6 is owned by the permanent workers. The workers also have a 26% shareholding in a winery company, which processes all of its grapes. Ever since Farm 6 was certified by Fairtrade, it has used Fairtrade social premiums to invest in crèche renovations, running a social development program, buying food hampers for workers once every year, paying for drivers‘ and learners‘ licenses, and supporting a sports club. In addition, premiums have been invested in social development programs, such as HIV/AIDS workshops, and family counselling programmes (Interview, 08-03-11).

Farm 7

Farm 7 is an equity scheme between owners of a private wine cellar, who purchase all of its grapes, and all its permanent farm and cellar employees. It was purchased in 2006 as part of a BEE programme, where the Department of Land Affairs financed the purchase of the farm. An employees‘ trust, representing 116 members (99 of them being employees from the cellar and 17 farm workers) has 52% share ownership of the farm. At present, the farm is being administered by representatives of a democratically elected farm employee trust and owners of the private wine cellar, but day-to-day activities are monitored by the 17 farm workers representing the employees trust. The interviewees at Farm 7 emphasized that farm workers are left to run the farm because they are the majority shareholders. The cellar, which receives grapes from Farm 7, is Fairtrade accredited in order to allow it to produce Fairtrade wines. Grapes received from Farm 7 are then used to produce eight wine brands, in which the employees trust has a 25% share ownership. These wine ranges are mostly marketed locally (only 10% is exported), focussing on tourist destinations, especially national parks and game

reserves. So far, the JB has not made much use of the Fairtrade premium, since they only received their first premiums in 2010, and only 2% of their wine is sold through Fairtrade. They have used the money for workers' training and for buying four refrigerators and a stove for farm workers who did not have such appliances. The JB member interviewee at Farm 7 admitted that they are still learning about Fairtrade activities, and need guidance on how to use premiums (Interview, 09-03-11).

Farm 8

Farm 8 is a wine cellar cooperative, which was established in 1962 by six commercial wine grape farmers. At present, it has 22 members who produce wine grapes in a closely-knit community, within a radius of 10 km from the cellar. Individual farms are relatively small, the 22 farms encompassing a total of 800 hectares of land. Farm workers do not have share ownership on the farming land, but have 25% share ownership of the wine brand produced from the grapes coming from their farms. Farm 8 depends greatly on the export market, since 95% of its total wine volume is exported. The premiums have been used to contribute towards the construction of a community centre and library, to fund sports tournaments, pensioner outings, an arts and crafts shop, a restaurant and a coffee shop, a women's club and a youth club, and buying spectacles for workers who had eye problems. Also, a relatively large portion of the premium has been invested in education, in the form of supporting three day-care centres (with 200 children in total), programmes for adult education, buying furniture for a community primary school (with 105 children, grades 1 to 3), bursaries for eight tertiary level students and implementing family counselling and health awareness programmes (Interview, 09-03-11).

Challenges common to workers on wine grape farms

Interviewees at all wine grape farms cited problems associated with alcohol abuse, which often leads to sexual abuse and problems of HIV/AIDS infection, teenage pregnancy and violence[26] among farm workers. These problems, if not addressed, can be passed on to future generations. For example, Farm 8 interviewees reported that children whose parents are alcohol abusive lack proper supervision at home. For this reason there are many school dropouts, especially after completing primary school. The

[26]The situation is influenced by historic conditions, where in the past most farm workers on wine grape farms received part of their payment in the form of a daily measure of alcohol (the tot system) (Conradie, 2004).

interviewee representing the JB committee explained that some of the children at Farm 6 do not have education incentives; they feel that they have grown up on farms, so they belong there and have to work there. In order to address these issues, a percentage of Fairtrade social premiums on wine grape farms, has been directed towards dealing with such social issues.

The foregoing background information on Fairtrade producers in the study gave an overview of these producers' history, changes that have occurred in each producer unit and what it has achieved through Fairtrade. The next section is devoted to analysing respondents' views to questions related to Fairtrade, its processes, rules and premiums.

6.3 Producers' perspectives on Fairtrade

This section presents respondents' views with regard to what Fairtrade is, its processes and what it has achieved in their situations. In some cases, interviewees share the same opinion, but in few cases, they disagree.

6.3.1 The meaning of Fairtrade

Respondents presented different views on their understanding of Fairtrade and what it aims to achieve. In a plantation setup, the two groups of people who were interviewed showed two levels of understanding of Fairtrade. Using the Fairtrade definition given by FINE (2001), farm management had the most precise understanding, whereas, worker representatives in JB committees had a more limited understanding. The latter knew the aims of Fairtrade, but were not sure of Fairtrade processes as related to pricing and consumer roles in Fairtrade. In the cooperatives, management understood Fairtrade well, but other members of the cooperatives were not sure of how it worked. All cooperative members from both cooperatives that were studied equated Fairtrade to _better' incomes and _higher' prices on produce. The knowledge about how these prices were achieved and the underlying philosophy of Fairtrade was rather limited from this group. The Fairtrade definition as given by FINE (2001), embraces three dimensions: economic, environmental and social. Responses given by different stakeholder groups in the study are classified into the three dimensions in Table 6.2.

Table 6.2: Respondents' perception of the meaning of Fairtrade

Respondents group	Economic themes	Environmental themes	Social themes
Commercial farm management	• Floor price • Good quality of produce • Social premiums • Transforming international markets	• Limited use of chemicals • Nature protection	• Close relationships in the market • Decent working conditions for farm employees
Joint Body representatives	• Social premiums	• Limited use of chemicals	• Close relationships between employees and farm owner
Cooperative management	• Creating trade opportunities • Higher prices • Social premiums	• Organic production	• Bypassing middlemen in marketing • Support for democratic decisions • Regular meetings
Cooperative members (not in management)	• better incomes	• Organic production	• Collective decision-making

Source: Interview data (2010; 2011)

After analysing different responses, it became evident that the level of understanding of Fairtrade is also correlated to the period when the respondent got to know about Fairtrade. Those respondents who learnt about Fairtrade after it was initiated on their farms (cooperatives) had the least understanding of its processes. This is the case with JB worker representatives, and small-scale farmer cooperative members. The management (in both plantation and cooperative setups) are more informed about Fairtrade processes, mainly because they were involved in initiating Fairtrade at their farm (cooperative), and are the persons who handle Fairtrade related paperwork. After getting involved with Fairtrade, a few respondents among small-scale producers and farm workers mentioned that there is little emphasis placed by Fairtrade officers and farm management on educating them about Fairtrade. This response gives an impression that Fairtrade issues are handled at higher organizational levels on these farms, with less information passed on to lower organizational levels. Findings of this study are similar to those of Taylor (2002) which identified differences among cooperative members in defining Fairtrade and its processes.

Although the levels of understanding of what Fairtrade means differ somewhat among interviewed stakeholder groups, none of the respondents mentioned goals which are outside the Fairtrade scope. All their Fairtrade definitions when taken together make up the bigger picture of what the Fairtrade movement seeks to achieve. As such, the respondents of this study can be seen to have a shared vision with Fairtrade, though caution needs to be taken not to treat Fairtrade _producers' and _farm workers' as a homogenous group. Although out of the scope of this study, it would be necessary to check whether Fairtrade producers and consumers have a mutual understanding of Fairtrade meaning, and how their Fairtrade definitions affects the movement's goals in the global trade system. There is a need to answer questions like: Do consumers and producers have a similar understanding of Fairtrade? How can a mutually shared meaning be created (or sustained) between the two groups? Do the opportunities to create a shared meaning also draw them towards the same goals, and strengthen the Fairtrade movement?

6.3.2 Fairtrade information

Nicholls and Opal (2005) and Fridell (2007), among other proponents of Fairtrade, criticize the free trade system because market participants share imperfect market information. Commodities sold in a free market system do not give full information about the people and environments that produced them (Fridell, 2007). As such, Fairtrade is expected to address the market information gap in order to win producer and consumer groups. To investigate the accessibility of Fairtrade information among producers, respondents were asked about the way Fairtrade is promoted and media used to communicate about Fairtrade. Their responses are presented in Table 6.3, together with advantages and disadvantages associated with the media of communication.

The majority of study respondents are of the view that Fairtrade sources of information have not been adequate in providing initial Fairtrade information. When asked about how they first knew about Fairtrade, one farmer on Coop 2 explained that Fairtrade is _complex and cannot be learnt from merely reading an article'. To increase Fairtrade knowledge amongst small-scale producers, the respondent suggested a need for proper face-to-face interaction, together with use of practical experiences from others who are already involved with Fairtrade. The respondent gave an example of their cooperative

situation where they learnt from the successes of Coop 1. Respondents from Coop 1 agree that the media of communication used, such as internet websites and newsletters, are inadequate to reach all producer groups, since not all people have access to such sources. Plantation respondents shared the same views. They all first learnt of Fairtrade from other producer organizations or from the markets, rather than directly from Fairtrade sources and campaigns. Moreover, concern was raised about the use of English only in presenting official information from Fairtrade.

Table 6.3: Respondents' views on Fairtrade information

Medium of information	Advantages	Disadvantages
Direct Fairtrade sources that are available: • **Newsletters** • **Internet websites** • **Road shows** • **Fairtrade producer meetings**	• (Newsletters) target a specific group (those interested in Fairtrade) since it requires people to sign in • (Internet websites) have potential to reach a lot of people • (Road shows and meetings) allow face-to-face interaction	• All four sources are not easily accessible to all groups of people • (Newsletters and websites) discriminate against people who cannot read • (Newsletters and websites) do not give room for discussion
Other sources used: • **Consumers (market)** • **Other Fairtrade certified producers**	• Knowledge exchange from people who are involved with Fairtrade • Allow face-to-face interaction	• Both producers and consumers may not have precise Fairtrade information
Other preferred sources: • **National television programs** • **Fairtrade arranged producer-to-producer visits** • **Fairtrade officers (through farm visits)**	• All three sources potentially reach out to people who cannot read • (Television) has potential to reach to a lot of people • (Visits) allow face-to-face interactions • (Visits) allow people to learn from other producers' progress	• Fairtrade officers may not visit all producer groups • Some producers may fail to disclose all information in order to limit competition from other producers

Source: Interview data (2010; 2011)

After looking at the Fair Trade South Africa website[27] (as an example of a website with Fairtrade information), the present study identified a lack of hard information, like facts, on the website. The website does not give information related to Fairtrade premium and price figures, and the procedures for applying for Fairtrade certification. Although the website gives useful stories of successes by some Fairtrade producers in South Africa, these stories are not backed up by figures, which compromise the usefulness of these stories. Before becoming involved with a certain market, prospective participants need to know how the market performs and what is expected of them (Humphrey, 2002). Therefore, providing hard figures and facts may prove useful in raising Fairtrade awareness. In order to keep confidentiality agreements, the figures could be put as aggregate values for different categories of producers (for example, according to type of produce or area of location), rather than revealing figures alongside farmers' names.

Once producers are certified by Fairtrade, all respondents agreed that it becomes easier to access Fairtrade information, as well as market information. They reported that Fairtrade inspectors visit annually to review compliance with Fairtrade standards, including reviewing the use and distribution of premiums and, progress in social projects. All interviewed plantation management representatives explained that after such inspections, they have access to timely Fairtrade feedback and information. On the other hand, cooperative members complained that Fairtrade feedback usually comes late. The reason for this problem is that communication links for small-scale farmers are not fully developed. Taylor (2002) suggested investment in different media of communication, targeting different producer groups, for Fairtrade feedback to be more valuable.

6.3.3 Fairtrade certification process

All respondents concurred that the process of Fairtrade certification is lengthy and slow. The majority of the respondents took almost a year to get full certification approval, with some taking longer. Coop 2 members began seeking Fairtrade certification at the end of 2000, but only obtained organic certification in 2001, then were certified by Fairtrade in 2003. Among all the study respondents, Farm 9 management interviewees were the only ones who specified that they had to make 28 corrective actions before

[27] http://www.fairtrade.org.za

they were Fairtrade certified. All respondents agreed that Fairtrade certification requires significant investments of time and resources because it involves large amounts of paperwork. It also imposes costs on the producers, in the form of certification and administration costs. In the case of both Coop 1 and Coop 2, farmers employed managers to handle all the administration.

Even after gaining Fairtrade certification, interviewees reported the need to invest in resources necessary for tracking information, making reports to FLO and receiving FLO inspectors periodically. Certified producers are required to pay an annual fee (for the renewal of certification), made up of an annual basic fee and an annual volume fee. The basic fee is a fixed figure for each certified unit, whereas the volume fee is proportional to the produce sold through Fairtrade. All these fees take up a significant amount of the extra income they should be gaining (Lindsey, 2003). Since basic fees are the same for all certified units, producers with larger volumes sold through Fairtrade pay relatively less per unit than those with smaller volumes, as the former spreads the cost over a larger volume. Fairtrade costs are especially challenging to new Fairtrade producers, after entering the system, but before receiving any benefit from it. However, those interviewees who have been involved with Fairtrade for some time reported that Fairtrade costs can be comfortably covered through Fairtrade sales. For example, Fairtrade inspection costs at Farm 5 take approximately 2% of their price benefits (Interview data, 2010). Although the costs are less for some farmers, they do not agree completely as to why they have to incur them. As such, interviewees in the study expressed their concern about Fairtrade costs, and would like to see the Fairtrade certification and monitoring processes simplified.

An interesting finding is the different views from interviewees about the Fairtrade audit, which is done on individual farms every year. Producers of wine grapes and wine are more receptive to the auditing process, and are willing to learn and rectify their mistakes from the process. Farm 6 pays as much as R160 000[28] (or USD19 785) per year to cover the auditing process, but they remain positive that through auditing they are able to improve on both quality and quantity of their produce. On the other hand, Fairtrade

[28] As of 15 November 2011, 1USD = R8.0871 (http://zar.fx-exchange.com/usd/2011_11_15-exchange-rates-history.html)

producers of other commodities who were interviewed, like citrus and *rooibos* tea producers, are not comfortable with the auditing process. They only do it because it is a requirement in order to remain certified. Farm 1 interviewees were not happy with the R90 000 paid for auditing every year. The different views on auditing are probably influenced by the differences in commodities where, because of value-adding, wine receives higher prices compared to fruit and tea.

With regard to the link between Fairtrade certification and BEE in South Africa, six of the ten commercial farmer respondents, who have to comply with BEE, complained. They feel that the government should support Fairtrade producers' activities and part-fund community projects if it enforces BEE standards on Fairtrade producers. For this reason, these six commercial farmers feel the need to separate Fairtrade from BEE. Kruger and du Toit (2007) present arguments supporting why BEE is necessary on Fairtrade certified plantations. They explained that if Fairtrade certification for plantations in South Africa required complying with the standardized Fairtrade requirements, "Fairtrade could very easily end up legitimizing the racial and material legacy of slavery, colonialism and apartheid" (Kruger and du Toit, 2007: 203). As such, the inclusion of BEE on Fairtrade is justified because the movement was initiated to address those historical disadvantages created by colonialism, post-colonialism, economic neoliberalism and transnationalism.

6.3.4 Producer links in the Fairtrade chain

The Fairtrade market works in the following way: Fairtrade certifies producers and marketing units (exporters and processors), but does not link up the two, it is up to them to contact one another (Smith, 2007). Interviewees confirmed that Fairtrade only provides contacts of possible marketing units. Therefore, Fairtrade producers need to be competitive, in order to get marketers, just like in conventional markets. Finding a marketer is more difficult for new entrants, as marketers are cautious about engaging in trading relationships with new producers. They seek to gain confidence in the producers' ability to fulfil contracts and to deliver quality produce, before they engage in marketing deals. For this reason, marketers tend to have contracts with producers they already know (Taylor, 2002). Farm 3 respondents reported that they failed to sell on the Fairtrade market in their first year of certification because they had not established marketing links.

Interviewees mentioned the importance of establishing and maintaining direct ties within the Fairtrade chain, if possible, even with Fairtrade consumers. All the interviewees claimed to have a close relationship with their exporters and processors. For some producers, direct participation in the Fairtrade chain ends with them delivering produce to exporters and processors, without knowing their consumers. There are some who claimed to know some of their consumers, for example, when their produce is used to launch Fairtrade campaigns at schools. After producers sign contracts with Fairtrade exporters or processors, the Fairtrade organization requires the latter to communicate to producers the estimates of the quantities and qualities they plan to order in the following year (FLO International, 2009). However, the system does not offer producers guarantee, with regard to the actual quantities that will be sold through the Fairtrade market because those depend on product demand in consuming countries. Producers who have a direct link with their consumers are more likely to have an accurate estimate of quantities they will sell in Fairtrade markets. Farm 1 and Coop 2 interviewees reported that they, occasionally, receive visits from consumer groups from the North. They further claimed that these visits have helped boost their self-esteem, as well as helped them have a clearer understanding of the nature of the Fairtrade market. However, the data that was available from respondents is not sufficient to allow comprehensive comparison of different types of marketing chains specific to producing units.

6.3.5 Relationships within Fairtrade certified farms

The types of relationships that are built within an organization determine how that organization functions. An organization where superiors maintain strong relationships with their employees is most likely to perform effectively and efficiently (Furubotn and Richter, 2000). Creating strong relationship involves creating trust and encouraging open communication between people (Kešeljevič, 2007). In a farming organization, the relationship between the farm owner and the farm workers, and between management and cooperative members, has an influence on the yields.

All commercial farm respondents agreed that the relationships between the management and the farm workers have improved due to the presence of the Joint Body committee on their farms. Although Joint Bodies are mainly formed to manage Fairtrade

premiums, they have also been used as a communication link between management and farm workers on all farm matters. The Joint Body representative at Farm 8 explained that farm workers' concerns are communicated to the management through the Joint Body committee and information is easily passed down from the management, and as a result, a sense of belonging is created among farm workers. Furthermore, the presence of strong relationships induces farm workers to work towards the goals of the farm owners. None of the respondents recalled a situation where farm workers declined following Fairtrade standards as instructed by their farm owners. In Coop 2, there are strong relationships between the management and cooperative members, where the management communicates all transactions to cooperative members. In Coop 1, where management failed to communicate effectively, problems arose, which led to decertification of the cooperative by Fairtrade. As a result, the cooperative missed potential economic benefits. The situation at Coop 1 signifies the principal/agent problem.

6.3.6 Fairtrade quality standards

It is mandatory that commodities sold under the Fairtrade label meet Fairtrade quality standards (FLO International, 2007c). All respondents observed that in order to sell through Fairtrade markets, produce should be of high quality and Fairtrade never compromises on the quality of produce. They all agreed that Fairtrade inspectors visit producers every year, and they strictly adhere to produce quality standards. If certified producers fail to meet required quality standards and cannot rectify it within one year, they will be decertified, in the same manner as Coop 1. A number of interviewees felt that the Fairtrade quality standards are set too high. However, if they are to use the Fairtrade market, they should deliver what is demanded in that market. For this reason, producers are often investing in training programmes that help to improve quality. Farm 4, for example, sends a group of workers for training every year. The majority of the interviewees reported that the quality of their produce has improved markedly since they got involved with Fairtrade. Even the fraction of their produce, which is not sold in Fairtrade markets, receives relatively higher prices in other markets due to higher quality. The few respondents who have not noticed an improvement in quality explained that they are still implementing (or have recently implemented) quality improvement changes (Interview data, 2010; 2011).

According to Boselie *et al* (2003), producers who are committed to meeting the Fairtrade quality challenge should be willing to invest substantial inputs towards quality improvement. In their study, they found out that the learning curve for improved quality can be steep, sometimes imposing losses on producers at the outset. Producers can accrue debts from initial quality failures after investment, and it can take a number of changes before the required Fairtrade quality standard is met (Boselie *et al,* 2003). Although the quality standards impose an additional cost on the producers, the prices that they receive on produce sold through Fairtrade should cover all costs, and still motivate them to supply the Fairtrade market. It is important that producers supply good quality produce in Fairtrade markets, to encourage consumers to pay higher prices than conventional market prices, thereby creating a win-win situation (Farnworth and Goodman, 2006).

6.3.7 Fairtrade employee standards

Minimum wages set by nations are subjective, because in some countries they are set low so that the government can claim that everyone is getting the minimum wage. Some countries set high minimum wages as an aspiration or just for prestige, but do not enforce them (Devereux, 2010). There has been an increase in wages of low-skilled workers in South Africa since minimum wages were set in the country, but some employers do not comply with the minimum wage policy (Pollin *et al,* 2006).

Fairtrade requires plantation owners to pay minimum wages[29] to their employees. If non-Fairtrade commercial farmers also comply with minimum wages, then there should not be any reason for receiving different wages among farm workers, regardless of the farm they are working on (FLO International, 2007c). Joint Body worker representatives at Farm 1, Farm 3 and Farm 4 verified that there is no wage difference between workers at their farm and that of neighbouring non-Fairtrade farms. There were a few cases in the study where Fairtrade workers received higher than minimum wages (though not a requirement from Fairtrade). At Farm 6, the lowest paid farm employee is paid R1 378 per month, and at Farm 2, R1 350 per month. In cases where there are no differences in wages from those of non-Fairtrade farms, JB worker representatives cited an increase in self-esteem that results from bringing development in their communities

[29] Minimum wages for farm workers in South Africa are R6.74 per hour, R303.84 per week and R1 316.69 per month (Cofesa, 2011)

as an advantage for workers in a Fairtrade farm. Another finding is that there are no differences in wages between female and male workers at the same working level, unlike in the past where males received higher wages (see Kritzinger and Vorster, 1996).

Based on Fairtrade employee standards, workers are not allowed to work for more than their stipulated working hours (Fairtrade South Africa, 2010). This law is set to prevent employee exploitation, but some workers feel that this law works against them. For example, the JB committee members at Farm 7 expressed workers‘ willingness to put in more working hours based on the argument that if they work for more hours they will be able to earn more money.

6.4 Monetary benefits in Fairtrade markets

This section discusses direct monetary benefits of Fairtrade to Fairtrade producers, without giving actual values of costs and benefits for each producing unit because producers could not readily disclose such information. Benefits include minimum prices on produce and social premiums, and a further discussion is presented on organic production, and related prices and costs.

6.4.1 Fairtrade prices

All interviewees agreed that Fairtrade prices are higher, as compared to conventional market prices. They all saw the higher prices as a reward for the effort they put into producing Fairtrade quality produce. However, respondents identified two challenges related to Fairtrade prices: 1) they are failing to enjoy higher Fairtrade prices on all exported produce and 2) the Fairtrade market takes relatively longer to pay out money on sold commodities, with most interviewees receiving money three months after delivering produce. Exporters refuse to take the blame for the longer waiting period between delivery and payment, based on the argument that they do not buy produce, but sell it on behalf of farmers. For this reason, respondents feel that they cannot depend on Fairtrade markets, forcing them to use diversified markets. In some cases, they end up selling to markets paying lower prices, where they are paid faster (evident in Coop 1). Under such situations, Fairtrade price benefits act as a subsidy to offset lower prices received from other markets (Kruger and du Toit, 2007). Alternatively, to cover for a delay in payment, Fairtrade producers can ask for pre-finances on their produce, but that

needs to be arranged between producers and their exporters. However, the study did not find data on the practical experiences of pre-financing among the respondents. None of them has been pre-financed under Fairtrade, although they are all aware of the service. The reasons why they have not considered pre-financing included avoiding the possible risk of losing exporters to less demanding producers, and avoiding the bureaucracies and interest associated with pre-financing.

Although the prices that are received on Fairtrade markets are relatively higher, commercial farmers, who were interviewed, reported that these prices were not the most important aspect of Fairtrade to them. Rather, they valued market access, more direct trade and the creation of long-term market relationships. Conversely, cooperative members reported that prices serve as the most important benefit of Fairtrade to them, but they also mentioned more direct marketing, social networking and access to markets. Although producers claimed that they gain higher prices through Fairtrade, they expressed the need for a review of the minimum prices[30], especially in the current economic situation with higher inflation.

Both cooperatives, and five of the 10 plantation respondents, reported an increase in profits and income through higher Fairtrade prices. This research did not relate Fairtrade prices to the cost of production, therefore, cannot precisely comment on producers' Fairtrade related profits. Using data at hand, it is worth-noting that, after certification it can take some time before profits are realized by Fairtrade producers. Farm 4 respondents explained that they have been certified since 2003, but started realizing their profit from Fairtrade in 2007.

Even if it is true that Fairtrade increases income, whether or not the benefits of higher incomes trickle-across to all members of producer families remains to be investigated. In plantations, high price benefits accrue to the owner, whereas employees as a whole benefit from social premiums. There are no monetary benefits directed to individual employees, which is the reason why Besky (2008) is of the opinion that Fairtrade does not address the income paradox in certifying plantations.

[30] Some Fairtrade minimum prices have been operational for some time now, see Appendix 5 (adopted from FLO International, 2010)

6.4.2 Social premiums

All interviewees acknowledge that they receive Fairtrade premiums. Considering the differences in the years of Fairtrade certification, producers cited having received total premiums ranging from R76 000 to R6 500 000 so far. Not surprisingly, annual premiums earned by workers at Fairtrade plantations were higher than those earned by cooperatives. The major reason for the differences is that plantations sell relatively larger volumes through Fairtrade, as compared to cooperatives. Since there is a direct link between produce sold through Fairtrade and the premiums received, producers with larger volumes stand a greater chance of receiving higher premium benefits (Nicholls and Cho, 2006). Generally, all respondents are happy with getting Fairtrade premiums, although one commercial farmer was concerned about losing potential buyers if the Fairtrade premium is set too high.

Respondents representing the JB[31] committees confirmed that, as required by Fairtrade, they receive and manage premiums. They all cited the challenges that they face in choosing social projects. A JB committee member at Farm 6 expressed the difficulties that were faced by farm workers in suggesting social projects. The interviewee further explained that some farm workers preferred to get the benefits in cash, or at least that the money be invested in projects that benefit them only. Therefore, they initially suggested only projects that benefit them directly; for example, buying food hampers for farm employees or giving the money out to employees as a bonus. Farm 2 JB committee members reported that they faced similar challenges, and explained that workers need to be educated on how community benefits are important in the long-run. The respondent at Farm 2 strongly supports the use of premiums on community projects. Quoting the respondent's words:

> "Using premiums for community projects brings tangible benefits. If workers are given the premiums in cash, I doubt if they are in any way going to invest it in projects that change their situations, especially among the wine workers at this farm who have a long history of alcohol abuse."

A detailed discussion on how social premiums are spent is presented in chapter 7.

[31] Demographics for JB Committees are shown in Appendix 6

6.4.3 Fairtrade and organic production

Fairtrade encourages organic production by offering higher prices for organically produced goods. Although it rewards organically produced commodities, the Fairtrade organization does not offer organic certification. This means that producers willing to sell organic produce through Fairtrade have to go through at least two certification processes (Farnworth and Goodman, 2006). Higher prices received on organic produce have encouraged some farmers in the study to seek multiple certifications, especially considering that the production, monitoring and inspection requirements of organic farming are compatible, and often overlapping, with Fairtrade.

Among the interviewees, some risk-averse producers are reluctant to pursue organic production because of concerns about possible yield declines during transition. Other plantation respondents felt that organic farming is not financially feasible in a plantation setup. Their argument stems from the fact that organic methods require intensive use of labour, where the use of machinery in production is replaced by manual labour. According to Nicholls and Cho (2006), organic production requires farmers to adopt measures such as using plant cover, rotation, composting and terracing to minimize runoff and soil erosion. As a result of all these demands, organic cultivation might result in using approximately 40% more labour than cultivating with chemicals (Milford, 2004). If producers have to hire more labour in order to produce organically, then it means labour costs will increase. Hiring more workers in a plantation reduces financial benefits of the producer, because plantations often make higher profits by being capital intensive (Pérez-Grovas and Cervantes, 2002). If analysed in the Fairtrade context, the overall welfare effect, whether negative or positive, of a farmer involved in organic production depends on whether an increase in employee wage payments exceed the organic price premium.

An increase in hired labour resulting from organic production can be regarded as a positive side-effect in plantations, creating employment opportunities for community members. Increased employment due to organic production may contribute towards poverty alleviation in areas where there is high unemployment and where labour is an abundant factor of production (Pérez-Grovas and Cervantes, 2002). For small-scale producers who might not need to hire labour, organic production benefits may be gained by increasing labour hours and reducing leisure hours. Support for organically produced

commodities represents a potentially useful means of assisting small-scale producers, especially those who are least able to afford chemical fertilisers and sprays.

6.5 Conclusion

Fairtrade certified producers for this study are involved with Fairtrade for different reasons, and have approached it differently. Generally, cooperatives in the study intend to improve welfare through Fairtrade, while plantations view Fairtrade as an alternative market for their produce. Some respondents market only 2% of their total volumes on Fairtrade markets whereas some market up to 90%, but none of them market all of their produce on Fairtrade market due to the slow growth of this market. Fairtrade quality produce that is not sold on Fairtrade markets is sold on conventional markets, exposing these conventional markets to dangers of oversupply. However, the results of the study confirmed that the Fairtrade movement has managed to secure a niche market for Fairtrade products, which is viewed fundamental to the ability of the movement to sustain their mission and goals, and to assure direct benefits to participants. Other challenges associated with Fairtrade, which were noted, included a single commodity focus, supplying raw materials or partially processed goods in the Fairtrade market, and costs associated with Fairtrade certification. Due to these challenges, the impact of Fairtrade on producers is debatable. In order to contribute to the literature on the impact of Fairtrade, the next chapter further analyses Fairtrade‘s impact on environmental, social and economic aspects.

CHAPTER 7

EMPIRICAL ANALYSIS: APPLICATION OF THE IMPACT ASSESSMENT FRAMEWORK

The previous chapter detailed responses from Fairtrade certified producers from the research case studies. The chapter mainly discussed how interviewees perceive the Fairtrade network and processes. Considerable differences were found between various industries and scales of operation, but they all agreed that Fairtrade has positive monetary and non-monetary benefits. Chapter 7 further analyses Fairtrade impacts on South African beneficiaries by employing the impact assessment framework developed in Chapter 5. In analysing the impact of Fairtrade, special attention is given to the use of Fairtrade premiums and possible impacts associated with development projects that were implemented in farms and cooperatives that were studied.

7.1 Premium use

According to FLO International (2007c), social premiums should be invested in projects that improve local community conditions of Fairtrade beneficiaries. It further stipulates that the projects should fall into the following categories: education, health, economy and environment. However, Fairtrade does not give examples of specific projects, so it is up to the beneficiaries to allocate the money accordingly. Premium committees and JB committees are required to invest in projects that are democratically decided on by all cooperative or farm-level beneficiaries, where the money should also be managed transparently (FLO International, 2007c).

Respondents of this study have invested in a number of projects, varying from constructing crèches, to supporting sport tournaments and local clinics. Projects in one farm vary widely from those of other farms, which makes it difficult to compare projects. For the purpose of analysis, projects invested in by respondents of this study are classified into eleven categories (Table 7.1).

Table 7.1: Fairtrade premium use among respondents

Project Category	Allocation of premiums											
	Farm 1	Farm 2	Farm 3	Farm 4	Farm 5	Farm 6	Farm 7	Farm 8	Farm 9	Farm 10	Coop 1	Coop 2
Producer developments (tractor, tea court, production equipment)	–	–	–	–	–	–	–	–	–	–	✓	✓
Education (crèche, bursaries, books, school hampers, adult education, school infrastructure)	✓	✓	✓	✓	✓	✓	–	✓	✓	✓	✓	✓
Training (production and marketing courses, computer training, social development programs)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Direct community support (infrastructure (halls, training centres), food hampers, craft shops, community security support)	✓	✓	–	✓	–	✓	–	✓	✓	✓	–	✓
Health facilities (clinics support, medication, health training)	✓	✓	✓	✓	–	✓	–	✓	✓	✓	–	–
Environment (organic certification, waste management)	–	✓	–	–	✓	–	–	–	–	–	✓	✓
Worker-specific projects (houses, electric appliances, drivers' licenses, vehicles, spectacles, yard and vegetable garden fencing)	–	✓	✓	–	✓	✓	✓	✓	✓	–	–	–
Sport (sport tournaments, sporting uniforms, sporting fields)	✓	✓	✓	–	–	–	–	✓	–	✓	–	–
Leisure (satellite television, Christmas outings)	–	–	✓	✓	–	–	–	✓	–	✓		
Other premium use (premium spent but no specific project details)	–	–	–	–	–	–	–	–	–	–	✓	–
Saving for future projects	✓	✓	–	–	✓	–	–	✓	–	–	–	–

Source: Interview Data (2010; 2011)

Note: Premiums received by each producing unit vary, depending on the volumes of output sold through Fairtrade and the period of time since they received Fairtrade certification. Therefore, the allocation of premiums is based on the total of premiums received by each producing unit.

- \- Have not invested in this category
- ✓ Invested in this category

7.1.1 Investment in production and processing inputs

As shown in table 7.1, premium use by farm workers on Fairtrade certified plantations is quite different from that of small-scale producers in cooperatives. Both cooperatives in the study have invested part of their premiums in producer development projects, such as in production and processing equipment, and constructing processing facilities in the form of tea courts. In fact, both cooperatives have invested more than 50% of their premiums in producer development projects. The results of this study are similar to findings by Matthews (2009), who noted that Fairtrade certified cooperatives mainly use their premiums to improve their member‘s production conditions and to pursue their career objectives. On the other hand, none of the plantations in the study have used social premiums to invest in producer developments. The reason for this difference is that Fairtrade allows cooperatives to invest social premiums in running the farming business. Fairtrade targets farm owners in cooperatives, so any gains resulting from farm improvements have a direct effect on the beneficiaries. This is unlike in plantations, where farm workers, not farm owners are the prime beneficiaries, so social premiums cannot be used for farm projects, because farm improvements may not benefit workers directly (Kruger and du Toit, 2007).

An investment in processing infrastructure gives producers a chance to move towards supplying the Fairtrade market with larger quantities of higher quality produce. For example, in tea production, individual farmers perform the first stage of agro-industrial processing of drying produce after harvesting. The way this stage is carried out has implications for the quality of the final product (Binns *et al*, 2007). At Coop 2, investment in a tea court and photovoltaic solar power system has given cooperative members power to take control of this first stage of processing. All Coop 2 members have access to the facility, allowing tea from all cooperative members to be dried under the same conditions. If made use of properly, the processing facility increases chances of producing uniform commodities.

Initiating value-adding packaging services at Coop 2 allowed producers to move to a higher level of the supply chain and gave them a chance to capture benefits associated with that stage. Through production and processing changes made at Coop 2, its members have a chance to produce and market sustainably, because the changes they made through Fairtrade have prepared them to supply any market. Interviewees at

Coop 2 agreed, stating that directing their social premiums mainly towards production development has helped increase their total marketed produce, as well as helped strengthen their businesses. They further explained that investing a considerable percentage of their premiums in producer training has also contributed to the growth of their marketed volumes on both Fairtrade and non-Fairtrade markets. Although they have long been farming without chemical use, respondents explained that formal training on organic farming has helped them improve their traditional methods (Interview data, 2010). It seems that Fairtrade extends economic benefits to only a small group of people in a cooperative setup, but there are possible ripple effects to communities and the nation at large, resulting from increased marketed volumes and incomes. For instance, increased tea exports by Coop 2 members imply foreign exchange gains. When individual farmers‘ incomes increase, it results in more spending, through buying personal and production goods. All these activities have a positive effect on the national economy.

Based on the analysis of this study, investing Fairtrade premiums in production and processing inputs by cooperatives, addresses economic inequalities and supports economic development. Small-scale farmers in South Africa who previously had problems penetrating both national (Meyer *et al*, 2002) and international (Reardon and Barrett, 2000) mainstream markets, were allowed an opportunity to access export markets. Moreover, there is evidence that small-scale farmers in the study increased their total marketed produce as a result of investing in production techniques, which implies an increase in foreign exchange. As a result, the welfare of small-scale farmers is improved.

7.1.2 Education and training

Two popular categories in which Fairtrade premiums have been invested are education and worker training, with almost all cooperatives and plantations being studied investing in these categories. Both categories facilitate the acquisition of new skills and knowledge by participants, thus improving human capital (Mincer, 1993).

Under the education category, constructing and running crèches, and offering education bursaries proved to be common. Investing in crèches has both short-run and long-run benefits for the economy. In the short run, the economy benefits from job creation in the

form of builders and teachers, and through the purchase of goods for the crèche. Employees spend their earnings, and goods purchased by crèches support local manufacturing industries, all of which boost the economy (Calman and Tarr-Whelan, 2005). Moreover, working parents, especially women, are better able to fulfil their job responsibilities when they send their children to crèche. As a result, businesses employing these parents benefit from increased productivity and lower absenteeism (Lynch, 2004). In the long run, early education prepares children to be a future educated and employable workforce. Research carried out by Calman and Tarr-Whelan (2005) proved that children who have an early education background often perform better in school and are more likely to get higher earning jobs. Using data from this current research, benefits associated with investing in crèches are not only directed towards employees on Fairtrade certified farms, but to all community members because the crèches do not discriminate against other community members. At Farm 1, the crèche constructed using Fairtrade premiums enrolled 80 children in 2009, of which 35 were children of workers at Farm 1. At Farm 8, the crèche accommodates all children from the community, but children of community members who do not work on Fairtrade farms pay slightly more for the crèche services as compared to workers on Farm 8 (R100 versus R164 per child per month).

In cases where premiums were used to offer educational bursaries, priority was given to financially disadvantaged students who were performing well in school. Students were supported throughout their secondary school or tertiary education, thus, increasing the number of children who reach, and succeed in, higher levels of education. According to Mincer (1993), investing in higher levels of education contributes to social and economic development through private and public returns to education. Private returns in the long run include greater employment opportunities and higher earnings. There are more opportunities for employment in higher earning jobs for people with more education, as compared to those with fewer qualifications (Kelly *et al*, 2010). Public returns of a workforce with more education include enhanced worker productivity through development of new knowledge, which translates into an increase in national output and incomes (Mincer, 1993). Part of the premiums on Farm 5 has been used to support students studying viticulture, an investment that has a direct effect on the farm‘s productivity. New knowledge gathered from viticulture studies, such as new varieties and production methods, will be likely to increase their wine grape production.

Non-monetary benefits to the society of attaining higher levels of educational include lower crime rates and less pressure on government social grants (Kelly *et al*, 2010). Securing higher levels of education for children from disadvantaged backgrounds reduces the impact of poverty and hunger on their families. In Africa, people coming from a disadvantaged background often act as primary providers for their parents and families when they receive high wages. As a result, economic benefits are slowly transferred from the rich to the poor, reducing inequality gaps in an economy. Moreover, when children from disadvantaged backgrounds receive higher levels of education, they are more likely to be better off in the future, therefore, reducing intergenerational poverty (Smith, 2006).

Employee training in production and marketing skills has benefits for individuals undergoing training and for their employers. At Farm 6, training has come in the form of paying for farm workers‘ learner‘s and driver‘s licenses. To individual employees, the skills gained are important for their personal professional development. Evidence from this research shows that support for driver‘s and learner‘s licenses, was offered to people who could drive tractors on the farm, but did not have licenses. These employees could drive tractors on the farm, but not on public roads (Interview data, 2011). Attainment of driver‘s licenses means that these workers could easily be employed as drivers by any organization. If they remain working for their present employers after obtaining licenses, these employees will be better able to undertake driving tasks on the farm. Employers gain from increased productivity resulting from increased human capital, which also contributes to economic development (Vemić, 2007).

Employee training in plantations being studied can also be seen as a way of preparing employees to be future entrepreneurs. Fairtrade in South Africa encompasses BEE in the country, which requires commercial farm owners to transfer part of their land to their employees as one of its options. The skills that employees gain from training will help these employees if they are left to run farm businesses on their own or in joint management farms. For example, Farm 7 is being run by employees because they are the majority shareholders of the farm (Interview data, 2011). In some farms in the study, computer training courses have been initiated. These also prepare employees to be entrepreneurs, because of the importance of computer skills in performing administrative tasks (Vemić, 2007). Another form of training that has been initiated is

training in dealing with social issues, such as HIV/AIDS, alcohol and sexual abuse and work place relations. Training in these areas helps to make farm employees and their families more responsible citizens, thus, having a positive impact on social development.

7.1.3 Investment in infrastructure

Major projects that have been implemented for communities and farm employees involve investment in buildings, such as training centres, community halls and workers' houses. Given the conditions of some of the farm workers' houses in South Africa, where some lack electricity, running water and toilet facilities, and are over-crowded, investing in houses is essential to ensuring positive economic and social development in rural communities (Swart and Orsmond, 2010). When farm workers' houses are renovated or where more are constructed, these workers' health improves, and a stable workforce is built, which potentially brings stability in production. People who provide their services in building and renovating the houses gain from being employed.

Investing in training centres and community halls, as in the case of farm workers' houses and other forms of infrastructure, brings positive economic and social impacts to the rural population. The availability of a training centre in a community has a positive correlation with the number of people who attend training courses (Jari and Fraser, 2009). If more people attend training sessions, be it computer training, production and marketing training or training in social issues, knowledge is disseminated, moving the community towards social and economic development. Community halls in rural areas of South Africa sometimes serve the same purpose as training centres. Moreover, they are used as gathering areas where community meetings, social gatherings or church services are held. When people use the hall, they have to contribute a fee, money that can be ploughed back into the community resulting in developments in other areas of the community.

Investments in buildings, using Fairtrade premiums is not always free from controversy. The fact that some of the buildings are on the farm owner's land might give rise to questions related to the extent of the buildings' benefit to the community and farm employees. In the present research, eight building projects that were invested in using Fairtrade premiums are on-farm, compared with six which are off-farm. Where they are

on-farm, access is often limited to farm workers of those specific farms. Moreover, the farm owner can possibly reap benefits from on-farm buildings. As the owner of the land on which the buildings stand, the farmer might claim ownership of the buildings, unless otherwise specified. If ownership is not stated, and the farm owner decides to sell the farm, she/he can charge a higher price which encompasses extra value resulting from building improvements. In that case, buildings invested in using Fairtrade premiums, but located on the farmer‘s land, have benefits to current farm employees as long as they continue working on the farm and as long as ownership of the farm remains the same. In order to avoid premium benefits spilling over to the farm owner in cases like these, property ownership needs to be specified on any development project that occurs on the farmer‘s land (Doidge *et al*, 2009). Farm 9 workers cited a problem they faced, which was caused by lack of ownership specification. They decided to use Fairtrade premiums to buy bicycles for all farm workers (including part-time workers), which were supposed to be used as a form of transport to work. The ownership of the bicycles was not specified, which later caused problems with one of the seasonal workers. The worker thought that he personally owned the bicycle so he decided to sell it when he was not working. The worker was obliged to replace the bicycle because all the bicycles were publicly owned by all farm workers at that farm.

7.1.4 Investment in material goods

In some cases, Fairtrade premiums were invested in material goods, such as purchasing food hampers, stoves and fridges for farm workers and spectacles for those workers with eye problems. Offering this kind of support is useful to people receiving support. Considering that farm workers are among the lowest paid workers in South Africa, even if they are paid minimum wages, they cannot afford to buy some of these goods (Schweitzer, 2008).

Accumulating material goods has a positive impact on human happiness and wellbeing (Stopford, 2009). Therefore, ownership of fridges and stoves, among other household appliances, helps improve a household‘s wellbeing. Investing in food hampers can temporarily address the food security problem among farm workers. Given that farm workers are net food buyers, any increase in food prices affects them significantly. Since 2008, the global food system has been experiencing an increase in prices due to volatile oil prices, production shortfalls and use of agricultural land for producing

non-food commodities. This condition presents a challenge to farm workers (Global Economics, 2010). Investing in spectacles, as with any improvement in health conditions, has a positive impact on production of an individual receiving the spectacles.

Investing in material goods, although useful to individuals receiving the goods, has some disadvantages associated with it. Material goods discriminate against other community members, as they are only available to workers on Fairtrade certified farms. Investing in material goods is also discriminatory among the farm workers, because the goods are purchased for people who need them, not everyone. For example, stoves and fridges bought at Farm 7 were given to, and privately owned by, households who did not have these goods, thus excluding those people who already had the goods (Interview data, 2011). Another disadvantage of investing in private material goods is that, the spending may be unsustainable. Once consumed, such goods cannot generate more income. For example, in the case of food hampers, the farm workers enjoy food security for a given period of time when they receive such support. When they do not receive the food hampers, their food security will be the same as their initial condition. The same applies to other material goods, after they are bought, they do not result in any further economic gains for the purchasers. For this reason, Stopford (2009) argues for investments in goods that induce economic production, such as in business equipment. With such productive goods, communities enjoy economic growth, and as a result, more consumption goods in the future.

7.1.5 Production projects

Fairtrade premiums were also invested in income-generating projects such as women‘s sewing projects, a coffee shop, a craft shop and a vegetable garden. All these projects show some form of diversity in production, implying that communities will benefit from sources of income other than wages from farm employment. The fact that these alternative income-generating projects are located in local communities of farm workers is an added advantage to these communities. A coffee shop and a craft shop encourage people to spend money in the community, which results in local economic development. Goods sold in the craft shop support restoration of local culture, and could act as a tourist attraction, bringing more money into the community. Projects that specifically target women help to address gender inequality in the South African workforce,

particularly on the country's commercial farms (Budlender, 2011). All members who participate directly in the community vegetable garden on Farm 2 are given free vegetables from the garden every week (Interview data, 2010). This implies that these people will reduce spending on vegetables, giving them a chance to consume more of other goods. By closely analysing the vegetable garden project, it can be argued that this project contributes towards improving food security among farm employees. All income-generating projects discussed above are likely to be sustainable, even outside Fairtrade, because they generate their own income, which can be invested in running the projects.

7.1.6 Sport

According to Carlino and Coulson (2004), sport has an economic impact on local and national development, although the significance of the impact is highly debated. Those who argue that investing in sport has a significant positive effect on economic development, base their argument on spending multipliers resulting from sport. They argue that direct and indirect expenditures on sport, for instance on sport uniforms, building sporting fields, and other sporting materials, have multiplier effects in the economy (Carlino and Coulson, 2004). On the other hand, Rosentraub (2006) found that the economic impact of sport is insignificant compared to other public goods such as health and educational facilities. Whether or not the economic impact of sport is significant, sport has other non-market impacts. Individuals involved in sport benefit from improved health conditions and a chance to learn how to manage teamwork (Carlino and Coulson, 2004). Both these qualities have possible positive effects on enterprise production. Healthy farm employees are less likely to be absent from work, and the ability to work in groups induces employees to work towards the same goals.

Moreover, Cameron and MacDougall (2000) found evidence supporting the claim that when the youth in communities are occupied with sporting activities, they become less likely to be engaged in criminal activities. A sense of belonging and improved support networks resulting from participating in sport helps them stay away from crime, thereby benefiting the individuals and the communities at large. Community members enjoy a more secure environment and the costs of social services of policing and justice are lowered (Cameron and MacDougall, 2000). In addition, sport is regarded as a form of entertainment in a community; therefore, like other leisure activities, sport contributes

to social development. Sport encourages people to meet and interact, as participants or as spectators, in which case social cohesion is enhanced.

7.1.7 Leisure

Leisure activities, which have been funded by Fairtrade premiums, include Christmas outings for farm employees and satellite television. The satellite television sets are installed in community halls where they are accessible to all community members. Findings by Roberts (2011) proved that allowing employee‘s leisure time reduced stress among the employees, and encourages greater productivity and social development. In addition, satellite television facilities can be used for news and other programmes that expose community members to the outside world. Even those who do not have the privilege to travel to other towns/cities are able to see and learn about other cultures. Some learning channels which are shown on television may be a good source of knowledge, thus, contributing towards human capital development. Although there are potential benefits resulting from an investment in leisure activities, such an investment is not self-sustaining. Considering that the Fairtrade organization expects premiums to be invested in community development projects (FLO International, 2007c), investing in leisure activities cannot be comfortably grouped under development projects. Using Fairtrade premiums for leisure activities can only be justifiable if it uses a smaller proportion of the premiums, rather than being prioritized.

7.1.8 Environment, health and security

Environmental protection, health and security facilities are a public investment. Investing in any one of the three has benefits to individuals, communities and the nation, from both economic and social perspectives. The benefits that are derived from investing in all three are associated with reduced risks (Ashford and Hall, 2011).

Environmental protection reduces risks associated with degraded environmental quality, such as pollution and soil erosion. When the environment is protected, individuals benefit from enjoying a clean environment, and economies benefit from sustainable production (Ashford and Hall, 2011). Furthermore, environmental protection is a significant factor in sustainability, together with social and economic factors (Nurse, 2006). In the present study, environmental protection practices that are invested in using Fairtrade premiums are waste management training and organic certification. These

practices were invested in by small-scale farmers because they both assist in farming productivity. On the commercial farms, none of the premiums were used for environmental protection. Training in waste management is essential especially for people involved in organic production, because if agricultural waste is not managed properly, it can pollute the environment. On the other hand, organic production optimises ecological protection, thus encouraging sustainable production. Consumption of organically produced goods also contributes to improved health (Mzoughi, 2011).

Provision of health facilities improves the health of the workforce and their families. Households enjoy a healthy life, and enterprises benefit from workers that are more productive. In addition, educating people on health issues reduces risks associated with spreading diseases, thus having a positive impact on communities (Ashford and Hall, 2011). Farm 3 and Farm 9 funded the construction and renovation of clinics in their local communities. Respondents from both farms explained that farm workers now have better access to medication due to the availability of clinics. Farm 8 and Farm 7 funded health awareness programmes for all workers on their farms. The programmes were principally on HIV/AIDS and alcohol abuse. They targeted these two because, as with other wine grape farms, HIV/AIDS and alcohol abuse were a major challenge among farm workers.

Security facilities that were invested in were fencing farm employees‘ yards and community security support. Both these projects have a positive economic and social impact on households and enterprises because they benefit from a more secure and socially friendly environment. Using evidence from the research, providing community security services in farm employees‘ communities had positive economic benefits for Farm 1. Cases of citrus theft reduced on the farm after security services were initiated, which meant that more fruit from the farm could be sold (Interview data, 2010).

Having discussed the impact of the projects that were implemented using Fairtrade premiums, it is noteworthy that some of projects have been substantially co-funded by other support agencies. For example, Farm 8 receives financial support every year from an international aid agency to support their projects. The management interviewee at Farm 8 explained that the farm was offered this financial support because they are

involved with Fairtrade (Interview data, 2011). Participating in Fairtrade may thus facilitate access to other organizations and resources that support development projects.

7.1.9 Challenges in premium use

It is evident that Fairtrade is having a positive impact on farm workers, small-scale farmers and their communities through premium-funded projects. However, Fairtrade premiums have the potential to bring about more sustainable development and broader community impact if some of the challenges that are faced by respondents in premium use are addressed. One of the main challenges facing a number of farm workers and cooperative members is related to identifying sustainable projects. They still require support and guidance in this regard.

Another challenge associated with premiums is inability by some Joint Body committees to plan projects. Six of the ten farms studied made plans on how to spend Fairtrade premium money after they had already received it. All six reported that they could not forecast the amount of premium they would receive. For some, although they know the premiums they are supposed to receive per unit output, they are unaware of the total volumes marketed through Fairtrade (Interview data, 2010; 2011). As a result, they invest in projects that can be comfortably funded by funds at hand. Such conditions can lead to hurried decisions concerning the choice of projects. It would be better if Fairtrade beneficiaries could plan in advance how they will use their premiums. That way, they can save for bigger and more sustainable projects.

7.2 Impact assessments

Apart from impacts resulting from Fairtrade premiums, there are impacts (both positive and negative) on farm workers, small-scale farmers and communities resulting from being involved with Fairtrade. For example, Fairtrade‘s goals of promoting an improved employee working environment, democratic decision making and environmental protection, bring about other impacts. All the impacts resulting from Fairtrade are divided into six categories using the sustainable livelihoods framework discussed in Chapter 5, and are analysed in these categories.

7.2.1 Human capital impact

The results of the study show some evidence supporting the idea that Fairtrade is having a positive impact on human capital development. The impact on human capital is demonstrated at both farm and household levels. In small-scale farmer cooperatives, growth in human capital is evidenced by growth in produced and exported volumes. Knowledge gained by small-scale farmers from organic production training, together with skills developed over time has allowed them to increase their total produced volumes. Cooperative members were able to learn to export through the Fairtrade system. Before they were connected with the Fairtrade system, they were not exposed to export market requirements. Through training, cooperative members have been able to acquire exporting knowledge, and have successfully supplied export quality produce, with Coop 2, for example, being able to continuously supply the Fairtrade market.

On plantations, there are signs of good managerial skills being developed as a result of being involved with Fairtrade. Members of the Joint Body, particularly farm worker representatives, have been able to invest in and monitor Fairtrade premium projects on their own. On farms where farm employees are left to run the farm business on their own, for example, on Farm 7 and Farm 2, they have been able to exercise managerial skills. On Farm 8, one person who received financial assistance throughout her tertiary studies in business management now assists the farm by monitoring its accounts. The last example shows how an investment in human capital impacts on economic activities, especially in local communities.

The impact of human capital gained through formal education (sending children to school) in farms being studied can only be totally realised after the children have completed the studies. These represent the impact of human capital at household level. However, there are a few examples in this study, which represent human capital impact at household level. On Farm 2, both the farm manager at the grape farm and the cellar master received their education through the assistance of the Fairtrade premiums. Before they received financial assistance for educational purposes, the farm manager was employed as a domestic worker and the cellar master as a farm equipment handyman. For both these workers, receiving education has led to them acquiring higher earning jobs (Interview data, 2010).

Sources of human capital that were cited by interviewees are training programs, workshops and formal education. It is important to note that in all cases, there were equal opportunities for males and females. Thus, females had an equal opportunity to gain skills and knowledge. These results are influenced by the fact that Fairtrade works against gender discrimination. Another source of knowledge that is likely to have a greater impact on beneficiaries, though minimally adopted in the study, is through knowledge sharing among Fairtrade certified producers. Parrish *et al* (2005) found that training, coupled with organized knowledge exchange among farmers, allowed them to capitalize on new skills.

7.2.2 Physical changes

Physical changes analysed in this section are changes in infrastructure and other physical goods that impacted on Fairtrade beneficiaries and communities as a result of being involved with Fairtrade. Such changes are closely linked to the use of Fairtrade premiums. As already discussed in section 7.1, farms and cooperatives in the study have invested in different projects, where investments in buildings and material goods fall under the physical changes category. The amount of physical capital that is accumulated on each farming unit depends on the scale of production and marketing, and diversity in commodities marketed on the Fairtrade market. Those who market larger volumes, such as Farm 1 and Farm 8, as well as those marketing a number of commodities through Fairtrade markets (for example Farm 9) have implemented greater physical changes.

Those producers who market relatively less through the Fairtrade channel receive a smaller premium. Coop 1 received R184 000 in premiums in 2009 as compared to R1 420 317 received by Farm 8 in the same year (table 7.5). As a result, those with smaller premium invest in smaller projects, which sometimes target a specific group of people (in most cases those employed on Fairtrade certified farms). Ever since its certification, Coop 1 has invested mainly in production and marketing infrastructure, and made minimal contributions to community infrastructure. Farm 7 which only received R76 000 premiums in 2010 contributed towards growth in physical capital through investing in worker specific projects. Parrish *et al* (2005) criticize the use of funds on *ad hoc* projects based on the argument that they only target a certain group of people, thus do not optimize the potential benefits of funds.

Generally, premiums received on plantations and cooperatives being studied have had a positive impact on physical capital. Except for Farm 7, progress has been made in all other plantations to finance potential local public goods, for example, community halls, schools and crèches. No cases of excludability and free riding on the goods were evident in the study. However, even though Fairtrade does not specify it, caution needs to be taken that public goods do not turn into _dub goods' where they are only accessed by farm workers and not available to the entire community. If the use of public goods does not exclude other community members, the community has a chance of growing as a whole, thus, narrowing income disparities within that community (Kochar *et al*, 2009).

Some interviewees, particularly in small-scale farmer cooperatives expressed their willingness to invest in larger community projects, such as road infrastructure and communication links. The conditions of these physical facilities are not favourable in small-scale farmer cooperative communities in the study, and government support in these areas is limited (Binns *et al*, 2007). Investing in such projects has a greater impact on their marketing process because an improvement in both road and communication networks, will potentially link them to other marketing channels. The reason cited by interviewees for not investing in these projects is that their premium funds are too small to consider bigger community projects.

7.2.3 Financial position

A number of researchers have reported that Fairtrade has a significant positive impact on the financial capital of Fairtrade certified producers due to higher prices paid for produce (for example Renard, 2003; Raynolds, 2009; Utting, 2009). Following these studies, the financial position being considered in this section refers to changes in the financial position of individuals as influenced by being engaged with Fairtrade. Prices received on commodities and wages received by farm employees are used as indicators of financial capital in this study. All interviewees concur that they receive minimum prices that are above market prices for their commodities (Interview data, 2010; 2011). Table 7.2 shows minimum Fairtrade prices that were paid to producers in the study as compared to international conventional market prices.

Table 7.2: Fairtrade prices versus conventional market prices in 2010

Commodity	Market prices[a] (R/kg)	Fairtrade Minimum prices[b] (R/kg)	Difference (R/kg)
Apples	2.94	5.23	2.29
Litchis	3.86	10.25	6.39*
Lemons	2.38	3.05	0.67
Oranges	2.01	3.90	1.89
Pears	2.94	5.63	2.69
Plums	4.59	11.25	6.66*
Rooibos tea: Organic			
Cooperatives	8.00	30.00	22.00*
Plantations	8.00	23.00	15.00*
Rooibos tea: Conventional			
Cooperatives	6.64	25.00	18.36*
Plantations	6.64	18.00	11.36*
Table grapes: Conventional	5.92	11.42	5.50
Table grapes: Organic	5.98	13.32	7.34*
Wine grapes	1.62	2.43	0.81
Fruit Juice	R6.54/L	R10.12/L	R3.58/L

*Fairtrade minimum prices more than double market prices

Sources: [a-]FAOSTAT (2011); [b-]FLO International (2010); Interview data (2010; 2011)

There were notable differences between Fairtrade minimum prices and market prices in 2010 for a number of commodities (Table 7.2). In such cases, the minimum prices improve the financial position of producers significantly, especially those selling larger volumes of produce through the Fairtrade market. In other cases, there are small differences between Fairtrade minimum prices and market prices, for example, there is a R0.67/kg difference between market prices and Fairtrade minimum prices for lemons. Under such circumstances, due to Fairtrade's nature[32] of paying upon delivery to the buyers, some producers may breach their contracts. For example, in 2007 some Coop 1 members breached their Fairtrade contracts and sold their produce to local tea processors when there was a R2.80/kg difference between market prices and Fairtrade minimum prices.

[32]Payment is not made immediately after exporting, it sometimes takes three months to receive payment

In cases where Fairtrade commodities are supplied by both plantations and small-scale farmer cooperatives, the latter receive higher minimum prices. This is unlikely in the conventional markets where large-scale and small-scale producers receive the same price for a given commodity. In the study, there is a R7/kg difference between the Fairtrade minimum prices received by cooperatives (R30/kg) and that received by plantations (R23/kg) for organic *rooibos* tea. These results substantiate the study by Raynolds and Ngcwangu (2009), which concluded that different prices offered to Fairtrade plantations and cooperatives supplying the same commodity are meant to extend financial benefits to people who labour directly in production. Small-scale *rooibos* tea farmers being studied carry out most of the production activities on their farms, unlike commercial farmers who depend on farm employees for manual farm activities. In addition, offering higher minimum prices to *rooibos* tea small-scale farmers has helped extend financial benefits to farmers whose marketing capabilities are relatively weak. As a result, small-scale farmers used the funds to develop their production and marketing skills.

Producers who supply processed or partially processed commodities, like wine and fruit juices, have an added financial advantage. Such producers, because they have managed to move up the value chain, receive part of the money that could have been accrued by independent processors. The difference between the financial gains of apple producers as compared to those of apple juice producers in the Fairtrade market can be illustrated by use of an example in table 7.3.

Table 7.3: Financial differences between apple producers and apple juice producers

Apple producers		**Apple juice producers**	
Y1. Minimum price for apples (Table 7.2)	R5.23/kg	**X1**. Minimum price for apple juice (Table 7.2)	R10.12/Litre
Y2. Amount of apples needed to produce 1litre of apple juice (FAO, 2009b)	0.7kg	**X2**. Average production costs (excluding cost of apples) incurred in producing 1litre of apple juice[33] (FAO, 2009b)	R2.65/Litre
Y3. Total price received on apples that are used to produce 1litre of apple juice (Y1xY2)	**R3.66**	**X3**. Total price benefits received on 1litre of apple juice using own apples (X1-X2)	**R7.47**
Z1. Financial advantage of supplying apple juice as compared to apples (X3-Y3)		**R3.81/Litre**	

[33] These costs include costs of other ingredients, production process costs and packaging costs.

When apple producers manage to process their own fruit to juice, they gain R3.81 per litre produced (Table 7.3). As compared to R3.66 received for fruit production, processing increases the financial benefits to Fairtrade producers who manage to process. In the example, the financial benefit is more than twice as much (R7.47 as opposed to R3.66).

Prices paid on commodities accrue to farm owners, thus, farm workers do not benefit directly from these prices, unless they own or part own the farms. Even commercial farm owners benefit from Fairtrade in this way, the reason why they are willing to incur additional administration costs in order to be certified. Considering that cooperative supplies are gathered from a number of small-scale farmers, it means that the financial benefits resulting from higher minimum prices are shared among a number of people. On the contrary, supplies from each certified plantation come from relatively few farmers (in most cases one farmer), implying that minimum prices accrue to relatively few people. When considering minimum prices (excluding Fairtrade premiums), financial gains for each small-scale farmer are less than that of a commercial farmer. However, it needs to be emphasized that Fairtrade has opened up exporting opportunities for small-scale farmers in cooperatives. Prior to participating in Fairtrade, they received less than market prices for their commodities. Therefore, exposure to export markets represents a financial benefit to small-scale farmers, unlike in plantations, where they were already exporting before they were involved with Fairtrade.

Another financial gain to both cooperatives and plantations is access to the Fairtrade market. Respondents reported that the existence of a guaranteed market is an advantage in the face of high market competition and globalization. Producers do not incur costs associated with searching for a market, and once they have established a relationship in the Fairtrade supply chain, their transaction costs are reduced (Interview data, 2010; 2011). Moreover, access to a market that offers stable prices allows producers to plan their farming business.

By looking only at money received from Fairtrade sales, it can be concluded that Fairtrade improves the financial position of Fairtrade producers to a great extent. Nonetheless, these results are not completely reliable because they do not analyse the

effect of Fairtrade related costs, such as certification, monitoring, production and waiting[34] costs. These costs[35], as reported by fruit farmer respondents, negatively influence their financial position. Judging from the responses, Fairtrade fruit farmers support the availability of Fairtrade premiums for social development, but are against Fairtrade marketing and administration costs. The manager at Farm 3 explained that they are ready to shift from Fairtrade if they find a comparatively cost effective system that offers premiums (Interview data, 2010). This response raises concern on the sustainability of Fairtrade.

In the case of farm workers, there is not enough evidence to claim that Fairtrade directly improves their financial position. Only in two out of ten cases, did farm workers report receiving wages that are higher than minimum wages. On those farms, their wages increased after getting involved with Fairtrade. On the eight farms where wages were not influenced by Fairtrade, respondents cited other advantages of Fairtrade, which included a safe working environment, access to farm worker development programmes and control over premiums.

7.2.4 Social capital impact

The impact of Fairtrade on social capital was investigated in this study by taking into account social networks and relationships, trusting and trustworthiness in decision-making in a group, and social activities. Fairtrade producers in the study have signed long-term contracts with their exporters. Long-term contracts have a positive influence on social capital through encouraging repeated exchanges, and increasing connectedness in the supply chain. Moreover, relationships created between producers and other actors in the value chain were used as channels of information, which further encouraged improved economic exchanges. Because of these activities, economic development is enhanced. These findings substantiate arguments presented by Putnam (2000), who posits that there is a positive relationship between social capital and development. The third hypothesis of the study (**H_3:** Social capital that is created by Fairtrade is important for economic progress) is proved correct by the findings of the study.

[34] The period between exporting commodities and receiving payment.
[35] Respondents provided an incomplete record of figures for Fairtrade related costs, therefore, such records could not be used to quantify the actual financial position of Fairtrade producers in South Africa.

One of Fairtrade's aims is to build solidarity amongst producers, and between producers and consumers (FLO International, 2007a). Results of this study confirm that Fairtrade has made some progress in achieving its aim: relationships within cooperatives and plantations (between farm workers and management, and among farm workers) were strengthened by participating in Fairtrade. For example, Coop 1 and Coop 2 respondents reported that although cooperative members had strong personal relationships before forming cooperatives, belonging to a cooperative has strengthened community relationships and has helped them gain access to markets. When asked about trust issues, Coop 2 members explained that cooperative members have lived in the same community for generations, and have always helped one another gain sufficiency and resilience under conditions of poverty. For this reason, it was easy for them to form a cooperative, which is based on trust. In that case, community networks facilitated the progress of Fairtrade activities. These results substantiate NIE literature, which suggests that informal relationships play a significant role in economic development (North, 1990; Keefer and Knack, 2005). In addition, a comment from a Coop 2 respondent demonstrates that there is a link between local networks and a sustainable business venture. The respondent said:

> "This community has taught residents to practise economic independence using the resources that are available to individuals, but to use them for the common good. It is through these community networks that our cooperative continues to survive and provide Fairtrade markets."

Respondents also reported an improvement in professional relationships in a commercial farm set-up, as a result of getting involved with Fairtrade. Respondents in plantations noted a significant change in the relationship between workforce and management due to worker-representation on JBs and worker unions. Interviewed worker representatives on JB committees felt that they are able to communicate workers' concerns to management with confidence. A study by Farnworth and Goodman (2006) showed that allowing workers on Fairtrade certified farms to join worker unions resulted in strong organizational capacity.

In relation to creating solidarity between producers and consumers, the study has recorded some examples of connectedness between the two groups. Respondents from Farm 1 and Coop 2 cited several occasions when they received visits from people who

form part of their consumer group in the UK and the Netherlands. They explained that these visits encourage a movement towards a mutual understanding between producers and consumers as to how Fairtrade operates. The two groups have a chance to discuss what is expected from them, and consumers are able to witness developmental projects that were implemented using Fairtrade premiums. This form of shared Fairtrade understanding between consumers and producers is important for the continuity of the Fairtrade organization (Raynolds *et al*, 2007).

According to Bourdieu (2000), social capital can bring about problems if it is not properly managed. The disadvantage of working in groups is seen in Coop 1, where cooperative members had problems in making decisions. Moreover, trust was destroyed between cooperative members because some were supplying other markets, thus, breaching Fairtrade contracts. This, together with supplying poor quality produce, reduced trust between the cooperative and the exporter, which led to the cooperative being decertified. Since the cooperative is seeking recertification, and they are required by Fairtrade to operate as a group, they have to rectify their mistakes. Thus, they need to devise ways of dealing with conflict. They also have to set supply and quality standards and rules that govern all cooperative members, and impose penalties on members who are not loyal to such standards and rules. The use of penalties worked for Fairtrade certified Nicaraguan coffee cooperatives, after a number of cooperative members sold their coffee to the mainstream market in 2005 and 2006. All cooperative members who had breached their contracts had to pay the cooperative $0.05/lb for the total amount of coffee that they were expected to supply that year (Valkila and Nygren, 2009).

7.2.5 Economic development

The survey results indicate that Fairtrade has contributed towards addressing local and national economic development challenges of rural areas through its impact on farm owners, farm workers and communities. Data shows that Fairtrade has done so through facilitating trade in the agricultural sector, investment in rural infrastructure and employment creation. Based on this data, three economic measures were utilized in order to analyse the extent of economic impact of Fairtrade in the cases being studied. These are the effects of Fairtrade on income, employment, and investment and development. Discussions made in this section address the second hypothesis of the

study (**H_2:** Fairtrade has a positive impact on the welfare of the farm workers, small-scale farmers and their communities).

7.2.5.1 Effect on income

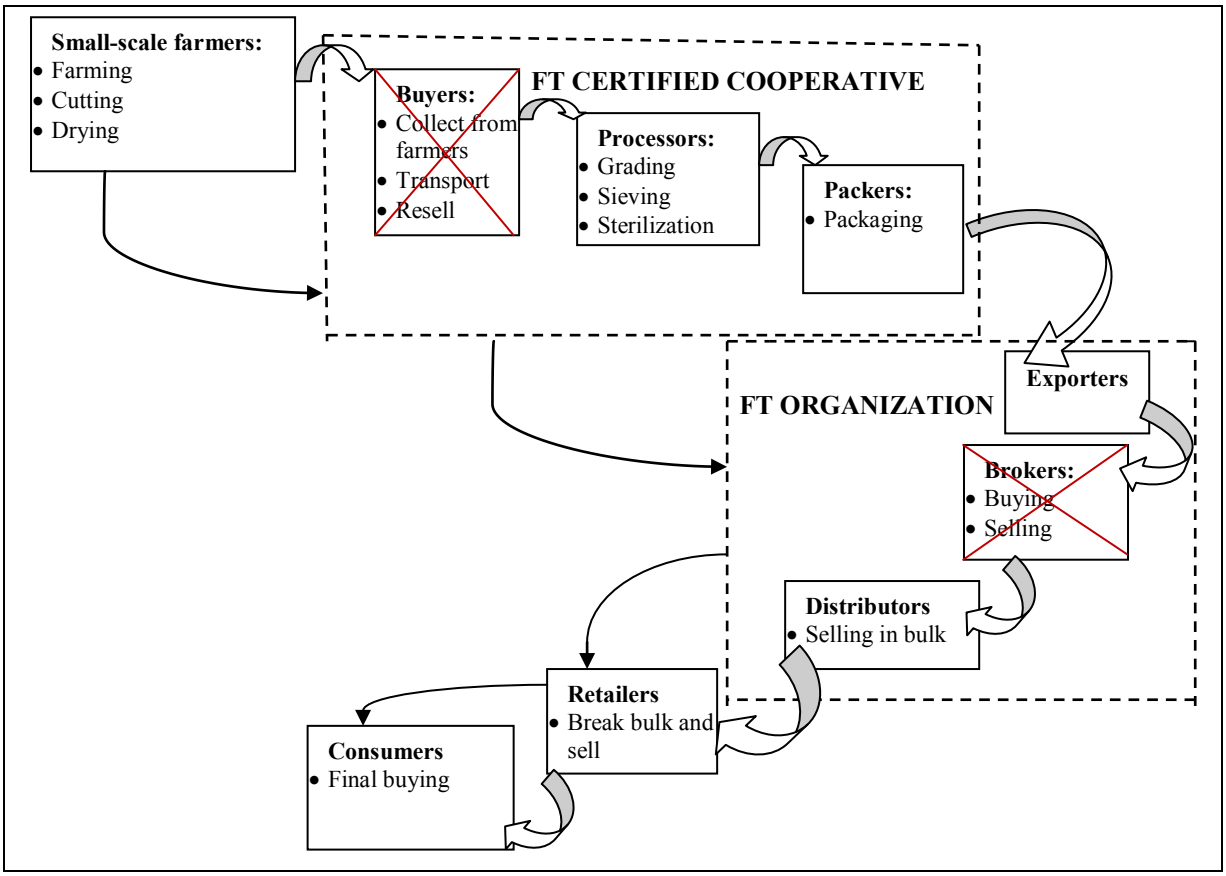
Studies of the Fairtrade model (Redfern and Snedker, 2002; Valkila and Nygren, 2009) that investigated the income effect of Fairtrade found a positive effect on both gross household and national incomes. These studies based their arguments on qualitative data related to higher prices for produce, increased production and access to markets. The present study does not have enough evidence to claim a Fairtrade-induced increase in the incomes of farm owners on plantations (as already discussed in section 7.2.3)[36]. Even though there are no valid statistics, Fairtrade probably improves commercial farmers' incomes, assuming that commercial farmers would stop using Fairtrade markets if they are not at least covering Fairtrade-related costs. One can argue that plantation owners are not the prime beneficiaries of Fairtrade; therefore, the impact of Fairtrade on their incomes is not important as long as the premium benefits accrue to farm workers. On the other hand, the plantation owners have the power to decide on whether or not to continue producing for the Fairtrade market. As such, the Fairtrade market needs to be at least as profitable as the other markets, in order to keep plantations supplying the market, and, farm workers gaining from social premiums.

In the cooperatives, the study data proves that Fairtrade had some influence on the incomes of individual farmers. Before their involvement with Fairtrade, Coop 1 and Coop 2 members used to sell produce to middlemen (buyers) who offered them at most R3/kg of *rooibos* tea (Interview data, 2010). Since they started marketing on Fairtrade markets, they have managed to improve their incomes in two ways: firstly, they have managed to access export markets directly through reducing some intermediaries (Figure 7.1). Secondly, they have access to Fairtrade minimum prices where they receive R30/kg of *rooibos* tea.

Figure 7.1 shows the value chain for small-scale *rooibos* tea, before and after getting involved with Fairtrade. Before their involvement with Fairtrade, the small-scale

[36] Plantations were already exporting their produce before they were engaged with Fairtrade, and although they receive higher prices in Fairtrade markets, data on costs of production under Fairtrade were missing/incomplete in the study.

farmers followed a path that is shown by block arrows, where a number of people who performed different activities were involved. Their engagement with Fairtrade has seen buyers and brokers removed from the value chain. Some of the activities were combined, for example, processing and packaging are being carried out at the cooperative level. The reduction in the number of actors and levels of activities means that small-scale farmers receive a greater share of the export price, thus an increase in household income.



The dotted lines show areas where Fairtrade intervenes

Figure 7.1: International market value chain for small-scale *rooibos* tea producers

In order to illustrate the effect on income as influenced by a difference in prices received before and after engagement with Fairtrade, an example is used. In the example, it is assumed that output and direct production costs are the same before and after getting involved with Fairtrade. These assumptions were made because farmers have always been producing without chemicals and there are no rules governing their labour costs. The only difference in production costs is that, after certification, producers will incur Fairtrade administration costs.

For a farmer who produces 0.8 tonnes of *rooibos* tea, the difference in income is illustrated below:

Scenario 1: Income before engagement with Fairtrade
R3/kg X 0.8 tonnes = **R2 400**

Scenario 2: Income after engagement with Fairtrade
R30/kg X 0.8 tonnes = R24 000
Less 30% of sales[37] 30% X R24 000 = - R7 200 (to cover FT administration costs)
Total = **R16 800**

The two scenarios presented above illustrate that small-scale producers of *rooibos* tea are better off producing for the Fairtrade market. Whilst farmers' incomes may have improved because of selling on Fairtrade markets, there is no clarity on whether Fairtrade prices, hence farmers' incomes, are sustainable in the long-run. For this reason, small-scale producers need to identify other export markets.

At national level, Fairtrade addresses the risks of unfair competition in international agricultural markets by allowing Fairtrade certified farmers in South Africa access to markets in developed countries. As a result, wealth is transferred from developed countries to developing countries, thus, helping to address wealth inequalities and boosting economic growth in developing countries (Stopford, 2009). Since Fairtrade producers have long-term contracts with their exporters, they are guaranteed a ready market for part of their produce, as long as they abide by Fairtrade standards. In that case, the long-term contracts protect producers from excessive competition in international markets. Bearing in mind that the international agricultural sector is not completely liberalized (Babbili, 2005), assistance offered by Fairtrade to producers in South Africa, especially to small-scale farmer cooperatives, is necessary to protect them in order to kick-start their growth.

7.2.5.2 Employment creation

Fairtrade production by respondents in the study has contributed towards job creation for both Fairtrade participating and non-participating households. The jobs varied amongst producers, as influenced by services required and premium projects under implementation at each producing unit. However, efforts were made to hire people

[37] Gathered from Coop 2 respondents, 30% of total sales is paid by all cooperative members to the cooperative

located in local communities for all cases in the study, thus boosting local employment. Furthermore, increased local employment results in increased disposable income for local people, which encourages spending and other ripple effects within the communities. People from communities, other than where Fairtrade producing units are located, were considered for employment only if there were none with the required qualifications in the local communities (for example Coop 2 hired a manager from outside its community).

Table 7.4: Jobs created as a result of Fairtrade in the case studies

Job category	Minimum	Maximum	Total
Permanent	1	15	99
Temporary	2	20	120
Part-time	0	3	11
Seasonal	0	11	15
TOTAL EMPLOYMENT			**245**

All producing units in the study created at least one permanent and two temporary jobs as a result of Fairtrade production. These results invalidate arguments presented by Sidwell (2008) that Fairtrade does not support creation of permanent employment in producing communities. Nevertheless, more temporary employment was created compared to the other types (Table 7.4). Temporary employment was only composed of builders, whereas 54 out of 99 permanent jobs were teaching jobs. The teaching staff varied from crèche to primary to adult education teachers. Specific jobs that were created as a result of participating in Fairtrade are grouped into ten types as illustrated in Figure 7.2.

Lindsey (2003) argues that Fairtrade does not aid economic development because the type of employment it creates only influences agricultural production. For that reason, the way Fairtrade operates keeps agricultural producers in primary production. The results of this study show that the jobs that were created, except for managers, sales people and drivers, were not directly related to the farming business. The types of jobs that were created were diversified, where some were a result of moving up the value chain. In fact, the type of job which had the largest number of people employed by one producing unit is in tea packaging. All eleven tea packaging jobs were created in

Coop 2, resulting from initiating value-adding packaging services. Thus, moving up the value chain potentially creates more jobs, in addition to financial benefits.

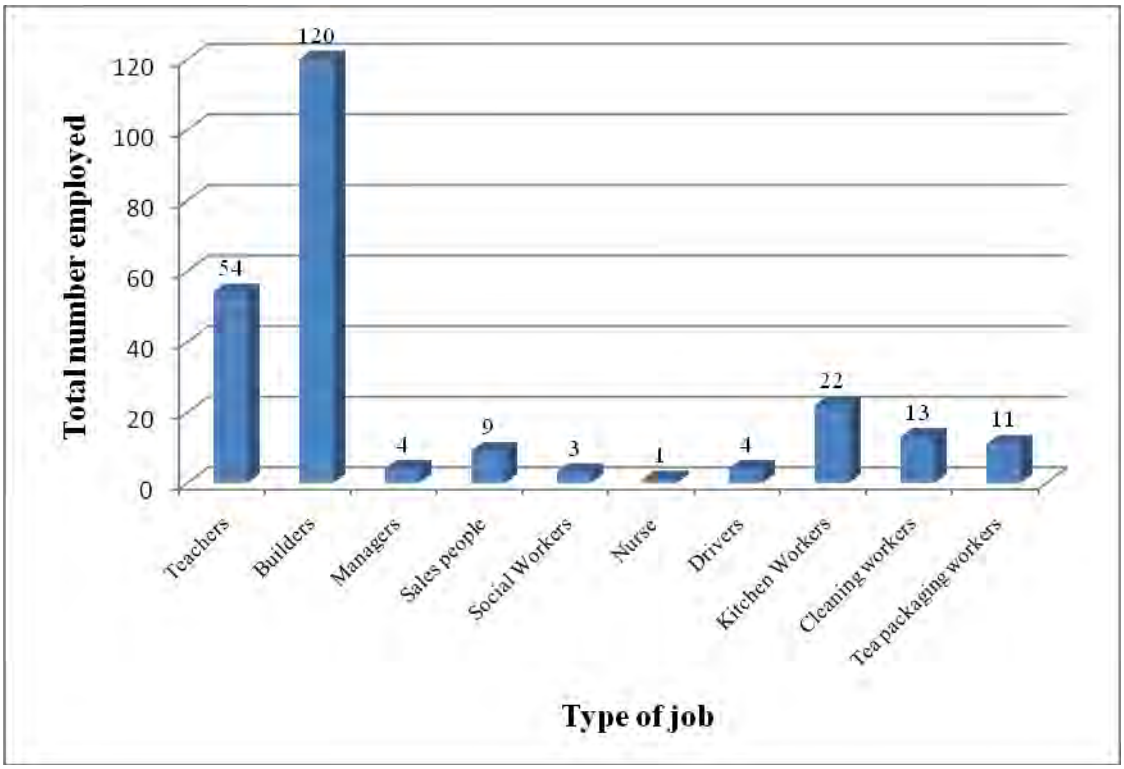


Figure 7.2: Jobs created as a result of Fairtrade in the case studies

7.2.5.3 Effects on investment and development

A larger and more direct contribution of Fairtrade to local economies is shown by premium projects. Fairtrade, through funding premium projects, has improved physical infrastructure and supported human capital development in rural communities. In some cases, Fairtrade projects open up business opportunities in local communities, for example in the coffee and craft shops. These changes indicate economic development, with production projects promoting sustainable development. Table 7.5 shows the premium amounts received by each producing unit from 2008 to 2010.

Table 7.5: Premium amounts earned by each producing unit in the study (R)

	2008	2009	2010
Farm 1	75 620	98 134	102 524
Farm 2	165 872	167 345	172 255
Farm 3	120 975	137 498	160 643
Farm 4	83 879	99 570	115 091
Farm 5	96 243	104 452	115 592
Farm 6	242 215	263 449	272 861
Farm 7	-	-	76 000
Farm 8	925 135	1 420 317	1 972 113
Farm 9	813 457	934 880	987 622
Farm 10	189 452	195 773	219 685
Coop 1	178 897	184 000	-
Coop 2	165 884	172 791	188 016

Judging from the amounts of premium received by productive units in the study, Fairtrade has the potential to influence development in rural areas. It is not always possible for farm workers and small-scale farmers to raise funds for investment and projects due to their financial positions and lack of/minimal government support. Thus, there is a low probability that farm workers and small-scale farmers would have implemented development projects without Fairtrade premiums. As such, Fairtrade premiums are a significant source of capital for development purposes. This point of view is different from that of the IIED (2000), which criticizes Fairtrade premiums, stating that the amount received by each association is so small that it has only a minor impact if it is divided among beneficiaries. Since none of the cases in the study has handed out Fairtrade premiums in cash and the Fairtrade organization requires that the premiums be used for development purposes, the argument presented by IIED (2000) is challenged.

7.2.5.4 Fairtrade in the LED context

Based on the development projects invested in using Fairtrade premiums, Fairtrade can reasonably be discussed in an LED context. In addition, the way Fairtrade premium projects are selected is in line with the LED bottom-up approach (Rogerson, 2008). Farm workers and small-scale farmers suggest premium projects, which are often related to their own or community needs.

According to Nel *et al* (2007), LED projects can be funded by the public or private sector, or both. The way LED projects are funded does not influence the success or

failure of the projects. Instead, Nel and Rogerson (2007) found that the ability to utilize the concept of partnerships and the availability of resources are important factors that have contributed to the success of LED projects in some parts of South Africa. In the case of Fairtrade, community projects are funded by the private sector, and the concept of partnerships has been successfully embraced. Fairtrade producers in the study have formed partnerships in the Fairtrade supply chain, in order to receive funds (premium funds). In cooperatives, NGOs played a critical role in facilitating the creation of partnerships. Therefore, results of this study support the need for partnerships in LED projects. Additionally, proper institutional arrangements should be in place for successful LED projects. For example, Fairtrade premium projects are run by a specific committee, and the projects are monitored. However, it needs to be emphasized that a crucial underpinning aspect of Fairtrade projects' success has been the pre-existence of a market for produce. This finding validates the suggestion that it is necessary to evaluate the market realities of a LED market-based project before implementing the project, or else the project will not be sustainable (see Nel and Rogerson, 2007). As such, LED market-based approaches can have successful results in rural areas, just as in urban areas.

7.2.6 Natural assets

Using data gathered from interviews, Fairtrade checks production practices against its environmental standards, every year. Its standards include prohibiting the use of genetically modified organisms (GMOs), limiting the use of chemicals in production, and supporting soil fertility and water resources maintenance. Limiting the use of chemicals in production, and encouraging other environmentally sound methods, are steps towards sustainable production (Matthews, 2009). According to the study interviewees, the chemical content of produce and the type of chemicals that are used during farming are checked by Fairtrade inspectors during their annual visits to farms. If it becomes evident that a certain producer is using toxic chemicals in production, that producer will be decertified immediately. As a result, farmers in the study have invested in environmental training programmes and workshops.

Small-scale farmer cooperatives, as well as two commercial farms in the study, use organic production methods. Organic production has environmental benefits such as improving soil fertility and increased biodiversity (Nicholls and Cho, 2006). Producers

in the study, who are involved in organic production, have seen various benefits, including good quality produce, increased yield and higher prices on produce. Fairtrade rewards organic production (Nicholls and Opal, 2005), but the decision to use organic methods by producers in the study cannot be attributed to Fairtrade since they were using organic methods before they were certified by Fairtrade. Small-scale farmers were not using chemicals in production because they could not afford high input prices. Commercial farmers reported that they decided to use organic production methods in order to win over an environmentally conscious consumer group. Thus, amongst the respondents, none has been induced by Fairtrade to switch to organic production, despite the higher prices paid for organic certified commodities. However, Fairtrade has strengthened organic farming techniques among small-scale farmers through formal training in organic farming.

7.3 Conflicting interests and trade-offs

Fairtrade was founded in order to assist marginalized small-scale producers in accessing mainstream[38] markets, and to encourage development in the rural communities of these producers. Fairtrade extends its assistance to farm workers by certifying commercial farms for selected commodities (Redfern and Snedker, 2002). Although small-scale producers and farm workers are the primary beneficiaries of Fairtrade, they are not the only actors involved in producing Fairtrade commodities. Some of the actors played a significant role in the production process, but are not covered by the Fairtrade system. Small-scale producers who supply the Fairtrade market hire workers to assist with farm work. These workers are even more marginalized than the small-scale producers involved with Fairtrade are, but there are no rules that have been set by Fairtrade to protect them.

On plantations, decisions to supply the Fairtrade market are made by the farm owners, not the farm workers. Although farm workers are prime beneficiaries of Fairtrade, they are not responsible for paying Fairtrade administration costs, instead, the costs are paid by farm owners. Therefore, the way the commercial owner perceives Fairtrade, determines whether the farm continues to supply the Fairtrade market. As such,

[38] Although Fairtrade's main intention is to support small-scale farmers access mainstream markets, it has so far assisted them access a niche market.

different actors involved in production in the Fairtrade system, whether as prime beneficiaries or not, have different interests and expectations from the Fairtrade system. Based on their interests, each group of actors may seek changes, which accommodate their interests in the Fairtrade system.

It is possible to have conflicting interests within one producing unit. Conflicting interests in one producing unit are confirmed in the study by conflicting Fairtrade projects suggestions made by different actors. Joint Body respondents reported that farm workers preferred to be given Fairtrade premiums in cash. However, Joint Body members, as guided by Fairtrade principles, could not hand out cash to farm employees. Using Fairtrade premiums to invest in material goods, such as in food hampers and stoves, presents another avenue of conflicting interests between the Fairtrade organization and Fairtrade producers. Whereas the Fairtrade organization prefers that the premiums be invested in community projects or in productive projects (FLO International, 2007c), the amount of premiums received in some farms was too small to be invested in big projects, therefore, they thought it necessary to invest in material goods.

Evidence gathered from plantation interviewees pointed out that, commercial farmers in the study regard Fairtrade as one of their marketing strategies. If Fairtrade becomes unprofitable for them, they might decide to withdraw from the Fairtrade system. Such a move might not have an impact on the producers, but impacts negatively on the farm workers who lose potential Fairtrade development projects. As such, the Fairtrade organization may see it necessary to implement the same administration fees, for the small-scale and commercial farmers, based on supporting development of farm workers‘ communities. On the other hand, small-scale farmer cooperatives in the study complained that they are facing increased competition from Fairtrade certified commercial farmers, due to oversupply on the Fairtrade market. Given that Fairtrade was initially established to support small-scale producers, and judging from productive projects invested in by small-scale farmer cooperatives in the study, it seems rational to prioritize the interests of small-scale producers.

Respondents in the study expressed a willingness to increase their volumes of produce sold in the Fairtrade market. In addition, some producers are willing to supply the

Fairtrade market, but have not yet been incorporated into the system. This signifies a challenge to the Fairtrade organization, which has to devise means of inducing growth in the market. However, there are risks associated with increasing volumes and number of actors, especially if the consumer market is not growing at a proportionate rate. Increasing Fairtrade volumes for producers who are already engaged with Fairtrade increases risks of over-reliance on Fairtrade by producers. Expansion of participation might imply that competition is intensified for small-scale producers on the Fairtrade market. As a result, such changes in the Fairtrade system might undermine the success that Fairtrade has already had.

7.4 Conclusion

The results of the study demonstrated that Fairtrade production, while it has some challenges, has contributed to sustainable development of rural areas in South Africa. The initiative has managed to embrace all three elements of sustainable development, social, environment and economic. Social development projects that have been invested in using Fairtrade premiums, for the most part, are strengthening social relations in rural communities and creating economic opportunities that would otherwise not be available. Prohibition of certain chemicals in production by the Fairtrade organization and investing in environmental protection projects are contributing to environmental sustainability. However, charging high administration fees to Fairtrade producers is having a negative impact on the financial benefits of producers.

By using the sustainable livelihood framework, Fairtrade is shown to address some inequalities that were created by unfair competition in the international agricultural sector. Fairtrade‘s strengths lie in the organization‘s ability to connect producers to global market actors, and its ability to enforce and monitor that premium financial resources are reinvested in development activities at the local level. Apart from the positive impacts, the sustainable livelihood framework allowed for discussion of conflicting interests and trade-offs resulting from being involved with Fairtrade. These, together with challenges faced by Fairtrade producers, provide the basis for suggesting the local level changes and policy recommendations following in the next chapter.

CHAPTER 8
CONCLUSION AND RECOMMENDATIONS

Changes in international trade, towards more free trade, have stirred up debates in development economics. On the one hand, advocates of free trade argue that opening up markets offers greater opportunities for developing countries to improve their situations. On the other hand, proponents of protectionism considered free trade harmful to developing countries, due to trade imbalances between richer and poorer nations. Moreover, free trade seldom exists in the agricultural sector in both developing and developed countries. In order to address market imbalances resulting from free trade, Fairtrade has arisen. Fairtrade maintains that international trade, if performed in a ‗fair' manner, benefits developing countries. ‗Fair' in the Fairtrade context refers to paying decent prices, which cover production costs and allow development. The Fairtrade organization further claims that producing Fairtrade commodities contributes towards sustainable development. However, Fairtrade has attracted criticism, where opponents argue that the Fairtrade label is only a marketing tool, encourages inefficiency and is unsustainable. In this context, this research was designed to investigate the impact of Fairtrade in South Africa, in order to determine whether Fairtrade has achieved its objectives of contributing towards sustainable development.

The research utilised primary data, which was collected from sampled commercial and small-scale Fairtrade certified producers in the Eastern Cape and Western Cape provinces. As such, the results of the study reflect the impact of Fairtrade from both cooperatives and hired labour perspectives. The impact of Fairtrade and its sustainability were assessed in the LED and NIE contexts, and analysis was guided by an impact assessment framework that comprised of four main stages: vulnerability context, impact assessment, conflicting interest and trade-offs and, local-level changes. The results of the study show success stories for, and challenges faced by, Fairtrade producers. In addition, the study identified a number of lessons, which can be taken from the Fairtrade system, as well as areas that need attention in order to enhance participation. During the study, additional questions that are related to Fairtrade arose. In order to accommodate these questions, areas that could be of interest to do further investigations have been put towards the end of the chapter.

8.1 Summary of research findings

Based on the results of the study, it is apparent that Fairtrade has achieved considerable success in positively influencing the lives of those involved, as well as their communities in South Africa. It has contributed towards development by offering premiums for development projects, supported greater equity in international trade by offering higher guaranteed prices on produce and supported environmental protection by putting in place stringent measures that prohibit certain chemicals during production. However, the extent to which Fairtrade influenced development was highly dependent on certain producer characteristics. Amongst others, the most significant characteristics included the scale of operation (whether small-scale or commercial production), volumes of produce and diversity in commodities marketed on the Fairtrade market, and whether or not the producers have moved up the value chain. Beyond the Fairtrade benefits, participants have also faced some challenges in Fairtrade production. As for Fairtrade benefits, the challenges faced by participants and the extent to which producers are affected differ from one producing unit to the other.

8.1.1 Fairtrade and sustainable livelihoods

In order for an initiative to qualify as sustainable, the principle of sustainable development requires that all three aspects (social, economic and environment) of development be considered in an integrated manner. The study has used the sustainable development framework to assess the impact of Fairtrade in South Africa on sustainable development strategies, and a summary of the main findings are shown in table 8.1.

Fairtrade producers in South Africa had a positive influence on all three avenues of sustainability. This statement helps address the first hypothesis of the study ($\mathbf{H_1}$) which states that Fairtrade makes it possible to balance economic growth, social equity and environmental protection. However, Fairtrade producers in the study pay less attention to environmental development, as compared to economic and social development. Even though that is the case, Fairtrade still contributes towards sustainable development, unlike free trade, which focuses on economic growth (Lynn, 2003).

Table 8.1: Summary of the impact assessment results

Theme	Fairtrade aims	Research Findings	Conclusion
Human capital	• encourage training • support capacity building on marketing skills • encourage organisational development	• Fairtrade premiums are invested in training and education • Investment in training and education has given farm workers and small-scale farmers a chance to develop their managerial skills • Farm workers‘ children are allowed a chance to acquire formal education • In Coop 2, growth in human capital is evidenced by growth in produced and exported volumes • Premiums are managed by Premium or Joint Body Committees, but projects are jointly suggested by Fairtrade beneficiaries in an organization	• Fairtrade has a significant impact on human capital development, both at farm and household levels • The impact on human capital development is dependent on how the JB and premium committees choose to spend premium
Physical capital	• support for community infrastructure • support land ownership rights for farm workers (Fairtrade in South Africa is in line with BEE)	• Links to donor funding (for Farm 8) and Fairtrade premiums made it possible for farms and cooperatives to invest in physical capital • Investments include constructing or renovating buildings such as training centres, halls, workers‘ houses, crèches and drying facilities, and offering material goods • On commercial farms, physical capital development is mostly directed to farm workers‘ communities, whereas in cooperatives it is directed to cooperative members • Plantations were already BEE accredited before certified by Fairtrade • Farm workers with share ownership benefit from Fairtrade minimum prices and premiums	• Significant investment in community infrastructure (commercial farms) and production and processing infrastructure (cooperatives) • Fairtrade and BEE are compatible • In commercial farms, there are potential problems related to physical changes made on the farm owner‘s land
Financial position	• encourage more direct trade • increase income through minimum prices • pre-finances	• Both small-scale farmers and commercial farmers benefit from minimum prices and, this change is regarded as the main outcome among small-scale farmers • Small-scale farmers have managed to cut down on the number of middlemen • Producers who supply processed or partially processed commodities and those who have moved up the value chain have an added financial advantage	• Fairtrade substantially increases small-scale farmers‘ income • Inconclusive results for the financial impact of Fairtrade on commercial farmers • Fairtrade markets, as compared to conventional

		• Fairtrade administration costs pose a negative impact on the financial position of producers • None of the producers has sought pre-financing even though they are all aware of the service	markets, take relatively longer to pay producers
Social capital	• create solidarity between consumers and producers • decent working conditions • encourage long-term relationships	• Fairtrade has strengthened relationships among cooperative members and between management and farm workers • Fairtrade has also increased connectedness in the supply chain, between Fairtrade producers and consumers, although very limited • Part of Fairtrade premiums was invested in leisure activities, for example, in community sport and Christmas outings for farm workers • Farm workers on commercial farms are free to join workers' unions and are paid at least a minimum wage • Evidence of group conflicts in Coop 1	• Fairtrade had a positive impact on the connectedness of people involved in Fairtrade • Strong informal networks reinforce Fairtrade activities • Fairtrade creates social capital • Social capital can be destroyed if some members cannot be trusted (as in Coop 1)
Economic development	• direct Fairtrade premiums towards development projects • encourage trade activities	• Fairtrade has contributed towards creating both temporary and permanent employment • An increase in local employment results in increased disposable income for local people, which influence spending and other ripple effects • Fairtrade premiums have positively influenced community investment and development, however, the issue of sustainability in project investment is not totally embraced in some farms • Small-scale farmers were allowed an access to markets	• Fairtrade has a positive influence on economic development, however, there is room for improvement • Low demand growth and oversupply on the Fairtrade market limits the amount of commodities that is sold on the market
Natural assets	• reduce the use of chemicals • encourage producers to move towards organic production	• Fairtrade has successfully prohibited use of certain toxic chemicals in production • Encouraging organic production has reinforced the low input farming systems already employed by small-scale farmers • Fairtrade rewards organic commodities, but none of the producers has been induced by Fairtrade to switch to organic production • Commercial producers feel that organic production is more costly due to its labour intensive nature	• Fairtrade has partially succeeded in influencing environmental concerns • The dual certification system for organic producers imposed additional costs on the producers

8.1.2 Fairtrade benefits

The overriding benefits of Fairtrade in the study are developmental projects that were invested in using Fairtrade premiums. In most cases, the premiums were used to finance potential local public goods, where there were no cases of excludability and free riding on the goods. The projects invested in fall into the following categories: education and training, infrastructure development, production projects, environment, health and security, investment in production and processing inputs, investment in material goods, and investment in sport and leisure. Through these development projects, Fairtrade has contributed towards strengthening relationships and providing services that would otherwise not be accessible to individuals and communities. Thus, Fairtrade has significantly contributed towards economic and social development in the country.

Using the results on how the Fairtrade premium is passed on to the beneficiaries, the study challenges the criticism that was presented by Sidwell (2008). The paper advocates direct donations to charities as compared to Fairtrade premium, based on the argument that only ―10% of the Fairtrade premiums paid by consumers reach producers" (Sidwell, 2008: 11). On the contrary, the research analysis has shown that the Fairtrade organization is transparent with how the Fairtrade premium is calculated, and participants have not reported any cases where they received lower premiums than they expected. In addition, the results show that the way in which the Fairtrade premium is passed on to the beneficiaries in a commercial farm setup is effective. The premium is directed into the Joint Body's account, thus, leaving no chance of the Fairtrade premium being manipulated by the farm owner, whose monetary gains are received from Fairtrade minimum prices.

Apart from the premium, Fairtrade brings about other benefits to Fairtrade producers. Both commercial and small-scale farmers are allowed access to a market that offers stable prices, which are always at least as high as, and often higher than market prices. Even commercial farmers, although are not primary beneficiaries of Fairtrade, benefit from Fairtrade in this way. Fairtrade minimum prices were more than twice the market price for commodities such as litchis, plums, organic table grapes and *rooibos* tea in 2010. These Fairtrade minimum prices, unlike in conventional markets, remain stable for a relatively longer period, despite changes in global market competition. Thus, even

if global market prices drop, Fairtrade producers are assured of getting a higher price for their produce than market prices. Moreover, once producers gain access to the Fairtrade market, they continue supplying the market for a relatively longer period because the Fairtrade organization encourages long-term relationships within the supply chain. These relationships have further contributed towards building a link between Fairtrade consumers in the North and producers in South Africa.

In the case of small-scale farmers, Fairtrade has allowed them to expand their business opportunities to export markets. Before they were engaged with Fairtrade, they sold their produce locally through middlemen. When they changed from local marketing to international marketing, they managed to reduce the number of middlemen who siphoned off part of the producers' incomes along the supply chain. Thus, Fairtrade has opened up opportunities (among the small-scale farmers) for relatively direct trade. As a result, small-scale farmers enjoy an increase in income due to an increase in the share of export price. Nevertheless, these increased opportunities for small-scale producers came along with more responsibilities in terms of farm and group management. In Coop 1, where members had problems in totally embracing the concept of group and conflict management, the cooperative was decertified from Fairtrade.

Fairtrade has also contributed towards producer empowerment, particularly among small-scale farmers and farm workers. Training small-scale farmers in organic production improved the inherent capabilities of this group of farmers that was not being used to full potential. After training, they managed to increase production. In addition, cooperative members acquired exporting knowledge by participating in Fairtrade markets. Through this exposure to export markets, small-scale farmers in the study are now better informed of market requirements. As such, supplying export markets is a step towards career development among small-scale farmers, considering that they were historically denied direct access to both local and international markets.
Among the farm workers, Fairtrade provided a learning platform in a number of areas ranging from production to social issues. Farm workers, especially those owning majority shares on a farm (for example Farm 8), or in part-ownership arrangements with their employers, learnt to manage farms. Training in areas such as computer skills, group management and project management equipped them in carrying out management tasks. Farm workers were also left to manage social premium funds, where they were

required to decide on which social projects to invest in. The projects that they invested in helped address issues related to unemployment, food security, education, poverty and HIV/AIDS. By investing in these projects, Fairtrade has contributed towards social and economic development in local communities and in South Africa in general.

8.1.3 Fairtrade challenges

Producing for the Fairtrade market has several challenges that limit Fairtrade benefits to producers. Fairtrade administration costs were cited by respondents as their major challenge. Producers pay a fee in order to be certified. After certification, they incur annual costs related to auditing and monitoring, and still have to pay the Fairtrade organization an annual fee based on volumes sold under the Fairtrade label. Small-scale farmer cooperatives in the study hired managers to perform administrative work, imposing additional costs on these producers. The challenge posed by Fairtrade administration costs is that the costs cut into the producers‘ incomes. On Fairtrade commercial farms, premiums are directed to community development projects, but costs are paid for by farm owners. In the case of small-scale farmer cooperatives, the farmers lack capital (the reason why they do not use chemicals in production), but they are still required to pay for administration costs. In response to the challenge, Farm 2 is looking for alternative certifying organizations, which charge lower fees. If many more producers are induced by Fairtrade-related costs to exit Fairtrade, it might have a detrimental impact in the marketability of the Fairtrade mark.

Another challenge is that the Fairtrade market cannot accommodate all produce from Fairtrade certified producers. Some commodities, while up to Fairtrade quality standards, end up being sold on conventional markets, due to lack of consumer market. Producers make an effort to produce Fairtrade quality commodities, but they cannot sell all their commodities as Fairtrade. This means that even though producers are going through the higher cost production methods to generate Fairtrade quality produce, they are not reaping Fairtrade rewards from all their commodities.

Other challenges that are faced by Fairtrade producers include the use of Fairtrade premiums, and the existence of competition among Fairtrade producers. A number of farm workers do not understand why they have to invest premiums in projects that bring about impacts beyond the farms. As a result, they suggest non-sustainable projects, such

as investing premiums in food hampers, leisure activities and other non-productive material goods. With regard to competition, small-scale farmers reported that they are facing increasing competition from plantations in the Fairtrade market. Using *rooibos* tea (which is entirely supplied from South Africa) as an example, the challenge is that certified cooperatives cannot meet market demand[39]. At the same time, including plantations in Fairtrade poses a challenge to small-scale producers, who were principally targeted by the initiative.

8.1.4 Cooperatives versus plantations

The Fairtrade literature presents debates revolving around the inclusion of plantations in the Fairtrade model (Redfern and Snedker, 2002; Law, 2005; Besky, 2008). In order to contribute to the literature, this study identified a number of differences between cooperatives and plantations in the study (Table 8.2).

Using indicators in table 8.2, particularly looking at access to export markets, minimum prices, and premium use, it is rational to have contradictory views about the inclusion of plantations in Fairtrade. Plantations in the study were already participating in export markets before becoming engaged with Fairtrade, and Fairtrade only provided them with an alternative market. On the other hand, cooperative members were able to access export markets after they were engaged with Fairtrade. This shows that plantations have the capacity to penetrate export markets without outside help. However, when plantations participate in Fairtrade, their owners enjoy Fairtrade minimum prices. In a cooperative, minimum price benefits accrue to the intended Fairtrade beneficiaries. By offering minimum prices to cooperative members, the Fairtrade organization achieves one of its aims of offering better trading conditions to formerly marginalized producers. In addition, considering that a cooperative is made up of a number of small-scale farmers, it means a larger number of households benefit from Fairtrade minimum prices.

[39] Coop 2, which is currently certified, sells 90% of its total produced volumes to Fairtrade markets, the remaining 10% cannot satisfy the market that is being supplied by Farm 9 and the other four Fairtrade certified *rooibos* tea commercial farms (considering that cooperatives supply lower volumes as compared to commercial farms).

Table 8.2: Main differences between Fairtrade cooperatives and plantations

Indicator	Cooperatives	Plantations
Amount of land for production purposes	Individual farmer produces on a relatively small area of land (average 3.5 ha)	Production occurs on a relatively large area of land (ranging between 27 ha and 4 000 ha)
Members/Farm owners	Made up of a number of producers from different families	In most cases the farm is a family business
Fairtrade market	Represent their main market	Act as an alternative market
Motivation for joining Fairtrade	Minimum prices received	Access to a marketing channel
Access to export markets	Gained access as a result of participating in Fairtrade	Already marketed in export markets before engaged with Fairtrade
Premium use	Invested mainly in producer development projects such as in production and processing equipment	Invested mainly in community development projects such as in education and community infrastructure
Minimum prices	Accrue to Fairtrade beneficiaries (small-scale farmers)	Accrue to non-Fairtrade beneficiaries (commercial farmers)
Farm workers	Not protected by Fairtrade standards	Protected by Fairtrade standards

With regard to how the Fairtrade premium was used, cooperative members have invested mainly in productive projects, which help develop their career. The Fairtrade premium has allowed them a chance to increase production, as well as to move up the value chain. Therefore, Fairtrade has contributed towards agricultural development in a cooperative setup. Based on these results, it can be concluded that a cooperative model in Fairtrade has the potential to open up developmental opportunities for small-scale farmers. However, differences in performance between Coop 1 and Coop 2 show that the success of cooperatives is dependent on its members' strengths, such as their ability to communicate effectively with all cooperative members and to resolve group conflicts. Including commercial farms in the Fairtrade model has both advantages and disadvantages. The main advantage is that premium investments in commercial farms support community development. Commercial farms in the study invested their Fairtrade premiums mostly in education, training and community infrastructure. As

such, Fairtrade has contributed towards local community development, skills development and improving educational standards in rural areas. However, it is worth noting that there were cases where premiums were invested in non-productive projects on commercial farms. This raises concern with regard to the sustainability of these non-productive projects, especially if Fairtrade intervention discontinues. Another advantage is that farm workers in commercial farms are protected by Fairtrade standards. Farm workers belong to trade unions, benefit from a safe working environment and, in a few cases, enjoy an increase in wages.

The main disadvantage related to Fairtrade in commercial farms is that they create competition[40] for small-scale farmers (Coop 1 and Coop 2 members are threatened by the expansion of some plantations into *rooibos* tea marketed under the Fairtrade label). Commercial farmers already have trading capacities, which makes it relatively easy for them to form links in the Fairtrade supply chain. In addition, when commercial farmers receive minimum prices, they use them to develop their business strategies, and intensify competition for small-scale farmers. However, considering that Fairtrade in South Africa includes BEE, it implies that farm workers also benefit from minimum prices and an increase in market share, in cases where farm workers have total or partial ownership of the commercial farms. As such, Fairtrade certification of commercial farms can still be supported, most preferably certification of those commercial farms which are entirely owned by farm workers, or where farm workers own majority shares.

In summing up the discussion, Fairtrade certification of both small-scale farmer cooperatives and commercial farms in the study had a positive influence on local development. Notwithstanding the challenges faced by small-scale farmer cooperatives when commercial farms are certified, certification of the latter is justifiable. Commercial farmers themselves will not be primary losers if excluded from Fairtrade; rather, the majority of low-income farm workers who rely on Fairtrade for the development of community services. As such, both small-scale farmer cooperatives and commercial farms in South Africa should be certified by Fairtrade. However, the Fairtrade organization should consider limiting certification to small-scale farmer

[40] Brinckerhoff (2010) considers competition a good thing in marketing. Nevertheless, in this context, creating competition for small-scale farmers in the Fairtrade market is considered bad. This is because the Fairtrade label was created for this group of farmers, therefore, they should not be outcompeted in a market that was created in their name.

cooperatives for commodities whose Fairtrade demand can be met by small-scale farmers.

8.2 Research questions revisited

This section uses empirical evidence as gathered from the study in order to answer the research questions, which were stated in chapter 1.

- Can Fairtrade be regarded as an LED strategy in South Africa?

Fairtrade activities have shown a degree of success towards development in, and have brought public goods benefits to rural South Africa. Based on the development projects invested in using Fairtrade premiums, Fairtrade can reasonably be regarded as an LED strategy. The way Fairtrade premium projects are selected is in line with the LED bottom-up approach where farm workers and small-scale farmers suggest premium projects, which are generally related to their own or community needs. Fairtrade producers in the study also utilized the concept of partnerships by forming relations in the Fairtrade supply chain, with Fairtrade intermediaries, and in a few cases, with Fairtrade consumers. The ability to form partnerships was found by Nel and Rogerson (2007) to be an important factor that contributed to the success of LED projects in some parts of South Africa.

- To what extent do the Fairtrade institutional network arrangements reduce poverty and encourage growth in the communities served by Fairtrade producers in South Africa?

Fairtrade network arrangements in the study consisted of horizontal and vertical relationships. Horizontal relationships involved networks of people at the same level as in the case of small-scale farmers in a cooperative, while vertical relationships involved networks of people at different levels in the Fairtrade supply. The overall results of the study show that Fairtrade institutional networks need to be trustworthy for them to contribute towards community growth and poverty reduction. Fairtrade producers who honoured conditions of their long-term contracts with their exporters managed to carry out repeated exchanges in the Fairtrade market. These producers benefit from Fairtrade minimum prices, and Fairtrade premiums, which are often, invested in community development projects. On the other hand, untrustworthiness in institutional networks, as

in Coop 1, discourages trading activities. As a result, producers continue to live in poor conditions and their communities lose in the potential gain from community development projects.

- Do the Fairtrade social networks in South Africa result in job creation and economic growth?

Fairtrade producer social networks which have not stopped operating since they were certified by Fairtrade have contributed towards addressing local and national economic development challenges of rural areas through facilitating trade in the agricultural sector, investment in rural infrastructure and employment creation. They have managed to create agricultural and non-agricultural employment. However, those producers who have managed to move up the value chain (for example Coop 2 members are involved in tea processing and packaging) have created a larger number of jobs as compared to those who remained in primary production.

- Are there economic challenges that are faced by South African farm workers and producers when they work collectively under Fairtrade?

The main challenges faced by farm workers in Fairtrade certified farms and small-scale farmers in cooperatives resulted from conflicting interests among individuals. Farm workers mainly had conflicts in deciding projects to invest in using Fairtrade premiums. Some preferred to be given Fairtrade premiums in cash and some suggested that premiums be invested in material goods, such as in food hampers and stoves, whereas the Fairtrade organization prefers that the premiums be invested in community projects or in productive projects. In a cooperative, the disadvantage of working in groups is seen in Coop 1. Some cooperative members supplied other markets than the Fairtrade market, thus, breached Fairtrade contracts. They sold in these other markets because they paid relatively faster as compared to the Fairtrade market. Another challenge of marketing collectively in a cooperative is that they sell produce that is not uniform as it is supplied by different producers. This becomes a challenge when some cooperative members supply poorer quality produce as compared to others. In the case of Coop 1, poor quality produce and lack of trust between the cooperative and the exporter, led to the cooperative being decertified. As a result, the community was denied potential development projects from Fairtrade premiums.

- Is Fairtrade in commercial farms justifiable?

Fairtrade certification of both small-scale farmer cooperatives and commercial farms in the study had a positive influence on sustainable development. In small-scale farmer cooperatives, Fairtrade benefits are mainly directed to producers involved in Fairtrade. In commercial farms, the benefits are directed to local communities embracing Fairtrade producers. However, when commercial farms are certified by Fairtrade, they create competition for small-scale farmers in the market. Even though that is the case, certification of commercial farms is justifiable, considering that commercial farmers themselves will not be primary losers if excluded from Fairtrade. The majority of low-income farm workers who rely on Fairtrade for the development of community services who stand to gain most from Fairtrade. As such, both small-scale farmer cooperatives and commercial farms in South Africa should be certified by Fairtrade.

8.3 Concluding remarks

Fairtrade, whilst not free from challenges, has had a positive impact on the lives of small-scale producers, farm workers and their communities. Fairtrade benefits have come in monetary form, as premiums and minimum prices, and in non-monetary form. This is where Fairtrade differs from charity. Whereas charity is mainly about cash assistance (Hayes, 2006), Fairtrade brings benefits, that go beyond monetary assistance. The initiative has managed to empower small-scale producers and farm workers, as well as leverage development opportunities for their wider communities. Among small-scale farmers, Fairtrade has assisted in steering agriculture in a developmental direction. Fairtrade benefits further trickle down to non-Fairtrade community members in the form of employment creation and community development. In the face of high rural unemployment in South Africa, Fairtrade has managed to create a number of rural employment opportunities. If analysed in the LED context, Fairtrade has been useful in increasing the economic capacity of local communities, using a market-based approach. Further, when producing for Fairtrade, use of certain toxic chemicals is limited, thus, Fairtrade has a positive contribution towards environmental protection. Due to these and other roles, Fairtrade could be advocated for as a source of sustainable development. These Fairtrade successes are embedded in the producers‘ ability to use networking (both informal community networks and as established by the Fairtrade scheme), in order to perform economic activities. Thus, in the NIE context, Fairtrade activities in the

case studies have a positive economic impact, which occurred as a result of social networks.

It is worth noting that the way Fairtrade has affected people‘s lives is not the same in all producing units. Producers who have been involved with Fairtrade for a relatively longer period and, those that market larger volumes and processed commodities in Fairtrade markets have enjoyed greater benefits. Therefore, it should not be presupposed that being involved in Fairtrade production would automatically create substantial benefits. Fairtrade producers have to make an effort to create trustworthy relationships within the Fairtrade supply chain, as well as move up the value chain, in order to reap greater benefits from Fairtrade.

The overall conclusion must therefore be that Fairtrade has a valuable concept to offer to producers in South Africa. In the light of Fairtrade challenges, the best way forward for producers is to utilize those elements of the Fairtrade strategy that have proven beneficial. In addition, the Fairtrade organization, Fairtrade producers and other institutions should try to address challenges faced by Fairtrade producers, in order to increase the scale of positive Fairtrade impacts. This conclusion has important implications for considering certain Fairtrade policy options.

8.4 Policy recommendations

Based on the findings of the study, particularly challenges and trade-offs, a number of policy recommendations can be suggested. Different parties have to play supporting roles, in order to increase Fairtrade successes and benefits among Fairtrade producers. This section gives a series of options that can be considered in South Africa.

8.4.1 Recommendations for Fairtrade producers

Encourage knowledge exchange within producing units and among Fairtrade producers

The empirical results have shown that the level of understanding of what Fairtrade means is different among different actors in the same producing unit. Further, the level of success in Fairtrade differs among producers. Both these issues have resulted from an information gap. Therefore, they can be addressed by knowledge exchange within producing units and among Fairtrade producers. Within a farm or cooperative,

communication could be improved between people at higher organizational levels (management and Joint Bodies) and those on lower organizational levels. Before making any changes, each producing unit needs to investigate the effectiveness of different communication approaches, and choose the one that is best suited for their situation. A number of approaches can be followed on one farm, for example, training sessions and notice boards. In relation to encouraging knowledge exchange among Fairtrade producers, the producers could form a network of communication. A network of Fairtrade producers can be formed using help from Fairtrade liaison officers, who need to motivate producers with regard to how a network benefits all parties involved. For example, within a network, producers may be able to identify collectively investments that bring about sustainable development.

Encourage producers to move up the value chain

It has been shown in the study that moving up the value chain brings additional cash benefits to Fairtrade producers. Even though the Fairtrade organization prefers trading in primary commodities (Bigirwa, 2005), there are producers in the study who have managed to move up the value chain. These producers have managed to obtain extra income, and were relatively accommodative of Fairtrade administration costs. The proportion of administration costs to Fairtrade prices is reduced as producers add value to their produce, thus, making Fairtrade production more economically viable. Thus, Fairtrade producers can use ‗moving up the value chain' as one strategy to reduce costs. In order to work towards this goal, producers may consider forming a producers' organization that will lobby the Fairtrade organization to allow them to add value to their produce. In addition, producers should not only depend on Fairtrade markets, but also should add value to the volume of produce, which is sold on non-Fairtrade markets, and diversify production.

8.4.2 Recommendations for the Fairtrade organization

Ensure that Fairtrade benefits extend to a number of producers

The Fairtrade organization does not limit the number of years which producers can sell produce on the Fairtrade market. This condition presents a potential negative impact of dependency on the organization among producers. On the other hand, the literature review chapter (Chapter 2) acknowledged Fairtrade as offering ‗infant industry' support to agricultural producers in the South. In this light, the Fairtrade organization should

consider establishing rules for a period of time for which a cooperative or commercial farm should be allowed to supply the Fairtrade market. This allows new entrants into the Fairtrade network, thus broadening the number of producers participating in Fairtrade. Through these changes, the scheme supports growth of the whole industry, rather than creating producer elites.

When certifying new producers, the Fairtrade organization should consider small-scale farmer cooperatives and commercial farms, which are entirely or partly owned by farm workers. Some of the cooperative qualities that have contributed to the success of Coop 2 in the study, and can be considered when certifying cooperatives include: small-scale farmers from close-knit communities (with strong social capital), rather than those with many migrant workers; farmers producing the same commodities, and where cooperative members are loyal to terms of their cooperative. However, when certifying cooperatives, the Fairtrade organization should also ensure that its standards protect farm workers hired by small-scale farmers.

Partial ownership by farm workers can be advocated for, in cases where small-scale farmers cannot meet Fairtrade demand and where they cannot efficiently supply the commodities (for example in wine). In partial ownership arrangements, more preference should be given to commercial farms on which farm workers hold majority shares. That way, a larger percentage of minimum prices accrue to farm workers, rather than to commercial owners. However, employee training should be emphasized in partial ownership arrangements.

Reduce Fairtrade related costs

The costs of Fairtrade certification and inspection are borne by producers (FLO International, 2009). These costs, which include the auditors‘ travelling and accommodation costs, are included in the producers‘ Fairtrade administration expenses. In South Africa, respondents of the study reported that Fairtrade audits are performed by Northern Fairtrade representatives. Therefore, due to higher auditor travelling costs, Fairtrade producers in the country face higher administration costs. In order to reduce audit related costs, the Fairtrade organization should consider engaging local auditors to perform Fairtrade certification and inspection tasks. In addition, the Fairtrade organization should consider subsidizing part of the costs, especially for small-scale

producer cooperatives. Another way of reducing Fairtrade related costs is by removing a multiple certification system in Fairtrade. For example, the Fairtrade organization could consider incorporating organic production standards (for those producers willing to supply organic commodities) into the Fairtrade standards. As a result, organic producers will not be required to perform several auditing processes, thus reducing costs.

Expand Fairtrade markets

The Fairtrade organization could consider investing in research, in order to investigate potential demand for Fairtrade commodities, in areas that are not currently supplied by Fairtrade. This move helps the Fairtrade organization identify its areas of expansion, thereby increasing the possibilities of absorbing new entrants and increasing Fairtrade marketed volumes for those who are already certified. The Fairtrade organization could also consider following a slightly different approach (if possible with lower premiums) in an effort to expand to markets in the South. South-South trade may reduce dependency on the consumers in the North, and may sustain the Fairtrade label just in case the North-South nexus of Fairtrade diminishes. The Fairtrade organization in South Africa is already supporting local marketing of Fairtrade wine in South Africa. Also, the South African market sells Fairtrade coffee, which is imported from Belgium (Fairtrade South Africa, 2010). Similar support could be offered to other Fairtrade certified commodities in the country and others coming from South countries.

8.4.3 Recommendations for other institutions

Raise Fairtrade awareness among both producers and consumers

Fairtrade in South Africa is a relatively recent phenomenon among both producers and consumers. As a result, Fairtrade activities in the country are still limited, particularly among small-scale producers. In order to encourage production and consumption of Fairtrade commodities, there is a need to increase Fairtrade awareness. Non-governmental organizations, which are interested in rural development, can help raise awareness among small-scale producers. A column in a farmers‘ newspaper or a Fairtrade newspaper, which informs people on the Fairtrade changes, successes and challenges, may be considered. Other awareness strategies that may be used include event shows and photo exhibits.

Invest in rural infrastructure

A number of producers in the study are located in areas where roads are poorly developed, which negatively influences their marketing activities. In other areas, there are poor communication links. Small-scale producers expressed their willingness to invest their premium in infrastructure development, but their funds are limited. Government agencies and private actors may consider assisting producers in investing in rural infrastructure, through co-funding these infrastructure development projects. This will allow producers to direct their premiums towards other sustainable projects.

Offer direct support to Fairtrade producers

The results of the research have shown that Fairtrade brings public goods benefits to rural economies. Based on these benefits, the government should consider offering a subsidy to Fairtrade certified producers, which will reduce the administration cost burden on the producers. The government and NGOs interested in rural development may also fund training in the certification process and knowledge exchange activities, among small-scale farmers. In fact, if Fairtrade is classified as an LED approach, collective action should be encouraged between local public and private economic actors, in pursuance of creating a favourable environment for local economic growth and development (Zaaijer and Sara, 1993).

Land redistribution has been a topical issue in South Africa. Through BEE, a number of people have acquired land, but they have failed to produce efficiently because they lack experience and expertise (Sefoko *et al*, 2007). On the other hand, results from Fairtrade and BEE have shown that farm workers owning shares on Fairtrade certified farms benefit from the farm owners‘ knowledge and capital, allowing a smooth transition to entrepreneurship amongst farm workers. The government could consider offering financial support (under BEE) to farm workers on Fairtrade certified farms, which will allow them to buy shares from willing farm owners.

8.5 Limitations of the study

There were four main limitations, which were encountered in this research: language difficulties, unwillingness of some respondents to provide data, time and financial limitations. Some respondents preferred to be interviewed in Afrikaans, a language that

the researcher of this study is not fluent. The impact of this limitation was reduced by employing an interviewer who is fluent in both Afrikaans and English.

The results of the study are limited to the people who were willing to provide data. Thus, the unwillingness of some Fairtrade certified producers to provide data for the research reduced the sampling frame, and probably introduced bias, as highly successful producers were more likely participate in surveys. In order to increase reliability of the research, in-depth interviews were conducted with those who responded. Therefore, the results can still be generalized to the whole population, although distinct features among different people and areas have to be considered.

Data were collected over a relatively short period of time due to time and financial limitations, and the fact that data were collected from two provinces only, left some features which are specific to other provinces uncaptured. One group of the respondents had recently withdrawn from Fairtrade, but was interviewed because the researcher was unaware of the withdrawal beforehand. The responses from that group were, however, still useful because they helped the researcher view Fairtrade from another perspective.

8.6 Further research

The research study raised several questions requiring further investigation. A few possible areas for further study include:

1. Carrying out comparative analysis of Fairtrade versus non-Fairtrade producers in the same production area, and Fairtrade versus other ethical initiatives claiming to support sustainable development. These studies will help provide informed decisions, related to whether Fairtrade should be supported as compared to others; or whether they should be supported in a complimentary way.

2. Carrying out a cost-benefit analysis among Fairtrade farmers (make a detailed analysis using a Cost: Benefit ratio). This would help to determine the farmers‘ actual monetary benefits from Fairtrade, particularly among commercial farmers.

3. Investigating the influence of Fairtrade contracts on producers' transaction cost. The NIE transaction cost theory can be used in carrying out this investigation.

4. Studying the future demand growth potential for Fairtrade commodities. Also, investigating the availability of and potential growth of a Fairtrade market in South Africa and other South countries.

5. Investigating the whole Fairtrade supply chain in order to identify the effectiveness of the Fairtrade organization. Fairtrade success does not depend on producers only, but marketing agents and consumers are also important.

6. Assessing whether Fairtrade producers and consumers have a mutual understanding of Fairtrade, and how their Fairtrade definitions impact on the movement‘s goals in the global trade system. A mutual understanding of Fairtrade between producers and consumers helps them work towards the same goals.

7. Examining the types of agricultural commodities that are covered by Fairtrade, and why (for example, horticulture commodities versus field crops). Amongst such commodities, how many are supplied by small-scale farmers and why?

This study has contributed to the Fairtrade literature in South Africa, particularly focussing on the impact of Fairtrade among producers. The overall conclusion drawn from the study is that, Fairtrade has proven to be a viable development strategy for small-scale farmers and farm workers in South Africa. Fairtrade‘s ability to encompass the three aspects of sustainability (social, environmental and economic) poses a realistic challenge to conventional trade. However, Fairtrade producers in the study continue to face challenges related to high administration costs and low demand on produce. Such challenges need to be solved, in order to increase Fairtrade benefits. Another challenge is that the success of Fairtrade is dependent upon consumers‘ willingness to buy Fairtrade commodities, so Fairtrade‘s sustainability is not guaranteed, especially during an economic slump. Nonetheless, Fairtrade presents a useful model, which promotes business activities and developmental strategies.

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APPENDIX 1:

Questionnaire for the Farm Manager (Commercial farm)
AN INVESTIGATION INTO THE IMPACT OF FAIRTRADE IN SOUTH AFRICA

Date_____
Interviewer_____

Name of Business/Organisation: _____
Location (Province/District): _____
Position of Respondent: _____
Are you the Owner of the Farm? YES/ NO

A. FAIRTRADE INFORMATION

1. When were you certified as Fairtrade producers? Year……

2. How do you rate Fairtrade certification procedures?

Short and Simple	Fair	Lengthy	No comment

3. How did you learn about Fairtrade (FT)?

FT Organization	FT-certified farmers	Non-FT certified people	Cannot remember

4. What motivated you into joining Fairtrade? ……
...……

5. Do you sell **ALL** your produce through Fairtrade? Yes ☐ No ☐
6. If No to 5, tick the category of the percentage output that is sold through Fairtrade.

List Crop/ Fruit	Percentage sold through Fairtrade			
	Greater than 80%	50% to 80%	30% to 50%	Less than 30%

7. If No to 5, what happens to the remaining percentage?

I do not know	**ALL** Sold to conventional markets	**ALL** Consumed at the farm	Consumed + sold to other markets

8. What are the costs of Fairtrade in terms of the following?
a) Time……..
b) Management……..
c) Compliance……...

9. How does FLO ensure that certified producers maintain the use of chemicals to a minimum?
……

B. MARKETING

1. What is your opinion on the Fairtrade prices that you get?

Fair	
Unfair	

2. How do you compare Fairtrade prices with non-Fairtrade (Conventional market) prices?

Lower	
Equal	
Higher	

3. Are you guaranteed of Fairtrade minimum prices? Yes ☐ No ☐

4. What is your opinion on Fairtrade pre-finances?

Helpful	Not helpful	Never available	Do not know about pre-finances

5. Do you know the channels through which your produce moves until they reach the consumers? Yes ☐ No ☐

6. When do you receive money when using Fairtrade markets?

On delivery	Within 1month after delivery	Between 2 to 3months	More than 3months

7. Do you have a personal connection with Exporters/ Processors? Yes ☐ No ☐

8. Do you have a contract with the Exporters/Processors? Yes ☐ No ☐
If Yes, what duration is the contract?.....Years

9. Do you have access to Fairtrade market information? Yes ☐ No ☐

10. If Yes to 9, how often do you receive the information from your sources?

List Source	Daily	Weekly	Monthly	Annually	Other (*Specify)*

11. What is your opinion on Fairtrade product standards?

Too high	Fair	Low

12. How has Fairtrade influenced your produce quality?

Improved	
Remained the same	
Dropped	

13. What environmentally sustainable methods are encouraged by Fairtrade? ……..
..……
……..

14. Would you recommend Fairtrade to someone considering joining Fairtrade?

……

..……..

15. What do you suggest needs to be improved on Fairtrade?

…….....

…….....

C. SOCIAL CAPITAL

1. Who makes most production decisions at your farm?

Individual Farmer	Management team	Both Management and workers	Not sure

2. In the event that production decisions are made in your absence, how do you rate the other members' decisions?

Unreliable	Fairly reliable	Completely reliable

3. Do you have a link with producer organizations?

Yes ☐ No ☐ Do not know ☐

If Yes to 3, what type of support, if ANY do you get from them?

..……

4. In the last two years have you attended farmer training workshops?

No	Yes, Once	Yes, Two times	Yes, Three times or more

5. How do workers usually perform their daily duties?

Individually	
In groups	

6. Do you sometimes share farming knowledge and experiences in informal settings with different working levels at your farm? Yes ☐ No ☐

7. Do you (Management/ Farm owner) have an influence on the election of the Joint Body (JB) Committee? Yes ☐ No ☐

8. If Yes to 6, What influence do you have in the elections?.....

……

9. What significance does the existence of a JB Committee have on the worker-management relationship?

No Significance	Supports Improved communication	Promotes conflicts	Other (*Specify*)

10. Are workers allowed to form alternative forms of worker organisation other than Joint Bodies? Yes ☐ No ☐

D. DEVELOPMENTS

1. How has Fairtrade influenced the income for the management and employees?

	Increased	Did not change	Decreased
Management			
Employees			

2. How has Fairtrade affected farming conditions?

Improved	No influence	Negatively	Do not know

3. What kind of community development projects, if ANY, have you engaged in so far?
…….
……..

4. How many households have benefited directly from the projects?.....
……..
……..

5. How are the developmental projects selected? (*Who chooses them*?) ……
……..
……...

6. Suppose weak developmental projects are chosen, what effect does it have on your Fairtrade membership? .....
……...

7. What is your opinion on the following statements on Fairtrade?

	Disagree	Neutral	Agree
Fairtrade provides access to reliable markets			
Fairtrade means getting better earnings			
Fairtrade gives stable prices to the farmers			
Fairtrade is aimed at community development			
Fairtrade is biased to a certain group of farmers			
The benefits gained from Fairtrade are less than the farmer‘s effort in production			

E. FARMING INFORMATION

1. How much land do you use for farming?.....hectares
2. What is the land tenure system on the land in use *(Tick the correct one*)

Communal	Rent	Privately Owned	Other (Specify)

3. What is the approximate output of crops/fruits that you farm with?

Crop/Fruit	Approximate output per season				
	2006	2007	2008	2009	2010

4. How many workers assist with farm work?

Type of worker	**Males**	**Females**	**Total**
Management workers			
Full-time employees			
Part-time employees			
Cooperative members			
TOTAL			

5. What is the racial distribution of the people assisting on the farm?

Race	Black	Coloured	White	Asian	**Total**
Number					

6. Where do the people who assist with farm work live? (*Tick the appropriate option*)

Within the same local community	
Different neighbouring communities	
Other (*Specify*)	

APPENDIX 2:

Questionnaire for the Joint Body Committee (Commercial farm)
AN INVESTIGATION INTO THE IMPACT OF FAIRTRADE IN SOUTH AFRICA

Date_____
Interviewer_____

Name of Business/Organisation: _____
Location (Province/District): _____
Position of Respondent: _____

A. FAIRTRADE INFORMATION

1. What are the duties of a Joint Body Committee at your farm?.....
……
……

2. How has the following been influenced by forming part of a Fairtrade?

	Dropped	Remained the same	Improved/Increased
Wages			
Working Conditions			
Production Knowledge			
Production Implements			
Health Conditions			
Housing Infrastructure			
Education facilities			

3. What are your gains from being part of the Joint Body (JB) committee?

	Agree	Neutral	Disagree
Improved communication between Management and workers			
Increased Management knowledge			
Increased ability to work in groups			
Involvement in major decision making			
Other:			

4. What are the challenges that you have faced in Fairtrade?.....
……...……
……..

5. Which workers are represented in the JB Committee?

Permanent workers **only**	Part-time workers **only**	**All** workers

6. How many members form part of the Joint Body?

Type of Member	**Males**	**Females**	**Total**
Management			
Permanent workers			
Part-time workers			
Total			

7. How are members forming part of the Joint Body selected?

Voluntary	Nominated	Voted for	Other (*Specify*)

8. Does the Management have an influence in determining the members of the Joint Body (JB) Committee? Do not know ☐ Yes ☐ No ☐

9. If Yes to 8, What influence does the Management have?.....
……
…….

10. How long can a person remain a member of the JB Committee?

Changed every Year	Between 1 to 3 years	More than 3years	Other: *Specify*

11. How often do members of the JB meet? (*Mark the most appropriate option*)

More than once a week	Once a week	Once every 2weeks	Once a month	Other: Specify

12. What significance does the existence of a JB Committee have on the worker-management relationship?

No Significance	Supports Improved communication	Promotes conflicts	Other (*Specify*)

B DEVELOPMENTS

1. Do **all** the JB Committee members get information on the Fairtrade premium?

YES		NO
By word of mouth	Written documents	**Specify** who has access to the information

2. How have you been using the premium in your organization?.....
…...……
…...……

3. Are you happy with how the premium money is used?
Yes ☐ Neutral ☐ No ☐

4. If No to 3, what do you prefer the premium is used?

Given as wages to the farm workers	
Used for production purposes on the farm	
Used for projects which benefit workers under Fairtrade only	
Other:	

5. How are the developmental projects selected? (*Who chooses them*?)…….....
……
…..……...

6. What influence does the Joint Body (JB) have in selecting developmental projects?
.....……
……

7. How many households have benefited directly from your projects? ……
.....
……
……

8. What considerations are made when selecting projects?

Number of households which benefit from the project	
Facilities that are lacking in the community	
The project's likely effect to the community	
The project which gets most votes from people	
Other:	

9. Is there ANY special preference given to households working for Fairtrade certified farms in benefiting from the projects? .....
……
……

10. When several projects are suggested, how do you reach an agreement on which one to implement?

Vote	Get opinion outside the JB	Weigh options together & choose the most feasible

11. In implementing community development projects, do you sometimes get any support from the Government? Do not know ☐ Yes ☐ No ☐

12. If Yes to 11, what type of support do you get?.....
……. ……..

13. Does your involvement in Fairtrade stand in your advantage in receiving funding for other development projects? Do not know ☐ Yes ☐ No ☐

14. What is your opinion on the way Fairtrade monitors the use of the premium?

Very strict	Fairly strict	Not strict at all

15. How has Fairtrade influenced the income for management and employees?

	Increased	Did not change	Decreased
Management income			
Employees income			

16. What is your opinion on the following statements on Fairtrade?

	Disagree	Neutral	Agree
Fairtrade provides access to reliable markets			
Fairtrade means getting better earnings			
Fairtrade gives stable prices to the farmers			
Fairtrade is aimed at community development			
Fairtrade is biased to a certain group of farmers			
The benefits gained from Fairtrade are less than the farmer‘s effort in production			

C. SOCIAL CAPITAL

1. Who makes most production decisions at your farm?

Individual Farmer	Management team	Both Management and workers	Not sure

2. How do workers usually perform their daily duties?

Individually	
In groups	

3. In the event that important decisions are made in your absence, how do you rate the other members‘ decisions?

Unreliable	Fairly reliable	Completely reliable

4. Do you sometimes share farming knowledge and experiences in informal settings with different working levels at your farm? Yes ☐ No ☐

5. In the last two years have you attended any training workshops?

No	Yes, Once	Yes, Two times	Yes, Three times or more

6. Are workers allowed to form alternative forms of worker organisation other than Joint Bodies? Do not know ☐ Yes ☐ No ☐

7. How do you perceive working in a group? Unhelpful ☐ Helpful ☐ Both ☐

8. If Unhelpful **OR** Both in 7, what are the reasons?

	Disagree	Neutral	Agree
Other people are untrustworthy			
It lengthens decision making			
Some people do not put effort (lazy)			
Other:			

9. If Helpful **OR** Both in 7, what are the reasons?

	Disagree	Neutral	Agree
People share knowledge and learn from each other			
It motivates other people to make contributions			
Different ideas lead to quality decisions			
Other:			

10. What do you suggest should be improved on Fairtrade? …….
.....……..……...
……..……...
……..

APPENDIX 3:

Questionnaire for the for the Fairtrade Cooperative Committee (Fairtrade Cooperative Members)

Date_____
Interviewer_____

Name of Business/Organisation: _____
Location (Province/District): _____

A. FAIRTRADE INFORMATION

1. When was your cooperative certified for Fairtrade production? Year……...

2. How do you rate Fairtrade certification procedures?

Short and Simple	Fair	Lengthy	No comment

3. How did you learn about Fairtrade (FT)?

FT Organization	FT-certified farmers	Non-FT certified people	Cannot remember

4. What motivated you into joining Fairtrade? ……
...……

5. Does your cooperative sell **ALL** produce through Fairtrade? Yes☐ No☐

6. If No to 5, tick the category of the percentage output that is sold through Fairtrade.

List Crop/ Fruit	Percentage sold through Fairtrade			
	Greater than 80%	50% to 80%	30% to 50%	Less than 30%

7. If No to 5, what happens to the remaining percentage?

I do not know	**ALL** Sold to conventional markets	**ALL** Consumed by cooperative members	Consumed + sold to other markets

8. What are the costs of Fairtrade in terms of the following?
a) Time…….
b) Management……...
c) Compliance…….....

9. How does FLO ensure that certified producers maintain the use of chemicals to a minimum?
……

B. MARKETING

1. What is your opinion on the Fairtrade prices that you get?

Fair	
Unfair	

2. How do you compare Fairtrade prices with non-Fairtrade (Conventional market) prices?

Lower	Equal	Higher	Do not know

3. What is your opinion on Fairtrade pre-finances?

Helpful	Not helpful	Never available	Do not know about pre-finances

4. Do you know the channels through which your produce moves until they reach the consumers?

Yes ☐ No ☐

5. When do you receive money when using Fairtrade markets?

On delivery	Within 1month after delivery	Between 2 to 3months	More than 3months

6. Do you have a contract with the Exporters/Processors? Yes ☐ No ☐

If Yes, what duration is the contract?.....Years

7. Do you have access to Fairtrade market information? Yes ☐ No ☐

8. If Yes to 7, how often do you receive the information from your sources?

List Source	Daily	Weekly	Monthly	Annually	Other (*Specify)*

9. What is your opinion on Fairtrade product standards?

Too high	Fair	Low

10. How has Fairtrade influenced your cooperative's produce quality?

Improved	
Remained the same	
Dropped	

11. Would you recommend Fairtrade to someone considering joining Fairtrade?

……

..……..

12. What do you suggest requires to be improved on Fairtrade?

…….....

…….....

C. SOCIAL CAPITAL

1. Who makes most production decisions in your cooperative?

Management team	All cooperative members

2. Do you have a link with other producer organizations?
Yes ☐ No ☐ Do not know ☐

If Yes to 2, what type of support, if ANY do you get from them?
……

3. In the last two years have you attended farmer training workshops?

No	Yes, Once	Yes, Two times	Yes, Three times or more

4. What are the challenges and gains of working as a cooperative under Fairtrade?

Challenges	**Gains**

5. As a cooperative, do you get support from the Government? Yes ☐ No ☐
If Yes, what type of support …….

D. DEVELOPMENTS

1. Has your cooperative ever implemented development projects using the Fairtrade premium?
Yes ☐ No ☐ Do not know ☐

2. If Yes to 1, List the community development projects that you have implemented?
……
……..

3. How many households have benefited directly from your projects?.....
……..
……..

4. How are the developmental projects selected? (*Who chooses them*?) ……
……..
……...

5. What considerations are made when selecting Fairtrade projects?

Number of households which benefit from the project	
Facilities that are lacking in the community	
The project‘s likely effect to the community	
The project which gets most votes from people	
Other:	

6. Is there ANY special preference given to households forming part of Fairtrade cooperative, in benefiting from the projects? Yes ☐ No ☐ Do not know ☐

7. When several projects are suggested, how do you reach an agreement on which one to implement?

Vote	Get professional opinion	Weigh options together & choose the most feasible

8. Are you happy with how the premium money is used?

Yes ☐ Neutral ☐ No ☐

9. If No to 8, what do you prefer the premium is used?

Given as money to the cooperative farmers	
Used for production purposes on the farm	
Used for projects which benefit Fairtrade cooperative members only	
Other:	

10. In implementing community development projects, do you sometimes get any support from the Government? Do not know ☐ Yes ☐ No ☐

11. If Yes to 10, what type of support do you get?.....
……. ……..

12. Does your involvement in Fairtrade stand in your advantage in receiving funding for other development projects? Do not know ☐ Yes ☐ No ☐

13. How do your incomes compare to other non-Fairtrade farmers in the same locality?

Less	The same	More	Do not know

14. How has the following been influenced by forming part of a Fairtrade certified cooperative?

	Dropped	Remained the same	Improved/Increased
Farming conditions			
Your production knowledge			
Production implements			
Housing infrastructure			
Education facilities			
Income for cooperative members			

15. What is your opinion on the following statements on Fairtrade?

	Disagree	Neutral	Agree
Fairtrade provides access to reliable markets			
Fairtrade means getting better earnings			
Fairtrade gives stable prices to the farmers			
Fairtrade is aimed at community development			
Fairtrade is biased to a certain group of farmers			
The benefits gained from Fairtrade are less than the farmer‘s effort in production			

E. FARMING INFORMATION

1. For how long have you been farming as a cooperative?.....Years

2. How much land, as a cooperative do you use for farming?.....hectares

3. What is the land tenure system on the land in use *(Tick the correct one*)

Communal	Rent	Privately Owned	Other (Specify)

4. What is the approximate output of crops/fruits that you farm with?

Crop/Fruit	Approximate output per season				
	2006	2007	2008	2009	2010

5. What is the total number of people in your cooperative? ……...

6. Where do cooperative members live? (*Tick the appropriate option*)

Within the same local community	
Different neighbouring communities	
Other (*Specify*)	

7. Do you have a separate farm where you farm individually? Yes ☐ No ☐

8. How has Fairtrade influenced your personal output per year?

Not sure	Increased	Remained the same	Decreased

APPENDIX 4:

Examples of Fairtrade projects invested in, in the study

Picture 1: Creche renovations: *Interior, Old crèche* *Interior, New crèche*

Picture 2: Community Policing Forum

Some of the 40 patrol community policing volunteers who received uniforms, radios, torches, batons and pepper spray, using Fairtrade premium.

Picture 3: Community Centre
Constructed using Fairtrade premium, and is used for computer training

Picture 4: Crèche construction
The yellow building was the crèche before renovations

New crèche after construction using FT premium

Picture 5: Crèche project: *Toys were bought using Fairtrade premium*

Picture 6: Sport tournaments: *Netball* *Rugby team*

The uniforms and the prizes were sponsored using Fairtrade premium

Picture 7: Processing facilities: *Tea court* *Tea chopping machine*

Picture 8: Training sessions: *Computer training* *Joint Body training*

Picture 9: Women's sewing project

Picture 10: Crafts shop
Some of the goods sold at the crafts shop, which was opened using Fairtrade premium

Picture 11: Education support
Farm workers' children receive school supplies and uniforms along with fully paid tuition

Picture 12: Vineyard for educational purposes

APPENDIX 5:

Fairtrade Minimum price and Fairtrade premium table

Product	Type	Quality	Country/ Region	Producers	Price level	Unit	Quantity	Currency	Fairtrade minimum price	Fairtrade Premium	Date of validity
Dried Fruit	Raisin	Organic	South America	SPO	FOB	kg	1	USD	2.40	0.26	6/07/09
Dried Fruit	Raisin	Organic	Southern Asia	SPO	FOB	kg	1	USD	2.28	0.26	6/07/09
Dried Fruit	Raisin	Conventional	Southern Asia	SPO	FOB	kg	1	USD	1.90	0.26	6/07/09
Dried Fruit	Raisin	Conventional	South Africa	SPO	Farm gate	kg	1	ZAR	5.16	USD 0.11	29/11/04
Dried Fruit	Sultana	Conventional	South Africa	SPO	Farm gate	kg	1	ZAR	5.40	USD 0.11	29/11/04
Fresh Fruit	Apples	Conventional (Braeburn)	South Africa	SPO/HL	FOB	kg	1	ZAR	4.67	0.70	21/03/05
Fresh Fruit	Apples	Conventional (Sundowner)	South Africa	SPO/HL	FOB	kg	1	ZAR	4.27	0.64	21/03/05
Fresh Fruit	Apples	Conventional (Green)	South Africa	SPO/HL	FOB	kg	1	ZAR	3.79	0.56	21/03/05
Fresh Fruit	Apples	Conventional (Pink lady)	South Africa	SPO/HL	FOB	kg	1	ZAR	5.23	0.78	21/03/05
Fresh Fruit	Apples	Conventional	South America	SPO/HL	FOB	kg	1	USD	0.55	0.08	28/09/09
Fresh Fruit	Apples	Organic	South America	SPO/HL	FOB	kg	1	USD	0.63	0.08	10/02/10
Fresh Fruit	Avocadoes	Conventional (Fresh- All varieties)	Worldwide	SPO/HL	FOB	kg	1	USD	1.53	0.12	15/08/10
Fresh Fruit	Avocadoes	Organic (Fresh- All varieties)	Worldwide	SPO/HL	FOB	kg	1	USD	1.65	0.12	15/08/10
Fresh Fruit	Avocadoes	Conventional (For processing-All varieties)	Worldwide	SPO/HL	EXW	kg	1	USD	0.30	0.03	15/08/10
Fresh Fruit	Avocadoes	Organic (For processing-All varieties)	Worldwide	SPO/HL	EXW	kg	1	USD	0.35	0.03	15/08/10
Fresh Fruit	Grapefruit	Conventional	Mexico	SPO/HL	EXW(Including packaging	kg	1	USD	0.39	0.06	14/08/08
Fresh Fruit	Grapefruit	Organic	Mexico	SPO/HL	EXW(Including packaging	kg	1	USD	0.46	0.06	14/08/08
Fresh Fruit	Grapefruit	Conventional	South Africa	SPO/HL	FOB	kg	1	ZAR	3.84	0.39	1/08/07
Fresh Fruit	Lemons	Conventional	South Africa	SPO/HL	FOB	kg	1	ZAR	3.05	0.45	21/03/05
Fresh Fruit	Lemons	Conventional	Egypt	SPO/HL	FOB	kg	1	EUR	0.25	0.04	22/09/06
Fresh Fruit	Lemons	Organic	Egypt	SPO/HL	FOB	kg	1	EUR	0.31	0.04	22/01/08
Fresh fruit	Litchis	Conventional	Eastern Africa	SPO/HL	Farmgate (including packaging	kg	1	EUR	1.53	0.14	29/11/04
Fresh fruit	Litchis	Conventional	Southern Africa	SPO/HL	Farmgate (including packaging	kg	1	EUR	1.53	0.14	29/11/04
Fresh fruit	Litchis	Conventional	Eastern Africa	SPO/HL	Farmgate (excluding packaging	kg	1	EUR	1.18	0.14	29/11/04

Fresh fruit	Litchis	Conventional	Southern Africa	SPO/HL	Farmgate (excluding packaging	kg	1	EUR	1.18	0.14	29/11/04
Fresh fruit	Litchis	Conventional	Southern Africa	SPO/HL	FOB	kg	1	ZAR	10.25	0.58	01/11/10
Fresh fruit	Litchis	Organic	Southern Africa	SPO/HL	FOB	kg	1	EUR	2.19	0.12	01/11/10
Fresh fruit	Mangoes	Conventional	South Africa	SPO/HL	Farmgate (pre-packed)	kg	1	ZAR	2.42	0.13	23/06/04
Fresh fruit	Mangoes	Organic	South Africa	SPO/HL	Farmgate (pre-packed)	kg	1	ZAR	3.78	0.49	23/06/04
Fresh fruit	Nectarines	Conventional	Southern Africa	SPO/HL	FOB	kg	1	ZAR	20.00	3.00	01/12/09
Fresh fruit	Nectarines	Organic	Southern Africa	SPO/HL	FOB	kg	1	ZAR	24.00	3.00	01/12/09
Fresh fruit	Oranges	Conventional (Navel)	South Africa	SPO/HL	FOB	kg	1	ZAR	3.90	0.47	21/03/05
Fresh fruit	Oranges	Conventional (Valencia)	South Africa	SPO/HL	FOB	kg	1	ZAR	3.19	0.45	21/03/05
Fresh fruit	Peaches	Conventional	Southern Africa	SPO/HL	FOB	kg	1	ZAR	20.00	3.00	01/12/09
Fresh fruit	Peaches	Organic	Southern Africa	SPO/HL	FOB	kg	1	ZAR	24.00	3.00	01/12/09
Fresh fruit	Pears	Conventional (Green)	South Africa	SPO/HL	FOB	kg	1	ZAR	3.63	0.54	21/03/05
Fresh fruit	Pears	Conventional (Brown)	South Africa	SPO/HL	FOB	kg	1	ZAR	4.19	0.62	21/03/05
Fresh fruit	Pears	Conventional (Blushed)	South Africa	SPO/HL	FOB	kg	1	ZAR	5.63	0.84	21/03/05
Fresh fruit	Pineapples	Conventional (For processing)	Southern Africa	SPO/HL	EXW	kg	1	USD	0.15	0.03	10/12/09
Fresh fruit	Pineapples	Organic (For processing)	Southern Africa	SPO/HL	EXW	kg	1	USD	0.17	0.03	10/12/09
Fresh fruit	Pineapples	Organic (For processing)	South Eastern Asia	SPO/HL	FOB	kg	1	USD	0.20	0.03	10/12/09
Fresh fruit	Plums	Conventional (All varieties)	South Africa	SPO/HL	EXW(including packaging)	kg	1	ZAR	11.25	2.30	22/01/08
Fresh fruit	Plums	Conventional (All varieties)	South Africa	SPO/HL	FOB	kg	1	ZAR	11.55	2.30	22/01/08
Fresh fruit	Soft citrus	Conventional	South Africa	SPO/HL	FOB	kg	1	ZAR	3.90	0.58	21/03/05
Fresh fruit	Table grapes	Conventional (Pre-Christmas)	South Africa	SPO/HL	FOB	kg	1	ZAR	11.42	1.31	19/12/05
Fresh fruit	Table grapes	Organic (Pre-Christmas)	South Africa	SPO/HL	FOB	kg	1	ZAR	13.32	1.31	19/12/05
Fresh fruit	Table grapes	Conventional (Post-Christmas)	South Africa	SPO/HL	FOB	kg	1	ZAR	10.23	1.31	19/12/05
Fresh fruit	Table grapes	Organic (Post-Christmas)	South Africa	SPO/HL	FOB	kg	1	ZAR	12.34	1.31	19/12/05
Fruit Juices	Apple	Conventional (Concentrate)	South Africa	SPO/HL	FOB	L	1	ZAR	10.12	1.18	28/04/04
Fruit Juices	Orange juice	Conventional	Worldwide	SPO/HL	FOB	MT	1	USD	650.00	60.00	31/07/10
Fruit Juices	Orange juice	Organic	Worldwide	SPO/HL	FOB	MT	1	USD	970.00	90.00	31/07/10
Fruit Juices	Pineapple	Organic	Worldwide	SPO/HL	FOB	MT	1	USD	1950.00	195.00	12/03/07
Fruit Juices	Pineapple	Conventional	Worldwide	SPO/HL	FOB	MT	1	USD	1600.00	160.00	12/03/07
Tea	Rooibos	Conventional	South Africa	HL	FOB	kg	1	ZAR	18.00	12.00	01/01/08

Tea	Rooibos	Organic	South Africa	HL	FOB	kg	1	ZAR	23.00	12.00	01/01/08
Tea	Rooibos	Conventional	South Africa	SPO	FOB	kg	1	ZAR	25.00	5.00	01/01/08
Tea	Rooibos	Organic	South Africa	SPO	FOB	kg	1	ZAR	30.00	5.00	01/01/08
Wine grapes		Conventional	South Africa	SPO/HL	Farm gate	kg	1	EUR	0.15	0.05	Before 04
Wine grapes		Organic	South Africa	SPO/HL	Farm gate	kg	1	EUR	0.175	0.05	Before 04

SPO Small Producer Organization
HL Hired Labour
FOB Free on Board
EXW Ex Works

MT Metric Tonne
kg kilogram

ZAR South African Rand
EUR Euro
USD United States Dollar

- Ex Works means that delivery takes place when the seller places the goods at the disposal of the buyer at the premises of the seller or another named place (works, factory, warehouse, etc.) not cleared for export and not loaded on any collecting vehicle.

- Free on Board (FOB) means that the seller delivers when the goods pass the ship's rail at the named port of shipment. From that point forward, the buyer has to bear all costs and risks of loss or damage to the goods. Under FOB terms, the seller is required to clear the goods for export.

- Farm Gate price as used by FLO refers to the gate of the certified producer entity (e.g. the Small Producers' Organization), and not the gate of the individual producer's farm. Farm Gate therefore means that the seller (the certified producer entity) delivers when they place the goods at the disposal of the buyer at the premises of the seller.

APPENDIX 6:

Demographics for Joint Body and Premium Committees

Joint Body Committees

	Management representatives	Permanent worker representatives	Temporary worker representatives	**TOTAL**	Male	Female
Farm 1	2	6	5	**13**	7	6
Farm 2	5	8	4	**17**	8	9
Farm 3	1	4	2	**7**	4	3
Farm 4	1	2	2	**5**	3	2
Farm 5	1	5	3	**9**	6	3
Farm 6	2	5	5	**12**	5	7
Farm 7	1	10	5	**16**	4	12
Farm 8	2	18	4	**24**	13	11
Farm 9	3	9	6	**18**	9	9
Farm 10	2	5	3	**10**	4	6

Premium Committee

	Male	Female	**TOTAL**
Coop 1	10	8	**18**
Coop 2	6	4	**10**

APPENDIX 7:

Fairtrade Marks

International Fairtrade Certification logo

WFTO logo

FTTSA logo

US Fair Trade mark

IFAT mark

IFAT logo

Max Havelaar marks

World fair trade day logo

nsf Faiartrade logo

APPENDIX 8

Annual GDP growth rates in advanced economies (%)

	1986–1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2002–2006	2008–2010
United States	2.9	3.7	4.5	4.2	4.4	3.7	0.8	1.9	3.0	3.9	3.2	2.8	2.0	1.1	−2.8	0.0	3.0	−0.6
Germany	2.7	0.8	1.4	2.0	2.0	2.9	0.8	0.1	−0.1	1.2	0.9	3.0	2.5	1.3	−5.6	−1.0	1.3	−1.8
France	2.1	1.0	1.9	3.6	3.2	4.2	2.1	1.1	0.5	2.0	1.2	2.2	2.1	0.7	−3.0	0.4	1.4	−0.6
Italy	2.1	1.1	2.0	1.8	1.7	3.0	1.8	0.4	0.3	1.1	1.9	1.8	1.6	−1.0	−4.4	−0.4	1.1	−2.4
Spain	3.0	2.4	4.0	4.3	4.2	4.4	2.8	2.2	2.5	3.1	3.4	3.9	3.7	1.2	−3.0	−0.7	3.0	−0.8
Netherlands	2.7	3.0	3.8	4.3	4.0	3.5	1.4	0.6	−0.9	2.0	1.5	3.4	3.5	2.0	−4.8	−0.7	1.9	−1.2
Belgium	2.3	0.9	3.7	2.1	3.2	3.7	0.7	0.7	1.1	2.4	1.5	2.9	2.6	1.1	−3.8	0.3	1.7	−0.8
Austria	2.5	2.0	1.6	3.9	2.7	3.4	0.8	1.4	0.7	2.4	2.0	3.4	3.1	1.8	−3.0	0.2	2.0	−0.3
Finland	1.1	3.9	6.3	5.0	3.4	5.1	1.1	2.3	2.0	3.5	2.9	4.9	4.2	0.9	−5.2	−1.2	3.1	−1.8
Greece	1.2	2.4	3.6	3.4	3.4	4.4	4.0	3.9	4.3	4.7	3.7	4.2	4.0	2.9	−0.2	−0.6	4.2	0.7
Portugal	4.0	3.5	4.0	4.6	3.8	3.4	1.6	0.4	−1.2	1.2	0.4	1.4	1.9	0.0	−4.1	−0.5	0.9	−1.5
Ireland	4.4	8.1	10.8	8.9	11.1	9.9	6.0	6.1	3.7	4.3	5.5	5.7	6.0	−2.3	−8.0	−3.0	5.1	−5.5
Luxembourg	6.2	3.3	8.3	6.9	7.8	9.0	1.3	1.7	2.1	4.2	4.0	6.1	5.2	0.7	−4.8	−0.2	3.6	−1.4
Japan	3.1	3.5	1.8	−1.2	0.2	2.8	0.4	−0.3	2.5	2.3	2.6	2.4	2.4	−0.6	−6.2	0.5	2.5	−2.9
United Kingdom	2.5	2.8	3.3	3.1	2.9	3.9	2.3	1.8	2.2	3.3	1.9	2.8	3.0	0.7	−4.1	−0.4	2.4	−1.3
Canada	2.3	1.6	4.2	4.1	5.5	5.2	1.8	3.4	2.0	3.3	2.9	3.1	2.7	0.5	−2.5	1.2	2.9	−0.3
Korea	8.5	7.0	4.7	−6.9	9.5	8.5	3.8	7.0	3.1	4.7	4.0	5.1	5.1	2.2	−4.0	1.5	4.8	−0.1
Australia	3.1	4.3	3.9	5.2	4.3	3.2	2.5	3.8	3.0	3.5	2.5	2.7	4.0	2.1	−1.4	0.6	3.1	0.4
Taiwan	8.1	6.1	6.7	4.6	5.4	5.9	−2.2	3.6	3.3	6.1	4.1	4.9	5.7	0.1	−7.5	0.0	4.4	−2.5
Sweden	1.6	1.3	2.4	3.6	4.6	4.3	0.9	2.1	1.6	3.7	2.7	4.1	2.6	−0.2	−4.3	0.2	2.8	−2.1
Switzerland	1.4	0.5	1.9	2.8	1.3	3.7	1.0	0.2	−0.5	2.1	1.9	3.4	3.3	1.6	−3.0	−0.3	1.9	−0.6
Hong Kong	6.6	4.3	5.1	−5.0	3.4	10.2	0.5	1.9	3.2	8.6	7.3	7.0	6.4	2.5	−4.5	0.5	5.6	−0.5
Denmark	1.6	2.5	3.0	2.5	2.6	2.8	1.6	1.0	0.5	1.9	3.2	3.9	1.6	−1.1	−4.0	0.4	2.1	−1.8
Norway	2.8	5.3	5.2	2.6	2.1	2.8	2.7	1.4	0.4	3.1	2.3	2.5	3.1	2.0	−1.7	0.3	1.9	0.2
Israel	5.4	4.6	3.5	3.7	2.5	8.0	−0.9	−0.7	1.3	4.8	5.2	5.2	5.4	3.9	−1.7	0.3	4.1	0.8
Singapore	8.8	8.1	8.6	−0.9	6.9	9.7	−1.9	2.2	1.1	8.7	6.4	8.2	7.8	1.1	−10.0	−0.1	5.3	−3.0
New Zealand	2.5	4.0	2.0	−0.1	4.0	3.8	2.6	4.3	3.4	4.4	2.3	1.9	3.2	0.3	−2.0	0.5	3.3	−0.4
Cyprus	5.7	1.9	2.3	4.8	4.7	5.0	4.0	2.0	2.0	3.9	3.7	4.0	4.4	3.7	0.3	2.1	3.1	2.0
Iceland	1.7	5.2	4.7	5.6	4.2	5.6	2.7	−0.5	4.0	8.2	5.5	4.4	5.5	0.3	−11	−0.2	5.5	−3.5

Source: International Monetary Fund (2011)