



# An Evaluation of Fairtrade Impact on Smallholders and Workers in the Banana Sector in Northern Colombia

Summary and Response from the Commissioning Agency Max Havelaar Foundation (the Netherlands) to an Independent Evaluation of Fairtrade Impacts in Certified Banana Cooperatives and Plantations

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## **Introduction**

Fairtrade certified bananas have been on the market for more than 15 years and are one of the most successful Fairtrade products in many markets. In Switzerland, sales of Fairtrade bananas now stand at more than half of the market for this popular fruit. Around one in four bananas sold in the UK is Fairtrade, and in the Netherlands it is roughly one in five. Fairtrade regularly assesses the impacts of Fairtrade on certified cooperatives and their smallholder members and the workers on Fairtrade certified banana plantations.

In 2010, an in-depth study on bananas was conducted by Sally Smith of the Institute of Development Studies in the UK covering Fairtrade partners in Ecuador, Windward Islands, Dominican Republic and Ghana. This study did not extend to producer organizations in Peru and Colombia due, at that time, to limited volumes of Fairtrade certified bananas sold from those countries and the security situation in Colombia, in particular.

Since 1960, farmers and workers in the banana farming regions of Colombia have suffered from the conflict between the army, leftist guerillas and rightwing paramilitaries. Many farmers abandoned their farms or could not reach them anymore, and relations on banana plantations were strained. Since 2010, the security situation has improved dramatically and



Colombia has become one of the main suppliers of Fairtrade bananas, especially in the UK and the Netherlands.

In 2013, Max Havelaar Netherlands commissioned new research in Colombia to supplement the original 2010 study. Research questions and indicators were formulated in cooperation with Fairtrade International and the Fairtrade Foundation in the UK. Additional support was provided by a public private partnership programme (PPP) established by the Dutch Embassy in Colombia. The Corporation for Rural Business Development (CODER) conducted the research.

The study assesses the impact of Fairtrade for banana farmers organized into small producer organizations, and for workers on plantations and estates. The study concludes that Fairtrade, along with the support of the PPP, and the introduction of labour unions have contributed to a revival of the banana sector on both small farms and plantations, and greater respect for human and labour rights. The study provides important insights for further improvement of the model for the banana sector, and for Fairtrade in general. This study included all Fairtrade banana cooperatives in the region of Magdalena – six in total with 70 percent of farmers interviewed – and three Fairtrade plantations and one control plantation in Urabá.

## **Main Results for Small Producer Organizations**

Overall, the study found that Fairtrade has had a positive impact on small producer organizations, their farmer members, and the neighbouring communities in the Magdalena region.

The Fairtrade Minimum Price has increased household income and income stability, while investments of the Fairtrade Premium have facilitated housing improvement (directly or indirectly), purchase of household assets, and better access to medicines and education. Of the smallholders participating in the study, all believe that Fairtrade can contribute to making family agriculture more attractive.

The research found that the Fairtrade Premium was especially influential in lowering production costs and increasing productivity; 35 per cent of the Fairtrade Premium income was spent on these kinds of improvements. For many farmers, lowering production costs is an essential component, as market prices currently only cover the basic costs of production. The researchers argue that this is primarily due to downward pressure on prices pushed to the beginning of the supply chain as supermarkets compete by using low-priced bananas to attract consumers.

The study found that Fairtrade contributed to strengthening farmers' organizations through access to attractive markets, where they managed to sell an average of 80 per cent of their



bananas on Fairtrade terms. This performance resulted in an increase in cooperative membership, improved services and a stronger business position, though the researchers also found evidence of weaknesses in the cooperative managements' value chain knowledge and communication with members.

### **Indicated Room for Improvement on Small Producer Organizations**

The findings of the study show the positive role Fairtrade can play in helping banana farmers and their organizations achieve a better position in the market and in their community. However, the study also found that prices paid for bananas remained at an unsustainable level.

The Fairtrade Minimum Price aims to cover sustainable costs of production to protect producers from sudden drops in the market; however it alone is insufficient as a solution to prolonged low market prices. Rampant consolidation in distribution channels and a sustained price war between retail outlets continue to put price pressure on banana producers who are operating on unsustainable margins.

The study found that cooperatives did not invest much of the Fairtrade Premium at community level, something the researchers deemed necessary for further community development and organizational strengthening. According to the study this is due to farmers choosing to offset production costs using Fairtrade Premium funds and many organizations also use the Fairtrade Premium money for administration costs and to maintain Fairtrade certification.

According to the research, many farmers lack adequate understanding of the Fairtrade system, how banana prices are determined, and how the costs are spread across the banana supply chain. The study determined that 15 percent of the farms surveyed are not economically viable and are too small to make a sufficient living from their banana crop. More than 20 percent of the smallholder households face food security constraints.

For Fairtrade, it is very important that farmers are aware of their own business situation. The researchers recommend that Fairtrade should provide farmers with more information on how Fairtrade works, prices in the marketplace, and help them calculate their own costs. A support programme aimed at doing this could be delivered via Fairtrade's producer services, or supported by a project like the PPP.

It was also found that farmers and their producer organizations often doubt whether the prices they received from buyers were calculated correctly. This may be influenced by their own lack of information related to production costs, as well as a lack of understanding about how the global banana trade works. This was one of the reasons that these producer groups banded together to found a new umbrella organization that could deal with exports as well,



so they could capture more of the market value. Creating an exporting organization requires strong understanding of trade practices and market demand. While the researchers respect the initiative of the cooperatives, Fairtrade recognises that this is a complex task and recommends that the cooperatives conduct additional analysis if it is to succeed.

The research also found that the cooperatives need to improve communications with their buyers, as well as further exchange within the cooperatives.

## **Main Results in Hired Labour Organizations**

The study found positive impacts for workers and communities on and near banana plantations in Urabá. This was primarily due to responsible investment of the Fairtrade Premium and the application of Fairtrade Standards on the plantations. Compliance directly changed workers' status, provided protection to the environment, and the development of additional infrastructure.

Workers on plantations encountered greater job stability as a result of Fairtrade requirements for legal contracts. This automatically resulted in many other benefits, which are linked to permanent contracts. All workers considered this an improvement with direct impacts on their quality of life. Application of the Fairtrade Standards also ensured an improved health situation, due to use of protective equipment, sanitary measures, the rational use of chemicals and more. It should be noted that these improvements were due to the work of both Fairtrade and the support of a strong labour union of which all workers are members.

The Fairtrade Premium Committees, formerly known as Joint Bodies, chose to use the Fairtrade Premium to provide loans to workers. These loans provided workers with better access to all kinds of services and better loan terms than they could access elsewhere. Workers considered home improvement and ownership very important. During last years, more than 60 percent of the Fairtrade Premium has been invested in housing. These and other investments raised local demand for services and goods, stimulating the local economy and generating further employment.

One notable initiative in Colombia is that Fairtrade Premium Committees on the different plantations exchange regularly with each other. They have co-created a foundation called FUNTRAJUSTO to execute large-scale community projects. Since the government presence is relatively weak in many of the communities, FUNTRAJUSTO has taken on a larger role as a service provider.

The research also found that as conditions for workers improved, so did worker motivation, participation, and commitment to the workplace. This led to a stronger relationship with the plantation management.



### **Indicated Room for Improvement on Hired Labour Organizations**

While plantation owners welcomed access to preferential Fairtrade markets, they noted that the Fairtrade Minimum Price was too low (similar to complaints cited by small producer organizations). This could explain, the study suggests, why social services that would ordinarily be provided to workers by the plantation are being funded with Fairtrade Premium funds. Fairtrade strongly believes that more analysis is needed to determine whether Premium funds are indeed being used in this way. This practice would weaken the impact of Fairtrade and, moreover, it is not allowed according to the Fairtrade Standards.

Workers on Fairtrade plantations cited higher salaries compared to the situation before being certified, but when researchers compared this with the control plantation, it was found that the salaries there had also increased. As a result, the study found that the impact of Fairtrade on salaries was less important than the impact of the formal contracts on Fairtrade plantations that have resulted in additional benefits, for example vacation and sick leave.

The study found that Fairtrade Premium Committees from the different plantations formed strategic alliances to fund community projects. However, it was found that in practice overall community investments of the Fairtrade Premium had been limited. Joining forces can strengthen the groups' ability to fund projects, cooperate with other agencies and attract additional funding for projects.

Fairtrade believes that a balanced investment of the Fairtrade Premium between the individual, organizational, and community levels would be ideal – but it is up to the workers to invest according to their priorities. The study recommends that Fairtrade Premium use should adopt a stronger focus on income diversification with a special focus on youth and women. Additional training on responsible use of the Fairtrade Premium funds could support a strategic approach to investment to cover these areas.

## **Conclusion**

According to the study, the performance and impact of Fairtrade in many of the communities of Urabá and Magdalena is undeniable. This is in part due to the relatively high percentage of bananas sold on Fairtrade terms. However both workers and smallholders stressed the need for a stronger demand for Fairtrade bananas since many of the benefits derive from greater sales on Fairtrade terms. While challenging, this need was clear and acknowledged by Fairtrade.

Cheap bananas are a staple product used by many retailers – often selling below cost – to attract consumers and compete in the marketplace. This can put increased pressure on suppliers to cut costs to unsustainable levels and these cuts are driven down to the producer



level. We call upon supermarkets and other commercial partners to recognize the need for sustainable production and fair pricing, allowing farmers to invest in their future.

In a banana price review implemented in January 2014, as part of our continuing review process, Fairtrade International implemented a substantial increase to the Fairtrade Minimum Price based on system wide research. It is hoped that this will give small producer organization and plantations a stronger position for negotiations. Fairtrade continues to monitor the impacts of the pricing change.

Beyond pricing issues, plantations and farmers have noted that yields are affected negatively by changing weather conditions. Fairtrade recognizes the effects of climate change and has started programmes to support producers as they adapt to the new reality.

We rely on all actors in the supply chain – farmers and plantations, importers and exporters, retailers and consumers – to create a sustainable banana sector. This will bring us closer to Fairtrade's vision of a world in which workers and small farmers can enjoy secure and sustainable livelihoods, fulfil their potential, and decide on their future.

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