

# Summary Report: Assessing the impact of Fairtrade Cocoa in Peru

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## **Acronyms**

CLAC: Coordinadora Latinoamerica y del Caribe de Pequeños Productores de Comercio Justo

DEMUNA: La Defensoría Municipal del Niño y del Adolescente

FLO: Fairtrade Labelling Organizations International

FTA: Fairtrade Africa

FTMP: Fairtrade Minimum Price

HDI: Human Development Index

GOP: Government of Peru

ICCO: International Cocoa Organisation

LIFFE: London International Financial Futures and Options Exchange

MINAG: Ministry of Agriculture of Peru

NYBOT: New York Board of Trade

NAPP: Network of Asian and Pacific Producers

SPO: Small Producer Organisation

TOC: Theory of Change

UNDP: United Nations Development Programme

USAID: United States Agency for International Development

USD: United States Dollar

PDA: Programa de Desarrollo Alternativo

## 1. Introduction

This report summarizes the findings of an independent study of the impact of Fairtrade cocoa in Peru. The study assesses the difference that Fairtrade is making to cocoa farmers, cocoa farming communities and the producer cooperatives that represent them. It covers two producer organizations. The findings on the types and scale of impacts which are attributable to Fairtrade are identified and the main Fairtrade impact pathways assessed. A limited analysis of value chain relations that shape outcomes and impacts in Peruvian cocoa is also presented, plus recommendations for Fairtrade *organizations* to strengthen impact. See also the main study report<sup>1</sup>.

The objective of this study is to assess the impact of Fairtrade in cocoa in Peru, exploring *how* Fairtrade creates impact, *what types and magnitude* of impacts it achieves and how these impacts contribute to the overall goals of Fairtrade namely sustainable livelihoods, collective and individual empowerment and making trade fair for poor farmers and workers.

The impact assessment study design explores '*plausible impact pathways*'<sup>2</sup> and comprises mixed methods, triangulation of data sources and types, and reference to a *hypothetical* theory of change (both in data gathering and in analysis) as the basis for exploring and attributing change. While counterfactuals could be included within this approach (e.g. with quantification of perceptions of poverty impact), no baseline was available and the study was not longitudinal and so relied primarily on recall of changes. Counterfactuals can be expensive, complex and sometimes impossible to construct and if undertaken would *not necessarily* enable attribution of impact without ambiguity, which is their primary purpose in quasi-experimental impact evaluation. Such an approach may be more or less participatory in nature. In this case while not constituting a completely participatory approach in the sense of the impact agenda being formulated by the producers themselves, significant efforts were made to employ a participatory process and participatory methods. The FLO methodology (Smith and Eberhart, 2008<sup>3</sup>) was also used in constructing research questions and indicators, as was a study by Oréade-Brèche et al. (2007) 'Etude des effets et de l'impact du commerce équitable labellisé au Pérou et en République Dominicaine, Rapport transversal'.<sup>4</sup>

Both qualitative methods were used in the study (e.g. in key informant interviews with farmers, SPO management and value chain actors) as well as a questionnaire based survey which sought to generate statistics on impact questions, although this was conducted with Fairtrade farmers only. The management at two non-certified producer *organizations* (SPOs) were also interviewed. The field research was conducted in May-June 2011, and a draft report was submitted in June 2011, which was put out for stakeholder comment. Revisions were then undertaken and a final report produced in June 2012.

Two medium-sized co-operatives were chosen by FLO for inclusion in the study. Both are located in the San Martin region of Peru: i) PO1 obtained Fairtrade certification in 2005. By 2010 the co-operative had 1,600 members, 2000t of cocoa exports, and a 6 million dollar turnover, and with a focus primarily on cocoa, but with recent diversification into coconut (dry grated) and raw sugar); ii) PO2 in 2010 had 1,200 members and primary focus on coffee, but since 2007 has diversified into cocoa, and involves 325 members. In 2009 PO2 sold 680t of coffee, 320t of cocoa (2010

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<sup>1</sup> R. Jimenez, Laroche, K., and Nelson. V., (2012) 'Assessing the impact of Fairtrade Cocoa in Peru: Main report'.

<sup>2</sup> Nelson, V. and Martin. A. (2012) 'The Impact of Fairtrade: Evidence, Shaping Factors and Future Pathways'. Practical Action Food Chain Journal, Vol. 2, No. 1, May 2012.

<sup>3</sup> Eberhart, N. and Smith, S., (2008) 'A methodological guide for assessing the impact of Fairtrade', August 2008, Fairtrade Labelling Organisation; Bonn, Germany.

<sup>4</sup> "Etude des effets et de l'impact du commerce équitable labellisé au Pérou et en République Dominicaine, Rapport transversal", Duval L., Zariouh, N., Oréade-Brèche / F3E, November 2007. A summary is available at : the funders (f3e); website: <http://f3e.asso.fr/-Etude-des-effets-et-de-l-impact-du-.html>

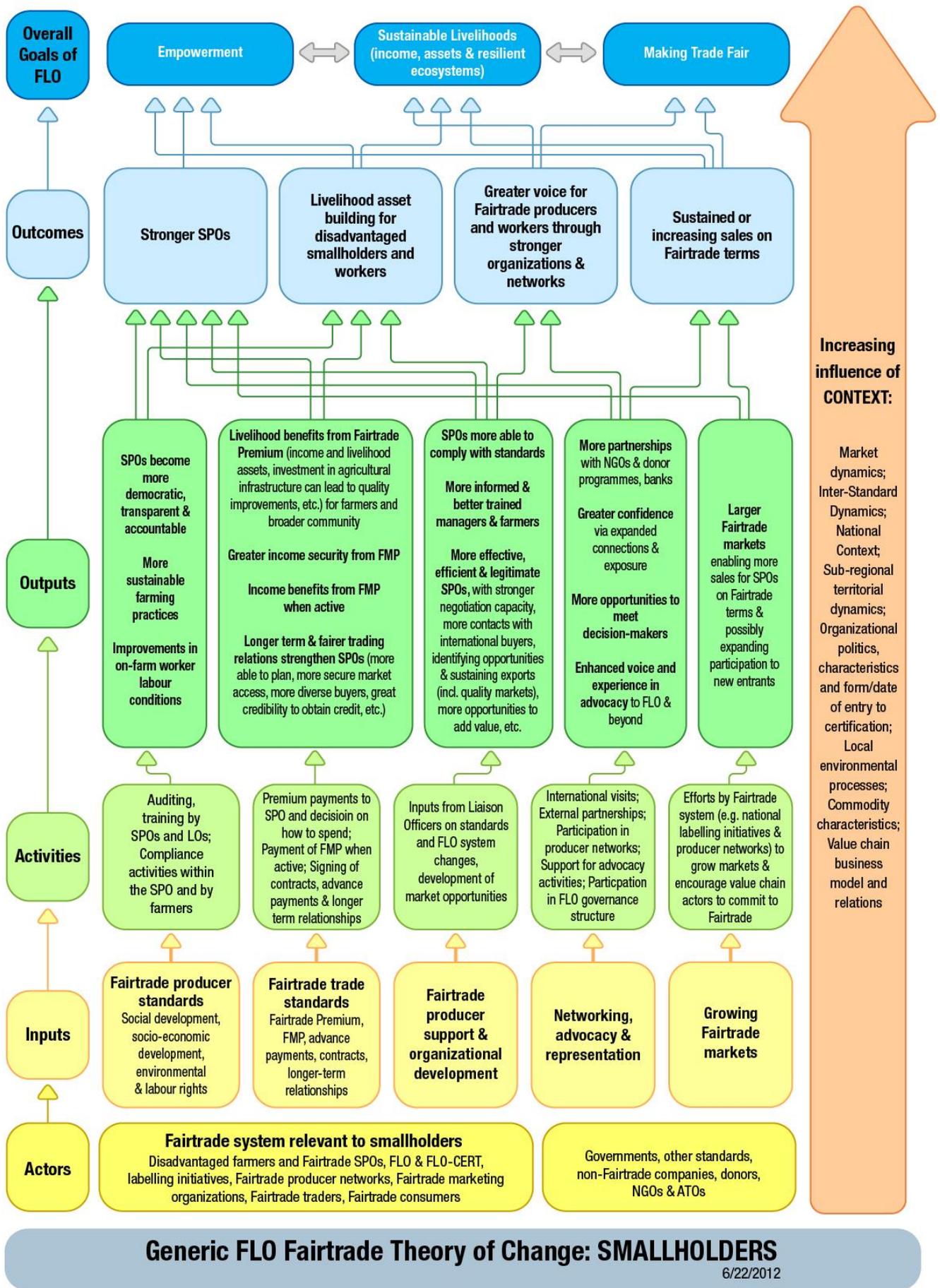
and had a turnover of 2.5 million dollars (2009). It gained Fairtrade certification in 2002 for coffee and 2007 for cocoa, and by 2010 was selling 83% of its cocoa on Fairtrade terms.

Each of the producer *organizations* have a secondary level farmer organization and comprise many primary level committees. The two *organizations* do not operate in the same districts, but are located relatively close to each other. The selection of committees and households was randomized from the list of 47 committees at PO1 (5 were randomly selected using a simple excel tool). For PO2, this randomization was not possible as managers had already announced the meetings to some committees before the study team arrived. These committees were due to hold their monthly general assemblies during the field visit of the research team or were selected on the basis of production-related criteria/length of membership of the committees. Household questionnaire interviewees were selected in the field – where most members were present at the meeting of the committee then their list was used and random numbers selected to choose interviewees. In situations where small numbers of committee members were present, the basis for selection was attendance at the meeting.

Overall the following were conducted:

- 9 focus group discussions with 9 committees (4 in PO2 and 5 in PO1);
- 98 household questionnaires (19 from PO2 members and 79 from PO1, reflecting their respective weight in the total group of cocoa farmers in the two *organizations* (1925 in total, of which 1,600 are from PO1 and 325 are from PO2). These farmers are spread across 13 different committees;
- Key informant interviews.

Figure 1: Hypothetical theory of change for Fairtrade



The size of the sample gives a confidence level of 90% and a margin of error of 8.1% to the survey<sup>5</sup>. No counterfactual was included in the household survey sample and so there are limits as to the inferences that can be drawn in terms of *impact* from the questionnaire data – except for recall questions posed to household members on their perceptions of changes that have occurred between a certain point in the past (5 years ago) and now. Attribution of impact is often thought to require ‘a comparison of the actual changes brought about by the programme, with the situation (real or hypothetical) as it would have been if the programme had not taken place (the counterfactual)’ (White, 2009a & b)<sup>6</sup>. But constructing a counterfactual in complex situations is not always possible: There may not be a like-for-like comparison between different groups and regions: there may be structural biases which mean that a counterfactual is unlikely to exist, but this can only be assessed once the data is collected and analysed rather than speculated beforehand (one example of such structural bias could be if the level of education of the population studied was very different to that of the general population). Further, including a counterfactual can raise ethical issues about the time taken of the counterfactual group without any benefit, and in terms of the resources required to conduct such a study. Selection bias is also an on-going challenge in quasi-experimental designs in ethical trade related situations. Due to limited resources, planning and survey design time it was not possible or necessarily desirable in this situation, to undertake a full counterfactual household questionnaire survey. Instead, the survey covered only the Fairtrade farmers, and the findings can be used, *with caution*, a) to provide impact data on some questions asking about perceptions of change over time, b) as a potential baseline against which future impact can be measured within these producer *organizations*.

Non-Fairtrade producer *organizations* were included in the qualitative part of the fieldwork: i) Cooperativa La Gran Saposoa in Saposoa, in the region covered by PO1 and ii) Cooperativa El Dorado, in San Juan Salado, the region covered by PO2. Both are relatively new *organizations*, and were supported by the PDA programme (Programa de Desarrollo Alternativo), which has sought to empower farmers to be more organized and enable them to better negotiate with buyers. They both produce organic cocoa and are interested or already planning to obtain Fairtrade certification as well. They also sell their cocoa to some of the same buyers that PO2 and PO1 work with. It was not possible to hold focus group discussions with the members of these *organizations*, but the managers of both *organizations* were interviewed.

Some difficulties were encountered in the sampling process, although this is not uncommon for rural research surveys: i) randomized selection of committees within PO2 was not possible, although the selection is not likely to have created significant bias as it was based on the random timing of when the committees were due to hold a meeting during the field visit days of the research team; ii) the fact that not all members of a committee could be present at the meeting, often because they were away (in their fields or other) and could not be reached. In some communities (Ledoy, Bagazan) most members were present, but in other (often bigger) committees (Saposoa, Huicungo which have over 100 members) it was only possible to conduct the survey with all members present. This is also not believed to be a major bias, as member presence was purely based on availability/activities planned on the day the meeting was called. Clearly, the limitations of the questionnaire data should be kept in view during the analysis, but the data complements the qualitative research findings.

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<sup>5</sup> See [www.raosoft.com/samplesize.html](http://www.raosoft.com/samplesize.html)

<sup>6</sup> White, H. (2009a) Some Reflections on Current Debates in Impact Evaluation. International Initiative for Impact Evaluation, Working paper 1. [http://www.3ieimpact.org/admin/pdfs\\_papers/11.pdf](http://www.3ieimpact.org/admin/pdfs_papers/11.pdf)

White, H (2009b), Theory-Based Impact Evaluation: Principles and Practice. The International Initiative for Impact Evaluation (3ie) [http://www.3ieimpact.org/admin/pdfs\\_papers/51.pdf](http://www.3ieimpact.org/admin/pdfs_papers/51.pdf)

## 2. Context

Contextual factors shape the outcomes and impacts of Fairtrade in any particular situation (Nelson and Martin, 2012)<sup>7</sup>. It is critical to understand the institutional, political, environment, economic and social factors at different levels, from the local to the international, and within the value chain, which co-produce outcomes as producer *organizations* become certified. The boxes below summarize our contextual analysis for cocoa in Peru.

### Box 1: Global Markets

Two types of cocoa are traded on world markets, i) fine, aromatic cocoa, ii) ordinary cocoa. Research and development has focused upon ordinary cocoa leading to higher productivity and less vulnerability to diseases, while world fine cocoa production has declined. Latin America produces 80% of global fine cocoa. World cocoa prices are determined by two major trading platforms in the markets of London (LIFFE) and New York (NYBOT). Over the last decade, prices have risen, reaching a historical record of the last 20 years in 2011 (USD 3,700 per tonne), fuelled by strong commodity speculation, depreciation of the dollar, interest of investment funds in commodities. There is an upward trend in demand from consuming countries coupled with dry weather in some key exporting countries in recent years which has affected crop yields.

The fine cocoa market is relatively small (5% of world cocoa market) and specialized – agents buy directly from producing countries to supply the chocolate companies. The stock price is a reference for price negotiations in speciality cocoa, but prices are ultimately determined by the balance of supply and demand for a particular type of cocoa, and the taste/quality requirements of manufacturers to satisfy consumers, with quality bonuses paid on New York prices. The main producer countries of fine cocoa are Ecuador, Papua New Guinea and Dominican Republic, and collectively they represent 81% of the export market. Peru ranks 6<sup>th</sup> in the list of global exporting countries.

There are just a few key buyers, processors and chocolate manufacturers, in consuming countries. Approximately 58% of production in the cocoa industry, chocolate industry and distribution is covered by 2 to 3 companies, namely Barry Callebaut, Archer Daniels Midland (ADM) and Cargill. Cocoa butter and powder are used in diverse industries and made into a wide variety of products, so accurate measurement of global cocoa bean demand is difficult. Grinding totals per country become an important proxy measure. ICCO provides information on the estimated consumption of cocoa (ground cocoa, plus net imports of cocoa products and chocolate products in grain equivalents), but this does not fully represent total industrial demand. The 2008-9 financial crisis and a steady rise in prices has affected consumer demand for chocolate products. Final consumption levels of confectionary products were not affected, but overall consumption of cocoa has been affected, with many chocolate manufacturers reducing the cocoa content of products. Speculation will continue to determine international cocoa market trends in terms of price volatility.

The main cocoa consumer countries are the US, Germany, France, Britain, Japan, Italy and Brazil. Consumption in Asia is rising. The processing industry is relatively dependent on supply from Africa. Recent unrest in Ivory Coast affects supply and leaves value chain actors susceptible to adverse changes in raw material prices. Political uncertainty also slows investment in the cocoa sector in African countries.

The global market for premium chocolate (including fine, single origin, organic, Fairtrade and chocolate of high cocoa content) has grown significantly in recent years and will continue even during the economic downturn. The organic cocoa market has grown strongly in the last decade, especially in Germany, Austria, Switzerland, Denmark, UK and France, with demand from both conventional and specialized buyers, but the financial crisis in 2008-9 has had an impact, with an oversupply of organic cocoa negatively affecting prices. The organic chocolate market has also grown strongly as retailers and supermarkets have promoted and distributed organic chocolate and consumer awareness has risen in relation to safer and better quality food. Part of the organic cocoa and chocolate produced in Europe is exported, mainly to the US. Barry Callebaut is the leading organic cocoa product processor globally. Two major organic chocolate producers in the UK are Green and Black's and Duchy Originals. However, organic products are still a fraction of the total market (0.5% of global cocoa market is organic production, in 2009).

Peruvian cocoa production and exportation dynamics and characteristics are explored separately in box 2 below, because of the important factors in shaping impact nationally and at the sub-regional San Martin level.

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<sup>7</sup> Nelson, V. and Martin, A. (2012) 'The impact of Fairtrade: Evidence, Shaping Factors and Future Pathways'. Food Chain Journal, Practical Action, UK

**Box 2: Cocoa in Peru**

Conditions for producer *organizations* in Peru are relatively favourable, and the cooperative sector is dynamic; on the Amazon side of the Andes conditions for cocoa production are also relatively favourable, with fairly good soils and good access to land. Fine cocoa, which is produced in Peru, has a high fat content, which means it has a high commercial value on international markets. Organic production potential is high in Peru as cocoa is produced mainly in agroforestry systems.

Smallholders predominate in production, with a maximum of 2 to 3 hectares of land and low levels of technology. There has been rapid growth in cocoa production following international support, particularly the USAID Alternative Development Program or PDA, which seeks to eradicate coca cultivation, especially in the study region of San Martin. Domestic production rose from 24,000 tonnes in 2000 to 36,800 tonnes in 2009. In coca growing areas, where the PDA has been influential, the improved variety developed in Ecuador, CCN-51, predominates and there is better management of plantations and higher crop yields. In more marginal areas, where technical assistance is limited, the *criollo* Andean traditional type of cocoa prevails, plantations are less well maintained, irrigation is needed as rainfall is insufficient and yields are low. San Martin is one of the main cocoa producing areas in Peru, following large increases in production. Other large producing regions, however, are seeing stable or reduced levels in production.

Growth has been achieved through expansion of cultivated areas in San Martin (13,743 ha were brought under cocoa production between 2000 and 2009). San Martin and Ayacucho are the only regions to have increased productivity levels. Cuzco and Amazonas areas have older plantations and productivity is decreasing. The majority of Peruvian cocoa (75%) goes to the national agrifood industry, in which 10 companies prepare chocolate and cocoa products for domestic and export markets. Low quality, unfermented beans necessary for high quality production are used. Cocoa bean exports from Peru have increased from 100 tonnes in 2000 to 2,500 tonnes in 2006 and 11,000 tonnes in 2010. The main destinations for the exports are Belgium, Holland, Germany and the US. Cocoa bean exports accounted for 52% of total exports of cocoa and derivatives in 2010 and this share is growing. Key Peruvian cocoa bean exporters are Sumaqaq S.A.C., Cooperativa Agraria, Cacaotera – PO1, Cooperativa Agraria Industrial Naranjillo, Cooperativa Cafetelera Quinacho, and Amazonas Trading Peru S.A.C. Their exports grew between 2009 and mid-2011 (period of the study). Local cocoa prices have increased over the years, starting at around 3\$/kg 10 years ago, and slowly increasing to reach the 6-8\$/kg range of the last two years.

Fairtrade cocoa markets have been growing rapidly. Box 3 summarizes the main trends and outlook.

**Box 3: Fairtrade cocoa markets**

1,153 tonnes of Fairtrade certified cocoa was sold globally in 2000. By 2009-10 this figure had reached 37,000 tonnes. 48% of all Fairtrade cocoa sold worldwide in 2008 was certified organic. Despite this growth, this only represents 0.1% of global cocoa consumption. In value terms these sales represent 184.9 million Euros in 2008. Although Fairtrade chocolate only represents a small percentage of the total European market, there has been rapid growth in most European countries. Growth in the US market has been significant, rising from 6.4 tonnes when Fairtrade certified cocoa launched in 2002, to 1,745 tonnes in 2008, an average growth of 83% annually. Approximately 90% of all Fairtrade cocoa imported into the US in 2008 was also certified organic. Fairtrade cocoa imports to the US came from 17 cooperatives in 9 different countries in 2008 according to Transfair USA, compared to 6 cooperatives in 5 countries in 2004. This rapid growth in the US reflects the wider distribution of these products in large supermarket chains and retail outlets, rather than limiting the sale of these products to specialty stores. Sales in Australia and New Zealand have also grown since 2009.

Overall, the Fairtrade cocoa market seems very favourable. The strategy of distributing products certified Fairtrade through mainstream retail outlets worldwide, has expanded demand in Europe, USA, Australia and New Zealand. There is willingness by consumers to pay for differentiated products (e.g. dark chocolate with high cocoa content). The sustainability of the Fairtrade cocoa market depends on a steady supply of cocoa that can meet growing demand, which may not be matched by growth in producer *organizations*. Of the 55 producer *organizations* with Fairtrade certification in 2010, 16 were located in Peru. Peru is the fourth largest provider of Fairtrade cocoa beans (1,500 tonnes sold in 2009-10). Fairtrade is important in Peru because the country has the largest diversity of Fairtrade certified commodities of any Fairtrade country and the largest number of certified producer *organizations*. Most Fairtrade certified cocoa producers in Peru have previously been involved with Fairtrade coffee, but this is not the case with PO1, which has only focused on cocoa. Fairtrade coffee cooperatives have diversified into Fairtrade cocoa, because the Fairtrade market has expanded in cocoa and because there is a strong push nationally to develop cocoa from government and development agencies. As quality issues are quite similar for coffee and cocoa, as are export channels, and often involve the same buyers, it is not difficult to diversify into cocoa and this spreads risks. The SPOs can also include more members and those from lower altitudes where coffee production is not so feasible, but near enough to allow for their inclusion. Most of the members of the Appcacao (Asociacion de Pequeños Productores de cacao), a national-level network *organization*, are Fairtrade certified. This network has been instrumental in promoting Peruvian cocoa and positioning it both as a quality product and as the produce of smallholder farmers.

Understanding the Peruvian context is very important to any analysis of the role and impact of Fairtrade. This is because of the particular history of the San Martin region, including processes of in-migration, deforestation, coca production, the drugs trade and terrorist control, and US-Peru government programmes to tackle coca production by supporting cocoa growing. These are large-scale trends and processes, which therefore shape the outcomes and impacts of Fairtrade on the ground (see Box 4 for a summary).

**Box 4: Peruvian context**

Peru is divided into 3 geographical regions: the dry Pacific coast (“*la costa*”), the Andes (“*la sierra*”), and the Amazon (“*la selva*”). Cocoa is mostly grown in the *selva*, with the exception of some irrigated production on the northern coast. The *sierra* is characterized by higher levels of poverty and higher percentages of indigenous populations. The *selva*, where San Martin is located, is an extremely isolated area. Roads began to be constructed only in the 1970s, with higher levels of construction and road improvement in the 1990s.

Peru has experienced strong economic growth over the last decade. There has been a decline of 28% points in poverty levels since 2004, but many Peruvians have not benefitted, especially in the *sierra* as well as in the *selva*. There has been significant social change in the last 30 years. In 1980 the Human Development Index average for Peru was below the average for Latin America, but it is now just above average. Peru is now a medium-ranking country according to the UNDP human development index (HDI), <http://hdrstats.undp.org/en/countries/profiles/PER.html>).

Agriculture and the forest sector account for 30% of regional San Martin GDP. The area links the Andes and Amazon basin. San Martin is the largest producing cocoa region in Peru, with more than a third of national production. 32,410 hectares of land is under cocoa production, but for a third of this area the trees are relatively new and are not yet producing cocoa beans. There are approximately 21,600 cocoa producers in the region, 23% of whom are part of a cocoa association or cooperative. These SPOs together account for 26% of the cocoa produced. There are 15 cocoa growers’ associations, including PO1 and PO2.

There have been waves of colonization into San Martin between the 1960s and 1990s as migrants have searched for new farm land. Most of the population is *mestizo*, although some migrants are from the indigenous groups of the *sierra* and the *selva* – the latter group is small in size. In 1981 there were 71,000 migrants, and rose to 175,000 by 1993. Deforestation has resulted from the clearance of natural forest areas for farming. Current rates are of the order of 25,000 hectares per year.

In the 1960s-70s there was agricultural intensification and in-migration to the region. Coffee production was supported by government, but the network of cooperatives disappeared in the late 1970s. The 1980s and 1990s saw a growing drug trade and terrorism, with combined increasing economic affluence and social decline. The state lost effective control of the study area, which came under the rule of terrorist groups. Insecurity and crime were both high. Since the late 1990s the government has managed to pacify the region, and initiated development projects promoting cocoa production and seeking to eradicate coca production with US government support. After this process of ‘pacification’ and the reduction in coca production, local farmers became very poor and were not producing enough food crops, because in the past they had relied on coca income to buy required foodstuffs. The PDA was launched to support the transition to licit crops. This programme has had a major impact on cocoa production in the region.

### 3. Study findings on impact

The findings of this in-depth study are summarized in tabular form below according to a range of dimensions and indicators, including: impact on incomes; impact on social structure; *organization* of producers; producer *organizations*; local and national development; and sustainable farming practices and environmental impacts. The difference made by Fairtrade on the incomes of participating producers is set out in the table 1 below.

**Table 1: Impact on incomes of participating producers and households**

Dimensions & Indicators	Impacts (Positive & Negative)
SPO average selling prices	Market prices have been higher than the Fairtrade minimum prices since early 2008 – so the Fairtrade Minimum Price (FMP) has not been active. Average prices received by both SPOs are

for their cocoa	similar to market prices. Fairtrade, conventional (non-organic) average selling prices of PO1 are not much higher than non-Fairtrade prices/conventional cocoa selling prices (other market premia playing a role such as quality here). However organic Fairtrade cocoa does receive a higher price. The average selling prices for PO1 in 2010 were higher for organic Fairtrade than non-Fairtrade cocoa. This was a sizeable proportion of total volumes with 59% of PO1 volumes sold in 2010 as Fairtrade organic certified.
Proportion of FoB price obtained by SPO that is passed to individual producer	In this case study, individual producers obtain 83% to 84% of FoB price, while the regional average, mainly of sales to local buyers, is lower (between 64% and 79%). This is due to the fact that the case study SPOs are 'mission-oriented' in character and leaders seek to maximize returns to members, plus they have increased their efficiency and have more stable markets. These conditions are encouraged by Fairtrade, but are not guaranteed.
Beyond Fairtrade pricing mechanisms – role of additional top up payments	In addition to the payment when they deliver their beans, Fairtrade SPO members receive a second payment at the end of the year. The two SPOs in 2010 paid 7.5 and 7.49 Soles/kg for the first payment. PO1 has paid a second extra payment. In 2007-9 they used 55% of the Fairtrade Premium for individual payments to farmers. In 2008 PO1 General Assembly voted for a top up (approx. 3% top up of price, 82Soles/t of cocoa) from the Fairtrade Premium.
Time savings	Fairtrade SPOs arrange for the processing of the cocoa beans, and so farmers selling to them make time savings on fermenting and drying.
Fairtrade effects on local market prices	On average the price producers are paid is higher for Fairtrade SPOs, than if sold to intermediaries. Prices paid to farmers vary week by week in cocoa trading due to export market fluctuations and other factors. Compared to regional averages the SPO figures indicate that they pay higher prices, but this regional average masks important differences of variation at the local level. It was reported that intermediaries are raising their prices in communities where Fairtrade committees exist in order to secure the beans, and possibly vice versa in communities without a Fairtrade committee. However, we do not have direct evidence of this local variation.
Price stabilisation	Producers perceive a greater stability of prices, which is partly due to Fairtrade sales and an enhanced ability of the SPO to plan. Fairtrade also contributes to this greater stability through capacity building
Yields, productivity, production	Robust data on yields and the link to Fairtrade could not be collected in the time available. However, it is clear that most farmers are not fertilizing adequately and this will lead to future decreases in yields. Regional yields have increased significantly (40% over the last 10 years), but this is mainly because of the establishment of new plantations. Cocoa trees do not produce in the first few years, but when production begins in earnest in the third year and onwards, they can produce high yields. PO1 yields are higher than regional averages, because some of their areas of production are particularly suited to cocoa production, and because the farmers have received more training. PO2 yields are slightly below the regional average, because they have many new plantations which have just begun to fruit. Technical management improvements have also had a large role in increasing yields, mainly due to the USAID PDA programme, but in small part due to Fairtrade premium support for agricultural extension activities. Climate variability has affected yields (a drought was reported for 2010). Some farmers in a focus group discussion discussed insurance schemes as a possible strategy for the future. It is not possible to compare work productivity for Fairtrade and organic production, because SPOs require that members begin the transition to organic immediately after joining. Cultivation has become more technical, which has increased labour requirements for producers, particularly at harvest time, but this also leads to higher yields.
Costs of production	The introduction of more technical tasks into cocoa production (in small part due to Fairtrade, but facilitated largely by the USAID PDA programme and higher cocoa prices generally) has raised labour requirements by an average of 60% and these tasks cost approximately 75% more than traditional cultivation methods.
Relative wealth	Most farmers continue to invest in cocoa as the key livelihood activity. Compared to the poverty line threshold defined in Peru, the average income of SPO members is higher (220

compared to rest of the population	Soles/month/person compared to 400 Soles/month/person respectively). However, 51% of household members still have incomes below the Peruvian poverty line and half of the members report producing a significant proportion of their own food. Estimations of wealth status for households indicate that a third to a half is poor by local standards, and 1 in 4 is in absolute poverty (by national standards) – this is within regional averages. No marked income difference for Fairtrade farmers compared to the rest of the population were found, despite the additional payments by Fairtrade SPOs, which represent a relatively modest top-up. Data was collected on Fairtrade household investments, which will be useful for comparisons with data collected in future studies, but no comparative data is available for a counterfactual group. There is, however, a clear difference between the incomes of farmers who have been SPO members for a long time and those who are recent entrants (almost three times higher). This would seem to indicate that either membership of the SPO brings benefits over time, or that newer entrants are less well off (we know that the SPOs are rapidly expanding) and due to SPO expansion are now able to participate.
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The difference made by Fairtrade and the POs to the social structure of the areas in which the latter are operating are discussed below in table 2.

**Table 2: Impacts on social structure**

<b>Dimensions &amp; Indicators</b>	<b>Impacts (Positive &amp; Negative)</b>
Ability to participate in Fairtrade	Overall expansion in membership and in the amount of cocoa purchased by the SPOs, means more smallholder farmers are able to participate in Fairtrade cocoa exports. Better access to credit also helps families to manage farm/household cash flow needs. The switch to cocoa has mostly been driven by the USAID PDA Programme, but Fairtrade has contributed. Cocoa provides a regular income as well which is appreciated, and which itself helps to increase quality of life, including some poorer farmers who have only recently turned to cocoa production. Currently, approximately 7% of San Martin cocoa producers are part of the two SPOs. Fairtrade SPO case study members have larger cocoa plantations and produce more cocoa per household than the regional average and 60% of members have been to primary school.
Ability to benefit from Fairtrade	An entry criterion of 1.5 ha minimum land size is stipulated by PO1, as a way of maintaining quality. This excludes the smallest producers, although this is not thought to be in large numbers. Land is relatively accessible in the area and so SPO managers say this condition is mainly a proof of commitment to cocoa growing. Similarly, the request for producers to obtain organic certification does not appear to be a limiting condition, as few farmers are currently using agrochemicals in the region and therefore a huge change is not required. No disadvantaged groups are specifically targeted by the SPOs, but indigenous peoples, who have historically been discriminated against by the state, are part of PO2.
Gender issues	Both case study SPOs allow dual membership by a member and spouse, which facilitates limited participation by women at the individual level. No changes were identified in the current gender division of labour due to Fairtrade, whereby men do more of the labour in cocoa production except at harvest time. At the SPO level, women were encouraged to participate in positions of authority (three women are on the PO1 board, PO2 has 1) contributed to by Fairtrade.
Farm labour	Approximately one third of cocoa labour is undertaken by hired labourers, who are often cocoa producers seeking extra income. Despite large shifts into cocoa cultivation in the region (due to the USAID PDA programme), the use of hired labour has not massively increased, because labour costs have risen (a 30% increase in daily wages in the past 3 years) and there is a shortage of labour (with competition from the expansion of cocoa and from other sectors).
Child Labour	No informants are reporting an awareness of the worst forms of child labour being practised and this appears to be extremely rare in the region, so Fairtrade is not expected to have an impact. A detailed study was beyond scope of research.

Changes in the organisation of smallholder producers, resulting wholly or in part from participation in Fairtrade are discussed in table 3 below.

**Table 3: Organisation of small producers**

Dimensions & Indicators	Impacts (Positive & Negative)
Cash flow management	Fairtrade SPOs led the way in setting up credit services which contributes to cash flow management. Non-Fairtrade SPOs are also now doing so as well, because of the support of the USAID PDA Programme, but have yet to prove their sustainability. The Fairtrade SPOs were able to do this early on, because of their institutional and financial strength and credibility. Farmers were positive about the credit services provided by the Fairtrade SPOs.
Livelihoods & Productive Assets	Major investments are in cocoa, with few investments in other income generating activities. Fairtrade farmers prioritize investment in children's education.
Stability of family farming	Fairtrade has made cocoa an even more secure market. Labour requirements have increased for Fairtrade/organic farmers, but daily wages have increased at the same time, meaning an increase in family work or less focus on other cash crops. Most farmers want their children to move out of cocoa farming.
Household food security	For Fairtrade farmers, on-farm food production is increasing according to the questionnaire survey and there are indications that food security is improving. However, we do not have information on whether this is also the case for non-Fairtrade farmers.

The impact of Fairtrade at an organisational level are discussed in the table 4 below on changes in producer organisations resulting from or contributed to by Fairtrade.

**Table 4: Fairtrade and producer organisations**

Dimensions & Indicators	Impacts (Positive & Negative)
Fairtrade and the structuring of the rural economy	<p>The San Martin region is now the largest cocoa producing region in the country. Producers in the case study SPOs currently account for about 7% of cocoa producers in the region. The Fairtrade Premium is not large when compared to a per capita equivalent, but at the SPO level the budgets can allow for investments in projects that might not otherwise be funded.</p> <ul style="list-style-type: none"> <li>• PO1 (2007-2010) has invested in additional payments to farmers (34% or USD 179,689.74), technical assistance (14% or USD 73,346.74), infrastructure (37% or USD 191,382.72), productive projects (10% or USD 53,732.95) and payment of diverse certification fees (5% or USD 27,931.05). Overall PO1 Fairtrade Premium funds totalled USD 526,083.</li> <li>• PO2 has jointly managed Fairtrade Premium funds from cocoa with the same funds for coffee. No payments are made to individual members. USD 10,850 were invested (2008) in infrastructure for cocoa collection and processing, plus the provision of services to members (e.g. strengthening the <i>organization</i>, technical assistance in coffee and cocoa, and consolidating assets).</li> </ul>
Influence on other SPOs in the region	Five years ago the membership of both cooperatives accounted for approx. 5% of cocoa producers in the region, now they cover about 7%. The growth in production by both SPOs has also been much faster than the growth in the number of members, thus the productivity of the farms involved with certified <i>organizations</i> has improved more than other farms. Most producers indicated that the main reason for joining the case study SPOs is the second payment made at the end of the season. The achievements of these SPOs also encourage new members to join them and encourage other <i>organizations</i> to seek Fairtrade certification, as a tool to achieve the same levels of success as PO1 and PO2.
SPO capitalization	The SPOs have achieved greater legitimacy in the eyes of the members as a result of Fairtrade. The major source of contributions from members is profits, and these profits come from sales generated in this market segment, as well as competent administration of the SPO. There are three systems of capital contribution: i) Fee at time of entry in the cooperative; ii) Annual contributions; and iii) Retained members earnings invested in the capital of the cooperative

	(share of the cooperative's profit, which is not distributed to members, but goes towards increasing the capital of the cooperative). In PO2 the assets of the cooperative grew by 55% between 2005 and 2009, i.e. from USD 189,779 to USD 294,340. On the other hand, PO1 has seen a very rapid growth in its assets: they went from 266.59 thousand USD in 2006 to 1784.03 thousand USD in 2010, an increased equity of almost 7 times in just 5 years. Thus members are contributing to their cooperatives, supporting their economic consolidation and thereby showing that they have greater confidence in their <i>organizations</i> .
Administrative and management capacities	Fairtrade standards seek continuous improvement of the <i>organization</i> : initially the SPOs found it difficult to meet the requirements of Fairtrade, but following training for management, technical and administrative staff, they are now able. FLO Liaison Officer support is perceived as being very important by the managers in strengthening the <i>organization</i> , although many other factors play a role (e.g. support from other NGOs) and in providing a link to the Fairtrade system (beside Fairtrade clients). The Fairtrade SPO directors also consider that Fairtrade processes (standards, audits, LO support) result in a more transparent <i>organization</i> .
Fairtrade and business <i>organizational</i> development	Business growth has been strong in both SPOs in the last 5 years. Fairtrade has supported this improvement, enabling both <i>organizations</i> to reach new markets, which would have been more difficult without Fairtrade certification. Volumes in PO1 were low prior to Fairtrade certification, but have since grown rapidly. In PO2 growth has been rapid, as they began with low volumes and have been selling 100% of their exports on Fairtrade terms. In 2009, the global crisis seemed to affect the Fairtrade segment more than conventional sales, as Fairtrade sales in both certified <i>organizations</i> fell sharply, although total sales increased. Being in a particular market segment has allowed the <i>organizations</i> to focus strongly on the issue of quality, investing in fermentation and drying infrastructure, training, clonal gardens, etc., ensuring that their product has a position in the market and creating new trade opportunities for cocoa and other products.
Fairtrade and quality	Fairtrade farmers reported improvements in cocoa quality as a result of the training they had received, and part of this extension was funded by the Fairtrade Premium. Fairtrade Premium investments in infrastructure (for drying and fermentation) have led to quality improvements as well.
Fairtrade and product diversification	Both Fairtrade SPOs have strong diversification policies. For PO2 cocoa is already a diversification from its original focus on coffee. PO1 is investing in coconut for export markets and raw sugar for local markets.
Fairtrade and the number and diversity of buyers	PO1 has a concentration of sales from a relatively small number of customers, which generates dependency and creates certain risks, but according to the manager they are opening new market opportunities.  Both of the case study SPOs view the presence of Fairtrade certified domestic companies (exporters) as a significant risk, representing strong competition. Until now PO1 and PO2 have chosen to sell their product to these companies to try and avoid the exporters from developing a direct relationship with their own member farmers and farmer committees, but this may be short-lived because the demand from these companies is growing rapidly and they are encouraging the non-Fairtrade SPOs to seek Fairtrade certification in areas where PO1 and PO2 are active. This is likely to lead to unbalanced competition.
Advocacy, networking and negotiation	Fairtrade has provided the opportunity for the Fairtrade SPO cooperatives to access credit for the cocoa harvest, through international <i>organizations</i> such as Progreso, Alterfin, Rabobank, Root Capital, among others. Many of these companies pre-finance Fairtrade cocoa contracts. These SPOs have now also managed to make arrangements to receive credit lines from private banks which allow them to meet their capital needs, especially during harvest periods. This is a clear difference with the non-Fairtrade SPO's, which have limited or no working capital. They often do not have access to either national or international credit, and are capital-dependent on the exporting companies.  PO1 and PO2 have helped to form and lead producer networks associated with the Fairtrade system. These networks are dedicated to the development of the cocoa sector in Peru, and include Appcacao, the National Coordinator of Fairtrade (CNCJ), and the Consorcio Cacao

	Amazonico. These networks have worked alongside international and national agencies to implement programmes aimed at improving production and quality cocoa in Peru, and increasing international competitiveness. Fairtrade has had an indirect role in terms of this networking, rather contributing to developing the markets, levels of sales and profitability of the SPOs. Dedicated Fairtrade networks have been formed largely with the aim of influencing the strategic direction of FLO itself, rather than for advocacy within Peru.
Fairtrade and SPO services	Fairtrade has helped to improve the SPO services, many of which have received Fairtrade Premium investment. SPO services have evolved in quality and quantity over the years, as they have increased their market access and participated in partnerships, in turn enabling investment in production and the farmer committees. Marketing cocoa to the Fairtrade market is the most important service, which has increased members' incomes. The additional payments and credit services are appreciated by members. Technical assistance programmes, partly financed by the Fairtrade Premium, have increased productivity and helped product quality according to managers. Investment in infrastructure for the fermentation of cocoa ensures product quality and reduces the work at the farm level. All of the services provided by the cooperatives have served to strongly position the SPO to achieve recognition and trust from their members. Most of the services are fairly sustainable, except for the technical assistance, as they are an investment (and not an expense) for the SPOs, ensuring sustained growth in the supply of cocoa and should lead to increased sales and the maintenance of adequate levels of profitability for the cooperative. Climate change may make the demand for technical assistance greater in the future.

In addition to the impacts on producers and their *organizations*, and on the rural economy, there are important questions in assessing Fairtrade impact in regard to overall scale of impact within a particular local and national context (see table 5 below).

**Table 5: Changes in local and national development**

Dimensions & Indicators	Impacts (Positive & Negative)
	At a regional level, the impact of Fairtrade occurs through the SPO. Fairtrade contributes to strengthening the SPOs, which can in turn contribute to influencing local prices, promoting improved quality, enabling the SPOs to be leading actors in the regional economy, and to investing and attracting more investment in the communities. Both of the SPOs studied are attracting projects and partnerships, in part because of the confidence their history with Fairtrade gives to potential partners ('the honeypot effect') and because the Fairtrade SPO often has the capacity to co-invest using Premium funds and co-investment is often a pre-condition of funders. Further, Fairtrade assesses and gives a guarantee (certificate) to these <i>organizations</i> , and contributes to their positive external image, which is very important for attracting the kind of partnerships or financing described. With the additional resources brought (directly or indirectly) by Fairtrade, SPOs can also invest time and (human) resources in structures such as unions or representative <i>organizations</i> , work together to be able to propose policies, and influence the legal context in which they are operating, as could be witnessed with the cooperative law. This in turn contributes to development, regionally or in some cases nationally given the network of Fairtrade SPOs in the country.

It has not been possible to conduct a full-scale environmental impact assessment for Fairtrade cocoa in Peru, but there are positive indications of the role of Fairtrade on the environment, in conjunction with organic production (See table 6 below).

**Table 6: Indications of changes in sustainable farming and environmental impacts**

Dimensions & Indicators	Impacts (Positive & Negative)
	Both PO1 and PO2 have invested in training producers to improve the quality of the cocoa they produce, and also in training them to conserve the environment through the uptake of more environmentally friendly farming techniques. Both <i>organizations</i> have several years of experience with organic certification and therefore producers, technicians and leaders are well trained in organic production systems. There are positive impacts and changes in production systems and environment in the areas of influence of Fairtrade cooperatives, due to the implementation

of different practices, but many factors have contributed to these positive developments.

The implementation of environmental management plans in SPOs as part of compliance with Fairtrade environmental requirements serves as a guiding framework for *organizations* to direct their efforts to manage projects for reforestation and protection of natural areas. Fairtrade standards have also strengthened the awareness of producers to implement environmentally friendly production practices. As more members are joining the Fairtrade SPOs, it seems likely that these practices will increase in the region. The promotion and dissemination of good production practices have largely been accomplished through technical assistance teams, which are partly funded by the Fairtrade Premium. The Fairtrade Premium has also helped producer *organizations* to leverage resources from other *organizations* to implement various programmes aimed at reforestation, crop improvement, etc. The implementation of good practices by Fairtrade producers has served as motivation to and an example for non-Fairtrade SPOs, because they also promote such practices on their farms. The global demand for organic cocoa has led the PDA to strengthen training and organic certification programs in these non-Fairtrade SPOs.

Regarding the use of the Fairtrade Premium in activities that generate impacts on ecosystems and natural resources, we can only highlight the promotion and dissemination of good production practices that have largely been accomplished through the technical assistance teams. In preparing the investment plans of the Premium, Fairtrade SPOs have not prioritized environmental issues, possibly because they are already cooperating with other agencies on this topic.

We review the different impact pathways of Fairtrade (producer standards, Fairtrade Trade standard, business facilitation and networks) in terms of their effectiveness in the context of Peruvian cocoa in table 7 below.

**Table 7: Impact pathways**

<b>a. Fairtrade Producer Standards</b>
<p>Producer standards, auditing and liaison officer support is effective in encouraging the SPOs towards greater accountability and efficiency in order to better support their members.</p> <p><b>Individual farm level</b></p> <ul style="list-style-type: none"> <li>• Improvements achieved in waste management;</li> <li>• Achieving environmental standards of Fairtrade and organic certification is difficult, but the SPO managers express pride at their success.</li> </ul> <p><b>SPO level</b></p> <ul style="list-style-type: none"> <li>• Auditing and Liaison Officer support has enabled the SPOs to follow their own rules making them more accountable and transparent;</li> <li>• No evidence of the worst forms of child labour;</li> <li>• One SPO has minimum entry criterion (the size of the cocoa plantation), which is higher than the regional average and is there to ensure the quality of the cocoa, but while this may exclude some smaller producers, the number is not thought to be excessive as land is fairly readily available.</li> </ul> <p>SPO services to members have improved in quality and quantity since certification, partly due to the investments from the Fairtrade Premium, but also due to the increased market access and partnerships, which has enabled them to invest in production and their communities. Cocoa marketing is the most important service and additional, but modest in size, '<i>reintegró</i>' payments, as well as credit services are appreciated by members. SPOs can access more credit themselves, because Fairtrade has enabled them to be able to plan better and has enhanced their external credibility. Fairtrade Premium investment has contributed to improved productivity and product quality, alongside the USAID PDA programme and NGO projects). Investment in cocoa processing equipment ensures product quality and reduces work at the farm level. All the SPO services provided have increased the legitimacy and recognition of the SPO in the eyes of the members. The technical assistance is more of an investment, promoting increased supply of cocoa, and leading to higher sales and sufficient profitability for the cooperative. Climate change may make the demand for technical assistance greater in the future.</p>
<b>b. Fairtrade Trade Standards</b>

## **Price**

The FMP has been below market levels for almost 4 years, although it still provides security if market prices were to drop. Up until 2010 costs of sustainable production (COSP) were covered by market prices, but local wages are rising and so COSP are near to market prices. At the farmer level, COSP are 4 Soles/kg (1.44 USD/kg) and so costs have been covered as local prices have been higher for several years. However, costs of production can be variable for different SPOs depending upon remoteness. Instituting a 'higher than market price' principle would, however, be expensive and complex to implement. The Fairtrade SPOs studied have limited knowledge of trading prices of similar types of cocoa from other origins and of actual prices besides international indicators – greater access to information on these would strengthen their bargaining position and help to increase transparency in actual Fairtrade contract prices.

There is no clear difference between average selling prices of both SPOs and the market prices. However, for PO1 it is the Fairtrade and organic segment which attracts better prices. More efficiency within the SPOs means members are obtaining higher percentages of the selling export price than non-members and this efficiency is encouraged by the relatively stable markets they have through Fairtrade and via Fairtrade support. Producers thus receive higher prices on average than if they sold to conventional buyers and are more efficient as the SPO ferments and dries the cocoa (because of the infrastructure investments through the Fairtrade Premium). The difference is between approximately 2 and 17% in returns, although intermediaries try to match (or sometimes exceed) SPO prices. Wider impacts are achieved in villages where Fairtrade SPOs exist, as intermediaries try to match their prices. Farmers are positive about the price stabilizing and regulating effect of the SPO, which is the result of high market demand, rising prices generally, and capacity building. Fairtrade members receive higher prices because they sometimes receive additional payments (1 or 2) at the end of the season. The amount is decided by cooperative managers and is drawn from the Fairtrade Premium and *organizational* profits. Some discontentment occurred when FLO-Cert fed back that the Premium should not be used for individual payments, but this is not now seen as a major issue by the SPO managers.

### **Recommendations on Fairtrade Minimum Price**

- Establish an information system for Fairtrade contract prices (per origin and quality) to serve as a reference point for the SPOs when negotiating prices (useful when market prices are higher than FMP) and this system should be managed by the producer networks
- Establish a more proactive system of monitoring COSP so that changes to the FMP can be made more quickly. National *organizations* – CNCJ and Appcacao – could manage this as they have already collected data from Fairtrade SPOs in Peru. A clear communication channel with FLO would also be required and possibly modest funding.
- Explore other kinds of replacement safety nets or support mechanisms. When the FMP is ineffective for long periods, relations can become strained: between managers and members (their members can be tempted to sell to others offering a good price, and the SPO cannot collect cocoa, or at least there is discontent over the level of price offered by the PO); between SPOs and their clients (SPOs are struggling to collect cocoa and make enough of a margin; cashflow and credit become an issue; clients can rarely pay more as their own selling prices are based on lower buying prices and can rarely be increased easily); between SPOs and FLO (the main 'safety net'). Improved credit facilities or a temporary Premium increase are options to be considered.

### **Fairtrade Premium**

Tracing the exact use of the Fairtrade Premium by individual members was too difficult, so when FLO-Cert tightened its accounting rules this practice was stopped, and other funds are now used for individual payments. PO1 Fairtrade Premium investments totalled USD 526,083 between 2007 and 2010. Although Fairtrade Premium amounts have increased each year at PO1 and PO2, because they have also rapidly expanded in size, amounts of premium per capita are actually lower in 2010 compared to 2007.

When PO1 made payments to individual members, these were calculated according to volumes of cocoa supplied to the SPO, therefore larger producers have benefitted more than small producers, who may need it more. Current systems of Fairtrade Premium usage in both SPOs are thus fairer now, as the general assembly can decide upon priority needs and the funds are less biased towards bigger farmers.

### **Pre-financing**

Finance is critical in cocoa for smooth marketing, and three prevailing conditions amplify the need for finance and the competition from intermediaries: i) high cocoa prices; ii) strong market demand for Peruvian good quality cocoa, which does not fetch a quality premium; and iii) strong financial incentives from the state to export cocoa (exporters of 'non-traditional export products' can claim back 5% of the FoB value of the product exported). SPOs have to generate strong loyalty amongst members and have to have ready cash to pay members the moment they deliver their cocoa otherwise the farmers may sell to other buyers. Both PO1 and PO2 have managed to secure the financing needed from banks. Fairtrade clients represent a small percentage of their credit needs. The Fairtrade standard on pre-finance is not functional, as importers do not pay pre-finance. However, the SPOs use the cocoa contracts in a three-way arrangement with international banks or, very recently, credits with local banks, guaranteed by mortgage. Only the sustained trade and existence of Fairtrade contracts (as well as non-Fairtrade contracts) enables the SPOs to seek finance with international banks (with the past investment capacity of the SPOs – now materialized in buildings which can be mortgaged – being the most important factor for local banks). It is difficult for SPOs to get contracts signed a year in advance (even without a fixed price in the contract) in times of fluctuating, but high, prices. Importers often decide on contracts just before requiring shipment. A mix of finance options (e.g. loans guaranteed by contracts, loans with local banks guaranteed by fixed assets, and revolving loans with international banks) is very important. The bigger and older cooperatives like PO2 and PO1 tend to have well established networks of international partners, which were brought by support *organizations*, so it is easier for them to be identified by and to attract international banks. But the FLO system has so far been fairly passive on this vital issue for SPOs.

#### Recommendations on pre-financing

- Establish a mechanism to facilitate credit access for SPOs, with a monitoring of needs, to facilitate cash flow management. Such a mechanism would need to be adapted to different country contexts, but countries like Peru should be a priority because of the volumes traded and where consolidation of Fairtrade success is needed.

### **Export**

Fairtrade SPOs and other stakeholders expressed concern regarding the potential challenge from national Fairtrade exporters buying cocoa from Fairtrade SPOs and supporting other non-Fairtrade SPOs to seek certification. The entrance of Fairtrade certified national exporters may mean that more smallholders can participate in Fairtrade and benefit from it. While it is an opportunity to bring additional (currently non-Fairtrade) producers to the system, the fact that they are very young SPOs, currently reliant on exclusive relations with experienced exporters, and thus with different patterns of value addition, needs to be recognised by and responded to by FLO. SPOs are often supported as a direct avenue for organizing and supporting small producers in the Fairtrade system and Fairtrade support can help these producers to have greater independence from exporters. The PO2 members were particularly vocal on this point: The national exporters are accepted as Fairtrade, yet they do not have to buy all production from the certified SPO that agrees to work with them. Further, the trader controls most of the market information and the SPO is locked into a relationship, because they lack the capacity, knowledge, contacts and perhaps confidence to manage the marketing side of the business. The commercial motivations of private exporters mean that they are likely to implement the bare minimum required by Fairtrade and are less likely to actively seek to redistribute profits to members as a cooperative would, because it is accountable to members. SPOs feel they are supporting local economic development, investing in infrastructure and services to the communities, and do not expect exporters to do the same. If the price paid to producers is the same, exporters are very likely to be making slightly higher margins per tonne of cocoa as they have lower operational costs (leaner structures and probably more efficient operations) (See Table 2 below for a comparative analysis).

#### Recommendations in relation to export

- Monitoring of and further research into this situation is important. It is important that early Fairtrade pioneer SPOs are supported to ensure that are enabled to be efficient, effective and competitive and so that they do not lose out as Fairtrade expands. For example, additional support to build the reputation of Peruvian quality cocoa could be provided.
- A more robust response would explore options such as checking for potential competition before certifying a new exporter in a producing country, seeking cooperation from other SPO before allowing exporters into

Fairtrade value chains (e.g. Fairtrade cooperative exporters could export for others), designing exit strategies when exporters obtain certification so that the situation is temporary, and ensuring that the SPO has direct relationships with buyers and that the exporter is transparent in terms of selling prices. The exporter should be a service provider of the SPO (not just a buyer – the exporter exports on behalf of the SPO, but the relationship and financial negotiations are directly with the SPO).

### **c. Business facilitation**

Fairtrade sales of both SPOs have increased substantially, due to a growth in the Fairtrade market, mainly in continental Europe, and in a specialty segment in the US market. There are several contributing factors: the growth in sales of some Fairtrade clients (e.g. Alter Eco for PO1), absence of a market price differential for buyers (they only have to pay the Fairtrade Premium and benefit from a positive image), plus the lack of a quality differential for most organic Peruvian cocoa (as opposed to other Fairtrade organic origins of aromatic cocoa). There are not that many buyers of Fairtrade cocoa (3 in the case of PO1) and all are importers, rather than brands. There are few links between Fairtrade SPOs and the final clients of Fairtrade cocoa. The Fairtrade SPOs have good relations with the importers, but do not have enough information to understand market dynamics and to be pro-active (e.g. finding new buyers, improving relationships with existing buyers, improving their positioning etc). The Fairtrade SPOs would like more information on cocoa market actors (e.g. their quality requirements; volumes traded; positions with regard to different social and environmental labelling schemes). Producer networks, such as the CNCJ, could play a role in sharing information across Fairtrade SPOs, e.g. on the identity and contacts of potential Fairtrade clients (final users of cocoa as well as importers). As mentioned above, the Fairtrade SPOs and some importers and brands feel that, if not handled properly, the current situation could drive prices down and lead to a more concentrated market, because the Fairtrade chocolate market is not yet solid enough to withstand too many actors, and the current trend may weaken the smaller players. Building a stronger and more sustainable market for Fairtrade fine cocoa will require the Fairtrade system to better organize the circulation of relevant information and facilitate the building of a sectoral strategy in which all actors feel empowered. This process has already been initiated by FLO with the development of expert roundtables to develop product strategies, and it needs to be further encouraged.

#### Recommendations on business facilitation

- Establish a mechanism to regularly provide SPOs with information on Fairtrade markets and dynamics;
- Design a Fairtrade marketing strategy with the relevant SPOs;
- Explore how CNCJ could play a facilitating role in this ;
- Review the conditions of participation of exporters in Fairtrade value chains, in particular to ensure their participation does not jeopardize the position of existing Fairtrade SPOs, and achieve more transparency in the conditions of their participation in Fairtrade supply chains, so that other SPOs know what the conditions are;
- Study (and support) other mechanisms to ensure that the competition between supply chains with and without exporters are more balanced;
- Support economic research that can assess how far Fairtrade smallholder co-operatives are faring and where they face competition from new entrants, that have support from large traders, i.e. comparing Fairtrade cooperative value chain relations with more commercially oriented Fairtrade value chain models. This type of question is a critical issue for FLO and requires more dedicated analysis, potentially through a longer-term joint research with a university.

### **d. Networks**

Both SPOs have been active in national level networking, and have collaborated with development agencies in the implementation of development programmes. These activities have proved beneficial for both SPOs and have also been beneficial for the networks themselves, for example the Peru Fairtrade national producer network. Fairtrade producers are gaining a greater voice in the FLO system through the emergence of stronger networks. However, representatives from these Fairtrade SPOs have not been very active in the Latin American Fairtrade Producer Networks to date.

A comparative analysis of Small Producer Organisation (SPO) and exporter/SPO Fairtrade value chains across a range of dimensions are presented in table 8 below.

**Table 8: Comparative analysis of Smallholder Producer Organisation (SPO) and exporter/SPO Fairtrade value chains**

Dimension	SPO value chain	Exporter + SPO value chain
Initiative of Fairtrade certification	SPO	Usually exporter (often manages the certification on behalf of the SPO, even if the SPO owns the certificate)
Scope of full Fairtrade standards	All activities of the SPO – includes export	All activities of the SPO – exporter mostly required to show proof of integrity of payment
Control of the value chain up to export	SPO management (responding to SPO board)	Exporter management
Accountability of the decision makers	To AGM	Exporter direction structure (SPO AGM has no say)
Price negotiations / management of market information	SPO management	Exporter management (SPO rarely knows much)
Capacity to negotiate credit (for cash flow)	Generally limited	Generally good
Value added distribution	100% to SPO	Divided between exporter and SPO – SPO does not have a say in what share it should get
Relationship with corporate buyers	Often non-existent (majority of buyers are small to medium companies)	Main type of client  Means that exporters often have access to large markets

## 4. Conclusions

In sum, the Fairtrade contribution in achieving Fairtrade (FLO) goals is set out in table 9 below. This covers producer empowerment, sustainable livelihoods and making trade fair. Figure 2 also visualizes these findings against the theory of change.

**Table 9: Fairtrade effectiveness in achieving overall goals**

<b>Producer Empowerment</b>
Involvement in Fairtrade has benefitted producers in various ways, especially through strengthening SPO service provision, democratic <i>organization</i> and Fairtrade market expansion. Fairtrade Premium investment has led to positive outcomes (e.g. investment in processing facilities which has reduced member workloads). Fairtrade support has contributed to greater SPO efficiency, enabling greater returns to producers. Quality improvements have had various drivers, including Fairtrade Premium funded centralized processing. FMP has not been having an effect due to high world market prices. Standards, audits and Liaison Officer support have

supported *organizational* strengthening. The growth of Fairtrade and other markets also have a positive effect.

### **Sustainable Livelihoods**

There is strong evidence of higher prices for the Fairtrade and organic segment, of improved returns to producers overall (e.g. due to the time savings as the SPOs process the cocoa, 'reintegrro' payments etc). Cocoa is becoming a more attractive livelihood option than in recent years due to the USAID programme, and this process is supported by Fairtrade certification of the SPOs. Environmental improvements have also been achieved including the raising of awareness and introduction of new waste management practices, which are likely to have health benefits for smallholders and their families. More sustainable farming practices are being supported by Fairtrade and organic certification, although there are also associated labour costs. There is limited evidence on asset building from Fairtrade – it may be that Fairtrade effects are somewhat obscured by high market demand/prices and external support of PDA programme leading to the large-scale expansion of cocoa production – but also the study did not involve a counterfactual and was not longitudinal in nature.

### **Making Trade Fair**

In terms of making trade fair, Fairtrade is supporting the existing SPOs to participate in Fairtrade and achieve benefits (and their consolidation and dynamism on the market would clearly have been more challenging without Fairtrade), but there is a need for greater access to market information and direct contacts with Fairtrade buyers. The entrance of Peruvian exporters into the Fairtrade value chain is perceived by existing Fairtrade producers to represent a *significant* threat, because of the power inequalities that shape trading relations in the different value chains. The concern is that non-Fairtrade farmers may be fairly dependent on the national exporters, who are now Fairtrade certified, and that they are being encouraged to seek Fairtrade certification, but the support they will receive from the exporters will be minimal and will not be directed towards political and economic empowerment (e.g. greater democracy and accountability, building capacity to directly export themselves over time). At the same time, these national exporters have greater economies of scale and buying power compared to the existing certified Fairtrade SPOs, who are trying to develop their own direct trading relationships on export markets. More evidence is needed as to whether US markets can absorb the additional supply from new entrants or if this is a zero sum game with existing producers potentially losing out.

Figure 2: Summary of findings against theory of change

