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Effects of Fair Trade Certification on Social Capital: The Case of Rwandan Coffee Producers

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Summary. — Fair Trade certification may have important social effects on small-scale producers but empirical evidence is limited. We conducted logistic regressions using data from a 2009 survey of Rwandan coffee farmers to estimate the link between Fair Trade and social capital—measured as farmer trust and participation—while controlling for various other factors that could influence social capital, particularly membership in a cooperative organization. The results 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.

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Key words — Fair Trade, cooperatives, social capital, coffee, Africa, Rwanda

1. INTRODUCTION

Fair Trade certification is designed to ameliorate the social, as well as economic and environmental conditions of producers in the developing world through production and trade standards (Raynolds, Murray, & Heller, 2007). Certified Fair Trade products have moved from niche to mainstream market channels and are now sold by leading retailers like Wal-Mart, Costco, and McDonald's (Kolk, 2011; Raynolds, 2009). Certified Fair Trade retail sales total US\$ 4.8 billion globally (FLO, 2010), averaging an annual growth rate of 30% (Potts et al., 2010). Fair Trade International (FLO) certifies 20 different products, including bananas, tea, sugar, cocoa, honey, cotton, cut flowers, and coffee. There are approximately 1.2 million producers participating in over 800 Fair Trade certified producer organizations in Latin America, Africa, and Asia that sell certified products across North America and Europe (FLO, 2010). Given the rapid growth of Fair Trade certified products, it is important to examine Fair Trade's impact on these farmers and their families—an estimated five million people (FLO, 2010)—in order to understand the certification's effectiveness as a market-based tool for improving the well-being of populations.

Of the four main sustainable coffee standards (Fair Trade, Organic, Rainforest Alliance, and Utz Certified), FLO is the oldest, and supporting smallholders has been its starting point, while for Rainforest Alliance and Organic this has been environmental protection, and for Utz market-based mainstreaming of sustainability (Kolk, 2012). Fair Trade certification has the potential to increase farmer well-being not only through its economic standards, for which it is best known, but also through its social standards (Raynolds et al., 2007). Unlike other certification standards, Fair Trade standards require buyers to pay a guaranteed minimum price and a social premium to producers, and recommend that buyers provide pre-financing and long-term contracts. Fair Trade also includes specific environmental protection standards designed to ensure safe and sustainable agricultural and environmental practices and to protect and enhance biodiversity. Lesser known, however, is that in order for farmers to obtain Fair Trade certification they must also meet specific social standards of production. Fair Trade focuses on small coffee

producers who rely on family members for farm work and do not hire permanent workers. While other standards certify individual and groups of farmers as well as contract farmers, Fair Trade only certifies small coffee producers that belong to a cooperative producer organization, of which the majority of members must be small producers. The cooperative organization must be set up in a transparent way and not discriminate against any particular member or social group, such as women (FLO, 2011).

Research on the outcomes of Fair Trade certification for producers has focused on questions related to the economic impacts (see Bacon, 2005; Imhof & Lee, 2007; Levi & Linton, 2003; Lyon, 2007; Murray, Raynolds, & Taylor, 2003; Sick, 2008). There has been less in-depth attention to the social impacts of Fair Trade's cooperative and non-discrimination standards despite growing evidence that "social networks and the reciprocities that arise from them" (known as social capital) can improve a number of areas of human welfare (Schuller, Baron, & Field, 2000). Both theoretical arguments and empirical evidence have shown the positive effects of social capital in areas as diverse as health, markets, and government administration (Grootaert, Narayan, Jones, & Woolcock, 2004; Putnam, 2001; Woolcock, 1998).

This article focuses on Fair Trade's impact on social capital in order to broaden understanding of the certification's effectiveness at ameliorating the lives of small producers. We analyzed data from a 2009 survey of 175 Rwandan coffee farmers and informant interviews using logit regressions to estimate the link between Fair Trade certification and social capital—measured as farmer trust and participation—while controlling for various other factors that could have an influence on social capital, particularly membership in a cooperative organization. In the next section, we provide background on social

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capital and Fair Trade certification. Section 3 introduces the study setting and Section 4 explains the methods. Section 5 provides descriptive statistics from the survey and reports the results of the empirical analysis. Section 6 discusses the findings and reflects on general lessons from this case.

2. SOCIAL CAPITAL AND FAIR TRADE

Social capital can be defined as “social networks, the reciprocities that arise from them and the value of these for achieving mutual goals” (Baron, Field, & Schuller, 2000). It has both cognitive manifestations, such as trust in others and norms of reciprocity, and structural manifestations, such as participation in voluntary organizations (Grootaert & Bastelaer, 2002). Social capital can be bonding or bridging; bonding social capital refers to connections to people that share a similar social identity, while bridging social capital involves connections across explicit or institutionalized power gradients in society to people in influential positions (Szreter & Woolcock, 2004). Critics of the social capital concept point out that there is no consensus on whether it manifests at an individual or collective level (Portes, 2000), that it is easy to confuse the ability to secure resources through networks with the resources themselves, and that there is a tendency to understate the negative aspects of social capital (Mohan & Mohan, 2002; Portes & Landolt, 2000; Rubio, 1997). Despite its limitations as a construct, social capital has been linked to important social outcomes like decreased crime, child welfare, better health, more effective government administration, lower political corruption, reduced tax evasion, enhanced market performance, and improved educational achievement (Putnam, 2001; Sampson, Raudenbush, & Earls, 1997; Verba, Schlozman, & Brady, 1995; Woolcock, 2001). Social capital has also been linked to improved farm system performance and efficiency, and cooperation among farmers of different ethnicities in Sri Lanka (Uphoff & Wijayarathna, 2000).

There has been limited attention in the literature to the social impacts of Fair Trade, but there is some evidence that Fair Trade improves both cognitive and structural dimensions of social capital of producers. Pirotte, Pleyers, and Poncelet (2006) and Moberg (2005) report that certified producers develop social networks and a sense of community through shared work and regular meetings of their Fair Trade cooperative. Others remark that farmer commitment to Fair Trade standards generally can promote broad producer participation in their cooperative and their community (Raynolds, Murray, & Taylor, 2004). Taylor (2005) and Utting (2009) attribute

producer empowerment and consequent increases in civic participation to Fair Trade, and Bassett (2010), Utting (2009), and Lyon, Bezaury, and Mutersbaugh (2010) report that Fair Trade encourages women in particular to participate in producer cooperatives.

While descriptive studies of perceived impacts of Fair Trade are widely available, studies that provide a rigorous evaluation of Fair Trade certification are lacking. There are few studies that use extensive field data to compare Fair Trade certified producers with otherwise similar non-certified producers, correcting for differences in household characteristics (Ruben, 2008). Those few empirical studies focus on prices and productivity rather than social capital (see Becchetti & Costantino, 2008; Ruben, 2008).

No study to our knowledge compares Fair Trade certified farmers with otherwise similar non-certified cooperative farmers and non-cooperatively organized farmers in order to discern whether benefits to farmers result primarily from Fair Trade certification or cooperative organization. Most studies of Fair Trade implicitly assume certification is the cause of cooperative organization, but cooperatives can also exist in the absence of Fair Trade certification. These “non-certified” cooperatives can have social capital benefits for producers, for example by providing a platform for frequent interaction of members and a democratic structure for participation in economic activities (Majee & Hoyt, 2010). Several studies that address the social effects of Fair Trade compare Fair Trade cooperative farmers to non-cooperatively organized farmers (see Arnould, Plastina, & Ball, 2009; Jaffee, 2007), but we are aware of only one that compares members of Fair Trade certified cooperatives with members of non-certified cooperatives (see Parrish, Luzadis, & Bentley, 2005), and it did not distinguish the benefits of cooperative organization from the benefits of simply selling coffee. We hypothesize that cooperative organization is in fact responsible for many of the effects on social capital, and that increases in social capital will be seen in cooperatives regardless of whether or not the cooperative has Fair Trade certification. Table 1 summarizes current evidence and our hypotheses of the effects on producer social capital of Fair Trade certification and of non-certified cooperative organization, and compares this to a situation where producers sell to a private entrepreneur not a cooperative.

3. COFFEE PRODUCTION IN RWANDA

We focus on coffee as it was the first product to become Fair Trade certified (Raynolds, Murray, & Taylor, 2004) and

Table 1. *Effects on social capital of three types of coffee farmer organization*

Social capital indicator	Fair Trade certified cooperative	Non-certified cooperative	Private coffee washing station
Trust	Democratic producer organization standard facilitates building of social networks and trust in community and cooperative board members (Moberg, 2005; Pirotte et al., 2006; Utting, 2009)	Democratic producer organization facilitates building of social networks and trust in both community and cooperative board members (Milford, 2004; Majee & Hoyt, 2010)	Interaction between producers at a central processing location builds social networks; may improve trust among community members but not trust in private management (Boudreaux, 2010)
Participation	Producer organization facilitates farmer participation (Bacon, 2005; Moberg, 2005; Raynolds et al., 2004; Renard, 2005; Taylor, 2005; Utting, 2009) and non-discrimination standard improves participation of women (Bassett, 2010; Lyon et al., 2010; Ronchi, 2002; Utting, 2009; Utting-Chamorro, 2005)	Democratic producer organization facilitates farmer participation (Milford, 2004; Birchall, 2003; Birchall, 2004; Majee & Hoyt, 2010) including participation of women (author's hypothesis)	No change in male or female farmer participation because private management does not include mechanism for participation (authors' hypothesis)

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