

***Assessing the Potential of Fair Trade for Poverty Reduction and
Conflict Prevention: A Case Study of Bolivian Coffee Producers
(short version)***

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1. Introduction

Fair Trade is a well-known concept that intends to improve the livelihoods of small-scale producers in developing countries. Market growth in Fair Trade has been very impressive since the 1990s and European markets have shown steady expansion in Fair Trade products, albeit with demand for certain products seemingly stagnating.

Switzerland is a major market for many Fair Trade products. On a per-capita basis, it commands the highest market share in the world while Fair Trade coffee has a market share of 6%, the second highest in the world behind the United Kingdom.¹ For many years, the Swiss State Secretariat for Economic Affairs (seco) has been promoting and supporting the Fair Trade concept. By implementing its strategy of enabling producers in developing countries to enter market niches, it has led from the front by promoting production quality as well as high social and environmental standards. In seco's own words, Fair Trade has been a success story as a result of its impressive growth rates (seco 2005).

Fair Trade principles are increasingly being mainstreamed into the coffee market controlled by the private sector, because consumer demand for coffee produced under socially and environmentally friendly conditions has been rising steadily in recent years. Multinational corporations such as Starbucks and Nestlé increasingly market fairly traded coffee. Although they have preferred to develop their own labels and initiatives instead of using established Fair Trade channels, this is doubtlessly an interesting development.²

This study will address the central question of whether Fair Trade – and in particular Fair Trade coffee – has the potential to be used as a comprehensive tool for poverty reduction. More specifically, it will:

- assess the impact of Fair Trade on small-scale coffee producers in Bolivia
- analyse the impact of Fair Trade on producers not participating in Fair Trade
- explore the Fair Trade-conflict nexus by hypothesising a potential positive impact of Fair Trade on conflict prevention.

This document is a shortened version of the original. After this brief introduction, Chapter 2 provides background information: it first gives a working definition of Fair Trade, then briefly presents the characteristics of the international and local coffee market and finally highlights important economic indicators for Bolivia. Chapter 3 then presents the underlying theoretical framework; firstly, on Fair Trade's impact on income distribution and secondly, on Fair Trade's potential for poverty reduction and, as a result thereof, on conflict prevention. Chapter 4 then summarises the main results from the analysis in the field while Chapter 5 offers some concluding thoughts.

¹ http://www.fairtrade.net/fileadmin/user_upload/content/FairTradeinEurope2005.pdf

² While these labels do not seem different at first sight, it would be interesting to assess their effectiveness and differences as well as their impact on consumers. This however will not be the major focus of this study. The Common Code for the Coffee Community (4C) is one such example where standards are very similar to the ones developed by FLO, 'covering 30 social, environmental and economic principles in the green coffee supply chain' (<http://www.sustainable-coffee.net>)

2. Background information

2.1. Overview of the coffee market

A key characteristic of the international coffee market is that of volatile prices. Changes in supply often lag behind movements in prices, as coffee beans can only be harvested after several years. Therefore, higher world market prices often lead to greater supply in the future, which can increase future price volatility.

Many commentators believe that the world coffee market is further marked by oversupply and subsequently low prices. Oversupply can persist in the market due to the fact that for many families, coffee is their only livelihood and harvesting is characterised by high fixed costs. Therefore, farmers continue to produce until the price is very low. A further determinant of low prices is believed to lie in the structure of the supply chain. Both the local and international trader market and the coffee roasting market are highly concentrated. The effects of this structure are explained succinctly by Milford (2004: 7): 'This means that the local exporters are price takers when selling coffee on the international market, but in the local markets where they purchase coffee, they are limited in number and therefore powerful in relation to the numerous local farmers who cultivate the coffee.' This market power can be used to push down prices paid to the local farmers.

Turning from the global market to the coffee market in the province of Caranavi, 95 percent of the coffee grown at the national level in Bolivia originates from the Department of La Paz. With 60 percent of national coffee production, the province of Caranavi, also called the capital of coffee, is the largest coffee-producing region in Bolivia. It offers excellent climatic conditions for shade-grown Arabica coffee as the altitude varies between 600 and 1800 meters above sea level. Landholdings are usually small with most families owning around 10 hectares, out of which 2-5 h are earmarked for coffee production.

2.2. Definition and aims of Fair Trade

The most widely used definition of Fair Trade was introduced in October 2001 by the informal umbrella network 'FINE'³ and states the following:

'Fair Trade is a **trading partnership**, based on dialogue, transparency and respect, that seeks **greater equity** in international trade. It contributes to **sustainable development** by offering better trading conditions to, and securing the rights of, marginalised producers and workers - especially in the South. Fair Trade organisations (backed by consumers) are engaged actively in supporting

³ FINE is the Global Fair Trade Network, which comprises all major stakeholders such as Fairtrade Labelling Organisations, International Federation for Alternative Trade, Network of European Worldshops, European Fair Trade Association.

producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade.’⁴

As an alternative trading partnership, Fair Trade’s strategic intent is:

- ‘to work deliberately with marginalised producers and workers in order to help them move from a position of *vulnerability to security and economic self-sufficiency*
- to *empower* producers and workers *as stakeholders* in their own organisations
- to play an active and wider role in the global arena to achieve *greater equity* in international trade’⁵.

2.3. Overview of Bolivia’s economic development

Bolivia is a land-locked country with a population of 9.1 million people, more than half of which is indigenous. Bolivia is also one of Latin America’s poorest countries with a per capita income of \$2,720⁶ in 2004⁷, therefore ranking as a low-income country with a relatively high incidence of poverty. Between 1990 and 2004, 42.2 percent of Bolivians lived below \$2 a day (UNDP (2006)).

According to World Bank 2002 estimates, 65 percent of the population lives in poverty and nearly 40 percent in extreme poverty. Poverty is concentrated mostly among indigenous peoples as demonstrated by the World Bank in a report (Hall & Patrinos 2005: 4-5) which states that ‘as of 2002, rural and urban poverty rates were much higher among the indigenous than the non-indigenous population’.

Income distribution in Bolivia is among the most unequal in Latin America. From 1997-2002, income inequality rose significantly. According to the World Bank (2005b), the Gini-coefficient⁸ reached 0.58 in 2002, making Bolivia one of the countries in the region with the highest income inequality, along with Brazil and Chile. In practice, this inequality means that the richest 10 percent of Bolivians consume 22 times more than the poorest 10 percent, with almost two-thirds of the indigenous population being among the poorest 50 percent of the population.

Bolivia scores low in terms of life expectancy, averaging only 64 years compared to 71 years for the whole of Latin America, but reaches an adult literacy rate of 86.7 percent.⁹ While the infant mortality rate has declined by 30 percent between 1992 and 2001, Bolivia still registers an average of 69 under-

⁴ www.eftafairtrade.org. Emphasis added.

⁵ Idem. Emphasis added

⁶ We use the term \$ to denote US dollars.

⁷ The International Development Association defines the world’s poorest countries as those whose annual GDP per capita income is less than or equal to \$1435.

⁸ An econometric value that computes the differences within the national income distribution and then situates a country on a scale ranging from 0 to 1.

⁹ In terms of human development, Bolivia ranked 0.692 on the Human Development Index (HDI) in 2004, meaning that it is well below the regional average HDI of 0.8.

five infant deaths per 1000 live births. There is however a huge gap between the poorest 20 percent of the population where the under-five mortality rate is 147 and the richest 20 percent where it is only 32 (UNDP 2006).

3. Theoretical framework

3.1. Theoretical framework for analysing the impact of Fair Trade on income distribution

To judge whether or not Fair Trade has a general poverty-reducing impact, the way in which it impacts income levels of non-Fair Trade farmers is crucial. The Fair Trade cooperative acts as a competing intermediary in the local coffee market and thus affects non-Fair Trade farmers. As discussed previously, one characteristic of local coffee markets is the lack of competition amongst intermediaries. This degree of market power can be used to push down prices paid to farmers when purchasing their coffee beans. By entering a local market and accepting a number of local farmers, the Fair Trade cooperative provides competition to the existing intermediaries. Under certain circumstances, this is beneficial for non-Fair Trade farmers: they may see their income rise as prices paid to and quantities produced by each one increase. This result can be explained by examining supply and demand issues: if an intermediary's demand for coffee beans is constant, the fall in supply facing him – due to farmers having left to join the Fair Trade cooperative – may lead to an increase in price paid. Depending on how easily supply can be adjusted, farmers will respond by producing more.

There are, however, additional effects to be considered. Fair Trade farmers generally produce more than they can sell on the Fair Trade market. Lewin et al (2004), for instance, note that only about 20 % of global Fair Trade production capacity is sold at Fair Trade prices. The rest, the excess supply, often finds its way onto the non-Fair Trade market.¹⁰ If the excess supply is sold on the local market to a local intermediary, this could have an adverse effect on the non-Fair Trade farmers: the increase in supply facing the intermediary would lead to lower prices paid in the local market, and they could see their income fall. If, on the other hand, the excess supply is sold on the world market, the effect on the world market price for coffee would be minimal as long as it is very small in relation to total world market supply. Subsequently, there would be practically no impact on the local coffee market price.

A cursory glance would therefore suggest that excess supply can be easily dealt with by ensuring it is absorbed on the huge world market (where its weight is miniscule) rather than on the small local market (where its weight is large). There is a caveat to this finding, however. It is true that for each individual cooperative, the effect of its sales on the world markets is negligible. For the cooperatives in total, however, this is no longer the case. If each cooperative sells its excess supply on the world market, this may contribute to a fall in the world market price. In reality, the size of Fair Trade coffee's share of the world market is estimated at 0.87%.¹¹ Any excess supply is therefore unlikely to have a

¹⁰ Economists often point to the excess supply of Fair Trade cooperatives as resulting from changed production incentives. As farmers receive a higher price in the Fair Trade cooperative, it is rational behaviour to increase production levels. As Fair Trade demand cannot fully absorb the supply, the rest – the excess supply – is sold onto non-Fair Trade markets.

¹¹ *The Economist*, 'Fair Enough', March 30 2006

major effect on the price and therefore on the non-Fair Trade farmers. Nevertheless, the larger the market share of Fair Trade, the more crucial the issue of excess supply becomes.¹²

3.2. Theoretical framework for poverty reduction and conflict prevention

After the focus in the previous section on income distribution, the aim here is to conceptualise the potential role and impact of Fair Trade on poverty reduction and as a result thereof, on conflict prevention.

In order to link conflict and poverty in the context of Bolivia, the framework for our case study is based on the concept of Horizontal Inequalities (HIs) proposed by Frances Stewart (2000; 2002; 2005), which posits that inequality between culturally defined groups becomes relevant to social stability where changing group position is difficult. Therefore, horizontal inequalities are ‘an important source of grievance and potentially of instability, independently of the extent of vertical inequality’ (2005: 5).

As previously mentioned in our background information on Bolivia, for most development indicators such as education, poverty, health and employment, indigenous peoples are systematically worse off than non-indigenous peoples. The concept of horizontal inequalities therefore has striking relevance for Bolivia and is also strongly related to the political upheavals that the country has known in recent years.

Figure 3.1.: Horizontal inequalities affecting indigenous peoples in Bolivia (percentage)

Indicators	Indigenous	Non-indigenous
Extreme Poverty	34.4	12.8
Poverty	31.3	28.7
Child mortality	75 (per 1000 live births)	52 (per 1000 live births)
Illiteracy	19.61	4.51
Level of education 25+		
– Without education (no level)	20.9	6.6
– Primary school	54.1	38.7
– Tertiary education	10.1	26.4
Years of schooling (women)	4.69	9.62
Labour category		
– White collar [1]	15.2	36.3
– Blue collar [2]	8.8	10.3
– Self-employed– urban [3]	28.3	33.1
– Self-employed- rural [3]	42.4	13.8
Informal market activities	84	67
Infrastructure		
– Running water	56.9	79.6
– Sewer	26.2	39.9
– Electricity	58	75.7
– Telephone	17.7	38.4

Sources: World Bank Poverty Assessment on Bolivia (2005); Gray Molina (2005); Barrón Ayllón (2005)

[1] includes blue collars with a monthly wage; [2] includes household employees; [3] includes non remunerated family workers.

¹² To their credit, Fair Trade leaders are aware of this aspect and often publicly state the need to invest proceeds into training and diversification, for instance, rather than simply expanding production.

Particularly relevant for our analysis on Fair Trade is the data on illiteracy and on education, where the number of indigenous peoples with 'no level' is three times higher than for non-indigenous peoples. This is easily explained by the fact that indigenous children often quit school early in order to support the parents with farming activities, e.g. in the coffee sector. Some thus hardly learn to read and write, which explains the relatively high level of illiteracy.¹³

While no major conflict has taken place, political tensions in Bolivia have increased in recent years. Economic liberalisation has also rendered the Bolivian economy more vulnerable to external shocks, leading in some cases to adverse impacts on low-income and labour-intensive sectors where indigenous peoples are over represented. These short-term shocks have therefore exacerbated social grievances leading to an important mobilisation of indigenous social movements.

Taking as theoretical background the concept of Horizontal Inequalities (HIs)¹⁴, we will explore the link between HIs and Fair Trade and assess whether Fair Trade has any discernable impact on HIs, positive or negative, and if it targets a culturally defined group such as indigenous coffee producers. In other words, does Fair Trade in any way improve the group's position relative to others, notably conventional coffee producers and what does it imply? And if so, can we say anything about Fair Trade's impact on conflict prevention?

Caranavi is a small municipality of slightly more than 50'000 people (2001 census) with low levels of development, particularly in the fields of infrastructure, health and education.¹⁵ 88.6 percent of adults above 15 years are literate and attended school for an average of 6 years only. Life expectancy is lower than in the country as a whole (59.2 years compared to 64) while the average per capita income (\$1058/year) is not even half the average income for the national territory.¹⁶ The 2001 census¹⁷ of the National Institute of Statistics (INE) in Bolivia found that 86.6 percent of the people in and around Caranavi are poor. Most small-scale farmers in and around Caranavi are of indigenous origin, either Aymara¹⁸ or Quechua. Our own data in fact corroborates that the majority of coffee producers in this region originated from the Altiplano.¹⁹ Poverty and indigenous origin thus also seem to be correlated in the Caranavi province.

¹³ Since education is only in Spanish, indigenous children face additional difficulties with learning a foreign language as their parents tend to speak only indigenous languages and few years of schooling are often insufficient for them to be literate. The official recognition by the Morales administration of indigenous languages and their mainstreaming in education will hopefully make it possible to overcome this discrimination.

¹⁴ Studies have confirmed the pertinence of HIs for Bolivia. See for example Gray Molina (2005) and Thorp et al. (2006). However, none has so far explored the link between HIs, Conflict and Fair Trade.

¹⁵ Its HDI value is 0.590 compared to 0.687 for Bolivia as a whole.

¹⁶ <http://www.enlared.org.bo/2005/cdteca/IndiceDesarrollo/idh.htm>

¹⁷ http://www.ine.gov.bo/PDF/PUBLICACIONES/Censo_2001/Pobreza/ALA_percent20PAZ.pdf

¹⁸ In and around Caranavi, where we conducted interviews, most are in fact Aymara from the Altiplano.

¹⁹ Within the scope of several land reforms, the state already started to relocate indigenous families in the lower regions of Bolivia from the 1950s onwards and gave each family between 3-10ha of land. These indigenous 'campesinos' are however still among the poorest peoples in Bolivia.

Against this background, we make the hypothesis that if Fair Trade aims to improve the livelihoods of small-scale coffee producers by paying a higher price per unit of coffee, there should be measurable improvements in the living conditions such as housing etc. More important, Fair Trade should encourage higher educational achievements and contribute to the development of infrastructure projects by way of the social premium²⁰. By doing so, Fair Trade would *de facto* reduce horizontal inequalities for the group of small-scale coffee producers.

Taking this argument one step further, by reducing horizontal inequalities, Fair Trade could then potentially be regarded as a tool for poverty reduction, having a positive effect on conflict prevention. In other words, by increasing the chances for indigenous coffee producers to escape the poverty trap, Fair Trade could reduce grievances and appease tensions between social groups with respect to access and distribution of resources within society.

4. Fieldwork description and empirical analysis

This section describes the fieldwork and empirical analysis that was undertaken in the Yungas region of Bolivia in the second half of 2006. Based on our conceptual findings, we attempted to find out the extent to which Fair Trade has had a poverty-reducing impact on both members and non-members and whether there is potential for conflict prevention on a broader scale. We divide the section into different segments, looking at Fair Trade's impact on horizontal inequalities (human, financial and physical capital), on landless labourers, on women, on income distribution, and on excess supply.

4.1. Description of fieldwork activities in Bolivia

We conducted a preliminary field visit of three weeks with the following objectives:

- Contact producer organisations and NGOs in the coffee sector
- Visit cooperatives and coffee plants in El Alto
- Test our questionnaire by interviewing producer families in and around Caranavi, Department of La Paz
- Find local research assistance for the actual data collection

Besides studying two cooperatives, COAINE and Mejillones²¹, we decided to include two companies in our analysis: Anditrade, which is an international company working according to Fair Trade principles and exporting primarily to North American markets; and Copacabana, which is a Bolivian company with non-Fair Trade coffee production destined mainly to regional and local markets.

²⁰ When conducting the study, Fair Trade paid producers a 'social premium' of 5 US cents per pound, which is earmarked to finance projects benefiting the whole community. From June 1st 2007 onwards, this has been increased to 10 US cents per pound.

²¹ Both cooperatives were selected because their coffee is certified by Max Havelaar and sold in the Swiss market.

4.2. Methodology

In our study, we used both *primary and secondary sources* to collect quantitative and qualitative data. Interviews were conducted with a total of 160 producers on the basis of a semi-directly administered questionnaire, with 40 producers, including both men and women²², in each unit of analysis. Discussions with presidents and leaders of both cooperatives and with technical personnel of both companies proved another useful information source. Secondary sources such as documents from the local government (Caranavi Municipal Government), NGOs (e.g. DED, USAID MAPA project), the Rural Investigation and Promotion Center (CIPCA), INE (National Institute of Statistics) and the Federation of coffee producers of Bolivia (FECAFEB) were additional ways in which information was collected.

²² Since our study also has a gender focus, the aim was to interview 20 women and 20 men. However, due to difficulties in accessing women, the number of women interviewed is slightly lower.

Figure 4.1.: Information about producer groups

Producers groups	Coaine	Mejillones	Anditrade	Copacabana
<i>Founded in</i>	1981	1989	---	---
<i>Exports since</i>	1989	2001		
<i>Number of producers</i>	370 (266 organic producers)	128	1200	320
<i>Type of certification</i>	FLO certification 1994 ²³ , organic certification 1995	FLO certification 2002 (via FECAFEB); Organic certification 1998 (Bio Latina)	Organic certification (IMO, National US, Bio Latina)	No certification
<i>Export capacity in number of containers</i>	10 in 2004 of which 4 to Fair Trade markets, 5-6 to internal market	8 to Fair Trade markets; 4-5 to Non Fair-Trade markets	15 of specialty organic coffee; 10 of normal organic coffee; 1 Fair Trade coffee to Level Ground ²⁴	Unknown
<i>Price for coffee received</i>	\$1.39/lb for green organic coffee	\$1.39/lb for green organic coffee	\$1.50/lb for specialty organic; \$1.18/lb for non-specialty organic (based on NYBOT figures)	unknown
<i>Price received by producers</i>	Members receive a net payment of \$1.20 per pound of green coffee sold	Members receive a net payment of \$1.20 per pound of green coffee sold	\$0.15 per pound of coffee berries (unprocessed) delivered	\$0.29 per pound of stewed corn (semi-processed coffee) delivered.
<i>Major export markets</i>	Italy, Netherlands and Russia. National market, Alexander Coffee.	USA and Netherlands	USA, Canada	National market; Chile, Argentina

Sources: Fecafeb, Loeil (2005), own data

²³ The cooperative was decertified in 1998 but was able to re-enter Fair Trade in 2003, being certified by IMO Switzerland. In recent years, the cooperative was poorly managed by its (former) managers which meant that it did not fulfill its goals, e.g. not fulfilling contract terms, losing organic certification due to the failure to observe the coffee export contract. There has since been a change of leadership.

²⁴ Level Ground is a member of IFAT International, which in turn is a member of FLO International. It therefore follows the standards and guidelines of FLO when purchasing coffee. It is unclear whether Level Ground buys its coffee from a certain group of the 1200 Anditrade producers or whether it arbitrarily buys one container of coffee assuming that all Fair Trade principles are equally applied by all Anditrade producers. We have no specific information on how Anditrade manages this internally. Furthermore, we have not been able to verify if the surplus is used for educational and health-improving projects, but this would doubtlessly be an interesting point to be explored further.

4.3. Impact on Horizontal Inequalities (HIs)

In this section, we wish to review the results from the field and present the major conclusions regarding the impact of Fair Trade on HIs. For this purpose, we have identified a number of socio-economic indicators grouped according to **three dimensions** that we will now briefly discuss before moving on to the actual analysis:

- **Human capital:** indicators are educational level, years of schooling, type of coffee produced (stage of processing), possibility to attend and regularity of training courses. These indicators will allow us to measure any positive impact of Fair Trade on producers' level of education and on capacity building.
- **Financial capital:** indicators are income levels, access to pre-financing, assets. This information will provide us with valuable information on the financial situation of coffee producers and allows us to measure whether, from a strictly financial perspective, Fair Trade producers are better off than all others.
- **Physical capital:** indicators are access to water and electricity, quality of dwellings, local infrastructure (roads, schools, and health facilities). These indicators allow us to identify any differences in terms of infrastructure development while gathering important information on the use of the social premium, which is an essential part of Fair Trade.

Human capital

Level of education

The overall level of education of both Fair Trade and non-Fair Trade producers remains low with a total of 58% who have not finished primary school. As shown in figure 4.2. below, the data indicates that the level of education has improved for all children in the four producer groups whether they belong to a Fair Trade cooperative or not. For example, 34.3% of children in the Mejillones cooperative attend secondary school against only 7.5% of their parents, which is substantial progress.

While only a small percentage of children are enrolled in tertiary education, our data shows that Fair Trade cannot be the explanatory variable since the percentage of children enrolled is similar for both Fair Trade and non-Fair Trade producers. Against our expectations, none of the Anditrade children in our sample attends any form of tertiary education although they are supposed to receive scholarships for that very purpose. However, this could of course be related to our small sample. It is thus difficult to draw any conclusions regarding the positive impact of Fair Trade on the level of education as the improvement is more likely to be related to the fact that access to schooling has been a major target of development projects in recent years.

Figure 4.2.: Level of education according to different producer groups and their children (percentage)

<i>Level of education</i>	<i>Coaine</i>	<i>Mejillones</i>	<i>Anditrade</i>	<i>Copacabana</i>
Producers ²⁵				
- Primary	22.5	17.5	22.5	22.5
- Secondary	20	7.5	12.5	4.8
- Tertiary	5	0	0	4.5
- No education ²⁶	52.5	75	65	41
Children				
- Primary	34.8	33.6	36.2	33.6
- Secondary	34	34.3	42	21
- Tertiary	5.2	4.4	0	4.5
- No education	26	27.7	21.7	41

Sources: own data

Capacity building

Fair Trade producers had a broader knowledge of coffee production processes and the coffee market than producers from both firms. They were able to give detailed explanations on each production step. This was confirmed for both men and women and can be explained as follows: First, Fair Trade producers deliver parchment coffee, which is coffee in an advanced stage of processing, as opposed to stewed corn for Copacabana and berries for Anditrade. Once the parchment coffee has been delivered, the cooperative processes the coffee into Golden coffee for export. Put differently, except for roasting, the production process is dealt with and owned by the producers of the cooperative, which is key for capacity building.

Second, cooperatives regularly offer training courses (3-4 times a year) on topics that are relevant to Fair Trade producers (coffee market, organic production and environmental issues, administrative and financial management etc.), allowing them to continuously improve the quality of their coffee as well as their overall efficiency. In the case of Mejillones for example, the fact that producers have a broader understanding of coffee issues is positively related to above-average efficiency levels. Whilst this does not by itself explain their higher efficiency, it can be seen as an interesting indicator.

In the past, Anditrade offered its producers training in organic production, while Copacabana offers no such training courses.²⁷ Given that Anditrade and Copacabana producers deliver coffee at a less advanced stage of processing, it might be argued that there is no need for them to acquire specific knowledge about quality and processing since they would get no chance of applying it. However, it is precisely this knowledge gap that prevents producers from breaking the poverty trap and which Fair Trade intends to bridge. In addition to paying a higher price, Fair Trade aims to give coffee producers the means, notably through trainings and access to pre-financing, to acquire the knowledge they need

²⁵ For the purpose of comparison, both men and women are counted as producers.

²⁶ This category comprises all those who have not terminated primary school as they are without a final diploma.

²⁷ Although the majority of producers at Copacabana stated that they were engaged in organic coffee production, only a minority was able to explain in detail what organic production implies.

in order to become small and sustainable entrepreneurs.²⁸ As Fair Trade offers producers a sheltered environment where they can learn how to become entrepreneurs, the cooperative may be seen as a learning centre where risks are collectively shared. Therefore, from a development perspective, Fair Trade literally builds up capacities in the rural sector with the aim that in the long run these producers may be self-sufficient and survive in a conventional market environment.

We found in turn that producers' knowledge about the aims of Fair Trade was rather limited. Non-Fair Trade producers²⁹ particularly seem to know about the higher price paid to producers through Fair Trade.

Financial capital

Income

Not surprisingly, our data confirms that Fair Trade-producers have higher incomes from selling coffee than non-Fair Trade producers, as shown in figure 4.3. below. In the cooperative Coaine however, incomes are significantly lower (\$777/ha) than in Mejillones, which section 4.6. shows to be related in part to lower efficiency levels.

Figure 4.3.: Net annual profit per hectare (\$)

PRODUCER GROUP	Net annual profit per hectare (\$)
Mejillones	1231
Coaine	777
Anditrade	665
Copacabana	270

Sources: own data

Our data indicates that the majority of Fair Trade producers seem to have enough income to provide their families with a decent living, whereas this number is smaller in the case of Anditrade and Copacabana. Another compelling fact is that the number of producers involved in other income-generating activities, such as taxi driving for example, is higher for non-Fair Trade producers. We further found that coffee producers with low incomes from coffee production tend to supplement their incomes by cultivating coca. For example, they are more than one third (36%) in the case of Copacabana producers, 23% at Anditrade against a small 6.5% at Coaine. It is noteworthy that none of Mejillones producers seem to be involved in coca production, at least in our sample. A possible

²⁸ In the poverty debate, it is a widely accepted fact that any pro-poor policy should give poor people the necessary resources to negotiate better terms for themselves. In other words, the aim is to empower poor people and, through the accumulation of human capital, to give them the means to lift themselves out of poverty. For further details, see World Bank's Sourcebook (2002) <http://siteresources.worldbank.org/INTEMPowerment/Resources/486312-1095094954594/draft.pdf>

²⁹ This information only applies to Copacabana producers.

explanation might be that their income allows them to secure a decent living³⁰ without having to cultivate and sell coca.³¹

Physical capital

Living conditions and infrastructure

While it is difficult to identify any differences with respect to housing and infrastructure, 40% of Mejillones producers state that with the profits from Fair Trade they have been able to improve their dwellings, buy new clothes and better food, and send their children to school.

As regards electricity for example, families from Mejillones are significantly better off than all others with 70% having electricity in their houses and access to potable water. The same is not true for Coaine producers, whose living conditions remain more rudimentary with only 12.5% having access to potable water.³² In comparison, Anditrade producers fare better in terms of potable water with 42.5% and 19% respectively. In comparison, only 19% of Copacabana families have access to potable water and 14% have electricity in their houses.

It has proved impossible to isolate the effects of Fair Trade on infrastructure development. This is compounded by the fact that in cooperatives like Coaine, producers are spread over several villages. Most infrastructure development was further sponsored by development agencies and NGOs.

We had expected the social premium to play a positive role on infrastructure development and therefore on poverty reduction. Our results indicate that *the premium was largely invested to improve production facilities, notably through the acquisition of pre-benefit and benefit plants*. While this is doubtlessly positive in terms of capacity building and quality improvement, it remains debatable whether this has 'improved livelihoods' as such.³³

On the basis of the number of exported containers, we have calculated the estimated amount of the premium paid to both cooperatives. As Coaine exports only 4 containers to Fair Trade markets, it gets \$8642 from the social premium at cooperative level, which divided by its 370 producers results in an

³⁰ This was the original impetus of the USAID Mapa project, which regarded the development of specialty coffee in the Yungas as a potential barrier to coca cultivation. Its three main objectives were: the eradication of illegal coca in the Yungas, the prevention of new coca plantings, and the creation of licit economic alternatives in the region for coca and other farmers through the development of additional/alternative income earning opportunities. For further details on the Mapa project see the evaluation report drafted by Donald & Wing (2003) on behalf of Checchi Consulting for Usaid.

³¹ It is, however, not clear whether producers would admit to cultivating coca as it is still illegal to cultivate coca as a crop for commercialisation. FLO has no specific policy with respect to coca cultivation and follows national legislation.

³² A possible explanation is that in the case of Coaine, producers are dispersed in several villages, which might make it more difficult for the cooperative to concentrate its activities and benefits.

³³ According to FLO, 'Premium money in this sense is meant to improve the situation of local communities in health, education, environment, economy etc.' In other words, it is up to producers' organisations to allocate the money accordingly. The only requirement put forward by FLO is that the premium be managed transparently and that 'decisions on its use are taken democratically by the members of the cooperative'.

http://www.fairtrade.net/fileadmin/user_upload/content/Generic_Fairtrade_Standard_SF_Dec_2005_EN.pdf

average of \$23.36 per producer. Given its higher productivity levels, Mejillones gets a total of \$17,284, which represents an average of \$135 per producer.

Although the amount is fairly substantial in the case of Mejillones, the cooperative has not so far funded any social project nor has it engaged in any partnership with the local municipality as regards infrastructure development.³⁴ A possible explanation might be that as a relative newcomer, it first needed to establish itself in the coffee market by raising productivity levels and improving the quality of its coffee. The premium could however be Fair Trade's best tool to reduce Horizontal Inequalities (HIs) as it may be allocated to benefit the entire village community, including non-Fair Trade producers, and therefore can make a significant contribution to local development.

4.4. Impact on landless labourers

For Fair Trade to maximise its poverty-reducing impact, we initially assumed that the higher price paid to producers would somehow be reflected in the wages of hired labourers.³⁵ FLO requires salaries to be 'in line with or exceeding regional average and official minimum wages for similar occupations.'³⁶ In Bolivia, the minimum wage according to presidential decree 28699 of May 1st 2006³⁷ is 500 Bs per month (approximately \$65).

We found daily labourers to be paid the same wages whether they are hired by Fair Trade producers or by non-Fair Trade producers, on average between 5 - 7 BS per can.³⁸ Most labourers gather an average of 6 to 7 cans per day, which results in a daily income ranging from 30 - 42 BS (\$3.75 - 5). It is reasonable to assume that labourers work 6 days a week, which would then result in a monthly wage of at least 720 Bs (\$85), which is 44% above the national minimum wage.

The situation however is worse for women labourers. In the cooperatives, 'palliris'³⁹ are paid between 18-19 BS per bag of 50kg of selected coffee beans. On average, they manage to fill 1.5 bags per day working at a fast pace, which results in a daily wage of at least 28.5 BS (\$3.5).⁴⁰ Working hours however did not seem to be subjected to any type of regulation and working conditions were

³⁴ Interview with FLO Consultant in La Paz, June 2006.

³⁵ The official position of FLO in that respect is that the 'original smallholder concept' did not envisage hired labour as being part of the Fair Trade system. In the meantime, FLO has updated its standards to include hired labour, but this does not yet apply to labour hired by individual smallholders. However, a review process of FLO standards is currently being undertaken and these sorts of issues are seriously reconsidered. The outcome of the review process is expected in mid to late 2007 (personal communication from FLO (December 2006)).

³⁶ In its guidelines for small farmers' organizations, FLO points out that with respect to conditions of employment for workers, the ILO Plantation Convention 110 as well as ILO Conventions 100 on equal remuneration and 111 on discrimination apply. The text of all three Conventions may be downloaded at <http://www.ilo.org/ilolex/english/subjlst.htm>.

³⁷ <http://www.mintrabajo.gov.bo/Archivos/Leyes/DS%2028699-28700.pdf>.

³⁸ A can is approximately 5kg.

³⁹ Women who manually select parchment coffee.

⁴⁰ The wage is entirely dependant on the output per day and is therefore just indicative.

strenuous.⁴¹ In the case of Anditrade, coffee selection is partly mechanised and women labourers are paid between 24 - 28 BS/day (\$3 – 3.5). Women are hired on a temporary basis and they work 6 hours a day during six months.⁴²

4.5. Impact on women

We interviewed a total of 52 women and found a series of noteworthy aspects: women tend to work as much as men in the coffee plantations, working an average of 12 to 15 hours during harvest in addition to their regular household burden. Surprisingly, Fair Trade women tend to work even more, especially outside harvest time, than their female counterparts at Copacabana and Anditrade. While it is known that organic production requires greater care of coffee trees, this seems to be borne essentially by women, increasing their already heavy workloads.

A very encouraging aspect, however, is that Fair Trade women have a broader knowledge about coffee production than the women interviewed at Copacabana, for example. This shows that the training provided to producers also seems to have a positive impact on women. In terms of participation within the cooperatives, most women attend the cooperative meetings and a majority stated that they participate in decision-making processes. However, no woman is yet represented in the cooperative's leadership and it is obvious that they are not considered on an equal basis as their male counterparts.

4.6. Impact on income distribution

To be able to compare profits meaningfully, note that the producer groups buy coffee at different processing stages from the farmers. While farmers selling to Anditrade produce berries (unprocessed), those selling to Copacabana produce stewed corn (which includes the processes of removing the pulp, fermenting, washing and drying) and those selling to Mejillones and Coaine produce parchment (which entails further drying).

Profits

The annual profits of the farmers were shown above in figure 4.3. Figure 4.4 shows how we get to these numbers, using the data collected on prices, yields, and costs.

⁴¹ In both cooperatives, the selection of coffee is an entirely manual process. Our observations showed most women sitting on the floor in a difficult position to select the coffee. In one cooperative, however, some women worked on desks and we were told that this would be the case for all women soon.

⁴² Copacabana does not employ any 'palliris' as its production is completely mechanised (based on personal communication from the Director of Copacabana, February 2007).

Figure 4.4.: Revenue and costs per hectare

	(A)	(B)	(C) = (A) · (B)	D	(C) - D
PRODUCER GROUP	Price per lb (\$)	Yield per hectare (lbs)	Revenue per hectare (\$)	Costs per hectare (\$)	Net annual profit per hectare (\$)
Mejillones (Parchment)	0.975*	1898	1851	620	1231
Coaine (Parchment)	0.876*	1563	1369	592	777
Anditrade (Berry)	0.15	8500	1275	450	665**
Copacabana (Stewed Corn)	0.29	2310	670	400	270

Sources: own data

* For Mejillones and Coaine, the price per lb is based on pounds of parchment delivered. The aforementioned figure of \$1.20 per pound relates to green coffee.

** The net annual profit of Anditrade includes the subtraction of transport costs incurred by the farmers (equivalent to \$0.01875 per lb of berries) which are not included in the costs per hectare. Alternatively, we can think of Anditrade paying a price per lb of \$0.13125.

As we can see, farmers belonging to the Fair Trade cooperatives receive an annual profit that is higher than farmers selling to other groups. However, Mejillones farmers have significantly higher profit levels than Coaine. This can be explained by looking at levels of productivity seen in column B. From each hectare, Mejillones farmers are able to produce more coffee parchment. Although they have higher costs than their Coaine counterparts, this does not offset the higher productivity. Furthermore, Mejillones' greater efficiency levels in processing mean that they require fewer lbs of parchment for each lb of green coffee produced. Therefore, the price received per lb of parchment delivered is also higher than it is for Coaine.

Our data showed that Anditrade's efficiency levels are similar to Mejillones and are higher than Coaine's. Why, then, are Anditrade's farmers' profits lower than those of Mejillones and Coaine? Prices for green coffee cannot adequately explain away the differences, as Mejillones and Coaine receive the Fair Trade price of \$1.39, and Anditrade receives a weighted average price of \$1.37. It is, however, possible that Anditrade distributes less income to be used at the discretion of the farmers and keeps more behind to provide services such as health care and scholarship funds. We did not have enough information to verify this fact.

Another explanation may lie in the position in the value chain. It seems to make sense that the higher up the value chain, the more value-added can be captured by farmers. Is it, for instance, possible that Anditrade farmers would be better off if Anditrade enabled them to have access to processing equipment? Looking only at short-term effects, (and ignoring the long-term positive effects of capacity building), it is doubtful whether Anditrade's farmers would benefit if they were further up the value chain, under the crucial assumption that all the benefits of Anditrade accrue to the farmers. If this assumption is valid, profits made at each individual processing step are used for the benefit of the farmers (either as income or in another way such as the aforementioned health care). If farmers move up the value chain, they will receive a higher price, but unless they are able to process more efficiently

than Anditrade itself, they will bear the same additional costs that Anditrade itself previously bore. Consequently, no additional benefits will be available for any farmers taking up the position in the value chain.⁴³ Note that this is not to say that farmers should not be encouraged to get involved in various processing steps rather than simply growing; such a move would encourage capacity building, which is a key element for poverty reduction. However, farmers would not be better off if the enterprise's aim is to provide maximum benefits to the farmers, unless they are able to process more efficiently and at lower cost than the enterprise.⁴⁴

Development of profits⁴⁵

Our conceptual analysis shows that the presence of a Fair Trade cooperative could, under certain circumstances, increase the price paid to the non-members. Both Milford (2004) and Loeil (2005) demonstrate a correlation between Fair Trade cooperatives and higher prices paid to non-Fair Trade farmers, although the question of whether the former actually caused the latter (causation) is not addressed.

Our own data shows that 54% of farmers selling to Anditrade report receiving, on average, a price that is 133% higher than five years ago. 46% report a price that is on average 233% higher than five years ago. Does this mean that Fair Trade cooperatives caused this positive effect or were other aspects more important? Let us look at some effects that could have caused this higher price:

- *World market price:* An increase in price received for coffee berries could be a result of an increase in the world market price of green coffee. In fact, the world market price of Arabica coffee increased by 80.44% in the same five-year period. Whilst being a significant rise, it does not fully explain the increase in price received by non-Fair Trade farmers in the Province of Caranavi.
- *Certification and existence of the Fair Trade cooperatives:* the certification of the Fair Trade cooperatives in the district in 2002/03 may, as our theory suggests, have served as an instrument to raise the prices paid by Anditrade. The reduction in supply faced by Anditrade may therefore have pushed prices up. After this initial certification effect, the fact that the Fair Trade cooperatives continue to operate in the area may have led to Anditrade paying higher prices in order to prevent their suppliers from being lured away.
- *Greater efficiency levels:* If Anditrade had become more efficient in its processing, the increase in the price received by its farmers may have been greater than the increase of the world market price, as is suggested by the data.
- *Greater quality:* Another possibility is that the quality levels produced by Anditrade have increased, such that the increase in price received for their green coffee is greater than that on the world market. Note, however, that such an increase in quality may have caused an increase in costs, meaning the positive price effect would be negated to a degree.

⁴³ In fact, farmers may actually be worse off if they undertake additional processing steps less efficiently than Anditrade. In this case, the implied increase in costs would reduce benefits available to the farmers.

⁴⁴ The same statement is not necessarily true if the purchaser is a profit-maximiser that attempts to make as much profit as possible at each value-chain step.

⁴⁵ This section deals with changes in prices. It is implicitly assumed that there have been no changes in costs, which enables us to equate absolute changes in profits with absolute changes in prices.

Which effect is strongest? Comments made by Anditrade's suppliers do not provide us with a clear picture. When asked why they were not part of a Fair Trade cooperative, 50% answered that they did not know, 15% that they did not have the means to invest / upgrade to be accepted, 12% that they lived too far away, 12% that they did not trust the leaders of the cooperative, 7% that they were not part of a cooperative, and 4% that growing coffee was only a secondary activity. It is possible that these answers may not carry as much weight if the differences in income were large: for instance, those not trusting the leaders of the cooperative may be willing to swallow their distrust if they were getting so much more than staying out. Therefore, it is feasible that the farmers could have been lured away had Anditrade not increased the price paid to them. This would suggest that the emergence and existence of the Fair Trade cooperative may have had a part to play in the higher price received by non-members. However, we must be cautious when interpreting such matters and without more information, it is difficult to make any definite statements.

4.7. Impact of Fair Trade on excess supply

Pérezgrovas and Cervantes (2002) and Méndez (2002) find evidence of excess supply in the Fair Trade cooperatives they examined. Our research produced the same results: Mejillones is able to supply approximately 65% of its coffee to the Fair Trade market, with 35% going to the non-Fair Trade segment. Coaine, on the other hand, only sells 40% as Fair Trade, with 60% going to the non-Fair Trade market.

While such a static analysis shows the status quo, what about the development of excess supply? 41% of farmers at Coaine have increased their production area (by an average of 1 ha) whereas 64% of farmers at Mejillones have done so by between 0.5 and 2 ha. At the same time, 61% of Anditrade farmers increased the size of their land by between 0.5 and 2 ha, with 88% of Copacabana farmers saying that they only maintained the size of their plantation and did not increase it.

Note that these results on their own do not adequately demonstrate the dynamics of excess supply. Increasing the production area as such does not have to lead to further excess supply if it is a response to greater demand for Fair Trade coffee. Without having more information, we are not able to make any sweeping statement about the development of excess supply in the Yungas.

5. Conclusions

(i) Fair Trade has the potential to reverse horizontal inequalities and therefore may have a positive impact on conflict prevention

Fair Trade doubtlessly improves the incomes of indigenous coffee farmers and we have found evidence of its poverty-reducing impact. However, the extent to which the higher income has

measurable effects on the livelihoods of producer's families, and hence on development indicators, is almost impossible to determine at present.

A further aim of this study was to examine the Fair Trade - conflict nexus. While our conceptual analysis indicates that Fair Trade, specifically through its poverty-reducing impact, may actually have a positive effect on conflict prevention, we have not been able to find any evidence in our case study, primarily due to the absence of a local conflict in the first place. While tensions are high nationwide, the case study on coffee restricted our analysis to the Yungas region where the national conflict lines are less prevalent.

(ii) By providing competition at the level of the intermediaries, Fair Trade has the potential to reduce poverty

The creation of a Fair Trade cooperative in a local market may, under certain circumstances, create a situation where both those accepted into the Fair Trade cooperative and those remaining as non-Fair Trade farmers benefit. The higher price paid by the Fair Trade cooperative increases the income received by the Fair Trade farmers, an assumption that was confirmed by our data. The effect on the non-Fair Trade farmers is not as intuitive, however. As a Fair Trade cooperative is created, it accepts farmers deciding to diversify into coffee and farmers who previously grew coffee. In turn, the intermediary is faced with fewer farmers to buy from and may react by paying a higher price, inducing higher average production levels. The case study showed that non-Fair Trade farmers have indeed been made better off since the Fair Trade cooperatives were founded in the Yungas region. Although our data does not allow us to separate Fair Trade's impact from other variables, other case studies indicate that it has played an important part.

(iii) By enabling capacity building, Fair Trade has a poverty-reducing impact

Producers in Fair Trade cooperatives benefit from a series of advantages, which allow them to develop their business activities in a relatively sheltered environment where the risks are shared collectively and producers are not exposed to the ordinary risks of entrepreneurship. Through regular training in relevant topics such as organic production, management and financial issues etc., producers have the opportunity to constantly acquire new skills, which in turn allow them to improve the quality of their coffee.⁴⁶ Fair Trade therefore builds up the capacities of the producers by ensuring their access to knowledge, and by encouraging their autonomous handling of the entire production and export process. Fair Trade has thus a strong development rationale and can make a significant contribution to poverty reduction.

This also seems to be the most important difference between Fair Trade cooperatives and companies that came up in our study. Although Anditrade for example is doubtlessly committed to corporate

⁴⁶ Many coffee observers believe quality improvements to be the key competitive advantage in the future. The Economist, in its article 'Excellence in a cup' (Jan 25, 2007), reports that targeted assistance provided by Fair Trade, amongst others, can be a 'significant driver in ending poverty'.

social responsibility, the fact that they buy coffee beans at a less advanced stage of processing may not be as efficient from a poverty-reducing perspective. Therefore, companies that aim to contribute to poverty reduction should further promote skill enhancement and trainings.

(iv) If Fair Trade's excess supply lowers the world market price of non-Fair Trade coffee, non-Fair Trade farmers may be worse-off

If a Fair Trade cooperative produces more than it can sell on the Fair Trade market, its excess supply often finds its way onto the non-Fair Trade market. Under certain circumstances (e.g. excess supply being sold on the local market, Fair Trade's weight in the world market being sufficiently large), this may have a negative impact on non-Fair Trade farmers. This is not to say that Fair Trade is the main culprit of the structural excess supply in the coffee market. Nevertheless, if Fair Trade is to avoid contributing to this problem, it should deal with the issue. Fair Trade leaders are aware of this issue and often state that Fair Trade producers use their additional income to improve the quality of existing crops rather than to expand production.⁴⁷ The case study provided evidence that excess supply exists amongst the Fair Trade cooperatives we studied but we do not have enough information to evaluate the dynamic nature of this phenomenon, i.e. whether it has increased over the years or not.

To summarise our concluding remarks, therefore: Both the conceptual and the empirical analysis have shown that under certain circumstances, Fair Trade does indeed have the potential to reduce poverty levels: whereas the positive effects on its members are relatively robust, the impact on non-Fair Trade farmers is less clear-cut. Under certain circumstances, Fair Trade may indeed positively affect non-Fair Trade farmers, but this depends upon a number of assumptions being valid. Empirically, our analysis was limited to one region and we were not able to separate out the various factors that impact the income levels of non-Fair Trade farmers. Bearing this in mind, we are wary of advocating Fair Trade as a tool to reduce poverty generally rather than just specifically for its members. Furthermore, we found that by potentially reversing horizontal inequalities, Fair Trade may be able to have a positive impact on conflict prevention. However, these results are again limited due to certain assumptions having been made, as well as the case study having been undertaken in one specific region where there is no conflict as such during a time of rising world coffee prices. On the basis of our empirical results, we are therefore not in a position to fully recommend Fair Trade as a tool for conflict prevention. However, we stick to our theoretical findings, which demonstrated that it has the potential to do so. Whereas this study has shown a number of interesting effects, its hypotheses need to be tested further in different market and conflict environments before any policy prescriptions can be made.

⁴⁷ See, for instance, http://www.fairtrade.net/faq_links.html

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