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IMPACTS OF COOPERATIVES AND FAIR TRADE ON PRODUCERS:

ACTION RESEARCH IN NEPAL

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Abstract

Fair Trade Organizations (FTOs) aim to create opportunities for marginalized small-scale producers in developing countries, particularly through direct trading partnerships with producer cooperatives. This paper draws on an action research project which evaluated the impacts of trading partnerships between an FTO in South Korea and its producer partners (coffee and tea producer organizations) in Nepal. Despite the best intentions of the FTO to focus on market growth in order to benefit producers by purchasing more products, the organization failed to ensure positive impacts on producers due to the limited attention to (1) the governance of producer organizations (e.g., "pseudo-cooperatives"), (2) the power imbalance between traders and producers, and (3) theneeds and priorities for development projects in the local context. We will discuss the implications of our findings for social enterprises and cooperatives that seek to create positive impacts on producers in the global South.

Résumé

Les organisations de commerce équitable (OCÉ) ont pour mission de créer des occasions pour les producteurs de petite taille marginalisés dans les pays en développement, en particulier grâce aux partenariats commerciaux directs avec des coopératives partenaires. Cet article repose sur un projet de recherche-action qui a évalué les effets de partenariats commerciaux entre une OCÉ en Corée du Sud et ses partenaires producteurs (organisations productrices de café et de thé) situés au Népal. En dépit des meilleures intentions de l'OCÉ de se focaliser sur la croissance du marché afin de faire bénéficier les producteurs d'un approvisionnement accru en produits, l'organisation n'a pas réussi à assurer des effets favorables aux producteurs en raison de l'attention restreinte qu'elle a portée (1) à la gouvernance des organisations productrices (par ex. : pseudo-coopératives), (2) au déséquilibre de pouvoir entre les commerçants et les producteurs et (3) aux besoins et priorités pour le développement de projets dans le contexte local. Nous discuterons les implications de nos résultats pour les entreprises sociales et coopératives qui cherchent à créer des impacts positifs pour les producteurs mondiaux du Sud.

Resumen

El objetivo de las organizaciones de comercio justo (FTOs, por sus siglas en inglés) es crear oportunidades, principalmente mediante la colaboración comercial con cooperativas de productores, para los productores que trabajan a pequeña escala, que están marginados y que se encuentran en los países en desarrollo. Este artículo se basa en un proyecto de investigación de acción que evaluó el impacto de las colaboraciones comerciales entre una FTO de Corea del Sur y sus socios productores (organizaciones de productores de café y té) en Nepal. A pesar de las mejores intenciones de la FTO de concentrarse sobre el crecimiento del mercado para beneficiar a los productores a través de la compra de más productos, la organización no logró asegurar un impacto positivo para los productores debido a una escasa atención a 1) la gobernanza de las organizaciones de productores (p. ej.: «seudocooperativas»; 2) el desequilibrio de poder existente entre comerciantes y productores y 3) las necesidades y prioridades para proyectos de desarrollo en el marco local. Trataremos las repercusiones de nuestros hallazgos para los emprendimientos sociales y las cooperativas que intentan crear un impacto positivo en los productores del hemisferio sur.

Introduction

Fair Trade Organizations (FTOs) seek to create positive impacts on the livelihoods of producers in developing countries by establishing direct trading partnerships with producer organizations, particularly cooperatives (Huybrechts, 2012; Reed, 2015). Over the past 60 years, Fair Trade has evolved from the attempts of charities to support marginalized producers by importing and retailing handicrafts and food items (Kocken, 2006; Wills, 2006) to a rapidly growing market that exceeds € 5.9 billion worldwide (Fairtrade International, 2015). While FTOs historically emerged as non-profit organizations and social enterprises in Europe and North America (Nicholls and Opal, 2005), they were recently established in several Asian countries including South Korea, Singapore, and the Philippines (David and Kim, 2010).The objective of Fair Trade is summarized in the following definition:

Fair Trade is a trading partnership, based on dialogue, transparency and respect, which seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South. Fair Trade Organizations (backed by consumers) are engaged actively in supporting producers, awareness raising and campaigning for changes in the rules and practice of conventional international trade (FINE 2001: 1).

As such, FTOs strive to support producers through trading partnerships based on the growth of Fair Trade sales. However, establishing trading partnerships and increasing purchases do not necessarily ensure positive impacts on producers. The power relationships between traders and producers continue to shape decisions and actions even in the Fair Trade markets (Hutchens, 2009; Huybrechts, 2012; Macdonald and Marshall, 2010). Furthermore, the Fair Trade markets increasingly involve the process of formal standardization, certification, and auditing, which creates a form of control for producers (Dolan, 2010; Loconto, 2010; Raynolds, 2002; Reinecke, Manning and von Hagen, 2012).

Drawing on the action research project on the impacts of trading partnerships between an FTO in South Korea and its producer partners in Nepal, this paper investigates why FTOs and their partnerships with cooperatives may fail to secure positive impacts for producers and how the issues can be addressed more effectively. In the following sections, we present our research methods, summarize key findings, and discuss the implications of our research for broader research and practice regarding social enterprises and cooperatives that aim to create positive impacts for producers.

Research Methods

We conducted action research on partnerships between FairCoffee, an FTO in South Korea, and two producerorganizations in Nepal, GaiCooperatives and Kukur Tea Estate. All names are pseudonyms. Action research is defined as “an informed investigation into a real management issue in an organization by a participating researcher, resulting in an actionable solution to the issue” (Thorpe and Holt, 2008: 17). Through the active participation of researchers in solving practical problems, action research provides an opportunity to develop knowledge which emerges fromand is directly relevant to management practice (Argyris, 1993; Lewin, 1946; Luscher and Lewis, 2008).

The two authors participated in the four-month action research project between February and May 2011, which included background research, field research in Nepal (2 weeks in April 2011), and the delivery of recommendations in the form of a report for FairCoffee. The first author was an independent researcher who led the action research project. The second author was an employee of FairCoffee at the time of research and participated in the project as a manager who was responsible for producer partnerships. The project team also consisted of another employee of FairCoffee (the marketing manager) and an interpreter, as the researcher and the staff members of FairCoffee were not fluent in Nepali.

Our primary data sources for this paper consist of field notes from site visits (e.g., farming fields, collection points, processing facilities, and community projects) and 17 interviews with managers and workers fromGai Cooperatives and Kukur Tea Estate. Each interview lasted about an hour. The interviews with managers were typically in English, while the interviews with farmers and workers were conducted in Nepali via the interpreter. We also collected various documents from FairCoffee and their producer partnersincluding annual reports, organizational charts, campaign and marketing materials, strategic plans, and internal reports.

After the completion of the action research project in 2011, we continued to follow the changes in the partnerships and collect documents including two major reports on producer partnerships by FairCoffee in 2012 and 2015. From these reports, we were able to access field notes from threeproducer visits in November 2011, April 2012, and November 2013, as well as the transcripts of 10 additional interviews with farmers and managers of Gai Cooperatives. We analyzed the qualitative data by identifying categories and themes that emerged from the iterative process of data analysis and literature review (Miles and Huberman, 1984; Taylor and Bogdan, 1998),focusing specifically on research on Fair Trade, cooperatives, social enterprises, and international development.

Summary of Findings

Our findings suggest that FairCoffee paid almost no attention to the monitoring and evaluation of producer partnerships until the point of action research. Instead, FairCoffee prioritized campaigning and marketing activities to promote ethical consumption and create markets for Fair Trade products in South Korea. The emphasis on campaigning and marketing was related to the fact thatFairCoffee was one of the first FTOs in South Korea. When FairCoffee was established in 2002 as a trading unit of a non-governmental organization, the concept of Fair Trade was unfamiliar to most Korean consumers. In other words, the primary focus of FairCoffee was on market growth, based on the assumption that purchasing more products would increase benefits for producers. In addition to the payment of commodity prices, FairCoffee paid a social premium (i.e., the funds provided to producer organizations for the purpose of community development projects) according to the amount of purchases, and thus further assumed that more sales and purchases would lead to more positive impacts on the livelihoods of producers.

Despite the best intentions of FairCoffee, the field research revealed several serious problems. Firstly, the governance of producer organizations raised a question of whether the trading relationships led to benefits for marginalized workers and farmers, particularly in the case of Kukur Tea Estate. While Kukur Tea Estate frequently promoted the organization to traders by claiming to be“just like cooperatives," its legal status was a private limited company and the actual governance was also far from the democratic and participatory principles of cooperatives. Instead, our field observations and interviews with workers suggested major problems in working conditions including overtime and in-kind payments. For example, factory workers and tea pickers received a very low cash salary after the deduction of the price of rice, salt, and cooking oil, with no information about how these amounts were calculated. We found that FairCoffee trusted the claims of managers at the Kukur Tea Estate because of the presentation of the organization as an equivalent to cooperatives, as well as their trading partnerships with well-known FTOs in Europe and North America. In other words,Kukur Tea Estate was a case of a pseudo-cooperative, which claimed to be similar to cooperatives in order to attract buyers (e.g., FTOs) yet its practices were no different than the common practices of private companies in the country.

Secondly, we found that FairCoffee did not pay attention to the reality of the power imbalance between traders and producers (even in the Fair Trade markets), and its implications ondecisions and actions taken by producers. In 2010, FairCoffee initially agreedto purchase 28 t of coffee beans from Gai Cooperatives but ended up buying only 14 t, i.e., the half of the promised amount. Gai Cooperatives managed to sell 3t to the domestic market, while the remaining 11 t was carried over to 2011. As a result, farmers were crying out for payments and the organisation was struggling to pay theworkers and managers their salaries. Furthermore, the organization had to employ 8 additional workers (manual coffee bean sorters) throughout the year in order to re-sort old beans, because many beans went bad due to the prolonged storage, particularly during the monsoon season.We found that the whole amount of social premium that was transferred by FairCoffee (approx. NRP 300,000, or USD 3,000) was used up to cover the loss, especially to pay the salary of additional sorters, while FairCoffee was proudly presenting the payment of social premium to consumers and other stakeholders in South Koreaas benefits for Nepali producers. The most striking part was that the managers of Gai Cooperatives never dared to speak about the problems to the staff members of FairCoffee before the action research projectbecause they were afraid of upsetting them or losing an important buyer. The managers of FairCoffee assumed that the situation was manageable for Gai Cooperatives, without reflecting on the power relationships that made the producers remain silent and accept any decisions taken by FairCoffee.

Thirdly,FairCoffee made little effort to understand local needs and priorities before selecting and implementing community development projects. For example, FairCoffee raised significant funds (NRP 300,000, i.e., approx. USD 3,000) from a major donor to reconstruct a primary school in the catchment area of Kukur Tea Estate. The project was frequently communicated to consumers and other stakeholders of FairCoffee in South Korea as an example of positive impacts on producers, specifically for the education of children in impoverished communities. However, our research shows that FairCoffee did not understand the needs and priorities of communities in the local context. For example, the library was the most impressive part of the building, followed by the office section, while classrooms and the staircases were not up to standard. Furthermore, while significant funds were invested in constructing a physical library space, the books were collected and delivered from the head office of Kukur Tea Estate in Kathmandu and included many books that were not suitable for primary school students (e.g., a book on the history of critical theory and Marxism). The funds could have been better utilized to purchase more appropriate books, which could be managed even at the absence of a physical library (e.g., through a loan system coordinated by teachers and upper-year students). Another example is the decision of FairCoffeeto hire a full-time librarian and pay a monthly salary of NRP 8,000 for 2 years, while the village school was struggling to hire and pay teachers (whose salary is NRP 4,500 per month) due to the insufficient number of teachers allocated by the government. Although the library might look wonderful on the photograph, employing a full-time librarian in the context where the school cannot pay teachers illustrates that FairCoffee was deeply ignorant of the local needs and priorities.

After the completion of our action research project, FairCoffee made a number of decisions, including the termination of trading relationships with Kukur Tea Estate. As FairCoffee was a relatively insignificant buyer of Kukurin terms of the volume of tea, due to the limited Fair Trade tea market in South Korea, FairCoffee decided that the organization was not in the position to influence the governance of this pseudo-cooperative. Instead, FairCoffee focused on improving its partnerships with Gai Cooperatives to ensure positive impacts on producers. The trading function was relocated from the marketing team to the producer partnerships team so that decisions on trading could be better coordinated with producer support and made under the supervision of the producer partnerships manager instead of the marketing manager. While FairCoffee's efforts to improve impacts on producers are still in progress, the organization began to understand the challenges of creating positive impacts on producers by departing from the assumption that more sales and more purchases lead to better impacts.

Discussion

The focus of Fair Trade is often on the survival and growth in the market. The "impacts" on producers are often equated with the amount of sales, purchases, or extra resources (e.g., social premium) transferred to the producer organizations. For example, Fairtrade International recently published a report entitled "Monitoring the scope and benefits of Fairtrade," in which the organization highlighted the average Fairtrade Premium for producer organizations in 2013-14 (approx. €100,000 perorganization) as an important indicator of the impacts of Fairtrade (Fairtrade International, 2016).

Our research uncovers the danger of equating the amount of resources with the impacts of Fair Trade on producers, even when FTOs have direct trading partnerships with producer cooperatives. Specifically, the governance of producer organizations (e.g., "pseudo-cooperatives"), the power imbalance between traders and producers, and the knowledge of needs and priorities (or lack thereof) in the local context significantly influence the impacts of Fair Trade on marginalized workers and farmers. While survival and growth in the market is important, it is also essential for the FTOs to invest their time, efforts, and resources in understanding and improving the real impacts of their activities on producers.

The findings have implications for a wider range of organizations (e.g., social enterprises and cooperatives) that aim to create positive impacts on the livelihoods of marginalized producers, particularly in developing countries. Neither good intentions nor the large amount of resources guarantee positive impacts on producers and communities. To ensure positive impacts, it is critical to understand the dynamics of decisions, actions, and their consequences in the local context, such as those regarding governance, power relations, and local needs and priorities. While the principle of participatory development is widely advocated in the field of international development (Cornwall, 2000; Jennings, 2000), the voice of local actors is often ignored or only represented by more powerful organizations such as NGOs (Blowfield and Dolan, 2010; Khan, Munir and Willmott, 2007).Our research findings suggest the importance of rethinking the impacts of well-intentioned interventions and going beyond the common focus of social enterprises and cooperatives of their survival and growth in the markets.

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