The global food crisis and Fairtrade:
Small farmers, big solutions?

A Fairtrade Foundation report
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Basmati rice farming, Khaddar Farmers' Federation, India © Simon Rawles

Executive Summary

Around the world, tens of millions of people are suffering from increased and volatile food and fuel prices. Among them are the world's 450 million smallholder farming households who cultivate two hectares or less and are home to around two billion people, a third of humanity. These farms are also home to half of the world's hungry people.

During 2008, we have witnessed extreme price rises in the global food system as a result of production shortfalls, unstable oil prices, use of agricultural land for biofuel production and changing consumption patterns.

According to the World Bank, food prices rose 83% between February 2005 and February 2008, led by large increases for maize and wheat, as well as rice and oilseeds. This presents a massive new challenge to smallholder farmers, as well as the urban poor and the landless around the world.

> *"The food situation is really bad. Apart from times of calamities such as drought, this is the most difficult time we've known with these high food prices. I don't see them reducing soon. It will last another 10 years."*

Joseph Mbusa, Mubuku Moringa Vanilla Farmers Association, Uganda

Even though food prices have been falling more recently, prices in October 2008 were still 28% above the October 2006 level. Experts suggest that real prices of food commodities (cereals, rice and oilseeds) for the next decade will be 10%-35% higher than during the past decade. This is partly due to structural shifts that have taken place (such as changed consumption patterns, migration to the cities and extreme climatic events), partly due to trade policies which have exacerbated the underlying trends, and partly due to the turmoil in the financial markets.

For those commodities that are traded internationally but are not staple foodstuffs in the South – including typical Fairtrade products such as coffee, tea, sugar and cocoa – the longer-term picture is less clear. Another recent estimate suggests that **while prices for wheat, maize and rice will rise over the next decade by 2%, 27% and 9% respectively, the price of sugar will fall by 3%**.

Even if prices do fall in the future, **119 million more people have already been pushed into poverty by the global food crisis** and it has exposed an unacceptable level of vulnerability among the world's poor.

Amongst those affected are 450 million small farms, home to around two billion people – one third of all humanity. They are a crucial constituency in any strategy to mitigate the current crisis. This report considers the challenges they face and the policies needed to overcome them. Through research from India, Africa and Latin America with Fairtrade producers – who are also overwhelmingly small farmers producing food for their families – the report also considers how small farmers are being affected by the rise in food staple and commodity prices and whether, as a result of being part of the Fairtrade system, they are in a better position to cope with the price volatility and global recession predicted in the months ahead.

Smallholders – already struggling

Things were bad enough for small farmers before the food price crisis. They tend to work on ever-smaller plots of often degraded land with poor irrigation, few farming inputs, having to cope with climate change and, for many, the impact of HIV/AIDS.

They have also had to cope with a prolonged slump in the real prices they received for their commodities between the 1960s and 1990s, with steep declines for example in coffee, cotton, sugar and bananas during the late 1990s.

These structural problems have been compounded by the failure of both Northern and Southern governments and global multilateral institutions like the World Bank to provide appropriate or sufficient investment to agriculture.

Donor agricultural support has been cut

Rich countries' agricultural aid has barely helped poor farmers:

- Levels of aid to agriculture collapsed from $7.6bn in 1980 to $3.9bn in 2006 though have risen to $5.3bn in 2007
- EU countries spend 56 times more on subsidies to their own farmers than on aid to agriculture in developing countries
- Much aid has been poor quality – around half has been spent to support structural adjustment while aid devoted to providing inputs such as seeds and fertiliser, or access to credit, is virtually invisible.

Lack of investment by governments in the South

Southern government policies have also failed to invest sufficiently in agriculture and to promote key inputs and support to farmers:

- Public spending has declined or remained stagnant compared to other sectors – African governments spend only 4%-5% of their national budget on agriculture
- State intervention policies have failed to proactively develop the emerging private sector or to shape it in a way that benefits smallholders
- There has been insufficient focus on infrastructure, access to credit and inputs for small farmers.

Liberalisation has failed small farmers

These problems are exacerbated by the impact of far-reaching economic liberalisation reforms promoted by the World Bank and other Northern donors. Many agreed reform was needed and some large producer groups have been able to capitalise on new market opportunities. However, structural adjustment programmes that have reduced the role of the state in agriculture have often also reduced poor farmers' access to key inputs such as fertiliser (through higher prices) and technical support. For the smallest and most vulnerable producers, access to markets on sustainable terms has been severely undermined as states withdrew their traditional role as guaranteed buyers of farmers' produce. This is especially damaging in more remote areas lacking the infrastructure } to attract private companies.

Unequal agricultural liberalisation has also often worsened other trends harming poor smallholders:

- The cutting of import tariffs has often resulted in import surges that have undermined local producers and eliminated jobs
- The preservation of developed countries' agricultural subsidies has often resulted in 'dumping' of surpluses in developing countries, again undercutting local producers.

Market power overly concentrated

Meanwhile, the power of agribusinesses and global retail chains in supply chains has increased:

- The 10 leading food retailers control around a quarter of the $3.5 trillion world food market
- Just three companies (Cargill, Bunge and Archer Daniels Midland) control 90% of the world's grain trade
- Smallholders are unable to capture a fair share from the value chains in markets for agricultural products like fruits, vegetables and meat without companies' commitment to sourcing plans which specifically target them.

Higher prices – the losers and winners

Many countries where small farmers are already struggling to earn a decent livelihood are among those considered by the UN's Food and Agriculture Organization (FAO) as 'especially vulnerable', such as Ethiopia, Tanzania and Kenya, which import 22%, 14% and 20% of their grains respectively. Across the developing world, some people are eating only once a day while others might eat twice but are cutting out more costly, but more nutritious, food items such as meat, fish, eggs and milk, in the struggle to maintain calorific intake. The impacts on children can persist into adulthood, affecting their life-long productive capacity.

The vast majority of households in developing countries, including small farmers, are net buyers of food (they spend more on food than they earn from selling it) who spend 60%-80% of their income on food. Thus price rises for foods for consumption will tend to make most poor farmers poorer. A 10% increase in the price of the staple, maize, in Zambia is likely to increase poverty by 0.5%; in Nicaragua a 10% increase in the price of staple foods increases poverty by 2%.

Only a minority of small farmers are net sellers of food and they are only likely to benefit from higher world market prices if that price trickles down to the farm gate where they sell. However, farm gate prices are usually modest compared to the world market price and the price paid by consumers in urban areas. This will only change if there are specific policies in place to ensure that small farmers can capture their share of the benefits.

The primary beneficiaries of increased food prices so far are larger-scale commercial farmers, hoarders of food stocks (who can wait to sell when prices are high), and also the big international traders, many of which have made billions of dollars of profits in 2007 and 2008. In the middle of the food crisis, Bunge, one of the world's largest fertiliser and oilseed processing corporations, recorded quadrupled second-quarter profits of $751m in 2008.

Why we must support small farmers

A focus on small farmers must be at the centre of any serious strategy to tackle poverty and increase food security and productivity because:

- Such a focus would **reduce poverty**. Small farms are home to two billion poor people and they play major social roles, providing safety nets or subsistence living for the rural poor. Small farmers tend to spend their income on local goods and services, boosting local economies, and are more likely to employ people than adopt capital-intensive technologies.
- A focus on smallholders would also **increase food production**. Small farms produce the bulk of many developing countries' food: up to 80% of Zambia's food, for example, and 45% of Chile's vegetables, corn and rice. A considerable body of evidence also suggests that small integrated farming systems can also yield more per hectare in the long-term than large-scale monoculture farms.
- A focus on small farmers would also **help the environment** – smallholders manage a large share of the world's water and vegetation cover and farm far more sustainably – reducing soil erosion, using water more efficiently, increasing biodiversity and preserving soil fertility. This is enhanced when small farmers are part of a sustainability programme such as Fairtrade or organic certification.

Historically, as economic transformation in developing countries proceeds, small farms have tended to play a shrinking role, but for poorer countries where agriculture is the key sector with a large number of poor farmers, a focus on small farms makes clear economic sense.

Fairtrade and the food crisis

World prices for many of the agricultural commodities produced by Fairtrade farmers have yet again been extremely volatile. Some crops saw significant increases in the first half of 2008 (for example cocoa hit a 28-year high in June 2008). However these rises were only temporary and in the second half of 2008 they experienced a sharp decline, in part because of the global recession. For these farmers their experience has been a continuation of the usual cycle of extreme volatility that Fairtrade was conceived to help them cope with. Fairtrade farmers, like most smallholders, are net food buyers and as only a minority have gained from increased commodity prices, the majority now face severe challenges in the current climate. They are also doubly hit by the rise in fuel and input costs which makes them even more vulnerable.

The following table summarises research with some Fairtrade producer organisations. It shows that those who are net buyers of food are worse off even though the conventional market price for the commodities they produce may have risen. In this situation, the Fairtrade system is vital in providing better and more stable commodity prices to farmers through the Fairtrade minimum price, as well as a Fairtrade premium to support business or community development projects.

Table 1. Summary of impact of price changes on selected Fairtrade producers

	Are farmers net buyers or sellers of food?	Effect of food price rises	Change in global commodity price	Better or worse off?
FTAK, India, cashew nuts	Net buyers	Negative. Families spend around 40% of income on food, compared to 25% a year ago	Extremely volatile. On average no change	Worse off
PRODECOOP, Nicaragua, coffee	Mixed – some net buyers, some self-sufficient	Negative. Cost of food basket increased by 66% in 2006-08	Slight increase (but costs of production have also risen)	Worse off
WINFA, Windward Islands, bananas	Net buyers	Negative. Average food bill around 25% higher than year ago	Slight decrease	Worse off
Kasinthula Cane Growers, Malawi, sugar	Net buyers	Negative. Families spend around 80% of income on food, compared to 50% a year ago	Significant increase	Worse off
COINACAPA, Bolivia, brazil nuts	Marginal net buyers	Mixed. Increased costs of food offset by home production	Significant increase in early 2008 but falling in late 2008	No change
NASFAM, Malawi, nut producers	Net sellers	Positive	Significant increase	Better off
Agrocel, India, cotton	Self-sufficient or net sellers	Positive	Increase	Better off
Oromia, Ethiopia, coffee	Net buyers	Negative. Price of grain has tripled	Increase	Worse off
Mabale, Uganda, tea	Net buyers	Negative	Slight increase	Worse off
Ankole, Uganda, coffee	Net sellers	Positive	Increased but extremely volatile	Better off
Mubuku Moringa, Uganda, vanilla	Net buyers	Negative	Decrease	Worse off

It is clear from our research that Fairtrade is needed in the current economic climate more than ever. Fairtrade was originally conceived largely as a response to the long-term trend of declining world prices and the evidence from around the world shows it is just as vital now. Its advantages include:

Extra income

The extra income provided by Fairtrade is more vital now for Fairtrade farmers' livelihoods since most are net buyers of food and therefore suffering from increased food prices. This extra income can provide the difference between survival or destitution.

Sri Lanka – organic and Fairtrade help increase productivity

The Small Organic Farmers' Association (SOFA) in Sri Lanka, whose 2,000 organic-certified farmers produce Fairtrade tea and spices, reports that food prices have risen. But SOFA's farmers receive a Fairtrade organic tea price that is 20%-30% above their cost of production, meaning increased income for families and improved investment in their farming plots. SOFA's President, Bernard Ranaweera, states that 'the Fairtrade concept is the only existing way to develop the small farmer producer. Using the Fairtrade premium effectively and efficiently is the key to sustainability of the small farmer producers, for example by using this to support organic farming methods. Since we have been able to utilise the Fairtrade premium, we have increased the productivity of the land and uplifted peoples' livelihoods. We are now very happy because of the development that our farmers have achieved through the Fairtrade premium.'

A stable, minimum Fairtrade price

"The coffee price is high at the moment yes, but very volatile. It can easily fall and usually does...Fairtrade gives us a guaranteed price whatever happens. This means more consistent income. Farmers can conduct their business better by planning ahead."

John Nuwagaba, Ankole Coffee Producers Cooperative Union, Uganda

The Fairtrade guarantee of a minimum price is more critical than ever as a safety net mechanism in a situation of highly volatile, unpredictable prices. Without this, growers might be forced out of business altogether, and lose their main source of cash income.

Windward Islands – no higher prices for bananas

The Windward Islands Farmers' Association (WINFA) reports that the conventional market price received by its 3,300 banana farmers has slightly decreased in the past year. At 20%-25% higher, the Fairtrade minimum price is ever-important. The banana growers also produce food on their plots, such as sweet potatoes and cassava, and sell some produce in local markets, but almost all buy more food than they sell. Increased prices of all the basics, such as rice, flour and cereals have left them worse off. With average earnings of around $240 a month, families spend at least 25% more on food now than a year ago. Some families are eating less, with many consuming less nutritious food.

Support to cooperatives

The fact that farmers are organised in associations or cooperatives in the Fairtrade system is crucial at a time of high commodity prices where middlemen can enter markets and try to take advantage of individual farmers by buying low and selling high, securing most of the benefits for themselves. Farmers can take a larger share of the rise in prices when they are better organised and working together than they can on their own.

Uganda – Fairtrade supporting cooperatives

Ankole Coffee Producers Cooperative Union comprises 10 cooperative societies all of them Fairtrade certified. Farmers selling in the conventional, non-Fairtrade market means contending with exploitative, private traders. They are regularly accused of using faulty scales and of adding stones to coffee bags to pay less for farmers' output. Union officials and farmers all complain that one of the adverse impacts of coffee liberalisation has been the emergence of a plethora of middlemen who are unregulated, using their power to cheat farmers.

The Fairtrade premium

With volatile food and commodity prices, the Fairtrade premium for investment in business or community improvements takes on even greater importance: farmers' groups are able to use the premium to mitigate the effects of higher prices or diversify into other income-generating activities when the economic environment is harsh.

Malawi – rising maize prices outstrip earnings from sugar cane

Kasinthula Cane Growers (KCG) in southern Malawi reports that its sugar cane growing families now spend an average of 80% of their income on food, compared to around 50% a year ago; many families now eat one less meal each day. These 300 farmers all grow much of their own food but still buy more food than they sell. The Fairtrade premium, at $60 per tonne, is therefore crucial to being able to invest in development projects which can also benefit the community and has brought benefits such as replanting the sugar cane fields, constructing water boreholes, connections to the national electricity grid and the building of a health clinic.

The global economic recession has complicated and exacerbated the ongoing global food crisis, impacting most on those least able to cope – the poor in the poorest countries. At a time when the wisdom of a laissez faire approach to markets is under intense scrutiny, the Fairtrade model of incentivising business and consumers to offer a sustainable, pro-poor trading model is proving to be vital to the livelihoods of thousands of farmers and has more resonance now than ever.

Conclusions and recommendations

Although the public agenda is now dominated by the global economic recession, we must not forget the plight of the millions of vulnerable people who have been pushed to the edge by the extreme price volatility over the past year. Their vulnerability has been exacerbated by the economic slowdown. According to the World Bank the volume of world trade is likely to contract for the first time since 1982, further reducing the potential for growth in developing countries. We must support small-scale farmers for our sakes and theirs: to reduce poverty, increase food production and protect the environment. To do this, small-scale farmers urgently need a transformation in international agricultural trade. Governments in the North and South and international institutions should massively step up their support for agriculture in general, and smallholders specifically. They should: halt the overall decline in aid for agriculture; ensure that agricultural policy and aid flows focus effective support on small-scale farming, promoting affordable, low-input solutions; and increase support to NGO and voluntary programmes, including Fairtrade, aimed at supporting the long-term sustainability of small-scale agriculture. Companies, the public and the Fairtrade system also have critical roles to play.

Northern governments should:

- Refocus their agricultural aid to prioritise the needs of small farmers, including those producing for the Fairtrade market
- Commit to increasing their aid to agriculture; the FAO says that the countries hardest hit by the food crisis need $30bn annually to ensure food security and promote agriculture
- Review trade liberalisation policies in light of the food crisis and global recession. Trade agreements should ensure that developing countries are accorded ‘special treatment’ by not being required to excessively reduce their import tariffs on agricultural items, especially on sensitive products that can affect food security.

Southern governments should:

- Champion the strengthening of producer and farmer organisations, including Fairtrade organisations, and actively seek out farmers’ views in policy planning
- Take much greater steps to ensure that small farmers have increased access to credit and basic inputs such as seeds and fertilisers
- Honour their commitment to spend at least 10% of their national budgets on agriculture and make this spending more transparent and accountable
- Make state intervention both smarter and more efficient and also have clear strategies to build up the private sector.

Companies should:

- Invest in smallholders in their supply chains to become better organised, and build long-term and sustainable relationships
- Extend the scope and range of Fairtrade products that they offer the public
- Commit to improving trading relationships and the position of all participants in their supply chains.

The Fairtrade system should:

- Continue to have an explicit focus on the needs of small farmers, ensuring appropriate standards to best empower farmers in the long term
- Develop the flexibility of the Fairtrade model to quickly review minimum prices and ensure they constantly cover actual costs of production (especially when input costs are rising rapidly)
- Scale up the reach and scope of Fairtrade especially to the most disadvantaged groups in the very poorest countries.

The public should:

- Commit to buying Fairtrade products regularly
- Ask their local shops, supermarkets and cafés to stock more Fairtrade products
- Step up their support and join the campaign for broader fundamental changes to the international trade system to benefit smallholders especially in least developed countries.

1 Introduction

Around the world, tens of millions of people are suffering from increased and volatile food and fuel prices. Among them are the world's 450 million smallholder farming households who cultivate two hectares or less, home to around two billion people, a third of humanity.[1] These farms are also home to half of the world's hungry people.[2]

The context is extremely serious. The UN's Food and Agriculture Organization (FAO) states that food price rises increased the number of undernourished people by 40 million in 2008, bringing the total to 963 million around the world.[3] The food crisis has now been exacerbated by the global economic recession. According to the World Bank the volume of world trade is likely to contract for the first time since 1982, further reducing the potential for growth in developing countries.[4] This has set back recent progress. One of the international community's Millennium Development Goals (MDGs), established in 2000, was to halve the proportion of people suffering from hunger between 1990 and 2015. Progress was made from 1990 to 2005 as the proportion declined from 20%-16%.[5] However, the FAO now notes that increased food prices have pushed the figure back up to 17%, reversing the earlier gains.[6]

Small farmers in the developing world are a crucial constituency in any strategy to mitigate the current crisis. This report considers the challenges they face and the policies needed to overcome them. Through research from India, Africa and Latin America with Fairtrade producers – who are also overwhelmingly small farmers producing food for their families – the report considers how small farmers are being affected by the rise in food staple and commodity prices and whether, as a result of being part of the Fairtrade system, they are in a better position to cope with the price volatility and global recession predicted in the months ahead.

2 Life on the edge: Small farmers in a globalised economy

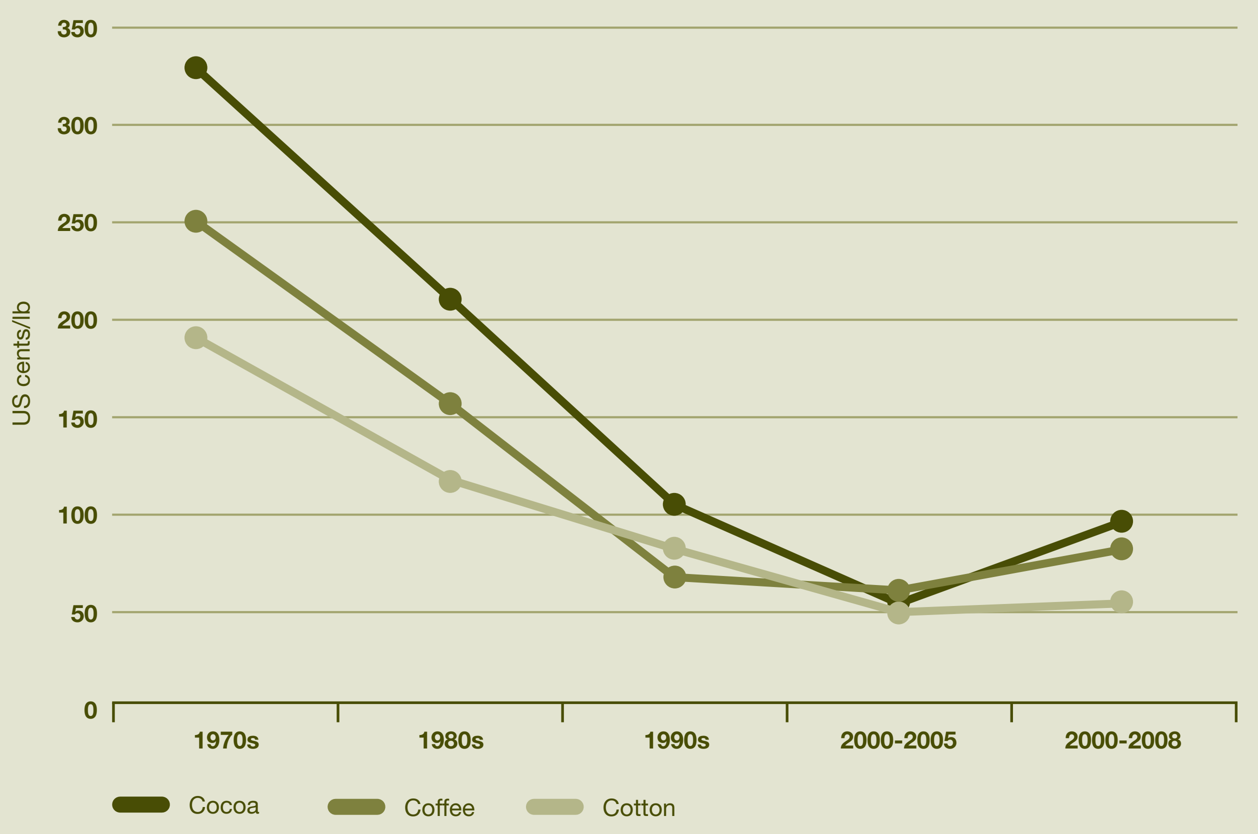
Things were bad enough for small farmers before the onset of the food price crisis. Local conditions combined with the policies of governments and international institutions to produce numerous challenges:

- Millions of farmers eke out an existence on degraded, less productive land, many working smaller and smaller plots while landholdings are concentrated in the hands of rich farmers or corporations
- Only 4% of farming land in Africa is irrigated, meaning that farmers practicing rain-fed agriculture are dependent on rains and at the mercy of the increasingly erratic weather
- Most smallholder farmers use only basic farming techniques, relying on family labour, recycled seeds and a hoe, making productivity increases difficult. Inadequate crop drying and storage facilities mean that much of their crop is lost after harvest
- Farmers in many rural areas also face huge problems selling their produce at sustainable prices, with food markets often dominated by exploitative private sector traders and middlemen paying low prices for produce at the farm gate
- Transport infrastructure is often poor in remote areas, with many roads impassable in the rainy season, reducing the ability to buy and sell crops in local markets
- Government extension services, such as training and support to smallholders, are generally weak and often non-existent, especially in more remote rural areas
- In many countries, there are few good credit facilities for smallholder farmers, meaning they are unable to invest in improving their production
- These obstacles are greater for women, who produce 60%-80% of the food in Africa yet are systematically discriminated against; they own a tiny percentage of land and receive only 5% of extension services.

Small farmers have also had to cope with a prolonged slump in the real prices they received for their commodities between the 1960s and 1990s. At times, as in the second half of the 1990s, the price declines have been steep across a range of commodities – tea, cotton, sugar and bananas to name a few. The prices of cocoa and coffee, for example, halved over the 1980s and 1990s (see Figure 1 below).[7]

These structural problems are often compounded by the failures of Northern and Southern governments and global multilateral institutions like the World Bank to provide appropriate or sufficient investment to agriculture.

Figure 1. Declining income: downward trend in commodity prices (in real terms)



Note: Base year 2000

Source: FAO Commodities and Trade Division

2.1 Aid to agriculture: Not enough and wrongly directed

Rich countries' aid to agriculture has barely helped poor farmers and in some cases has made them poorer. The volume of aid to agriculture collapsed from $7.6bn in 1980 to just $3.9bn in 2006 (in constant dollars).[8] Thus even though 75% of the world's poor live in rural areas, a miniscule proportion of all international aid is devoted to their primary activity – agriculture.[9]

The European Union spent €50bn on domestic support to its farmers in 2006.[10] By contrast, EU countries' aid to farmers in developing countries amounted to €891m – 56 times less. Donors spend about the same on administering their own aid programmes as they do on agricultural aid – in 2006, donors spent $3.97bn on their 'administrative costs' and $3.98bn on agricultural aid.

There are now signs this is changing. In the last two years, largely in response to the food price crisis, some donors have pledged to increase their aid to agriculture. Overall levels have risen from $3.8bn in 2005 to $5.3bn in 2007.[11] The World Bank has earmarked $1.2bn to help those countries worst hit by the food price spike in 2008, part of approximately $18bn that has been committed worldwide.[12]

Even more concerning than the volume of agricultural aid, is what that aid has been spent on:

- Aid to 'agriculture policy and management' shot up to nearly half of all aid by 2000 which reflects the degree to which donors have promoted agricultural liberalisation
- Aid for critical agricultural inputs such as seeds, fertiliser and machinery collapsed from $860m in 1980 to $66m in 2006 (in constant dollars) – a thirteen-fold reduction
- Aid in support of agricultural financial services, meaning rural credit to farmers – a vital activity that enables them to borrow for inputs or diversification – has also collapsed. Donors provided just $71m for this in 2006 compared to $466m in 1980.[13]

2.2 Lack of investment by Southern governments

Many Southern governments have failed to invest sufficiently in agriculture and to provide key inputs and support to farmers. Public spending on agriculture has generally been stagnant or has declined compared to other sectors: from 1980 to 2004, the share of agriculture in national budgets declined from 7%-5.3% in Sub-Saharan Africa, from 15%-7.4% in Asia and from 8%-2.5% in Latin America.[14] African governments currently spend only 4%-5% of their national budget on agriculture despite the Maputo declaration of 2003, in which they committed to spending at least 10% within five years as part of their commitment to the MDGs. Too often, state intervention policies have been untransparent and inefficient while failing proactively to develop the emergence of a private sector or to shape it in a way that benefits smallholders. Inconsistent policies have often been promoted, resulting in a messy, unstrategic mix of protectionism and liberalisation, neither of which has benefited small farmers. There has also been an insufficient focus on access to credit, infrastructure and inputs for smallholders.

2.3 The impact of agricultural liberalisation

The problems faced by smallholders have been compounded further by international policies. Most developing countries have, over the past 25 years, substantially liberalised their agricultural sectors, mainly as a result of World Bank/IMF 'structural adjustment' programmes. Governments were required, often as an explicit condition for receiving aid, to abolish the state's role in three main ways:

- As a buyer of farmers' produce at fixed market prices
- As a provider of subsidies on inputs such as fertiliser and credit
- By cutting tariffs on agricultural imports

Most developing countries' agricultural sectors needed fundamental reform: many of the state-led policies were overly centralised, expensive and inefficient. In some countries, liberalisation helped improve the macroeconomic environment, boosting in particular the production of some export crops.[15] There have also been some (limited) positive impacts on poverty in some countries such as in Zambia where the proportion of those living in poverty slightly decreased in rural (but not urban) areas.[16]

However, in many countries, the private sector rarely moved into the vacuum created by the state's withdrawal: most countries in Africa, in particular, did not have the institutional foundation – a good infrastructure, a diversified rural economy or even a fledgling private sector – to support a rapid liberalisation agenda. The liberalisation reforms which took the place of state-led policies – often simply 'shock therapy' imposed quickly – were generally even worse.

The general result of structural adjustment in agriculture was more often a reduction in access to extension services (as the government spent less on agriculture), in access to key inputs (through increased price) and in access to markets (as the state withdrew its buying function), especially in more remote areas that had poor infrastructure to attract private companies. The UN noted in 2005: 'Far from improving food security for the most vulnerable populations, these programmes [i.e. liberalisation reforms] have often resulted in a deterioration of food security among the poorest'.[17] An analysis for DfID notes that most African countries' per capita agricultural GDP fell throughout the reform period in the 1980s and 1990s.[18]

Unequal agricultural liberalisation has also often worsened other trends harming poor smallholder farmers:

- The cutting of import tariffs has routinely produced **import surges** that have undermined local producers and eliminated jobs.[21] The FAO has identified 1,217 cases of import surges on just eight commodities in 28 developing countries for the period 1984-2000.[22] In Haiti, one of the world's 'hungriest' countries, research shows that the incomes of 830,000 people fell after trade tariffs were cut in the sectors of rice, sugar and semi-industrial chicken production.[23]

- **Developed countries' agricultural subsidies** have largely remained in place while governments have insisted on liberalisation in poorer countries. Subsidies have often resulted in 'dumping' of surpluses in developing countries, undermining local producers.[24] According to DfID, removing agricultural subsidies in the North could boost rural income in low and middle-income countries by up to $60bn a year.[25]

The World Bank and other donors have in recent years pulled back from promoting unfettered agricultural liberalisation. The Bank's declared policy now recognises the importance of *sequencing* liberalisation reforms, and that subsidies, for example on fertiliser, can sometimes be beneficial, if imposed smartly and temporarily.[19] However, multilateral institutions' primary faith remains in free market reforms – the 'commercialisation' of agriculture – while an active, interventionist role for the state remains largely off the agenda in favour of a more limited role.[20]

2.4 The concentration of market power

Critically for small farmers working in a global market, global agriculture has become increasingly subject to **domination by large corporations**, and the power of supermarkets in supply chains has grown:

- The 10 leading food retailers control around a quarter of the $3.5 trillion world food market[26]
- Three companies – Archer Daniels Midland, Cargill and Bunge – control 90% of the world's grain trade while the top 10 seed companies control almost half the $21bn global commercial market[27]
- Half the world's coffee beans are purchased by five companies – Nestlé, Kraft, Proctor & Gamble, Sara Lee and Tchibo – making it very difficult for unorganised smallholder farmers to negotiate a good price when selling their crop.[28]

Furthermore, supermarkets' demands for strict standards for quality and consistency of supply (such as GLOBALGAP) have often marginalised small farmers while their cost-cutting has often forced down the prices received by farmers. In the current economic recession, there is a serious danger that retailers will be under further pressure to cut prices down their supply chains in order to satisfy their consumers. UNCTAD notes that this concentration of buyer power in the hands of a small number of food processors, commodity traders and supermarkets, has 'adversely affected the viability of farming'.[29] Smallholders are largely powerless to capture a fair share from the value chains in markets for agricultural products like fruits, vegetables and meat.

2.5 The new challenge: Food price volatility

The recent volatility in food prices coupled with the global economic downturn has presented a massive new challenge to smallholder farmers, as well as to the urban poor and landless around the world. According to the World Bank, average food prices rose 83% between February 2005 and February 2008.[30] Although prices started to fall in mid-2008, by October 2008 they were still 28% above the level in October 2006.[31] Maize prices nearly tripled between January 2005 and June 2008 while wheat prices increased by 127% and rice by 170%.[32]

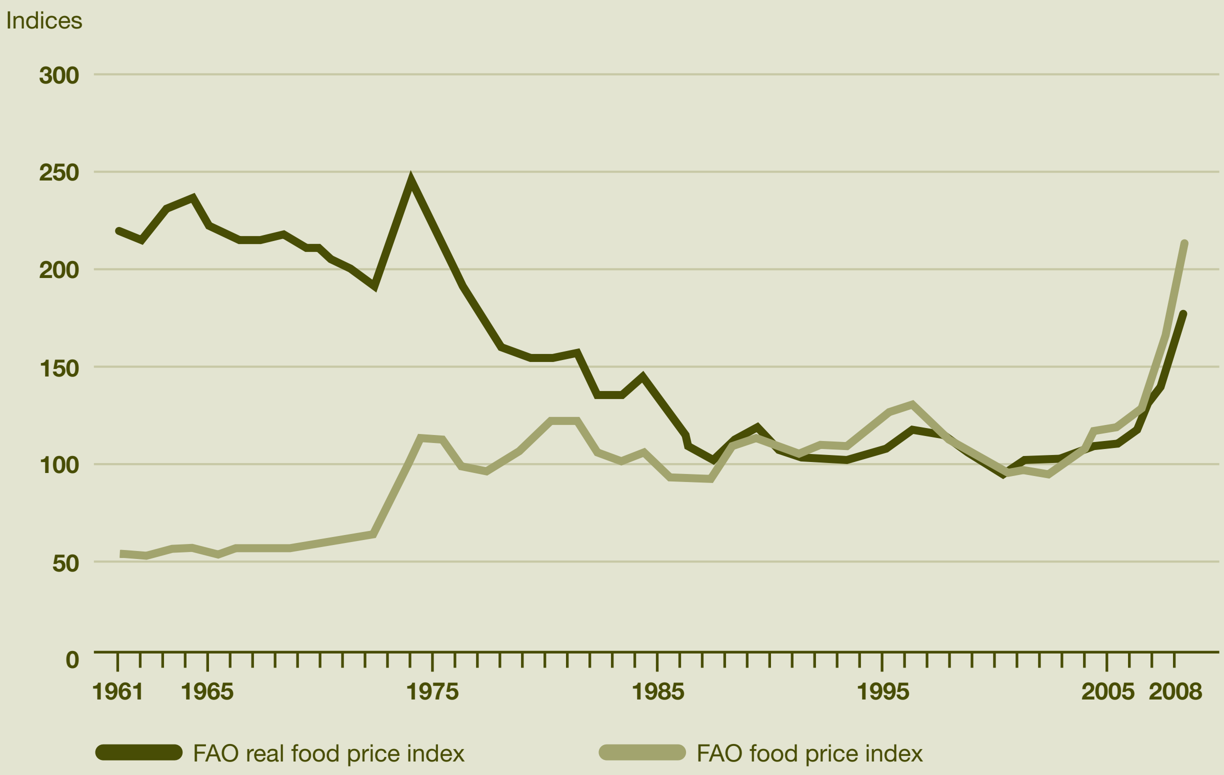
Price rises have been driven by factors such as increased demand for biofuels (energy produced from agricultural crops), increasing meat consumption worldwide and low food stocks. Some have also argued that price volatility in food markets is to a large extent due to global deregulation and the lack of democratic control over private agribusiness corporations and of international instruments to stabilise markets.[33] The world financial crisis and global 'credit crunch' is, partly at least, also the result of similarly unregulated global banking and financial markets.

According to the FAO Food Price Index (the average of six commodity price indices – meat, dairy, sugar, cereals, oils and fats), prices have fallen by 6% in August 2008 to a seven-month low of 20%. However in October 2008, prices were still 28% above the level in October 2006 (See Figure 2). Experts suggest that real prices of food staples (cereals, rice and oilseeds) for the next decade will be 10%-35% higher than over the past decade.[34] This is partly due to structural shifts that have taken place (such as changed consumption patterns, migration to the cities and extreme climatic events) and partly due to trade policies that have exacerbated the underlying trends and partly due to the turmoil in the financial markets.

For those commodities that are traded internationally – including typical Fairtrade products such as coffee, tea, sugar and cocoa – the future picture is less clear. One recent estimate suggests that while prices for wheat, maize and rice will rise over the next decade by 2%, 27% and 9% respectively, the price of sugar will fall by 3%.[35]

These recent price rises should also be viewed in the context of the past few decades of long-term decline in the price of commodities. **In real terms, prices in 2008 were still lower than in the period 1961-77**. The real price of food consistently fell throughout the 1960s, rose around the oil price crisis of 1973 but then fell consistently again from 1974 to 2000.[36] Its sharp upward rise more recently suggests that the long-term decline in real prices of food could come to a halt. Although price hikes are common in agricultural markets, the recent price rises are characterised by greater price volatility than in the past and resulted in crisis because prices of nearly all the major food commodities rose at the same time.[37] Alongside the food price crisis, and contributing to it, has been extreme volatility in the cost of fuel. Over the past eight years, oil prices have more than trebled.[38] But after the oil price rose

Figure 2. Evolution of FAO food price indices, 1961-2008



Note: 1998-2000 = 100

Source: FAO Commodities and Trade Division

to more than $147 a barrel in July 2008, it collapsed to less than half of this by the end of the year and in February 2009 stood at around $40 a barrel. Fuel prices affect the poor in a number of ways, increasing the costs of transporting produce to markets, raising the cost of food to buy (mainly through increase in transport costs) and contributing to the exponential rise in fertiliser prices.

The countries hardest hit by increased prices are those importing all their oil and a high proportion of their food.[39] Many countries where Fairtrade producers sell to the UK market are among those considered by the FAO as 'especially vulnerable'. They include Ethiopia, Tanzania, Kenya and Malawi, which all import 100% of their fuel and 22%, 14%, 20% and 7%, respectively, of their grains.[40] The Least Developed Countries spent 16% more on food imports in 2007 than in 2006 and now spend twice as much on food imports as in 2000.[41]

2.6 How increased food prices are affecting poor farmers

The vast majority of households in developing countries, including small farmers in rural areas, are net buyers of food (they spend more on food than they earn selling it), spending 60%-80% of their income on food. Thus price rises will tend to make most poor farmers poorer. Less than 10% of households in Bangladesh and Bolivia, for example, are net food sellers.[42] In only a small number of developing countries, such as Vietnam and Madagascar, are the poor primarily net sellers of food. Most people in rural areas both buy and sell food, typically selling immediately after harvest (when prices are low) to earn cash and buying in the months before the following harvest (when prices are high), to meet food shortfalls. An analysis for the World Bank shows that a 10% increase in the price of the staple, maize, in Zambia will increase poverty by 0.5%; in Nicaragua a 10% increase in the price of staple foods increases poverty by 2%.[43]

Rising poverty

Hunger and poverty are deepening as a result of increased food prices. The UN reported in late 2008 that in Nepal 1.3 million additional people needed assistance as a result of food price rises, while in Pakistan a massive 10 million additional people were vulnerable.[44] IFAD reports increased levels of malnutrition in countries such as Mali and Pakistan.[45] In Kenya, the WFP reports that the proportion of people living below the food poverty line increased sharply between 2007 and 2008.[46]

Across the developing world, households are reducing their food consumption. IFAD reports that in countries such as Cameroon, Kenya and Senegal, some people are eating only once a day while others might eat twice but are cutting out more costly, but also more nutritious, food items.[47] Eating fewer nutritious foods such as eggs, meat, fish and milk, in the struggle to maintain calorific intake can have long-term detrimental effects on nutrition and health: the effects on children can persist into adulthood, affecting their life-long productive capacity. Some families are also cutting back on education spending due to the food crisis. A recent study in Bangladesh showed that half the households surveyed had reduced spending on schooling to cope with rising food prices.[48]

The minority of small farmers who are net sellers of food are likely to benefit from higher prices provided that those prices trickle down to the farm gate where they sell. However world prices do not always transmit into significantly higher prices received by the growers themselves. Many of the profits are captured by others in the supply chain, including the exporters and retailers. In Uganda for example, studies have shown that when the coffee price rises, small-scale private traders (known as ddebe boys) enter the market and buy farmers' produce at the farm gate, taking advantage of farmers' ignorance about movements in the world price.

However, farm gate prices for staple foods are usually modest compared to the world market price and the price paid by consumers in urban areas:

- Despite the huge world market price rises, in China producer prices for staples have risen only 10%, in Kenya 10%-50%, in Cameroon and Mali 15%-20%
- At the other extreme, however, in Nigeria, producer prices for staples rose 100%-200% from late 2007 to late 2008[49]
- Although some farmers might be able to shift from subsistence farming to commercial, market-oriented production, the primary beneficiaries of increased food prices are likely to be larger-scale commercial farmers, along with hoarders of food stocks, who can release stocks when prices rise.

In theory, increased prices should encourage farmers to expand their food production. In practice, however, small farmers face numerous constraints in their ability to benefit. These include their lack of access to finance and credit (to invest in greater production), lack of access to markets to sell their produce at the higher prices or lack of information as to price movements in the market.[50] Also critical are the increased costs of inputs, especially fertiliser. The FAO notes that fertiliser prices increased by 99% from 2007 to 2008, comparing the months January-April (see Figure 3).[51] In Kenya, fertiliser prices more than doubled in the three months from December 2007, the cost of producing maize – the country's staple – rose by 27%.[52] In Kenya's Rift Valley – the country's breadbasket – farmers in early 2008 were planting a third of what they planted the previous year, partly due to post-election violence but also due to high fertiliser and tractor hire costs.[53]

Figure 3. Input prices outpace food prices

Note: 1998-2000 = 100

Source: FAO Commodities and Trade Division

The major beneficiaries

The reality is that the major beneficiaries of increased food prices are the big international traders. Many of the world's largest grain traders and fertiliser corporations made billions of dollars of profits in 2007 and 2008 from food and commodity price rises.[54] Bunge, one of the world's largest fertiliser and oilseed processing corporations, recorded quadrupled second-quarter profits in 2008, reaching $751m.[55] Cargill, the world's largest grain trader, recorded earnings of $3.95bn in the 2008 financial year, a rise of 55% over the previous year; 'the dimensions of change in global agriculture are striking', said its chief executive, Greg Page.[56]

2.7 Why we must support small farmers

A focus on small farmers must be at the centre of any serious strategy to tackle poverty and increase food security and productivity because:

- Such a focus would **reduce poverty**. Small farms are home to two billion poor people and they play major social roles, providing safety nets or subsistence living for the rural poor. Small farmers tend to spend their income on local goods and services, boosting local economies, and are more likely to employ people than adopt capital-intensive technologies. They can also prevent urban migration and the explosive growth of city slums.[57]
- A focus on smallholders would also **increase food production**. Small farms produce the bulk of many developing countries' food: up to 80% of Zambia's food, for example, and 45% of Chile's vegetables, corn and rice.[58] A considerable body of evidence also suggests that small, integrated farming systems also yield more per hectare in the long-term than large-scale monoculture farms.[59]
- A focus on small farmers would also **help the environment** – smallholders manage a large share of the world's water and vegetation cover and farm far more sustainably – reducing soil erosion, using water more efficiently, increasing biodiversity and preserving soil fertility.[60] This is enhanced when small farmers are part of a sustainability programme such as Fairtrade or organic certification.

History teaches that significant poverty reduction generally occurs after sharp rises in employment and self-employment income due to higher productivity in small family farms. IFAD notes that Vietnam for example has gone from being a food-deficit country to being a major food exporter – indeed the second largest exporter in the world – largely due to developing its smallholder farming sector.[61] As economic transformation in developing countries proceeds, small farms have tended to play a shrinking role, but for poorer countries where agriculture is the key sector with a large number of poor farmers, a focus on small farms makes economic sense. A study by the International Food and Policy Research Institute notes that 'the lessons from Asia and elsewhere seem clear. Africa needs a concerted effort to accelerate smallholder-led agricultural development' only then, it adds, 'can the transition to industrialisation be expected to succeed.'

3 Small farmers, Fairtrade and the food crisis

Through research with producers across the world, this section describes how small farmers are being affected by the price increases and volatility already outlined. It also describes the role that Fairtrade has played in mitigating some of the negative impacts of the food price volatility that smallholders are experiencing.

Key features of Fairtrade

- Producers receive a guaranteed minimum price for their output, which covers the costs of production and is above the world market price. When the market price is above the Fairtrade price, farmers receive the market price.
- On top of the minimum price, producers receive a Fairtrade premium which is allocated to producer organisations to support community development projects and/or business improvements.
- As a condition of Fairtrade certification, small-scale producers must be organised, usually into cooperatives, which are democratically run and accountable to their members.
- Fairtrade producers benefit from receiving an advance payment for their produce if they request it and from long-term relationships with their buyers with access to markets and market information.
- Producer organisations involved in Fairtrade must meet standards that promote sustainable agriculture and protection of the environment.

3.1 How small farmers are affected

Interviews with small farmer organisations conducted for this report reveal that while a few farmers are indeed gaining from both increased commodity and staple food prices (albeit sometimes marginally), the bigger story is that most farmers, being net food buyers, are losing out and are seeing their livelihoods suffer. Producers who need to purchase more food than they sell are almost exclusively worse off. Even though the conventional market price for the commodities that they produce may have temporarily risen, so has the price for their staple foodstuffs. At the same time, rising food and fertiliser prices have also increased the costs of production. As a result the importance of Fairtrade has increased and is playing an even more vital role in mitigating some of the more harmful impacts that small farmers are experiencing.

Tomy Mathews, of **Fairtrade Alliance Kerala (FTAK) in south-western India**, estimates that the 3,200 farmers producing Fairtrade cashew nuts now spend an average of 40% of their income on food, compared to around 25% last year. The farmers buy much more food than they sell while the price of all major food items has increased; the staple, rice, has shot up to Rs22 (30p) per kg from Rs12-Rs14 (18p) a year ago. The worst off are those most dependent on cashews for their income and who produce the least food on their smallholdings. Tomy describes a phenomenon of 'camouflaged hunger' for those growing cash crops, where families are quietly cutting back on food, where nutritious food such as meat disappears from the table and even the consumption of fish – readily available in the area – is reduced.

The nearly 300 Fairtrade sugar producers of **Kasinthula Cane Growers (KCG) in southern Malawi** all grow their own food – notably the staple, maize – but still buy more food than they sell. Food prices have gone up massively with maize rising from Kwa2,500 (£11.60) for a 50kg bag in mid-2008 to Kwa4,000 (£18.60) by December. Brian Namata, KCG's General Manager, says that the sugar-growing families now spend an average of 80% of their income on food, compared to around 50% a year ago; many families now eat one less meal per day. Those benefiting from the increased maize prices are the local traders rather than the growers: the traders come in the harvest period, in April-May, buying maize from the farmers, storing it and selling it a few months later. The traders' can make profits of Kwa2,000 per bag on maize bought several months before.

Merling Preza, of the coffee producer organisation **PRODECOOP in Nicaragua**, says that the cost of the food basket increased by 66% from 2006 to 2008. The price of the two staples – beans and rice – increased by 75% and 28% respectively over the same period. PRODECOOP's farmers now spend around 85% of their income from coffee on food alone. Although coffee prices have increased, production costs have increased more – fertiliser costs have increased by 61% in the last two years, for example.

For other small farmers, commodity prices have actually declined. Renwick Rose, of the **Windward Islands Farmers' Association (WINFA)**, says that the conventional market price for bananas has slightly gone down over the past year. The WINFA banana growers also produce food on their plots, such as sweet potatoes and cassava, and sell some produce in local markets, but almost all buy more food than they sell. Increased prices of all the basics, such as rice, flour and cereals have left them worse off. With average earnings of around $240 a month, Renwick estimates that families spend at least 25% more on food now than a year ago. Some families are eating less with many consuming less nutritious food.

Similarly, Tadesse Meskela, of the **Oromia Coffee Farmers Cooperative Union in southern Ethiopia**, says that the conventional market price received by its 150,000 coffee farmers is lower than a year ago. As most are net food buyers, many are now living from hand to mouth, Tadesse says, as food prices have shot up, notably the price of grain, which has tripled. Farmers buy their food from the sales of their coffee, their principal or sole income.

Some Fairtrade producers are, however, benefiting from increased food prices, such as the 13,000 groundnut and peanut producers that are part of the **National Smallholder Farmers' Association of Malawi (NASFAM)**. Most of these nut farmers sell more food than they buy, growing maize, sweet potatoes, cassava, sorghum or millet, and normally using around 40% of their land for food crops and the rest for cash crops. NASFAM's Chief Executive, Dyborn Chibonga, says that increased food prices are not so much a challenge as an opportunity for the nut farmers and that most are now producing as much as they can, taking advantage of the higher prices. Those with better access to markets and technologies to increase their output are benefiting the most.

Casildo Quispe of **COINACAPA in Bolivia**, an organic brazil nut producer, notes that 80% of farmers are net buyers of food and that the price of staples such as rice and bread rose in 2008. However, he says that most farmers are not worse off overall, partly since the market price for brazil nuts has been relatively high.

Table 1. Summary of impact of price changes on selected Fairtrade producers

	Are farmers net buyers or sellers of food?	Effect of food price rises	Change in global commodity price	Better or worse off?
FTAK, India, cashew nuts	Net buyers	Negative. Families spend around 40% of income on food, compared to 25% a year ago	Extremely volatile. On average no change	Worse off
PRODECOOP, Nicaragua, coffee	Mixed – some net buyers, some self-sufficient	Negative. Cost of food basket increased by 66% in 2006-08	Slight increase (but costs of production have also risen)	Worse off
WINFA, Windward Islands, bananas	Net buyers	Negative. Average food bill around 25% higher than year ago	Slight decrease	Worse off
Kasinthula Cane Growers, Malawi, sugar	Net buyers	Negative. Families spend around 80% of income on food, compared to 50% a year ago	Significant increase	Worse off
COINACAPA, Bolivia, brazil nuts	Marginal net buyers	Mixed. Increased costs of food offset by home production	Significant increase in early 2008 but falling in late 2008	No change
NASFAM, Malawi, nut producers	Net sellers	Positive	Significant increase	Better off
Agrocel, India, cotton	Self-sufficient or net sellers	Positive	Increase	Better off
Oromia, Ethiopia, coffee	Net buyers	Negative. Price of grain has tripled	Increase	Worse off
Mabale, Uganda, tea	Net buyers	Negative	Slight increase	Worse off
Ankole, Uganda, coffee	Net sellers	Positive	Increased but extremely volatile	Better off
Mubuku Moringa, Uganda, vanilla	Net buyers	Negative	Decrease	Worse off

The 7,000 Fairtrade cotton producers in the **Agrocel Cotton Growers Association in Gujarat in western India** also mainly produce enough of their own food and buy little in local markets. The food crops they grow – mainly wheat, millet, pulses, peanuts and soya – are all priced higher now than in early 2008 and in 2007. The cotton farmers have around 5-7 hectares which are equally divided between food crop and cotton production. The growers are also benefiting from a higher conventional price for cotton which means they are now earning an average of £1,363 a year (based on an average farmer producing 3.5 tonnes of cotton a year).

3.2 The role of Fairtrade in the food crisis

As previously stated, the evidence from our research with small-scale producers shows that in a situation of increased prices for food staples and inputs, Fairtrade plays a key role in supporting vulnerable small farmers. The evidence from around the world demonstrates that Fairtrade is just as vital now as it was when it was conceived in response to declining commodity prices. Indeed for many producers, the increases in commodity prices have been very short-lived and just part of the normal cycle of price volatility that Fairtrade was originally conceived to help producers cope with. At this time of volatile food and commodity prices producers are telling us that the particular advantages of the Fairtrade model include:

- Extra income
- A stable, minimum Fairtrade price
- Support to cooperatives
- The Fairtrade premium.

3.2.1 Extra income

Efrance Nkuruho, a 70-year-old with nine children and grandchildren, has been growing coffee since 1970 with the Rushorroza society of the Ankole Union in Uganda. She says that selling at the Fairtrade price has brought large benefits compared to before.

“It means I can pay for school fees, clothing and medical care. I’m very OK now. Before Fairtrade, clothing was poor, education was not serious. There’s now no need to go and look for money.”

Most Fairtrade producers, as net buyers of staple foods, are still suffering as a result of increased food prices. Many are also faced with the additional burden of rising fertiliser prices, which is not compensated for by the slight increase in market price they may receive for their commodity crops. The extra income provided by Fairtrade is therefore vital for their livelihoods; in some cases it is the difference between survival and destitution.

For **FTAK’s cashew growers in Kerala**, the Fairtrade minimum price, at $3.30 per lb, is a virtual lifeline compared to the conventional market price of $2.60 per lb. Any extra income is vital given that an average farmer with one hectare of land devoted to cashew can expect to earn only around Rs25,000 ($512) a year currently. The conventional price for cashew nuts is extremely volatile; Tomy Mathews describes it as a ‘rollercoaster ride’, given the large fluctuations in recent years, dropping as low as $1.90 per lb. He puts these fluctuations down to speculation by international traders more than to the economics of supply and demand. He calls on the Indian Government to re-introduce the minimum support prices for farmers’ produce that were previously abolished – only then, he says, can food security be guaranteed for the rural poor.

Bernard Ranaweera, the President of the **Small Organic Farmers Association (SOFA) in Sri Lanka**, whose 2,000 organic-certified farmers produce Fairtrade tea and spices, says that food prices have risen. But SOFA’s farmers are currently receiving a Fairtrade organic tea price that is 20%-30% above their cost of production, meaning increased income for families and improved investment in their farming plots. Bernard says: ‘The Fairtrade concept is the only existing way to develop the small farmer producer. Using the Fairtrade premium effectively and efficiently is the key to sustainability of the small farmer producers, for example by using this to support organic farming methods. We are converting marginal tea lands to highly productive tea land. At the beginning, most of the land was neglected. Since we have been able to utilise the Fairtrade premium, we have increased the productivity of the land and uplifted peoples’ livelihoods.’

For the **coffee farmers of Oromia in Ethiopia**, the difference between the conventional market price and the Fairtrade price is massive – currently Oromia farmers only get around $1.10 per lb of coffee by selling to private buyers on the conventional market, but receive on average $2.10 per lb from Fairtrade buyers. This difference is a virtual lifeline to the farmers. The average farmer produces around 1,300 lbs of coffee a year; if all this was sold at the Fairtrade price rather than the conventional price, farmers would earn $1,300 a year more. The problem for them is that only a small proportion of their coffee is currently sold as Fairtrade and they need the Fairtrade market to expand to attract more buyers.

Case study 1

Fairtrade reducing vulnerability – Mubuku Moringa Vanilla Farmers Association

The 1,032 vanilla growers in the Mubuku Moringa Vanilla Farmers Association in Uganda sold significant proportions of vanilla[63] into the Fairtrade market in 2005 and 2006. However in 2007/08 the amount they were able to sell on Fairtrade terms fell, forcing them to sell most of their production at much lower conventional market prices. Most growers are net food buyers and are therefore suffering from the higher food prices they have to pay. For 2009, the growers are hopeful that more of their vanilla will once again be sold into the Fairtrade market which will have a substantial impact on their livelihoods.

Mubuku was set up in 2004/05 and has a market for its produce in the form of a small British-owned exporter, Ndali Estate, which processes the farmers' produce then exports and markets vanilla and vanilla extract to Fairtrade and conventional buyers in the UK. It provides a vital support mechanism for the vanilla farmers, enabling them to sell their produce, organise cooperatively and provide training in farm management.

Mubuku's vanilla growers need Fairtrade now more than ever. They mostly live without electricity, sleep on bare mattresses in makeshift homes, often sending their children to school without breakfast, where they are educated in over-crowded classrooms. They lack access to safe water and affordable healthcare.

They farm an average of half an acre of vanilla, their major or sole income, intercropped with food crops such as bananas, beans, maize and cassava. The growers estimate that the average household now spends around 70% of its income on food, compared to 40% to 50% a year ago. Kato Bernerd, Ndali Estate's farm manager, says that farmers' incomes noticeably dropped when Fairtrade sales fell:

> *"Farmers have had to take out loans, some have had to sell their land, especially those with children in schools, some families are even starving. People are unable to buy books for school. If they sold at USh8,000 [the Fairtrade minimum price] that's a big difference. They wouldn't get into debt or have to sell their land."*

Joseph Mbusa, the organic project manager at Mubuku, says the situation for some families is even more serious:

> *"Some girl children in vanilla growing families have taken to prostitution as production goes down and families earn less. This is directly related to income going down. You lose control over your family.The poorest of the growers are now eating only one meal a day, those above them only two. The food situation is really bad. Even for me it's only two meals – and that's only basic foods. Meat prices have doubled."*

He adds:

> *"Apart from times of calamities, such as drought, this is the most difficult time we've known with these high food prices. I don't see them reducing soon. It will last another 10 years."*

Benefits of Fairtrade vanilla

In 2006 Mubuku's growers were paid USh9,000[64] a kilo for green vanilla sold to the Fairtrade market – around four times the conventional price. In 2008, the farmers received USh4,000 a kilo for green vanilla sold by Ndali Estate to the conventional market – less than half but still a significant increase over the USh1,500 paid by many private traders.

However, if the growers were able to sell more of their output to the Fairtrade market, they would receive at least USh8,000 at current exchange rates (the minimum Fairtrade price is $4.30 a kilo). Given that the average farmer produces around 90kg a year this amounts to a substantial loss of income for poor farmers of $200 a year – the difference companies and consumers can make by buying Fairtrade vanilla.

Fairtrade sales also brought in a considerable amount of Fairtrade premiums for Mubuku, amounting to USh42m in 2007, which has been spent on projects such as roofing a secondary school, building a community centre and a maize mill and developing bee-keeping. Fairtrade premiums have also made a big difference by increasing their processing operations from 10 tonnes of green vanilla to a capacity of 60 tonnes which in turn has generated employment opportunities for local people. Farmers would like more than anything to be able to sell this vanilla to the Fairtrade market. Joseph Mbusa, who himself farms a one-acre plot of vanilla, says:

Access to the Fairtrade market has given us hope, otherwise we would have been wiped out. Without hope, farmers would be harder hit and would be degraded. The hope for our future is Fairtrade sales.

The good news is that Ndali has worked hard to secure more market opportunities for Ugandan Fairtrade vanilla in 2009. For the farmers of Mubuku Moringa, selling higher amounts more regularly on Fairtrade terms would not just help cushion the impact of high food prices but could crucially help secure a better future for their families and communities.

Lucy Maate is a grandmother with 10 children and grandchildren to support. She has grown vanilla for 15 years and has one acre that produced 40kg at the last harvest, earning her USh160,000 (£57), though she also makes some money from selling cassava, bananas, tomatoes and mangoes. She has to buy much more than she sells. Lucy is very clear about the advantage of selling at the Fairtrade price:

When I sold Fairtrade I was able to educate the children and when prices went lower, I couldn't afford to. I had to pull my girl out of secondary school because of lack of income after paying for her in the school when vanilla prices were high.

Lucy's daughter, Eva, was 17; the fees, at USh70,000 (£25) per term, for three terms, were too high.

The biggest blow that the family has suffered from rising food prices is to have failed to educate the children and provide for them. I look at my children as a priority.

Lucy says that securing the Fairtrade price in the future means the difference between her daughter going to school or not, and also enabling her to buy some new land.

3.2.2 A stable, minimum Fairtrade price

Asked whether farmers benefit when the world market price for coffee is high and whether the Fairtrade minimum price is still important, John Nuwugaba, Chair of Ankole in Uganda, says:

The coffee price is high at the moment yes, but very volatile. It can easily fall and usually does. If the price goes up, production goes up and the price falls. Fairtrade gives us a guaranteed price whatever happens. This means more consistent income. Farmers can conduct their business better by planning ahead.

In the current highly volatile global agricultural food system, with prices constantly fluctuating and unpredictable, the Fairtrade guarantee of a minimum and stable price is more critical than ever to enable farmers to plan for their futures. Without the reassurance and security this brings, growers might be forced to give up their businesses altogether, and lose their livelihoods. With this would go a vital strand of the rural economy.

PRODECOOP's coffee producers in Nicaragua currently earn 20 cents per pound of coffee more than non-Fairtrade producers – an important differential given that many of the farmers live on $2-$3 a day. Merling Preza says that the stable Fairtrade price means that coffee producers are able to invest part of the income they receive on improving production of food staples on their plots, in order to feed their families. She adds: 'The Fairtrade minimum price is more important in this new context since we are talking of small producers who have a very low income and are just surviving. The minimum price allows them to plan the food needs of their family for the year, take care of their plot of land so that it remains sustainable, not to migrate from the countryside to town, or worse still to another country, which would result in the disintegration of the family...At the present time, the conventional coffee price does not cover the production costs, and even less the sustainability of such production. The difference is the possibility to have a better life, a better quality of life for a better quality of product, to plan the family's future.'

Until September 2008, a pound of organic brazil nuts produced by **COINACAPA's members in Bolivia** was selling on the conventional market for $2.60 – above the floor level of the Fairtrade minimum price (although in instances like this the higher market price is always payable). Since then, however, the price has fallen back to $1.95, close to the Fairtrade minimum of $1.92. If the conventional price drops any further, Casildo Quispe, a brazil nut farmer, notes, the importance of the Fairtrade minimum price will become even more crucial since, without this, the nut producers might well be worse off as a result of the food price rises.

In 2007, the Fairtrade minimum price for peanuts in **Malawi** and the conventional market price were generally the same, at around Kwa80 (37p) per kg; in 2008, however, world and local prices for peanuts went higher than the Fairtrade minimum price, varying from Kwa100-Kwa200 (46p-55p) per kg. An average NASFAM farmer, with one hectare of peanuts planted, can produce 1.2 tonnes a year, meaning an income at these higher prices of around Kwa144,000 (£671). However, even though farmers are benefiting from higher food and commodity prices, **Dyborn Chibonga, NASFAM's Chief Executive**, says that Fairtrade still provides a major benefit: 'The biggest advantage of Fairtrade is its predictability and that it is certain to enable all producers to cover their costs whatever the market situation. It provides a stable market for produce. We are expecting the conventional price of peanuts to fall next year.' The Fairtrade guaranteed floor price enables better planning at a time when no one can predict how peanut prices will fare in the future.

Interviews and focus group discussions with farmers in the Rushoroza society, one of 10 cooperative societies of the **Ankole Coffee Producers' Cooperative Union in Uganda**, show that the coffee growers are genuinely grateful for the Fairtrade minimum price; they say it has brought stability and a guaranteed market for their output at a better price than otherwise available locally. This is not to say that, of course, they wouldn't like the price they receive to be even higher but they describe the price as good, recognising that their living standards have improved since Fairtrade was introduced in 2001.

Tweyambe Jonas, the Vice-Chair of the Rushoroza society, explains the various benefits of Fairtrade:

> *"There is a guaranteed market for selling. Another advantage is the fixed price, which is good for the society as it attracts others to us. The community is also developed through the premium projects. The society has also increased the role of women who now play a much bigger role."*

3.2.3 Support to cooperatives

When commodity prices are high, it is often middlemen in-country who enter markets and take advantage of farmers by buying low and selling high, securing most of the benefits. The Fairtrade system plays a vital role at this time. As IFAD notes, small farmers can benefit from increasing prices of their outputs if they are involved in producer organisations that increase their collective power and reduce their transaction costs – they can take a larger share of the rising prices, as opposed to middlemen.[65] This is a key feature of the Fairtrade model, where farmers are required by Fairtrade standards to be organised into cooperatives.

A recent independent academic study of producer organisations in Costa Rica and Peru found that Fairtrade had significant positive effects on the strengthening of local farmers' organisations.[66] Farmers interviewed felt that the association with Fairtrade strongly and favourably influenced the bargaining power of their organisations. Most farmers also perceived their organisations as a vital link to the Fairtrade market opportunities. Overall the study concluded that the insurance function of Fairtrade that was able to trigger local investment and asset accumulation might in fact be more relevant than the direct income effects of the Fairtrade model. Our own research also found this to be the case. For the coffee producers of Nicaragua, one of the main benefits of Fairtrade lies in the fact that Fairtrade producers solve their problems and look for alternatives together.

Case study 2

Fairtrade building futures with the members of Ankole Coffee Producers Cooperative Union

In the Bushenyi district of western Uganda, the situation for the coffee growers of the Ankole Coffee Producers Cooperative Union is very different to that of the vanilla farmers. For one thing, most of them, who are also subsistence farmers, are self-sufficient in food, growing enough to feed their families and sometimes selling a little in the local market (they intercrop their coffee with food crops such as bananas, beans and yams), thus if anything they are benefiting from the higher food prices. In addition to this, the Fairtrade price they receive for their coffee is enabling them to relatively prosper.

Ankole is a union of 10 cooperative societies, all of them Fairtrade certified, comprising 4,500 coffee growers, of whom 1,200 are women. Around 60% of these members' coffee sales are into the Fairtrade market. These societies have come together to form Ankole which is taking on more responsibility for purchasing and marketing its members' coffee.

Coffee remains Uganda's most important export crop, produced mainly by half a million smallholder farmers working plots of 0.5 to 2.5 hectares.[67] Academic studies show that in Uganda the price of coffee is critical to livelihoods: a 10% increase in the price paid for coffee results in a reduction in poverty of 6%.[68] Since January 2008, the Fairtrade certified member societies of Ankole have been receiving a Fairtrade price of USh2,800 (£1) per kilo, after the cooperative has deducted its costs. The conventional, non-Fairtrade price in the area is generally much lower and extremely volatile, being around USh2,400 in 2007 before briefly hitting USh3,000 in January 2008, plummeting to USh1,8000 in mid-2008 and rising again to USh2,200 in late 2008. These volatile prices make planning and making new investments difficult and, when prices are low, they clearly hit farmers hard.

Fairtrade working through cooperatives

Farmers selling in the conventional, non-Fairtrade market means contending with exploitative private traders. They are regularly accused of using faulty weighting machines and of adding stones to coffee bags to pay less for farmers' output. Union officials and farmers all complain that one of the adverse impacts of coffee liberalisation has been the emergence of a plethora of middlemen who are unregulated, using their power to cheat farmers.

By contrast, membership of the Ankole union means the coffee growers own and control the organisation and receive a share in any profits made. It also means they have a long-term relationship with the buyer of their produce, standing in marked contrast to dealing with private traders. 'Our system is much more transparent to the members', says Stanley Maniragaba, Ankole's Operations Manager, who is responsible for buying coffee from the farmers.

"When we exchange money, we have documents. We're also fair about the exchange rates. The profit goes back to the members. They can determine the future of the organisation because they control it."

Growers in the Rushoroza society are effusive in their praise for the society. Milton Riuyooka says:

"Once I'm in the cooperative, I normally get cash advances when I need them. It's also easier to access the market. We get information on the market, like what price changes there are, and also financial advice. It means we can all overcome the middlemen."

Ankole's goals are to increase the number of members, to build its own grinding facility and to gain organic certification in order to market its own brand, 'Ankole coffee'.

Liberalisation has also reduced the number of government agricultural extension officers offering advice and training to farmers and coffee growers. The coffee growers' biggest problem is a long-standing one in Uganda, that of coffee wilt disease. Some farmers have lost 40% of their production as a result. The cure is to introduce seeds which are resistant and also to seek advice from extension officers. The union is helping by providing new seedlings to growers. Stanley Maniragaba explains:

"Previously there used to be extension workers, but there are almost none now. There are some but they often know little and do not visit the coffee farmers. They need support in areas like crop husbandry, environmental protection and soil erosion."

Once Ankole becomes certified as an organic coffee producer, it plans to employ extension workers to support them.

3.2.4 The Fairtrade premium

At a time of unpredictable food and commodity prices, the Fairtrade premium takes on even greater importance. Farming organisations are still able to invest in business improvements and/or community development even when the outside environment is harsh. The Fairtrade premium, which is administered by democratically elected representatives of the farmers' organisations, can fund projects directly addressing food security needs or activities to improve agricultural production to enable farmers to take advantage of higher prices. They are also able to diversify into other income-generating activities when the economic environment is unfavourable.

For example, cotton growers at the **Bati Makana cooperative in the Kita region of Mali** have told us previously that they have invested the Fairtrade premium in building storage facilities to enable them to store the food staples that they grow for their own consumption and for sale in the local market. This has made a massive difference to these farmers' food and livelihood security as without the storage capacity they were forced to sell their crops straight after harvest when prices are at their lowest. Now they can drip-feed the local market and so get a better price for their produce.

The world price of sugar rose by 23%, comparing early 2007 with early 2008.[69] Yet **KCG in Malawi** have seen only marginal increases in their income. In 2007, they earned an average of Kwa157,000 per year (£731) rising to Kwa165,000 (£768) in 2008 – an increase of less than 5%. For these farmers, this increases the importance of the Fairtrade premium, which at $60 per tonne has brought benefits such as investment in replanting the sugar fields, constructing water boreholes, connections to the national electricity grid and the building of a health clinic.

The farmers in WINFA from across the four small countries of the Windward Islands benefit significantly from the $1 Fairtrade premium they receive per box of bananas. **Renwick Rose, WINFA coordinator**, says:

> *"The social premium allows us to undertake social projects such as providing health services in rural communities. It also enables farmers to develop their own capacity to manage, to develop their productive capacity and their management skills."*

Farmers of the **Agrocel cotton cooperative in India** benefit hugely from the Fairtrade premium, which amounted to £2.5m in 2008. Hasmukhbai Patel of Agrocel says this will be spent on a variety of health, education and environmental projects as well as being invested in the cotton business, improving rainwater harvesting, management and learning-sharing experiences.

The Fairtrade premium received by the member societies of the **Ankole Coffee Union in Uganda** amounts to 10 cents per pound. Robert Nuwagira, the Secretary Manager of the Rushoroza society explains that for his society the premium has brought in USh9m (£3,214) in 2006-07 and USh10m (£3,571) in 2007-08. It has funded the building of two staff homes at two primary schools, the construction of two water boreholes, the provision of 50 seedlings to each grower and is presently funding the construction of a community social hall. One grower in the society, Nkuruho Eloiasafu, who farms half an acre, says:

> *"All the community now has access to clean water. Streams are unclean and people here suffered from stomach ailments. One of the boreholes is used by 200 families including a primary school. We're better off due to Fairtrade. Over the past three years, there's been an improvement. We take children to school, and sleep well because of the good market for coffee through Fairtrade."*

Case study 3

Fairtrade supporting livelihoods at the Mabale Tea Growers' Factory

The tea producers of the Mabale Tea Growers' Factory are situated in Kyenjojo district of western Uganda, a few miles from the town of Fort Portal in the country's main tea-growing area. Mabale is owned by the farmers who each have shares in the tea processing factory, giving them a real stake in the business and providing them with dividends when the company makes a profit. The factory ferments, dries and grades the tea ready for transportation to Mombasa, Kenya where it is sold to international traders.

Mabale's 2,300 tea growers farm plots with an average size of two hectares, which produce around 2,000 kilos of tea per month. The conventional price they currently receive is USh250 (9p) per kilo, out of which comes USh65 per kilo paid to the tea pluckers, and the costs of fertiliser and weed killer. Most farmers say that fertiliser is essential for good tea production and that output would decline by half if they didn't use it. But the price has recently skyrocketed – nearly doubling [now at USh110,000 (£39) per kilo compared to USh56,000 (£20) in 2007]. Similarly, the price of the main brand of weed killer has also more than doubled. An average farmer working two hectares needs to spend USh45,000 (£16) a month on fertiliser and weed killer. This means that, after all these costs, the average tea farmer earns USh325,000 (£116) a month. Fuel prices have also shot up in the area. A litre of diesel that cost USh1,800 in late 2007 rose to USh2,500-USh2,700 by November 2008. This has severely impacted on Mabale's business, as it uses a generator consuming 200 litres of diesel an hour, providing electricity for the factory. The company finance officer says that 14% of the company's total costs are now accounted for by fuel. It is this high fuel cost which has of course increased the transportation costs of food, raising the price throughout the country.

The price they receive for their tea has gone up only slightly since last year, by USh20 per kilo.[70] This difference is marginal compared to the increases in the cost of food. The tea growers are overwhelmingly subsistence farmers who sell very little food; only a small number grow enough to feed their families, with the majority being dependent on buying food for their survival. The costs of living have risen significantly throughout the area. A kilo of beef sells for USh4,000 (£1.40) now compared to USh2,500 (89p) a year before, while maize flour has risen from USh500 to USh900 per kilo. Joseph Rwabukuku, Mabale's field manager, who knows the tea growers as well as anyone, estimates that the average family now spends over half their income on food, compared to around a third the year before. Many families are now eating less than before; none of those interviewed in this research said they could afford to eat meat more than once a month. Access to a nutritious and varied diet is literally a dream for nearly all the tea growers – they survive on a constant, unvaried diet of rice, maize meal (posho), matooke or beans. Reduced income for tea growers means less money to invest in growing their businesses – many farmers have stopped buying livestock or expanding their tea farms – because of the rising cost of living. There is land available to buy in the area, but its increased cost is out of most farmers' reach.

The Fairtrade premium benefits

Mabale sells only around 2% of its tea to the Fairtrade market (to Cafédirect), but that volume is crucial. For each Fairtrade kilo sold, on top of the Fairtrade price the premium is 50 cents[71], and over the past year Mabale has sold over 50,000 kgs of Fairtrade tea, netting $30,000 in premiums. From 2005 until October 2008, the premium has provided $166,000 to support development projects to benefit the broader local community not just the Fairtrade tea growers. Irene Kijira, the Treasurer of the Premium Committee, which decides on and oversees the projects, says:

> *"It has made an impact. Before, we didn't have the clinic, or the leaf-sheds and we didn't have clean water at the schools."*

The premium has helped to construct or improve around 100km of roads, many of which were impassable in times of heavy rain, and the construction of 50 leaf-sheds to protect the plucked tea leaves from rain or sun when they are being sorted. The premium has also supported the building of new school classrooms and other projects in seven local schools. At one of them, the Kyararusozi secondary school, the premium funded the construction of an extra classroom, previously, 60 children were crammed into each of the classrooms while the school was unable to access extra funds from the government.

The premium has also helped fund the building of a health clinic, whose running costs are paid by the Mabale company. The nearest other clinic is 10km away; Mabale employs three nurses on rotation 24 hours a day who see about 50 people a day. It offers treatment for malaria, the biggest health problem in the area, emergency birth and antenatal services, HIV testing and counselling and immunisation for children, among other services. Virtually none of the tea growers, or other farmers in the area, have access to clean water, a major problem for many households. With the premium the company has constructed eight water sources, mainly shallow wells and water sources with concrete covers, to protect them from contamination. One water pump recently built in Kyanyibale village with money from the premium currently serves 300 people and is the only pump for 3 km, providing clean water as an alternative to the local stream.

4 Conclusions and recommendations

Although the public agenda is now dominated by the global economic recession, we must not forget the plight of the millions of vulnerable people who have been pushed to the edge by the extreme price volatility over the past year, including the two billion people dependent on small-scale farms for their survival.

Their vulnerability has been exacerbated by the economic slowdown. According to the World Bank the volume of world trade is likely to contract for the first time since 1982, further reducing the potential for growth in developing countries.

The immediate and short-term response to the food crisis requires humanitarian aid and improved safety nets for the poorest of the poor. In the longer term it also requires the international community to reorient their agricultural policies to provide more direct support to small farmers to increase their food security. For too long the needs of small farmers have been ignored. This focus on small farmers must be a key part of broader policies to promote the increased productivity of agriculture.

We must support small-scale farmers for our sakes and for theirs: to reduce poverty, increase food production and protect the environment. To do this, small-scale farmers urgently need a transformation in international agricultural trade. Governments in the North and South and international institutions should massively step up their support for agriculture in general, and smallholders specifically. They should first halt the overall decline in aid for agriculture; ensure that agricultural policy and aid flows focus effective support on small-scale farming, promoting affordable, low-input solutions; and increase support to NGO and voluntary programmes, including Fairtrade, aimed at supporting the long-term sustainability of smallholder agriculture. Companies, the public and the Fairtrade system also have critical roles to play.

Northern governments should:

- Refocus their agricultural aid to prioritise the needs of small farmers, including those producing for the Fairtrade market
- Commit to increasing their aid to agriculture; the FAO says that the countries hardest hit by the food crisis need $30bn annually to ensure food security and promote agriculture
- Review trade liberalisation policies in light of the food crisis and global recession. Trade agreements should ensure that developing countries are accorded 'special treatment' by not being required to excessively reduce their import tariffs on agricultural items, especially on sensitive products that can affect food security.

Southern governments should:

- Champion the strengthening of producer and farmer organisations, including Fairtrade organisations, and actively seek out farmers' views in policy planning
- Take much greater steps to ensure that small farmers increase their access to credit and basic inputs such as seeds and fertilisers
- Honour their commitment to spend at least 10% of their national budgets on agriculture and make this spending more transparent and accountable
- Make state intervention both smarter and more efficient and also have clear strategies to build up the private sector.

Companies should:

- Invest in smallholders in their supply chains to become better organised, and build long-term and sustainable relationships
- Extend the scope and range of Fairtrade products that they offer the public
- Commit to improving trading relationships and the position of all participants in their supply chains.

The Fairtrade system should:

- Continue to have an explicit focus on the needs of small farmers, ensuring appropriate standards to best empower farmers in the long term
- Develop the flexibility of the Fairtrade model to be able to quickly review minimum prices and ensure they constantly cover actual costs of production when input costs are rising rapidly
- Scale up the reach and scope of Fairtrade especially to the most disadvantaged groups in the very poorest countries.

The public should:

- Commit to buying Fairtrade products regularly
- Ask their local shops, supermarkets and cafés to stock more Fairtrade products
- Step up their support and join the campaign for broader fundamental changes to the international trade system to benefit smallholders, especially in least developed countries.

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