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PRACTICAL NOTES

Measuring the impact of fair trade on development

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Abstract

This study of the impact of fair trade relies on new field data from coffee and banana co-operatives in Peru and Costa Rica, including a detailed assessment of its welfare effects by comparing FT farmers with non-FT farmers as a benchmark. Attention is focused on three major effects: (a) direct tangible impact of FT arrangements on the income, welfare, and livelihoods of rural households; (b) indirect effects of fair trade for improving credit access, capital stocks, investments, and attitudes to risk; and (c) institutional effects on local and national policy-making.

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Notes

A commonly used balancing score is based on the probability of participating in the programme as determined by a set of observable exogenous characteristics (Rosenbaum and Rubin 1983). The propensity score (p-score) is estimated for each farm-household by using the regression's predicted probability of having FT certification. Considering the distribution of the propensity scores, we identify the regions of 'common-support'. These regions are set after eliminating the observations in the non-participant group with a p-score lower than the minimum p-score in the participant group, and the observations in the participant group with a p-score higher than the maximum p-score in the non-participant group.

Community-level outreach of FT is particularly related to the investments made using the FT premium, which is frequently used for building primary schools, community health services, road improvement, public electrification and water provision, transport facilities, and other general services. According to FLO rules, this premium cannot be allocated to individual farmers or workers, and should be used for community activities. In the case of scattered settlements, however, it is difficult to select a location for such investments. It is therefore not uncommon to see the premium piling up in a bank account. Sometimes, the premium fund is then used for loan purposes.

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