
Fair Trade, Producer Empowerment and Contract Production

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Abstract

In view of the upcoming review on Fairtrade Standards by Max Havelaar Switzerland, this paper aims to (1) conceptualize the notion of empowerment; (2) describe different Fairtrade models, analyse them using the outlined concept of empowerment, and compare the models with each other; and (3) propose solutions to the challenge of promoting Small Producer Organisations (SPO) in a Fairtrade (FT) Contract Production (CP) context. The analysis is based on in-depth literature research as well as three interviews with experts from Max Havelaar Switzerland, bioRe Foundation, and Fairtrade International.

The authors will argue in favour of a multifaceted assessment of empowerment, including economic and social aspects. The finding is made that SPOs represent, however with room for further improvement, a valuable way to foster producer empowerment. In this regard, the authors develop three solutions to enhance the promotion of SPOs in FT CP, improve producer empowerment and create a win-win situation between the producers and the buyer: (1) A third party is made responsible for the introduction of an SPO and the measures to be implemented, including productivity and efficiency enhancing strategies by means of a forum; (2) the transition to an SPO through trust building between the producers and the Promoting Body (PB); (3) expanding small farmer activities to sub-crops with the options of marketing carried out by the PB or the SPO itself.

Based on the findings, the authors elaborate a multidimensional model of transition, bringing together insights from the proposed approaches. It is argued that the introduction of an SPO should be included in the FT CP Standard as a core and thus mandatory criterion, compared to the current state as a developmental goal. In this respect, the authors further suggest, among others: to enshrine a positive and trustful relation between buyer and small producers as a major success factor; to include the notion of sustainable intensification, entailing productivity and efficiency enhancing strategies by establishing a forum; to integrate the expansion to sub-crops; to include dispute settlement mechanisms into the Fairtrade system to ensure binding rights and clear procedures.

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List of Abbreviations

BIO	Biological
CF	Contract Farming
CP	Contract Production
CSV	Creating Shared Value
FIBL	Research Institute of Organic Agriculture
FLO	Fairtrade Labelling Organization International
FT	Fairtrade
ICO	International Coffee Organisation
IFAD	International Fund for Agriculture Development
IP	Intellectual Property
Ltd.	Limited
MNE	Multinational Enterprise
NGO	Non-governmental Organisation
PB	Promotion Body
PE	Producer Empowerment
PEB	Producer Executive Body
SPO	Small Producer Organisation
SWOT	Strengths Weaknesses Opportunities Threats

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1 Introduction

When T.E. Shultz won the Nobel Prize in Economics in 1979, he stated in his speech: “Most of the world’s poor people earn their living from agriculture, so if we knew the economics of agriculture we would know much of the economics of being poor”. Indeed, the views about economics, development aid and trade models have changed considerably throughout the 20th and 21st century and are still changing.

Several studies have shown that smallholder producers receive a very small fraction of the retail value of a product. To a great extent, this has to do with the fact that “in recent decades the intangible value of products in developed country markets has overtaken the physical value as the main source of corporate income. In 1982, 62% of the market value of Standard & Poor’s 500 companies could be attributed to tangible assets and 38% to intangibles. By 1998, only 15% of their assets were tangible, while 85% were intangible. This shift in the value of assets reflects the ability of these intangible assets to generate income.” (Light Years IP, 2008, p. 4). Figure 1 illustrates this development with the example of a man’s tie. At the beginning of the 1980s, about half of a tie’s retail price represented its physical value – material and manufacturing – while the rest could be attributed to the costs of distribution. Today, however, the intangible value accounts for about half of the product price and includes the design, brand, and other intangible values. Together with distribution, this makes up for around 95% of the reward. This means that only as little as 5% of the price is being returned to the producers for the materials and manufacturing costs. (Light Years IP, 2008, p. 4–5)



Figure 1: Increase in intangible value. Source: Light Years IP, 2008, p. 5

Despite the growing interest in Fair Trade¹ products by consumers and various initiatives that include, among others, the involvement of farmers in the supply chain by holding shares in the company, this might not be suitable for the whole Fair Trade market but rather for smaller groups of producers. Fairtrade certification allows for Fair Trade products on a larger scale and is thus suitable to larger producer groups. Yet the system bears room for improvement. Analysing the distribution of benefits from Fair Trade between producing and consuming countries of coffee, Valkila, Haaparanta and Niemi (2010) conclude that consumers paid considerably more for certified coffee than for non-certified products, but even after the distribution of the premium and the minimum price to the producers, “the main share of the retail price remained in the consuming country” (p. 257).

Therefore, this paper takes as his focus the recent challenges in the Fair Trade market, including the topics of Fairtrade (FT), smallholder producers, farming, Contract Farming (CF), Small Producer Organisations (SPO), and empowerment. More precisely, Max Havelaar Switzerland gave the authors several questions to answer. In light of the upcoming reform of the Fairtrade Standards, particularly the Fairtrade Standard for Contract Production (CP), the questions focus around Fairtrade CF and ways to change this model so that (1) it increases producer empowerment, and (2) it resembles more and more

¹ In this paper, the authors will use the term “Fair Trade” when they refer to fair trade in general and “Fairtrade” when they refer to the labelling organisation Fairtrade International.

the SPO context where organisations of smallholder producers are certified as an SPO and market their produce collectively via the organisation. The paper is based on in-depth literature research about the relevant topics as well as practical information from three interviews with Manuela Stiffler from Max Havelaar Switzerland (personal communication, March 17, 2016), with Christa Suter, business manager of the bioRe Foundation (personal communication, May 4, 2016), and with Anup Singh, Global Product Manager for Cotton at Fairtrade International in India (personal communication, May 5, 2016).

The present paper is structured as follows. After a general introduction about the origins of Fair Trade and its respective movements, the concept of empowerment, more specifically, producer empowerment, is discussed. This is followed by a general discussion of the SPO model. The elaboration of positive and negative aspects of the SPOs is relevant for the further development of the paper because only if the positive aspects outperform and producer empowerment is enhanced in comparison with the Fairtrade CF model, it will make sense to move the Fairtrade CF model closer to the SPO context. Chapter 5 and 6 discuss the conventional as well as the Fairtrade CF model and evaluate them in terms of producer empowerment. Against the background of the analysis undertaken in chapters 2 to 6, the authors elaborate three solution proposals that aim at improving current deficits in the Fairtrade CF model, fostering producer empowerment, and creating a win-win relationship between the producers and the buyer. Finally, a synthesis of the three proposals with their implementation according to a 6-year timeline is presented in a multidimensional model of transition in chapter 7.5. While the solution proposals aim at improving the system as a whole, this chapter also includes some more detailed suggestions of new or amending articles that could be introduced in the current CP Standard.

2 The Fair Trade Movement

The Fair Trade movement started in the seventies and in the eighties with Third World Trade and Alternative Trade, respectively. These movements were politically oriented, criticising the neo-liberalism and large coffee roasting plants in the global North. The Fair Trade movement aimed at developing an alternative trade system next to the conventional free market. Fair trade, however, remained a niche market and with the breakdown of the Soviet Union, socialist thoughts of alternative economic systems largely lost their relevance. (Quaas, 2014, p. 351–353)

In addition, world coffee prices marked a low in the early nineties, as shown in the graph below². With it, the demand for fairly traded coffee increased substantially. In this context, a new perception of Fair Trade emerged, which saw the conventional free market as something given and irreducible, but tried to change it from inside rather than from outside, as in the decades before. In 1992, the international association Trans Fair introduced the first Fair Trade seals of quality. The huge media response resulted in high publicity of Fair Trade among the general public, among which many heard about Fair Trade for the first time. Since the new Fair Trade movement sought to provide help to poor farmers in third world countries, but did not explicitly point to certain economic structures in the global North as being responsible for the problems small farmers faced in the global South, Fair Trade became suitable to the masses and even to politicians. (Quaas, 2014, p. 350–353) The goal of Fairtrade certification is to “improve the living conditions of farmers and workers in developing countries” by guaranteeing a minimum price for the product, an additional Fairtrade premium, stability and access to credit, good working conditions, improved organisational structures, and environmental protection (Dragusanu, Giovannucci & Nunn, 2014, p. 219–221).

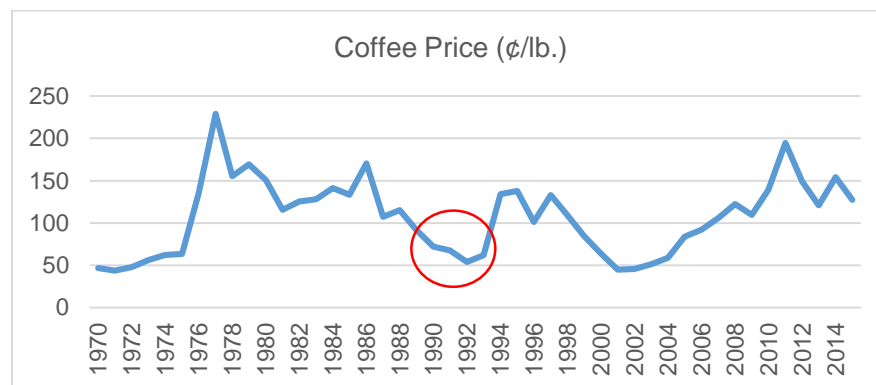


Figure 2: Coffee, ICO composite indicator price 1976 (¢/lb.). Source: UNCTADstat, 2016

In this context, Max Havelaar was founded as a Dutch organisation for Fairtrade seals of quality for coffee in 1988, but became later part of the international umbrella organisation Fairtrade International and expanded certification to other products. Sales of Fairtrade products increased rapidly after the introduction of the seal of quality, and more sales meant a higher survival support for poor farmers in the global South (Quaas, 2014, p. 356–358). Positive impacts were the increase of farmers’ income up to 30%, their improved self-confidence, and often, the premium was used for infrastructure projects, further trainings, as well as to increase production efficiency (Pfander, November 5, 2014).

This new orientation, however, had as a consequence that Fair Trade had to adapt itself more and more to the conditions of the conventional market, which also resulted in some controversies (Quaas, 2014, p. 358–359). Fair Trade can overcome the anonymity that globalisation brings, by inducing more consumer confidence through the seals of quality and the often used images of happy farmers in Third

² The graph shows the ICO composite indicator price. This is “a historical series which can be extended back to 1947, provides an overall benchmark [...], considered to be the best available measure of levels of green coffee transactions on a global basis” (http://www.ico.org/about_statistics.asp).

World countries. On the other hand, a strong orientation on the demand side risks that consumers buy Fair Trade products only because it makes them feel good, without actually helping the small farmers (Quaas, 2014, p. 378). Indeed, soon after the release of the Fairtrade seal of quality, Max Havelaar was criticised for underpinning wrong production structures by offering prices that are above the world price level. This would result in small farmers producing goods that would otherwise not be cost-covering for them (Pfander, 5 November 2014). The exclusive focus on “more fairness” thus bears the risk of reinforcing existing structures and the division between rich and poor because this message implies something unfair without clearly stating its objectives (Quaas, 2014, p. 383). In this context, it is of utmost importance to put an explicit focus on producer empowerment. Eventually, this also increases the credibility of Fairtrade.

The controversies about producer empowerment amounted to a dispute between Fairtrade International and Fair Trade USA, where they separated into two different organisations in 2011. Since the latter primarily focuses on growth in sales, which would lead to growth in impact, the organisation does not oppose cooperation with large entities, such as plantations. The former opposes this stance by stating that Fairtrade would end up in the control of big multinational corporations owning entire supply chains. (Modelo, 2014, p. 4–5)

Fairtrade International seeks to “confront the market system with a more human model” and “puts people before profits”. This is known as the outside the market perspective. In contrast, Fair Trade USA adopts an inside the market perspective, attending the priorities of consumers who have a desire for social justice. With this comes their aspiration to maximise Fair Trade sales. In this light, the outside perspective believes that “farmers know best what would enable them to make change in their communities” and thus closely works together with small producers in order to achieve a win-win relationship where producers and consumers gain (Modelo, 2014, p. 7–9).

3 Producer Empowerment

3.1 Definition of Empowerment and its Relevance

Empowerment is often used in the context of development. The topic came up in the 1980's, while the idea was already rooted in the 1960's and 1970's (Kieffer, 2013, p. 10). Page and Czuba (1997) found that the term was found across many disciplines but mostly a concrete definition of the concept was missing. They categorize empowerment as a process that challenges our assumptions about the way things are, such as those assumptions about power, helping, achieving, and succeeding. For this reason, different ideas of power should be presented in a first step.

3.1.1 Power

Page and Czuba (1997) see the idea of power as the core of the concept, which has to be approached first in order to provide a definition of empowerment. According to many authors, power has several meanings and is itself highly a disputed concept (Page and Czuba, 1997; Rowlands, 1997, p. 9). Kieffer (2013, p. 15) approaches power by starting from powerlessness, which is a construction of continuous interaction between the person and his/her environment and combining attitudes of self-blame, a feeling of alienation from resources for social influence, an experience of disenfranchisement and economic vulnerability.

Power can be viewed as unchangeable or something that exists in a relationship. While the former can be interpreted as a static limitation of empowerment, the latter implies power as a process and as a relationship that can change. In the literature, power has been interpreted either as zero-sum or shared. The first perspective means that, unless power is not given up by one part, it will remain in the hands of the powerful. In concrete, the more power a party has, the less the other has (Rowlands, 1997, p. 9–10). Boris (2006, p. 101) follows this approach in describing the large position of power of MNEs in the coffee sector, which act according to the logic of the market. Being capable to set the prices for coffee, they compete against cooperatives and the small enterprises that are responsible for the export. Boris describes the process, which take place in the internet platform where traders that are invited have access (p. 107–8). First, Nestlé communicates the amount that they need to proceed. In a next step, the traders can bid. Those who offer the cheapest prices are on the top of the list and the others have to decrease their price in order to accept the bid. The participants sometimes are asked to adjust their prices. At the end, the coffee has been bought for a cheaper price, which put pressure on the other actors of the supply chain (p. 108). Following Boris' observations means, unless we have changed the position of power of MNEs, the producers and small exporters will remain with little power.

The second perspective, that power can be shared, describes a more dynamic way including collaboration. As a result, gaining power strengthens the power of the others rather than diminishing it.

Static idea of power	Dynamic idea of power
Mostly Unchangeable	Exists in a relation → process of a changing relationship
Zero-sum-game: the more power a party has, the less the other has	Shared

Table 1: Static and dynamic ideas of power

In this paper, the authors assume that power can be shared. Therefore, empowerment depends on two things.

- First, the requirement that power can change to make empowerment possible.
- Secondly, the concept depends upon the idea that power can expand.

There are different forms of power (Rowlands, 1997, p. 13–14 & Carter, 2015):

The different forms of power	
Power over	The possibility to influence, coerce, and decide →Support to lead negotiations over a topic →Brings people who are outside the decision-making process into it →Often connected with the understanding of power as a zero-sum-game
Power to	Through which it is possible to organize and change existing hierarchies and change individual circumstances →Need of knowledge and skills to participate in decision-making and influence decisions →Process of awareness of own interests and how those relate to the interests of others
Power with	Collective action → Acting with others brings change → Process of awareness of own interests and how those relate to the interests of others
Power within	Comes from individual consciousness and confidence that are the basis of empowerment →Understanding of the dynamics of oppression and internalised oppression

Table 2: The different forms of power

3.1.2 Approaches to empowerment

Having considered power and some of its forms of appearance, empowerment should be approached in a next step. In the following, some interpretations of empowerment are given. They can be treated as having equal importance.

Approach 1

In contrast to various ideas about power, Rappaport (1984), for instance has noted that it is easy to define empowerment by its absence but difficult to define in action as it takes on different forms in different people and contexts. However, he defines empowerment as a process through which people are enabled to determine their lives. In addition, how empowerment is defined precisely depends according to Bailey (1992) on the specific context and the people involved.

Approach 2

After Page and Czuba (1997) "empowerment is a multi-dimensional social process that helps people gain control over their own lives. It is a process that fosters power (that is, the capacity to implement) in people, for use in their own lives, their communities, and in their society, by acting on issues that they define as important." According to Page and Czuba, multi-dimensionality covers a lot of dimensions and various levels (group, individual, community). It is a social process because empowerment occurs in relations to others. In the context of economic development, it is important to mention the challenge between "us" and "them". Often "we" want to tell "them" to change in order to achieve certain goals. These kinds of actions are not empowerment in the narrow sense. It should be rather focused on becoming partners. We can neither give power nor empower "them" but we can motivate "them" being involved in gaining control over their decisions and their lives. At the core of empowerment therefore rely the strengths of people, providing opportunities and resources for people to gain experiences and skills. This process is accompanied by mutual respect of the party involved. While the assumption of mutual respect, trust and equality in the majority of today's organizations is present, those values were not dominant in the past. For example, Fairtrade's understanding of cooperation and empowerment clearly arose out of Western theoretical (economic) development. During the 1950's and 1960's, the Theory of Modernization according to Rostow was dominant. According to this linear-step theory, the internal factors of a country caused low stages of development (Holenstein, 2010, p. 63). A country had to reach certain steps, for example implement factors for economic growth, in order to become a "developed" country (Graber, 2006, p. 39-40). The categorization into „developed“ and

„underdeveloped“ countries as well as the initial aid through financial support was at the end of the 1960’s intensively criticized by the representatives of the Dependence Theory (Holenstein, 2010, p. 61-2). Particularly, Prebisch showed that “underdevelopment“ was caused by external factors such as colonialism. The precondition therefore is a relation of dependence between at least two economies (Tumiri, 1988, p. 23). The Prebisch-Singer thesis stated that the terms of trade of the exporting countries that are rich in resources were worse off due to the high competition in certain exporting sectors. As a consequence, the sales of the exports diminished and lead to a higher dependence (Holenstein, 2010, p. 62). Also Pearson (1969) stated in its report that changes only could happen when the long-term position of the poorer countries would change.

Approach 3

In the last years, Fairtrade International (2015) has developed a Theory of Change for Fairtrade. According to this theory, a change in certain issue topics should occur. By means of monitoring and evaluation it is examined if a change had occurred. In addition, the underlying assumptions of the Fairtrade approach are tested (Fairtrade International, 2015, p. 4). Fairtrade International (2015, p. 6) reports that trade does often not deliver small-scale producers and workers in poor countries sustainably. It is Fairtrade’s (2015, p. 6) vision to secure sustainable livelihood to these stakeholders. In addition, they should fulfil their potential and decide on their future. To ensure this vision, long-term goals have been identified, amongst them to empower small producers and workers. On the basis of the following definition the term empowerment indicates a process (of empowering groups or individuals) and an outcome (a person or group is empowered) (Alsop & Heinsohn, 2005, p. 5).

Fairtrade understands empowerment in the same way as the World Bank (2002, p. 11) does: “[...] the expansion of assets and capabilities of people to participate in, negotiate with, influence, control and hold accountable the institutions that affect their lives.”. On the one hand, assets are defined as capital, which enables people to withstand shocks and expand their horizon of choices (Max Havelaar, 2015, p. 4). Under this category land, livestock and housing are ranged. On the other hand, capabilities are defined as inherent in people and enable them to use their assets in different ways to increase wellbeing (Max Havelaar, 2015, p. 4). Capabilities can be divided into the following categories and sub-categories:

- Human: good health, education, production, other life-enhancing skills
- Social: social belongings, relations of trust, a sense of identity, values that give meaning to life, capacity to organize and values that give meaning to life
- Political: access information, form associations, capacity to represent oneself or others, participate in the political life of a community or country

Fairtrade’s goal (Max Havelaar, 2015, p. 2) is to support empowerment among producers and workers by „helping them build independent, democratic organizations, improve their negotiating position with buyers and employers, achieve economic stability, make joint investments and increase their collective influence.“ Finally, empowerment policies support independent organizations of small producers and workers to develop and implement their strategies for sustainable development based on their own aspirations and priorities (Fairtrade International, 2015, p. 9).

Summary of the different approaches to empowerment	
Approach 1 (Rappaport & Bailey)	<ul style="list-style-type: none"> • Definition by absence of empowerment • Process to determine one’s own life • Depends on the specific context and the people involved
Approach 2 (Page and Czuba)	<ul style="list-style-type: none"> • Multi-dimensional social process • Helps people gain control over their own lives • Change happens when long-term position changes
Approach 3 (Fairtrade and	<ul style="list-style-type: none"> • Fulfil the potential and decide on the future • Empowerment = process and outcome

World Bank)	<ul style="list-style-type: none"> • Assets and capabilities • Actions: participate in, negotiate with, influence, control and hold accountable
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Table 3: Summary of the different approaches to empowerment

3.2 Different Types of Empowerment

After having mentioned various ideas of empowerment and whilst acknowledging the limitations of some approaches, the successive sub-chapters try to elaborate criteria in the context of producers in order to measure empowerment. In this paper, the focus lies primarily on market empowerment. A more complex and realistic proposal for how to measure empowerment is provided in the Annex.

First of all, an overview over different types of empowerment is given. In general, a distinction between individual and collective empowerment is made. Individual empowerment is a condition for collective empowerment. Therefore, the absence of individual empowerment leads to an absence in collective empowerment. This relation and interrelation is demonstrated in the figure below. The relational element reflects on the one hand that power can be shared and on the other hand, the ability to negotiate and influence the nature of a relationships and decisions made within the relation (Rowlands, 1997, p. 15). As producers are individuals who can act collectively, the two categorizations “individual and collective” are related to the concept of producer empowerment depending on whether they act individually or collectively. Relational power can also be connected to producer empowerment, but includes a third party in addition to the producers. In the context of the present paper, this third party would be the contractor in the conventional Contract Farming (CF) model and the Promoting Body (PB) in the Fairtrade CF model.

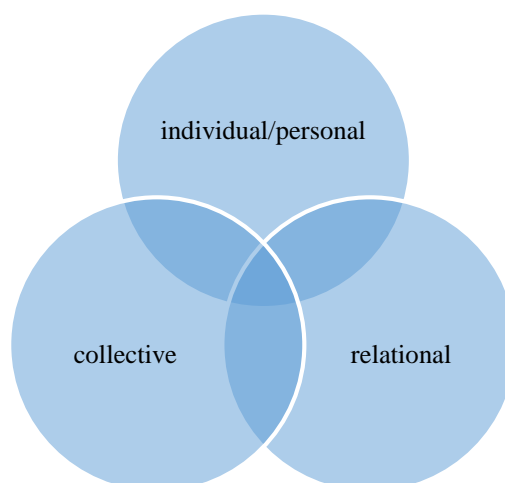


Figure 3: Types of empowerment. Source: Rowlands, 1997, p. 14-15

Individual empowerment

Individual empowerment consists of many aspects and refers to the individual’s ability to make decisions and have control over his or her personal life (Max Havelaar, 2015, p. 6). To gain control, a sense of self and individual confidence as well as undoing the effects of internalised oppression has to be developed (Rowlands, 1997, p. 15).

A development can be seen when the following capabilities are pursued:

- self-determination,
- self-sufficiency,
- and decision-making abilities.

By self-sufficiency is often meant that people need to gain some kind of independence for example by means of financial aspects. Normally, education is a necessary fundamental basis for reaching self-sufficiency (Wilhite, 2016). Kieffer (2013, p. 18) found that only tangible and direct threats to individual

or familial self-interest provoked an empowering response, while the daily experience with exploitation did not provoke any reaction.

Collective empowerment

There exists a reciprocal relationship between individual and collective empowerment. The latter is defined as the process of enabling groups of people/communities to increase control over their lives. A development of collective empowerment takes place when people join together to overcome obstacles, achieve an impact that each could not have done alone, and attain social change, which can be enabled or constrained by existing power structures (Rowlands, 1997, p. 15). The capacity to organize and mobilize collectively to solve problems is critical to overcome marginalization in society and reduce poverty (Max Havelaar, 2015, p. 7). Especially, in some countries of Latin America the organisation of cooperatives are common. In other regions, the formation of organising collectively is strictly refused due to bad experiences in their past. As a result, the acceptance of this form of organisation depends on the historic context, which should be considered in advance in an analysis.

To summarize, collective empowerment consists not only in an involvement, participation or engagement of groups of people/communities but implies also ownership and action that explicitly aims at social and political change (Max Havelaar, 2015, p. 7). The effect is higher when they organize from bottom-up instead from top-down. In order that the initiative comes from the individuals itself, it is necessary that the benefits in joining are demonstrated so that they see what joining a group means for them. This element can be supported through training.

Relational empowerment

The relational component shows up when an individual or a collective entity interacts with others. The authors follow the assumption that power can be shared and therefore the relational element is of importance. It reflects that empowerment does not take place in a isolate manner but always with someone's else involvement.

Producer empowerment

One key principle of the Fairtrade approach is “a focus on empowerment of small producers and workers, particularly through supporting them to organize and network at local, national and global levels and to gain greater collective influence and power within the supply chains they are part of (Fairtrade International, 2015, p. 10). In this way, empowerment means also gaining independence from predominant structures. Having discussed the different types of empowerment – individual, collective, and relational – the authors believe that producer empowerment can be seen as an “overarching concept” which can include all of the three types of empowerment, depending on the constellation of the producers and the eventual buyer in the different Fairtrade models, as will be shown in chapters 4, 5, and 6).

In general, PE is structured into four main pillars (Max Havelaar, 2015, p. 8):

- *Knowledge of the supply chain*
- *Ability to negotiate terms*
- *Control over their product*
- *Equal voice in the system*

The first pillar consists of (at least) a basic knowledge of their market, relationship with the main players in the supply chain and how the end product is marketed. Therefore, physical traceability of the raw materials and coordination of the supply chain actors is important. The second pillar starts from the producers' position within the chain as well as their market power, knowledge and access to market information that should allow producer to influence and negotiation the price and terms of trade. The third pillar means that producers should influence how their product is marketed along the chain in order to achieve some control over their intangible value of their product. The aim of the fourth pillar is to put the producers in an active role of equal partners so that they can influence trading policies. The

preconditions for this goal are a sustained and systemic finance through their network (premia) as well as a reviewing standard where they can participate in. In a way, already the existence of a contract reflects empowerment as the producers have the guarantee that their products will be bought. Therefore, the principles of Fairtrade, minimum price and premia, are mechanism to empower the producers.

3.3 Supporting and limiting factors of producer empowerment

Having mentioned the different forms of empowerment, the supporting and limiting factors of PE are elaborated. In general, empowerment can be supported by various factors among others education, access to information and democratic structures. The factors are embedded in social, political and economic structures (Max Havelaar, 2015, p. 5).

Sambrani & Ellman (2009, p. 52) assume that economic empowerment leads to social empowerment. Therefore, economic empowerment should be first enabled in order to gain control over the smallest step of value addition or the supply chain. The process of economic empowerment will be followed by social empowerment. Acting as a formal organisation, a better group identity is developed and a better access to developmental assistance is offered by various organisations including government agencies. Finally, young persons attending schools or women being trained enable to develop social empowerment (Sambrani & Ellman, 2009, p. 53).

First, a limitation of empowerment is caused by the absence of the elaborated factors that support the PE. They build the internal factors that limit the empowerment process. Second, as a result of the assumption made by Sambrani and Ellman empowerment is limited when economic empowerment does not precede social empowerment. Thus, when an economic element is missing, reaching an improvement in the social part is less probable. In addition, there are many external influencing factors that limit producers, as they cannot be steered directly. Boris (2006, p. 80–1) illustrates an external factor with an example: Once, consumer countries feared a sudden frost and that the amount of crop would not be high. Therefore, the export amount would be lower than expected. Hence, the world market price was thought to explode. To anticipate such a development, higher export quotas were set. Instead, the sudden frost did not happen but the market then manifested an over-supply. Third, Sambrani and Ellmann (2009, p. 59) found a limited choice of action even though the farmers earned better prices. One reason for the limitation was the fact that only one buyer was available to sell their products. Therefore, the action to engage independently in bargaining was restricted. In addition, they observed that in corporate cultures benevolence and paternalism went together. Hence, the senior management thought they knew what was best for the PEB and did not think of the fact that people who are concerned by decision could also be involved in the decision-making process. The spread patron-client relationship is not favourable for empowerment. As a consequence, the PB can also take many advantages out of the constellation (Sambrani & Ellmann, 2009, p. 60). A change in the management of the PB can lead to higher participation of the producer but at the end the choice of action would also be limited.

According to Boris (2006), buyers try to offer each single farmer a low price, an action which is taken to misuse the relatively bad organisation between the farmers. Boris (2006, p. 103) observed that short-sighted perspective of the farmers. In his study, the buyers went to singular members of the cooperative and offered a higher price than the cooperative. This example shows that the singular farmer did not value the benefits of the cooperative including the technical assistance, but decided to take the amount offered.

In the following, the supporting and limiting factors of producer empowerment are illustrated.

Producer empowerment	
Supporting Factors	Limiting Factors
<ol style="list-style-type: none"> 1. Education, access to information, democratic structures, training, capacity-building support (Singh, personal communication, May 5, 2016) 2. Basic needs (sufficient land, capital to invest into the land, sufficient resources to harvest the produce, access to markets or buyers) have to be fulfilled (Singh, personal communication, May 5, 2016) 3. Clear strategy of the producers from the beginning (Sambrani & Ellman, 2009, p. 86): <ul style="list-style-type: none"> • Establishment of democratic elections and management processes for representing farmers' interests • Adoption of an organisational development plan (capacity building programmes and a realistic time frame to SPO certification) 4. Relationship with the buyer: building of a good and long-term relationship: ideally to create a win-win situation (Singh, personal communication, May 5, 2016) 5. Gain control over smallest step (economic empowerment): <ul style="list-style-type: none"> • Better price discovery (an access to internet; mobile phones; knowledge of the whole supply chain) • Realising that a group acting together has a better chance of entering an organised market on equitable terms; • Ability to negotiate collectively better prices and other terms and conditions of the market • Money supply: possibility to be paid immediately after harvest (Sambrani & Ellmann, 2009, p. 48) and general financial independency (Singh, personal communication, May 5, 2016) • Risk alleviation (group insurance at relatively low premia for storage and transport. All of these result in reduced transaction costs) 	<ol style="list-style-type: none"> 1. Internal factors <ul style="list-style-type: none"> • No strategy that has been elaborated • No gain over the first smallest steps • The benefits of a Standard or certification are not understood (Sambrani & Ellmann, 2009, p. 71) • There was often observed a (potential) conflict of interest between the PB and the PEB (Sambrani & Ellman, 2009, p. 61). Especially, it seems not in the interest of the PB that farmers can organize themselves and could work against the building or development of such organisations. • Low willingness to challenge the buyer on prices (Sambrani & Ellmann, 2009, p. 71) • Limited choice of action due to the existence of one potential buyer, restricted bargaining and corporate culture • Farmer's short-sight perspective (Boris, 2006, p. 103) 2. External factors: <ul style="list-style-type: none"> • Basic needs are not fulfilled (Singh, personal communication, May 5, 2016) • The market limits producers in certain aspects including a possible oversupply, inflation, higher fertilizer prices or stronger currencies • Difficult to achieve the requirements and a long-term relationship, when the buyers keep on changing (Singh, personal communication, May 5, 2016) • Vulnerability in a certain market is a consequence of a number of diverse factors as for example government policies, weather concerns, and geographic tensions.

<p>6. After that the producers have gained control over the first steps of the supply chain, they realise some additional income and can use the infrastructure (storage) as collective entity (Sambrani & Ellman, 2009, p. 52–3). Thus, awareness of the importance of the collective entity is raised and the combination of small or micro-scale production with processing of a larger scale.</p> <p>7. When the farmers can negotiate collectively, they may have a bigger room to negotiate (Suter, personal communication, May 4, 2016).</p> <p>8. Formal organizations with group identity and access to developmental assistance → training and education → Social empowerment</p> <p>9. In the context of Max Havelaar, the farmers need an understanding of the requirements of a Standard in order to fulfil them independently (Singh, personal communication, May 5, 2016)</p>	
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Table 4: Supporting and limiting factors of producer empowerment

Summary

Having discussed some approaches to power and empowerment, different types of empowerment as well as the limitation and supporting factors, it can be summed up that empowerment is understood as a process and that power can be shared. Empowerment is a complex and interrelated subject. The relational aspect has to be taken into account and ideally, there should be a balance between dependence and independence. In addition, it depends heavily on the context of each region. A relevant question is to ask through which organisation form the empowerment is the biggest. (Suter, personal communication, May 4, 2016). Sometimes individual empowerment already achieves bigger effects (receiving a minimum price and a premia) in being empowered comparing to the collective empowerment.

Nonetheless, considering various factors about empowerment in general and producer empowerment in specific, an idea how producer empowerment can be measured is shown in the table below. In fact, there are many possibilities to range empowerment. Above, the distinction between individual and collective empowerment was made. In the following, the criteria are grouped into economic and social empowerment. The criteria in the table will be used for the analysis of the SPO, conventional CF and Fairtrade CF. The table does not claim completeness and certain factors can vary given the countries' singularities.

Criteria	Measurement
Economic empowerment	
Knowledge of the supply chain	<ul style="list-style-type: none"> • Basic knowledge of the market, relationship amongst actors, marketed product
Ability to negotiate terms	<ul style="list-style-type: none"> • Market power (often cooperative) • knowledge and access to market information
Independence	<ul style="list-style-type: none"> • As much buyers as possible (→buyer diversification) • Storage (sell products when prices are high) • Financial aspects
Better price discovery	<ul style="list-style-type: none"> • Indicator prices • An access to internet • Mobile phones • Knowledge of the whole supply chain • Collective negotiations
Money supply	<ul style="list-style-type: none"> • Loan/credit access • Other sustainable economic activities • Premia • Minimum price
Control over their product	<ul style="list-style-type: none"> • Influence on how product is market • Collective negotiation • Value addition by first stage processing of the members' raw materials
Risk alleviation	<ul style="list-style-type: none"> • Group insurance <ul style="list-style-type: none"> ○ Storage ○ Transport
Social Empowerment	
Equal voice in the system	<ul style="list-style-type: none"> • Equal partners • Financial security
Social capabilities	<ul style="list-style-type: none"> • Social capital • Social belongings • Relations of trust • A sense of identity • Values that give meaning to life • Capacity to organize • Values that give meaning to life
Human capabilities	<ul style="list-style-type: none"> • Skills • Education • Literacy • Good health • Other life-enhancing skills
Political capabilities	<ul style="list-style-type: none"> • Access information • Form associations • Capacity to represent oneself or others • Participate in the political life of a community or country

Table 5: Empowerment 11 criteria and measurement

4 Small Producer Organisations

4.1 Definition and Development

This section will focus on the Small Producer Organisation (SPO) and the objectives it incorporates in the corresponding standard. After outlining the specific characteristics of an SPO as conceptualized by Fairtrade, this section will inquire on the extent of empowerment the Standard covers, taking into account the concept of empowerment outlined in chapter 3. To conclude, this section will display the findings by comparing enabling and disabling elements concerning empowerment in an SPO context. The authors will elucidate that SPOs show inherent hindering factors for empowerment, but that however, factors fostering empowerment prevail – and hence SPOs represent a valuable institution for the promotion of empowerment.

It must be stated at this point, that SPOs are not to be considered something from another, far and exotic world. Successful farmer organisations emerged also in a familiar context – namely in Switzerland. Landi is a well-known example of such a cooperative, which, as many other similar examples illustrate, lasts until today. Whereas the origins of the cooperative principle dates back to the origins of humanity itself, one particular event can be seen as a crucial condition for the development of cooperatives in Switzerland's context: The agrarian crisis of 1880 triggered the founding of cooperatives; they had the aim of marketing the collective harvest and allowing more favourable prices for their means of production. By the end of the 19th century, an estimated 2000, and by the present day, more than 12'000 cooperatives have emerged in Switzerland. Because of its historical importance, the "cooperative principle" can be considered "a fundament of Swiss political culture". Moreover, cooperatives in the agrarian sector – until the present day – manifest a significant economical weight. (Roca, 2016)

Whereas the situation in Switzerland – as elsewhere – can always be improved, this success story shall not distract from other parts of the world and their citizens: Among the 2.5 billion people in poor countries who live directly from the food and agriculture sector, an estimated 1.5 billion people live in smallholder households. Many of those households are extremely poor, the highest incidence of workers living with their families below the poverty line is associated with employment in agriculture. (FAO, 2012, p. 1) They are threatened by competitive pressure from globalisation – their fate being either to disappear and become solely self-subsistence producers, or to grow into larger units (FAO, 2012, p. 1). SPOs have seen growing interest from NGOs, donors and governments alike, who regard them as appropriate institutions for building capacity among small producers and for helping them participate in competitive and globalized market environments (Trebbin, 2014, p. 35).

This notion is also acknowledged by Fairtrade International, as the Fairtrade Standard for SPOs states: "Fairtrade is a strategy that aims to promote sustainable development and to reduce poverty through fairer trade." Making changes to the conventional trading system that aim to benefit small producers and workers in the South and increasing their access to markets are the main goals of Fairtrade (Fairtrade International, 2011, p. 3).

In recent years, certification and labelling initiatives of this kind – with the ambition of making a range of commodity areas' production and trade socially responsible and environmentally sustainable – have been rapidly growing (Valkila, Haaparanta and Niemi, 2010, p. 257). Among those, Fairtrade has the most strict standards of social justice and development with the objectives of supporting democratic producer organisations, providing premiums for social development, improve labour rights, and facilitate long-term trading relationships (Raynolds et al., 2007, p. 154).

Concerning effectiveness of certification and labelling, few clear findings exist (Utting, 2009, p. 128). Where they do, however, they diverge in their assessments: While some suggest that certification is little more than a new way of packaging the product (Freidberg, 2003, p. 29; Carimentrand and Ballet,

2010; Booth and Whetstone, 2007), others conclude that the efforts have significant positive impacts (Taylor and Scharlin, 2004). As the SPO Standard claims, actions establishing the Standard “can lead to improvements in small producers’ and workers’ social and economic well-being, as well as to their empowerment, and to environmental sustainability.” (Fairtrade International, 2011, p. 3).

4.2 *The Fairtrade Standard for Small Producer Organisations*

This Fairtrade Standard for SPOs has the aim of setting the requirements that determine participation in the Fairtrade system (Fairtrade International, 2011, p. 3) and hence to bring the mentioned provisioned benefits of an SPO to small producers. In each chapter and section of the Standard, there can be found: Firstly, the *intent and scope* which introduces and describes the objective and defines the scope of application of the respective chapter or session. Secondly, the *requirements* which specify the rules that must be adhered to. SPOs are audited according to these requirements. Thirdly, there can be found *guidance* which is provisioned to help the small producers to interpret the requirements. The guidance offers best practices, suggestions and examples of how to comply with the requirement and moreover gives further explanation on the requirement with its rationale and/or intention behind it. (Fairtrade International, 2011, p. 4)

Two different kinds of requirements exist in the Standard: On the one hand core requirements which reflect Fairtrade principles and must be complied with. And, on the other hand, development requirements which refer to the continuous improvements that certified organisations must carry out in order to reach a minimum average score out of their respective combination. (Fairtrade International, 2011, p. 4)

The definition of a small producer is described as follows in the Standard: If less labour intensive products (cocoa, coffee, herbs and herbal teas and spices, honey, nuts, oilseeds, cereals, seed cotton) are produced, they are small producers if the following two criteria are fulfilled: Farm work is mostly done by members and their families; and they do not hire workers all year round.

If the members produce highly labour intensive products (cane sugar, prepared and preserved fruit and vegetables, fresh fruit, fresh vegetables, tea), they are small producers if the following criteria are met: They hire less than a maximum number of permanent workers as defined by the certification body; the land they cultivate is equal to or below the average of the region, as defined by the certification body; they spend most of their working time doing agricultural work on their farm; most of their income comes from their farm.

At least half of the members of an SPO must be small producers and at least half of the volume of a Fairtrade product must be produced by small producers. (Fairtrade International, 2011, p. 8–9/ Fairtrade International, 2015)

Other definitions exist, however, and are an issue of subjective consideration (see for an example Graf et al., 2015, p. 4). How these considerations affect potential success of the Fairtrade vision would go beyond the scope of this paper. However, evaluations on effects of exclusion and inclusion could enlighten the presumably high impact of such effect on the small farmers involved – who represent the objective of the efforts after all.

4.3 *Evaluation*

As has been stated, one important aspect that is to be achieved by the SPO is empowerment. This strategy – or purpose – is reflected in the described core criteria, which forcibly have to be accomplished in order to be certified as an SPO. Additionally, the mentioned development criteria are outlined, which have to be complied by reaching an average set of points. Here potential SPOs thus remain with the ability to choose a combination which suits them best. With these measures, the vision of Fairtrade is

sought to be realised. In this regard, the chapter “Business and Development” of the SPO Standard “defines the unique Fairtrade approach to development.”, and “[...] explains how through social organization producers can build a basis for empowerment and sustainable livelihood” (Fairtrade International, 2011, p. 4).

Can this vision be achieved, at least in a conceptual way? In a following step, the elaborated criteria of empowerment shall be applied to the SPO Standard with the aim of assessing where the SPO Standard meets said criteria.

Criteria	Measurement
Economic empowerment	
Knowledge of the supply chain	No concrete measurements fostering the knowledge of the supply chain are provisioned. However, social organisation of the farmers may lead to more knowledge due to aggregated knowledge of small farmers (Suter, personal communication, May 4, 2016). Moreover, the successful establishment of an SPO depends on the presence of a good relation between buyer and small farmers (Singh, personal communication, May 5, 2016) – knowledge of the supply chain in this regard is an integral part of a well-functioning SPO.
Ability to negotiate terms	The ability to negotiate terms lays at the very centre of the conception of an SPO. As contracts hereby are made not individually, but collectively, a higher bargaining power – and market power – is aimed at. As certification does not involve the definition of quality of a product apart from it being conforming with Fairtrade (Fairtrade International, 2011b/ see further Mutersbaugh, 2002, p. 1168), the PB’s problematic strategy of claiming the products to be of lesser than actual quality remains.
Independence	Regarding independence, hindering factors can be observed in the Standard: SPOs are contractually bound to the PB. If the PB is suspended, SPOs are obliged to stop the selling of their products. Moreover, the contracts can only be cancelled when both buyer and SPO agree to it (Fairtrade International, 2011, p. 12). This makes market diversification of products and buyers difficult. However, limitations to the parties can be seen as inherent to every contract, making behaviour of the other party more predictable. Moreover, a good long-term relationship between farmers and buyer is crucial for the SPOs to function (Singh, personal communication, May 5, 2016) and represents a major source of empowered farmers (Suter, personal communication, May 4, 2016). The prescription of commitment to the buyer therefore might represent a necessary bad, so to speak, for the greater good of a Fairtrade project to work out. However, certain adjustments in terms of exceptions must be considered, e.g. the possible diversification of product and buyer in the context of an extension to sub-crops. Furthermore, storage as a factor of empowerment may be the result of a usage of the premium to implement a storage system and hence to sell the products when prices are higher. However, premia are often used inefficiently analysed through Westerner’s eyes (Stiffler, personal communication, March 17, 2016). The example of storage hence represents the difficult trade-off between empowerment through independence of decision over the merited premium, and gained empowerment through effective investment thereof.

<p>Better price discovery</p>	<p>Whereas collective negotiations stand at the very centre of the idea of the SPO Standard, by installing a General Assembly to negotiate terms regarding the whole SPO democratically, better price discovery as a whole does not form a provisioned part of the Standard. Training by the organisation proves difficult, as it must maintain its impartiality before farmers and buyers. However, auditing small farmers – carried out by FLO-Cert – could propose such an assignment of the premium.</p>
<p>Money supply</p>	<p>Money supply is increased and stabilised through two central elements of Fairtrade: the minimum price and the premium. Critical perspectives claim that premia are no more than a trade off against production, certification and organisation costs (see Mutersbaugh, 2002, p. 1169). However, Fairtrade premia given to small producers are strongly growing in recent years (Beobachter, 2015), with the advantages of collective investment and therefore more impact and social interconnection.</p> <p>Moreover, by complying with sustainability standards, less damage to farmers' health and the resources they work with can also be seen as a long-term asset and as future income. The enormous gains of agricultural production and productivity the world has seen in the past decades was often accompanied by negative effects on the natural resource base, jeopardizing its future productive potential. "Negative externalities" of agricultural intensification encompass land degradation, salinization of irrigated areas, over-extraction of groundwater, the build-up of pest resistance and decline of biodiversity. (FAO, 2011, w/o pages) This is sought to be prevented by the Standard, including actions of sustainability such as sustainable use of water, soil and biodiversity.</p> <p>Unlike a widespread assumption, sustainable small producers can be highly productive. A large study examining small producer agriculture found that when sustainable agriculture was implemented, average crop yields increased by 79 percent (Pretty, 2008, p. 456). However, cotton showed a small mean yield increase. Nevertheless, sustainable agriculture fostered not only production but had also positive side effects, building natural capital, strengthening communities (social capital) and develop human capacities (Pretty, 2008, p. 456; Pretty, 2003). Moreover, a significant amount of money can be saved in a sustainable agriculture by diminished fertilizer and pesticide use – money that can be invested in other inputs such as higher quality seeds and thus enhance productivity (Pretty, 2008, p. 457/458).</p>
<p>Control over their product</p>	<p>The Standard does not enable SPOs to achieve higher control over their products where marketing and added value by independent first stage processing is concerned. This however, especially in the case of cotton or rice, would be difficult to attain, as taking over first stage processing is connected with high financial efforts and risks for small producers (Singh, personal communication, May 5, 2016).</p>
<p>Risk alleviation</p>	<p>Risk alleviation can be mainly seen in the context of a contract for agricultural products: That is, contracting can lead to more income security, defining terms ex ante harvesting.</p> <p>Furthermore, risk alleviation is brought by the minimum price, offering the opportunity to offset unfavourable price volatilities – and hence provide a safety net in a volatile market (Guardian, 2016).</p>

Social Empowerment	
Equal voice in the system	Democratic principles occupy a privileged position in the Standard. Equality in this regard results from both parties – buyer and producers – complying with the contract and with the respective standards. As efforts for organising the small producers come from the “outside”, agency in this process can however be limited (Mutersbaugh, 2002, p. 1167).
Social Capabilities	Successful implementation of an SPO can lead to a sense of identity and belonging, trust building and social cohesion. Decisions here are carried out not individually but collectively and democratically, the premium being used for the collective benefit.
Human Capabilities	Training of farmers and the promotion of health and security issues is sought for by the terms of the Standard. An analysis of 15 case studies in Africa could show that sustainable agriculture indeed brings various benefits to the community, among those more nutritious diet and health and reduced occupational hazards through diminished exposure to pesticides (FAO, 2012, p. 2). Moreover, improved working standards and security are aimed at by Fairtrade International. However, high standards on training and sustainability may reduce empowerment (at least in the short run) due to increased efforts. As Mutersbaugh argues, certification introduces bureaucratic costs “that rest heavily on producer organizations”. Furthermore, strict certification norms may limit the latitude of producer organisations to resolve issues through negotiation (2002, p. 1166). Compared to other approaches, no schooling and alleviation of illiteracy is provisioned (for comparison see bioRe Foundation, p. 9–10, 2015).
Political capacities	To participate in the political life of a community, form associations and the capacity to represent oneself or others is a main goal of an SPO and can be achieved by their implementation. These aims, however, are not inherent to every cultural setting and can be difficult depending on the historical context. Given the right circumstances, however, political capacities can be improved via the establishment of an SPO.

Table 6: Producer empowerment in the SPO Model

Taking into account the presented findings, an analysis of strengths/ weaknesses and opportunities/ threats³ of SPOs shall be illustrated in the following matrix which will be succeeded by a conclusion to this chapter.

Internal	
Strengths:	Weaknesses
<ul style="list-style-type: none"> • Aggregated knowledge (and resources) of small producers because of being cooperatively organised • Higher bargaining power due to collective contracts contrary to individual contracts • Premia and minimum prices empower small producer via money supply (for collective goods) and a stabilized income 	<ul style="list-style-type: none"> • Limitations on flexibility stemming from contractual dependence on the buyer. No fostering of control over the product and the value-chain • Premia – if they reach the small farmers – are not seldom used inefficiently as compared to individual payments

³ Further informations about the SWOT-Analysis is provided in the Annex.

<ul style="list-style-type: none"> • Sustainability measures can help to safeguard workers' health and build up natural and social capital • Implemented sustainability goals can increase money availability and productivity (at least in the long run) • Risk alleviation through contracting and minimum wages • Social empowerment by implementing democratic institutions and labour rights • Social cohesion, trust and identity building when small producers are organised collectively in an SPO 	<ul style="list-style-type: none"> • As efforts for organising the small producers come from the “outside”, agency is limited • No schooling provisioned in the Standard concerning price mechanisms, productivity enhancing strategies, education and alleviation of illiteracy • Possible loss of empowerment due to strict Standards of training, security and sustainability goals • No sales guarantee which is considered a main factor for successful empowerment (Suter, personal communication, May 4, 2016), but due to the restrictions of the nature of Fairtrade not feasible. Accordingly, no donations/ credits for small farmers' projects provisioned
External	
Opportunities	Threats
<ul style="list-style-type: none"> • High probability of success where small producers are already organised and a good relationship with a long-term perspective of cooperation between buyer and producer is existent • Awareness raising for human rights and human dignity • Binding norms and enforcement mechanisms due to mutually accepted vision agreed upon in the respective standards • Potential win-win situation, in which small producers <i>and</i> buyers benefit. In addition to the outlined benefits of organisation resulting for farmers, the buyer benefits by having one sole contracting partner (the SPO as a whole), and from a more efficient distribution system and productivity gains. In addition, buyers may be awarded by the contribution to a meaningful vision. Moreover, the mutual agreement on standards has the potential of reducing insecurity and ambiguity. 	<ul style="list-style-type: none"> • Difficulty of implementation in contexts where small producers are not organised • Difficulty of implementation where the distance between farmers and buyers is accentuated • Potential social unrest due to farmers not being part of the FT system (Suter, personal communication, May 4, 2016) • Imposing of own vision and values on a traditional context

Table 7: SWOT Analysis of the SPO Model

Whereas the Standard displays a few missing elements within the elaborated concept of empowerment and even exhibits hindering elements – especially regarding a built-in dependency on the PB and increased efforts due to strict standards on training and sustainability – it nevertheless attains high empowerment scores, both economic and social, within the framework of the outlined concept of empowerment. The hindering elements, however, can be understood as rather short-term effects, firstly, because a kind of dependency on the buyer is needed (as well as dependency of the buyer on small farmers after all), so that long-term commitment to the mutually benefitting project can be ensured. It

seems more promising, hence, to use the term *interdependence* rather than dependence. Secondly, in the long term, sustainable agriculture is beneficial to farmer's health, can lead to increased soil quality and stability of basic resources – and lead to an increase of social, natural and financial capital.

The empowerment by an implementation of an SPO stems further and more clearly from Fairtrade's main components: minimum prices which can mitigate price volatility and the premium used for and by the collective.

The farmer's organising and collective action, specific to the SPO context, represents a major factor for empowerment, as aggregate knowledge and more bargaining power result from this cohesion. Moreover, SPOs bear a large potential for improving social empowerment by fostering collective identity, a sense of security and belonging, and democratic principles. The potential win-win situation that can result by the establishment of an SPO thus offsets the weaknesses and threats by far.

5 Conventional Contract Farming

5.1 Definition and Development

CF is „an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements, frequently at predetermined prices“ (Eaton & Sheperd, 2001, p. 2). These contracts entail obligations for the sellers (farmers), such as specified volumes and qualities, and for the buyer (processor or trader or agribusiness), such as taking the goods and realising the payments as agreed. Normally, the buyers also provide some kind of services, which can entail the delivery of inputs, credits to pre-finance inputs, but also other non-financial services (Will, 2013, p. 16). The contractual agreements, however, vary according to their intensity. That is, they can have different levels of depth and complexity of the provisions (Eaton & Sheperd, 2001, p. 2). Figure 4 illustrates the relationship between the contractor and the individual small producers.

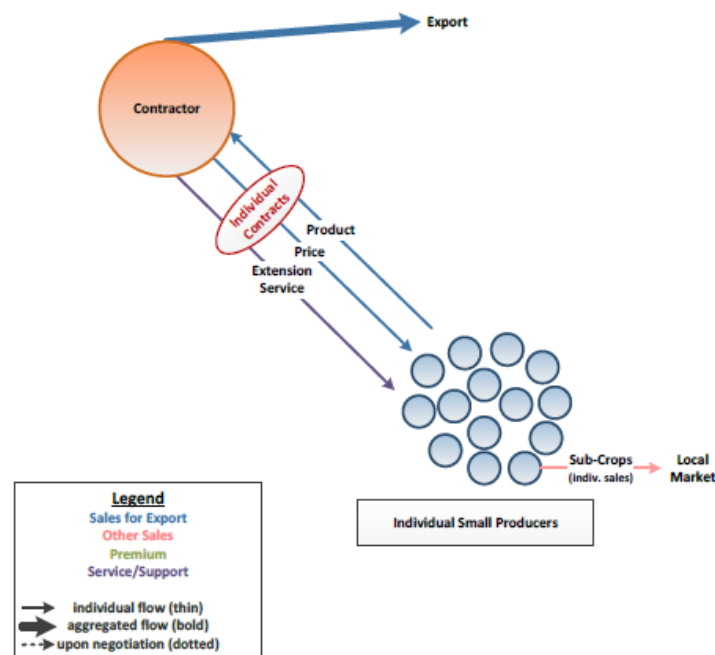


Figure 4: Conventional Contract Farming. Source: Max Havelaar, 2016, p. 8

Generally, CF can be divided into three classic types of contracts, depending on the degree of risk and decision-making power of the farmer and buyer (Kirsten & Sartorius, 2001, p. 508-509; Key & Runsten, 1999): *Market provision contracts* specify the price, quality, quantity, and timing for the producer. The farmers thus transfer some of the risk to the buyer while keeping control over production. *Management provision contracts* define the adoption of specific farming practices or post-harvest management practices, so that the buyer has control over quality and timing of output while bearing the costs of these additional measures. *Resource provision contracts* come close to full vertical integration, in that the buyer provides a market outlet to the farmer, but also the resources, including technical assistance, and inputs needed for production. In this type of contract, decision rights as well as risks are transferred to the buyer, which results in a considerable amount of control by the buying company.

In the 20th century, the concept spread in the US and Europe and was introduced into North and Sub-Saharan Africa (Will, 2013, p. 21). Many donors and governments hoped that CF would bring improved incentives, increased income for farmers and positive multiplier effects for impoverished rural economies. As a result, there was considerable growth in the number of contract farming schemes during the 1970's and 1980's (Kirsten & Sartorius, 2002, p. 509). Yet Will (2013) points out that the concept

of CF is not as common as it may be assumed given its “real or perceived advantages over spot market conditions” (p. 21).

5.2 Evaluation

In today’s highly globalised world where particularly developing countries increasingly liberalise their markets, a risk arises for small-scale farmers: It is becoming more and more difficult for them to participate in the global market economy, which is dominated by large multinationals. At the same time, attempts by governments to create income-generating activities have shown little evidence that farmers could indeed earn a higher income. Rural farmers and small-scale entrepreneurs often do not have the cost-effective inputs and profitable markets needed to compete successfully. CF therefore offers an opportunity to provide a linkage between the small-scale producers and the market as well as access to services, so that they can compete profitably. (Eaton & Sheperd, 2001, p. 1, 3)

For agribusinesses, CF is a valuable tool to gain access to ever-scarcer production assets, which is a decisive aspect of competitiveness of processing and trading firms. Smallholders can therefore become a source of competitive advantage by providing access to land resources, having location-specific traditional knowledge required for the adaption to climate change, for instance, and they can provide family labour for most cost-effective production. Disadvantages can arise for them when producers do side-selling, transaction and logistic costs could increase, and they may need to internalise some of the support costs for farmers, which may limit the agribusinesses’ flexibility (Anseeuw, 2013, p. 1). The risks for smallholder farmers, however, are much more pronounced than those for agribusinesses. Therefore, in order to assess the linkage between the buyer and the producers in detail, the following table presents a SWOT analysis of the conventional CF model from the perspective of the producers, since the continuation of this paper focuses on improving the livelihoods of smallholder farmers via Fair Trade.

Internal	
Strengths	Weaknesses
<ul style="list-style-type: none"> • Securing markets • Access to new markets • Access to inputs, credit and production services • Access to extension services and technical advice • Opportunities to learn new skills and acquire technology • Reduction of price risk • Enhancing farm production and management skills • Increased and more stable income flows • Additional employment generated 	<ul style="list-style-type: none"> • Possible non-compliance by agribusiness • Complexity of contracts and price setting mechanisms • Lack of exit options • Reduced flexibility • Increased requirements by the buyer • Increased asset compliance • Farm land degradation • Loss of farmer independence • Lack of public frameworks and effective contract enforcement • Increased social tensions, possibly due to changing relative income among the producers • Considerable power of the contractor results in unequal relations and may lead to exploitative behaviour towards the farmers • High dependence of the producers on the buyer • Shift to cash crop production can lead to more narrow local markets because production of basic food crops is adversely affected • Vulnerability to sudden changes in the strategy of the buyer

	<ul style="list-style-type: none"> • Gender inequality in quality and quantity of work • Overexploitation of natural resources • Often inclusivity is restricted to the top tier of smallholder producers, on the disadvantage of poorer smallholder farmers in the area
External	
Opportunities	Threats
<ul style="list-style-type: none"> • The integration of the poor sections of the population into viable business models can act as an engine of socially inclusive economic growth • Highly perishable products and high-quality products need coordination of timing of harvest and delivery • Increasing demand of food safety and quality standards in the final markets • High agro-food prices and improving terms of trade open opportunities for the long-time neglected farm sector in international trade • Increasing purchasing power of emerging middle income segments in emerging economies and developing countries, and the related market growth and structural transformation of agro-food markets • Reduction of uncertainty, bounded rationality and opportunism • Negative effects of market failure that can possibly be mitigated through CF arrangements • Adoption of appropriate technologies to adapt to or mitigate climate change is needed • Improving food security through the upgrading of the value chain 	<ul style="list-style-type: none"> • Market imperfections in developing countries results in higher risks and transaction costs for farmers • Underdeveloped legal systems in developing countries hamper the access to and increase the costs of legal support to farmers if needed • Lack of information, market knowledge, education, and widespread illiteracy among the farmers makes them more prone to exploitation by the “well-informed” contractor • Bad infrastructure of roads and transportation systems increases costs for producers • The fewer contractors there are in the region, the lesser is the competition among them, and the more power they have towards the producers

Table 8: SWOT Analysis Conventional CF Model. Source: Anseeuw, 2013, p. 1; Bijman, 2008, p. 10-17; Kirsten & Sartorius, 2002, p. 519-520; Will, 2013, p. 26

The SWOT analysis indicates that the negative aspects of CF clearly outbalance the positive ones. By their very nature, these arrangements link two sets of players – agribusinesses and smallholders – with very different negotiating power, which has direct implications for the design and implementation of the arrangements (Will, 2013, p. 26). As shown in the analysis in table 8, CF offers smallholder farmers access to new markets, transfer of knowledge and leads to a more stable income, while these farmers are heavily dependent on the buyer. The buyer has more information about the international market and is financially less vulnerable. In addition to that, farmers often are poorly educated, have difficulties seeing through their rights, and are, not least, more risk averse since they often live near the subsistence level and lack the necessary financial resources. This increases the inequality between the producers and the contractor and puts the smallholder farmers in a position of low flexibility. Not least, it leads to weak negotiation power on the side of the producers. Therefore, the extent to which an

investment shares value with local smallholders, the detailed arrangements of the scheme, may be more important than the abstract model.

When looking at the threats and opportunities, the analysis shows that developing countries are often characterised by ample market imperfections resulting in high transaction costs. In addition, production and marketing risks for producers are also higher because production is often fragmented and vertical links along the value chain are fragile. In this setting, CF can serve to mitigate market imperfections (Will, 2013, p. 26). However, it can also lead to more vulnerability for the producers. Smallholder farmers often live near the subsistence level and are already vulnerable to price fluctuations and possible demand volatility. Therefore, a CF system that does not take into account this position specifically, risks that the farmers become even more vulnerable as before. Kirsten and Sartorius (2002) even mention that this dependency relationship can turn farmers into “quasi-employees”, the more the contractor controls inputs and production (p. 519).

This rather negative outcome of the CF analysis does, however, not mean that CF is per se a bad tool. As shown in the analysis, it offers a wide range of opportunities that let producers as well as contractors benefit. Yet the point is that these opportunities have to be captured by a more appropriate model so that both contract parties benefit in similar ways. Therefore, the next chapter discusses Fairtrade CF, also called Contract Production (CP), as a tool to improve producer empowerment.

6 Fairtrade Contract Farming

6.1 Definition and Development

In 2005, the Fairtrade system decided to include CF to allow smallholder farmers to have access to the market and to Fairtrade certification by joining an intermediate organisation to market their products. These farmers are not organised, as seen in the chapter 4, but gathered in informal structures. The intermediate organisation, which can be an exporter, a processor, a private company, an NGO or other holders of the Fairtrade certificate, is at the same time expected to help producers “get organised and promote the conditions of an environment-friendly socio-economic development”. This includes the goal of becoming a formal autonomous organisation that is able to fulfil the requirements of the standards applicable to them (Boscher et al., 2012, p. 9). Max Havelaar’s Fairtrade Standard for CP defines Fairtrade CF as CP. The geographic coverage of the Standard is rather narrow, applying to “promoting bodies and registered producers producing cocoa in Oceania, Basmati rice or cotton in India and cotton in Pakistan. For dried fruit in Pakistan, the Standard applies only for operators currently certified for dried fruit” (p. 4).

Figure 5 explains the status quo of the implementation of the CP Standard of Max Havelaar. Although the Standard states in Art. A 4.1.5 that the (voluntary but desirable) goal for producers is to organise into an SPO, this has not been implemented in all of the CP agreements existing to date, as explained in the previous chapter. As Manuela Stiffler explained during the interview on March 17, 2016, the Promoting Body (PB), called contractor in the conventional CF model, is the holder of the Fairtrade certificate and forms a legal entity with the producers. His main task is to support farmers in producing and marketing their products while respecting the CP Standard. The PB has individual contracts with small producers where the minimum price⁴ for their produce is defined, among other things. Furthermore, the PB provides extension services such as training, provision of inputs, etc. to farmers. On the other hand, the small producers within the CP framework are represented by a Promoting Executive Body (PEB), which is elected democratically by the farmers. The PEB receives the Fairtrade premium as well as organisational and administrative support from the PB and has to decide collectively about the use of the premium. If sub-crops are produced, these do not fall under the CP Standard and can be sold individually on the local market.

Boscher et al. (2012, p. 17) points out that there are five crucial differences compared to the conventional CF model: First, production must concern small producers. Second, the commercial contract between producers and their partners must not be exclusive, meaning that producers are allowed to sell their products also to other purchasers. Third, the PB has to respect the standards of the minimum guaranteed price. Fourth, there is an obligation to support the farmers in structuring and strengthening the organisation. Fifth, audits and controls are set up by the system without guarantees. Under the CP Standard, FLO-CERT conduces these audits (Stiffler, personal communication, March 17, 2016).

⁴ The defined minimum price applies when the market price is below the minimum price. Otherwise, the market price applies (CP Standard, 2011, Art. A 4.4.1).

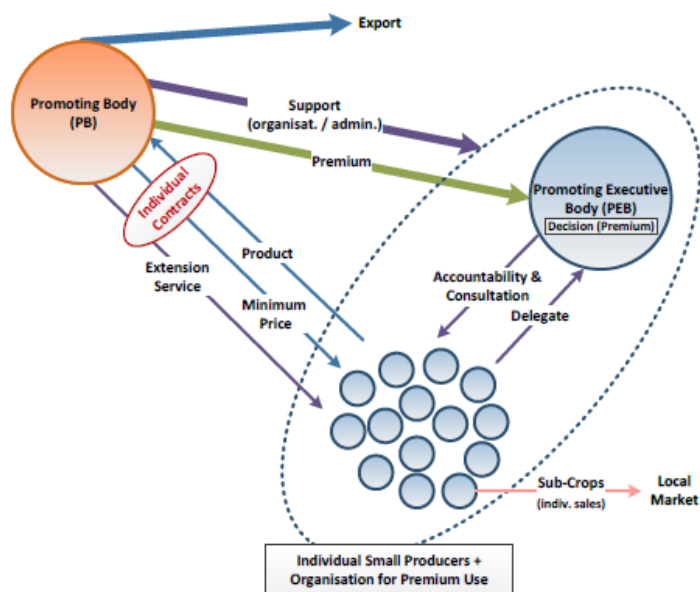


Figure 5: Fairtrade Contract Farming (Status Quo) (FI 2011: A 4.2.1). Source: Max Havelaar, 2016, p. 8

6.2 Evaluation

In this section, a SWOT analysis is used to illustrate the strengths and weaknesses as well as the opportunities and threats resulting from Fairtrade CF. Since Fairtrade CF is not a very common Fairtrade model, the existence of case studies and empirical evidence is limited. However, the authors tried to include the available evidence best possible in the SWOT analysis. The text written in grey indicates that these points were also mentioned in the SWOT analysis about the conventional CF model. By comparing directly which benefits are still present, or which factors could be eliminated if they constituted weaknesses and risks, the improvements compared to the conventional model become directly visible.

Internal	
Strengths	Weaknesses
<ul style="list-style-type: none"> • More stable income due to defined minimum price • Better prices and post-harvest bonuses • Farmers are free to leave the project and are independent form the PB • Mutual loyalty between the PB and the small producers • Reduction of production risk due to provision of inputs and extension services • Reduction of marketing risk through contracted purchase at announced prices and timely price discovery • Some realisation of collective responsibilities and actions through participation in the process of using the Fairtrade Premium 	<ul style="list-style-type: none"> • PB is reluctant to cede meaningful power to PEBs in areas of critical interest to them • Continued (sometimes indirect) control of the PB's payments and the use of the Premium • Negligible farmer involvement in purchase and distribution of inputs • Not easy for the PEB to stand its ground in the event of a conflict of interest with the PB • Limited expansion of farmer awareness of alternative crop enterprises • Limited understanding of the value added to the commodity after it is purchased by the first buyer, which lowers the willingness of farmers to challenge the PB on, for instance, price issues, share of value added, and the involvement in post-harvest activities • Limited farmer awareness and concern about potential benefits of organising an SPO, possibly arising out of their a priori fear that such

<ul style="list-style-type: none"> • Creation of social assets considering the needs, by making use of the Premium • Awareness of value-chain and the raw materials producers place in it <p>➔ In addition, all the strengths that already existed under the conventional CF model, are still existing.</p>	<p>organisations might be a risk for the benefits they currently enjoy</p> <ul style="list-style-type: none"> • Farmers have only limited opportunities to add value to their products and moving up the value chain <p><i>Weaknesses that could be eliminated by adopting the Fairtrade CF model:</i></p> <ul style="list-style-type: none"> • Lack of exit options and reduced flexibility • Land degradation: could be reduced through Fairtrade CF • Loss of farmer independence • Lack of public frameworks and effective contract enforcement • Social tensions: could be reduced • Dependence on the buyer: could be reduced, but not eliminated • Vulnerability of sudden changes in the strategy of the buyer: more long-term commitment due to CP Standard
External	
Opportunities	Threats
<ul style="list-style-type: none"> • Having alternative market options (with production and income opportunities in addition to their contracted obligations) is key in preventing power inequalities between the farmers and the PB • If farmers have several options for obtaining inputs and credit, it reduces the relative power of the contractor • The state, but also NGOs, can play a considerable role in providing services for making CF viable and sustainable • Increasing demand for sustainability certification <p>➔ In addition, all the opportunities that already existed under the conventional CF model are still existing.</p>	<ul style="list-style-type: none"> • Although the possibility to sell the product to buyers other than the PB exists, these opportunities are limited because other buyers are not easily available • Finding a suitable and reliable export market for Fairtrade products can be challenging, which can reduce the credibility for farmers to the PB • The fact that farmers have few alternative markets to which they can switch, increases their dependence on the PB • Wide and remote areas can produce logistical and communication challenges <p><i>The following risks could be reduced compared to the conventional CF model:</i></p> <ul style="list-style-type: none"> • Better handling of market imperfections and underdeveloped legal systems in developing countries • The PB’s obligation to provide support and extension services as well as the payment of the Premium can lead to better informed farmers, using the Premium to improve their education and knowledge • Illiteracy remains an impediment, at least in the short run • If the PB organises or supports the transportation of produce, the higher costs arising from bad infrastructure can be reduced for the farmers

Table 9: SWOT Analysis Fairtrade CF Model. Source: Sambrani and Ellman, 2009, p. 20, 54-71; Kirsten and Sartorius, 2002, p. 20, 520; Boscher et al., 2012, p. 49-50; World Bank Development Report, 2007, p. 127 (in Kirsten & Sartorius, 2002)

In conclusion, it can be said that Fairtrade CF provides more benefits and opportunities to farmers than the conventional CF model, while the existing strengths and opportunities are still present. On the other hand, the majority of the weaknesses of the older model could be eliminated by introducing the CP Standard that takes into account the relatively fewer power of the producers compared to the contractor.

However, there are still a considerable number of weaknesses in the Fairtrade CF model. Especially the unequal relationship between the PB and the farmers is still a major disadvantage. Whereas under the conventional CF model potential benefits for farmers (indicated by the strengths and opportunities in the SWOT analysis) depended fully on the benevolence of the contractor since the contract with the farmers was not subject to any international standard, under the Fairtrade CF model, the PB has a legal obligation to comply with the requirements of the CP Standard. The current CP Standard, however, can still not fully guarantee an equal relationship between the PB and the farmer. The control he exercises over the producers and the degree to which he supports them in their transition towards an SPO is still dependent on its own will. While results from case studies sometimes conclude that the farmers are themselves reluctant to organise into SPOs, this may be the case because they are not correctly informed about the benefits of establishing an SPO (Sambrani & Ellman, 2009, p. 65).

When it comes to the analysis of threats, it becomes clear that some of them could be reduced. Since threats are external and thus not influenceable, nor by the farmers nor by the buyer, they can never be fully eliminated. A major issue that is still present in comparison to the conventional CF model is the amount of competition among the buyers and the existence of alternative markets.

6.3 Empowerment in the Conventional CF vs. Fairtrade CF model

This next section aims to compare the degree of producer empowerment that is achieved in the conventional and in the Fairtrade CF model. The following table conduces this comparison and is based on the empowerment criteria identified in chapter 3 and on the analysis conducted in the previous sections of this chapter.

Criteria	Conventional CF Model	Fairtrade CF model (Contract Production)
Economic empowerment		
Knowledge of the supply chain	Knowledge of the supply chain requires knowledge about the market and also about the marketed product. In the CF model, the buyer has few incentives to share this knowledge with the producers. The producers, in turn, are likely to have only limited information about the market since they often live in remote areas and their educational attainment is rather low, if not very low (including a high rate of illiteracy).	Art. A 4.2.4 of the CP Standard states that the buyer must establish a “communication and feedback system” so that information and concerns are shared between all parties. Art. A 4.2.7 states as a development goal that also the audit results should be shared with the producers. This contributes to a closer relationship between the buyer and the producer, where the latter is more likely to be better informed about the supply chain. The availability of further knowledge, such as information on prices, supply chain, consumer market, etc., is not regulated in the CP Standard and thus depends on the PB to provide it and on the farmers to inform themselves to the degree that this is possible.
Ability to negotiate terms	As seen in the SWOT analysis, the contractor has relatively more power than the individual producers, which reduces their ability to negotiate terms considerably. Moreover, the buyer is likely to be better informed about current market prices than the farmers.	Since the CP Standard requires the adoption of a minimum price, the payment of a premium, the provision of extension services, and administrative and organisational support, these terms are always included in the contract. In what goes beyond these terms, the producers still have relatively few power than the buyer since contracts are currently negotiated individually because farmers are not organised.
Independence	Producers are often heavily dependent on the contractor and the flexibility to leave the agreement is limited, as shown in the SWOT analysis. Financial independence is also limited, since producers often lack sufficient financial resources and are thus dependent on credit, which is often provided under unfair conditions, as will be stated below under “money supply”.	Producers are free to leave the project, which increases their empowerment and independence. Yet they are still dependent on the PB to some degree, depending on the availability of other buyers in the region and on the existence of local markets and their demand. With regards to financial independence, producers are in a better position, as will be explained below under “money supply”.
Better price	As stated above, information about prices largely depend	Also in the Fairtrade model, information about prices largely depend on the PB, if

discovery	on the contractor, if producers do not have access to internet or mobile phones and the knowledge about where to look prices up so that they can inform themselves.	producers do not have access to internet or mobile phones and the knowledge about where to look prices up so that they can inform themselves. The requirement of a minimum price guarantee, however, mitigates the risk of getting a price that is far too low.
Money supply	Contractors often “extend loans to farmers at the beginning of the season when they have no other option to buy inputs, forcing them to pay very high interest rates and/or sell their product at a low price to pay back the loan” (Graf et al., 2015, p. 48).	The CP Standard states in Art. A 2.3.7 that when providing credit or pre-finance, the interest rate and conditions have to be agreed in advance with the producers and cannot exceed the cost of borrowing. The still existent dependence on the PB and the rather vague Art. A 2.3.7 leave room for considerable improvement of producer empowerment in this regard. Moreover, the minimum price and the premium allow for more stable income flows, improving the financial situation of smallholder producers.
Control over their product	Contracts are negotiated individually and the producers have only limited, if any, influence over how the product is marketed or on how it is processed.	Although control over their products is improved, contracts are on an individual basis so that farmers do not benefit from collective negotiations. The ability to control the first stage of processing the raw materials depends on the product. It is, for instance, easier to process bananas or grapes in a smallholder farmer community than cotton or rice, which require large investments (Singh, personal communication, May 5, 2016).
Risk alleviation	The contractor is not obliged to provide any insurance to the farmers, if this has not been negotiated as part of the contract.	The mandatory Internal Control System monitors the implementation of the CP Standard and is responsible of using a risk assessment to address risks and threats (Art. A 3.1.1). The Standard does however not address any insurance scheme for transportation or storage.
Social Empowerment		
Equal voice in the system	In conventional CF, the “system” consists of the individual producer, which can be a smallholder or a larger producer, and the contractor. The degree to which the parties have an equal voice in the system thus depends on the negotiating power of the producer, which is, not least, defined by its size.	At the current stage of implementation of CP, as defined by Max Havelaar (2016, p. 8), contracts are negotiated individually. Collective negotiations would increase the negotiating power of the producers and thus their social empowerment. Yet compared to the conventional model, producers face improved empowerment since the Standard requires some terms to be included in the contract (see Art. A 2.3.1) and the buyer must “ensure that the registered producers know and understand the terms of the contract and the Fairtrade conditions” (Art. A 2.3.4), which enhances

		<p>producer empowerment.</p> <p>The democratic election of the PEB further improves empowerment. Moreover, Singh (personal communication, May 5, 2016) mentioned that SPOs have been established in three of the projects in India. As seen in chapter 4, the existence of an SPO enhances social empowerment.</p>
Social capabilities	The development of social capabilities is in the hands of the producers themselves and the contractor has no influence on it, unless he explicitly supports the producers to build these kind of capabilities out of his own will.	Once the basic needs are fulfilled, farmers can and will think about other needs, such as social belonging, sense of identity, capacity to organise, and giving a meaning to life. Smallholder producers are willing to take this step when their incomes are increased sustainably, freeing some resources.
Human capabilities	The contractor has no obligation to improve or contribute to the development of human capabilities. However, if farmers are getting higher incomes in the long run due to CF, they can use their earnings to improve human capabilities, such as education, literacy, health, or other life-enhancing skills.	The CP Standard defines various areas in which the buyer is asked to provide training, assistance or information to the producers, such as environmental development, labour conditions, development potential, and democracy, participation and transparency. This enhances the skills of the smallholder farmers and thus their human capabilities. Moreover, provisions about environmentally friendly agricultural practices indirectly lead to better health conditions of farmers. Not least, the PEB (or the SPO) decides about the use of the premium, which can be deployed as a means of improving education and increasing the literacy level.
Political capabilities	As is the case with social capabilities, the development of political capabilities is in the hands of the producers themselves and the contractor has no influence on it, unless he explicitly supports the producers by providing useful information or supporting the farmers in their community organisation.	In what regards the organisation of the community, the CP Standard lays down that there must be established a democratically elected PEB where democratic and transparent decisions about Fairtrade issues are made (Art. A 4.2.1). Furthermore, the Standard stipulates the establishment of an SPO, which acts as an internal system for democratic participation (Arts. A 4.1.5 and 4.1.6). Political capabilities in the Fairtrade CF model are improved compared to the conventional CF model, and even more when an SPO is established.

Table 10: Producer Empowerment in the Conventional and Fairtrade CF Models.

In concluding, it can be said that producer empowerment is improved considerably in the Fairtrade CF model compared to the conventional CF model. The analysis also confirms that social empowerment follows economic empowerment, as stated in chapter 3. Contracts under the conventional CF model are agreed on a purely commercial basis. They can therefore only lead to some degree of economic empowerment, for instance by providing more stable incomes and access to new markets, but not to social empowerment. However, since the relationship between the contractor and the producers is unequal in terms of negotiating power and access to information, economic empowerment *can* be there, but it is not assured by the contract itself. On the other hand, the provisions in the CP Standard address producer empowerment explicitly and require the buyer to support the farmers in improving economic as well as social empowerment. Especially the provisions about democracy, participation and transparency and about the environmental development help producers improve their social empowerment.

All in all, even under the Fairtrade CF model there is still some room for improvement in terms of producer empowerment. Some of the major points that might want to be revised in the new CP Standard are the relationship between the PB and the producers, which is still unequal to some degree and producers are to some degree still dependent on the PB. When it comes to knowledge of the supply chain and control over the product, the Fairtrade CF model bears room for improvement. More empowerment can, for instance, be achieved through a closer and more trustful relationship with the PB, the establishment of an SPO allows for more empowerment in terms of social, human, and political capabilities, as well as equal voice in the system, this is, social empowerment. This aspect is discussed in more detail in chapter 7.3.

6.4 Empowerment in the Fairtrade CF vs. in the SPO model

This subchapter compares empowerment in the SPO to the Fairtrade CF model and is based on tables 6 and 10 about producer empowerment in the SPO and in the Fairtrade CF model, respectively. In this comparison, the high empowerment that the SPO model offers is especially evident. The main difference here is that in the case of an SPO, producers are organised: They have a collective contract with the PB and decide democratically on the organisations policy. On the other hand, Fairtrade CF exhibits individual contracts and farmers are minimally organised via a PEB. Producer empowerment can be achieved in both settings, Fairtrade CF and SPOs. The question is thus about the further empowerment aspects that the SPO enables while Fairtrade CF does not. The crucial difference is that, in the latter case, empowerment is rather individual whereas in the SPO context, empowerment is more collective. Cooperatives give more strengths to producers' voice and can provide relative trade advantages, among others, as explained by Suter (personal communication, May 4, 2016).

The following figure will illustrate these institutional elements specific to an SPO as compared to Fairtrade CF. In addition to general FT elements such as minimum price and premium, the SPO has a collective contract with the PB and possesses the General Assembly and the Board as democratic institutions – fostering collective empowerment.

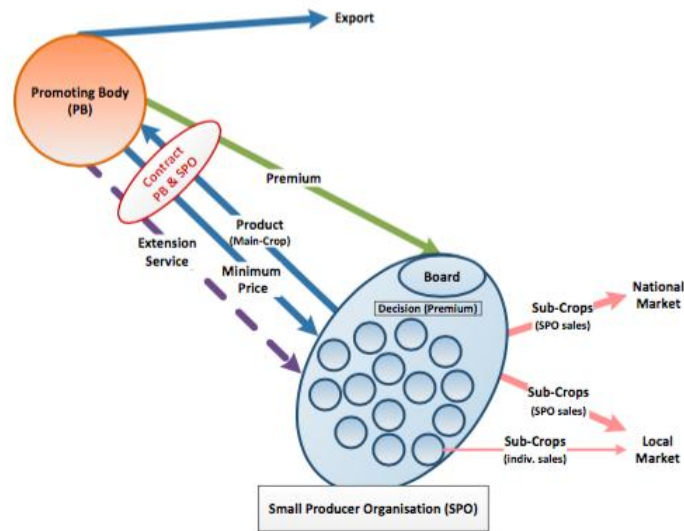


Figure 6: Fairtrade Contract Farming Development Goal (FI 2011: A 4.1.5). Source: Max Havelaar, 2016, p. 9

Because the organisation is more developed in the SPO context, its members benefit from this fact: Bargaining power as a collective entity is increased. Moreover, an organisation to an SPO and the accompanying mentality shift allows for aggregation of knowledge, financial means, human capital – and the possibilities of collective actions as a result thereof. These possibilities of action are varied and may include leading through productivity enhancing measures or transportation together. Especially social empowerment is arguably higher in an SPO context because of the democratic institutions it establishes. Social empowerment here stems mainly from immaterial values of being part of a collective and having an equal voice in the system. In addition, sharing a collective vision of a sustainable and empowered future and working towards it must be seen as potential benefits.

The afore mentioned aspects elucidate why working with the concept of SPOs represents a major pillar of Fairtrade International’s policy – and represents the goal striven for in the present paper. In the view of this ambition, the fact that such a transformation to an SPO happened only partially represents a challenge. What can this only partial implementation in the Fairtrade CF context – even though provisioned by the Standard – be attributed to?

In general, SPOs are most prevalent and successful in regions where farmers are already organised. Where this culture of organisation is not given, introducing an SPO is difficult. In Latin America, for instance, there is a strong culture of collectively organised actions, whereas in former communist countries cooperatives may bear a negative connotation until today, and in countries with strictly hierarchic cultures the formation of mixed organisations may prove more difficult. In these cases, the establishment of an SPO is not impossible, but may need some more time than in other settings.

Contrary to the author’s assumption that the Indian caste system may be a hindering factor for the establishment of SPOs, three SPOs have emerged in the Fairtrade CF context, and two more are on their way. As a main reason for this change to happen has to be seen the existence of a good relation between buyer and producers. (Singh, personal communication, May 5, 2016) Contrastingly, the absence of such a relation represents a major hindering factor for an SPO to be introduced and hence can possibly explain why the other Fairtrade CF contexts are *not* on their way.

Against this background, the authors conclude that, first, the establishment of SPOs in India is *not* impossible, and secondly, that it is desirable because it bears considerable potential for collective and social empowerment. It represents a valuable way for achieving more empowered farmers and may lead to a win-win situation for both buyer *and* producers. The authors thus consider the establishment of an SPO as a necessary core criterion, rather than a development goal. In this context, Singh (personal

communication, May 5, 2016) pointed out that there is an ongoing discussion on whether to make SPOs mandatory or not in the CP Standard. The advantage of it as a mandatory principle is that farmers and PBs would most probably find voluntarily a way to do it because they realise that there is a need for it. Whereas, if it is not mandatory, people usually prefer going the “easy way” and may find that the establishment of an SPO constitutes an additional burden for them.

How can the intended transformation towards an SPO be fostered in the context of Fairtrade CF? The following chapter will dedicate itself to this problem and propose three scenarios to solve it.

7 Solution Proposals

7.1 Starting Point

The analysis of the previous chapters aimed at carving out the core differences between different trade arrangements – the organisation into an SPO, conventional CF, and Fairtrade CF – using SWOT analyses and 11 criteria for producer empowerment, as identified in chapter 3. One of the core questions asked by Max Havelaar was how the Fairtrade CF model could be brought closer to the SPO context. The first question to answer was therefore, whether the establishment of SPOs is actually desirable, and if yes, to develop a strategy to achieve this in a second step. The authors found that the establishment of SPOs brings considerable improvements, especially in terms of social empowerment. Not least, SPOs allow for collective activities, which reduces individual costs and risk and offers the potential opportunity of engaging in further steps in the supply chain, once the more basic needs have been satisfied and enough resources are freed up to invest in other activities. Therefore, the authors believe that the establishment of an *SPO should become a core objective in CP*.

The next question is how to achieve this, given the current state of the Fairtrade CF implementation. The analysis showed that Fairtrade CF allows for several improvements in terms of producer empowerment compared to conventional CF, but three major weaknesses still hamper the development of fully and collectively empowered smallholder farmers:

- First, the fact that not in all of the cases have SPOs been established, reduces the potential for empowerment, and especially social empowerment, of the producers. Since the CP Standard does not define the establishment of an SPO as mandatory, this depends on the willingness of the farmers as well as on the benevolence of the PB.
- Second, smallholder producers are still largely dependent on the PB to sale, export and marketing of their products and lack considerable negotiating power with the PB. The authors believe that this dependency relationship can be improved by introducing more elements in the CP Standard that allow for shared value, and ultimately lead to a win-win situation between the producers and the PB.
- Third, the fact that the contract with the PB is for only one specific product can further strengthen the dependence on the PB in that the farmers may have no other choice than selling everything to one PB. While the Contract Production Standard does allow for crop rotation (see Arts. A3.2.2 & A3.2.13), it does not define the channel through which these sub-crops have to be sold. This is thus another aspect that bears room for improvement.

To respond to the three weaknesses, the authors propose three solutions that aim at enhancing producer empowerment by bringing the smallholder farmers closer to the SPO context. Since the discussions with several experts did not lead to clear results on whether the PB is generally willing to support the farmers in establishing an SPO, solution proposals 1 and 2 take into account two different assumptions about the PB, a negative and a positive one, respectively. Furthermore, a beneficial environment is essential for the actors to operate sustainably. Therefore, solution proposal 3 focuses on the cultivation and sales of sub-crops, based on environmentally friendly practices that further help enhancing producer empowerment.

7.2 *Solution proposal 1: Involvement of a third party to manage the shift towards an SPO*

7.2.1 The premise

The following scenario has as its starting point the reluctance of the PB to promote an SPO – even though its promotion being the PBs duty according to the Standard. This reluctance can stem from cultural reasons, from reasons regarding maintenance of power and – perhaps most decisively – from reasons regarding the length of the supply chain (Singh, personal communication, May 5, 2016).

Culture, firstly, can hinder the implementation of an SPO if the hereby attained bargaining power is excluded by cultural values: in India the hierarchically organised caste system. Hindering mentalities here can be seen on the side of the PB as well as on the side of small farmers. Secondly, PBs might be unwilling to promote an SPO and hence empower small producers because of the fear of losing power as a consequence thereof. Finally, the length of the supply chain (especially in the case of cotton) can play a role: It is the case, sometimes, that final buyer and small producers are set apart by an amount of stages high enough to hinder a direct connection between producer and buyer (Singh, personal communication, May 5, 2016). The PB's unwillingness, then, is not to be seen as a result of economic or cultural reason – but of mere disinterest. In addition, it must be mentioned that the introduction of an SPO is qualified as a developmental goal and hence not obligatory. This may lead to a (legitimate) consideration of costs versus benefits from the side of the PB, making the promotion of an SPO simply not a priority of first interest.

However diverse the reasons of the PBs unwillingness may be, the goal set out by the FT CP Standard and by this paper remains the same: the implementation of an SPO shall be striven for. If the PB shows disinterest in this task, why not make a third party other than the PB responsible for the promotion of an SPO?

This section will lay out such a strategy, arguing in favour of the involvement of an NGO responsible for managing the shift towards the SPO. As financing of this approach is to be considered an important issue, the financial efforts due to measures presented in the four phases of *Information, Preparation, Implementation* and *Consolidation* shall be supported on the one hand by donor financing, and in a later stage mainly by measures of improved productivity. This scenario puts at the very centre the assumption of mutual benefaction and transparency. As independence lays at the core of producer empowerment, an exit strategy will be described; this strategy demands the exit of the NGO after the fulfilment of its duty. To conclude the scenario, strengths and weaknesses as well as opportunities and threats of this approach shall be presented in a matrix for a better overview.

7.2.2 Strategy

Departing from the premise of the PBs reluctance to promote an SPO and inferring that another entity shall be held responsible for said change, the question arises which entity is most suitable. As the certification organisation FLO-Cert already carries out audits on the standards, they could be given further the responsibility to carry out the needed steps for the implementation – and hence valuable synergies can be used. However, as FLO-Cert needs to guarantee its impartiality in front of small producers and buyer, this proposition may not be feasible.

The authors hence suggest the third party responsible for the promotion of an SPO to be an NGO. An NGO specialised in carrying out such an enterprise can bring specific expertise and increase probability of success, as a number of cases can illustrate (see further bioRe, 2016). Furthermore, and NGO exhibits particular advantages, mainly regarding possibilities of fundraising. This suggestion, on the other hand, displays some issues as well: An NGO must be found which is endowed with adequate know-how and knowledge of the context, and be committed for such a project to be carried out. It must

be highlighted at this point, that a particularly successful introduction of an SPO *was* achieved by involving an NGO (Singh, personal communication, May 5, 2016). This fact underscores that an NGO can indeed be a valuable partner for such a change.

Fundamental to this approach is the idea that the development towards an SPO is beneficial to both parties – the small producers *as well as* the PB: On the one hand, small producers get (among other aspects outlined in a previous section) empowered due to the fact that they are organised and hence increase their bargaining power. On the other hand, dealing with a more organised entity for communication and exchange of commodities may lead to more efficiency and hence more revenue for the PB. As those benefits may be overshadowed by a fear of losing influence in bargaining processes and traditionalist perspectives, a crucial element of this approach thus encompasses the information of both parties about potential benefits and a prospective win-win situation. In the heart shall lay the attaining of mutual benefaction through improved productivity and efficiency. As the Switzerland's Research Institute of Organic Agriculture states, an approach should include as much stakeholders of the value chain as possible to produce sustainable and effective results of innovation in agriculture (FiBL, 2014, p. 1).

The structuring of the implementation will be done according to the following phase model. As a first phase, information is key: Both small holders and the PB must be informed about the mutual benefits of the future changes as well as the further steps undertaken. A major focus shall lay on the information about the rights of the small producers in the new context. In a second phase, small producers are taught about market conditions and processes as well as productivity and efficiency enhancing strategies, including the implementation of a forum responsible for said strategies. This will lead to further cohesion of small producers, as they now share the same (achievable) interest of going this way further. In a third phase, the specific training towards certification of an SPO shall be focussed and central institutions and the provisioned change shall be implemented. On the other hand, increased productivity, organisation and efficiency benefit the PB. As a last phase, the certification is given to the new SPO and the NGO retreats as an incubator of implementation.

This six year's plan hence represents a compromise between a needed long-term collaboration (Suter, personal communication, May 4, 2016) and the SPO to be independent – gradually expanding its autonomy and the relation with the PB necessary for the project to succeed in the long term (Singh, personal communication, May 4, 2016).

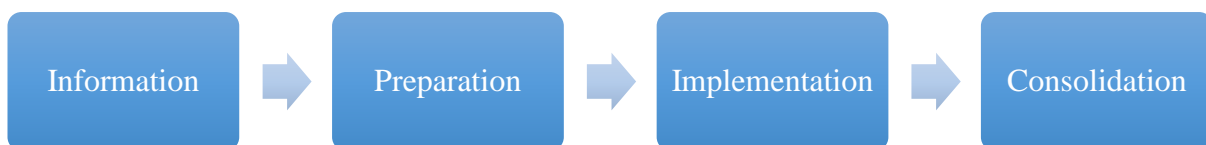


Figure 7: Phase model for the establishment of an SPO by an NGO. Source: Own figure

Information

Information is prior to concrete steps to be taken for the establishment of an SPO and hence starts by year 0. It covers:

- **Relevant actors:** As a first stage, informing both parties – especially the small farmers as well as the PB being the main parties involved – is crucial for the future project to be of success. Additional information of other small producers in the region not part of the Fairtrade system should also be considered, as a change to the local context of agriculture carries the risk of social tensions (Suter, personal communication, May 5, 2016). This may further open up new members to the Fairtrade vision. This stage must include the thorough and transparent disclosure of the steps going to be

implemented. As Singh (personal communication, May 5, 2016) highlights, trust is at the core of any successful form of such a change – and hence should not be risked.

- **Information of the PB:** Information further is essential to this approach because it can enable the transformation of the PBs unwillingness to cooperate towards a more benevolent attitude. If the PB's unwillingness to cooperate is due to a fear of losing bargaining power vis-à-vis small producers or due to economic considerations, these issues shall be tackled and potential benefits of organised small farmers be highlighted: Dealing with one entity of organised small farmers facilitates communication, bargaining and a smoother exchange of commodities. Moreover, the contribution to a meaningful vision of socially and economically empowered small producers can be a valid argument. These aspects are also of use if the distance between the PB and the small farmers caused mere indifference towards cooperation with small farmers.
- **Information of small producers:** Small farmers as the main target need to be informed about the procedure: Here the future benefits of enhanced empowerment of an SPO – socially and economically – shall be stressed. An important aspect for small producers to decide to cooperate lays in risk sharing (Punjabi & Mukherjee, 2015, p. 13), which needs to be addressed and granted by the NGO. Moreover, the argument of future training received and future increases in productivity must be emphasised in order to motivate the small farmers to engage in the project. An important part of this stage includes the information of small producer's rights in the system – rights which can be claimed. At this stage, moreover, small producers will be informed about market conditions and processes: This includes how prices are set and the knowledge of the whole supply chain. This represents a major factor for initial encouragement to sign in (Punjabi & Mukherjee, 2015, p. 19). It further brings meaning to small producers as they can experience their contribution to the Fairtrade vision, forming an important – if not the most important – part in it. Concerning meaning, the social empowerment by an equal voice in the system and democratic institutions established as a result of an introduction of an SPO shall be highlighted.
- **Relation building:** Last but not least, a personal encounter of the buyer and the small producers – to the extent possible – shall be striven for. And hence the foundation of a good relation of trust be built and thus future cooperation be enabled (Singh, personal communication, May 5, 2016).

Preparation

In this step, the context is prepared for the establishment of an SPO and is provisioned to last one year.

- **Dispute settlement mechanisms:** As has been stated, the previous stage of information encompassed information on small producer's rights. In the present Standard, in the case of conflict, PB and small producers engage in finding an ideal way by means of informal conflict resolution. It must be considered, however, to put the NGO in charge for more binding results and more formalized procedures. This can also be translated to the whole system, where an independent arbitrator, which forms part of the Fairtrade system, could ensure claimable rights and conflict resolution. This would go further than information about rights and include ensuring them. The establishment of an arbitral entity can further reduce potentially unfavourable effects of emerging conflict due to the change implemented.
- **Training and productivity enhancing:** As farmers may – being often in a condition of poverty – show high risk aversion, implementation steps shall be taken carefully. As Graf et al. (2015) state, offering training to small farmers before they make an investment represent the first best practice (p. 32). This training includes productivity enhancing measures as well as training of institutional procedures.

Where increasing production by expanding to new fields is concerned, in most developing countries there is little room for expansion of arable land. This is especially true for South Asia, where virtually

no spare land can be found. Much of the “unused” land suffers from constraints making it less suitable for agriculture. Additionally, potential agricultural land is situated in protected areas or under forests, used for human settlements, or exhibits poor infrastructure and the incidence of disease. This land therefore cannot be considered as being a reserve, available for expanding agricultural activities. (FAO, 2003, p. 14)

Hence, the authors suggest a focus on intensification of the arable land given. This could lead to a win-win situation for both small producers and the PB, both benefitting from higher yields and hence income. In intensification lays a considerable scope for improvements (FAO, 2003, p. iv). However, intensification by means of “modern” technologies may lead to a vicious cycle of poverty and land degradation (FAO, 2003, p. iv). Great progress could be observed in agricultural productivity in the last decades, productivity which however was decisively driven by increasing the use of fertilizers, irrigation, agricultural machinery and application of pesticides. Nevertheless, this relationship is doubted to be of a linear nature in the future (Pretty, 2008, p. 1).

We thus argue in favour of *sustainable* intensification. Whereas sustainability is partly aimed for within the Fairtrade system, it offers considerable potential for improvement. Sustainability in agricultural systems focuses on the need of developing technologies and practices that show no adverse effects on environmental goods, offer accessibility to and effectivity for farmers, and lead to improvements in productivity of food. Whereas, contrary to the afore mentioned position, the risks of modified crops are subject to debate (see bioRe, 2014, p. 6), this modification moreover cannot be carried out by farmers themselves – they hence enter in dependency on a third party providing the modified plants – an idea which reaches levels of dependency opposed to the idea of empowerment, even though organic cultivation was shown to be competitive with genetically modified cultivation (bioRe, 2014, p. 6).

More promising is the establishment of a “forum” where farmers exchange their knowledge on productivity enhancing strategies, small farmers already partially possessing knowledge thereof (Singh, personal communication, May 5, 2016). This builds on promising collective capacities. The role of the NGO will be the establishment of said forum and bring in new ideas of increasing productivity – and thus combine science *and* farmer’s inputs as a success factor (Pretty, 2008, p. 1). Such an enterprise is fostered by teaching ways of ecological and agronomic management and practices (Pretty, 2008, p.1; Punjabi & Mukherjee, 2015, p. 19), irrigation systems and supporting services through new equipment and technology, such as used by Jain Irrigation (Punjabi & Mukherjee, 2015, p. 19). These measures can be accompanied by implementing farmer field schools and modern information and communication technologies and the engagement with the private sector (Pretty et al., 2011). In this stage, first steps towards the implementation of said ambitions shall be taken – this includes bringing gradually together farmers for an exchange and hence laying the foundations for the forum.

The forum also discusses efficiency enhancing strategies. This includes efficiency of resources fostered by a cooperative organisation. Moreover, efficiency can be enhanced regarding the distribution system. Ways of gathering, storing and centralizing the harvest more efficiency shall be found. As the context of Indian small farmers is highly diverse (Singh, personal communication, 2016/ Suter, personal communication, May 4, 2016), promising ways of enhancing efficiency must be found according to the local setting and its respective possibilities. An important lesson from successful sustainability intensification projects is the creation of social infrastructure that build trust among individuals (Pretty, 2011). This aspect will be covered in the next section.

➤ **Schooling:** The provisioned schooling encompasses the teaching of benefits and workings of institutionalized democratic values, of rights and schooling in general. Whereas democratic institutions are concerned, the NGO shall be responsible for thoroughly explaining the workings of the General Assembly and the Board – and highlight the benefits stemming from them. As “one

person, one vote” may be a new principle, those rights have to be laid out. Schooling of rights includes labour rights as claimed by the ILO which are inherent to the Standard (Fairtrade, 2011, p. 3). The aim – central for empowered producers – is to foster understanding of requirements and their independent fulfilment (Singh, personal communication, May 5, 2016). More generally, schooling in terms of education represents an important factor for empowered small producers, as elaborated in our concept of empowerment. It is also argued that education is a human right and enhances small producer empowerment significantly (bioRe, 2014, p. 9). Especially women’s education is an important factor for building up human capital for a project to succeed (Pretty et al., 2011). Despite these claims, the role of education in the Fairtrade system can be critically assessed, as it may not represent part of its core strategic goals.

- **Financing:** A main challenge of this approach will be its financing: The measures undertaken in the phases of information, preparation and implementation will require a significant amount of financial assets. This problem may be overcome by initially using the premium which can be expected to be gradually higher once the phases are run through. This requires patience on the side of small producers, as during this six years’ plan, no (or few) additional revenue is generated for them. Information and transparency about the budget hence are crucial in the “incubation-phase”. This is underscored by the fact that the single most important reason for exit of a new contractual setting has its roots in feared economic losses (Narayanan, 2013, p. 142). Taking those concerns seriously and addressing them thus constitutes an important factor of success. The main focus of financing then lays on increased production, making farmers self-supporting. However, increasing production takes time (Singh, personal communication, May 5, 2016). As the third party is an NGO, the first stages additionally might be financed by donations, which requires fundraising on behalf of the NGO. In the long term, when productivity is stabilized on a high level, paying back a certain amount of the donation (or credit, respectively) can be considered as an option – making financing the next SPO possible.
- **Communication and Relation:** As a good relation is crucial for the success of the project (Singh, personal communication, May 5, 2016), communication and relation building is not only important in the first phase, but must be included throughout the whole process of transition towards an SPO. In this phase, the PB therefore is invited into the field and the progress made is demonstrated, which builds trust and a positive outlook on future success of the productive and socially organised farmers.

Implementation

This phase implements the changes discussed in the previous section. It is provisioned to last 5 years.

- **Institutions:** At this stage, the necessary institutions conforming to the Standard shall be implemented. This involves the democratically organised General Assembly and the Board (Fairtrade, 2011). Moreover, the forum described in the previous section shall be expanded and stabilised, with the discussed changes on production and efficiency being implemented.
- **Financing:** The production enhancing strategy now should carry its first fruits and more and more makes up for a greater share for financing. The NGO at this point serves as an ad-hoc financier where needed.
- **Capacity building:** The implemented changes shall be accompanied by the NGO and support be given. This includes support regarding schooling, training and ensuring the working of the newly established institutions according to the Standard. Moreover, monitoring is essential in order to observe positive developments and draw-backs – and hence to allow for learning processes.

Consolidation

Finally, in the consolidation phase farmers care for the working of the cooperative and its institutions autonomously. The measures on productivity took time (Singh, personal communication, May 5, 2016) but have now reached significant success and farmers work collectively for its improvement.

They now comply with the SPO Standard and as they are organised, are expected to take future measures and solve future challenges collectively (Singh, personal communication, 2016). Mutual benefaction of both small farmers and the PB is now established and a long-term relation ensured – a win-win situation could be achieved. The NGO thus retreats as an “incubator” of change.

The following table presents a SWOT analysis of the above explained solution proposal:

Internal	
Strengths	Weaknesses
<ul style="list-style-type: none"> • Benefits of an NGO responsible for the change: expertise and fundraising activities • Trust-building by focussing on transparency and information • Potential of sustainable intensification • Economic empowerment may lead to further social cohesion because of realised shared benefits • Awareness and ensuring of rights supported by dispute settlement and arbitration • Farmers receive knowledge of market conditions and processes • Training regarding institutions specific to an SPO • Establishment of a forum: Increased productivity and efficiency benefitting both small farmers and the PB • Financial feasibility due to increased productivity, financial support by the NGO and the premium being used initially 	<ul style="list-style-type: none"> • Empowerment is not carried out in a given context but imposed. Efforts for organising the small producers come from the “outside”, agency in this process can thus be limited. (Mutersbaugh, 2002, p. 1167) • May have a negative influence on local social peace and cause tensions. However, the involvement of small farmers not part of the FT system may open up new members • Meeting small farmer’s basic needs is crucial before introducing further measures (Singh, personal communication, May 5, 2016) • An existent SPO may be seen as a prerequisite before the implementation of productivity and efficiency enhancing measures (Singh, personal communication, May 5, 2016)
External	
Opportunities	Threats
<ul style="list-style-type: none"> • Potential win-win situation 	<ul style="list-style-type: none"> • Cultural setting may lead to repulsive sentiments and actions. Cultural settings seem to be a common limitation of innovation in the agricultural context (FiBL, 2014, p. 2). • Traditional way of doing things is touched upon • Potential dependency on the NGO – exit strategy needed

Table 11: SWOT Analysis of solution proposal 1

7.3 Solution proposal 2: Transition to an SPO through trust building between the PB and the producers

7.3.1 The premise and the problem of moving up the value chain

In contrast to the first solution proposal, the second proposal is based on the premise that the PB is benevolent towards the smallholder producers in that he supports them in their transition towards an SPO. Indeed, three of the projects in India have already managed to establish an SPO – two of them produce cotton and one produces Basmati rice – while two other projects are on their way (Singh, personal communication, May 5, 2016). Moreover, Singh (personal communication, May 5, 2016) pointed out that one of the decisive factors is the relationship between the buyer and the smallholder producers, which has to be built on long-run commitments. Therefore, the following solution proposal focuses on building trust between the producers and the PB in order to achieve a long-run commitment. Moreover, a trustful relationship is crucial to improve producer empowerment. This is not least because smallholder producers often have a hard time moving up the value chain, which would also foster their empowerment, as discussed in the following.

In recent years, the development of alternative food chains has attracted much attention with the growing public concern over the origin and manipulation of foods. This new resurgence of interest “offers potential for shifting the production of food commodities out of their ‘industrial mode’ and to develop supply chains that can potentially ‘short-circuit’ the long, complex and rationally organised industrial chains [...] within which a decreasing proportion of total added value in food production is captured by primary producers” (Marsden, Banks & Bristow, 2000, p. 424-425). One of the options has been implemented by the Swiss start-up Choba Choba, which works with 35 smallholder farmers in Peru who export their products directly to consumers via an online shop, after the cocoa beans have been processed into chocolate by the internationally recognised producing company Felchlin. The founder of Choba Choba, Christoph Inauen, developed a model where the producers are part of the company, holding one third of its shares in the short run and a planned majority in the long run. By this, “unhealthy dependencies” on the buyer and exporter of the produce are minimised. Moreover, producers are empowered because they are part of the company and in its decision-making. (Morgenthaler, 20 February 2016)

This type of supply chain is based on face-to-face interactions of the producers with the consumers, and is one type of short supply chains identified by Marsden, Banks and Bristow (2000, p. 425). Selling to producers shares of the company and letting them be part of the whole business is, however, not suitable in any case. Sambrani and Ellman (2009) point out that becoming shareholders of the PB would give the producers a stake in the processing of their product, for instance, but in case the company is not that successful, it produces more risk for the smallholder farmers (p. 65). Sambrani and Ellman (2009) mention that, especially for some products, it can be hard to take further control over the supply chain through taking on the processing of the produce, be it through holding shares of the PB or through an established SPO that undertakes this process by itself. In the latter case, the SPO would still be dependent on the PB as a buyer and exporter (p. 65). As regards different types of products, Singh (personal communication, May 5, 2016) argued that processing bananas or grapes is easier and less costly compared to processing cotton or Basmati rice. However, the production of Basmati rice is very limited in the world, so that buyers must necessarily buy the rice from Indian producers. In the case of cotton, however, Singh stated that the value chain is very long and taking over the first step, which is converting seed cotton into cotton fibres, requires huge investments even for only small manufacturing facilities (Singh, personal communication, May 5, 2016). Sambrani and Ellman (2009) confirm this point of view and add that the processing of cotton has substantial economies of scales, which favours very large plants, often unaffordable for smallholder producers even if they are very well organised (p. 59).

7.3.2 Strategy

Marsden, Banks and Bistow's (2000) offer a second option that allow a shortening of the supply chain. They argue that short supply chains do not only mean that the distance between the consumer and the producer is reduced in terms of fewer steps in the supply chain, but the fact that consumers have considerable information about the product that reaches them. The consumer has to be able to associate the product with its place of production, and potentially, the values of the farmers and the production methods they employed. (Marsden, Banks & Bistow, 2000, p. 425-426) A closer connection between the smallholder producers and the consumers first of all means that there needs to be a good relationship between the producers and the PB, who then passes the information on, up the value chain. Porter and Kramer (2011) discuss the model of Creating Shared Value (CSV), which is increasingly replacing Corporate Social Responsibility. This involves "creating economic value in a way that it *also* creates value for society by addressing its needs and challenges" (p. 64). CSV is more and more characterising the linkages of global players with local communities. It highlights that a successful relationship consists in a win-win situation where farmers and buyers benefit. It is in this context that the still largely untapped market potential at the Bottom of the Pyramid is increasingly recognised. (Will, 2013, p. 22)

Against this background, the authors develop the following solution proposal, which aims at building a trustful relationship between the smallholder producers and the PB. On the one hand, a good and strong relationship enhances producer empowerment by creating shared value through a win-win situation where both parties, the PB and the producers, benefit. On the other hand, it empowers producers in that a good relationship with a benevolent PB sets the ground for managing the transition to an SPO, which is and will be the goal in the CP Standard, as explained in chapter 4. The development of this win-win relationship is divided into four different phases – *information, preparation, implementation, consolidation* – as outlined in the previous chapter in Figure 7. This should be understood as an additional part to the already existing CP Standard, with elements that aim at fostering a better relationship between the PB and the producers. The analysis includes theoretical information from literature research and practical information from the interviews with Fairtrade International and bioRe. Moreover, the authors include the success factors for CF, identified by the International Fund for Agricultural Development (IFAD).

Information

In the first place, the PB himself has to get a sufficient amount of information about this undertaking. Only after this step, he should involve with the smallholder producers and set up CF arrangements. As the IFAD (2015) notes, one of the primary success factors is having an adequate planning framework (p. 66). The authors believe that this can be divided into two different aspects:

- **PB's knowledge about the local circumstances:** This includes conducting an analysis of the local circumstances, such as policies, legislation, administration and infrastructure (IFAD, 2015, p. 66).
- **PB's knowledge of the entire supply chain and the consumer market:** The PB has to be informed about the different actors on different stages of the value chain (IFAD, 2015, p. 66). Singh (personal communication, May 5, 2016) added to this that, for instance for cotton, having knowledge about the supply chain in totality can be challenging because the value chain is very long and often the final brands are largely disconnected from the farmer group. Knowing who the final brand is, however, helps the PB to evaluate market opportunities and consumer demand. Moreover, it is important because the PB is responsible for passing the benefits and necessary support structures on to the farmers. Hence, the PB has to ensure the commitment of the final brand and also, to establish a long-term relationship with more or less stable conditions and requirements so that it becomes more predictable for the PB as well as for the farmers. (Singh, personal communication, May 5, 2016)

Preparation

In a second step, the PB should get in touch with the smallholder producers and set up the contract. This should include the following elements:

- **Mutual cost and benefit sharing and risk reduction:** Whether or not smallholder farmers can engage profitably in CP arrangements depends on the willingness of both parties to engage with each other (IFAD, 2015, p. 66). Mutual cost and benefit sharing requires that both parties have to face incentives that make them comply with the agreement, finally contributing a win-win situation. It has to be considered that smallholder farmers are among the most vulnerable and highly risk averse. Depending on a small plot of land to feed their families, smallholders think twice before changing anything that could jeopardize their harvest and result in starvation (Graf et al., 2015, p. 19). Long-term incentives and short-term rewards can help reducing the risks for farmers while still be attractive for the PB. For smallholder farmers, it is not so much about whether they are covered by any insurance, but their decision will be affected by how easily they can reverse their decision (Graf et al., 2015, p. 19). For instance, purchase guarantees during the years of adoption of new modes of production and during the time they need to have their investment become fully productive might be suitable, as Graf et al.(2015) note (p. 19-20). Christa Suter from bioRe (personal communication, May 4, 2016) pointed out that it is important for producers to know that there is an outlet market for their product and that the investment is proving of value. In this sense, Suter mentioned that Fairtrade Standards should include purchase guarantees. Furthermore, the risk can be reduced by keeping asset specificity low so that the farmers can use the same asset for the production of different crops (Sambrani & Ellman, 2009, p. 20).
- **Regular and transparent communication:** As Singh (personal communication, May 5, 2016) indicated, the PB should regularly visit the farmers, talk to them and possibly evaluate the current state of affairs. Furthermore, the PB should show transparency and make clear the terms and conditions (Suter, personal communication, May 4, 2016). Communication can further be facilitated by using appropriate technology. As Graf et al. (2015) note, close to 45% of the developing world population had a mobile subscription at the end of 2014, and this number is expected to grow by 56% by 2020 (p. 38). Using mobile phones can help stay in touch with farmers, but also to have faster access to advice and support in a cost-effective way (p. 37).
- **Dispute settlement mechanisms:** A further success factor is the existence of dispute settlement mechanisms that take into account the different capabilities of the contracting parties. These mechanisms should be “equally accessible and mutually recognised by the involved business partners” (IFAD, 2015, p. 67). Furthermore, access to internet can help producers entering an organised market and improves the ability to negotiate collectively better prices or obtaining group insurance, etc. (Sambrani & Ellman, 2009, p. 52-53).
- **Capacity building I:** The authors believe that capacity building is a process which has to occur in several development states. In this stage, capacity building should focus on aspects of production and agriculture, for instance training for new production technologies. Graf et al. (2015) point out that “the first best practice is deliver training before asking farmers to make an investment” (p. 32). This improves farmers’ loyalty, which is especially important in a context with large competition of buyers. In order to achieve the best cost-benefit outcome, the PB should provide this training to identified farmers – if possible democratically elected representatives of the community, in whom people put trust – that can then demonstrate the newly acquired capabilities to others and spread it through word-of-mouth communication (Graf et al., 2015, p. 27).

Implementation

The implementation phase starts with the first year of production and includes the following aspects in order to building a more trustful relationship between the PB and the producers:

- **Financing:** One way of achieving more farmer loyalty is by providing financing that is profitable and ethically correct. This can include flexible credit repayment terms that smooth out farmers' cash flows, so that producers pay credits back after harvesting they produce, when they have the necessary money available (Graph et al., 2015, p. 23, 48). Another possibility can be group lending where members act as co-guarantors by selecting a leader and where members are then jointly responsible for covering the loan amount for any member defaults (p. 49).
- **Retaining loyal farmers:** Once the first capacity-building training has been given and the early adopters have spread the new learnings among the community, it becomes important to retain loyal farmers as well as enrolling new farmers (Graph et al., 2015, p. 27). Retention can be achieved by providing the "right mix of rewards", for instance, being there when farmers need it or giving exclusive access to valued technology or inputs. The former entails for example that the PB helps organise the transportation of the produce when farmers are not able to do this by themselves. The latter can include special packages or services, such as Jain Irrigation's onion packages with seeds that have higher solid content and hence fetch higher prices (p. 45-46).
- **Capacity building II:** In view of the establishment of the SPO, which occurs in the next phase, producers should be prepared to lead their own organisation. This is why the authors believe that the second training block should include capacity building for democratic governance and organisational capabilities. While this is included in the existing CP Standard, Boscher et al., (2012) found that illiteracy remains an impediment, the participation of women depends on the existence of female based groups, and that sometimes governance is not that transparent with a risk of concentration of power (p. 49-50). The updated version of the CP Standard should take into account these identified deficits.

Consolidation

In the last phase, the establishment of the SPO takes place. By now, the producers ideally have acquired the necessary knowledge to organise themselves into an SPO. They ideally also had time to get used to possible changes in technology and have reached a level of income that allows them to cover more than only their basic needs. Singh (personal communication, May 5, 2016) explained that only when the basic needs (such as having sufficient capital to invest into land, resources to harvest the produce, and the possibility to sell their produce at the agreed prices) are satisfied, producers are willing to invest time and money into other activities. The resources that were freed up in this development can now be implemented in the management of the SPO.

- **Monitoring and feedback:** Once the task of establishing an SPO with the support of the PB is fulfilled, the PB starts decreasing its presence so that the SPO can act as an independent entity. This does not mean, however, that the relationship ends here. On the contrary, the trustful relationship that has been built during the previous years serves now as a basis for a long-run partnership between the PB and the SPO. It is also important that the PB continues to visit the producers regularly to see their proceedings and give feedback. In this last part, it is of utmost importance to keep the producers motivated in their undertaking and to provide advice if they request it.
- **Development as an organisation:** As the SPO develops as an organisation, the use of the Fairtrade premium can change. Options can be using the premium for moving up the value chain – if the product allows for it – by investing the premium into processing machinery or construction. On the other hand, the SPO could use the premium to increase education in their region, which would enhance their social empowerment. The founder of Fairtrasa, Patrick Struebi, noticed that Fair Trade is often carried out with the richest of the poor, while the poorer smallholder producers are not included in the framework. Therefore, the organisation invests a part of its profit into educating the poorer farmers so that their empowerment increases as well (Struebi, 2015, p. 12-13). Whether this idea is successful or not depends to a large part on the solidarity among the community members.

One of the most important things, to conclude, is that communication is a key success factor in establishing a trustful relation between the PB and the producers. Communication includes information about the value chain, about prices and consumer demand, but also the idea that the PB should regularly visit the producers, give feedback and communicate with them via mobile phone or internet, if available. Another essential aspect is that the PB takes smallholder farmers' vulnerabilities seriously in that they adapt their services (providing credits, purchase guarantees, etc.) to the cash flow of farmers so that their risks are reduced and empowerment is maximised. On the other hand, whether or not the project will succeed, also depends on external factors, such as the political environment and government policies, limitations in the market or inherent in the product, and not least on the competition between buyers. Among the internal factors it is decisive to have a clear strategy in place and the willingness of both parties to commit themselves to building a trustful relationship.

7.4 Solution proposal 3: Enhancing empowerment through expansion to sub-crops

7.4.1 The premise

The last scenario includes the development of sub-crops where the producers are empowered through diversification of the products and the market. It is expected that in case of a bad weather or a pest infestation, a crop shortfall can be weakened. Especially, when a land is planted with two different crops. Possibly, the whole harvest will fail. Originally, the idea of planting sub-crops was developed in the context of BIO-norms. The soil should not be exploited by a monoculture to maximize the fertility of the soil through continuous planting of sub-crops (bioRe Stiftung, 2016). Not only the amount of the sub-crop but also the main-crop is raised. In addition, the whole farm is strengthened as they eat more healthily and evidence showed that although more labour intensive costs were saved as less pesticide were used (Suter, personal communication, May 4, 2016). The existence of local markets is assumed, to which the farmers sell their products.⁵ On these grounds, the main focus will be on the global market. The extension to sub-crops is divided into four steps: Information, preparation, implementation and consolidation according to figure 7. It is highly possible that the farmers need to be supported.

7.4.2 Strategy

Information

First of all, the farmers have to be informed about the idea and the benefits of sub-crops. For example, in the short term a crop shortfall is probable, while in the long-term it enhances the quality of the products, the soil fertility and the biodiversity (FIBL & bioRe, 2012, p. 2), which leads to more crop and sustainable benefits that drives the empowerment process further on (Suter, personal communication, May 4, 2016). Second, a market analysis has to be made. Which products are demanded locally and globally. The analysis provides the appropriate information for making a decision, which sub-crops are demanded and can be sold. In a next step, the farmers have to evaluate which kinds of sub-crops are feasible for them to produce. On one hand, this means that they have to calculate their effort, time, and willingness to train but also the local conditions such as the disposability of types of sub-crops and the conditions that a certain crop can grow. In the Indian cotton fields of bioRe, soy, wheat, maize, chilli, beans and pulse have been proved as successful. In contrast, lentils were only used as border crops (Suter, personal communication, May 4, 2016). On the other hand, there is a need of a

⁵ They minimize the risk due to the diversification of the buyers. The price is built on the basis of a typical market situation and the amount for the products are paid right away. As the farmers are part of the product, they are typically involved in more than one step of the supply chain such as transportation and distribution. The weaknesses are the little income which is generated due to another purchasing power and the difficulties of organization the distribution and transportation.

cost-benefit analysis and to verify the prices in advance to a verifiable objective mean. Third, the farmers have to think about future events and involve them into a plan. As the IFAD (2015, p. 66) notes, one of the primary success factors is having an adequate planning framework. For example, a wedding and for that occasion exceptionally high expenditures should be taken into account (Suter, personal communication, May 4, 2016). There is a need of a provision in the Standard for the cash crops that allows the farmers in certain subsequent months or years to revert to the monoculture. In the first phase, it is therefore important that a strategy is developed and a plan is needed. An NGO or the PB depending on the relation can support the farmers.

Preparation

In the preparation phase, the farmers should get in touch with a potential buyer and promoter. The two actors, the PB or the SPO, which depends on the relation, can distribute the sub-crop. After having found the distributor the contract should be negotiated. That the new cultivates can be developed fully, there should set a guarantee that the farmers can sell their products for at least five years to the buyer (bioRe, 2013, p. 4). Additionally, the access to the seeds has to be organized. Furthermore, the farmers should be prepared for the next phase with some knowledge about the crop that they are going to plant.

Implementation

In case farmers need some support, they should have the possibility to contact an advisory person. It is important that they are motivated to continue, even though they might not see a progress in the short- and middle-term.

Consolidation

Farmers can reflect their process and give recommendations. It might be helpful that farmers are in contact with each other and share their experience. When the whole process is implemented, a higher productivity is reached that increases the income, the financial stability and the empowerment.

7.4.3 Different distribution forms

Extension to sub-crops with PB

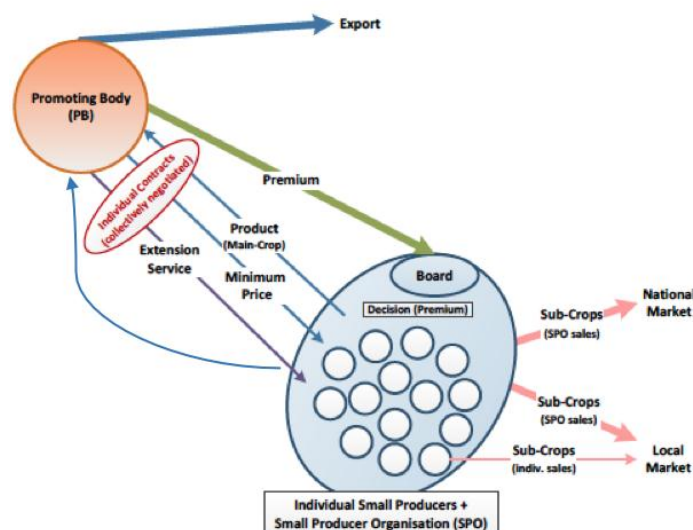


Figure 8: Scenario I: Fairtrade Contract Farming extension to sup-crops. Source: Max Havelaar, 2016, p. 9

The PB is the holder of the Fairtrade certificate for the sub-crop⁶ and has a contract with each producer. At least the FT Minimum Price for the contracted product has to be paid to the individual farmer. The SPO receives the premium and decides on the use of it. In addition, the main and sub-crop can be sold to the local or national market. Farmers may have the possibility to sell the sub-crops individually on the market (Max Havelaar, 2016, p. 9). Even though, the PB faces some risk when working with smallholder farmers, the perspective of the farmers is taken into account, as their life should be improved.

Internal	
Strengths	Weaknesses
<ol style="list-style-type: none"> 1. The conditions of Fairtrade, minimum price and premia, have to be guaranteed. This leads on one hand to a stable income for the particular producer; on the other hand the further common use of the premia is secured and strengthens the collective use of it. 2. As there are individual contracts, they still enforce individual initiatives, which may be welcome by the farmer himself. 3. Due to the contract with the PB they have a security that their products are bought. 	<ol style="list-style-type: none"> 1. In most of the cases there is only one PB. In such a scenario, there is no diversification of the buyer. The fact that only one buyer exists gives him a significant negotiation power over a cooperative (Johannessen & Wilhite, 2010, p. 530). 2. There is a high probability that the contracts are not collectively negotiated and that instead the PB tries to influence each single producer. 3. Possibly, there are no capacities of a farmer and it causes some difficulties to gather information. This situation can be misused.
External	
Opportunities	Threats
<ol style="list-style-type: none"> 1. The farmers can diversify their products and there is a high probability that they receive two different minimum prices. 2. The relation to the PB can be strengthened or even new relations to another PB can be established. 3. The farmers still receive technical know-how from the PB. 	<ol style="list-style-type: none"> 1. The PB who exports the main crops may not have the experience and knowledge that are required for the sub-crops. 2. There may be some difficulties to find a PB, who is organized to export the sub-crops. 3. There are the usual weaknesses when the PB pays too late, a relatively low price is set, breach of contract. 4. Especially, when there's a bad relation with the PB, the farmers are dependent on this goodwill, which can be lead by his interests. 5. The farmers still may be blocked to the primary step of the supply chain as time, knowledge and financial aspects limit them. There is little chance to be involved in other steps (as for example the transportation).

Table 12: SWOT Analysis: Extension to sub-crops with PB

⁶ Reflected through the rotund arrow in the figure 8

Extension to sub-crops with third party

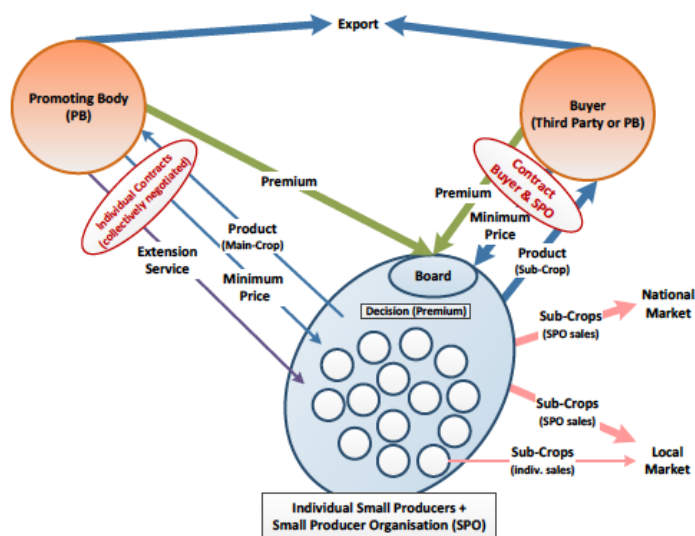


Figure 9: Scenario II: Fairtrade Contract Farming extension to sup-crops with third party. Source: Max Havelaar, 2016, p. 10

The SPO is the holder of the Fairtrade certificate for the sub-crop and negotiate the contract and the provision of extension service with the buyer, who can be the PB or a third party. At least the FT Minimum Price is paid. Additionally, the SPO receives the premium, decides on the premium use, and controls product marketing and provides other services, e.g. provision of fertilizer (Max Havelaar, 2016, p. 10). The text written in grey indicates that these points were also mentioned in the SWOT analysis about the conventional CF model.

Internal	
Strengths	Weaknesses
<ol style="list-style-type: none"> 1. The conditions of Fairtrade, minimum price and premia, have to be guaranteed. The SPO can decide collectively on the price and the premia. 2. Therefore, the collective element can further be strengthened. The use of the premia can already be included in the information and preparation phase. 3. In addition, the SPO can help to provide the financial independence. 4. The SPO can gather information collectively so that saves time and money. 5. In the case that the SPO is well organized, they can make use of their collective empowerment while negotiating the price. 6. The farmers can organize themselves and share their (technical) experience with each other. 7. The SPO can choose which PB or third party is appropriate to conclude a contract with. 	<ol style="list-style-type: none"> 1. Even if the SPO can choose the PB/third party and negotiate collectively, their choice is limited. In most of the cases there is only one PB. In such a scenario, there is no diversification of the buyer. The fact that only one buyer exists gives him a significant negotiation power over a cooperative (Johannessen & Wilhite, 2010, p. 530). 2. There is still a probability that the SPO is circumvented and the PB/third party try to negotiate with each single producer. This might happen when the SPO is not yet well established and the producers follow their self-interests. 3. There are the usual weaknesses when the PB pays too late, a relatively low price is set, breach of contract.

8. Due to the contract with the PB/third party they have a security that their products are bought.	
External	
Opportunities	Threats
<ol style="list-style-type: none"> 1. The farmers can diversify their products and there is a high probability that they receive two different minimum prices. 2. The relation to the PB/third party can be even strengthened or established. 3. The farmers can build their own experts regarding the technical know-how. 	<ol style="list-style-type: none"> 1. In the case that an SPO is not well connected, it would take them some time to get in contact with a PB or third party. 2. The PB who exports the main crops may not have the experience and knowledge that are required for the sub-crops. 3. There are the usual weaknesses when the PB/third party pays too late, a relatively low price is set, breach of contract. 4. The SPO may still be dependent on the PB's goodwill, which can be led by his interests. 5. The SPO may still be blocked to the primary steps of a supply chain.

Table 13: SWOT Analysis: Extension to sub-crops with third party

As the SWOT-Analysis showed the effect of empowerment seems the highest, when the SPO is the holder of the certification. Nevertheless, a distribution through the PB can be thought of. It depends on the context and the relationship between the producers and the buyer as well on the product and the experience of the PB.

7.5 Result and synthesis

This subchapter aims at bringing together the three solution proposals and illustrating the most important findings in the following graph, which the authors will discuss and explain in detail on the next page.

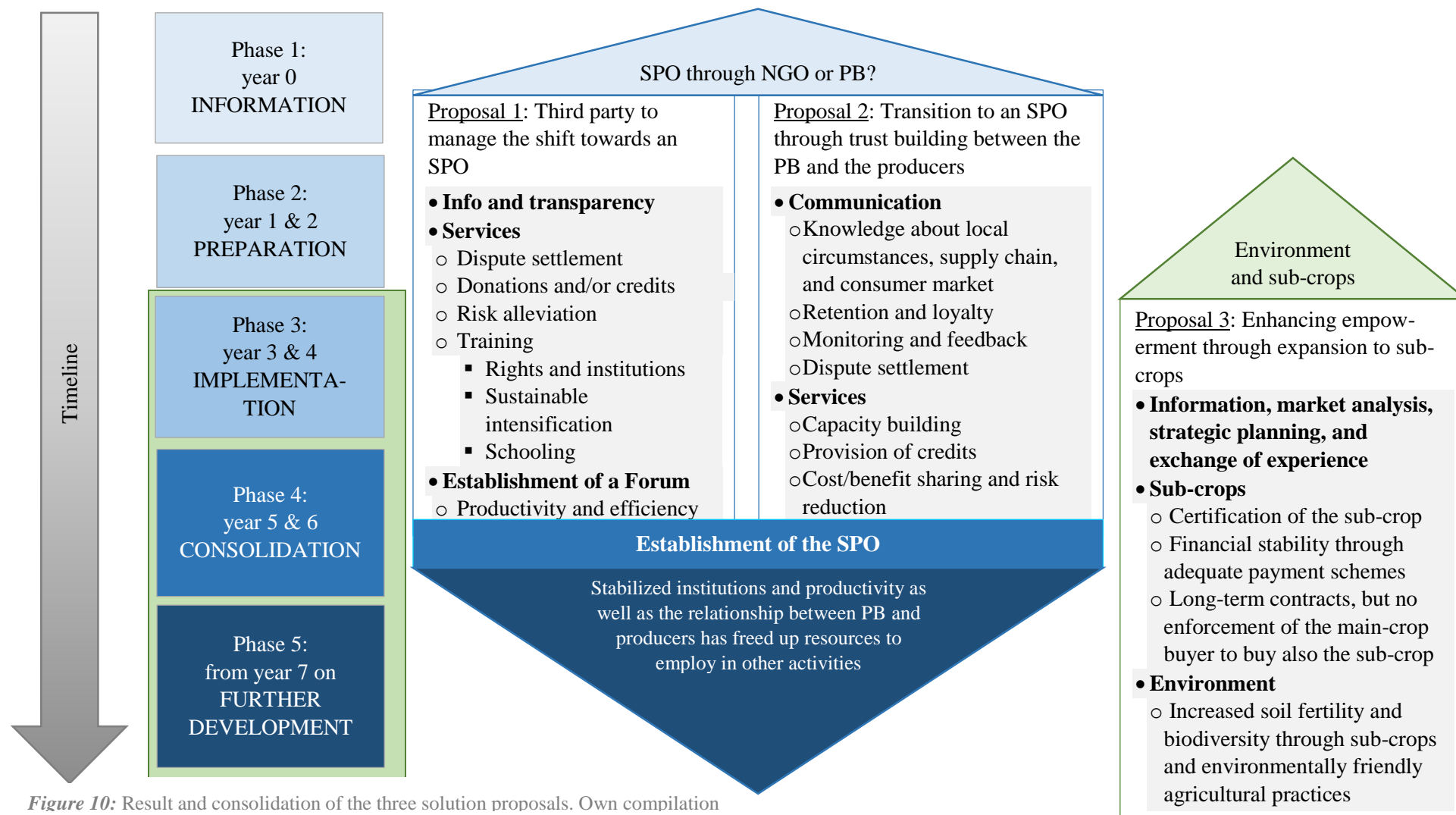


Figure 10: Result and consolidation of the three solution proposals. Own compilation

The left side of the graph indicates the timeline with the first six years divided into four phases, as explained in chapter 7.2 and 7.3. The darker the colour, the further in the future is the given activity. The blue colour indicates the timeline for the establishment of the SPO whereas the green colour refers to solution proposal 3 (chapter 7.4), which relates to the environment and the extension to sub-crops. Year 0 indicates the time before the actual contract is signed, that is, when the BP or the NGO have to plan their activities and get to know the local circumstances and the producers. In year 6, the SPO should be established and from then, ideally enough resources have been freed up to employ in other activities that further improve the situation of the producers.

The two pillars in the middle of the graph represent solution proposal 1 and 2, which are based on two different assumptions about the PB, and should thus be understood as “either or” ways of establishing an SPO. The idea is that at the beginning of the arrangement with the producers, both parties, the PB and the producers, decide whether or not to opt for an NGO. After that point in time, however, the decision would be fixed and the establishment of the SPO becomes mandatory within the following six years. This is, Max Havelaar might want to consider to change the status of establishing an SPO from a current “development goal” to “core”, and thus making it a mandatory principle in the CP Standard:

Year 6	Core	A 4.1.5 You must ensure that one or more producer organisations are being established in a transparent manner.
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Proposal 1 assumes that the PB is rather reluctant to help the producers establish an SPO and the smallholder farmers themselves neither see the need for establishing such an organisation. Therefore, a third party, the NGO, is involved in the project and acts as an “incubator”. The goal of this NGO is to take over the tasks that are needed to found the SPO. The second proposal is based on the assumption that the PB is willing to support the producers in establishing an SPO – as has happened in three of the projects in India. In one of the projects, this was through the help of an NGO (Singh, personal communication, May 5, 2016). Nevertheless, the authors believe that this process, which involves a close relationship between the PB and the farmers, bears room for improvement in terms of shared value between both parties. Same is true for the potential of improvement regarding sustainable intensification. While chapters 7.2 and 7.3 discuss the two proposals and their development over the four phases in more detail, the more general aspects are written down in the above graph.

Indeed, while elaborating the solution proposals, the authors recognised that some of the general propositions might be relevant regardless of whether proposal 1 or 2 is chosen. These aspects should thus be included in the CP Standard as “core” principles and are indicated by the bullet points in the grey-marked boxes in the above figure. This means for instance that, when solution proposal 2 is chosen, it is also beneficial to establish a forum in order to allow productivity and efficiency increases. On the other hand, when solution proposal 1 is chosen, it is still important, for instance, to put an effort in retaining loyal producers, even though the NGO is there to help with the transition into an SPO. Moreover, both proposals came to the conclusion that dispute settlement mechanisms that ensure equal voice and rights to both parties as well as clear procedures in conflict resolution might be added in the CP Standard to the current principle A 2.3.1.

The authors believe that in the end, these measures allow to stabilise and increase the production via increased productivity on the one hand, and to build a trustful relationship between the PB and the buyer on the other hand.

Solution proposal 3 discusses the production expansion to sub-crops. In the long term, sub-crops increase the standard of living of smallholder farmers considerably. Hence, the authors recommended that the extension to sub-crops is adapted as a “core” in the CP Standard as a further measure. The adaption, however, should take place in a later stage, namely when the farmers have gained enough

knowledge in Fairtrade CF and have time to focus on the production of sub-crops, as indicated in the above figure. The sub-crop should have the same certification as the respective land, with the same Fairtrade practices that are adapted in order to get the Fairtrade benefits (Singh, personal communication, May 5, 2016). There should not be a restriction on the products on whether to sell them via the buyer of the main crop or via another buyer in order to keep farmers' freedom of choice high. In addition, some more relevant factors should be included in the Standard: Firstly, it is of importance that the farmers achieve financial stability. For this goal, the payment has to be done within 3 days after the purchase (bioRe, 2013, p. 4). Secondly, the FT Standard should not force the PB/third party to buy the sub-crops (Suter, personal communication, May 4, 2016) due to the fact that some PBs/third parties may lack experience and knowledge in marketing the sub-crop in international markets. Nonetheless, if a suitable PB/third party has been found, the contract should last for several years in order to give the farmers the security that is needed. Thirdly, the producers should be offered an advisory service (bioRe, 2013, p. 5).

All in all, the authors believe that these measures bear the potential to increase producer empowerment – economic as well as social – substantially. Especially the establishment of an SPO fosters social as well as collective empowerment in contrast to the current state of implementation of the CP Standard. Moreover, they help increasing productivity and efficiency, transparent communication, farmers' knowledge of the supply chain and market processes, diversification through sub-crops, commitment and trust, among others. Finally, they also ensure more environmentally friendly agricultural practices, which are important for farmers' to live and work in a sustainable and healthy environment.

8 Conclusion

The increasing interest in Fair Trade products during the last decades has made it possible that a large number of smallholder producers have been able to improve their livelihoods. Yet there have been voices that have criticised Fair Trade practices and its organisations. A central goal of Fair Trade is to improve producer empowerment. In light of the CP Standard revision that is taking place soon by Max Havelaar Switzerland, this paper analyses how the CP Standard can be improved so that producer empowerment is maximised. A second goal of this paper was to adapt the CP Standard so that it resembles more and more the SPO context where organisations of smallholder producers are certified as an SPO and market their produce collectively via the organisation.

First, some of the ideas of the concept of empowerment were presented, which many disciplines and researchers had approached. Having discussed some approaches to power and empowerment, different types of empowerment as well as the limiting and supporting factors, it can be summed up that empowerment is a complex phenomenon, has many dimensions and takes place on different levels. It has been assumed that empowerment is a process that is built on a dynamic idea of power, namely that power can be shared. Besides the complexity, empowerment is seen as an “overarching concept”, which can include all of the three types of empowerment – individual, collective, and relational – depending on the constellation of the producers and the eventual buyer in the different Fairtrade models. In addition, it is an interrelated concept, which means that it has a relational aspect in the sense that it connects the different types of empowerment as well as it can include a third party. Ideally there should be an even balance between dependence and independence of the related parties. This may vary according on the context of each region. The result of the analysis was a table consisting of relevant criteria, which were ranged into economic and social empowerment. The reason for this list is the assumption that social follows economic empowerment. The eleven criteria of producer empowerment, that were elaborated, have been applied in the empowerment analysis of the SPO as well as of the conventional and Fairtrade CF.

Second, the Fairtrade SPO Standard’s vision explains how producers can build a basis for empowerment and sustainable livelihood through social organization. If the vision can be achieved according to the eleven defined criteria, was analysed by means of a SWOT analysis. Whereas some elements of empowerment were missing or hindered, overall, the Standard attains high empowerment scores, in terms of economic as well as social empowerment. For instance, SPOs bear large potential for improving social empowerment by fostering collective identity, a sense of security, improved health conditions, and democratic principles. Further, the authors came to the conclusion that the establishment of an SPO is desirable as well as possible, which holds also true in the Indian context.

Third, conventional and Fairtrade CF were analysed and compared by the means of the eleven elaborated criteria of producer empowerment and by the means of a SWOT analysis. The finding is that conventional CF shows more negative than positive aspects. Although it offers smallholder farmers access to new markets, transfer of knowledge and leads to a more stable income, it introduces also a heavily dependence on the buyer. The latter has more information about the international market and is financially less vulnerable, while the farmers often are poorly educated, have difficulties seeing through their rights. Furthermore, the conventional contracts are not subject to any international standard. The result does not mean that CF is per se a bad tool – it offers a wide range of opportunities that let producers as well as contractors benefit, but whether or not they benefit depends to a large extent on the benevolence of the contractor. On the other hand, Fairtrade CF follows the rules of the CP Standard and allows for improved producer empowerment, especially economic empowerment. For example, the realisation of collective responsibilities and actions through participation in the process of using the Fairtrade Premium become possible. However, the Fairtrade CF is still not perfect and there is some room for improvement regarding the producer empowerment. The authors concluded that there can still

be a rather unequal relationship between the PB and the farmer, even though the PB has a legal obligation to comply with the requirements of the CP Standard. The control the PB exercises over the producers and the degree to which he supports them in their transition towards an SPO is to some extent dependent on its will. Of course, it also depends on the farmers' will to organise into an SPO, but often they are not sufficiently well informed about the benefits that SPOs offer or they fear that they would have to bear large costs so that they would not push for the establishment of an SPO.

Comparing the Fairtrade CF model to the SPO model, the authors concluded the following. Strict rules on training and sustainability can lead to a high dependency on the PB, even though an SPO has been established. However, a certain kind of dependency on the buyer is needed in order to let the project benefit on a long-term basis. As the term "dependency" is often negatively connoted, the authors chose to use rather the term *interdependence*. Nevertheless, the collective organization represents a major factor especially for social empowerment, as aggregate knowledge and more bargaining power result from this cohesion. The potential win-win situation with shared value between the PB and the producers' organisation that can result by the establishment of an SPO thus offsets the weaknesses and threats by far.

Fourth, the authors elaborated three solution proposals in order to meet Max Havelaar's question on how the Fairtrade CF model could be brought closer to the SPO context. The first finding was that the establishment of SPOs is desirable and should therefore become a core and thus mandatory criteria in the CP Standard. Three major weaknesses of the Fairtrade CF model still hamper the development of fully and collectively empowered smallholder farmers: 1) Not in all of the cases an SPO has been established, 2) smallholder producers are still largely dependent on the PB for the sales, export and marketing of their product and lack considerable negotiating power with the PB, and 3) as the contract with the PB is for only one specific product, it can further strengthen the dependence on the PB in the sense that the farmers may have no other choice than selling everything to one PB. The three proposed solutions thus aim at meeting these weaknesses, enhancing the promotion of SPOs in FT CP, improving producer empowerment and creating a win-win situation between the producers and the buyer. All of them are divided into four phases – information, preparation, implementation and consolidation – which are explained in detail in the respective chapters.

In the first proposal, a third party is responsible for the introduction of an SPO and the measures to be implemented. It follows the assumption that the PBs rather unwilling to promote an SPO. The task to help the producers building a SPO could theoretically be carried out by certification organisation FLO-Cert or an NGO. While the FLO-Cert already is responsible for audits and should thus remain independent, an NGO with the adequate know-how and knowledge of the context is most probably the better option.

The second proposal consists of trust building and creating shared value between the producers and the PB that support the transition to an SPO. The proposal is based on the premise that the PB is benevolent towards the smallholder producers. In this process, it is for instance essential to establish good communication, providing capacity building to the producers, and promote farmer loyalty, among others. The PB and the producer benefit from a good and strong relationship that creates shared value and thus a win-win situation.

The third proposal consists of the expansion of the small farmer activities to sub-crops with the options of marketing carried out by the PB or the SPO itself. A beneficial environment is essential for the actors to operate sustainably and profitable in a long-time period. The distribution of the sub-crop can either carried out by the PB or the SPO, depending on the relation between the producers and the PB. The effect of empowerment seems the highest, when the SPO is the holder of the certification. Nevertheless, a distribution through the PB can be thought of.

All in all, there have been discovered some limitations. According to the interview first of all “the basic needs” of the farmers, such as access to a land or property, should be fulfilled. It is acknowledged that the government and its institutions are important actors that should be involved in the empowerment process as they normally place at the disposal some structures. Likewise, cooperation should be sought for. Therefore, the government builds one domain of the empowerment process. Nonetheless, it is nearly impossible to influence this domain.

Finally, the elaboration of this paper gave ideas of further research ideas. One relevant point is that there is only very limited research done on the topic of Fairtrade CF that could be included in the analysis of this paper. The authors tried to compensate this lack of available literature by conducting interviews with three experts, which gave them further and interesting insights into the topic. Through this, the authors were also able to gain knowledge of some practical examples and implications. Nevertheless, in some cases, the authors had to make some assumptions or analyse things on an abstract level. For the revision of the CP Standard it is recommended that the individual coordinators of each programme are contacted in order to share the experience and help developing revision of the Standard that is as realistic as possible.

Although the analysis considered mostly the Indian context, the concepts and standards have to be kept flexible since the standard is in theory adaptable to the whole world. The flexibility is especially referring to the various products that exist as well as each country’s specific situation. In the paper, the primarily focus lay on producer empowerment. It seems important to mention at this point, that there was some research done that women played an important role and should also be involved in the whole empowerment process. Lastly, the case of non-compliance with the Standard should be re-considered in more depth.

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Interview Index

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Skype Interview, 4th May 2016

Annex

Swot-Analysis

The SWOT-Analysis is a tool that is often used to generate strategic options for an enterprise. The strategies result out of influencing factors and external threats. On one hand, strengths and opportunities should be maximized; on the other hand threats and weaknesses should be minimized. The advantages of this tool are a clearly arranged and integrated way of representation and a reduction of complexity of the most influencing factors (Müller-Stewens, 2009, p. 57). The subjective evaluation can make some aspects unnoted, which builds clearly a disadvantage. The SWOT-Analysis is used in order to estimate the prospects.

Measurement of empowerment

Subsequently, two different approaches to measure empowerment that were found in the literature are presented. While Israel et al. (1994) developed a set of 12 questions to assess the individual perception of control and influence of a multilevel concept of empowerment, The following empowerment process refers to the paper of Alsop & Heinsohn (2005) in which they presented an analytic framework to measure and monitor empowerment processes and outcomes. They included a five-country research in their study. A graphic summary of the empowerment assessment is given in the table below.

- First, the framework includes three main core concepts: agency, opportunity structure, and degree of empowerment with its indicators (Alsop & Heinsohn, 2005, p. 29).
- Second, different domains, sub-domains and levels (administrative boundary) characterize the complex empowerment process.
- The independent factors of the degrees of empowerment, *agency and opportunity structure*, gives a sense of making an effective choice (Alsop & Heinsohn, 2005, p. 6). While agency is defined as an actor's ability to envisage options and make a choice, opportunity structure means the formal and informal contexts within which actors operate. The independent factors are in a reciprocal relation with the different degrees of empowerment. For example, the better a person's asset or/and opportunity structure is, the higher the degree of empowerment (Alsop & Heinsohn, 2005, p. 7). Therefore, the analysis of the independent factors helps explain why an actor is empowered to one degree (Alsop & Heinsohn, 2005, p. 14).

The factors listed below are not exclusive and can be added by other elements. It seems also relevant that the tool reflects a certain cultural context. Therefore, the participants should play an important part in defining criteria of empowerment (James Cook University, 2016). In that sense, it shows a bottom up method.

Although the key principles are very broad, the focus of the paper lies on a local and intermediary level because on one hand, producers act in their village or their farm, on the other hand, a sub-ordinated level and the interaction with other farmers or local markets are also relevant. In addition, the producer empowerment's focus lies heavily on the market domain.

Empowerment process measure						
Domain	Sub-domains	Independent factors (test with every sub-domain)	Level			Result
			Macro	Local	Intermediary	
<p>State, in which a person is a civic actor.</p>	<ul style="list-style-type: none"> • justice, • politics, • service delivery. 	<p>Agency → Measured with assets endowments (Alsop, 2005, p. 8) and capabilities</p> <p><i>Assets</i></p> <ul style="list-style-type: none"> • Material (land, livestock, housing) <p><i>Capabilities</i></p> <ul style="list-style-type: none"> • Psychological (capacity to envision) • informational, • organizational, • social (social capital, social belongings, relations of trust, a sense of identity, values that give meaning to life, capacity to organize and values that give meaning to life) • financial, political (access information, form associations, capacity to represent oneself or others, participate in the political life of a community or country) 	<p>Ex. National</p> <p>Degree of Empowerment (Alsop, 2005, p. 10)</p> <p>(1) presence of choice: whether a person has the opportunity to make a choice,</p> <p>(2) use of choice: whether a person actually uses the opportunity to choose, and</p> <p>(3) effectiveness of choice: once the choice is made, whether it brings the desired outcome.</p> <p>Individual empowerment:</p> <ul style="list-style-type: none"> • self-determination, • self-sufficiency, • and decision-making abilities. 	<p>Ex. village</p>	<p>Ex. Between residential and national level</p>	<p>Development Outcomes</p>
<p>Market, in which a person is an economic actor.</p>	<ul style="list-style-type: none"> • credit • labour • goods (for both production and consumption). 	<ul style="list-style-type: none"> • or human (skills, education, literacy, good health, other life-enhancing skills) <p>Opportunity Structure (Alsop, 2005, p. 9): measured by informal or institutions, ex. Law, norms</p>				
<p>Society, in which a person is a social actor.</p>	<ul style="list-style-type: none"> • Family • Community • Tribe, ethnic community 					

Table 14: Table in reference to Alsop & Heinesohn (2005), Max Havelaar (2015) and with additions of own thoughts