

## An Appraisal of the Socio-economic Impacts and Challenges of Fair Trade among Emerging Farmers in the Eastern Cape, South Africa

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**ABSTRACT** This paper examines the socio-economic impacts of fair trade on black emerging citrus fruit farmers in the Eastern Cape province of South Africa. It also evaluates the impacts of fair trade's social dividend on public infrastructure investments in fair trade farming communities. The paper uses a qualitative approach. Data was collected using in-depth semi-structured interviews and focus group discussions. It finds that farmers benefit from transparency within the fair trade system thereby generating significant net profits that are channeled into on-farm investments and household livelihood activities. Fair trade communities have also benefited through public infrastructure investments which are funded by the fair trade social dividend. On the other hand, the study also identifies some limitations of the fair trade system. For example; farmers incur high costs to become fair trade accredited which is a huge financial expenditure for an emerging farmer attempting to build a profitable commercial farming enterprise.

### INTRODUCTION

The emergence of the fair trade movement can be traced back to the days when the Mennonite Central Committee began trading with poor communities in the South around the 1940s (International Federation for Alternative Trade 2003). Since then, the fair trade movement has expanded its global appeal, reach and market share. Fair trade as we know it today is "a trading partnership based on dialogue, transparency and respect, which seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South" (European Fair Trade Association 2001). This alternative trading system challenges orthodoxy in the international trading regime. It is also "a powerful critique of conventional global inequalities and a promising approach to alleviating poverty and bolstering environmental sustainability in the global South through a strategy of "trade not aid" (Raynolds and Ngcwangu 2010). Its producer-focused trading system seeks equity for global South producers through prioritising their socio-economic and environmental

interests in international trade. As Redfern and Snedker (2002) explain:

*fair trade seeks to (a) improve the livelihoods and well-being of producers by improving market access, strengthening producer organizations, paying a better price and providing continuity in the trading relationship; (b) to promote development opportunities for disadvantaged producers, especially women and indigenous people, and to protect children from exploitation in the production process (c) to raise awareness among consumers of the negative effects on producers of international trade so that they exercise their purchasing power positively (d) to set an example of partnership in trade through dialogue, transparency and respect (e) to campaign for changes in the rules and practice of conventional international trade (f) to protect human rights by promoting social justice, sound environmental practices and economic security (Redfern and Snedker 2002:11 cited in Moore 2004: 74).*

There has been growing interest in fair trade among African farmers in recent years. Countries such as Kenya, Tanzania, Malawi and Uganda etc have witnessed an upsurge in fair trade farmers with perceived benefits of the system

being the prime pull factor. For example, Kenya now has the highest number of fair trade tea enterprises in Africa followed by Tanzania (Raynolds and Ngcwangu 2010). This “predominance of Kenyan producers in certified networks reflects this country’s major role in the global tea trade and the historical importance of small-scale producers in this sector” (Dolan 2007 cited in Raynolds and Ngcwangu 2010). A significant number of South Africa farmers – who are financially and technically supported by the government – have in the last decade become part of the fair trade network. For example, in December 2003 the Western Cape Department of Agriculture and the South African Agri Academy (SAAA) entered into an agreement with Fair Trade Assistance of the Netherlands to facilitate and secure European Union (EU) market access for emerging black South African farmers (Western Cape Government 2004). A similar agreement was signed by the Eastern Cape and Northern Cape Departments of Agriculture with Fair Trade Assistance in 2004. These agreements provide for Fair Trade Assistance to collaborate with black resource poor farmers from these provinces to develop and improve the quality of their farm produce, assist them with on-farm and off-farm technical training as well as market (marketing) information. Through this partnership model, these three provinces now have direct access to EU markets for products such as pineapples, dried fruit, wine, vinegar, rooibos tea, honeybush tea, mustard and sauces (Bosman 2004; Western Cape Government 2004). These three provinces and their emerging farmers are thus now part of the chain of 80 suppliers, 25 countries, 2 500 products and 250 000 producers delivering to EU markets with the aid of Fair Trade Assistance (Western Cape Government 2004). Focusing on these emerging farmers, this article examines the socio-economic impact of fair trade on citrus fruit producers at Riverside Enterprise, Sundays River Farming Trust and Luthando Co-operative in the Eastern Cape province of South Africa. This socio-economic impact appraisal is done through an analysis of commodity value chains, farmers’ access to foreign markets and the levels of net profits derived. The article also examines the impact fair trade has on the social and economic development of the farmers’ communities and their surrounding public infrastructure environment.

### Objectives of the Study

The primary objectives of the study are to: (a) assess the socio-economic benefits emerging citrus fruit farmers derive from trading under the fair trade system, (b) to appraise the impact of social dividends investment in public infrastructure in fair trade farming communities and (c) to examine the challenges faced by emerging citrus fruit farmers within the fair trading system.

### Fair Trade in a Global Context: A Synopsis

Fair trade is an alternative approach to conventional trade and is based on a partnership between producers and consumers (Fair Trade Deutschland 2013). It is a market-based approach that views trading as a partnership and aims to sustainably develop marginalised and disadvantaged producers and their workers from the global South. It seeks to do this by providing better trading terms and conditions, payment of higher commodity prices to global South producers (Moore 2004) compared to what they would normally receive in orthodox commodity markets. Its unconventional market approach challenges some of the flawed mechanisms of the neo-liberal free-market system which does not provide a beneficial economic and trading environment for under-resourced global South producers and their workers. It challenges orthodoxy in business practice and does so not simply by campaigning but by being a tool for modifying the dominant neo-liberal economic model (Moore 2004). Its alternative model of international trade makes a difference to producers and consumers that engage in it and also exemplifies ethical trade principles and develops consumer consciousness (Moore 2004). While it does not completely divorce itself from the foundations of the free-market system in the commodity trading system, it cuts out a number of ‘middle-men’ and marketing charges in the commodity value chain. The ultimate aim is to ensure that cost-cutting in the value chain eventually benefits the global South producers and workers. How exactly is this cost cutting done for the benefit of producers and their workers?

This is achieved through two steps in the marketing value chain. Firstly, “the price of the good is paid upon at an agreed and guaranteed fair price, and secondly, the distribution channels involved in marketing the good is also re-

duced thus the producers get a larger share from the price of the good” (Munoz 2011b). The larger profit share means farmers and their workers have more disposable income for their livelihoods. This indicates that creation of more beneficial economic opportunities for global South producers and their workers facing economic disadvantage when in competition with transnational conglomerates (Munoz 2011b) is at the epicentre of fair trade’s philosophy.

Environmental friendly crop production practices are also central to fair trade principles and ethos. As Munoz (2011b) explains:

*The certification used to market fair trade products does not only show where the good comes from and who benefits from it, it also tells consumers how the good was made and manufactured. For agricultural goods for example, the use of some pesticides is not allowed and hence giving consumer greater satisfaction in knowing that the goods are safe.*

The quest and thirst for increased production and higher profits for global South producers and their workers should thus be achieved through agricultural production that is environmentally friendly and sustainable. This suggests that the fair trade system is an attempt to facilitate fair trading not just on good prices, but with due consideration of other ethical, social and environmental concerns in agricultural business operations.

There is emerging evidence that fair trade benefits global South producers and their workers. For example, Daniel Jaffee’s (2008) four year study of coffee producers in Oaxaca in Mexico revealed that while fair trade has higher production costs, the higher prices have enabled gross household income in the area to increase. Fair trade did not only reduce their debts but also enhanced their economic options. This enabled households to have a better chance of feeding their families and educating children. Because of the minimum price level set under fair trade standards, households were able to get some breathing room in cases when a commodity crisis was occurring (Munoz 2011a).

Another study by Becchetti and Costantino (2006) examined the impact of fair trade affiliation on monetary and non monetary measures of well-being on a sample of Kenyan farmers. They compared a control sample group of farmers to fair trade certified farmers. Their findings indicate that fair trade farmers were more successful in diversifying their production, obtained

higher prices for their crops, improved their monthly household food consumption and their living conditions, and they also experienced a significant drop in child mortality compared to the control group.

However, other studies indicate that while fair trade prices benefit farmers when world prices are low, when prices rise some farmers often want to sell in the open conventional market (Rice 2001). This is the case in Costa Rica where some farmers often sell their better quality beans outside fair trade cooperatives for higher prices, causing tension within cooperatives and with fair trade supporting organizations (Rice 2001). There is also emerging evidence that some fair trade commodities are glutting the fair trade market. For example, suppliers of fair trade coffee continue to exceed demand forcing fair trade cooperatives to sell a large portion of their coffee in the conventional market (Moberg 2005; Rice 2001).

Another more general limitation of fair trade products relates to limited and specialised points of retail. Most fair trade products continue to be sold in specialised points of sale with only a few available in mainstream distribution channels (Munoz 2011c). This limited availability of fair trade products in high street retailers and other mainstream stores has a knock-on effect on the amount of goods sold and by extension amount of profits for the producers and their workers.

Given the above limitations and benefits of fair trade in other global South countries, it is imperative to understand whether emerging fair trade farmers in South Africa are also benefiting (or facing challenges) like their counterparts elsewhere. In so doing, this paper uses the value chain approach as its heuristic theoretical tool. The value chain approach describes the full range of activities required to bring a product or service from its conception to its end use and beyond. This includes activities such as product design, production, marketing, distribution and support to the final consumer (Kaplinsky 2000; Global Value Chains Initiative 2006). Value chain activities can produce goods or services, and can be contained within a single geographical location or spread over wider areas (Global Value Chains Initiative 2006). Such a global value chain approach is ideal for this study since it explores whether citrus produced in South Africa and sold in global North countries contributes to socio-economic gains for producer farmers and their workers in the Eastern Cape.

## RESEARCH METHODOLOGY AND METHODS

A qualitative research methodology was used in this study. Within the qualitative framework, purposive sampling (see Babbie 2013) was used to identify and interview 30 emerging farmers. Fifteen of these farmers were fair trade certified while the remainder were not since

they formed the control group. The majority of the farmers in both cohorts were male with only four female respondents in the sample. There were 16 farmers in the 30-40 years age group, 11 in the 41-50 age group with the remainder aged between 51 and 60 years. In-depth semi-structured interviews and focus group discussions were the main data collection instruments. In-depth semi-structured interviewing was chosen because of its flexibility and the freedom it gives interviewees to express their opinions without being biased by the interviewer (see Babbie 2013). To further probe emerging themes in the study and deepen data quality, three focus group discussions (with five participants each) that included farmers and key informants were conducted.

## OBSERVATIONS AND DISCUSSION

### Socio-Economic Benefits for Fair Trade Farmers

The study finds that Eastern Cape fair trade farmers from Riverside Enterprise, Sundays River Farming Trust and Luthando co-operative specialise in the production of *satsuma* oranges, clementine, nova and *cara cara* for export. These citrus fruits are exported to European markets where they are sold at competitive prices within fair trade distribution and marketing channels. Income from these export sales is paid directly to farmers. These gross income returns for a farmer range from R100 000 each farming season to R3 000 000 as indicated in Table 1.

**Table 1: Fair trade farmers' gross seasonal income**

Gross seasonal income	Number of farmers
R100 000 – R300 000	9
R301 000 – R500 000	0
R501 000 – R700 000	2
R701 000 – R900 000	0
R901 000 – R1 100 000	1
R1 101 000 – R3 000 000	3

The above data indicates that the majority of farmers in the sample were in the R100 000 – R300 000 gross seasonal income bracket. This majority of farmers also held smaller farm hectares compared to those who received relatively higher gross seasonal income. There are therefore justifiable grounds to argue that in this particular cohort of fair trade farmers, there is a direct relationship between the size of farmland and gross seasonal income since those with higher income returns had larger farms.

Gross seasonal income differences also suggest that there are differences in net profits among farmers. Despite these variances in net profits, all farmers use it for on-farm investments and household livelihood activities. Profits are ploughed into basic household needs such as food, education, health, transport, clothing and leisurely activities. This direct benefit to farming households was emphasized by one of the key informants (a Director at Riverside Enterprise) who noted that “*fair trade is economically benefiting the farming communities as money goes back to the farming households through transparent channels with checks and balances to safeguard any misappropriation*”. This economic benefit for farmers, according to Smith (2014), occurs through fair trade’s ‘shaped advantage’ process within which “access to Northern markets is reconfigured to operate under preferable conditions for some producers, but is not necessarily universally expanded and improved”.

In an effort to make their farming operations sustainable, farmers are also using part of their net profit to purchase inputs such as seeds, fertilisers, pesticides etc for the next farming season. The purchase and repair of farm machinery is also partly financed by these profits. This investment of profits on-farm resonates with Williams’s (2013) argument that fair trade allows Southern producers to restructure their own production activities making it more sustainable and economically viable. This economic viability and sustainability also means these farmers do not entirely depend on external funding assistance – such as government or national/international development funders – for their continued operational existence and profitability.

In addition to the net profits used for subsistence at household level, farmers also receive a social dividend which comes as an extra premium for selling their citrus fruits under fair trade.

The value of the social dividend is determined by the amount of citrus fruits sold. The dividend is not for farmers' individual economic benefit. It is used to finance community development programmes and projects such as the Kuyakhanya Project initiated by Riverside Enterprise farmers. Through this project, the community has built a crèche with two fully furnished and equipped classrooms for children between the ages of 2½ years to 3 years. This provision of early childhood education in this farming community is not only essential for childhood development but is a critical foundation that prepares children for primary education and future higher levels of education. This investment in early childhood education is evidence of the value of fair trade not just in community development but human capital development for future broader national development as well.

The Kuyakhanya project has also invested social dividends in adult education, computer literacy and skills development. The Hillside Learning Centre which houses a computer room and sewing unit was built using social dividends. Adults from the farming community are taught basic computer skills at the computer centre while those with advanced information communication technology (ICT) knowledge are able to use the facility for online communication and other ICT based business operations. Also housed within Hillside Learning Centre, is the Riverside Training Centre. This centre is mainly used for farmers' meetings and training sessions. Just like the Riverside Enterprise farmers; Luthando farmers and Sundays River Farming Trust farmers have also invested their social dividends in adult education, skills development and computer literacy. They have built an Albeit Centre which is used for computer literacy classes and for teaching young and old people how to read and write. They have also managed to build a conference center on the same premises which is used for farmers' training, seminars and meetings. All this signifies noble investment of the social dividend for the benefit of farmers, workers and other residents in their farming community. It has to be noted that these community development projects would not have been possible had this social dividend been not available under fair trade.

It is however important not to romanticise the socio-economic benefits of fair trade in the Eastern Cape. There are many negatives associ-

ated with fair trade identified by this study which negatively impact farmer profits. For example, the process of fair trade accreditation costs these emerging farmers a lot of money. This accreditation is done by FLO-Cert through its

*fair trade certification system which monitors compliance with fair trade standards governing the production, buying and selling of a product to the point where it is consumer packaged and labeled.....Full compliance with applicable fair trade standards must be achieved before products can be sold with the fair trade Certification Mark (Flo-cert 2011).*

The cost of this annual certification is paid by emerging farmers in the Eastern Cape. Although the cost of certification varies from farmer to farmer depending on "the number of working days required to inspect the producer group or trader" (Fairtrade Label South Africa 2013), one key informant from Sundays River Farming Trust (herein respondent 2) pointed out that "*farmers can pay as much as R20 000 (twenty thousand South African rands) to be certified*". This means annual certification by Flo-cert is an expense that reduces farmers' net profits. Williams (2013) adds that this certification is also an excessively cumbersome process. This cumbersome expensive process can be seen as an affront to the founding ideal of fair trade which seeks to ensure that farmers and their workers receive and use highest possible net profits in their livelihood activities.

The Eastern Cape emerging fair trade farmers are also facing challenges when it comes to the packaging and grading of their fruit before dispatch to EU markets. All farmers in the study do not own grading and packaging sheds on their farms. They rely on renting sheds owned by nearby co-operatives which they are affiliated to. The cost of hiring these grading and packaging sheds eats into the net profits of the farmers thus reducing disposable income for use at household level and for investment in farming operations. There are also marketing challenges which have an effect on farmers' net profits. The farmers have very limited knowledge and marketing expertise. All knew little about their EU markets, the processes and expenses involved in accessing those markets. This ignorance weakens the position of farmers as they are not in a position to bargain for preferred better paying markets. Due to this ignorance, marketing of their

fruits is done by co-operatives which act as a marketing agency for a fee which reduces the farmers' net profits.

Another disadvantage emerging Eastern Cape fair trade farmers face is the inflexibility of the fair trade system. While they are guaranteed an EU market for their produce from season to season, it does not necessarily follow that the fair trade market and distribution channels offer farmers best value and higher returns for their produce all the time. Just like in any commodity market, citrus fruit prices fluctuate in response to demand, product quality and other 'invisible' influences of the free market. Consequently, if fair trade prices deflate while those on the open market increase, fair trade farmers receive low dividends as they cannot easily (and speedily) shift their produce for trade outside the fair trade system. This is in contrast to non-fair trade farmers who are flexible and at liberty to speedily seek the best price for their produce anytime, anywhere.

### CONCLUSION

There is evidence that while net profits derived from fair trade by Eastern Cape emerging farmers are not astronomical, they are however socio-economically benefiting fair trade producers, their workers and surrounding communities. Farmers are using their profits for financing basic household livelihood activities such as paying for food, education, health, transport and clothing. In the absence of significant state and donor support for their farming enterprises, farmers are investing part of their profits in farm implements, inputs and machinery. This can be seen as an effort by the farmers to be sustainable and economically empowered independent of external state or donor benevolence. In addition to the net profits invested in farming operations and for subsistence purposes at household level, farmers also receive a social dividend which they invest in community development projects and programmes. A fully furnished and equipped crèche has been built for the benefit of children in one farming community while in another the social dividend has been invested in a learning centre specializing in adult education, computer literacy, sewing and other skills development. This investment in community infrastructure and services is further evidence of

the socio-economic value of fair trade to the farmers, their workers and communities.

Even though fair trade farmers are realizing the above socio-economic benefits, their farming operations are conducted in a challenging business environment. For example, farmers have to pay huge sums of money (by their standards) for their annual fair trade accreditation. This accreditation fee is an expense that diminishes farmers' disposable income. They also incur huge expenses for hiring fruit packaging and grading sheds from neighbouring farmers. There are also marketing challenges which have an effect on farmers' net profits. The farmers have very limited knowledge and marketing expertise which consequently forces them to rely on marketing agencies (which charge a fee) to facilitate the delivery and distribution of their produce into the fair trade system. This confluence of factors has a negative impact on the amount of net profits that farmers and their workers ultimately receive for their individual and community development.

### RECOMMENDATIONS

Evidence from this research indicates that while emerging fair trade farmers in the Eastern Cape are socio-economically benefiting from their agricultural enterprises, there are a number of challenges that need to be addressed to optimize their productive capacity and benefits. Firstly, there is a need to cushion farmers against the exorbitant fair trade accreditation annual fees which are a huge drain on their net profits. One possible cushioning strategy can be individually championed by the South African government or in partnership with private national/international development agencies. The government and these private development agencies can (individually or jointly) provide farmer grants or avail accessible low interest loans for the payment of accreditation fees. Such an intervention will save emerging farmers money which can then be ploughed back into farming operations or channeled into subsistence purposes. Secondly, there is also need for the government to financially or materially assist the improvement of farm operations and the entire farming value chain in line with its national comprehensive rural development strategy. On-farm assistance can entail improving farmers' technical skills, farming best practice knowledge and the provision

of low-interest agri-finance to enable the purchase of more inputs, advanced farming machinery and other implements. Such agri-finance can also be used by the emerging farmers to construct fruit grading and packaging sheds which they presently hire from neighbouring farmers. Ownership of these sheds will save farmers money which can again be invested on-farm in an effort to ensure sustainability of production activities or be used to improve the socio-economic wellbeing of farmers, their workers and communities. Thirdly, emerging farmers in the Eastern Cape also need to be equipped with intricate knowledge of the global commodity trading regime, intricacies of the fair trade system and marketing skills so as to eliminate the 'middleman' marketing agencies which are currently charging them a fee to market their produce. This capacitation of farmers can entail experiential learning activities which will allow farmers to learn and practically experience negotiation of flexible contracts within the fair trade system, how to identify lucrative markets for their produce and market it at the best available price in commodity markets.

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