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I. INTRODUCTION

Growing coffee has traditionally provided a precarious existence for the 25 million smallholders who grow 80 per cent of the world's coffee. A lack of government or private investment in their often isolated rural communities means many growers live in rudimentary conditions lacking basic amenities such as decent housing, clean water and electricity, with insufficient provision of healthcare and education, and poor roads and transport links.

Income is closely linked to coffee production which is frequently disrupted by unfavorable weather. Now climate change is making livelihoods even more unpredictable. Being organized in co-operatives strengthens the position of farmers in commercial activities. Selling on Fair trade terms provides a more stable income, while the Fair trade Premium can be invested in building farm businesses, diversifying income to reduce dependence on coffee and in community improvements. Fair trade offers security in good times and bad, and in addition to the price paid for their coffee, helps them to improve their crop, strengthen their businesses and build a stronger future for their communities. This paper review the welfare impact of coffee certification on small-scale coffee producers and evaluate the potential of fairtrade coffee in reducing poverty.

With climate change threatening shortfalls in production and higher prices, it is more important than ever that manufacturer; retailers and consumers support coffee growers in ensuring a sustainable supply of a commodity enjoyed by millions of people around the world (fair-trade foundation, 2012).

Ethiopia is the origin of Arabica coffee. Coffee is deep-rooted in both the economy and culture of the country. Though coffee is a traditionally worldwide

traded cash crop with new markets emerging, many coffee-dependent developing countries such as Ethiopia are struggling with production and marketing of their coffee. In the early 2000s, a historic world market price slump hit millions of coffee farmers hard, especially smallholder producers in Africa and Latin America (Ponte, 2002). The volatility of coffee markets in combination with poor production infrastructure and services have sunk the majority of coffee producers in developing countries in low-input-low-output cycles and structural poverty. In the recent past, due to the interplay between increasing poverty of coffee smallholders in major producer countries and growing demands for healthier and more socially and environmentally-friendly produced coffee in larger consumer countries, certification of cooperatives has gradually gained wider significance worldwide (Petit, 2007; Stellmacher and Grote, 2011). Especially Fair trade certification is expected to significantly contribute to better livelihoods of smallholder coffee farmers by enhancing their income through premium prices and stabilizing it through minimum prices.

II. DEFINITION OF FAIR-TRADE

The Fair-Trade movement is an effort to link socially and environmentally conscious consumers in the North with producers engaged in socially progressive and environmentally sound farming in the South. It is an attempt to build more direct links between consumers and producers that provide the latter with greater benefits from the marketing of their products than conventional production and trade have allowed, while breaking down the traditional alienation of consumers from the products they purchase.

Fair-trades a movement with considerable potential, though it makes no claim to be able to resolve single-handed the seemingly down ward spiral of problems associated with the current neo-liberal globalization regime, which has led to increasing impoverishment, disempowerment, and alienation on a worldwide scale. It is one of the more dynamic examples of the initiatives, campaigns, and movements that are constituent elements of what Peter Evans has described as 'counter hegemonic networks' (Evans,2000), characterizing a process of 'globalization from below' (Portes1999). These efforts represent a multi faceted response to globalization that seeks to re-regulate global production, trade, and consumption in ways

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more protective of and beneficial to people and the environment. In this context Fair Trade becomes a case worthy of investigation in its own right, and also a vehicle for understanding the broader incipient pursuit of a fundamentally different form of globalization.

Fair-trade began in Europe early 50 years ago with church-based initiatives to sell handicrafts from Africa and elsewhere (Stecklow and White 2004).

III. ECONOMIC IMPACT OF FAIR-TRADE CERTIFICATION ON COFFEE PRODUCERS

Smallholder farmers producing for Fair Trade market outlets are usually considered to benefit from better prices and stable market outlets. Ruben R. And Ricardo Fort, (2011), compare the net effects on production, income and expenditures, wealth and investments, and attitudes and perceptions Fair Trade farmers and non Fair Trade producers of organic and conventional coffee from Peru. After careful matching, find only modest direct income and production effects, but significant changes in organization, input use, wealth and assets, and risk attitudes.

Moreover, important differences between farmers with early and more recent FT affiliation are registered.

Eco-certification of food and other agricultural products has been promoted as a way of making markets work for sustainability. Certification programs offer a price premium to producers who invest in more sustainable practices. The literature on the impacts of certification has focused primarily on the economic benefits farmers perceive from participating in these schemes. These benefits, however, are often subject to price variability, offering only a partial explanation of why farmers join and stay in certification programs.

In Ethiopia, the use of socio-economic, environmental and/or health-concerned fair trade certification standards in agriculture is a new phenomenon compared to other countries particularly in Latin America (Stellmacher & Grote, 2011).

In recent years, however, certification of agricultural products in Ethiopia increasingly gained attention of international certification agencies and standard holders, governmental and non-governmental development agencies, and private companies supplying to specialty markets. The overwhelming majority of fair-trade certification activities in Ethiopia focus on coffee (*coffea Arabica*) which is both: a) the backbone of the countries' economy and income source for millions of Ethiopian smallholders that live in or close to poverty and b) a resource with considerable high potential to be marketed as a specialty gourmet product on the worlds' major coffee markets. Coffee fair trade certification in Ethiopia is mainly undertaken within cooperative systems being historically rooted in local Agricultural Service Cooperatives established in the

1970s by the then military derggovernment. Since the 1990s, the ruling coalition in Ethiopia, the EPRDF-led government, promoted restructuring of cooperatives in the coffee sector and formation of coffee cooperative unions as umbrella associations. These unions are legally allowed to by-pass the national coffee auction system since 2001 and the Ethiopian Commodity Exchange¹ (ECX) since 2009, to directly sell to international exporters (McCarthy, 2001; Petit, 2007; Stellmacher, 2007; FDRE, 2008). Despite the growing number and vigor of newly established value chains for fair-trade coffees from Ethiopia with presumably drastic and multidimensional impacts on livelihoods of thousands of coffee producing smallholders throughout the country, there is still a considerable lack of empirical local studies that can substantiate and quantify the welfare impact of certification on small-scale coffee producers' livelihoods in Ethiopia.

Certification of coffee cooperatives has in total a low impact on small-scale coffee producers' livelihoods mainly due to (1) low productivity, (2) an insignificant price premium, and (3) poor access to credit and information from the cooperative. Differences in production and organizational capacities between the local cooperatives are mirrored in the extent of the certification benefits for the smallholders. 'Good' cooperatives have reaped the benefits of certification, whereas 'bad' ones did not fare well. In this regard the "cooperative effect" overlies the "certification effect" (Pradyot Ranjan., 2012). In the study carried out assesses the impact of Fair Trade organic coffee production on the well-being of small-scale farmers in Nicaragua, the results reveals that Fair Trade organic production raises farmer income when low intensity organic farming is an alternative to low-intensity conventional farming. With higher intensities of management, the economic advantages of Fair Trade organic production largely depend on prices in the mainstream market. (Valkila Joni, 2009)

Fair-trade offers a means of strengthening the livelihood system of many small producers in the northern regions of Nicaragua by generating a new source of income and employment. Producers' general understanding of fair-trade is that a better price can be obtained for higher quality coffee. Producers were eager to learn new production methods to improve quality even though this initial transition could result in significantly lower coffee yields and increase the time spent on farming activities (Bacon, 2002a). Evidence of the impacts of coffee certification around the world is mixed but generally positive in terms of producer benefits for Fair trade (although for relatively small numbers of producers as supply exceeds demand) and more mixed for other certifications depending on the location and the practices of growers before certification. Some growers, eg in Salvador, have been disappointed by low sales and low premiums. The

evidence from the Brazil survey is broadly consistent with this picture worldwide. Revenues for fair-trade coffee growers have generally increased as a result of fair-trade certification and access to export markets has been facilitated. This is particularly striking for the Fair trade certified growers. (Pagiola S., and Ruthenberg, M, 2002).

In many cases, the principal advantage of fair trade to small-scale producers is its access to the world market and its niche markets (organic, gourmet, high quality). But fair trade is not confined to economic impacts. Over and above higher income, those involved in it believe that fair trade makes an important contribution to development. This comes in many forms, which include the creation and maintenance of a sometimes complex system of co-operatives; the training of small-scale producers and the development of their entrepreneurial spirit; and, probably most important, the sense of solidarity generated within the producer groups. Although most studies focus on the economic impact of fair trade, its greatest advantages may well be far broader. Previously marginalized and isolated, driven to take risks as a result of their dependence, fair trade has given small-scale producers the economic security to enable them to develop and take charge of their own lives within the co-operative network (Pirrotte Gautier, et.al.2006)

Governments, donors and NGOs have promoted environmental and social certification schemes for coffee producers as certified market channels are assumed to offer higher prices and better incomes. Additionally, it is presumed that these certifications contribute to poverty reduction of smallholders. The results of the study conducted in Nicaragua show that although farm-gate prices of certified coffees are higher than of conventional coffees, the profitability of certified coffee production and its subsequent effect on poverty levels is not clear-cut. Per capita net coffee incomes are insufficient to cover basic needs of all coffee producing households. Certified producers are more often found below the absolute poverty line than conventional producers. Over a period of ten years, the analysis shows that organic and organic-fair trade farmers have become poorer relative to conventional producers. The authors conclude that coffee yield levels, profitability and efficiency need to be increased, because prices for certified coffee cannot compensate for low productivity, land or labor constraints (Tina D. Beuchelt, Manfred Zeller, 2011).

The Fair trade guaranteed minimum price is of particular value when market prices fall below production costs – reducing the need to migrate or to mine assets during such periods of hardship. According to Imhoff and Lee (2007), the guaranteed floor price paid to producers through Fair trade results in more stable incomes and is consequently one of the most important direct benefits that accrue to coffee producers

(Hopkins, 2000; Raynolds, 2002; Murray et al, 2003; Pérezgrovas & Cervantes, 2002; Milford, 2004; Imhoff and Lee, 2007). Their own study in Bolivia shows that Fair trade also gave higher returns to producers than other organizational arrangements available to producers in their study area in Bolivia. Arnould et al. (2006), in their study reveals that “participation in Fair trade is like a life jacket, a shock absorber, or a buffer against the effects of the volatility global market capitalism visits on the poor in developing countries. It is a safety net, but given current pricing levels, production regimes, and farm sizes, Fair trade coffee alone is not the solution to the problems of the rural poor”.

Utting-Chamorro (2005) maintains that Fair trade played an important role in providing small coffee farmers in Nicaragua with an alternative economic approach. Even though producers received only between 1/3 and 2/3 of the Fair trade price due to deductions for community fund, export costs, processing costs, capitalization fund and debt repayments (deductions which may benefit producers in the long-term), this was still sufficient for them to remain secure when others were losing their land. Cooperative in Bolivia showed that, through Fair trade, it has become the main motor for economic development in the Yungas Mountains. Income from Fair trade has provided economic stability for the organization and its members, enabling it to build up its working capital such that it now no longer needs external credit or pre-financing. The cooperative has a good internal financial management system and external auditing, resulting in transparent resource mobilization. This stable financial situation has translated into benefits for members, such as increased ability to keep children in school and send them for further education.

A comparative study of impact of Fair trade on coffee and banana producers in Peru, Costa Rica and Ghana was made by Ruben, Fort and Zuniga (2008). In most cases, involvement in Fair trade increased output and/or yield of their key crops. They also found that positive average net household income effects were registered for most Fair trade situations. In most of their case studies, revenues derived from Fair trade activities represent by far the major income component, with an average income share of between 70 to 90 percent. They also found that, in general, those involved with Fair trade devoted relatively more of their expenditure on long-term investments in household durables, house improvements and particularly education.

Fair trade cannot remove all market risks for small producers. Jaffee, (2007), while noting that Fair trade farmers are still affected by market fluctuations, also finds positive economic benefits accruing to participants from the guarantee that a fair price is available to them, enabling them to make longer-term

investment decisions. A number of authors provide evidence that Fair trade producers enjoy greater access to credit than their non-Fair trade counterparts to cover harvest expenses & other costs. Such credit arises from pre-financing by the buyer, credit schemes run by the producer organisation (at advantageous interest rates), or from traditional credit sources, who view the Fair trade farmers as having a better credit rating than others due to their better incomes and long-term contracts. In Ghana, access to credit permitted farmers to engage in alternative livelihood activities (Ronchi, 2002b) while the case studies on banana and coffee in Peru, Costa Rica and Ghana reviewed by Ruben et al (2008) reveal substantial and significant positive effects for Fair trade households with respect to credit access and asset value

IV. SOCIAL AND EMPOWERMENT IMPACTS

The study analyzes the possibilities and challenges involved in the Fair Trade certification as a movement that seeks to improve the living conditions of small-scale coffee growers and coffee laborers in the global South. Six months of fieldwork was conducted in 2005–2006 to study a wide range of farmers, laborers, cooperative administrators, and export companies involved in Fair Trade coffee production and trade in Nicaragua. The study conducted by Valkila Joni et al, (2008) in Fair Trade coffee production and trade in Nicaragua indicate that the Fair Trade's opportunities to provide a significant price premium for participating farmers largely depend on the world coffee prices in the mainstream markets. While Fair Trade has encouraged the social networks of participating farmers and strengthened the institutional capacities of the involved cooperatives, the ability of the Fair Trade to significantly enhance the working conditions of hired coffee laborers remain limited.

Fair Trade seeks to transform North/South relations by fostering ethical consumption, producer empowerment, and certified commodity sales. This initiative joins an array of labor and environmental standard and certification systems which are often conceptualized as "private regulations" since they depend on the voluntary participation of firms. The author argue that these new institutional arrangements are better understood as "social regulations" since they operate beyond the traditional bounds of private and public (corporate and state) domains and are animated by individual and collective actors. In the case of Fair Trade, the author illuminate how relational and civic values are embedded in economic practices and institutions and how new quality assessments are promoted as much by social movement groups and loosely aligned consumers and producers as they are by market forces. This initiative's recent commercial success has deepened price competition and buyer

control and eroded its traditional peasant base, yet it has simultaneously created new openings for progressive politics. The study reveals the complex and contested nature of social regulation in the global food market as movement efforts move beyond critique to institution building (Laura T. Reynolds, 2012).

Fair Trade certification may have important social effects on small-scale producers but empirical evidence is limited. The study conducted in Rwandan coffee farmers show a negative association between Fair Trade and farmer trust in cooperative leadership and a positive association with a perceived higher level of participation of women. Social capital is linked most significantly to farmers' interaction with their neighbors. (Sara D. et al., 2012).

Increased investments and integrated strategies will be needed to reduce threats to food security, livelihoods, and biodiversity associated with the rapid spread of coffee leaf rust and falling commodity prices (Christopher M., Bacon. et.al, 2014).

V. ENVIRONMENTAL IMPACTS

In recent years, shade coffee certification programs have attracted increasing attention from conservation and development organizations. Certification programs offer an opportunity to link environmental and economic goals by providing a premium price to producers and thereby contributing to forest conservation.

However, the significance of the conservation efforts of certification programs remains unclear because of a lack of empirical evidence. The study conducted on impact of a shade coffee certification program on forest conservation in the Belete-Gera Regional Forest Priority Area in Ethiopia, found that forests under the coffee certification program were less likely to be deforested than forests without forest coffee. By contrast, the difference in the degree of deforestation between forests with forest coffee but not under the certification program and forests with no forest coffee is statistically insignificant. These results suggest that the certification program has had a large effect on forest protection, decreasing the probability of deforestation by 1.7 percentage points (Ryo Takahashi, Yasuyuki Todo, 2013).

Good environmental practices were commonly found to be being practised according the majority of studies, although it is not possible to generalise across different commodities and situations without more systematic evidence. For instance, non-Fair trade farmers are almost twice as likely as Fair trade producers in Guatemala to use agrochemicals (Arnould et al 2006). Mexican Fair trade coffee production is now almost synonymous with organic production, leading to clear environmental benefits (Jaffee, 2007).

Given the benefits of shade-grown over sun-grown coffee, the authors feel that it is important that FLO weigh up the social, environmental and economic benefits and costs of including a requirement for shade (and, if possible, forest-mimicking multi-strata shade) production in Fair-trade coffee in order to ensure that positive environmental impacts are maximized. Murray et al (2003) report that the Majomut cooperative in Chiapas used part of its Premium to hire a community organic farming promoter, which has allowed farmers to convert their coffee and other crops to higher-income generating, diversified and more ecologically sound organic production.

VI. CONCLUSIONS

This extensive review of the literature finds strong evidence that Fair trade provides a favourable economic opportunity for smallholder farming families who are able to form producer organizations and provide products of the right specifications for the market. A high proportion of the studies reviewed found higher returns and more stable incomes as clear benefits enjoyed by Fair trade producers from sales to Fair trade markets compared to sale into conventional ones. Unfortunately, there is limited evidence of the impact on workers of participation in Fair trade, and more research is required to shed light on the changes occurring on plantations as a result of engagement with Fair trade.

Many of the studies emphasize the importance of basing assessments of Fair trade impact on more than income differentials. Consideration of a broad range of welfare/quality of life and empowerment indicators is required. A more thorny issue is the degree to which Fair trade alone can enable producers to escape poverty. Whilst a few of the studies mention dramatic improvements in livelihoods, most emphasize that producer families are still only surviving and covering basic needs. Those within the Fair trade movement would not claim that Fair trade can solve all the problems of rural development, and it is important not to expect too much of Fair trade. But in assessing impact it is important to consider the relative contribution that Fair trade can make to tackling poverty, the cost effectiveness of the approach compared to other kinds of intervention and what else needs to be done in a particular situation to tackle poverty.

Fair trade is seen as having a positive effect in enabling smallholder producer organizations convert to certified organic coffee production, bringing environmental benefits. There is strong evidence that in relation to access to credit Fair trade has performed well – a number of authors provide evidence that Fair trade provides greater access to credit than their non Fair trade counterparts. With regard to the Fair trade premium there is a dearth of information about the

impact of activities undertaken. The use of the premium varies. In some cases the premium has been valued more as a means of survival for economically vulnerable producers, rather than as a source of funding for social initiatives.

There is evidence that Fair trade is promoting good environmental practices in agricultural production, especially in coffee, although more evidence is needed before generalization across commodities is possible. There is strong evidence of positive empowerment impacts for individual producers and producer organizations flowing from Fair trade participation. A large number of studies found improvements in smallholder market knowledge and negotiating skills (an important strategic impact) with Fair trade support being of particular importance in contexts of marketing and trading reform.

A few of the studies focus on wider impacts and, a number of studies highlight demonstration effects. Organic production in coffee and vegetables has spread between farmers in one example and improved labour standards on a Fair trade banana plantations has encouraged other plantations in the region to make changes. A small number of studies suggest that there might be negative externalities, but no empirical evidence was found of this occurring in practice and in fact a higher number found positive influence on local market prices for non-Fair trade farmers.

Several studies note the critical role Fair trade has played not only in supporting individual producers in times of real hardship, but of enabling co-operatives to survive economic shocks and stresses – particularly the Fair trade coffee co-operatives during the coffee crisis. It is also necessary to assess how Fair trade can help farmers and workers and their organisations to cope in the face of sudden shocks as well as longer term trends and uncertainties such as climate change. There is strong evidence that Fair trade support leads to a strengthening of producer organizations, in terms of their internal democratic workings and participation, although there are still weaknesses to be addressed in some cases. Crucially, Fair trade impact assessment should be based on the views of participating farmers and workers (as well as other affected stakeholders). There is no easy solution, but furthering understanding of how Fair trade has an impact in different contexts based on the perspectives of farmers and workers is a critical first step along the way.

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