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**Creating Market Opportunities  
for Small Enterprises:  
Experiences of the Fair Trade Movement**

by

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InFocus Programme on Boosting Employment  
through Small Enterprise Development  
Job Creation and Enterprise Department



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## Foreword

Small enterprises survive and grow only if they can sell their products and services. The ILO's InFocus Programme on Boosting Employment through Small Enterprise Development, IFP/SEED, therefore includes as one of its three "pillars" the enhancement of market opportunities. One of the most significant trends in recent years in this area has been the growth of the Fair Trade movement, and IFP/SEED therefore supported the preparation of this Working Paper.

The Working Paper gives an objective and informed perspective on the successes and lessons learned in Fair Trade to date; it also indicates some of the current trends, and links the Movement as a whole to other, related topics, including for example social development, corporate social responsibility and business development services.

This paper has been written by Paul Snedker and Andy Redfern, both of whom are closely associated with Traidcraft UK. Mr. Snedker has worked in business development services and fair trade for the last seven years. He also has practical experience of running his own business and currently running a venture financed start-up company. Mr. Redfern has worked in SME development for six years and was closely involved in setting up the Ethical Trade Initiative in the UK. He is also a director of Traidcraft plc, its associated charity Traidcraft Exchange and Cafédirect.

Traidcraft is a leading FT organization globally with a mission to fight poverty through trade. It employs 120 people and is based in the North East of the UK: it has been active in Fair Trade since 1979. Their experiences have enabled the authors to write with authority about the Fair Trade movement; their analysis and recommendations, while informed and thought-provoking, do not necessarily represent the views of the ILO. More information on the work of Traidcraft can be found at <http://www.traidcraft.co.uk>

My thanks also go to Anne Posthuma, Jim Tanburn and Kees van der Ree of IFP/SEED, who have worked with the authors to produce this Working Paper.

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Director  
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through Small Enterprise Development



## Contents

|   |     |
|---|-----|
| Foreword .....  | iii |
| Abbreviation List.....  | vii |
| 1. Executive summary .....  | 1   |
| 2. Introduction.....  | 3   |
| 3. History, context and definition of Fair Trade .....  | 4   |
| 3.1 The history of Fair Trade .....   | 4   |
| 3.2 How is Fair Trade defined today? .....  | 11  |
| 3.3 Fair Trade and ethical trade—just points on an ethical continuum? .....   | 12  |
| 3.4 Key players in Fair Trade Today .....   | 18  |
| 3.5 Key Fair Trade products .....   | 20  |
| 4. Successes and failures of Fair Trade .....   | 21  |
| 4.1 Different approaches to Fair Trade.....   | 21  |
| 4.2 Other successes and failures in Fair Trade .....  | 31  |
| 5. Future challenges .....  | 41  |
| 5.1 What is the goal of Fair Trade? .....   | 41  |
| 5.2 Scaling up to have a positive impact .....  | 42  |
| 5.3 Other challenges .....  | 48  |
| 6. Possible areas for replication and multiplier effect .....   | 50  |
| 6.1 Policy environment.....   | 51  |
| 6.2 Performance and capacity development .....  | 52  |
| 6.3 Trade Development .....   | 52  |
| 7. References and Further Reading.....  | 55  |
| Appendix: Common objectives, different perspectives: A summary of some<br>Northern-based Fair Trade companies ..... | 57  |



## Abbreviation list

|      |  |
|------|--|
| ACP  | Africa, Caribbean and Pacific                  |
| ATO  | Alternative Trade Organisation                 |
| BDS  | Business Development Services                  |
| CAP  | Common Agricultural Policy                     |
| CSR  | Corporate Social Responsibility (or Reporting) |
| DFID | Department for International Development       |
| ETI  | Ethical Trading Initiative                     |
| EFTA | European Fair Trade Association                |
| FLO  | Fairtrade Labelling Organisation               |
| GFSD | Gerber Food and Soft Drink                     |
| IFAT | International Federation for Alternative Trade |
| ILO  | International Labour Organization              |
| IMO  | Intermediate Marketing Organisation            |
| IMF  | International Monetary Fund                    |
| MNC  | Multinational Corporation                      |
| MSE  | Micro and Small Enterprises                    |
| MSME | Micro, Small and Medium Enterprises            |
| NEWS | Network of European World Shops                |
| NGO  | Non-governmental Organization                  |
| OFT  | Oxfam Fair Trade Co                            |
| SME  | Small and Medium Enterprises                   |
| SEED | Small Enterprise Development                   |
| TNC  | Trans-national Corporation                     |
| TX   | Traidcraft Exchange                            |
| WTO  | World Trade Organization                       |

### Note on definitions

Please note that throughout this document the following convention is applied:

- Fair Trade describes any trade that seeks to provide sustainable and equitable market opportunity for marginalized or disadvantaged producer organizations, irrespective of whether it is independently verified or not.
- Fairtrade describes the independently monitored Fair Trade that the Fairtrade Labelling Organisation certifies. This certification currently applies to seven agricultural commodity products.





## 1. Executive summary

Fair Trade is a movement for tackling poverty through trade and has been active for over 40 years. Although not setting out to be a comprehensive and detailed analysis of Fair Trade, this paper outlines the history of Fair Trade, its evolution, different approaches and the lessons learned. The paper examines the future challenges and ways in which the lessons learned can influence the broader trade and development spheres in a world context where trade globalization is having a greater impact on poor peoples' lives.

Although Fair Trade was born out of politics as much as it was born out of business, the primary goal of fair trade has been about providing market opportunities and developing the Northern market for products from poor producers in developing countries. The rationale was in part a political reaction to the rise of free trade, capitalism and the power of the Trans-national Corporation (TNC) which would lead to the poor and marginalized being exploited or excluded. It is therefore not surprising that a strong theme of Fair Trade has been parallel or alternative supply chains.

At a practical level there is no one single approach within Fair Trade to improving market access for the poor. Fair Trade has generally taken a very pragmatic approach and without doubt this has been a key part of its success. The fact it has survived so long and continues to “punch above its weight” is a testimony to that pragmatism and determination. Section 4 highlights the lessons of each of the approaches taken within Fair Trade.

As with all evolving movements or areas of business, Fair Trade has had its fair share of successes and failures. Although for many years a niche alternative market, the scale and influence of Fair Trade has never been greater. To date:

- It has created a growing US \$500 million network of businesses that seeks to push the benefits of that trade to the poorest.
- It has provided a wide range of embedded services to producers who would not have been able to source or afford them locally.
- It has provided market access to groups whom mainstream business was not interested in trading with.
- It has facilitated or influenced the increasing number of fair trade products on supermarket shelves.
- It has successfully campaigned at many levels of policy making to bring real pro-poor changes in legislation.
- It has raised the issue of trade with millions of consumers—particularly across Europe—changing attitudes to business and development.
- It has been a significant catalyst in the development of ethical issues within mainstream trade and business practices, influencing the development of Corporate Social Responsibility, approaches like Social Accounting and the development of the Ethical Trade Initiative in the UK.

As a result mainstream businesses are increasingly taking into consideration their impact on their stakeholders, looking at how they can have a more positive impact on their suppliers and in certain sectors increasingly consider how they can access Fair Trade products for their own market.

Fair Trade has from the start tried to balance the demands of trading with the developmental objective of improving poor people's livelihoods, a tension that has been and still is a fine line to tread especially when targeting the more marginalized. Social development NGO's and their income generation programmes became involved in fair trade as suppliers to the Northern based Alternative Trading Organisations. Existing cooperatives or the formation of new cooperatives as a governance structure that enabled the benefits of fair trade to be equally shared by the producers was and still is a popular type of Fair Trade trading partner.

As the scale of Fair Trade has grown there has been a greater demand for a tighter definition of Fair Trade itself. The natural development of this definition has been into a rules-based approach and the growth of the Fairtrade labelling organizations. While standards are important, there is a need for recognizing the limitation of a rules-based approach and the value of locally developed, managed and monitored ethical and Fair Trade criteria.

Enabling developing country producers to access and compete in markets has led the Fair Trade movement into the area of business development. It has a high degree of experience in providing embedded services within trading relationships and a degree of experience in the more difficult provision and facilitation of business services outside a trading relationship. The focus on marketing and market access and the importance of this field are key reasons why Fair Trade has a contribution to make in broader development today.

The authors argue that future challenges for Fair Trade are in essence about being more than a "niche", that is mainstreaming Fair Trade in its broadest sense. Thus, its future is about scaling up in terms of impact, broadening and developing the approaches taken. There are a number of ways in which it can do this:

- The opportunity exists to work with, and build on, other private sector and enterprise development approaches while maintaining the explicit focus on fair trade for the poor. The opportunity exists to collaborate with broader and more mainstream networks to **share learning and to evolve and develop new approaches**.
- Fair Trade has the opportunity to continue its tradition of having an **influence on others**. This is particularly true at a policy level where the Fair Trade movement's practical experiences are crucial in enabling policy makers to develop practical policies. Influencing international trade bodies and governments around trade barriers using practical and real life evidence is a powerful force for change.
- In the increasingly globalized market there are growing market opportunities for ethically-sourced products within mainstream markets. Fair Trade has a unique role to play in **accessing and developing markets** through constructively engaging with

mainstream business and supporting it in the development of its practices to ensure the impacts are more positive on poor people's lives.

- Fair Trade is increasingly taking its approaches to **market access into local and regional markets** as well as global trade. Using tools such as value chain analysis to identify the points in value chains where the poorest can be supported to benefit more from existing trading systems is becoming increasingly important.
- **Capacity development** remains a critical part of the future activities of Fair Trade particularly at the micro and meso levels where business capacity and institutional networks are essential for business and fairer trade development.
- The role of Fair Trade in providing business help through embedded services will continue to have value. As with all Business Development Services (BDS), further work is needed to determine when and how these embedded services can be enhanced, in order to achieve substantial improvements in business capacity.

The goal of Fair Trade, using trade as a tool for improving the livelihoods of the poorest, is now a mainstream concept and one that has a lot of resonance for many worldwide institutions and bodies. It is important for Fair Trade to build on its successful practical ways of working and take a broader strategic approach in order for it to achieve greater impact. Working with broader networks and developing strategic programmes that cover areas such as policy, capacity and trade development, Fair Trade can have a greater outreach and impact as it continues to facilitate better market opportunities for the poor and marginalized.

## 2. Introduction

The following study describes and assesses the experiences of the Fair Trade movement over the last two decades. It particularly focuses on how to boost new market opportunities in the developed countries for MSEs in developing countries, as well as promoting better terms of trade for these producers.

The objectives of this study are:

- To address the need for more in-depth information about innovative approaches (for example, Fair Trade's approach to market access and empowerment) to boosting good quality market access for MSEs in developing countries.
- To provide a review of the success and failures of Fair Trade initiatives.
- To examine the lessons learned from these experiences.

To address these objectives in the time and resources available, the team focused on the following issues:

- The background to the emergence of the Fair Trade movement, its objectives and strategies.

- An assessment of the successes and failures of Fair Trade over the last 20 years.
- The lessons drawn from the successes and failures regarding impact in terms of boosting market opportunities and provision of BDS in developing countries.
- An assessment of the potential for future replication and possible multiplier effects that such experiences may have in opening favourable market opportunities for MSEs in developing countries.

### **3. History, context and definition of Fair Trade**

#### **3.1 The history of Fair Trade**

##### **3.1.1 The early roots of a fair approach to business**

The roots of what is now commonly referred to as Fair Trade can be traced back to a number of different start points that have subsequently found common cause. In Europe Fair Trade came out of the student radicalism of the 1960s. A belief began to develop that business was a bad thing for poor people. While the anti-imperialism movements from earlier in the century had targeted governments and their dependent nations, the multinational corporation (MNC) became the target.

This movement against the MNC was at its strongest in the campaigns against “sanction busting” businesses in South Africa and the then Rhodesia. Yet the intellectual thinking behind the fairness (or otherwise) of business can be traced back to the writings of Eduard Douwes Dekker, a Dutch writer who in 1859 published a book called *Max Havelaar*, which outlined the injustices of the coffee trade between the Netherlands and Indonesia.<sup>1</sup> The book describes how Max Havelaar, the main character, leaves the Nederlandse Trade Company to work in solidarity with the local people.

The intellectual underpinning of Fair Trade sits uncomfortably with the traditional free market economic model that was developing during the first half of the 20<sup>th</sup> century. Oswaldo de Rivero describes the free market model of trade and development as “International Darwinism”.<sup>2</sup> He contends that the writings of Adam Smith on free trade and Charles Darwin on the survival of the fittest have dominated the intellectual thinking of modern capitalism as it evolved. Both development in general and Fair Trade in particular contend that a “survival of the fittest model” on an international scale is neither moral nor defensible in modern society. Fair Trade tends to lean more to a post-Keynesian model of economics where price is more closely linked to cost of production and the balance of power is changed to offer fair access to markets. Fair Trade seeks to create a more equitable balance between the world’s biggest companies and world’s poorest economically active workers.

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<sup>1</sup> p. 24, EFTA, *Towards 2000*, January 1998. Also interesting to note that it was Max Havelaar’s name that was used 130 years after his book was published to brand the first independently verified Fair Trade coffees in Europe. The Max Havelaar Fairtrade label still operates in 14 European countries.

<sup>2</sup> p. 75, Rivero, *The Myth of Development*, 2001.

The UK-based NGO Oxfam was the first European organization to engage in trade between South and North that deliberately tried to enhance the opportunity and income of the producers involved. It established a trading subsidiary for this purpose in 1964.<sup>3</sup> This idea began to take hold in a number of European countries and Fair Trade Organisatie—the biggest Dutch alternative trade organisation (ATO)—was formed in 1967 and the first independent Fair Trade (or world) shop opened in 1969.

However, some twenty years before Oxfam UK, a worker from the US church-based development NGO Mennonite Central Committee (MCC) began importing embroidery from Puerto Rico. Edna Ruth Byler visited MCC volunteers and saw the trade in the products made by their students as a way of improving their livelihoods. The crafts were popular and cross-stitch needlework from Palestinian refugees and hand-carved Haitian woodenware were added to the product list. In the early 1970s, the flourishing project moved out of Byler's basement and became an official MCC program. MCC is the service, relief and development agency of North American Mennonite and Brethren in Christ churches. The programme was called SELFHELP Crafts of the World until 1996 when it was reborn as the US ATO Ten Thousand Villages.<sup>4</sup>

### **3.1.2 The seventies—a time of growth for the Fair Trade approach**

The common idea that characterized these initial activities was that traditional business models were fundamentally flawed and that the only way to make them fairer was to set up a parallel (or alternative) trading model. As the demand for Fair Trade began to develop slowly in Europe, so the opportunity for producer organizations in the South grew too. The most obvious organizations for the ATOs based in Northern NGOs to trade with were income generation projects of their Southern counterparts. By the early 1970s organizations such as Juteworks (part of the Catholic relief agency Caritas) and MCC in Bangladesh were beginning to supply a range ATOs with handicraft products.

In other cases new organizations developed along similar lines—marrying the social development activities with the trading activities. For example, in Indonesia Perkerti was formed in Jakarta in 1975 with the aim of “supplementing the income of subsistence farmers and rural people through the development and sale of traditional crafts and folks art”.<sup>5</sup>

It was at this time that the foundations of Traidcraft were being laid. Against the backdrop of floods in Bangladesh, a UK-based development NGO Tearfund began importing crafts from Bangladesh—mainly jute products—to resell to those who supported its development activity. This was founded as a separate legal entity, Tearcraft, in 1974 by Richard Adams. An ideological fall-out between Tearfund and Adams, led to the creation of Traidcraft in 1979.<sup>6</sup> Set up to exhibit “the Christian principles of love and justice in international trade”, Traidcraft's original mission was a clear statement about setting up an alternative trading model. Impact through sales growth was neither an explicit nor an implicit goal for the organization.

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<sup>3</sup> p. 24, EFTA, Towards 2000, January 1998.

<sup>4</sup> Ten Thousand Villages website at <http://www.villages.ca>

<sup>5</sup> Pekerti website at <http://www.peoplink.org/pekerti>

<sup>6</sup> p. 106 Chesters, Awakening to a world of need.

Lacking the aim of direct impact might seem a little unusual for a development organization, but the target of Traidcraft's founders was not to create an alternative trading system with the primary goal of poverty alleviation. Its primary goal was to show that trade could be done another way and arguably its ultimate aim was to change the way in which the whole world trades. For example, in 1997 the total UK aid budget was £2.151 billion (\$3.2 billion), while the total value of trade from those countries into the UK was £48 billion (\$69.6 billion).<sup>7</sup> Adams wanted to change that trade by showing a better model of trade, rather than by creating a TNC that could actually conduct the trade itself.

### **3.1.3 The eighties—coping with slower growth and changing markets**

As Fair Trade sales grew across Europe, and to a lesser extent in North America, many of the original Fair Trade products began to look tired and old fashioned in the market place. As sales reached a plateau, agricultural products began to be added to the product range of the ATOs. Tea and coffee were first and then ranges of dried fruit and nut products appeared too. These products offered repeat purchase potential but only if the consumer was committed. Often referred to as solidarity coffees, you needed to acquire the taste for poor quality products. Principles were clearly first with product quality a distant second.

Looking at it from a market perspective gives a different view. It can be argued that initially handicraft sales grew nicely for European Fair Trade organizations because the products were new to European consumers. The trend of interior decoration had begun and consumers were looking for different types of products to decorate their homes. The home interiors market began as a niche in the 1970s and has developed into a significant market today across the developed world. As the trend grew and mainstream business got more involved in the market competition grew, the trends got faster as commercial business started to innovate and the importance of quality and design grew. China came out of isolationism and started to supply markets to the mainstream at very cheap prices by replicating traditional handcrafted designs of South Asia and Africa and manufacturing using a clever mix of mechanization and hand finishing.

Hence products from ATOs became relatively more expensive as the competition became cheaper. It can be argued that the quality of the goods was low because ATOs had protected producers from the market demand by accepting sub-standard goods. By not wanting to pursue claims for poor quality from producers for fear of financially hurting them, the ATOs exacerbated the problem of goods being below market standard. Through these factors the overall ATO crafts market struggled. To date it is still typically a niche market, appealing to small groups of people. There is much evidence to show that products have evolved to more fully meet market trends and requirements, however in general many crafts products bought by the ATOs are sold to the core supporter bases that buy products on the basis of story behind the product.

Despite the quality problems, the campaigning efforts of Northern NGOs and ATOs led to some more socially oriented businesses beginning to ask what they could do to answer

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<sup>7</sup> Lake, 1999.

the naïve mantra of “Business bad, charity (or NGOs) good”. A number of Fair Trade labelling initiatives grew up across Europe. These started from a position that businesses were fundamentally bad and therefore not to be trusted. The only way that they could be allowed to market products with a Fair Trade label was through an intricate rule-based certification system.

The first product to be available under an independently certified scheme was coffee. A group of coffee cooperatives were registered as certified Fairtrade sources and businesses were encouraged to become certified importers of the coffee. The combined certification of the producer and the importer was designed to allow the consumer to track the product back to its original source and therefore the benefiting cooperative. The first Fairtrade labelled coffees were launched in the Netherlands in November 1988 under the Max Havelaar mark. The roast and ground coffee sold well and quickly established a 3 per cent market share in the Netherlands.

For Fairtrade producers this was an excellent opportunity to gain some mainstream market access. The independent certification approach meant that any business (or NGO or ATO!) could market products with a consumer branded guarantee that the products were really benefiting the farmers at the end of the supply chain. In fact, while all the supply chain ingredients were in place there was still insufficient consumer pull to attract the established business players on a widespread basis.

The first UK Fairtrade product was Cafédirect roast and ground coffee. Although characterized as a mainstream business, Cafédirect was actually established by four UK ATOs as a way of gaining access to supermarket distribution. The partners—Oxfam, Traidcraft, Equal Exchange and Twin Trading—pooled resources and expertise. Interestingly, they also received the initial coffee shipments from three producer cooperatives without any advanced payment—a usual part of the Fairtrade producer offer. The coffee was successfully launched in the UK supermarkets in 1992. Instant coffee and teas followed and Cafédirect now has a turnover of £7.8 million (\$11.3 million) with profits of £200,000 (\$290,000).<sup>8</sup>

This success in coffee in the UK was replicated to some degree across Europe. Coffee has been the single biggest Fairtrade product. In 1999, the members of European Fair Trade Association (EFTA) had a combined turnover at retail value of €127 million (\$115 million). Of that total some 29 per cent was just in coffee. For the biggest European Fair Trade organizations the percentage is even bigger with both Gepa and FTO having more than 40 per cent of their retail sales in coffee related products.

Additionally, the successful cooperation embodied in the Cafédirect consortium in the UK was being mirrored at a European and worldwide level. EFTA was created as a trade association of the leading ATOs in the major European countries, while ATOs from North and South came together to create the International Federation for Alternative Trade (IFAT).

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<sup>8</sup> Source: Traidcraft plc annual accounts 2000-2001.

### 3.1.4 The nineties—Trade increasingly comes under the spotlight

The biggest sales growth in early 1990s was in food and agricultural products. This growth was fuelled partly by the labelling initiatives that offered a small range of certified Fairtrade products. Perhaps more importantly, the ATOs moved away from selling commodity ingredients to selling Fair Trade composite products. These required the ATOs to begin working with mainstream business and with others suppliers, to enable the economies of production scale to be realized. Muesli, chocolate and cake products were developed that took Fair Trade ingredients sourced in the South and manufactured them with commercial ingredients sourced in the North. Growth of food sales then came not just through a wider product range, but also in the fact that these products were in greater demand.

Yet even with more market-ready products and labelling schemes that were open to mainstream business, there was little evidence of a major shift in corporate thinking. The campaigning NGOs across Europe and the US carried on hitting the TNCs hard. Campaigning focused on slave labour and child workers. While these campaigns were well supported by key activists, there was little mass-market appeal; the child labour campaign seemed to be regarded in essence as action against the consumerist growth of the early 1990s.

Naomi Klein describes 1995 as “the year of the sweatshop”<sup>9</sup> as a mood grew in the US that people could not ignore what happened in the supply chains of the products they bought. Ironically, the very branding that led to the growth of organizations like Nike, Adidas and the Gap was the very thing that made uncovering their supply chains that much easier. During that year products from Gap, Wal-Mart and even Disney<sup>10</sup> were shown to have been produced in terrible conditions. In the UK, NGOs like Christian Aid uncovered evidence of children-sized big name soccer balls being stitched by children in Sialkot in Pakistan.<sup>11</sup> Suddenly corporate social responsibility was not just the realm of social businesses and a few philanthropic entrepreneurs; it was an issue to be considered by TNC boards across the globe.

During this period there was a definite shift from the “Trust me” approach to the much more cynical “Prove it” mentality. While originally aimed at the bad practice of TNCs, increasingly ATOs and NGOs have felt their “good practice” coming under scrutiny too.

Perhaps because of its unusual legal structure—a charitable trust owning a UK public limited company—this need to prove that Fair Trade had an impact began for Traidcraft at the start of the 1990s. The trustees who control the charitable trust are charged with making sure that Traidcraft sticks to its Foundation Principles.<sup>12</sup> While financial sustainability was easy to assess through the financial accounts and audit, there was no equivalent process for the social impact of the business.

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<sup>9</sup> p. 327 Klein, No Logo.

<sup>10</sup> Pocahontas, *The Shaming of Disney*, p. 140 EFTA, Towards 2000.

<sup>11</sup> Marcus & Hesselbee, 1997 see <http://www.savethechildren.org.uk>

<sup>12</sup> Traidcraft’s foundation principles can be seen at <http://www.traidcraft.co.uk/s47.html>



In conjunction with the New Economics Foundation (NEF), Traidcraft pioneered the approach of performing an annual, systematic social audit of the business impact of Traidcraft Plc's trade. The process took the foundation principles and through the use of stakeholder analysis and dialogue, sought to evaluate how Traidcraft had performed against the social goals it had set. The first social accounts were published in 1992 and Traidcraft has produced annual accounts every year since. The methodology was refined and adopted by the Body Shop in 1995 and numerous businesses have now begun using the social accounting approach.

Through engaging with mainstream audit practices and TNCs, Traidcraft, NEF and others gave birth to ISEA (Institute for Social and Ethical Accounting), which has subsequently systematized the whole approach. ISEA's goal is to promote best practice in social and ethical accounting, auditing and reporting and to develop standards and accreditation procedures for professionals in the field.

Focused around engagement with stakeholders, ISEA's AA1000<sup>13</sup> standard seeks to link the defining and embedding of an organization's values to the development of performance targets, thus tying social and ethical issues into the organization's strategic management. Organizational learning and improvement is seen as central to the approach as is the link between organizational accountability and developing trust with stakeholders. AA1000 specifies the processes that an organization should follow to account for its performance, not the levels of performance the organization should achieve.<sup>14</sup>

Ethical trade as an approach to supply chain management has mushroomed in recent years—section 3.3 below explains the differences between the Fair Trade and Ethical Trade approaches. Northern companies are becoming increasingly concerned with the ethics of their operations and the risks to reputation and productivity posed by bad employment practices in global supply chains. Standards like SA8000<sup>15</sup> have been developed to allow Northern businesses to assess the ethical standards of those they trade with. Unlike Fair Trade, these assessments are not about setting developmental objectives; they are often about managing risks to reputation.

### **3.1.5 Challenges for Fair Trade approaches**

The strong growth in sales of products in the agricultural sector was not matched by sales of the traditional hand crafted products that the Fair Trade movement had been founded on. The major alternative trading organizations began to build up big losses during the mid 1990s. Traidcraft plc lost more than £300,000 (\$435,00), the Swiss Fair Trade organization had to be restructured and two ATOs had close down—Bridgehead in Canada and Alternativ Handel in Norway.

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<sup>13</sup> The standard is fully documented on ISEA's website at <http://www.accountability.org.uk>

<sup>14</sup> A recent description of the social accounting in the development context can be found EDIAIS website at <http://www.enterprise-impact.org.uk>

<sup>15</sup> SA 8000 is designed to ensure humane working conditions through a voluntary standard that includes core labour rights, independent verification of compliance and public reporting. See section 3.3 for a further discussion on Ethical Trade approaches.

One of the key problems that led to these losses was the vertical integration of the supply chain within the ATOs. Selling many hundreds of different products into multiple channels meant that there were very few economies of scale. The ATOs were often buying from three continents and providing embedded services through designers, production and quality control experts. The reasons behind this vertical integration lie within the reasons why Fair Trade existed at all. Working with other businesses was not the ATOs *modus operandi*. The CEO of one ATO had on his wall a batik that said “Rich man, poor man, middleman thief”. This gives a good indication of the mindset that led to the parallel trading system that ATOs had sought to develop.

The losses that the ATOs suffered required radical action. For some a new approach of working with mainstream became the obvious solution. ATOs began to recognize that they had two unique offerings—a breadth of experience with producers on the ground and a brand that was trusted in the market. The bit in between was commercial logistics that required scale and reach if it was going to compete in the market.

The Oxfam Fair Trade Co—the wholly owned ATO of Oxfam GB—conducted a fundamental business review in Spring 2001. The review was undertaken with *pro bono* services from McKinseys and had a wide-ranging remit. The review built upon an impact assessment that had been conducted during 2000 and came to some tough conclusions.

The problem was perhaps best illustrated by the economic analysis of one of the supply chains. The analysis identified that for a product that could sell for \$30; Oxfam had to spend \$45 in getting it to market. Oxfam would have been less worried about this if the other \$15 was going to the producer. However, Oxfam calculated that the producer was only getting \$5 of additional benefits; the rest was the cost of supporting their trading model.<sup>16</sup> Oxfam employed business consultants in the field, ran the logistics including an expensive warehouse operation in Oxford and owned all the shops that products sold through.

McKinseys recommended that Oxfam should focus on working with producers through its Sustainable Livelihoods team and create an enabling environment for Fair Trade within the UK consumers and the shops they bought from. Everything else was not core to Fair Trade and Oxfam is currently restructuring to close its “alternative trading” operation.

While the decision by Oxfam to shut down the majority of its Fair Trade Co activity was perhaps the most radical in the movement, it was a wake up call to many others. Section 4 analyses many of the successes and failures of Fair Trade and looks at the challenges facing the Fair Trade approach. However, first we need to examine the context and the players in the Fair Trade sphere.

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<sup>16</sup> Oxfam staff member presentation at the IFAT conference in June 2001.

### 3.2 How is Fair Trade defined today?

Fair trade is about creating market opportunities for producers who would not normally have access to exporting with their own limited resources, so that the resulting business dealings enable producers to make improvements in their lives. A more detailed definition agreed by representatives of the Fair Trade movement through the FINE<sup>17</sup> alliance is shown in box 1.

#### **Box 1: The FINE definition of Fair Trade<sup>18</sup>**

Fair Trade is an alternative approach to conventional international trade. It is a trading partnership, which aims at sustainable development for excluded and disadvantaged producers. It seeks to do this by providing better trading conditions, by awareness raising and by campaigning.

The goals of Fair Trade are:

1. To improve the livelihoods and well-being of producers by improving market access, strengthening producer organizations, paying a better price and providing continuity in the trading relationship.
2. To promote development opportunities for disadvantaged producers, especially women and indigenous people, and to protect children from exploitation in the production process.
3. To raise awareness among consumers of the negative effects on producers of international trade so that they exercise their purchasing power positively.
4. To set an example of partnership in trade through dialogue, transparency and respect.
5. To campaign for changes in the rules and practice of conventional international trade.
6. To protect human rights by promoting social justice, sound environmental practices and economic security.

The FINE definition is written in the policy language of international development, and can be interpreted and applied in different ways. From a practical perspective, the concept of Fair Trade can be envisaged in terms of:

- The package of assistance offered by Fair Trade companies, e.g. credit, product development support, business capacity building and so on.
- Risk sharing: Proportionally, a poor farmer or artisan has to invest a large percentage of his or her assets to enter into trade, and on conventional terms, this carries no guarantee of a return. By sharing some of this risk through the provision of support services including pre-export finance, buyers can make a considerable difference in the lives of the producers.
- A reasonable correlation between costs incurred by a company and the value added to the product by the activities of that company: One way to measure exploitation is

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<sup>17</sup> FINE brings together the Fair Trade Labelling Organisation (FLO), the International Federation for Alternative Trade (IFAT), the Network of European World Shops (NEWS) and the European Fair Trade Association (EFTA). See section 3.2.5.

<sup>18</sup> There is a revised FINE definition of Fair Trade being worked on at present. It simplifies the wording greatly and the draft new text is: *Fair trade is a trading partnership, which seeks greater equity in North-South trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, disadvantaged producers in the South. The Fair Trade movement is actively engaged in supporting producers, in raising awareness, and in campaigning for changes in the rules and practice of conventional trade.*

the extent to which an organization along the supply chain adds little or no value to a product but drastically increases the price to reflect their bargaining power.

- Social benefits to the producers: Communication about the improvements in the lives of the producers helps consumers and buyers to visualize the merit of trading for development objectives. Currently, this is often reported as personal stories from the producers.
- A verifiable assurance to buyer and consumer that the product has not involved someone being exploited.

The Fair Trade movement and the niche market it supplies is the foundation of this alternative approach to trading, and remains the central reference point as more Fair Trade products enter mainstream markets. A list of Fair Trade organizations mentioned in this report is given in appendix 1. However, interpretation of the meaning of Fair Trade also differs between ATOs, ranging from strict adherence to internationally defined principles to a more elastic approach for different product types from varying countries of origin. At the same time, all ATOs operate within value-driven parameters to achieve social development objectives using trade as a means, not an end.

But what is the difference between Fair Trade as practiced by these “alternative” companies, and sourcing from marginalized businesses to produce social benefits? It is an ongoing debate as to whether the principles of Fair Trade can ever be fully applied to the mainstream due, among other factors, to the inevitable exposure of producers to market fluctuations when dealing with commercial companies. While greater penetration into mainstream markets is arguably the only way forward for the Fair Trade movement, it must be recognized that mainstream businesses demand a different approach to the ATO niche. In most companies, buyers will not tolerate late delivery and poor communication of changes to an arrangement, for whatever reason this might occur. Therefore, there is a risk that the gain of a broader distribution of benefits gained through the supply of greater volumes will be countered by the lessening of the quality of those benefits. This gap can be filled through business support services such as those offered by Traidcraft Exchange, but business development is a slow, long-term process and export readiness cannot be achieved immediately.

### **3.3 Fair Trade and ethical trade—just points on an ethical continuum?**

A frequently asked question is about the relationship between Fair Trade and ethical trade.<sup>19</sup> This section summarizes the different approaches.

Fair trade and ethical trade are both about improving the lives of people who supply products into international markets. As outlined earlier, Fair Trade works with producer businesses whose circumstances mean they could not participate in the international trading system without external input, and enables access to new markets and buyers under terms that are mutually acceptable. Ethical trade is mainly driven by the concerns of brand image

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<sup>19</sup> Further explanation on the differences between Fair Trade and ethical trade can be found in the Traidcraft Briefing, “Fair trade and Ethical trade: Distinct but Complementary”. Lake 1999.

in the destination market. It concentrates on ensuring employees in established supplier companies are working in conditions that match or exceed a minimum standard so that companies who sell the products are reassured that supplier employees are not being exploited. By implication, much of fair and ethical trade activity focuses on products sourced from suppliers in “developing” or poorer countries, although there is no reason why the same principles should not also apply in industrialized countries where they do not already do so.

The naming of the two approaches—fair and ethical—has left an unfortunate legacy. Both terms are laden with implicit value judgments, which force distinctions and suggest complementarities that may not exist. These may be summarized as follows:

| <b>Ethical Trade:</b>   | <b>Fair Trade</b>  |
|---|--|
| <p>The Ethical Trading Initiative Base Code states:</p> <ul style="list-style-type: none"> <li>➤ Employment is freely chosen: no forced or bonded labour is allowed</li> <li>➤ Freedom of association and the right to collective bargaining are respected: workers can form trade unions and other organizations to represent them</li> <li>➤ Working conditions are safe and hygienic</li> <li>➤ No child labour is allowed</li> <li>➤ Living wages are paid to all workers</li> <li>➤ Working hours are not excessive</li> <li>➤ No discrimination is practised in any working conditions</li> <li>➤ Regular employment is provided, through formal contracts</li> <li>➤ No harsh or inhumane treatment is allowed: workers must not be physically, sexually or verbally abused or intimidated.</li> </ul> | <p>The International Federation for Alternative Trade (IFAT) definition is:</p> <p>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, marginalized producers. Fair Trade organizations are engaged actively in:</p> <ul style="list-style-type: none"> <li>➤ Supporting producers</li> <li>➤ Awareness raising</li> <li>➤ Campaigning for changes in the rules and practice of conventional international trade.</li> </ul> |

So why does this matter if there is a beneficial outcome to people who may otherwise have been open to exploitation? There are two main reasons for a distinction:

- In terms of *social development*, Fair Trade and ethical trade have different target groups. Fair trade brings producer businesses into the market, who initially may not have otherwise been able to succeed independently. Ethical trade can be applied to the existing supply base of a company. While both look to improve the income and conditions of workers, they do so through different mechanisms, both of which are valid. Therefore, the difference in terms has implications for funding of Fair Trade and ethical trade activities, and in wider strategic decision making on the part of international development policy makers.

- *Business reasons* for clarifying fair and ethical trade centre on marketing strategies: The Ethical Trading Initiative (ETI<sup>20</sup>), which spearheads (and by default, defines) ethical trade and labour standards in the UK does not allow ETI membership to be used for product-related promotion. Fair trade goods are often more expensive—so if consumers are led to believe that fair and ethical trade bring about the same benefits, they are likely to choose a cheaper product which is indicated as ethical. This would mean continual exclusion of those who Fair Trade would like to bring into the market.

Several briefing papers have been produced explaining how Fair Trade and ethical trade differ and complement each other.<sup>21</sup> Individually, all give clear answers, and to a certain extent the theory is easy to grasp. Confusion can start because the reality is dynamic. There are common misperceptions about what each is, and while there are some situations where they seem to overlap, there are also ideas that are not covered by either. For example, it is often understood that ethical trade works on a large scale and Fair Trade on a small scale. But Cafédirect, the flagship Fairtrade coffee brand, supplies enough volume to meet 4 per cent of the UK roast and ground coffee market, while some ETI companies are now tracing their supply chains right back to the small groups of home-workers who supply the factories of their suppliers. At the same time, it could be argued that influencing a small percentage of, say Tesco's £1 billion profit in 2000, could bring about bigger changes much quicker than the current Fair Trade market could achieve. However, it can be argued that this dilution of the Fair Trade message would undermine Fair Trades core niche market, and therefore future impact.



The need for clarity on this is perhaps even greater for the Fair Trade movement as it works through new ideas to increase opportunities for marginalized producers with mainstream conventional companies. For Fair Trade to work the “offer” must be discrete and the benefits tangible to marginalized producers. Creating ambiguity around the “Fair Trade” offer by trying to broaden its approach to increase the spread of impact may have disadvantages as well as advantages. Communications “space” for ethical trade products could easily mean that Fair Trade product sales are pushed aside, and hence as ethical trade does not address the terms of trade retailers offered to their suppliers, a social development opportunity is missed.

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<sup>20</sup> See end of this section for further details on ETI.

<sup>21</sup> Lake, 1999, Blowfield, 1999 NRI.

The following diagram summarizes the approaches and the jargon behind them.

|  | <b>Approach to trading</b>  | <b>Jargon</b>                                 |
|--|---|---|
| Bottom up<br> | Product supplied by marginalized groups, who receive “capacity building” support along the chain  | Fair trade                                    |
|  | Producer support such as business training and information provision supplied. Producer sells to mainstream buyer under same conditions as other suppliers.   | Enterprise development<br><br>And Fair Trade? |
| Top down<br> | Retailers looking to ensure fairer relationships in their supply chain while also active on high labour standards   | Fairer trade?<br><br>Or ethical plus?         |
|  | Pro-active on labour standards, using a multi-stakeholder approach which can address difficult issues to attain development benefits, e.g. not excluding marginalized producers                     | Ethical trade<br><br>[Pro-active]             |
|  | Reactive on labour standards, wanting quick results and methods for suppliers to achieve standards  | Risk management<br>SA 8000<br>Reactive ETI    |
|  | Non-active companies that have been hit by a scandal or face pressure from shareholders to promote an ethical policy; not active yet but defending position or taking damage limitation precautions | Risk management                               |
|  | Business as usual   | Risk averse                                   |

Although the main thrust of this paper is on Fair Trade it is worth considering two of the key ethical trade initiatives in more detail.

### **Social Accountability 8000 (SA8000)<sup>22</sup>**

SA8000 is designed to ensure humane working conditions through a voluntary standard that includes core labour rights, independent verification of compliance and public reporting. It is based upon ILO conventions, the Universal declaration of human rights and the UN Convention on the rights of the Child. Compliance with SA 8000 is verified through regularly scheduled formal certification and surveillance audits, continuous monitoring by workers in the workplace and an accessible complaints and appeals system.

SA8000 is developed and run by Social Accountability International (SAI)<sup>23</sup>—an organization that was set up in 1997 by the Council on Economic Priorities.<sup>24</sup> The standard was developed in response to the inconsistencies among the many different workplace codes of conduct. SAI developed the standard for workplace conditions and a system for independently verifying factories' compliance. The standard, Social Accountability 8000 (SA8000), and its verification system draw from established business strategies for ensuring quality (such as those used by the international standards organization for ISO 9000) and add several elements that international human rights experts have identified as essential to social auditing.

Based on the principles of international human rights found in ILO Conventions, the United Nations Convention on the Rights of the Child and the Universal Declaration of Human Rights, SA8000 has nine core areas—child labour, forced labour, health and safety, compensation, working hours, discrimination, discipline, free association and collective bargaining and management systems. Accredited SA8000 inspectors who visit factories to carry out audits run the system.

The system is impressive in its scale and has been implemented by a number of big businesses, particularly those who see workers' rights as an extension of its corporate compliance model. However, it suffers from a number of problems.

- It can encourage a “check box” mentality where fire escapes are counted but no meaningful stakeholder dialogue is undertaken.
- It can create a feeling of having audit done to a business rather than with a business.
- The standard is set from the outside and finds it difficult to cope with local norms.
- There is a danger of a pass-fail mentality that means that a “good” TNC will drop bad suppliers in favour of better ones.

### **Ethical Trading Initiative (ETI)<sup>25</sup>**

The Ethical Trading Initiative is tripartite approach—in this case involving business, NGOs and trades unions—to monitoring the ILO's core labour standards in supplier organizations to the UK retail sector. It was created in 1997 from an NGO network called

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<sup>22</sup> For more information see the SAI website at <http://www.cepaa.org/>

<sup>23</sup> SAI was originally called Council on Economic Priorities Accreditation Agency (CEPAA). It changed its name in June 2000.

<sup>24</sup> Council on Economic Priorities is 30-year old NGO that focuses on making business more accountable through constructive engagement.

<sup>25</sup> For more info see ETI website at <http://www.ethicaltrade.org>



the Monitoring and Verification Working Group—a group of NGOs who were seeking to change corporate practice through a coordinated approach. The aim was to avoid different NGOs approving different corporate codes and verification approaches.

Part funded by UK government aid agency the Department for International Development (DFID), ETI provides a learning space where the monitoring and verification of codes of conduct can be tried without risk to the retailer's reputations or the supplier's sales. ETI is not about defining standard—it has a core code, but most members add to that code things that are important to their values or business practice—nor is about defining an approach to monitoring and verification. It currently runs a series of pilot programmes around the world—South Africa, Zimbabwe and China being the first to report—that test different ways of monitoring and verifying codes of conduct.

Ethical trade is an unfortunate name given the limited scope of the ETI approach. As shown in the table earlier in this section, ETI only covers labour standards as defined by the 10 key ILO conventions on workers rights. How ETI standards are eventually applied in supply chains involving subcontracts to smallholders or home workers is absolutely crucial for a large number of poor people. Indeed it has been interesting for those in ETI who on looking at their complete supply chains in more detail do have smallholders and home-workers in their supply chain. Cutting them out of supply chains because the standards designed to apply to factory type situations couldn't be met in the short term would have very significant and negative implications developmentally. The ETI is currently undertaking some research in this area and the results and subsequent actions will be very significant.

This issue is acute when the informal business sector is considered. Often informal businesses do not meet the better practice that formally constituted SMEs attain. The question of whether to engage with “businesses” at this level to help them improve or to cut them out of supply chains is not easy. The recent report of the ILO committee on the informal economy sets some key principles that should be followed. It concludes that standards are important and efforts to work with the informal sector should not lead to “a job at any price or under any circumstances.”<sup>26</sup> However, the report identifies that careful engagement can be a means to lifting businesses into the formal economy. Employers organizations “could also initiate activities adapted to the needs of the informal economy that can yield important results such as improved health and safety, improved labour-management cooperation or productivity enhancement.”<sup>27</sup> Finally it charges the ILO to “collect and disseminate information on transitions made to the mainstream economy, how such transitions were facilitated, and key success factors”.<sup>28</sup>

It is also interesting to note that the British Government wanted to be a member of the ETI as well as a funder. However, legal experts identified that the current WTO approach actually outlaws state endorsement of social standards.

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<sup>26</sup> Provisional Record, 19<sup>th</sup> Session of International Labour Conference, Geneva 2002, Report of the Committee on the Informal Sector, paragraph 21 of conclusions.

<sup>27</sup> Ibid Paragraph 33.

<sup>28</sup> ibid. paragraph 37 item p.

### **3.4 Key players in Fair Trade Today**

There are several hundred businesses in the North and South who make Fair Trade claims about the way in which they conduct their business transactions. In Appendix 1 there is a table of the major players in North that are listed with brief details of the approach that they take.

There are five key networking or membership organizations that seek to bring Fair Trade organizations together. Each services a different group of Fair Trade organizations and therefore takes a different perspective on the nature of Fair Trade.

#### **3.4.1 IFAT—International Federation for Alternative Trade**

IFAT is the only worldwide Fair Trade networking organization that brings producers and ATOs together in a single organization. IFAT aims to improve the livelihood of disadvantaged people in developing countries by linking and strengthening organizations that offer “just” alternatives to unfair trade structures and practices. It is a federation to promote Fair Trade and a forum for exchanging information to help members increase benefit to producers.

From the mid-1970s onwards, a group of 30 ATOs met regularly to support each other and share ideas. A meeting of that group in 1989 decided to formalize the grouping and create an inclusive global network. Southern organizations began joining after the 1991 biennial IFAT conference, and now represent more 60 per cent of the membership.<sup>29</sup> IFAT has a small permanent secretariat based in the UK and is funded mainly through membership fees.

#### **3.4.2 FLO—The Fairtrade Labelling Organization**

Following on from the successful launch of Max Havelaar coffees in 1988, a number of independent Fairtrade certification bodies were created. To coordinate the monitoring and standards of these National Initiatives (NIs), a common approach to monitoring producers was agreed. Each agency would monitor a list of producers and share that information across Europe. In 1997 this cooperation was formalized through the creation of FLO. There are now 17 NIs that use the shared monitoring and standard setting service that FLO offers. The NI then licence a local FLO endorsed mark to businesses in their geographic area.

Currently, FLO takes a very rigorous product-by-product approach to register development. The criteria are complex to develop for each sub-sector and the registers expensive to maintain—worth noting that Fairtrade labelling is the only labelling scheme in the world where the consumer pays for the monitoring of the producers. While this is ultimately true for all labels—the price of monitoring must come out of the supply chain—the difference is that for Fairtrade producers, you pay nothing to join the register and be certified. The products for which a register is available are coffee, tea, cocoa, sugar, bananas, orange juice and honey. Other registers for products including rice and fresh fruit are being developed at present.

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<sup>29</sup> Source: IFAT website at <http://www.ifat.org>

### **3.4.3 NEWS—The Network of World Shops**

NEWS coordinates the cooperation between World Shops all over Western Europe. The network consists of 15 national World Shops associations in 13 different countries and in total represents 2,500 World Shops.<sup>30</sup> NEWS was established in 1994 and much of its focus is around maximizing the campaigning voice of the shops and their customers. The European World Shops day is held in May every year and focuses on shop-based activities ranging from product-tastings to campaigns. A World Shop is defined as:

- A shop that endorses, through its own mission or values statements, publicity material and actions, the definition and principles of Fair Trade.
- The primary purpose for existing as a shop is to promote Fair Trade. Fairly traded products therefore take up the most important share of the shop's stock.
- The shop reinvests the profits from its sale of products into the Fair Trade system.
- The shop informs the public about its aims, the origin of the products, the producers and about world trade. It supports campaigns to improve the situation of producers, as well as to influence national and international and international policies.

### **3.4.4 EFTA—The European Fair Trade Association**

EFTA was set up in 1990 as a trade association to enable cooperation between the European ATOs to be coordinated and effective. EFTA has 13 members who pay a significant membership fee (around \$10,000) to resource a small secretariat headquartered in Maastricht (Netherlands) with other staff based elsewhere in Europe.

There are three key ways that the cooperation has developed. First, EFTA acting as trade association represents the European ATOs in various fora and seeks to agree a common line on issues external to the movement. Through a small advocacy office in Brussels, EFTA has raised the profile significantly of Fair Trade with the European Parliament and Commission. Second, through creating an environment for working together, particularly in the food sectors, the EFTA members share manufacturing and importing of key commodities. For example, the Swiss Fair Trade organization, Claro, coordinates the production of chocolate for all of the EFTA members. The economies of scale derived from this make the product reasonably successful in all of the European markets. Finally, because FLO only monitors against the seven agricultural commodities that it has registers for, EFTA has developed a system called Fair Data that shares monitoring information among all of the participants. This covers hundreds of non-FLO producers enabling the cost of monitoring Fair Trade suppliers to be shared.

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<sup>30</sup> Source: NEWS website at <http://www.worldshops.org>

### 3.4.5 FINE

In an effort to unite standards and approaches the four key Fair Trade networking organizations began to meet together in an effort to unite the movement around the things that could be readily agreed on. The FINE—FLO, IFAT, NEWS and EFTA—group was established to build relationships and common approaches. The key success so far is the FINE definition of Fair Trade (see section 3.3) that was agreed by all of the participants in 1999. This definition has been revised further and is to be agreed among all the members during 2001.

Although short on radical action, FINE has created an environment of trust and cooperation. As common approaches are coordinated among the members, some bilateral arrangements will help to pull the Fair Trade players more closely together. For example, IFAT has a self-monitoring scheme to prove you are a Fair Trade organization. The next step would be introduce external monitoring—a role that FLO could play. Although by no means certain that these steps will be taken, if they are then FINE may need to become more of institution to support this increased cooperation.

### 3.5 Key Fair Trade products

From a market perspective, products traded by ATOs can be divided into two main categories – foods and beverages, and “fashion, gifts and home” products.

At the producer level, it is often easier to group together all agricultural products to include food and non-edibles like cotton, essential oils and beeswax. Also, items classed as handicrafts at the source represent such a wide variety of products that they become separated into the fashion, gifts and home market segments at the point of sale. In general the life cycle of interiors and gifts is shorter than for foods because they are closely linked to regular changes in fashion trends. Alterations in food tastes are much more gradual, especially because the main impact is on the processing method—many Fair Trade foods are processed and packaged in Europe using ingredients from developing countries.

#### Some examples of products in the Fair Trade sector

| <i>Foods and Beverages</i> | <i>Fashion, gifts and home</i> |
|----------------------------|--------------------------------|
| Coffee                     | Household textiles             |
| Tea                        | Essential oils                 |
| Chocolate                  | Interiors                      |
| Honey                      | Jewellery                      |
| Cashew nuts and peanuts    | Clothing                       |
| Dried fruits               | Accessories                    |
| Fruit juices               | Christmas decorations          |
| Muesli                     | Hand made paper products       |
| Wines                      |                                |

## 4. Successes and failures of Fair Trade

So far we have looked at the history and the context of Fair Trade. We have identified the players, the products and have sought to describe the terms by which Fair Trade is defined.

However, there is no single approach to market access within the Fair Trade organizations and each of the approaches taken has strengths and weaknesses that have contributed to the thinking of what is now regarded as good practice. The following section provides an analysis of the different types of market linkage and other Fair Trade interventions and what their successes and failures have been.

### 4.1 Different approaches to Fair Trade

#### 4.1.1 Alternative/parallel trade systems

As already discussed in section 3.1, Fair Trade was born out of politics as much as it was born out of business. The rationale was a political reaction to the rise of free trade, capitalism and the power of the TNC. It is therefore not surprising that the dominant model of Fair Trade has been the parallel or alternative supply chain approach.

To develop the alternative approach to trade, ATOs began by buying directly from and building relationships with producers in the South. While in some cases the trade was with individual groups, more often it was with fair marketing intermediaries (see section 4.1.3 for analysis of these Southern ATOs). ATOs then set up business and supply chain structures that allowed them to ship the goods from producer to customer via their own warehousing and often through their own shops. ATOs were only reliant on mainstream where they had no choice—like shipping and packaging production. For example, in 1990 Traidcraft owned a small chain of shops, ran its own print room, graphics design department, food packaging and UK distribution network. It had field staff across the UK to support its retailers and supporters.<sup>31</sup> Big losses during this period forced it to reduce its work force and to buy in more services from mainstream business organizations. The table below shows the efficiencies that have come from this approach—turnover per head in 2000 has risen to almost three times the 1995 value.

| Year                  | 1995        | 1996        | 1997         | 1998         | 1999         | 2000         |
|-----------------------|-------------|-------------|--------------|--------------|--------------|--------------|
| Sales (Euro)          | € 8,125,000 | € 8,800,000 | € 10,080,000 | € 11,600,000 | € 12,318,000 | € 13,598,000 |
| Employees             | 120         | 86          | 70           | 72           | 77           | 73           |
| <i>Sales/Employee</i> | € 67,708    | € 102,326   | € 144,000    | € 161,111    | € 159,974    | € 186,274    |

*Source: Traidcraft plc annual accounts.*

<sup>31</sup> In the interests of balance it is only fair to mention that because of Traidcraft's location in one of the poorest inner cities in the UK, it received government subsidy for the jobs that it created. Although never actively marketed as such, Traidcraft created tens of new jobs in the North East of England as well as supporting thousands of workers in the South.

Another reason for the development of the alternative trade approach was the anti-TNC campaigning that lay at the heart of the Fair Trade movement. In section 3.3 the FINE definition of Fair Trade shows that campaigning was regarded as a core ATO activity. By singling out businesses and issues to campaign against, an atmosphere of constructive engagement with business was unlikely to flourish, so pushing the ATOs to be almost isolationist in their approach.

Yet for all of the weaknesses, alternative trade has had some significant successes.

- It has created a US \$500 million<sup>32</sup> network of businesses that seeks to push the benefits of that trade to the poorest.
- It has provided a wide range of embedded services to producers who would not have been able to source or afford them locally.
- It has provided market access to groups which were not of interest to mainstream business.
- It has successfully campaigned at many levels of policy making to bring real pro-poor changes in legislation.
- It has raised the issue of trade with millions of consumers—particularly across Europe—changing attitudes to business and development.

However, there are some inherent problems that have capped the growth and impact of the ATO approach.

- By embedding services without an exit strategy, it has created dependency for the producers. Oxfam estimates that more than 80 per cent of its producers can only export if Oxfam handholds them through the process. While not inherently wrong, some of the producers have been selling to Oxfam for 20 years and export skills have not been transferred.<sup>33</sup>
- The approach has been too supply-led. “If the producers make it we’ll try and sell it.”
- Some of the higher price of Fair Trade goods is actually the inefficiency of alternative trade because of the lack of scale.

It is worth highlighting that the supply structures of the intermediary marketing organizations are in many cases quite sophisticated. Many of these organizations buy from a wide variety of either producer groups and or small family businesses, developing a network of suppliers over a wide geographic area. For example Saffy Handicrafts<sup>34</sup> in the Philippines has a network of 65 suppliers throughout the many islands of the country. They manage and develop this network as a crucial factor in their business success.

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<sup>32</sup> Estimated figure based on available trading figures of a large number of fair trade companies. It is likely to be an under-estimate of actual fair trade worldwide.

<sup>33</sup> Source: Oxfam Staff member during presentation on the McKinsey/Oxfam Fair Trade review.

<sup>34</sup> Saffy Handicrafts website <http://www.geocities.com/safrudi/saffy.html>.

#### 4.1.2 Empowerment approach to Fair Trade

One of the key goals of Fair Trade is empowerment of producers. In the different approaches to Fair Trade this is tackled in different ways. At one end of a spectrum is an approach where producers are only empowered if they own the means of production; at the other the producers have some degree of representation but not necessarily control over the business. The structure in the former is likely to be a cooperative or a producer association, while the latter could be a benevolently run, but privately owned business. It is worth noting that inside and outside the Fair Trade movement, cooperatives fall into two categories—worker cooperatives where the members are both workers and employers at the same time and service cooperatives where the members are SMEs and the organization usually provides pre- and post-production services. An example of the latter would be Tabora Beekeepers Cooperative Society in Tanzania. Beekeepers are self-employed selling their crops to the cooperative for the provision selling and marketing services. Any surplus made by the cooperative is then shared among the members or reinvested to expand the cooperative. The beekeepers are not employees but producer members.

Different ATO's have taken different approaches. Organizations like Traidcraft work with producer businesses across the spectrum and others like Twin Trading in the UK work only with cooperatives and producer associations. While both organizations believe in the definition of Fair Trade, the difference in political or development perspectives is clear in the way they work and the type of producer they partner.

Twin's focus has been on specific commodity products—mainly coffee and cocoa—and it provides a market for smallholder producers from Africa and Latin America. It works with or forms cooperatives or producer associations and then develops their capacity and skills to understand how to market their products, carry out their business and work on the organizational capacity of their institutions. As one of the founder members of Cafédirect and having worked closely with Body Shop in sourcing cocoa butter from Ghana, Twin has had some significant commercial successes. The products traded include the provision of a price premium that is provided directly back to the farmers or to trusts managed by the farmers' representative body. The trust then utilizes this money for self-help projects in the communities.

Twin describes its work as development through trade—not unlike other ATOs—however its empowerment approach is a good example of this type of intervention. A report entitled “What benefits the producer? A qualitative assessment of Fair Trade<sup>35</sup>” looked at Twin's approach and it highlighted the lessons learnt that include:

- The weaknesses of NGOs as trading organizations, and difficulties in balancing social and trading objectives.
- The difficulties of working through thick and thin with partners and that sometimes you just have to give up on some institutions and try different routes.

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<sup>35</sup> Tallontire, 1998.

- Empowerment of producers through cooperatives or producer associations can have significant benefits beyond incomes generated in terms of skills, self respect and confidence.
- Encouragement of the active role of women at the farm society, organization and Board levels.
- Commitment to improved farming methods and establishing environmentally sustainable initiatives.

An innovation of the approach take by Twin has been to look at new forms of ownership structures between Northern and Southern partners in a trading relationship. The Day Chocolate Company is a marketing company formed as a joint venture in 1998 between Kuapa Kokoo, the cocoa producer in Ghana, and Twin. This has resulted in the launch of a fairly traded chocolate bar which is now available in UK supermarkets. Kuapa Kokoo provided 33 per cent of the equity stake in Day and receives 66 per cent of the profits. An added interesting point to note about this venture is the role played by the UK Department for International Development (DFID) who actually successfully lobbied for a change in EU legislation in order to provide a loan guarantee for the venture.

It will be challenging for Day to achieve growth in a very competitive market place with such an alternative approach. Finding new capital will be made harder by the structure created. Indeed, it is interesting to note that where a number of ATOs are increasingly looking to work with mainstream business in supply chains to better access markets efficiently and grow Fair Trade's share of the market, Twin appears keen to continue to establish parallel alternative trading supply chains to maintain the focus on "genuine accountability" for the producers. In these commodity sectors where it could be argued the international system of trading inherently disadvantages the smallholder this approach has a lot to commend it as a mechanism for change.

#### **4.1.3 Fair Trade as a by-product of Social Development**

One of the earliest types of Southern partners for the Northern ATOs and a distinct Fair Trade approach has been one that comes out of a specific and direct response to poverty and disaster relief. It has its basis in income generation activities of producers supported by Southern NGOs and is primarily around crafts production. Its founders were often the large development and religious agencies in European countries such as Oxfam, Hivos, Brod fur die Welt, Tearfund, Intermon and Caritas. At the same time NGOs in the south and other development or welfare bodies (some with educational roots) were developing marketing activities as a result of the income generation activities and selling to the ATOs. Organizations such as BRAC and Corr the Jute Works in Bangladesh, St Mary's in Ahmedabad in India, Pekerti in Indonesia and Community Crafts Association of the Philippines are examples of these.

These were primarily crafts focused organizations, and in many cases, but not all, received significant subsidy from the development organizations and donors. In many cases they were structured such that there was no clear boundary between the development activities and the trading activities. As the sales of ATO crafts products declined, there has been recognition by these organizations that they need to be more business-like in their



approach. Some have gone further than others. Examples such as Aarong in Bangladesh and ProArte in Nicaragua have shifted significantly to being more business like in their approach and are having a relatively high degree of success as a result.

The level of subsidy in the evolution of these crafts producers has been significant across the whole of Fair Trade. The scale of this subsidy has not been researched and given the multiple levels of subsidy within the supply chains it would be near impossible to quantify. However it is fair to say that the degree of subsidy has dropped significantly in the late nineties as issues of sustainability have grown with donors. The question in many ways is to look at what is the on-going impact of this donor support. What we can say is that the Fair Trade components of certain countries such as Bangladesh are very significant. The impact of Fair Trade on Bangladesh has to be seen as a success story in terms of providing access to markets for poor producers.<sup>36</sup> There are a significant number of Fair Trade organizations/businesses and they account for over 50 per cent of the crafts exports from the country, provide incomes to 100,000 people and to varying degrees are in the process of diversifying their sales of products away from ATOs to mainstream business. Despite the difficulties facing ATOs in this area overall sales are increasing.

Aarong, the trading subsidiary of BRAC, and to a less degree Kumudini and Heed have been developing the local market for their products. Selling interior products and clothing to the middle classes in Bangladesh, they have developed the local market very significantly. The Aarong shop in Dhaka is one of the premier retail outlets in the country, and the others all have stores located in the big hotels and main shopping centres.

Although the current experiences of these types of Fair Trade producers are mixed, there are other examples of NGO-based income generation projects developing into successful businesses, not least ProArte in Nicaragua.<sup>37</sup>

So the donor support has stimulated the development of jobs and businesses. How these businesses compete longer term in the market will be interesting to see but what we can say is that Fair Trade has enabled income generation projects to grow and develop. Like any area of business there has been a certain degree of “business” failure but also with a significant number of organizations evolving and growing in terms of business skills.

The social developmental impact of businesses has led organizations like Body Shop to focus some of its purchases (£5m of natural ingredients in 2000/01) from community based businesses/NGOs. Selling products to the Body Shop has provided an interesting and at times painful bridge for producers that have historically been used to dealing with the ATOs. Issues of larger scale orders, tighter product and packaging specifications and shorter delivery times have challenged many seemingly well-established exporting businesses. The Body Shop’s approach of committing specific resource to support producers through this is

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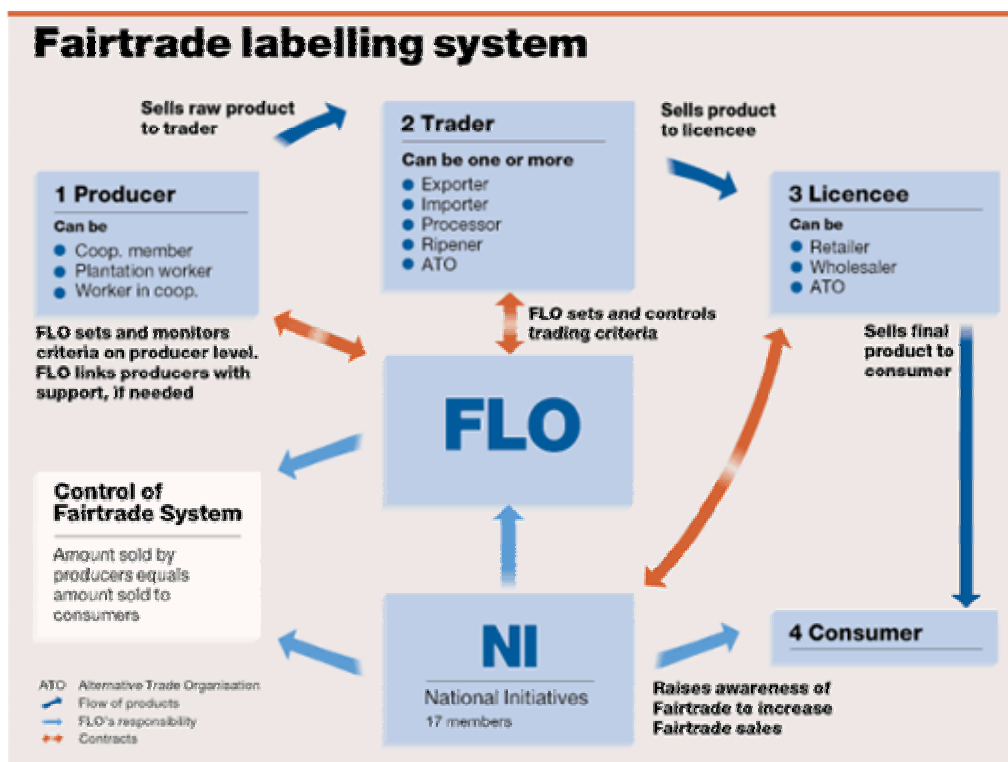
<sup>36</sup> The mid-term review of the DFID funded Bangladesh Export Marketing Assistance Programme highlights both growth and an increasing commerciality of income generation activities of the large NGOs. Some like Aarong (the trading arm of BRAC) and Juteworks have gained mainstream market access and now supply goods to mainstream businesses like Ikea.

<sup>37</sup> Mikkelsen (2000).

to be applauded, however there are concerns as to whether it will continue longer term as the Body Shop's business evolves.

#### 4.1.4 The rules based approach to Fair Trade

As already discussed, the FLO approach to Fair Trade was developed to better prove that it works and to give any business the opportunity to take part in Fair Trade. The FLO system operates in two specific ways—it is a standard setting and certification process for the Fairtrade importers and producers and it licences National Initiatives to endorse products with a consumer mark.



Source: FLO<sup>38</sup>

The diagram shows how the FLO system works for all Fairtrade labelled products. The process begins with producers. FLO inscribes producers who meet Fairtrade criteria in a regularly updated register, distributed to Fairtrade importers. Criteria are developed for each product separately although they are all based on a common underlying set of principles.

Fairtrade importers are traders authorized to participate in the Fairtrade scheme by signing an importer contract with FLO. Both ATOs and commercial business have become Fairtrade licensed importers. The importer contract governs the way that trade works and gives FLO the right of inspection to prove that the rules have been adhered to.

<sup>38</sup> For more information on FLO see <http://www.fairtrade.net>

The FLO licensees are traders too, but they are the ones who sell the final product to consumers. Only FLO licensees are authorized to use the Fairtrade label. For this, licensees pay the National Initiatives (NIs) a license fee.

FLO then aims to use labelling to enable producers to access the market and reap the benefits of Fairtrade. For this, the Fairtrade label must be an independent guarantee to consumers that producers and traders have abided by all Fairtrade conditions. Consumers need a guarantee that Fairtrade benefits such as a higher price, stable income, fairer trading relations and decent production conditions do go to producers, and that it is marginalized producers who are benefiting from Fairtrade.

Although a seemingly complex system, the FLO approach has led to a number of successes:

- The system has been shown to be scalable with large numbers of producers and licensees operating in some sectors.
- Most of the producers on the registers have few other market alternatives—the market access that Fairtrade provides is perhaps more important than any other element of benefits of trade.
- Mainstream business has begun to participate—Sainsbury and CWS, two of the six biggest supermarket chains in the UK, now carry some Fairtrade own-label products.

Despite the successes, there are still challenges for Fairtrade labelling approach. The key challenges are:

- Lack of participation by local stakeholders in setting Fair Trade standards and monitoring of producers.
- The cumbersome nature of the standards means that new product categories are being added too slowly. Recent changes at FLO will hopefully address this, but seven product categories with agreed standards in 13 years is very slow progress.
- Supply outstrips demand dramatically. Some Fairtrade producers have never received an order on Fairtrade terms. Adding new producers to some registers is limiting without a significant increase in consumer purchases.
- Certification is costly and while FLO can rightly claim that producers do not pay for certification, only one of the registers actually covers its costs from the licence fees paid. Apart from coffee, the other registers are certified out of other funds that FLO raises.
- Growth in sales is good at more than 50 per cent a year in some markets, but the base is so small that the total actual value of purchases is still low.
- While the DFID evaluation<sup>39</sup> identified some small benefits accruing from the higher prices paid, most of the impact was actually the capacity building—usually offered as an embedded service—done by the players in the supply chain.

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<sup>39</sup> Oxford Policy management (2000) “Fair Trade: Overview, Impact Challenges. Study to inform DFID’s Support to Fair Trade”.

#### 4.1.5 The link between BDS and Fair Trade

From the earliest activities of Fair Trade, a key component has been capacity building, both from a development perspective and in order to make the business work. This support has traditionally been tied into a trading relationship and in BDS parlance would be defined as embedded services. While some of these services have meant that the approach taken by some ATOs has resulted in them being unprofitable and in some cases developed a high degree of dependency, these embedded services are a crucial component of the Fair Trade relationship.

There is some debate about the level of embedded services provided by ATOs and whether that exceeds what is provided by mainstream business. In practice, it is certainly no less and it is clear that ATOs have been more generous in terms of being flexible over delivery dates, prices and quality levels. The key embedded services are product development, quality, logistical support and pre-export finance on orders. Looking further down the supply chains the ATO's trade with intermediary organizations who themselves provide services to the individual artisans, small businesses or smallholders. These services may well include product development, quality, skills training, raw materials and even credit.

Other services at various points in the supply chain have included more general business advisory support; however, ATOs and intermediaries have generally not been able to sustain these types of services financially in the long term.

To enable these more in-depth services to be provided several ATOs have started NGO sister organizations to provide these inputs through donor supported activities. Traidcraft Exchange started an overseas business development service in 1986 that involved TX business advisory staff providing business counselling directly to a range of Fair Trade intermediaries. A review of these services in Tanzania in 1993 (funded by DFID), recognized their effectiveness, but compared that to the high cost of these interventions and the obvious logistical limitations of the approach. The review recommended the development of local capacity for business support and—in today's BDS language—the creation of BDS providers. This recommendation was accepted and it led to the development of Amka in Tanzania and Just Exchange in South Africa. Subsequently, Traidcraft Exchange developed an approach that focused on facilitating local financially independent and self-governing NGO service providers to provide predominantly export marketing related services to Fair Trade producers.

TX's experience of developing a series of institutions to deliver services has had mixed results. Six local institutions have been facilitated to provide marketing services and are doing so to date providing services to close to 400 businesses. One of the most successful organizations had been Amka. The evaluation<sup>40</sup> of Amka showed how well the organization had done despite the macro-economic factors in that country at the time, sustaining employment while there was a high degree of retrenchment in the business sector in Tanzania.<sup>41</sup>

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<sup>40</sup> Chaplain 1998.

<sup>41</sup> Chaplain, 1997.

However, two of TX's facilitations failed, both of which were in Southern Africa. They failed primarily for organizational reasons, although it is fair to say that the export focus in both cases was ambitious given the target client beneficiaries and the relatively limited number of marketing intermediaries that existed. The evaluations of these projects highlight these points clearly.<sup>42</sup>

In its role developing local business support organizations TX is acting as both a facilitator and a service provider. TX facilitates BDS provision through developing organizational capacity and service products, and delivers a range of services including export marketing training and export trade facilitation. These include buyer linkages, trade fair facilitation, sales tours, design inputs, and the provision of market information. As part of its current strategic review TX is looking to split more clearly the facilitation and service delivery due to the tensions and misunderstandings that come from combining the activities.

The scope of the sales facilitated has not been as great as was hoped, as the recent review of TX trade facilitation services<sup>43</sup> highlighted, primarily because much of the focus of the support has been on developing the institutional capacity rather than focusing on service delivery. These points highlight the lack of effective export marketing service providers in many developing countries, their institutional frailties and the inherent difficulties and risks of focusing support on one organization.

Other approaches adopted by ATOs include that developed by Fair Trade Assistance (FTA) in the Netherlands where they have developed a network of local consultants to provide services to the producers they work with. Services are then provided on a subsidized basis for a short space of time to enable the business to grow and develop.

There are several organizations that provide Northern-based export marketing services in a similar way to TX. For example, Aid to Artisans has been successful in facilitating links into the US market. Although not exclusively Fair Trade, there is a lot of overlap in the producers benefiting from their activities. They claim to have facilitated trade with US \$4 million per year<sup>44</sup> into the US market. These are intensive activities supported largely by USAID. Given the costs associated with the provision of these services to Southern businesses looking to export, it is hard to see how they will be financially sustainable without becoming more involved in the supply chain as a trader or an agent. However, it could be argued that these services play a facilitative role that have serious economic benefits and given the high degree of Western Government subsidy in export promotion, this is a distorted market that requires subsidy for developing country businesses to compete. Some European governments provide import promotion services at a subsidized rate including CBI in the Netherlands and GTZ in Germany to help reduce this market distortion.

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<sup>42</sup> Gibson, 1998, James, 1999 and internal Traidcraft paper on lessons from Zambili experience.

<sup>43</sup> Quinlan 2001.

<sup>44</sup> Statistics provided by Aid to Artisans January 2002.

Some of the lessons learnt from the TX experience are:

- It is very difficult to find mature local service providers in many of the poorer countries targeted particularly in Africa.
- There is a need to recognize that focusing support on one organization, while it is intensive and has some benefits, does represent a high risk strategy.
- All BDS providers that TX has facilitated are struggling to reach a high degree of sustainability from services delivered because of the size of the target groups and their environment i.e. small businesses operating in underdeveloped markets.
- There is a need to be more flexible in delivery of services and creative in terms of pricing mechanisms.
- Local government supported BDS providers generally perform very poorly and are generally not open to change.
- It is interesting that several BDS providers, especially in Africa, are starting to get involved in the supply chain, with one organization providing services within a separate trading company. In most cases, this is a reaction to the limited number of marketing intermediaries providing the bridge between producers and markets.
- There is a need to focus on local and national markets as well as export in marketing service provision.
- The process of developing the market for new business services, particularly the more general business advisory services is a long term (10 years plus) venture particularly because of the relatively longer term return on investment these services tend to have for producers.
- A range of marketing services is an incredibly significant area of demand because of the often immediate sales imperative of small producers and businesses. The clear link between marketing services and embedded services and the opportunity to use marketing services to trigger broader business services that may well tackle the root cause of a business problem.

It is worth clarifying the fact that the Fair Trade movement's involvement with broader business development has in fact taken it outside the remit of what may be described as traditional Fair Trade producers to include private businesses. As an example at the recent IFAT conference in 2001 one of the successes of the year describes the work of KICK in Kenya and a small businesswoman, Caroline Agwanda, who went on to start her own business employing 20 people, winning the UNIFEM Innovation award.<sup>45</sup> Traidcraft has worked with KICK in developing its export marketing support to its clients and sees this work as part of its goal of helping small businesses access and compete in markets.

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<sup>45</sup> For more information <http://www.unifem.undp.org/youthsummit/kenya.html>

## **4.2 Other successes and failures in Fair Trade**

### **4.2.1 Is Fair Trade more than just international trade between South and North?**

The recognition of both the need and opportunity to supply services to assist SMEs in the local and national market has come about through experience for TX. In many cases TX has tried to focus on what it knows best, that is export markets, and hence worked to develop services in that area. However, in nearly all cases, including Bangladesh (that was thought to have a very limited local market), the services developed are leading to increased sales in local markets too. A large proportion of the organizations TX has worked with have started to develop services that take advantage of local and regional trade sales as well. This has led to Traidcraft facilitating service provision with these markets as a core competence.

Although extreme, the example of Aarong in Bangladesh in developing a market for its products locally is an illustration of how export Fair Trade has led to local sales on a very significant level into the local market.

International Resources for Fairer Trade (IRFT) in India has been working with Traidcraft in facilitating linkages to export markets, but now increasingly looks at the major local markets that exist in India. Although it is early days, IRFT has facilitated Fair Trade sales at several local trade fairs and on local sales tours.

### **4.2.2 Local definitions of Fair Trade**

In recent years efforts have been made in a number of developing countries to establish local definitions and Fair Trade standards. These moves stem from recognition among many commentators that producer groups need to be given a greater voice in the process of defining Fair Trade criteria. Furthermore, as Fair Trade labels and standards are dependent on being underwritten by effective verification processes there is a need for local certification capability to be strengthened. This will reduce costs and increase local participation in the process, a proposal supported by DFID in their draft paper on support to Fair Trade.<sup>46</sup>

Country and regional Fair Trade networks have been or may soon be established in Bangladesh (ECOTA Fair Trade Forum), India (Fair Trade Forum India), Nepal (Fair Trade Group Nepal), Asia (Asia Fair Trade Forum), Kenya (Kenyan Federation of Alternative Trade), Sri Lanka, Indonesia, Zimbabwe and Brazil.<sup>47</sup>

In Zimbabwe, a working group of producers with an interest in Fair Trade has been established and is in the process of developing a locally relevant Fair Trade standard against which producers can be certified. In January 2002, Fair Trade producers in the Philippines will embark upon a similar process and the Kenyan Federation of Alternative Trade is also seeking to do so in the near future.

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<sup>46</sup> As outlined in the DFID draft paper "DFID's Support for Fair Trade" 28 September.

<sup>47</sup> Source: E-mail from IFAT Secretariat.

The movement to develop locally owned Fair Trade standards mirrors similar movements within the ethical trade sector. In 1998 COLEACP—an EU-ACP cooperation organization that focuses on fresh produce—was asked by its members to develop a harmonized framework that would serve as a benchmark standard for good social and environmental practice for export horticulture. The Agricultural Ethics and Assurance Association of Zimbabwe (AEAAZ) has developed a code of practice and the audit infrastructure to enable farmers to be assessed and certified against the standard. Similar efforts have been made in Zambia and there is a move to develop a harmonized framework across many countries in Southern and Eastern Africa.

#### **4.2.3 The Influence of Fair Trade**

Over the past twenty years, the Fair Trade sector has remained small in financial terms. Despite the substantial increase in the success of certain Fair Trade products (e.g. Cafédirect ranks seventh in its share of the UK coffee market, after just ten years), it remains a niche market. As discussed earlier, there are numerous reasons for this and the need to “mainstream” Fair Trade is one of the critical imperatives now facing ATOs.

From a political perspective though, the impact of Fair Trade has been far more wide reaching. The very concept of Fair Trade is a profoundly strong critique of more traditional, mainstream trade. By establishing minimum ethical criteria for commerce, the Fair Trade movement has made a strong statement about the inequities in the mainstream trading system. It has put forward the view that traditional trade disadvantages the many in favour of the few. This is a radical economic view, which is enhanced by—but, critically, does not depend on—market share alone. In other words, Fair Trade commerce has two drivers. It combines not only the profit motive (because it has to be sustainable), but also, critically the need to achieve a developmental impact.

Raising awareness amongst consumers, businesses and policy-makers about how mainstream international trade excludes the poor has long been a fundamental objective of Fair Trade organizations. Some ATOs have been highly successful at lobbying on these issues, and have become seasoned campaigners. Partly as a result of these activities, the growth of the Fair Trade sector has been mirrored by a significant shift in mainstream business practice, towards an understanding of the importance of corporate social responsibility (CSR).

By establishing the common ground it shares with mainstream business, as well as the distinctions, the Fair Trade movement has consistently punched above its weight. By standing for rules-based and ethics-based trade, Fair Trade has positioned itself at one end of a corporate continuum, which describes the relationship between business and social values. See diagram in section 3.3.

#### **4.2.4 The Added Value of Fair Trade in Corporate Social Responsibility**

Many ATOs continue to engage with mainstream businesses on issues of corporate social responsibility. In this they have a unique experience to contribute, being both commercial entities and social actors. The table below summarizes some of the dilemmas of implementing “Fair Trade” principles, which provide ATOs with a platform on which to



lobby companies. As distinct from a more radical NGO view, ATOs by their very nature have an understanding both of social vision and commercial reality. Choosing where the balance lies in each context of operation is a subjective decision, and is often the root of the ongoing ideological discussions about and within the Fair Trade movement.

### **The creative tensions of trading for developmental objectives<sup>48</sup>**

|  |   |  |
|--|---|--|
| Working with producer businesses based on their potential for success  | v | Working with producer businesses based on their social development needs which means they may need more resource input   |
| Market led product sourcing according to customer/buyer demand   | v | Producer led trade: gaining access for ready developed products supplied under “Fair Trade” terms  |
| Continually developing products that suit the changing tastes of the market  | v | Offering protection to producers to market fluctuations  |
| Maintaining attractive prices for good quality products, including the standard mark up implemented by retailers                 | v | Paying a premium to smaller producers and maintaining high standards of working conditions without the advantage of economies of scale   |
| Emphasis on a business approach reflected in commercial language, e.g. markets, suppliers, value-added                           | v | Emphasis on social development as reflected by the vocabulary of sustainable development, livelihoods, empowerment   |
| Investing in packaging and marketing strategies suitable for commercial markets  | v | Minimizing resource use to keep costs low and maximize the producer margin   |
| Commercial sensitivity of information and competition in a tight market, including commercial and alternative trading companies. | v | The need for ATOs to work together for information dissemination and mutual learning to maximize social benefits   |
| Passing on contact details of people within commercial companies who have an interest in fair and ethical sourcing to other ATOs | v | The risk of jeopardizing interest in fair and ethical trade because the corporate representative is bombarded with an array of slightly different requests                                 |
| Learning from mistakes, recognising pitfalls and sharing this learning openly in the wider business community                    | v | Maintaining a united front for alternative trade in the face of resistance and criticism from bigger, more powerful players  |
| Using labelling to identify Fair Trade products (i.e. the Fairtrade Mark)  | v | Promoting individual ATO brands as an endorsement of Fair Trade (Traidcraft, Oxfam)  |
| Maintaining a strong Fair Trade niche to support the Fairtrade Mark and ATO brands in the mainstream                             | v | Restricting the availability of Fair Trade product lines to supermarkets so that sales are concentrated in mainstream retail outlets and reach the sales target to stay on the stock lists |

#### **4.2.5 From Fair to Ethical Trade**

In recent years the Fair Trade lobby has been a crucial factor in establishing the concept of ethical trade (as defined in section 3.3). This seeks to respond to a growing interest in trade that respects minimum labour standards implemented through codes of conduct. From the consumer perspective, this is a response to the increased public profile of scandals such as child labour in a broad range of supply chains. From the corporate perspective, it represents sound risk management, and therefore commercial sense.

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<sup>48</sup> Humphreys 2000.

Work by ATOs with supermarkets in the mid 1990s suggested that they would be more motivated to accept Fairtrade marked products if there were a mechanism that showed positive work was also being done around supermarkets' own-brand products. At the same time, international projects were evolving around working conditions in Chinese toy factories, and also on developing social accounting methodology. The three linked up in the UK with the establishment of the Ethical Trading Initiative in 1997, as a central body which could oversee the codes of conduct of supplier working conditions which were being put together by high street retailers. See section 3.3 for a further description on the ETI.

An increasing number of multinational companies now pursue social auditing and adopt a policy of productive engagement with non-governmental organizations and ATOs, on appropriate standards for the workers who are employed in their supply chains. Momentum is growing for more companies to use their power to accept responsibility for the impact of their operations on the communities where they operate or trade, and to ensure that they have a positive effect where there is an opportunity to do so. ATOs continue to play a vital role in ensuring compliance with values-based trading, and in engaging constructively with companies on issues of supply chain management and verification.

While the move to develop codes of conduct for more ethical business was initiated in industrialized countries, it is now a more truly international activity. This is inevitable given the global reach of many corporations, but is also due to the mobilization in the South of concerns about corporate impact. There are now numerous initiatives in developing countries that monitor corporate performance in a local context. Supply chain verification, and social audits, are increasingly part of the local business mix, especially in South and South-East Asia, and Southern Africa. Northern ATOs, with their established long-term relationships with Southern producer groups, have been well placed to assist and support this.

#### **4.2.6 Influencing the Enabling Environment for Trade**

Although Fair Trade around the world remains small in relative financial terms, there have been notable successes in influencing macro-economic debates. This has been helped in part by the widespread public concern about the impact of globalization, and by an increasing understanding of the power—for better or worse—of the TNCs, and the potential for trade to play a major role in international development. Whilst there are many groups who want to lobby on trade issues, Fair Trade has a unique contribution as it is both an advocate and participant in trading practice.

##### ***National governments***

The Fair Trade movement was an active lobbying force in the development of the British Government's policies on international trade and development. Specifically, Traidcraft and others were consulted in detail on the formulation of its core policies by DFID, with the result that its two White Papers produced to date both refer to the need to harness the power of trade for the benefit of international development. This consultation continues; in November 2001 DFID's latest position paper on Fair Trade went before the Secretary of State for approval.

In addition, the Fair Trade movement has been vocal in the debate around voluntary versus mandatory corporate social reporting. In the UK, Traidcraft contributed to the recent Company Law Review, calling for statutory regulation of social reporting. This process is ongoing, although a stricter regulatory regime on corporate reporting is unlikely to be achieved in the short-term.

There has been progress, too, in this area by Southern ATOs. In Tanzania, for example, Fair Trade is now part of a ministerial portfolio. Government interest in Fair Trade, and in the broader debate on corporate social responsibility, has tended to follow, rather than lead, public opinion. In addition, CSR is a higher priority in governments with an established regulatory framework for business practice, and in countries with more sophisticated import and export markets. Thus there is more government and voluntary activity in South Africa, for example, than in Kenya.

### ***European Union***

Within the EU, the Fair Trade movement has collaborated in recent years through EFTA. As a direct result of lobbying by ATOs, there is now a commitment from the EU to support trade development activities, including the promotion of Fair Trade. This is a significant step forward, and is set out within Article 23 (Economic Sector Development) of the Cotonou Agreement with ACP countries, which was signed in July 2000 as a successor to the Lomé Convention.

This is only the first stage of a longer process, however. There are serious problems in implementing the Cotonou Agreement in its entirety, and doubts remain as to the precise benefits that will be delivered to the ACP countries. Moreover, responsibility for implementing the EU's commitment to Fair Trade has recently moved from the Directorate-General responsible for Development to that responsible for Trade. To date there is no programme of work within DG Trade on Fair Trade, although consultation is ongoing. ATOs are playing a dual role here, advising the EU on the content of its work programme, while also carrying out an important profile raising function, through events such as the annual Fair Trade Day in the European Parliament, and broad campaigns on such issues as the commodity crisis.

A logical focus for ATO lobbying is the range of tariff and non-tariff barriers that impact on market access for developing countries. In this, the Fair Trade movement campaigns alongside NGOs, arguing against the EU market protectionism inherent in such agreements as the Common Agricultural Policy, or disputing the true developmental value of initiatives such as the Everything But Arms agreement. In these debates, the Fair Trade movement complements broader debates between government and civil society, whilst bringing the added value of first-hand experience of trading with developing countries, and consequently an understanding of the impact of trade rules on marginalized groups.

### ***World Trade Organization***

The Fair Trade movement has a similar lobby and advocacy role to play in the World Trade Organization (WTO).

In the failed WTO Ministerial talks in Seattle in 1999, and again at the 4<sup>th</sup> Ministerial in Doha in November 2001, the concerns of Fair Trade organization mirrored those of many NGOs. These were, broadly, to do with a lack of transparency and accountability within the WTO processes, serious concerns over implementation, and a demand that the WTO should take the lead in making trade work for the benefit of all. Even after Doha, developing countries continue to feel that WTO trade rules are generally stacked against them because of their relative lack of bargaining power in the face of the three giant economic power bases of the US, the EU and Japan.

From a Fair Trade perspective, there are numerous recurring themes at the WTO that are critical. These include:

- The broad approach to market access, and agreements to protect domestic industries through mechanisms such as targeted import duties
- Quota agreements
- Product labelling.

While industrialized countries continue to demand access to growing markets in developing countries, legislation on tariffs and quotas make competing imports unviable in their own markets. The European and US import tariff systems are often problematic for would-be exporters in developing countries. One of the secondary criteria laid down in Traidcraft plc's purchasing policy is to maximize in-country processing opportunities where possible, but this is often not a competitive option. For example, dried mangoes or mango pulp are duty free whereas mango puree carries a 25 per cent import tax.<sup>49</sup> Pineapples carry even greater discrimination—8 per cent for raw fruit and 46 per cent for processed. The consequence is that the lucrative processing business often remains in the EU because the final product would be priced out of the market by the tariffs. This is the reason why Traidcraft chocolate chip cookies are made in Belgium, and the Geobar is made in Wales—both from imported Fair Trade ingredients.

The Fair Trade movement has been represented at recent WTO Ministerials by IFAT. Lobbying at this level was not initially a priority, as the debate was at the more fundamental level of accountability within the WTO. However, as the WTO comes to be seen as the central decision point for trade rules, and therefore for controlling market access for developing countries, Fair Trade organizations are scaling up their activities. There are several current opportunities here. The Fair Trade movement is distinct from the more radical anti-globalization lobby in that it, like the WTO, believes in a rules-based trading system. Through its forty-year history, Fair Trade can offer numerous models of how such trade can be made to benefit the poor. In addition, the commitment to Fair Trade expressed by the EU, although not yet realized, means that ATOs now have an entry point within one

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<sup>49</sup> Traidcraft Market Information Service research on behalf of a mango producer (November 1999).

of the three major power blocks at the WTO. These opportunities come at a time when a more coherent negotiating stance is emerging from some (but not all) developing countries in the WTO, indicated most prominently by India's staunch position over individual veto rights at Doha.

#### **4.2.7 Producer dependency and Fair Trade**

Many suppliers who have traditionally exported only to ATO customers have found it difficult to move towards supplying the mainstream market.

It can be argued that the alternative trade approach has sometimes encouraged suppliers to become over-dependent on ATOs. In the late 1960s and 1970s there was little competition from the mainstream and, for many suppliers, ATO sales grew and grew. There was no need for ATO suppliers to look for other markets. Increased competition for ATO's has brought with it commercial pressures that they inevitably are applying to their suppliers, i.e. a demand for greater quality and delivery.

Furthermore, ATOs are committed to long-term relationships with their suppliers. This fact, coupled with the "comfortable nature" of their relationships with their suppliers has often resulted in over-reliance on one or two ATO customers. For example, the recent Oxfam review highlighted this when it reported that some suppliers relied on 50-100 per cent of their orders coming from Oxfam. The review found that as many as 80 per cent of the producers were not ready to trade with the mainstream, although for some, particularly food producers, there does appear to be more potential.

This reliance caused particular problems in the late 1990s, when many ATOs were looking to streamline and reduce their number of suppliers. Given the shrinking/static ATO market, many suppliers have had no choice but to try to move into the mainstream market. In doing this, successes have been limited due to the higher demands of mainstream buyers—especially in terms of volume and price. Buyers' expectations have not been met, and this has often resulted in one-off orders. Additional capacity building is often needed to enable these groups to access larger, wider and new markets. This has been one of the findings of TX's Trade Facilitation (TF)<sup>50</sup> team whose work has been focused on assisting suppliers (many of whom have traditionally supplied ATOs) to access the mainstream market. An evaluation in September 2001 found that:

*In practice the data suggests that producers were unable to develop to the standard of mainstream western markets in the time available. This is probably because the capacity building requirements from the outset were too great for the selected producers to become proficient enough to export in one or two years.*

One producer advised that "ATOs are often more forgiving of producer incapacity than the mainstream markets that TF was set up to target", reflecting a commonly held view that ATOs have in effect been distorting the market—although in favour of the poor.

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<sup>50</sup> Quinlan, 2001.

ECOTA, in Bangladesh, uniquely has a number of very large clients who mostly trade with ATOs. A mid-term review<sup>51</sup> of TX's BEMAP project with ECOTA showed that of their 25 clients, only 15 of them had sales into the mainstream market in 2000. One client, Jute Works, has successfully managed to start supplying mainstream buyers such as IKEA.

Recognizing the limited success of traditional ATO suppliers in moving towards supplying the mainstream market, trading organizations such as Traidcraft and FTO are introducing "graduation schemes" whereby suppliers are positively encouraged to move towards supplying mainstream buyers only and/or supplying ATO buyers on a more commercial basis. In the UK, Traidcraft and Oxfam are also developing initiatives to engage the mainstream market's interest in Fair Trade.

#### **4.2.8 Women and Fair Trade<sup>52</sup>**

Women are the majority of producers and consumers of fairly traded goods. For example, more than 80 per cent of the 100,000 people involved in production of Fair Trade handicrafts in Bangladesh are women. Practically all Fair Trade organizations ("North" and "South") include respect for the role of women in their criteria. Fair trade organizations aim to recognize the work of women; to secure their employment, to improve income level, to ensure access to technology, credit and the decision making process.

Women work longer hours than men in every country in the world, yet their contributions at home and at the workplace are often invisible. Women are under-represented and underpaid. Women comprise two thirds of the world's poor. As Fair Trade seeks to tackle poverty then it is necessary to identify and to target women.

Empowering women means making an impact on their economic (income, assets, earning potential) and personal life (self-esteem, influence on decision-making). Oxfam Fair Trade Co has found that if income goes directly into the hands of women, they gain control of household income, increasing their power within the family and sense of self-worth in the community. The participation of women in decision-making in the producer group is the key to their acquisition of skills that lead to sustainable impact on livelihoods and wider empowerment.

Handicrafts can be made in the home or in small workshops, often from locally available raw materials. They do not require heavy capital investment. They are labour intensive. They can be made in so-called free time, to fit around domestic and agricultural work. Crafts production provides employment for women who often have few other opportunities for paid work.

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<sup>51</sup> Tomesen and Barua, September 2001.

<sup>52</sup> Sources: Ethical Trade and Sustainable Rural Livelihoods, NRI, 1999.

Centre of Concern website <http://www.coc.org>

Oxfam GB Gender Newsletter, July 2000.

The History of Alternative Trade, IFAT website [www.ifat.org](http://www.ifat.org)

EFTA Handbook, 1998.

Future Harvest, DFID.

In the early days of Fair Trade there was much talk of income from craft production being “supplementary” to the family. However, analysis has shown that large numbers of women engaged in craft production are single heads of households with multiple responsibilities and that, far from being supplementary, the income from craft production was absolutely essential for their survival.

Women produce 70 per cent of the food in developing countries (over 80 per cent in some areas like sub-Saharan Africa). Therefore women are the key to improving nutrition, increasing production and distribution of food, and enhancing living conditions of people in rural areas. In developing countries women’s access to land and credit is even more limited than men’s due to social, cultural and political factors.

A characteristic of smallholder farming is that farmers do not include family labour as a production cost and often do not provide direct remuneration to family members. Ethical trade encourages export crop cultivation where earnings are typically controlled by men, despite the importance of women to production. The outcome can be women having less opportunity to manage their own farms and less control over income.

Oxfam Fair Trade’s (OFT) impact assessment looked at a number of case studies of how Fair Trade and gender impacted on each other.

From a negative perspective the OFT study showed that in many producer groups traditional gender roles were unaffected. Women were as excluded from decision-making at work as they were at home, and their contribution to the family’s livelihood was undervalued. Women’s domestic responsibilities were not adjusted to compensate for their increased workloads.

More positively, in producer groups like SHARE in Southern India, the combination of increased business and support from local NGOs have had a synergistic effect. SHARE, run by women for women, organizes palm leaf basket makers into village credit and savings groups. The project’s impact included an increase in self-confidence, economic independence, better access to health, and participation in decision-making in the family, community, and local council.

### Jute Works case study

At the end of the civil war in Bangladesh in 1971 many families were left without a male breadwinner. Several organizations were set up to provide support and employment to women. One of these was Jute Works, which works with 6,000 women through 214 groups. As well as assisting the women to make handicrafts from jute (a locally available river weed), Jute Works also support various social programmes. Mrs. Firoza Begum is one of the women who makes jute products for the export market.

*Firoza says “I have been making crafts for Jute Works since 1981 when the group in our village began. Being a member of a group means I must save part of my earnings with the group. The group also lends money to members. Since becoming a member I have been able to buy enough land for us to grow rice for our family. I have been involved in a craft rearing scheme. I bought a pair of bullocks to help my husband in his work and a bullock cart. I have bought chickens, goats and a milking cow and can earn money from all of these. With a loan from the Jute Works we have been able to build a toilet just behind our house. I hope that my daughter will carry on with her studies and get a degree at the university. I would like my son to also go on to further education and get a good job.”<sup>53</sup>*

The lessons for Fair Trade when considered from a gender perspective are:

- Fair trade must target women—they are the key to sustainable development and the largest number of people living in absolute poverty.
- Crafts production has had a certain amount of success. The majority of producers are women. The work is flexible. There are documented case studies of where Fair Trade craft production has had positive impact on the lives of women, their families and communities.
- However home-working is often insecure and inconsistent, dependent on the volume of orders.
- Women are responsible for the majority of agriculture production in the “third world”. However men are often the ones in control of export (cash) crop cultivation.

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<sup>53</sup> Traidcraft Information Sheet.



## **5. Future challenges**

Looking at how Fair Trade can develop from its current position requires the consideration of the key challenges that it faces today. It can be argued that the two biggest challenges facing the Fair Trade actors are actually the clarification of what the approach is trying to achieve today, and related to that, how it can be scaled up to have a greater impact.

### **5.1 What is the goal of Fair Trade?**

#### **5.1.1 As a model**

Several Northern ATOs were established to be an alternative model that would demonstrate to the wider business community that there was a different way of doing business.<sup>54</sup> They sought to create a business model that could have a positive impact on the lives of poor people. While research into the impact of fair trade on poverty has only been carried out in a limited way to date, the partial evidence available would seem to suggest that it has indeed had a developmental impact. Given the increasing interest by mainstream business in more ethical business practice, then one approach would be for the ATOs to leave Fair Trade to mainstream businesses to do it on a bigger scale.

However, this argument is based on the assumption that mainstream business has fully adopted the Fair Trade concept and will really begin to consider its impact on poverty through its supply chains—a debatable argument as most businesses still see taking an ethical approach in the context of reputation management. There are exceptions—The Body Shop, for example—but in many cases the sceptics would contend that commercial business is really focusing on averting a PR disaster from journalists who visit their suppliers and their sub-contractors and that actually considering its impact on poverty is still some way off. If you add the fact that Fair Trade has in general been operating an “alternative” supply chain then it may be impossible to replicate on a larger scale. Fair Trade then as a model still some way to go before it can prove itself as a mainstream business approach.

#### **5.1.2 As a means of reducing poverty**

For many, Fair Trade is less about being a model and more about having a direct developmental impact on poverty—a form of trade that has a positive impact on poor people’s livelihoods. It is not just about sales of products, but that the benefits of the trade are equitably shared, particularly by those at the start of the supply chain, who may be working in homes, on their own smallholdings or as estate workers on plantations. There is evidence to show that economic development in macro terms does have the potential to benefit the poor, but there is no guarantee especially in an increasingly global market place where the power relationships are that much more exaggerated.<sup>55</sup> Therefore the goal of Fair Trade is to work towards a more equitable trading environment and develop access to markets for poor people. It is not just about access to markets that makes people less poor, it

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<sup>54</sup> For example, Richard Adams the founder of Traidcraft wrote last year “Traidcraft was always intended to stimulate debate and inspire emulation in parallel fields”. Sugden, 2000.

<sup>55</sup> DFID International Development Target Strategy Paper “Halving World Poverty by 2015. Economic Growth Equity and Security” September 2000.

is also about being empowered to make choices that mean that that market access is not exploitative.

### **Smallholders from North and South compare notes**

At a recent IIED conference in the UK, there were two speakers; one from Tanzania who represented small farmers and producers, the other a small organic farmer in the south west of England. The similarities were marked except that the Tanzanian representative described how their major requirement was to gain access to markets. The UK farmer described how he was a supplier to one of the UK's major retailers and had good market access, however he was completely powerless because the retailer had him in a strangle hold and controlled the terms of trade. The issue if we are talking of providing poor producers with access to markets is that access has to be on terms that are beneficial to the producer and the buyer.

This issue of power relationships in trade is significant. Creating non-exploitative structures is something that Fair Trade in its own trade addresses through a fairer distribution of the gains generated through the trading relationships between buyer and producer. Looking at trading relationships from a power perspective provides an interesting insight into what drives that relationship and hence how it might be affected.

Being a model will always be part of the goal of Fair Trade, but the much bigger challenge is how to scale up these approaches in order to have impact on many more supply chains and the people within them.

## **5.2 Scaling up to have a positive impact**

Growth will be the key to Fair Trade having real impact on a significant scale. Building on the experiences of the last 40 years there are a number of different complimentary ways in which this might be achieved that influences the amount and terms of trade, the environment (policy and value chain) in which the trade is undertaken and the capacities of the poorest to take part in trade, i.e.:

- Increased market access through increased trade whether South-North or South-South
- Policy changes at the macro, meso and micro levels, both in-country and internationally, that enable global trade to benefit the powerless as well as the powerful
- The development of capacity in developing countries at all levels to enable business to thrive and to compete, and people within these trade relationships to be empowered to make choices
- Exploring how the value chain in which the poorest are active can be influenced to provide a greater all-round benefit to them.

Looking at each of the four approaches listed above, we can build up a picture of the challenges required to enable the growth of fairer trade to be achieved.

### **5.2.1 Growth in trade**

Fair trade has a focus on international trade. This has generally been trade between producers in developing countries and primarily Fair Trade businesses in the North. Growth in this area can come from more ATO sales, but this is unlikely to bring a dramatic increase in sales and the associated purchases from the producers. It is possible that this increase could be relatively large in percentage terms—perhaps 100 per cent over the next few years—however it would still be a drop in the ocean compared to the much larger, mainstream market.

Therefore for many, including ATOs such as Traidcraft and Oxfam in the UK, the challenge is to engage the mainstream business sector in Fair Trade. There is an increasing number of Fair Trade products in the supermarkets and this is a significant step. A very recent development is the introduction by Sainsbury of an own-label range of Fair Trade products—a sign that the mainstream market is both interested and convinced that at least there is market share worth chasing and good PR to be gained from adopting Fair Trade practices. To be fair to Sainsbury there is a real sense of commitment on their part, which stems out of wanting to be responsible citizens and make a positive contribution.<sup>56</sup>

Of course, mainstreaming Fair Trade is not as straightforward as it could be and is likely to require a recognition that the terms of the trade will vary and be along the continuum from ethical to Fair Trade. There is also the challenge for those looking to promote Fair Trade, that they need to talk a different language—a language that mainstream buyers can relate to, understand and work with.

In some cases, there have been some knock-on benefits from meeting international Fair Trade standards in local sales. For example, design inputs into Tanzanian producers aimed at international markets have created a niche market opportunity to sell those products in the local market where no similar looking products exist. In general, however, the impact of these approaches has been limited or very focused as discussed above in relation to Bangladesh. Those within the Fair Trade movement are recognizing the essential nature of South-South trade, including local and regional trade, in terms of market opportunities for growth of producer sales. Within the Fair Trade movement experiences of facilitating local, regional and South-South export trade are limited, although it is being explored within IFAT. Traidcraft partners have been developing business services around local and regional market access and Oxfam is looking at this as an area to develop within its sustainable livelihoods approach.

### **5.2.2 The policy environment in which Fair Trade exists**

As a voluntary code of practice, Fair Trade is often thought to operate irrespective of the legislative environment it finds itself in. Often styled as alternative trade, the problems and difficulties of conventional trade are supposedly worked around. However, this has never been the case and in fact the marginalization faced by many Fair Trade or potentially

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<sup>56</sup> Sainsbury has made a number of public statements on this. Its code of conduct and its approach can be found in its document “Position on Socially Responsible Trading”, Sainsbury 1998. An update to date version is maintained on the Sainsburys website at <http://www.sainsbury.co.uk/social/>.

Fair Trade producers is greater because of the macro policy environment in which they have to operate.

Although there are many areas of policy that impact on Fair Trade, it is predominantly the tariff and non-tariff barriers for entry of products into Northern markets that cause the biggest problems. Tariff barriers for entry of raw materials or bulk commodities are low in most cases, with finished products attracting more punitive rates. For example, cocoa beans attract a very low tariff of 1.5 per cent while the more processed cocoa powder has at least 16 per cent duty added on import.<sup>57</sup> For some Fair Trade products the situation is dire. For example, sugar from outside an ACP nation with quota attracts an import duty in to Europe of 220 per cent. For every dollar the producer earns, the relevant European government earns \$2.20. There are only a very small number of committed customers who will pay that level of duty.

Tariffs are falling, but not quickly enough. The European sugar tariff has fallen from 309 per cent in 1995 to 256 per cent in 2000 and 220 per cent in 2001. Others are falling more slowly. The Japanese rate has fallen from 386 per cent to just 346 per cent. With tariff rates at that level even Fair Trade imports are an impossible task.

In time, tariff barriers will fall as long as the GATT and subsequent WTO agreements are adhered to. Yet it will still not be simple for Fair Trade producers, for as quickly as tariffs are falling, non-tariff barriers are rising. The example of honey is given in box below.

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<sup>57</sup> P. 69 EFTA, Towards 2000.

### **Non-tariff barriers on honey imports into Europe**

After food scares and some legitimate concerns about pesticide, anti-biotic and heavy metal residues, the EU began a programme of tightening up the import controls and checks on honey from “third” (i.e. non-EU) countries. The first measure was to require testing of each container of honey imported into the European Union against a wide range of phyto-sanitary indicators to ensure it was safe for human consumption. A process was then started which required all individual producers of honey outside of the European Union to be registered on an official list of approved sources. This required the producer to have a monitoring plan in place to check for the potential residue levels outside of the EU limits. While difficult for some producers to achieve, support from European-based Fair Trade organizations meant that market access was still available to the smaller, less well-resourced Fair Trade producer organizations.

Over a period of seven years a very slow moving piece of legislation (the Sanitary and Phyto-Sanitary, or SPS, Agreement) made its way through the European bureaucracy. In its final approved form (approved on 12 February 2001) an additional requirement was made at the country level. Each country is now required to have a monitoring plan for checking on honey residues. To export to Europe, the plan should be in operation and run by the country’s government—usually through the Ministry of Agriculture. The directive then lists the 29 third countries that have approved monitoring plans that are in place. All of the top importers into the European Union are included. However, not a single country in sub-Saharan Africa was included at launch. Subsequently, ATOs have managed to get Zambia, Mozambique and Tanzania listed, but many other exporting nations are now looking for new markets.

Only when tariff and non-tariff barriers are removed will Fair Trade sales from developing countries be unhindered by unfair measures. Reform and fundamental change of the WTO and its ways of operating are perhaps one of the key ways of making this happen, but advocacy work at a national level can be instrumental in removing barriers to market access.

The issue of a rules-based approach to fair trade raises some interesting challenges from a policy perspective. While criteria for defining fair trade are important there is a need to accept that circumstances are different across the world and between sectors. While an internationally recognized set of standards is helpful, we need to understand its limitations. Many fair trade criteria talk about fair price and indeed those that have a Fairtrade label have a set minimum price that producers should be paid for their product based amongst other things on the cost of production. Defining the costs of production of a certain commodity in one country doesn’t mean that same cost of production can be applied to another country.

The concept of developing local standards that are owned, managed and monitored locally has to be a step in the right direction to achieving internationally accepted labour standards as defined by the ILO. The most critical issue is the process by which this is achieved.

A key part of Fair Trade's success has been and continues to be its responsiveness and pragmatic approach to meeting the needs and aspirations of marginalized producers. Whilst Fair Trade supports the precepts of the ILO core labour standards, it recognizes that the process by which these can be achieved depends on the local socio-economic context. Thus, the speed by which the ILO standards can be achieved is governed by local conditions. For ILO standards to be truly sustainable, Fair Trade realizes that a clearly defined and measurable process must be implemented with producer groups to enable them to meet these standards. This process recognizes that current (less than ideal) conditions exist, but rather than these causing producer groups immediate exclusion from supply chains, these conditions can be worked on in a structured process to achieve internationally accepted standards (the ideal). Thus, the pragmatism of the Fair Trade approach starts with the producer group, helping them (in a structured way) to convert the generic ILO principles to meet local, socio-economic conditions in a way that can be audited and independently verified without losing the essence of the ILO principles.

### **5.2.3 Performance and capacity development**

If businesses are to grow, they need to have the capacity to compete in markets. The development of a market for business development services is a strong tool for this and much has been written of late about best practice in this area. The Fair Trade experience in this area matches much of what the "Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention"<sup>58</sup> puts forward in terms of guidelines.

The focus in the guidelines on how people living in poverty already access a variety of services in different ways and that the focus should be on trying harder to build on that sustainable provision, is an assertion reinforced by the experiences of fair trade through its provision of embedded services. However the experience of Fair Trade is that the needs of businesses go beyond those that can be supplied as part of embedded services. Often the broader business development needs which tend to have a longer return on investment for the business are either not available, because no services have developed, or they are targeted at the already successful larger businesses. The question in this case is how these services are made available and the market for the services developed. Whether these services can be provided sustainably in the short term is unlikely, developing such a market and the institutions to supply the market may well be a long-term (10 year) initiative.

This in no way challenges the premise that these services should be sustainable. It recognizes that in under-developed market situations there need to be mechanisms for gaining business momentum and that finding ways of providing services which achieve this sustainably in the short or medium term may just not be practical. Hence the argument for subsidized services. The focus on marketing services and market access is the most important form of BDS for marginalized businesses, as it is about gaining business momentum/capital in markets. What Fair Trade brings to the BDS debate is a focus on marketing services—both embedded and stand-alone—that specifically target the poor.

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<sup>58</sup> Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention 2001 Edition. This are principles were prepared by the Committee of Donor Agencies for Small Enterprise Development Secretariat: SME Dept., MSN F2K-207, World Bank Group, 1818 H Street NW, Washington, DC 20043 USA, February 2001.

Access to markets and trade provides the catalyst for businesses to grow and hence an understanding of how to facilitate market access is crucial.

#### **5.2.4 Value Chains Analysis**

The focus on certain sectors, particularly handicrafts and agricultural products is not a new approach within the Fair Trade movement. However, the concept of looking at existing value chains (including the mainstream players) of certain products with the purpose of identifying where best to intervene within those chains to enable greatest Fair Trade impact is a relatively new concept. By working in existing value chains, the Fair Trade outcomes are by definition more mainstream and replicable on a wider basis. It is recognized that this concept may well bring with it the possibility that impact maybe less “fair trade” and more “ethical trade”, i.e. somewhere along the continuum between the two mentioned in section 3.3.

Producers and businesses exist within value chains and specific supply chains. The structure of these value chains is determined by a number of factors, not least the markets, the logistics, the product, and power relationship between the various players. By examining the value chains of specific products and analysing the players—both the roles they play and the power they have—it is possible to identify how interventions could actually enable the producers at the start of the chain to benefit more from the trade within the chain.

The “middleman thief” analogy is an interesting one in the context of a value chain where the situation could be that the middleman maybe in a position of power and that actually by stimulating competition among the middleman, the producer may have more choice and hence more power.

The privatization of the Kenyan Dairy Board is an interesting example of how adding competition into a value chain can actually encourage that value chain to work more efficiently in this case for the dairy farmer and the consumer.<sup>59</sup>

This simple example is a common experience for Fair Trade. Despite the “direct relationship” profile of Fair Trade, much of the actual trade is between fair marketing intermediaries and ATOs. Little international Fair Trade is actually direct with producers, unless the producers are a cooperative and have the scale to export.

The AFE case study<sup>60</sup> developed by the ILO is an interesting example of looking at a sector of a value chain, which in many ways is not dissimilar to the approaches taken by some fair trade organizations in particular supporting the crafts sector. Indeed many of the lessons and experiences appear very similar. The approach looked at stimulating the value chain in a number of different locations and is an interesting example of how working within an existing supply chain with existing players can have significant benefits.

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<sup>59</sup> DFID evaluation authored by Kadale Consultants and Ebony Consultants International.

<sup>60</sup> Gavin Anderson “Action for Enterprise (AFE), SEPA Programme, Mali. Observations based on a short mission to Mali” March 2001, ILO. See also <http://training.etcilo.it/bdsseminar>

One of the key issues in these types of situations is the issue of power and ensuring that the power in the trading relationship is balanced benefiting both producer and buyer.

There are a number of methodologies and papers written about value chain analysis and sub-sector analysis and overall it appears to be an approach that is evolving and gaining credibility.

### **5.3 Other challenges**

#### **5.3.1 Other sectors**

Fair trade focus has been on sectors where the traditional skills and agricultural capacities involve the poorest and the most marginalized. The question of where the approaches and experiences of fair trade can be applied in other sectors is an open one. As a sector that impacts on and employs poor people around the world Tourism is an area where the concepts of fair trade are starting to be applied. In the UK there is an organization called Tourism Concern<sup>61</sup> which is looking to apply fair trade principles in the tourism sector.

This highlights that in other sectors (and it's worth noting that tourism is a service sector), there are different issues that need to be considered to those that fair trade has traditionally dealt with in the crafts and agriculture sectors. This reinforces the viewpoint that a major challenge for fair trade is the development of locally owned, defined and monitored standards and criteria.

In thinking about the broader application of fair trade it is worth recognizing that fair trade has looked to target the poor and engage them in trade and business. In fact this may not be applicable in all sectors and hence the impact of more ethical approaches to business practices in certain sectors may be more limited. Recognizing the sectors in which the poor are engaged may well be different from country to country and hence an analysis of sectors and countries may well highlight opportunities where fair trade lessons and approaches could be more specifically applied. Footballs produced by children in Pakistan would be an example from the past.

#### **5.3.2 Sustainability and new models**

The reference to subsidy in Fair Trade has been mentioned already in this report. The scale of subsidy is impossible to quantify as it has been supplied at different levels within the alternative supply chains. There is a recognition that this is not sustainable and in many cases has stopped or is much reduced. As this subsidy has provided the seed capital around which Fair Trade has grown, the challenge for the future is how can Fair Trade continue to grow with a reduced level of subsidy.

One interesting by-product of involving the mainstream market in Fair Trade supply chains is that both the costs and the risks are shared with other non-traditional Fair Trade players. Recent experiences of Traidcraft plc in this area have been encouraging. For example, by working with Gerber Food and Soft Drink (GFSD)—one of Europe's biggest commercial packers—Traidcraft plc was able to facilitate the launch of a Fairtrade orange

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<sup>61</sup> Tourism Concern website <http://www.tourismconcern.org.uk>



juice “Fruit Passion”. GFSD provided capital, supply chain knowledge and packing skills, while Traidcraft plc provided producer support and development, branding and Fair Trade market knowledge. The producers can then benefit from a large social premium and embedded services funded by sales of the product itself.

A parallel example is Conservation International (CI), which promotes environmentally responsible trade. CI has also engaged with mainstream businesses to invest in suppliers to provide products they can market whilst also meeting an environmental need.

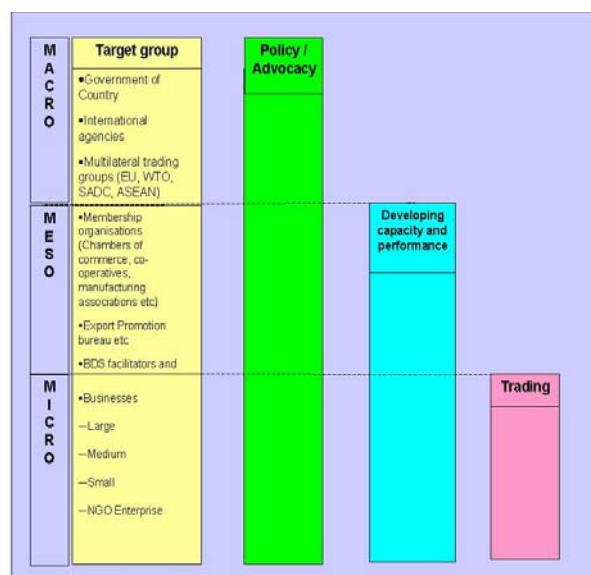
## 6. Possible areas for replication and multiplier effect

In understanding how the lessons learnt from Fair Trade can be replicated and the effects multiplied, one way currently being developed by Traidcraft is to take a holistic perspective. The concept is to map a range of possible interventions across a spectrum that places activities at the macro, meso and micro levels. A number of tools can be used to identify possible interventions such as value chain or sub-sector analysis.

The model shown below highlights three possible groups of activities:

- Those that affect the policy environment and policies of institutions and businesses at all levels,
- Performance and capacity development across the meso and micro levels,
- Inputs around trade development that specifically target the micro level.

The proposed interventions focus not just on market access and trade development, but also on the terms of trade or employment, ensuring that the trade has an impact on the poorest.



The key point of the concept is that by taking a holistic approach it is more likely to have greater impact. In many ways the real power of this approach will be linking the activities at the three different levels.

The rest of this section looks at a range of possible areas of intervention within these three groups. It is not realistic in this report to go into any real depth on each of these areas other than to highlight they exist.

## 6.1 Policy environment

One of the positive aspects of the WTO is the theory that it is about trade liberalization—that is removing all barriers to trade. Although this, in itself, does not guarantee the poor will benefit, it would be a positive development from the current position if this were really true. The CAP in Europe and similar policies in the USA are massive barriers to trade for developing countries. If trade is to benefit the poor, then interventions to remove trade barriers must cover all aspects of value chains whether in fact the trade is local, national or international.

The types of interventions suggested here are about developing a fairer playing field on which trade can be conducted. This would mean the removal of unilateral or bilateral trade arrangements that prevent the poorest countries accessing markets. Again, the issue of power is crucial on an international level too. The power of TNC is disproportionate to other players in trade. A key challenge is how they can be best influenced by governments or international bodies to ensure they do not use their power to exploit the more disadvantaged.

Understanding the impact of trade liberalization on poverty is not very well understood as recognized by institutions such as the UNDP.<sup>62</sup> Yet, despite this lack of understanding, the World Bank and IMF promote trade liberalization. It is encouraging that it does appear that these organizations are starting to recognize that there is a need to take certain steps to help develop meso and micro level capacities prior to liberalization.

Opinion seems divided about the role of the WTO in poverty eradication. It is important to see poverty eradication as part of an economic growth model and recognize that poverty has a limiting factor on trade development. None of the 1.4 billion people who live on less than a dollar a day are likely to provide the local market that most growth models require. The UNDP paper certainly makes links between gender inequalities, poverty and the limitations this has on trade development.<sup>63</sup>

A recent leader in the *Economist* most perceptively identified the role that policy and the capacity to engage it can have on development. “Cheapest of all, donors could train economists and government officials of the poorest countries so that they are better equipped to negotiate market access for their goods. Only when poor countries make progress in world trade talks, like those in Doha in 2001, will the argument that “trade, not aid, will end poverty” be proven right.”<sup>64</sup>

There is no doubt that there is need for greater understanding on how trade can have an impact on poverty at a macro level and the need for research is paramount.

At a country level there is also a need for advocacy and policy work with governments, institutions and big business around creating an enabling environment for MSMEs, developing a supporting environment for BDS facilitation and provision that has a

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<sup>62</sup> Trade gender and poverty, Nilufer Cagatay October 2001, UNDP.

<sup>63</sup> Trade gender and poverty, Nilufer Cagatay October 2001, UNDP.

<sup>64</sup> p. 14, Leader in the *Economist*, 24 November 2001.

poverty focus. The role of CSR and ethics within this is also crucial if the benefits of economic development are to benefit the poorest.

## **6.2 Performance and capacity development**

Performance and capacity development interventions focus on the performance of business, business policies and practices and the value chains in which businesses operate.

In terms of business policies, despite concerns over the implementation of standards, Fair Trade would suggest that standards are essential to protect the poorest. However, it is essential that these standards and the systems to monitor, audit and verify them, although having core components internationally, should be developed and monitored locally for them to have real meaning and relevance.

The focus should be on winning agreement on the needs for standards across the spectrum of private sector, trade unions, government and civil society. The experiences of the ETI in the UK represent an interesting test of this approach. The standards should look to engage, be inclusive and need to be targeted at all levels of business. The scope of activities should include the promotion of CSR and ethical business practices generally. Indeed, locally based commercial services can be developed in this area as shown by IRFT in India. It offers services to mainstream business that aim to improve business practices particularly with respect to employees and the environment.

The latest thinking around BDS has helped raise the level of debate around the development of business capacities, yet tackling the issues of targeting the poorest and recognizing the practical realities related to sustainability is essential. The ongoing sharing of experiences and learning in the field is important to identify approaches that work as well as a flexible approach to the guidelines in the field.

Marketing services are felt to be a key underdeveloped area of business service that needs developing as access to markets is such a crucial part of business development. The experiences of fair trade can certainly add value to the wider debate.

Empowerment has been a significant contributor to Fair Trade's impact over the last 30 years. Hence, there is a need to develop the capacity of civil society or private sector institutions that can represent the interests of business while empowering the weakest in supply chains. For example, this could include trade, business or producer associations, Chambers of Commerce, and trade unions. The role of cooperatives in this empowerment process is significant<sup>65</sup> as is the development of formal and informal networks that can support each other.

## **6.3 Trade Development**

The third component of the model shown in section 6, is a range of interventions that proactively look at developing trade. Market access generally is often cited as one of the

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<sup>65</sup> For example, the majority of the coffee producers on the FLO register are cooperatives.

most pressing requirements of businesses and producers in developing countries and hence interventions that provide new trade opportunities are crucial for growth.

From a Fair Trade perspective there is a need to diversify the markets targeted from what has been a predominantly a South-North export trade to include South-South exports as well as regional and local trade. Fair Trade activities have traditionally, focused on South-North international trade but there is now a need to develop interventions that promote trade locally and regionally and this will need a greater degree of networking with other institutions.

The experience of Fair Trade suggests that there is great need for the development of strong Fair Trade intermediary marketing organizations (IMO's), cooperatives or producer associations that have a high degree of business capacity, while recognizing the need to provide trade on beneficial terms for their members, suppliers or individual artisans. In fact, most Fair Trade as practiced by Northern ATOs is not directly with producers at all, it is with the local marketing intermediaries who can reach the individual artisans or farmers themselves. Where those intermediaries are strong—Bangladesh, for example—then Fair Trade has reached many thousands of artisans, where those intermediaries are non-existent—for example, Pakistan—then Fair Trade has hardly happened.

Developing competition amongst businesses that purchase from the poor is a mechanism for providing choices for the producer. This could be done by targeting business support at this area or even developing new businesses at that level of the value chain. Indeed this type of intervention needs to be based on an analysis of particular value chains.

The practice of developing a new business that will purchase on Fair Trade terms is actually about providing a market for producers while recognizing that power needs to be managed constructively. It is hoped that this will stimulate the market and create competition. Indeed, in the broadest sense, this is how markets develop. The point is to do it in a way that doesn't prevent competition developing. Indeed one intervention worth exploring would be that of venture capital that assists IMOs and cooperatives to grow and develop.

Venture capital is scarce in developing countries. A lack of strong stock markets means that investors have no obvious mechanism for increasing the liquidity of shares. One of the biggest providers of venture capital in Africa, the Commonwealth Development Corporation (CDC), has scaled back its activities particularly in the area of agriculture. This has left a significant gap. Small amounts of credit—\$50-\$200—are relatively easy to source through micro-credit schemes, and very large amounts of capital can be secured by working closely with TNCs and bodies like UNIDO. The problem is that capital in amounts between \$10,000 and \$50,000 is almost impossible to find—and this is exactly the scale of investment that SMEs and IMOs need to develop.

Traditionally, Fair Trade has been focused in the crafts and agriculture sectors not least because they represent the traditional areas where poorer people find employment or have skills. The challenge for the future has to be to look at other sectors. Areas such as the

service sector and tourism are obvious areas where Fair Trade practices could benefit the poor. There is already significant discussion on how Fair Trade tourism might be implemented and developed.

Scaling up Fair Trade initiatives by using the reach of big business is a challenge and opportunity whether the market is local, national or international. Using mainstream business as opposed to alternative trading systems to make supply chains work better, can in theory, reduce costs and make supply chains function more efficiently. This is an important opportunity for those already involved in Fair Trade and new entrants alike.

The development of sub-sector clusters represents another type of intervention as does small to large business linkages that fit within this type of framework. The Fair Trade perspective adds the issue of business policies that seek to have an explicit social impact as well as increased employment.

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## Appendix 1

### Common objectives, different perspectives: A summary of some Northern-based Fair Trade companies

The Fair Trade movement around the world covers a spectrum of views and approaches which are united by a common goal: to bring positive social benefits to producers in developing countries through providing an opportunity to trade. The ATOs named in this report are listed below and briefly described:

- **Cafédirect** was established specifically to gain entry into supermarkets. It is a marketing organization created from a consortium of Equal Exchange, Oxfam, Traidcraft and TWIN Trading.
- **Claro AG**—“OS3” was founded in 1977 as a cooperative but in late 1997 it was transformed into a joint-stock company, “Claro AG”, to concentrate the experience of 20 years of Fair Trade in Switzerland. Today Claro trades in 1,074 products, which are produced in accordance with ecological and social criteria by 118 producers in 32 countries.
- **CTM Altrmercato**—Cooperazione Terzo Mondo—works on a non-profit basis to import and distribute food products and handicrafts from the Southern hemisphere. It establishes direct and continuous relationships, based on equality, with groups of producers who are organized in communities or cooperatives.
- **The Day Chocolate Company** was set up in 1998 to supply Divine chocolate to mainstream retailers. Company shareholders include the producers in Ghana as well as the marketing engine in London and partners, the Body Shop.
- **Equal Exchange** is a Fair Trade organization based in Edinburgh which specializes in organic Fair Trade products and wholesale supply to the independent health food market. They are also part of the Cafédirect consortium.
- **Fair Trade Organisatie and Fair Trade Assistance**—established in 1959 under the name SOS, later it became the SOS Wereldhandel. Since 1994, it has been known as the Fair Trade Organisatie and Fair Trade Assistance. The Fair Trade Organisatie handles an assortment of 2,700 products purchased from organizations of craftsmen and farmers in Africa, Asia and Latin America. The assortment includes foodstuffs (coffee, tea, rice, wine, chocolate, chocolate confetti, peanut butter) and handicraft (toys, earthenware, crockery, household goods, art, utensils). The Organisatie has long-term trade relations with approximately 120 producers’ organizations in 30 countries. The Fair Trade Organisatie is active in the Netherlands (with a turnover of 17 million euro in 2000) and Belgium (turnover 1.2 million euro in 2000). In 2000 Fair Trade Assistance gave assistance to 80 trade partners, valued at about 1.3 million euro. The majority of its activities are financed externally.

- **GEPA Fair Handelshaus**—"Society for the Promotion of Partnership with the Third World Ltd") is a trading organization with developmental and ethical objectives. It aims to improve the living conditions of people in Asia, Africa and Latin America who are placed at a disadvantage due to global, regional and national economic and social structures.
- **Oxfam Fair Trade Company** is the only ATO in the UK that operates a chain of retail stores as well as their mail order catalogue. They operate in 30 countries with the support of field personnel from the Oxfam development charity to provide assistance to artisans and food producers to access export markets. They are one of the four Cafédirect shareholders.
- **Oxfam Wereldwinkels Vzw**—A charitable organization that believes producers in the South should receive a fair and reasonable price for their products. Oxfam Wereldwinkels has a network of 160 Fair Trade shops and about 4,000 volunteer workers. Its activities include importing fairly traded products, political action, educational activities concerning Fair Trade and supporting producers in the South.
- **Tearcraft** is run by the Tear Fund and sells a small selection of Fair Trade products through church stalls.
- **Ten Thousand Villages**—Launched in 1946, is a non-profit programme of the Mennonite Central Committee (MCC), the relief, development and service agency of North American Mennonite and Brethren in Christ Churches. It works with organizations or craft groups recommended by its representatives or referred by other ATOs. It has representatives in Bangladesh, El Salvador, Guatemala, India, Indonesia and Kenya.
- **Trade Plus Aid** is a Fair Trade wholesaler that specifically sells to the designer and collectable segment of the mainstream market. They have pioneered Fair Trade sourcing from China.
- **Traidcraft plc and Traidcraft Exchange.** The trading company is the UK's biggest multi-sector Fair Trade organization, and it sells through a network of volunteer coordinators and small shopkeepers known as "Fair Traders", as well as general distribution through the mail order catalogue. Traidcraft is also part of Cafédirect and source all the tea for Teadirect. Traidcraft Exchange is an NGO that facilitates market access, and business and marketing service delivery through a variety of local partnerships. It also provides export marketing service delivery. Traidcraft has a policy department that undertakes a variety of advocacy programmes around fair and ethical trade and ethical business practices within mainstream businesses.
- **TWIN Trading** is a Fair Trade supply company based in London. They specialize in commodity products and are a partner in Cafédirect, for whom they source all coffee products.

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