

Fairtrade Cotton: Assessing Impact in Mali, Senegal, Cameroon and India

A Summary Report

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Contents

Summary	3
1. Methodology	3
2. Global cotton context	3
3. Regional contexts and trends	5
4. Fairtrade in cotton	5
5. Fairtrade impact on social difference and inequality	6
6. Fairtrade impacts on income	6
7. Fairtrade impacts on household standard of living and quality of life	7
8. Fairtrade impacts on strengthening of producer organisations	7
9. Fairtrade impact on local and national development	9
10. Fairtrade impact on natural resources management and environmental impact	10
11. Fairtrade cotton market and value chain analysis	11
12. Fairtrade avenues of impact	12
13. Key recommendations	15
14. Impact methodology recommendations	16

Summary

This study assesses the impact of Fairtrade on cotton producers and their organisations in Mali, Senegal, Cameroon and India. One Producer Organisation (PO) from each country participated in the study, selected by Max Havelaar France and the Fairtrade Foundation, UK (who jointly commissioned the research). The impact analysis forms the basis for a series of recommendations aimed at improving the Fairtrade system in favour of cotton producers, on-farm workers, and their organisations and communities.

1. Methodology

Fairtrade International's methodological guidelines for impact assessment were used as the basis for the study design. They identify four main mechanisms through which Fairtrade has the potential to create impacts (positive and negative): producer standards; trade standards; organisational support; and networks. The possible areas of impact studied were social differentiation and inequality; the socio-economic status of participants; the organisation of smallholders and workers; local, regional and national development; and, finally, the management of natural resources.

The research team explored with farmers, their households, PO management and staff, community leaders, Fairtrade bodies, value chain actors and other relevant key informants whether and how Fairtrade is having an impact. Fieldwork was carried out by in-country research partners accompanied by NRI and IDS staff and associates. Primary level farmer groups were selected according to criteria such as geographical location and the length of time participating in Fairtrade. FLO-Cert inspection reports were analysed and relevant available data gathered from Fairtrade International (FLO). A small number

of in-depth interviews with Fairtrade traders were undertaken and an independent cotton expert was commissioned to help unpack how global economic and cotton sector trends, and Fairtrade market and value chain dynamics, affect producers and their families.

The three West and Central African POs included in the study are all certified against the Fairtrade Standard for Small Producer Organisations (SPO). The (nascent) Indian PO participates alongside a Promoting Body (a company working with cotton farmers to provide services and buy their cotton) under the Fairtrade Standard for Contract Production Systems (CPS). The draft country study reports and the draft synthesis report were all shared firstly with the POs and then with a wider range of Fairtrade stakeholders to gather their comments, cross-check the accuracy of data, and to identify any gaps. Where producers or other stakeholders disagreed with a particular finding, their views were incorporated into the final report, highlighting any discrepancy with other sources of information.

2. Global cotton context

Cotton is grown in more than 100 countries on about 2.5% of global arable land. Processing of cotton has shifted from developed to developing countries over the last decade. Both world cotton production and consumption are trending higher, reaching a record in 2008–09 before the global economic crisis affected consumer demand. The largest producers are China, India, the USA and Pakistan, and yield increases have led to an overall growth in global production although yields vary from place to place. The largest consumers (importing cotton for processing) are China, India, Pakistan and Turkey. Over 150 countries are involved in the export or import of cotton, but as many of the top producers are also large consumers, overall

trading is on average less than one-third of world output and represents only 0.1% of total world product exports. The expanding textile industry in Asia has led to it becoming the leading importing region. The US has been the world's largest cotton exporter since 1834.

Over 500 firms are involved in global cotton and textiles trade, but 13 of these handle around a quarter of world production. International merchants buy from ginneries when they want to sell and sell when spinners want to buy, which rarely happens simultaneously, hedging their physical position with 'futures'. Direct trades between ginneries and spinners are rare as they can only work with long-term trading relationships and averaging of prices.

Cotton is traded in US dollars and prices are volatile and have been trending lower, although at the time of the research they were on an upswing. Trade-distorting subsidies put pressure on prices (10 out of the 11 largest cotton producing countries provide governmental protection measures to cotton producers). However, even if these were eliminated and production declined in countries that subsidise cotton, it may rapidly expand in other lower cost producing countries in response to higher prices. Technology-driven productivity gains, competition with polyester and increased competition at the retail level add to the downward price pressure along the value chain, ultimately affecting the prices received by farmers of seed cotton.

Cotton textile value chains are very complex. Cotton fibres are firstly separated from the seed in ginning to form lint and are then spun into yarn. The yarn is used to manufacture textile goods, involving activities such as weaving, knitting, dyeing, printing and, finally, sewing into garments, accessories and homeware products. The different stages of the value chain can occur

in different countries, although in some cases there is a high degree of vertical integration in which a single company or parts of a corporate group perform several chain functions, especially in the stages between spinning and manufacturing. Companies in the chain may also be linked via shareholdings, holding companies and joint ventures. Trade is also affected by a range of distorting practices, including subsidies, quotas, smuggling, exploitative labour conditions, currency manipulation, fake origin labelling and counterfeiting.

The price of seed cotton comprises a relatively small share of the total retail cost of textile products, as value is added from processing, manufacturing and distribution services as the cotton moves through the marketing channel. The impact of seed cotton and lint prices on retail values depend on the quantity of cotton contained in the finished product and on the processing needed. However, the cost of raw cotton as a share of the retail value is estimated to not exceed 10%. As a result, a 10% increase in the seed cotton price may translate into an increase in the retail price of only 1% or less, although there may be some compounding of costs through the value chain. The retail segment often receives over half of the final retail value of the various cotton finished products.

Organic and Fairtrade cottons are more expensive than conventional cotton, but this does not necessarily translate into a much higher cost of the end-product because the retail value of a clothing item is typically about 25 to 30 times the value of the cotton contained in it. A mark-up of around 30–50% on the price of organic or Fairtrade cotton lint would in theory translate into a 1–2% mark-up on the final product and consumers will normally not care about such a price difference. However, in practice, retail mark-ups on organic or Fairtrade cotton items are much higher, generally

about 20–40%, but occasionally up to 100%. The higher sales price is usually explained by the additional costs involved in niche markets.

Conventional cotton production relies heavily on the use of agro-chemicals with serious implications for human and ecosystem health; water and soil use is also a key challenge to sustainable production. Organic certification of cotton has expanded rapidly in recent years, but still only accounts for 1% of world output. The use of genetically modified varieties may have increased yields but poses risks for human health and biodiversity which are not fully understood. Preventing cross-contamination is an increasing challenge for organic farmers.

3. Regional contexts and trends

The cotton-ginning companies in the West and Central Africa (W&CA) case study countries are all ex-state cotton boards which have been (partially) liberalised. They buy seed cotton directly from producers and provide them with farm inputs and credit. Pan-territorial/pan-seasonal price guarantee mechanisms pass high levels of financial risk to cotton companies. There is a crisis in W&CA cotton, with all cotton companies operating at a loss since 2004–05. In contrast, in India most seed cotton is purchased from growers at marketing yards by middlemen who sell it to ginners or are paid a commission by ginners. Those traders often supply inputs (for cash or on credit) to farmers.

Quality is of increasing importance in the cotton trade and handpicked cottons from India and Africa trade at a discount to machine-picked cottons for contamination-related reasons. Indian cotton has the reputation of being the most contaminated, with African cotton taking second place.

India is the major competitor of African organic and Fairtrade cottons. In recent times Indian lint has been cheaper than W&CA lint, largely because of currency fluctuations (although other factors also contribute to the difference).

Cotton production is of critical importance to the economies of all four case study countries, particularly in terms of rural employment. In all of the study regions there are hundreds of thousands of smallholder farming families relying on the cash income from cotton to secure their livelihoods. However, many are suffering as prices have fallen while costs of production have risen.

4. Fairtrade in cotton

Launched in 2004, Fairtrade cotton began in four W&CA countries (Mali, Senegal, Cameroon and Burkina Faso) with smallholder organisations being given support from Max Havelaar France (as well as Geocoton, national cotton companies and donor funding), and soon after in India with support from Max Havelaar Switzerland. The aim was to provide support to small cotton producers suffering from a long-term decline in prices, to manage environmental and health risks from cotton production, and respond to the crisis in the African cotton sector. As yet, there is no separate FLO standard to cover other vulnerable groups in textile value chains, such as factory workers in garment manufacture, but FLO's Trade Standards require all operators in Fairtrade cotton value chains to submit evidence of their efforts to comply with key ILO conventions on labour rights.

In early 2011, after nearly six years in existence, Fairtrade cotton is being produced in seven countries (four in W&CA, as well as India, Kyrgyzstan and Egypt) and involves an estimated 55,000 producers. Fairtrade cotton products are primarily sold in Europe – the UK, France, and Switzerland and to a lesser extent in Germany, Denmark

and Finland –with additional markets emerging all the time. Sales volumes have benefited greatly from the involvement of large brands and retailers, motivated as much by corporate social responsibility considerations as by expressed consumer demand. Sales grew rapidly in the first years, but slowed down in 2009–10, with the key UK market experiencing a 33% drop in unit sales from 2009 to 2010 due to challenging retail conditions on the high street.

Fairtrade can have a diverse range of impacts on individual producers, their households, organisations and communities, and more broadly on local and national development and the natural environment. The main impacts identified for the case study producers are outlined in the sections that follow.

5. Fairtrade impact on social difference and inequality

- Positive impacts on women's economic empowerment have been achieved in W&CA, including more cotton produced by women farmers and greater control by women of their cotton income, although the effect is not consistent across all women.
- Improvements in women's representation and participation in Producer Organisations were found in all four case studies, although there is concern that women may still feel obliged to vote as their spouse does and board representation is sometimes only symbolic.
- Gendered social norms and the gender division of labour still limit women's participation and ability to benefit from Fairtrade.

- Enhanced community solidarity and social cohesion in Mali and Senegal was found, but some anecdotal evidence suggested labour exchange traditions may have been undermined by Fairtrade production requirements. More research is needed to verify this phenomenon and its scale.
- Inconclusive findings on the impact of Fairtrade on child labour, but at minimum there has been sensitisation of producer group leaders and male farmers.

6. Fairtrade impacts on income

- Fairtrade producers in W&CA received substantially higher prices under Fairtrade between 2004 and 2007: between 22% and 40% higher for conventional cotton and up to 70% higher for organic cotton. However, case study PO sales on Fairtrade markets dropped off in 2007–08 and reduced to zero in 2008–09, mainly because supply exceeded demand and cotton companies were holding a back stock of Fairtrade cotton from previous years.
- There has been less direct impact on producer income in the Indian case study PO due to market prices generally being above the Fairtrade minimum price.
- The potential price uplift for average production in W&CA was estimated to be only between USD 40 and USD 133/year for the 2008–9 harvest, if all production had been sold on Fairtrade markets. A lack of reliable cost of production data limited the analysis that could be done on net profits from Fairtrade production. There is some evidence that Fairtrade has increased the cost of inputs and labour, but quality and yield improvements may counterbalance this.

- Fairtrade price incentives and technical assistance (linked to Fairtrade status) have brought improvements in quality. In India a new seed variety is promoted by the Promoting Body to meet the quality requirements of Fairtrade buyers (and because it is higher yielding), but it is less drought-tolerant and so represents a risk in drought-prone areas and for farmers without irrigation (who may be the poorest).

7. Fairtrade impacts on household standard of living and quality of life

- Cotton is the most important income source for Fairtrade farming households in the study groups, although in Cameroon cotton production has been de-prioritised by farmers in recent years due to a lack of sales on Fairtrade markets, low prices on conventional markets and higher costs of production.
- The precise impact of improved prices on household standard of living is hard to measure because households pursue a range of livelihood strategies simultaneously (and because payments from cotton companies are staggered). Case study producers reported that cotton income is used to help cover basic household expenses, including health care and children's education. W&CA case study households said they are more able to cover these costs when Fairtrade prices are available.
- Some Fairtrade farmers in all countries reported using surplus income from cotton for small investments in income-generating activities, farm equipment, savings and/or land, but this evidence of sustainable development was less often found for farmers with small areas of cotton and/or low yields.

- The recent lack of sales has undermined the positive income effects in W&CA. In India the impact on household income for case study producers was minimal anyway.
- Use of hired labour is relatively common in India, while in W&CA most producers rely on family labour and unpaid labour exchange with neighbours. There is anecdotal evidence of some improvements in working conditions as a result of Fairtrade, but more research is needed to verify this.

8. Fairtrade impacts on strengthening of producer organisations

- Smallholders were already organised into large, multi-level farmer organisations in W&CA. Fairtrade has strengthened these organisations (e.g. skills development, improved regularity of meetings, greater transparency of financial transactions). In the Indian case Fairtrade has supported the emergence of a new farmer organisation, with the support of the Promoting Body (PB).
- The number of FLO-certified producers grew rapidly in W&CA but has fallen back with the slump in sales. Membership of the PO in India has increased year on year.
- Indian farmers were positive about their organisation and said it should continue even if Fairtrade did not persist because of its worth. Farmers felt the exchange of information from attending more regular meetings was a particular benefit. In all three W&CA case studies Fairtrade farmers observed improvements in the transparency and management of their organisations, but some said there was more to do to achieve good governance at all levels.

- Over-dependence on other organisations is an issue in both W&CA and India. In W&CA the case study POs are still heavily reliant on the national cotton companies, largely for structural reasons but also due to weaknesses in internal capacity. In India the nascent PO is still entirely dependent upon the PB. Although the PB has provided support for organisational development – a process which takes time and requires considerable capacity building – the PB lacks a clear incentive to build up the organisation to independence.
- All case study POs still lack the networks and capacity to market independently, with market access only through the national cotton companies/PB. Although improvements in organisational democracy and management capacity in all four cases could in the longer term help farmer organisations have greater autonomy, their ability to absorb the risks involved in cotton marketing is questionable.
- Producers' access to high-value export markets has improved as a result of quality improvements brought about directly or indirectly by Fairtrade. In the Mali and India cases farmers already accessed organic-certified markets, but Fairtrade Premium investments support farmers to continue to meet the organic market requirements and to achieve more sustainable production methods.
- The Fairtrade Premium has been used for a range of purposes including: paying for health officers and buildings; construction of schools, scholarships and uniforms; water supply; rural electrification; agricultural infrastructure and sustainable agriculture investments; and producer organisation offices. There were many positive observations of these outcomes.
- The Fairtrade Premium decision-making process was viewed positively by producers in all four cases, with some changes instituted by FLO (in India) leading to improvements. However, in W&CA, members' confidence in their POs has been affected by the slump in sales, which has made it difficult for the POs to cover certification costs, reduced available Fairtrade Premiums and undermined their ability to make timely Premium payments. At the time of the research Cameroonian farmers were missing out on *both* SODECOTON and Fairtrade Premium funds for community investments. Their producer groups were also unable to commit sufficient funds to the community contribution when this role was decentralised to them, preventing more effective investments and coherent projects. Some Indian producers questioned the sharing of the Premium across all communities, especially when there are not many members in a particular community.
- In all four cases individual Fairtrade farmers have only limited knowledge of the principles and (sometimes) the basic mechanisms of Fairtrade and there is sometimes confusion with organic certification. More knowledge was, unsurprisingly, found at higher levels in producer organisations, but few farmers understand where the cotton is sold, and the actors and margins involved, partly because of their lack of involvement in ginning, input supplies and exportation. This lack of understanding worsens the confusion and loss of confidence created by the drop-off in sales.

9. Fairtrade impact on local and national development

- In the early years when sales expanded rapidly, Fairtrade was helping to revitalise the nationally important West and Central African cotton sectors in the study countries, offering a potential strategy for greater financial viability and sustainability at both producer and cotton company levels. Unfortunately, the stalling of sales is undermining this impact. More generally, there are structural issues such as limited land holdings, high levels of illiteracy, lack of textile industry infrastructure, currency fluctuations, climatic and natural resource endowments which limit the impact that Fairtrade has and which may be beyond the scope of the Fairtrade system to address. However, Fairtrade could increase its analysis of these factors and its development of suitable strategies to help tackle them, such as through international advocacy.
- At a national or state level there has been minimal impact in India, given the size of the cotton sector and the relatively small proportion that Fairtrade production represents.
- The complexity of cotton value chains and the power of some intermediaries and retailers to determine value chain outcomes (such as who is included and excluded) also represent key challenges for FLO and Fairtrade actors in meeting their objective of sustainable development for small producers. This is exemplified by the fluctuations in sales in W&CA, but the case study PB in India also says it is struggling to sustain a longer-term trading relationship with the PO given the costs of certification, fluctuations in market demand,

competition between Fairtrade suppliers and lack of willingness of buyers to commit to buying Fairtrade over longer periods.

- There is little evidence of increased advocacy activities or any change in the political influence of the W&CA case study producer groups as a result of their participation in Fairtrade. The PO in Mali has made most progress in developing support partnerships and engaging in lobbying, with crucial capacity-building support being provided by NGOs. More networking is recommended at the local level in Cameroon; the PO has received donor support, but this has not increased its political influence significantly. In Senegal some support partnerships have been created, but with limited impact to date. The Indian PO has only just been established, and it is too early to expect much progress in terms of political influence; in the meantime the PB is representing it in Fairtrade networks and other forums. The question is over what timescale should greater PO independence be expected to happen, and how can FLO and Fairtrade actors address the fact that the incentives may not be sufficient for PBs to support producer organisations to independence?

10. Fairtrade impact on natural resources management and environmental impact

- The Fairtrade Premium is an incentive which enables farmers to invest in changing their agricultural practices, and the Fairtrade standards can provide a framework for improvements. However, external support has been of critical importance in delivering positive impacts on sustainable agricultural practices (e.g. a donor-supported project for Fairtrade producers in Cameroon, donor support for the PO in Mali).
- Organic certification in Mali and India predates Fairtrade, and it is not easy to assess the relative impacts of each certification, in particular where external capacity-building support is being provided as well. However, good synergies were found to be occurring between Fairtrade and organic standards in achieving sustainable agriculture – while sales are happening – because of investment of the Fairtrade Premium in low-input agriculture.
- Switching to less toxic pesticides is an important achievement in both organic and non-organic Fairtrade situations. It is not possible to separate out whether these impacts are the result of Fairtrade or Organic certification, but it is likely that both certification systems contribute through their requirements, training and financial mechanisms. In Mali positive human health impacts were observed by farmers as a result of the decrease in toxic pesticide use. But the consistency/persistence of switching is not always clear. Some farmers in W&CA are resistant because of negative side-effects (e.g. more snakes in fields), higher costs and perceived ineffectiveness of the Fairtrade-approved alternatives, although the W&CA national cotton companies argue that the pesticides work differently and are slow acting, rather than being less effective.
- Some socio-environmental concerns were also raised about whether farmers are still re-using pesticide containers for food and water storage (Cameroon); as well as the risks of GMO contamination (India); increased work burdens involved in organic and sustainable agriculture methods (India); the riskiness of the switch to a higher quality but less drought-tolerant seed variety in India to meet Fairtrade quality requirements; and about salinity ingress into groundwater (India).
- Farmers in Mali and India reported increasingly irregular and late rains (which have knock-on effects worsening the impact of pests), and salinisation is a problem in India that is likely to be exacerbated by climate change. Support for sustainable agricultural production as well as better terms of trade are likely to be important elements in building up the resilience of Fairtrade farmers to increasing climate variability at least in the short-term, but attention needs to be paid to the issue of drought tolerance in India.
- Organic Fairtrade producers in Mali report lower input costs compared to conventional Fairtrade producers, who are suffering as input prices rise, but they also have substantially lower yields.

11. Fairtrade Cotton market and value chain analysis

- Global cotton sales grew rapidly in the early years but slowed down in 2009 and were predicted to drop off in 2010, mainly due to a 33% reduction in UK sales (the biggest market for Fairtrade cotton). This was due to the challenging retail environment prompted by the onset of recession in 2008–09 combined with price sensitivity of the types of products sold as Fairtrade.
- Production of Fairtrade seed cotton grew almost exponentially from 2004 to 2009, as more POs gained certification (doubling between 2008 and 2009) and membership of existing POs expanded fast. POs, especially those in W&CA, were unable to sell hardly any Fairtrade cotton from the 2007–09 seasons as the over supply from previous years needed to be cleared. Backlogs have apparently now cleared, but production in W&CA for 2009–11 was much lower, suggesting ongoing problems with supply and demand fluctuations.
- FLO has responded by establishing a Cotton Working Group with oversight by a Global Product Manager which aims to improve intelligence gathering, as well as communication and co-ordination between Fairtrade organisations, businesses involved in Fairtrade cotton and producers.
- Most Fairtrade cotton was sourced from W&CA until 2007–08 when there was increased availability and hence competition from Indian Fairtrade cotton. W&CA prices for Fairtrade cotton lint were reportedly up to 25% higher than Indian prices until 2009, mainly due to the strong euro/weak dollar. The FOB price difference has now reduced as the dollar has strengthened, but most W&CA cotton

is shipped to India for further processing, incurring additional costs of transport, storage, insurance, logistics and import duties. Indian spinners are more familiar with Indian lint, and other value chain operators have preferences for sourcing locally (due to high levels of vertical integration in the Indian textile sector). All of this disadvantages African producers. Some retailers specifically want cotton from Africa, but they are in the minority and most focus on keeping costs down.

- Fairtrade can add cost to final products in the following ways:
 - Cost of FLO certification/registration and licence fee;
 - Processing costs associated with running small volumes on separate production lines and not being able to blend cotton of different qualities;
 - lack of Fairtrade market for waste;
 - costs of monitoring, reporting and marketing;
 - value chain operators may charge higher margins for Fairtrade cotton, maybe because their margins are unsustainably low in conventional cotton (although evidence for this is anecdotal). Importantly, margins are generally calculated on the basis of processing costs, not including raw materials, which means that the higher cost of Fairtrade lint should not be compounded along the value chain.
- According to key informants, there may be no substantial differences between the trading relationships in Fairtrade value chains and those in conventional cotton. Many of the same actors are involved and commercial decisions are based on similar factors. Fairtrade has not been able to guarantee long-term trading relationships over the past two years as measured by stable sales; this is largely

to do with the length and complexity of Fairtrade cotton value chains, the types of products being sold as Fairtrade, and the timing of transactions along the chain.

- However, more efforts are being made by FLO and Labelling Initiatives to work with traders and retailers to develop more sustainable Fairtrade value chains; there is some evidence that Fairtrade can create opportunities for collaboration and partnerships in developing innovative models which address some of the difficulties that have been faced to date. It will be important to monitor the effect of these efforts in the coming years.

12. Fairtrade avenues of impact

In order to improve the impact of Fairtrade, it is important to explore how Fairtrade has had an impact upon cotton producers and their organisations by analysing the operation of the main avenues of Fairtrade impact, as follows.

FLO Producer Standards

- Fairtrade (FLO) Producer Standards and the auditing system have contributed to increased organisational democracy and transparency of the case study POs in W&CA through establishing required standards for certification. Capacity building from cotton companies and/or external agencies has been important in bringing about this organisational change (see below).
- An element of pre-selection has occurred with more organised local-level groups within the umbrella bodies participating in Fairtrade first.
- In India the Contract Production Standard has provided a framework for engaging with a Promoting Body to support the emergence of a farmer organisation, complemented by the audit process which has supported ongoing improvements.
- The Producer Standards, along with the financial incentives related to Fairtrade, have stimulated greater participation of women as members and representatives of POs, particularly in W&CA, where they account for up to 40% of PO members. This is less true for the Indian case study PO, where women are disadvantaged by the membership requirement to hold a land title, although women are able to attend meetings in place of their husbands and are represented at board level in the PO. Other potentially excluded groups in India have also benefited from the non-discrimination requirements of Fairtrade, such as Harijans, although more needs to be done to tackle entrenched inequalities, including those based on gender. As for other aspects of organisational strengthening, the support of external agencies has been critical for achieving impact in this area.
- Relatively limited awareness of Fairtrade principles, processes and markets among producers, particularly at the lower levels of the organisations, has made it all the more difficult for them to understand the stalling of sales.
- There is anecdotal evidence of improvements in hired labour conditions in India, Mali and Cameroon (although there is little hired labour use in W&CA); it is not clear if the reported changes are widespread and if they are a result of the Producer Standards and auditing, increases in farmgate prices, or other effects (e.g. PO-level initiatives).
- The Fairtrade standards, along with support from external agencies, have increased awareness of child labour

issues among case study PO leaders and male farmers, but there is conflicting evidence as to whether it exists on Fairtrade farms and under what conditions.

- The Producer Standards have led to significant environmental benefits (sometimes in combination with organic certification) in the reduction of the use of harmful pesticides, better disposal of chemical containers, and introduction and strengthening of sustainable agriculture farming methods. There are costs incurred as well, however (e.g. more expensive pesticides, not being able to use containers for storage, higher labour costs) and the measures have not all been universally popular.

FLO Trade Standards

- *The Fairtrade Minimum Price (FTMP)*

The FTMP had a positive impact on producer income in all three of the W&CA case studies until the stalling of sales in 2007–08 onwards, which undermined the impact achieved. In India the FTMP has had no discernible impact as it has been lower than local market prices and since 2008 when the government introduced a guaranteed base price. FTMP is set in euros for all countries now, but until 2008 it was set in dollars for India. A weak euro from 2004 to 2008 made W&CA cotton expensive relative to Indian cotton, which exacerbated the tendency for sourcing to move from Africa to Asia.

Cotton companies in W&CA also benefitted from higher FOB prices (until sales stalled), enabling them to cover the costs of buying seed cotton, whereas conventionally traded cotton is often sold at a loss. As such, Fairtrade appeared to offer a (partial) solution to the long-term crisis in cotton sectors of the region. However, confidence has been knocked by the sales slump. A rise in non-Fairtrade cotton prices in 2010 is also further

reducing the relative attractiveness of Fairtrade, although a further change in Fairtrade and non-Fairtrade market dynamics could reverse this (e.g. if more secure and longer-term guarantees for sales can be established).

- *Fairtrade Premium*

According to producers, the Premium has brought positive benefits in all four case study countries from investments in education, health, water, agricultural infrastructure and support for organic production. Some problems have been experienced with late payment of the Premium due to the drop-off in sales and an inability to sustain the benefits. Specific difficulties have arisen in Cameroon, with producers not being reinstated as recipients of cotton company community project investment after Fairtrade sales, and therefore Premium funds, dried up in 2008. Some POs have used some of the Fairtrade Premium to cover operational costs, with the aim of making them less dependent on external support, but this means volatility in sales has a negative effect on their financial stability.

- *Terms of trading*

An increase in registered operators means that Fairtrade value chains are not significantly different to conventional ones in terms of the businesses involved. There are examples of Fairtrade helping to build collaborative value chains with innovative models for getting Fairtrade products to market, but equally there are examples of retailers and other value chain actors dominating sourcing decisions and not giving guarantees of purchases in advance. There is significant price competition between Fairtrade suppliers, and in a context of oversupply this undermines compliance with the key Fairtrade principle of long-term trading relationships. In this competition SPO producers in W&CA (and perhaps also

SPOs in India) are likely to lose out to Indian producers operating under contract production systems, given established sourcing preferences of conventional cotton operators. However, even the case study PB is struggling with the costs of certification and competition with cheaper cotton coming from other Indian states, as well as the lack of secure, consistent Fairtrade markets to sustain the long-term relationship with farmers. As a result of these problems, FLO and its partners are focusing on developing markets for products that involve less fluctuation in demand and allow for the development of longer-term trading relationships.

Organisational strengthening and business development

External support has been critical in building the capacity of the case study POs in all four countries. This support has come from different sources: an NGO in Mali, the national cotton companies in Cameroon and Senegal and the PB in India. All of this support is indirectly linked to Fairtrade as it helps producers to meet Fairtrade standards and the requirements of Fairtrade buyers. External support also covers operational costs in some cases (with help from the Fairtrade Premium), and has encouraged more democratic decision making and the participation of women. But the W&CA POs, especially in Senegal and Cameroon, remain very dependent on the cotton companies (for inputs, transport, ginning and technical advice) and some individual producers are confused between the identity of the cotton company and the PO. In Mali financial and operational dependence on NGOs is also an issue, but greater progress has been made in encouraging independence.

Support for organisational strengthening and business development has also been carried out, or financed, directly by Fairtrade organisations, especially the Labelling Initiatives (LIs) in France, Switzerland and the

UK. Max Havelaar France played a critical role in establishing Fairtrade cotton in W&CA, securing funding and bringing together key players (e.g. national cotton companies, COPACO) to develop management systems and build up supply. Max Havelaar Switzerland was similarly involved in developing cotton supply from India. The Fairtrade Foundation has worked on developing UK markets and trying to reduce costs in Fairtrade cotton value chains, as well as providing access to funds for capacity building. In India, the FLO Liaison Officer helped in the formation of the PO and has supported more democratic decision making and representation.

Fairtrade market requirements for quality cotton, as well as the financial incentives associated with Fairtrade, have combined with technical advice and training from support organisations to achieve quality improvements in all four country case studies. In India the new cotton variety promoted by the case study PB has led to quality improvements, but also creates some risks for farmers in drought conditions.

Networking

Fairtrade has had little impact in terms of supporting producer networking (e.g. for business development or advocacy) in the case study POs. The PB is representing the Indian PO in the Fairtrade Network of Asian Producers, but producers are not yet themselves involved. In W&CA networking has also been limited and there is no apparent impact from Fairtrade, although in Mali the PO has developed some new partnerships and representatives participate in national and regional meetings as a result of support from an NGO, and there may be some indirect links with Fairtrade (based on Fairtrade's contribution to sustaining the PO). It was noted that there is no clear platform for networking of local-level Fairtrade groups to find their voice in the larger organisation in Cameroon.

13. Key recommendations

- **Reduce the volatility of Fairtrade markets:** take steps to achieve greater balance between supply and demand in Fairtrade cotton; ensure understanding of and commitment to Fairtrade principles among all businesses involved in Fairtrade cotton value chains; identify and support the development of value chains and products which best fit with Fairtrade principles and objectives; introduce a mechanism which protects producers from currency fluctuations.
- **Improve awareness and understanding throughout value chain:** support POs to improve training and communication on Fairtrade principles, processes and markets with farmers; improve data gathering and transparency on costs and margins in Fairtrade value chains; learn from innovative value chains models which seek to maximise the benefits to producers while minimising retail prices; build consumer awareness.
- **Increase returns and promote income diversification:** ensure continued capacity building support to improve productivity, reduce costs, increase quality and produce more sustainably; promote linkages with organic production; support POs to engage in other functions in the value chain (e.g. input supply, transportation, processing) and promote/facilitate product diversification to reduce dependence on cotton; develop a strategy to help African producers compete; conduct further analysis of producer empowerment in contract production systems.
- **Tackle gender inequality and empowerment of women:** give a higher priority to gender within Fairtrade International and FLO-Cert, including provision of training to all staff and collection of gender-disaggregated data; develop guidance and strategies to tackle gender inequality and support positive changes in household gender relations and women's active participation in POs.
- **Strengthen actions on hired labour and child labour:** raise awareness of Fairtrade requirements for hired labour and assist POs to develop strategies to meet standards, especially in India; commission a dedicated study on child labour using appropriate methods.
- **Support sustainable production and environmental stewardship:** seek partnerships with other organisations/private companies to develop programmes supporting climate change adaptation and sustainable production; gather more data on costs of Fairtrade production and ensure adequate consideration of costs/risks of different types of production/seed varieties.
- **Improve payment and use of Fairtrade Premium:** ensure timely payment of the Premium and greater transparency and communication with producers; encourage strategic use of the Premium, through building the capacity of POs and linking with other agencies, local authorities, etc; support learning about good practice.
- **Support organisational development and networking:** develop strategies of organisational support which facilitate progress towards PO independence, including linking to government or development agencies for capacity building, agricultural extension services and access to credit; support innovative approaches which help PO representatives to network and lobby within national and Fairtrade policy circles.

14. Impact methodology recommendations

- Extend FLO methodology which was originally established as a guide and requires fleshing out (e.g. review pros and cons, and potential trade-offs, of different approaches to impact assessment; clarify hypothetical and actual causal impact chains; elaborate on contextual conditions affecting impacts; provide guidance for researchers on operationalising methodology).
- Ensure expectations, timescales and budgets for impact studies are realistic. Prioritise themes for in-depth exploration to avoid budgetary constraints limiting the depth of findings (e.g. on the full range of issues affecting economic sustainability; on child labour; on the dynamics of Fairtrade impact in Contract Production Systems versus Small Producer Organisation situations, etc.).
- Reflect on the impact of impact studies themselves to maximise use and to ensure that the Fairtrade system responds to key findings. It is often the case that impact studies do not reveal new information to those inside a standard system, and that they are grappling with these issues on a day-to-day basis, but independent evidence gathered as part of a learning process can and should be a critical part of organisational reflection and decision making.
- Seek to publish findings to inform debates on the impact of Fairtrade and raising the bar in terms of transparency to encourage other certification systems to do the same. Try to educate others about why these studies are complex (because of contextual changes, lack of consistent data, confounding factors) and why it is not always so easy to attribute impact solely to Fairtrade.



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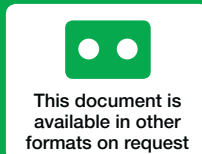
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