# BEYOND FAIR TRADE:
# A BUSINESS MODEL THAT EMBODIES EQUALITY IN A TRADE PARTNERSHIP

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**PIM 61**

**A Capstone Paper submitted in partial fulfillment of the requirements for a Masters of International and Intercultural Management at the School for International Training, Brattleboro, Vermont**

**May 17, 2004**

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## ABSTRACT

The fair trade model is an attempt to address the growing economic inequities and environmental degradation that have accompanied the growth in world trade. Fair trade can make a difference to both producer and consumer, but it has important limitations. These include: the gap between consumers' good intentions and their actual purchasing behavior; the producers' continued dependence on middlemen; reliance on an artificially high price which is unsustainable and limits response to market forces. The fair trade model has also failed to promote producer involvement in retailing or develop allocation vehicles to distribute equity to the producers. Only recently have projects and business partnerships begun to experiment with producer ownership of retail mechanisms as a way to help producers gain more control over their economic situation.

This qualitative multiple case study examines the projects of two international development companies that have tried to address the questions of how to establish a sustainable and expandable market for products through vertical integration or marketing partnerships and how to give producers more control through some form of equity sharing. Data was collected from documents, archival records and interviews. Indicators for fair trade practices and ownership were developed in order to evaluate the effectiveness of the organizational structure in involving the producers in roles beyond that of suppliers.

Based on this analysis, the author has proposed a framework for the design of a vertically integrated, shared-equity indigenous rice importing business.

## INTRODUCTION AND STATEMENT OF RESEARCH QUESTION

I have a vision to create a socially responsible, shared-equity import business that will provide a sustainable livelihood for rice terrace farmers in the Cordillera region of Luzon, Philippines. Such a livelihood project would also contribute to the restoration of the historically significant Banaue Rice Terraces and to the ongoing efforts to reinforce the indigenous culture of community rice production.

My association with the Cordillera region began in 1976 as a Peace Corps Volunteer. After graduation from college I spent two years as a community development worker with a cultural-minority tribe in the rugged mountains of northern Luzon. This region is famous for its rich cultural heritage and ethnic diversity. Over the centuries, these subsistence farmers have built and continue to farm some of the oldest and most extensive rice terraces in the world. But the region remains an area of extreme isolation and poverty. Because of the intensive manual labor required, terrace farming is no longer profitable and people can no longer make a livelihood from the produce of the terraces. Economic pressures are forcing the younger generation, who have few other options, to migrate to other provinces. With the abandonment of the terraces, an entire culture and way of life is threatened.

In 1995 the Banaue Rice Terraces in the Province of Ifugao were declared a UNESCO World Heritage site. The terraces were the first site to be designated within the category of “living cultural landscape”. The designation has focused much international attention on the area and the site is one of the country’s most popular tourist destinations. Because of this attention, the terraces have been the focus of numerous economic development projects designed to “save the terraces” and help the indigenous Ifugao whose culture revolves around them. But most of the livelihood projects have failed and National Government still ranks Banaue as a Class 5 municipality and the Province of Ifugao as one of the poorest provinces of the Philippines (Timberman, 1998).

In 2002/2003 I returned to the Philippines as a marketing intern with the PREDA Foundation, a Philippine Fair Trade non-governmental organization (NGO). I worked to improve the marketing efforts for PREDA's producer-assisted fair trade products, as well as assisting in the design and evaluation of products. It was during this time that I began to visualize how, through fair trade, traditional rice production could be turned into a successful business venture.

Fair trade is a practical and political response to the perceived and observed injustices of the capitalistic system (Moore, 2003). It is an effort to provide a fair price, decent working conditions, and ecological and cultural protections for marginalized producers through a more equitable trading relationship. It is an alternative approach to conventional international trade. Fair trade is both a philosophy and a set of business operating principles. Fair trade attempts to maximize returns to producers rather than minimize the margin of the buyer (Barratt Brown, 1993, as quoted in Nicholls, 2002). It is a trading partnership that tries to facilitate sustainable development for excluded and disadvantaged producers by fostering empowerment and improved quality of life through a non-exploitive, integrated and sustained system of trade partnerships among producers, retailers and consumers (Littrell & Dickson, 1999).

The concept of "fair trade" arose out of a desire to help poor communities in lesser developed countries increase their income through the purchase and sale of their products. In the United States, the beginning is usually associated with the Mennonite

Central Committee and their efforts to sell the crafts of needy artisans within their church and home networks in the 1940s (IFAT, n.d.). Over time, these informal relationships moved beyond "goodwill" selling. Alternative trading organizations (ATOs) began to emerge which purchased goods from marginalized producers in an effort to promote their development. Instead of providing "charity", these organizations encouraged self-help by promoting income-generating activities and providing a market (Tallontire, 2000). As fair trade expanded beyond the socially and politically conscious niche, more mutually beneficial partnerships have developed between producers and ATOs.

Although there is no one agreed-upon definition for "fair trade", the key elements include (IFAT, n.d.):

- Direct purchasing from producers at an agreed-upon price that covers the cost of materials and production. This price is usually more than the general market minimums.
- A commitment to a long-term trading partnership in order to provide income and business stability.
- A decent non-exploitive working environment for producers.
- A commitment to improve the well-being and livelihoods of the producers by facilitating participation in democratically managed organizations, groups or businesses.
- Information sharing and transparency between producers and ATO partners.
- Respect for cultural traditions within the producer communities.
- Means of production that respect the environment and are ecologically sustainable.

While working in PREDA's Fair Trade Project, I observed two key weaknesses in the fair trade concept:

- For most livelihood projects there is not enough market demand for the items produced, and thus not enough income to sustain the project. If products are not sold and income is not generated, the other elements that help empower the producer and contribute to the long-term benefits–organizational capacity building, skills training, business development–not to mention the time and effort of creation, are marginalized.
- Even when the products are successfully sold at fair trade prices, the producers continue to be merely the commodity suppliers and are still dependent upon middlemen, albeit enlightened middlemen, to market or retail their products. This is the case for the farmers supplying the nuts for Ben & Jerry's Rainforest Crunch ice cream or for PREDA's mango farmers who supply mangoes for an award-winning mango-apple drink marketed by a fair trade NGO in Germany.

To address these weaknesses, I believe that fair trade businesses could include some combination of vertical integration and equity sharing with producers. Such a business would be founded on fair trade principles but would also embrace farmers as equity owners as well as suppliers. The business would produce and market a product for which a market demand exists and it would provide an opportunity for the producers to be equal partners with a meaningful stake in the success of the business: representation on the board of directors, full participation in management decisions, and an equal share in the benefits associated with long-term asset gains.

I propose to research the following question: To what extent do selected existing or proposed equity-sharing businesses provide an appropriate framework for the design of a vertically integrated, indigenous rice importing business that strives to fully realize the equality of trade partnerships among producers, retailers and consumers?

Having done extensive community organizing within the Southeast Asian refugee community, I know first hand the type of networking that must be done in order to facilitate the involvement of community members. A possible model for a business structure began to evolve as my management coursework exposed me to some of the classic management studies of "best practices" in business and as I became familiar with fair trade businesses and alternative trade organizations during my internship. My literature review of fair trade and marketing identified the use of the shared-equity concept in international economic development projects. Such learnings helped me formulate the following propositions that were used to focus and define the nature of the inquiry into the equity-sharing partnerships.

Propositions:

- Shared-equity businesses will be successful in providing the benefits normally associated with fair trade producer-retailer relationships.
- Farmers will have a direct stake in the success of the business including the risks and responsibilities associated with business ownership.
- Farmers will have significant input into management decisions through representation on the board of directors.
- As equity owners in a business that markets their commodities, farmers will have an immediate income from the sale of the produce, a share of the profits

associated with the retail sales and a long-term equity income as the value of the business increases.

After examining the organizational structures of several equity sharing partnerships, and specifically the medium used to apportion shares and allow for producer input into the management of the company, I intend to design a suitable business structure for a socially responsible, shared-equity import business that will provide a sustainable livelihood for rice terrace farmers in the Cordillera region of Luzon, Philippines.

## LITERATURE REVIEW

Fair trade is an attempt to address the growing inequities and environmental degradation that have accompanied the growth in world trade. Although only a fraction (.01 percent) of the all goods exchanged are fairly traded (FTF, n.d.), fair trade provides a working model of international trade that makes a difference to both producers and consumers and actively challenges present-day business practices (Moore, 2003).

By guaranteeing a livable wage, paying a price that covers the costs of production, and ensuring decent and environmentally safe working conditions, fair trade has become a lifeline for many producers. During site visits with the PREDA Foundation's Fair Trade Project, I saw firsthand the positive effects that fair trade had on the lives of entire villages that were engaged in fair trade- supported production. I visited health centers and community centers that had been built as a result of this added income. One of my jobs was to collect and write their stories for use in PREDA's educational and marketing efforts. (These stories are available to read at the PREDA Fair Trade website at http://www.preda.net/ftcatalogue2003.html.)

In the fair trade coffee market, farmers have been able to sell their crop at prices that meet their basic needs. Cooperative farmers in Ethiopia can get 70 percent of the export price for their coffee that sells as fair trade, while on the open market farmers get only about 30 percent. Feleipe Huaman of the Bagua Grande Co-operative in Peru, which sells to a fair trade market, explains: “Ever since our alliance with Twin and Cafédirect, our prices have started improving and this has improved living conditions for the coffee growers’ families. This is our biggest reward and what we appreciate most” (Oxfam International, 2002).

The fair trade market has grown significantly in the past five years in both commercial and political terms. Worldwide, fair trade is valued at about US$400M annually (FTF, n.d.) and is expanding at a 10-25 percent a year. In a related trend, the worldwide value of trade in organically grown products doubled in the last three years and reached an estimated US$25B in 2001 (IFOAM, 2001).

This enormous growth in sales has been driven by an increase in “ethical consumerism” (Nicholls, 2002). In 1989, the “green consumer” was described as one who avoids products that are likely to “endanger the health of the consumer or others; cause significant damage to the environment during manufacture, use or disposal; consume a disproportionate amount of energy; cause unnecessary waste; use materials derived from threatened species or environment; involve unnecessary use or cruelty to animals; adversely affect other countries” (Elkington & Hailes as cited in Strong, 1996). It is hypothesized that the “ethical consumer” embraces these principles but takes them one step further to include concern for the human aspect of the production chain (Strong).

While the organic movement specifically emphasizes the ecological conditions of production, the fair trade movement emphasizes the social conditions of production and is challenging the market condition that is based solely on price. Together the two movements are forging common ground in defining minimum social and environmental requirements for production (Raynolds, 2000).

According to Nichols (2002), the increase in the UK market for fair trade products has been driven by four main influences:

1. The political climate for trade with developing countries is being redefined as the international consensus endorses “trade not aid” as the best route to alleviate poverty in the developing world.
2. There has been an increasing academic debate concerning ethical business in general and green and environmental issues in particular.
3. There has been a shift in consumer attitudes from the price and value-driven imperatives of the 1970s to a more moral or ethical framework.
4. The cultural shift in attitudes has taken place because of the extraordinary amount of accessible information.

A problem for fair trade companies is that ethical beliefs do not necessarily translate into action. Market surveys consistently cite differences between intention to buy fair trade products and actual practice. While more than 50 percent of consumers say they would buy fair trade products, the commercial reality of the situation is that fair trade lines often account for less than 1 percent of their product sector (Co-op 2000 as cited in Nicholls, 2002).

Although there is a willingness to make ethical purchases linked to a company’s good reputation, the reality is that social responsibility is not the dominant criterion for a purchase decision and most consumers are relatively uninformed about ethical behavior of companies. Any company that seeks to reach ethical consumers must consider both sides of this paradox. As part of its marketing strategy, it needs to determine who is its target audience, which ethical issues are important to the consumer and how to educate consumers without confusing or alienating them (Carrigan & Attalla, 2001).

The Institute of Grocery Distribution (IGD), a research, information and education provider for the UK food and grocery industry, found that consumers pay scant attention to the growing number of logos on food packaging and are not interested in environmental and fair trade issues when making purchases. The research, as quoted in *Marketing Week* (“Consumers”, 2002), found that most shoppers "don't want to spend the time looking at different logos and don't recognise them”. It found that 70 percent of consumers were influenced by price, sell-by date and taste alone. Less than a quarter of consumers consider issues such as genetic modification, animal welfare and where items are produced. Only nine per cent of consumers recognised the Soil Association logo, which adorns organic food grown in the UK. The Little Red Tractor farm standards logo fared better, with 35 per cent of consumers recognising it.

These market findings have spurred fair trade companies to refocus their marketing on quality and price. As a result, fair trade brands are becoming more commercial. In terms of packaging design, positioning, and price, many fair trade brands, most notable coffee, have become indistinguishable from the competition. Although the fair trade movement has always emphasized the social conditions of production and the story of the worker's experience, these ethical stories have now moved from being the prime focus of fair trade marketing to a supporting factor of the primary brand equities of quality and price (Anholt, 2003).

The unique stories which have been a mainstay of fair trade marketing and consumer education–the individual worker's experience, an historical perspective of the community, efforts to preserve cultural traditions, methods of sustainable production, or environmental protection of fragile areas and species–now become a differentiating "brand ingredient" which should be considered a marketing opportunity. These types of stories also offer a marketing opportunity to brands that are being developed and exported from the emerging markets in the South. Because they are locally owned and marketed directly to consumers, they can claim a direct relationship between consumer and producer.

Although fair trade has been successful in assisting marginalized producers, the model lacks this direct line of income from consumer to producer that emerging-market brands can claim. It is also recognized within the alternate trade movement that the fair trade model has neither promoted producer ownership of retailing mechanisms nor developed allocation vehicles to distribute equity to the producers (Snyder, 2003; Cafédirect, 2003). Fair trade producers, in most cases, are preferred suppliers for first world wholesalers and retailers within the alternative trade movement. Fair trade organizations set the price for the product or produce on the basis of what is determined to be a fair wage for a day's work. Participation in management seems logical for small-scale producers if they wish to benefit more from their production. In order to do this, producers must move along the supply chain into processing and trade (Tallontire, 2000).

Yet another criticism of fair trade is that the high price it offers to farmers creates an artificial market. This leads farmers to stay in commodity production when it is not feasible; it also attracts more farmers to the production of supported crops, which leads to oversupply and overproduction (Oxfam International, 2002). This in turn forces prices down for non-fair trade farmers. The artificially high price also makes producers dependent on alternate trading organizations (ATOs) for their retail and marketing efforts. If these ATOs or fair trade businesses experience a downturn in sales or go out of business, their product is worth a fraction of the fair trade value on the local market (Weatherly, 2003).

Only recently have projects and business partnerships begun to address the issue of ownership of the retail mechanisms as a means to help producers gain a greater measure of economic control over their lives. A number of projects, in different parts of the world, were cited in the literature. Some of these included:

- The African Organic Farming Federation (AOFF), a 501 (c)(3) nonprofit organization based in Virginia (US) which is currently conducting a market research study to investigate options for forming marketing links between producers and firms marketing products that could contain ingredients produced by Southern African small farmers (AOFF, 2004).
- Green Net, a Thai organization dedicated to developing an organic and fair trade market both domestically and internationally, in partnership with the European fair trade network of World Shops (Hanlaihop,n.d.).
- The powerful, half-million member National Federation of Coffee Growers of Colombia (FNC), which is planning to go head-to-head with Starbucks© by

opening its own Juan Valdez© coffee shops in New York City and Seattle (Kuntzman, 2003).

In order for my research into existing projects to be applicable to my own proposed business, it was important to identify projects that would meet the following criteria: sufficient information about the projects could be gathered through interviews or from published sources; the projects were attempting to compete in the commercial market rather than in the more protected fair trade market; the projects were undertaken with the assistance of NGOs and donors rather than with national government sponsorship; and the projects had a stated commitment to including producers in the retailing partnerships. With these parameters, I chose to focus on the projects of two international development companies, Twin Trading and Weatherly Consulting, Inc.

In the United Kingdom, two sister organizations, the Third World Information Network (TWIN) and Twin Trading, have been actively working for a more equitable distribution of trade resources. Founded in 1985 as an attempt to address the unequal trading relationship in global trade and to conceptualize a new way to trade, Twin and Twin Trading offer complementary types of assistance.

Twin Ltd. is a registered charity providing producer support in the form of technical assistance and training activities to improve the organizational capacity of organizations that help primary producers increase their competitiveness. Twin Trading Ltd. is a not-for-profit trading company that buys coffee and nuts from alternative trade-assisted producers. Together they provide help in identifying needs and capabilities, find appropriate markets for commodity products, and try to establish as much market control for the producers as possible.

Twin Trading has been a major contributor in two very visible efforts to increase farmer equity in the trading chain. Twin Trading is a major shareholder and founder of The Day Chocolate Company, a producer-owned company that is marketing and retailing a line of fairly traded chocolate bars in the UK commercial market. Twin Trading has also been responsible for the sourcing, blending and oversight of manufacturing and packaging of Cafédirect's product line. Cafédirect was the first fair trade company to gain national distribution for its products. It is currently addressing the producer equity issue as it pursues the expansion of its investment base through an issuance of public stock.

The Shared-Equity Model (SEM), developed by Paul Weatherly of Weatherly Consulting, Inc. (Weatherly, 2003), offers another model for producer involvement. The underlying assumption in the SEM is that producers cannot "produce their way out of poverty" by increasing agricultural exports (Weatherly). Fair trade considers low commodity prices to be the cause of world poverty and therefore consumers are asked to pay a "value-added" amount in order to guarantee that the producers are receiving a livable wage and have decent working conditions. The SEM model offers another view of the causes of poverty and therefore differs from fair trade in the proposed solutions (Anholt, 2003).

The Shared-Equity Model focuses on establishing new marketing avenues for commodities used in the development of new brand items or the re-imaging of existing brands. In these new joint marketing ventures between commodity producers and retailers, the producers bring more than their commodity to the venture; they bring their unique story, which is their "intellectual property". This asset becomes a distinguishing marketing characteristic within a product category. This marketing asset is then used by the retailers for a competitive advantage and hopefully an increase in sales. In this mutually beneficial partnership, the producer is then entitled to share in the increased value of the company that results from this advantage. In his paper, *"There is no tariff on money"*, Weatherly (2003) encourages the involvement of not just donor organizations and NGOs, but also entrepreneurs, who are familiar with both the producers and potential markets and can take the lead in developing these ventures.

At the present time, fair trade commodity production far outpaces the demand for fair trade products. For example, Kuapa Kokoo Ltd., the only supplier of certified fair trade cocoa from Ghana, sells only 2.1 percent of its certified cocoa into the fair trade market; the remainder is sold into the general commercial market (DFID, 2000). This is also true for fair trade coffee. Existing fair trade cooperatives are only able to sell about half of their crops at the established fair trade price (Levi & Linton, 2003).

It has become imperative for the alternative trade movement to move beyond the limited sales of the socially conscious fair trade niche. The alternative trade movement has also matured enough to recognize the need to expand the definition of fair trade and facilitate the involvement of the producers further downstream in the marketing chain. This paper will explore the avenues taken by two different development companies working to accomplish these goals: a not-for-profit development NGO, Twin Trading Ltd., and a private consulting firm involved in development work, Weatherly Consulting, Inc.

**Conclusion of Literature Review**

This literature overview has attempted to show how fair trade has evolved as an effort to address the growing inequities caused by global trade. Although it represents only a fraction of worldwide sales, the fair trade market has grown significantly as ethical consumerism has grown to include not only a concern for the environment but the social conditions of production. But the fair trade model has its limitations. Research shows that consumer purchases do not necessarily correlate with good intentions. Most consumers make purchases based on price and quality. It is therefore necessary to expand beyond the socially conscious niche and focus on quality and value. Another criticism of fair trade is that the high price it offers to farmers creates an artificial market that is not sustainable. Producers are still dependent on enlightened middlemen and still have not gained control over their own economic situation.

Through this review, two development organizations have been identified that have attempted to address the questions of how to establish a sustainable and expandable market for products and give the producers more control over their own economic future. By creating a direct link between consumers and producer through vertical integration or equity ownership partnerships, producers become more involved in the marketing and distribution aspects and can therefore reap the benefits from these steps in the marketing chain. This paper will examine the degree to which these organizations have been successful in facilitating this evolutionary step toward equality within trade partnerships. Based on this analysis, I will propose a framework for the design of a vertically integrated, shared-equity indigenous rice importing business.

**RESEARCH METHODOLOGY**

The research methodology for this study was a qualitative multiple case study of equity-sharing partnerships between producers and retailers. The case study specifically examined the medium used to apportion shares and allow for producer input into the management of the company. I chose this research method because I focused on a contemporary phenomenon within a present-time context (Yin, 1994). Through the literature review, two development organizations, Twin Trading, Ltd. (UK), a not-for-profit trading company, and Weatherly Consulting, Inc. (US), a private consulting firm that specializes in international development, were identified for their work in facilitating the formation of equity-sharing marketing companies or management companies.

Data for these case studies was collected from three sources: documents, archival records and interviews. Historical background information, project descriptions, and project evaluations were gathered from books, professional articles, published academic papers, organizational position papers, government and NGO impact studies and informational websites. Official organizational information was collected from official organization websites, annual reports and publications, business news websites and a share-offering prospectus.

Interviews were to be conducted with the Managing Directors of Twin Trading, Ltd., and the Day Chocolate Company and with Paul Weatherly of Weatherly Consulting, Inc. When it became clear that the interviews with the people at Twin Trading and the Day Chocolate could not be arranged in a timely fashion, I instead arranged an interview with Sylvia Blanchet, the co-founder of ForesTrade, Inc. Located in Brattleboro, Vermont, ForesTrade is a fair trade company that specializes in certified organic and sustainably harvested spices, essential oils and coffee from Guatemala and Indonesia. Although their producers/suppliers do not own equity in the company, ForesTrade has been cited for its business partnerships with producers. The company was awarded the

2002 World Summit Business Award for Development Partnerships by the United Nations and International Chamber of Commerce.

The interview with Paul Weatherly was open-ended in nature. The respondent was asked the background of his projects as well as details concerning the structuring of the management company and the role of shareholder/farmers beyond that of commodity supplier. Because of time constraints with Sylvia Blanchet, the interview focused on specific topics–how a for-profit business could fund activities that were normally associated with non-profit organizations and her opinion on producer ownership in for-profit businesses, such as ForesTrade. The information was evaluated in relation to the indicators established for equity ownership and adherence to fair trade principles.

The stated propositions were used to establish indicators to evaluate the organizational structure and its equity sharing mechanism. The first proposition stated that shared-equity businesses will provide the same benefits as fair trade relationships. The indicators of fair trade used in this analysis are based on the requirements, principles and criteria used by the three leading fair trade certifying organizations. Although each organization has its own standards, there are certain key elements common to all. (See Appendix A for an outline of their key criteria.)

The remaining three propositions summarize different aspects of business ownership: the assumption of risks and responsibilities, input into management decisions, and monetary benefits. The indicators of equity ownership used for this analysis are based on common factors that would normally be associated with ownership of stock in a corporation.

Each equity-sharing partnership was evaluated against the same indicators. The strengths and weaknesses of each partnership were examined. The different partnerships were then compared for “Best Practices”. The results were then used to develop an appropriate business model that would be feasible for a small-scale social entrepreneurship project to be implemented in the Philippines.

**PRESENTATION OF DATA**

The following are narrative descriptions of the four equity-sharing businesses or partnerships examined in this multiple case study.

**Twin Trading, Ltd.**

Twin Trading, Ltd. is a not-for-profit trading company that has helped structure and organize two of the most successful retailing enterprises for fair trade products. Twin Trading has a mission to “use trade to positively redress the imbalance between the North and South, to build better livelihoods for the most marginalized in the trading chain and to promote development and longer-term shifts in the political and economic environment” (Ronchi, 2002). It is a part owner of both the Day Chocolate Company and Cafédirect, the UK’s largest fair trade hot-drinks company.

**The Day Chocolate Company**

The collapse of the cocoa market devastated Ghana[1]. Formerly the world’s third largest producer of cocoa, Ghanaian production fell to just 12 per cent of the world

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[1] Between 1980 and 2000, the price of cocoa worldwide fell by nearly 70 percent. The primary cause for the fall in prices was structural oversupply. The global production of cocoa has risen by 186 percent since 1960, far exceeding the growth in demand (Gooding, González-Calatayud, & Phillips, 2003).

The Ghanaian government further exacerbated the situation in Ghana. Cocoa could only be sold to the Ghanaian Cocoa Board (known locally as the Cocobod), which paid farmers a small fraction of the world market price. Cocoa exports were used to finance luxury imports for the wealthy and cocoa taxes paid for much of the civil service. By the early 1980s, villagers were being paid so little that they left beans on the ground to rot. A military coup in 1981 installed a military government that kept an iron grip on the economy. The policies of the Cocobod were investigated and under International Monetary Fund (IMF) market in the late 1980’s (DFID, 2000). In 1992 a group of cocoa farmers led by Nana Frimpong approached Twin Trading for assistance. The Dutch development organization SNV was already working with these farmers (Ronchi, 2002) and the farmers were in a position to take advantage of the opportunity presented by the restructuring of the cocoa market. In 1993, the government allowed for the establishment of private cocoa-buying companies and, with the assistance of Twin Trading, a farmer’s organization, Kuapa Kokoo Ltd. (KKL) was formed. It was the first private company to be registered as a Licensed Buying Company for cocoa. Legally it was required to incorporate as a private company, but in 1996 it was allowed to establish the Kuapa Kokoo Union (KKU), which is structured to own the KKL and is a cooperative farmers’ association.

The KKU was admitted to the Fairtrade Labeling Organization (FLO) International registry of fair trade suppliers and is the only organization that is certified as a source of fairly traded Ghanaian cocoa. The KKU is a democratically run organization based in villages. The village organizations generate their own funds and elect representatives to regional and national executive councils (Mayoux, 2001). The organization operates on three levels:

- “Primary (village) societies” operate at the local level and appoint their own executive committees. There are currently 462 primary societies with a total membership of approximately 30,000 farmers.
- Representatives of the primary societies meet to appoint their representatives at the regional level.
- These representatives, in turn, appoint representatives to the KKU Board.

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guidance, the government began to institute structural and policy reforms to rehabilitate the cocoa sector (Tanner, 1990).

The Kuapa Kokoo Ltd. (KKL) is the commercial and trading arm of the KKU. It is a licensed buying company and the management is separate from the management of the farmer's association (KKU).

The KKL purchases cocoa from both KKU members and non-members. KKL is the only trader to pay farmers more than the government-guaranteed purchase price for cocoa, although the premium is very small. In 1994/95, fair trade sales accounted for 14.7 percent of the volume handled by KKL. While the volumes of cocoa handled by KKL have increase dramatically, fair trade sales have not grown significantly and in 1999 accounted for only 2.1 percent of their volume. All cocoa handled by KKL is dealt with in the same way, whether it is for a fair trade destination or not. Although the Ghanaian Marketing Board controls all cocoa exports from Ghana, it has a special arrangement with KKL that facilitates the sale of their fair trade cocoa to fair trade buyers.

The Kuapa Kokoo Farmers Trust was formed to receive all fair trade premiums. The funds of the trust are used to finance community projects that meet the organization's eligibility criteria. Since the 2001 season, 53 projects have been funded from among the 462 primary societies (Ronchi, 2002). If the buying company makes a profit, it may also pay a per-bag bonus to farmers through the Trust (Mayoux, 2000). Fourteen members who are appointed by the KKU, the KKL, and the foreign fair trade partners manage the Trust.

In 1998, in an effort to increase KKU's fair trade market share and address some of the fair trade marketing problems, a member-owned, European-based, marketing and retailing chocolate company was envisioned. The fair trade innovation would be the direct relationship between the cooperatively owned supplying company, Kuapa Kokoo

(KKL), and the retailing company. As a result, the Day Chocolate Company was established as a for-profit venture company to market a retail chocolate bar in the UK commercial market. Although established by farmers, the Day Chocolate Company had substantial support from other development NGOs and the UK Department for International Development (Ronchi, 2002). The DCC purchases all of its fair trade-certified cocoa from the KKL. Other companies that also buy certified cocoa from the KKL are the Body Shop, Oxfam Wereldwinkels, Magazins du Monde, and Fair Trade Organizations of Holland (Mayoux, 2001).

The Day Chocolate Company is a private limited company, registered in the United Kingdom, with shared ownership by KKU, Twin Trading, and the Body Shop. Its members, who are shareholders, own the company. The liability of the members is “limited by shares” to the nominal value of the share. In this case, the company has 99 shares worth £99: Twin Trading owns 52 shares, 33 shares are owned by KKU and 14 shares are owned by the Body Shop (Social Enterprise Coalition, n.d.). It is interesting to note that although the KKU owns 33 percent of the shares, it receives 66 percent of the profits (Mayoux, 2001).

The company’s governing instrument is contained in two documents: the Memorandum of Association, which contains the “objects”(aims and purposes), outlines the powers of the company and includes a non-profit distribution clause; and the Articles of Association, which sets out the internal management procedures and the role of members and directors. The social or public interest of the company is underpinned by a constitutional requirement that profits must be put toward the company’s social purpose. There is also a requirement that assets remaining after the company is dissolved must be applied to similar purposes and not distributed amongst the members (Social Enterprise Coalition, n.d.).

The Board of Directors is responsible for setting the strategic direction of the company. The Chair of KKU and the Managing Director of KKL represent the farmers on the Board. There are two board members from Twin, one from the Body Shop, one from Traidcraft, one from Comic Relief, as well as several independent members (Social Enterprise Coalition).

The Day Chocolate Company subcontracts the processing of its fair trade-brand chocolate bars to other companies in the manufacturing chain. The market rate for cocoa is paid to the Ghanaian Marketing Board and then the guaranteed minimum rate plus a fair trade premium is paid to the KK Trust Fund. (See Appendix B for processing chart) The Day Chocolate Company markets its brands through normal retail outlets. Various joint promotional and educational initiatives with Christian Aid and Comic Relief are used to increase consumer awareness of the fair trade objectives. Twin Trading continues to provide business and financial expertise.

**Cafédirect**

In 1991, in response to the collapse in world coffee prices[2], Twin Trading helped launch Cafédirect, a fair trade brand of coffee. This was done in partnership with Oxfam

[2] Until 1989, coffee was traded in a managed market, regulated by the International Coffee Agreement (ICA). Governments in both producing and consuming countries sought to set pre-determined supply levels by establishing export quotas for producing countries. The aim was to keep the price of coffee relatively high and stable. To prevent oversupply, countries agreed not to exceed their share of the quota unless there was a surge in demand. The system was cumbersome and had many problems. Disagreements among members and a withdrawal in membership from the International Coffee Organization (ICO) by the United States, led to break down in the Agreement. As soon as the ICO lost the power to enforce the Agreement, prices dropped dramatically (Oxfam International, 2002).

In the unregulated market, coffee production soared and quality fell. Brazil, the world's largest producer of coffee, boosted its production through mechanization and the opening up of new growing areas; Viet

GB, a major development and relief organization**;** Traidcraft, a Christian company committed to selling and promoting fair trade products and crafts; and Equal Exchange, a fair trade company that distributes organic and fair trade products in the independent natural food sector. Cafédirect's mission is to help strengthen the influence, income and security of coffee growers in the South and to link them directly to the consumer in the West (Cafédirect, 2004). In 1993 Cafédirect became the first fair trade product to break into the UK's national supermarket chains. The company has since branched out into tea and cocoa.

Cafédirect was incorporated in 1992 as a private company limited by shares. The four founding partners, Twin Trading, Oxfam, Traidcraft and Equal Exchange, hold the original 4 million shares of stock (Goodway, 2004). Until 1998-1999, the Board of Directors was made up of the nominees from these original four shareholders. In 1999 the Directors voted to restructure the board in order to improve company governance. The board was expanded by three positions to allow for external appointments. These people brought outside expertise and knowledge to the management of the company. Currently there are eight board members.

Cafédirect is currently undergoing another major organizational restructuring which will dramatically change the composition of the board. But until that is finalized, producers do not have voting representation on the Board. Three producers do attend every Cafédirect board meeting and producer input and participation is solicited when the company holds its biennial producers' conference (Cafédirect, 2000).

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Nam, which heavily subsidized its coffee production, entered the world market in the 1990s and by 2000 had become the second largest producer in the world (Oxfam International).

In the Cafédirect partnership, Twin Trading takes responsibility for coffee purchases and all contracts with producers (Tallontire, 2000). Cafédirect buys from small farmer cooperatives and producer organizations in 11 countries. Over 250,000 farmers are affected by this fair trade relationship. In the 2001/2002 season, Cafédirect purchased 1,662 metric tons of coffee. This was 20 percent higher than the previous season. It is now the sixth-largest coffee brand in the UK (with 1.9 percent market share) and has the fastest-growing tea brand with Teadirect. Cafédirect has seen sales grow 20 percent a year on average since it was launched in 1991 and it reported a pre-tax profit of £500,000 (US$817,770) [3] last year on a turnover of £13.6million or approximately US$22.24 million (Hamilton, 2004).

The Producer Support & Development program of Cafédirect is a fundamental part of the trading relationship. Not only does Cafédirect guarantee to pay above the world market price for its commodities, it also provides business and organizational support to farmers' organizations. In the 2001/2002 season, Cafédirect invested £299,000 (US$474,300) or 8 percent of its gross profit in Producer Support and Development programs (Cafédirect, 2002). Producer programs are tailored to the needs of the individual organization. This is achieved through ongoing dialogue and consultation between Twin Trading and each producer organization. This includes regular site visits and input from producers at the Producers' Conference.

Through network partners, Cafédirect facilitates agricultural pre-financing to farmers in order to meet production expenses for the next crop. In the last year this amounted to US$1.75 million dollars in low-interest loans (Cafédirect, 2002).

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[3] US$ amounts are an approximate currency conversion based on 1GBP= 1.63554 USD. This was the average historical currency exchange rate for GBP to USD in 2003 as computed by OANDA Corporation at their website http://www.oanda.com/convert/fxhistory.

Cafédirect is currently in the process of tendering a public share offering valued at £5 million (US$8.17 million). According to the Share Issue Prospectus, the share issue will double Cafédirect's size and allow for needed expansion and growth. The shares will not be traded on the Stock Exchange but on a matched-bargain basis by the Triodos Bank. The Triodos Bank has developed its own ethical exchange for "green" public offerings. (Traidcraft stock is traded on this exchange.) In a matched-bargain, Triodos will have to find a buyer for any would-be seller. Since it is not a stock market flotation, the shares might be difficult to trade. As with any share holding, dividends are a possibility for shareholders but there is no guarantee (Hamilton, 2004).

The issuance of new shares also provides for a wider group of stakeholders in the ownership of the company: producers, consumers and employees. In order to ensure producer-partner participation at the ownership level, the founders have gifted 3 percent of their original shares to the Cafédirect Producers Ltd., which will hold the shares for the benefit of all the Company's producer partners. In addition, 330,000 new shares will be issued nil-paid[4] to the producer partners. Any shares not fully paid by 31 March 2005 may be forfeited. On successful completion of the issue, the producers will own 4.9 percent of Cafédirect (Cafédirect, 2004).

Assuming that all shares are sold, the combined shareholdings of the Founders will be 39.3 percent. Any one shareholder may not hold more than 15 percent of the total issue. There is one "Guardian Share" held in common by the Founders that has veto power over issues that may breach the founding principles or "Gold Standard".

[4] During an issue of new shares by a Company in the market to raise funds, current shareholders are allotted rights to buy additional stock at a predetermined price some time in the future, usually at a discount to the market value (TD Waterhouse, n.d.).

The composition of the Board of Directors will also change. There will be no more than eleven directors and not less than two. On the present board, the Oxfam, Traidcraft and Twin Trading nominees will resign and be replaced by a Guardian nominee, one Director appointed by consumers from the Friends of Cafédirect, and two directors nominated by Cafédirect Producer's Ltd. (Cafédirect, 2004).

**Weatherly Consulting, Inc.**

Weatherly Consulting is a private consulting firm that specializes in international development projects. It is currently working to establish shared-equity management firms to negotiate contracts between producers and the retailing businesses that use their commodities.

From November 2003 to the present I have been corresponding with Paul Weatherly of Weatherly Consulting, Inc. about the Shared-Equity Model. There have been numerous emails, two telephone conversations and one 3-hour face-to-face interview which was conducted at his home/office in Washington, DC on February 9, 2004. The interview was open-ended in nature although the main question focused on the organizational structure used to involve shareholder/farmers in roles beyond that of commodity supplier. He generously shared with me a copy of the text of his speech given at the IFOAM conference in Bangkok in November 2003, portions of his proposal to the World Bank for project funding for new development projects in Africa and his proprietary Excel spreadsheets outlining the investment strategy for a shared-equity venture.

In the past three years, Paul Weatherly has designed several shared-equity ventures for commodity-based projects that have received World Bank funding. His first project, the Wild Coffee Project in Uganda, was funded through the Global Environment Facility (GEF), which is a fund co-managed by the World Bank, UNDP and UNEP. Through his experience with this project, he developed the Shared-Equity Model (SEM) for business formation. The SEM is the next step beyond the development mantra of the last ten years: "Trade not Aid". The SEM offers a new mantra: "Trade with Equity" (Weatherly, 2003).

According to Weatherly, the fair trade approach is inherently contrary to the principles of the free market because it tends to insulate the producers from market forces, encourage production when other means of livelihood should be sought and actually limits opportunity to expand the market beyond the socially conscious purchase (Anholt, 2003). Marginal farmers will never be able to "produce their way out of poverty". It is therefore essential for these farmers to be linked through ownership to a brand or a company in the modern economy where asset values increase with a company's growth and expansion (Weatherly, 2003).

In this model of business formation, producers in developing countries negotiate an equity ownership share in companies that sell products made from their commodities. In these new joint ventures, there is an underlying premise that the producers bring more than their commodity to the venture; they also bring their unique story, which can be used for the benefit of the venture. As contributors of the story, the producers have a right to additional compensation. By directly partnering with producers, the retailer can claim a direct link, which can ultimately be used to add value to their brand. The retailer uses this direct connection along with the producer's unique story as the basis for a marketing advantage. This direct connection between producer and retailer offers the opportunity for market differentiation within a product category.

Weatherly offers two examples of how producers can negotiate for equity: leveraging a minor ingredient or becoming a commodity supplier with rights to reinvest margins in the retailing company. In both scenarios, the Shared-Equity Model focuses on establishing marketing links to companies that are developing new brand items or are re-imaging existing brands (Weatherly, 2003). The reason for this is that start-up brands usually cannot afford the huge marketing budgets necessary to build name recognition. With a compelling story, it is possible to develop a marketing strategy that uses public relations stories to create interest in a product. Marketing via public relations has proven to be a very cost effective method of building consumer awareness and a customer base.

The assets the producers offer, the commodity as well as their story, become a distinguishing marketing characteristic within a product category. This marketing asset is used by the retailers for a competitive advantage and hopefully an increase in sales. In this mutually beneficial partnership, the producer is entitled to share in the increased value of the company that results from this advantage.

### The Wild Coffee Project

The Wild Coffee Project was the first project of Weatherly's to go from the Shared-Equity-Model concept to actual implementation. A win-win partnership among poor rural farmers, the national park and consumers, the Wild Coffee Project near Uganda's Kibale National Park uses a minor ingredient (wild coffee) to successfully market a new blend of eco-friendly coffee. The amount of wild coffee actually used in the retail product is so small it does not significantly raise the input costs for the roaster.

What the ingredient does offer is the opportunity to market the product as ethical and distinctive. The project has a multiple goal of protecting the tropical forest and providing an income source to the communities in the buffer zone adjacent to the park (Wild Coffee Project, n.d.).

The Kibale Forest Foundation worked with local communities and the park management to allow controlled harvesting of wild coffee in ways and quantities that assure that the park is not damaged. The Foundation pays permit holders to harvest a limited amount of coffee. The beans harvested through the permit system are purchased at three-to-four times the local prevailing price. Since the allowable harvest is too small to be commercially viable by itself, the wild beans are blended in a ratio of 1:100 with an organic shade-grown arabica coffee. The resulting blend of “Kibale Forest Wild Coffee” is then sold in the high-value specialty coffee market. The blend packaging has extensive information about how wild coffee is obtained and how income from the sales supports both the ecological diversity of the Park and the community development around the park.

The Kibale Forest Foundation (KFF) serves as the management company that negotiates the marketing contracts for the coffee beans harvested through the project. As the management company, it has secured a one third share of equity in a coffee brand which is a percentage equal to the shares of the roaster and distributor. The producers’ shares are represented through the KFF and any returned profits will be held in trust by the KFF for the producers (Wild Coffee Project, n.d.).

The Kibale Forest Foundation, Inc. is a 501 (c)(3) charity. It was incorporated in 2000 as a non-stock, non-profit corporation in Delaware with a mission to preserve the native home of Wild Coffee. The program areas are: monitoring and management of the forest itself; working with local communities to achieve sustainable economic development; and educating consumers about Wild Coffee's native home. The KFF works in open and cooperative partnerships with local communities, appropriate authorities in East Africa, and coffee growers and consumers who support KFF's efforts to preserve the "gold standard" of coffee (Wild Coffee Project, n.d.) In the interview, Weatherly, founder and lead manager of the project’s activities, related how the Wild Coffee Project was also used to extend the scope of the Unrelated Business Income Tax exemption (UBIT) for non-profits to foreign environmental projects. This was necessary in order to use a US-based non-profit organization, the Kibale Forest Foundation (KFF), in the structure for his original model.

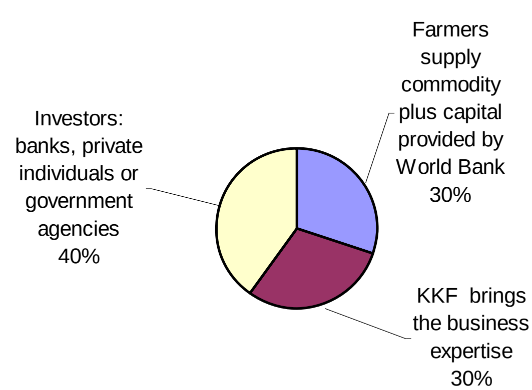
For the first stage of “Wild Coffee Project”, the Uganda Coffee Trade Federation served as the incubator for the development work necessary to build a system to manage and market wild coffee. In 2000 the Kibale Forest Foundation was founded to manage the operation of this system. It was registered with the Non-Governmental Organizations Board in Uganda, with its interests in the United States represented by the Kibale Forest Foundation, Inc.  The KFF has three trustees, Mr. David Abura-Ogwang in Uganda, and Mr. Bob Gray and Mr. Neill Heath in the United States (Wild CoffeeProject, n.d.).

The trustees are well known within their areas of environmental conservation and sustainable agriculture. According to Weatherly, they serve as advisors and contacts but are not actively involved in management of the Foundation. The activities of the Foundation are carried out by two full-time employees in Uganda and by Paul Weatherly and Paul Musembwa of Weatherly Consulting Inc. in the United States. The project works in collaboration with the Private Sector Foundation (Uganda) to help build the capacity among the communities to manage the income earned from the project (Eco-resorts, 2000).

**Proprietary Commodity Project**

Weatherly Consulting, Inc. is currently involved in the design and development of five joint marketing ventures for commodity producers in Africa. Specific details as to the companies involved and the commodities used cannot be given because of the proprietary interests. During the interview, Weatherly outlined the general business structure and the investment strategy for one of the ventures.

This equity-sharing venture involves a much more sophisticated investing model. A management company will be set up to facilitate the relationship between the commodity producers and a first world firm which needs the commodity for the production of their product. The ownership of the management company will be as follows: 20 to 30 percent farmer participants, 30 to 40 percent private investors, and 30 to 40 percent NGO or business negotiating the contract. (Figure 1)




Source: Weatherly Interview

**Figure 1: Ownership of Shared-Equity Management Company**

The retailing company with whom the trade partnership is negotiated is established within its market and positioned for a large expansion in sales. A guaranteed stable source of needed commodities will help facilitate this expansion in production. The resulting growth in sales by the retailing company will also result in the need to access large sources of expansion capital.

Farmers have been contracted to provide the commodity at a stable yet competitive price, but not necessarily a fair trade price. The margin between the cost of production for the commodity and the selling price to the retailer will provide the management company with the capital needed for investment. The management company, in return for an equity stake in the retailing company, will provide a portion of the retailer's expansion capital requirements. More farmers will be brought into the management company as commodity production requirements increase to meet the increasing demands of retail sales. Distribution of equity ownership among the three partners will remain constant.

A share of the management company's margin will be returned to investors, especially the farmers, in the form of dividends as an immediate benefit of the shared-equity model; but the bulk of the capital will be reinvested with the retailer in return for equity in the retail company. It is the value of the retail ownership equity that will be significant as the value of the company/brand grows.

In this way, the individual farmer's income is not limited by his production capacity but will grow as the share of equity and its value increases with increased production and sales (Weatherly, 2004). The prospect of increasing income will be an incentive for more farmers to participate in the venture.

In each succeeding year, the management company will reinvest the bulk of its margin into securing more brand equity. As the brand grows and production increases, more investment equity will be the needed to meet the requirements of the marketing company. New farmers are brought into the management company as demand and production grows.

Weatherly has developed a strategy for determining the farmer's share in the marketing/retailing company based on:

- The book value of the marketing/retailing company at the time the farmer joins the management company.[5]
- The capital contributed by the management company to the marketing/retailing company during that year.

With a high annual growth in sales, it is assumed that the book value of the company would also reflect a corresponding value increase. Weatherly estimated that the sale of the commodity to the retailing company will provide a margin large enough to meet at least 10 percent of the retailing company's capital needs during each of the next five years.

Each year, every new group of farmers would join the management company with a similar equity stake in the marketing company. The stake will be based on the management company's contribution of approximately 10 percent of the marketing company's annual capital needs for that year. That share value would then grow over time. The longer one has been in the management company, assuming sustained growth,

[5] Weatherly estimated the book value of a company to be five times the gross sales (Weatherly Interview).

the more valuable that share. The farmer must hold their shares for at least five years but they can use a portion of them as collateral for a bank loan after two or three years. Total initial capitalization of the management company from both private investors and development NGOs would be from US$4 to US$5 million.

The management company will be instrumental in developing a content stream of information and stories that can be used in its marketing effort in the media. Not only will this include stories about the product but also stories about the positive impact that the equity-sharing relationship can have on the individual producers and their communities.

Because of free market conditions, it is assumed that after approximately five years, the farmers will no longer be competitive in the global market for this commodity. This is expected because economies of scale and efficiency will eventually displace the small producers in this market. That has been the situation with other commodity crops these farmers have grown. If this is the case, the farmers will still have the passive income from their shares in the brand that their produce and their story originally helped to create.

**DATA ANALYSIS**

For the purposes of this study, each of the four equity-sharing partnerships was evaluated in relation to the indicators for equity ownership and indicators of adherence to fair trade principles as developed from the initial propositions of this study. The indicators of equity ownership were the percentage of equity ownership, payment of dividends by the business, access to credit based on ownership of shares, the level of participation in the management of the company, the awareness by producers of their involvement beyond the role of supplier, and the ability of individual farmers to sell or transfer shares.

Each partnership was then examined for its success in providing the elements that are normally associated with fair trade. There were four main categories of indicators: economic, product development, producer social services, and consumer education and awareness. The following is a summary of each category:

- Economic– Benefits such as payment for commodities above the prevailing market rate, a commitment to long-term trading relationships, pre-order financing and loans or grants for infrastructure development;
- Product development– Assistance with product development in terms of quality control, market development, organizational skills training and technical assistance with environmental and sustainability issues;
- Producer social services– Social services to producers paid through premium funds that included community development projects and welfare assistance programs;
- Consumer education and awareness–Campaigns and educational activities directed at consumers to personally connect the products purchased with the people who produce them.

Table 1 is a categorical summary of the data in terms of the identified indicators. A compete category matrix with specific examples of evidence for each equity-sharing partnership can be found in Appendix C.

## Summary of Data by Identified Indicators

| **Indicators of equity ownership:** | **Cafédirect and Cafédirect Producers, Ltd.** | **Day Chocolate and KKU** | **Wild Coffee Project and Kibale Forest Foundation** | **Proprietary Commodity Projects and KKF** |
|---|---|---|---|---|
| Shares in marketing or retailing company | Yes | Yes | Yes | Yes |
| Awareness of ownership in a larger process. | Yes | Yes | Not indicated | Yes |
| Voting representation on the Board of Directors | Yes | Yes | No | No |
| Dividends paid | Yes | Yes | Unknown | Yes |
| Access to credit based on equity shares | In future | Not indicated | No | Yes |
| Pay out to farmers if they chose to withdraw from participation | Unknown | Unknown | No | Yes |

| **Indicators of Fair Trade** | **Cafédirect and Cafédirect Producers, Ltd.** | **Day Chocolate and KKU** | **Wild Coffee Project and Kibale Forest Foundation** | **Proprietary Commodity Projects and KKF** |
|---|---|---|---|---|
| **Economic** | | | | |
| ▪ Commitment to long-term trading relationships; Fair trade prices, premium prices | Yes | Yes | Yes | No |
| ▪ Pre-order financing | Yes | Yes | No | No |
| ▪ Loans or grants for development | Yes | Yes | No | No |
| **Product development** | | | | |
| ▪ Assistance improving product quality | Yes | Yes | No | Not indicated |
| ▪ Assistance with market development | Yes | Yes | No | No |
| ▪ Organizational skills training | Yes | Yes | Not indicated | Not indicated |
| ▪ Technical assistance with environmental and sustainability issues | Yes | Yes | Yes | Not indicated |
| **Producer social services** | | | | |
| ▪ Community empowerment/ respect for cultural traditions | Yes | Yes | Yes | Not indicated |
| **Consumer education and awareness** | | | | |
| ▪ Educational Campaigns Marketing Promotions | Yes | Yes | Yes | Yes |

**Table 1: Summary of Data by Identified Indicators**

## Strengths and Weaknesses of the Partnerships

Cafédirect has been the most successful company to date in terms of gaining entry into the commercial market for its fair trade-brand products. The company has seen an annual growth rate of 20 percent per year and an expansion of products from one in 1994 to 41 in 2004. It now works in partnership with over a quarter of a million farmers in 11 countries (Cafédirect, 2004).

Cafédirect evolved from the initiatives of producers who had organized and made efforts to break directly into the export market themselves and by-pass the middlemen. Although owned by the four founding ATOs, there has always been the aspiration of producer participation in the management of the company (Tallontire, 2000).

This is evidenced by the existence of a producer conference that has been held biennially for the past twelve years. The conference brings together producer representatives, Twin Trading traders and UK retailers for information sharing and development of marketing strategies. It also has given Cafédirect the opportunity to consult with producers as a collective entity. Through the current issuance of stock to producers, consumers and employees, Cafédirect is broadening its shareholder base and fulfilling its aim of recognizing the producer contribution.

Cafédirect has been a fair trade model for producer support through its extensive Producer Support and Development Program (PSDP) and its established network of development partners. The value of benefits received by producers and their communities from the PSDP and their support networks far exceeds the value of any foreseeable dividends returned on equity from ownership. 20 percent of Cafédirect's turnover was paid in premiums to farmers and 8 percent of the gross profit was invested in producer development projects through the PSDP. US$1.75 million in pre-finance was offered to coffee farmers in the 2001/2002 season by network partners. In contrast, a total of ₤23,000 (US$37,600) was paid in dividends in 2002 to the four founding partners (Cafédirect, 2002).

Although producer ownership in the brand seems like the logical next step, financially, it will have little effect on the producers. 4.9 percent of the ownership appears to be a symbolic gesture. On the other hand, the restructuring of the Board of Directors to include two producer representatives could have a major impact on the strategic direction of the company.

The Day Chocolate Company (DCC), which is one-third owned by the Kuapa Kokoo Union (KKU), has two producer representatives on the board of directors. Like Cafédirect, the initiative to expand into the European retail chocolate market came from the Kuapa Kokoo Union in an effort to increase the proportion of fair trade sales for the cocoa trading company. The Day Chocolate Company was established as a for-profit venture company to retail chocolate in the UK commercial market.

Between 1993 and 2001, the volume of cocoa sold into the fair trade market was about 4000 metric tons. The total fair trade premium earned by the KKU has been estimated to be about US$1.6 million of which US$400,000 or 25 percent of the premium has gone directly to farmers in the form of bonuses; the additional proportion of premium spent (as opposed to saved or invested) has gone to community-based projects (Ronchi, 2002). According to Ronchi, the income effects at the individual level are found to be negligible. But the impact study did find that the ownership structure of the KKU and Day Chocolate created an increased sense of control and empowerment for farmers, despite the fact that Day Chocolate was responsible for only a small fraction of their sales.

The KKU has grown from an organization with 900 members in 22 villages to 30,000 members in 462 villages in less than ten years. The KKU and the KKL, their cocoa trading company, are strong and successful organizations that supervise buying, quality control and technical assistance for their members (Page, 2003). Since 1993, the activities of the KKU have injected over US$1 million in extra income to farmers. These funds have come from both fair trade bonuses and profits from the operation of the KKL in the conventional cocoa trade (Ronchi, 2002). The KKL, as a licensed cocoa buying company, is no longer financially dependent on fair trade to support itself and its activities.

The organizational model of Day Chocolate with its many strategic partnerships has helped it overcome the problems of market access in a highly competitive industry (Ronchi, 2002). On a limited marketing budget, Day Chocolate recruited an experienced commercial team and partnered with a network of supporters including Christian Aid with 100,000 members and Comic Relief, which has an estimated 96 percent penetration in the youth market. It has successfully stocked its products in all major supermarkets in the UK and has extended it distribution to independent newsagents and Blockbuster video stores, bringing its distribution total to 15,700 retail outlets (Ronchi, 2002). Managing Director Sophi Tranchell believes the company has been able to compete because its cost systems are different from the competitors (Social Enterprise Coalition). Both Day Chocolate and the KKU have received substantial support from the Department For International Development (UK). Day Chocolate received a ₤400,000 (US$654,000) business loan guarantee, and KKU has received technical and financial assistance, in addition to support from Twin Trading, Max Havelaar, Comic Relief, and the Dutch volunteer organization SNV (DFID, 2000).

The goal of the Wild Coffee Project is to promote biodiversity conservation in and around the Kibale National Park by regulating uncontrolled coffee harvesting and turning it into an ecologically sustainable, conservation-friendly activity (Global Environmental Facility, n.d.). By marketing the resulting coffee blend as an eco-friendly coffee, the project hopes to support sustainable development in the communities surrounding the Park. With the Kibale Forest Foundation (KFF) negotiating an ownership share of the retail brand, it hopes to tap directly into the sweet spot of the value chain. No sales information could be found for the "Kibale Forest Wild Coffee" specialty coffee. It could not be determined if the villagers had received additional income benefits from the retail sales. The Private Sector Fund (Uganda) was tasked with building capacity among communities to manage the income earned (Eco-resort, 2000). The KFF has two full-time employees in Uganda. It could not be determined if the coffee harvesters had a significant role with the Foundation beyond the role of suppliers. Informational marketing of the coffee focused on the conservation of a tropical forest area with an ecologically diverse habitat for large animals and the benefits of community development supported by the purchase of this brand of coffee.

The Proprietary Commodity Project offers an investment model that allows for equity ownership by either individual farmers or organized groups of farmers. Each farmer would have an individual equity share based on the value of the retailing company, the length of time the farmer was a contracted producer and the amount of commodity that he contributed. The negotiated contract would benefit the producer by providing: a stable market for their produce for a specified time, an opportunity to own a share in a company in the first world, and the potential for a second income stream from the dividends on that share.

Margins from the sale of the commodity to the retailer would be invested on behalf of the producers in the retailing company instead of developing the production capacity of the farmers. This share of brand equity provides farmers with an asset, and income from that asset, that have the potential to grow in value over time. In contrast, according to the FAO, all agricultural commodities are losing value in real terms at a rate of 2-3 percent per year (Weatherly, 2004).

## CONCLUSIONS

### Statement of Conclusions

By examining these varied models for business formation, it is possible to better understand the context in which each business developed and what features it can bring to an ideal model for business formation. What are the underlying conditions that make a model work in a specific situation?

The Day Chocolate Company and Cafédirect are pioneering the inclusion of producers in the ownership and management structure of businesses at the retailing end. The experiences of Twin Trading in facilitating producer involvement are invaluable to others who wish to follow their example.

The Day Chocolate Company and Cafédirect were initiatives instigated by the producers themselves as a way to break into the more lucrative retail market. Effective producer organizations support both businesses, in particular Day Chocolate. The KKU is a model of a strong democratic and effective cooperative, which has established and operates a financially independent trading company and numerous support organizations. The producer organizations of both businesses have a long history of organizational development support from international NGOs. A network of partnerships supports not only the producer organizations by helping them carry out organizational and community capacity building but also the retailing efforts with financial support, consumer education, and marketing resources.

Impact studies of these businesses found that although the total amount of fair trade premiums returned to producers was substantial, on an individual producer level it was negligible. On the other hand, community projects funded by fair trade benefits had a discernible effect within communities. The studies also found that the distribution of the benefits to producer communities depended on the level of participation by producer groups and therefore they were not equally distributed. Producers saw membership in an organization that brought a product to the retail market as a source of pride and empowerment. The "idea" of ownership was more powerful than the actual monetary benefits that resulted from that ownership.

Weatherly argues that fair trade attempts to insulate producers from market forces. Neither of his projects focuses on building production capacity for the producers. Instead, they try to maximize the profits for the current situation. A marketing company, in which producers have an equity share, negotiates a contract with the retailer. There was little indication of producer input into the terms of the contract. Instead, it is assumed that the producers' interests are represented because returns to all equity partners are contingent on negotiating the best deal.

The Shared-Equity Model does offer innovative ways to include producers with individual equity ownership rights and highlights the need to organize a stream of available content stories in order to take advantage of the marketing opportunities of the public relations channels. The reinvestment of margins in the retailing company for a stake of equity in that company is an innovative idea that should be examined in more detail. Many companies offer such investment plans for their employees: a share of the profits invested on behalf of the employee in either the company or mutual funds. But this strategy assumes both growth and profitability for the retailing company and must be considered more closely to determine if the risks to marginalized producers are appropriate.

**Practical Applicability: A Framework for a Socially Responsible, Shared-Equity Business for Rice Terrace Farmers in the Cordillera Region of Luzon Philippines**

I embarked on this research with the idea of applying it to the creation of a socially responsible, shared-equity business that will provide a sustainable livelihood for rice terrace farmers in the Cordillera region of Luzon, Philippines. The business, Eighth Wonder, will be a vertically integrated, shared-equity import company that will bring a variety of high quality heirloom rice from the famed rice terraces in northern Luzon to the American and European commercial markets. The rice will be marketed as heirloom (traditional) varieties, grown on small family terraces with sustainable agricultural techniques. The organizing principles will include:

- Farmers will be equity owners in the retail company (Eighth Wonder).
- Rice will be purchased in a fairly traded manner.

- Increased production will maintain heirloom rice types that have been genetically "seed banked".
- Rice will be grown with sustainable or organic techniques.
- By linking them to a sustainable source of income, the rice terraces can remain traditionally utilized.

This research has helped to clarify a framework for the business that directly links producers to the retail product. This framework includes elements from each project that, I believe, would be appropriate to a small-scale venture. Through a direct relationship between producers and retailer, there will be not only greater economic benefits for the individual and community but also a motivation to work together to create something that is truly farmer-owned. By articulating a vision for a true partnership, it is my hope that the farmers will be motivated to create a business that offers an opportunity for participation, is democratically managed and strives to avoid unacceptable business practices.

Much can be learned from the early organizational efforts of the Kuapa Kokoo Union. Early participation by potential members led to deliberate choices in founding the organization. Initial organizational work will need to be done in areas where an interest has been expressed in participating in the business. Participatory activities can lay the groundwork for people's involvement in the business.

One of the initial steps will be to organize a farmer-owned rice buying business. Like the KKL, it will be a for-profit business, owned by the participating farmers. This entity will become the primary link to the shared-equity retailing business in the US, which I am calling Eighth Wonder. This business will coordinate the buying of rice from farmers as well as contracting for the processing, packaging and shipping of the export product. The business could also explore the possibility of domestic retail sales.

The research from both KKU and Cafédirect shows that the value of benefits from community and producer support programs exceeds the impact of individual returns. Despite this, farmers in both KKU and Cafédirect expressed a desire to see more money returned directly to the individuals. (DFID, 2000; Cafedirect, 2003) This can possibly be explained by the fact that not every producer group belonging to the organization had received community benefits. The research also noted that membership in an organization that brought a product to market created an increased sense of control and empowerment in the members. It is hoped that in a smaller business venture than KKU or Cafédirect, it would be possible for farmers to have an individual ownership share within a democratically operated business. I believe the Shared-Equity Model offers an individual ownership scheme for shares in the retailing entity. It might be a logistical nightmare but if it is important to producers, the model must be explored.

Working in partnership with NGOs and government agencies will be critical to the success of the project. By offering the marketing expertise for an income-generating activity, the business will be filling what is a critical gap in many development projects. It is hoped that the business can work in partnership with already existing programs to develop the skills and organizational structures needed to make the business successful.

The research also points out the need to design producer ownership into the original organizational structure. The Day Chocolate Company was established with producer equity included in the organizational design. Producers have one-third ownership and two seats on the board of directors. Cafédirect is including the producers after the fact in a general reorganization of stakeholders. After ten years of operation, in which producers were not acquiring equity as the value of the company grew, it is now harder to make them significant shareholders. The relatively small amount of ownership equity is offset by the inclusion of two producer representatives on the board of directors. On the other hand, the co-founder of ForesTrade, a for-profit trading company, feels that since producers were not included in ForesTrade's original ownership structure, it would be impossible to include them at this point of the operation (Appendix D). It should be noted that all of these businesses have extensive producer-support programs that do provide real benefits to both individual farmers and their communities.

As a start-up company, it will be imperative for Eighth Wonder to have a strong marketing plan. Both Cafédirect and Day Chocolate have partnered with businesses, non-profits and religious organizations with similar missions. Through their networks, those organizations have helped to promote the retail products and raise the level of consumer awareness. It will be important to make those connections for this business as well. The Shared-Equity Model also emphasizes the need for an extensive collection of stories that can be shared through different media forms. This will require the marketing director to have not only knowledge of the retail market but an extensive familiarity with the producers and their stories.

Based on my research, I am proposing the following organizational relationship between my business, Eighth Wonder, and the Producers'Organizations. (See Figure 2)

**Relationship Chart for Eighth Wonder, Inc. and Producers' Organizations**

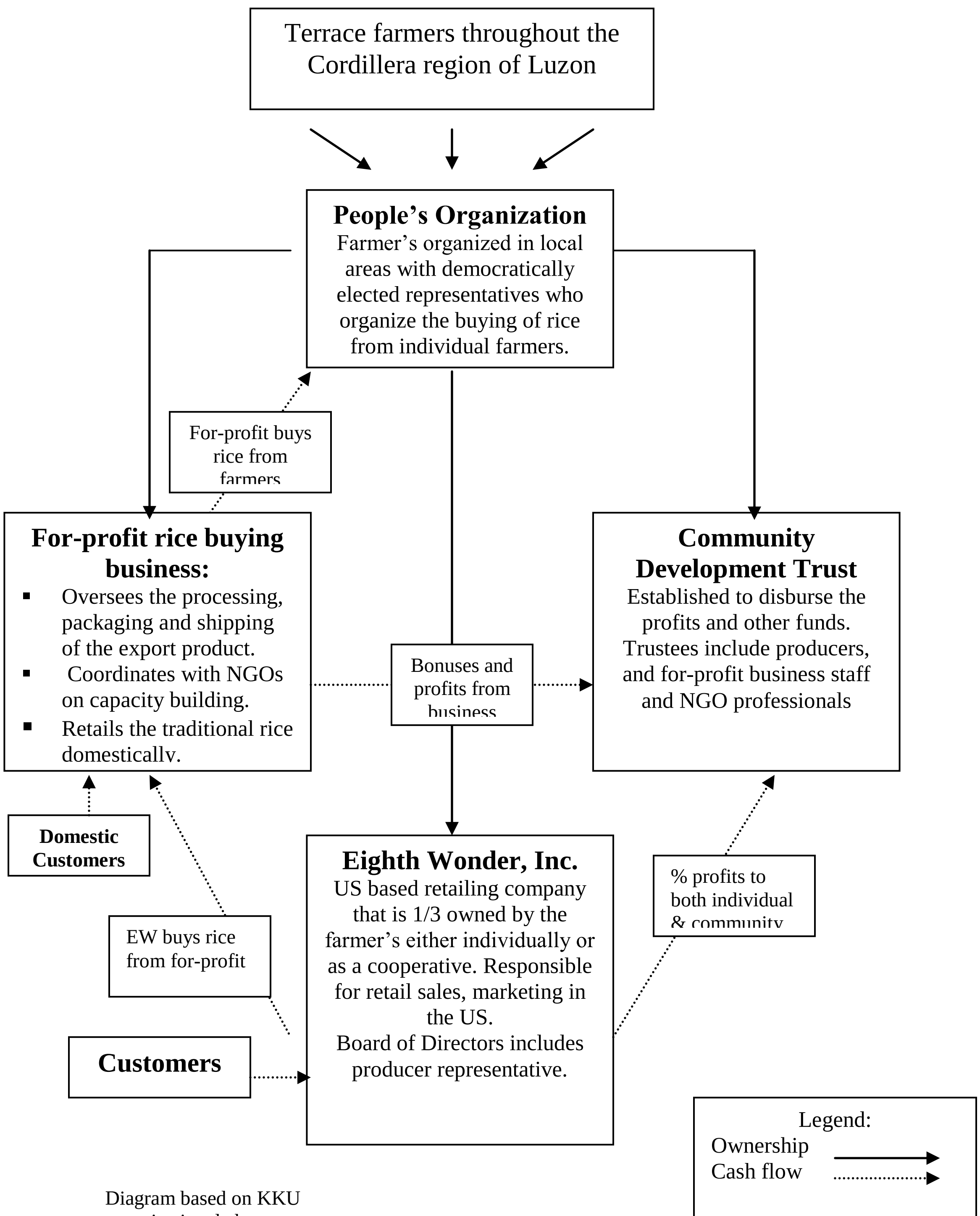



Diagram based on KKU organizational chart (Ronchi, 2002)

**Figure 2: Relationship Chart**

This research has led to a deeper understanding and appreciation of fair trade as a development tool. It has allowed me the opportunity to examine models, ask questions directly of people involved in international projects, and visualize different strategies before embarking on a course of action for a new business. It has helped me identify the core values that are the motivation for this business; and hopefully, it will help provide a framework for working toward my goal of founding a business in which the producers are equal partners.

This research has helped me address the issue of equity ownership by producers in my proposed business. It has also exposed me to wider issues in the alternate trade movement and enlarged my network of contacts. I believe that this research has given me new insights into building a business that will truly embody equality in a trade partnership and has increased the likelihood that the endeavor will succeed.

**Limitations of Study**

It is recognized that these case studies are broad overviews of equity-sharing businesses or projects. The businesses and projects differ in size from a retailing company that involves 250,000 producers in 11 countries to a development project that involves 900 people in three villages in a small buffer area around the Kibale National Park in Uganda. Twin Trading, along with other international NGOs, have been working with the producers involved with Cafédirect and the KKU for over ten years, while the projects of Weatherly Consulting are still in the start-up phase. The available information reflects these facts.

Both Cafédirect and Day Chocolate, because of their success and visibility, have been the subject of both academic studies and funder impact assessments. Due to their commitment to open and transparent operations, many of these studies are available on-line through government and fair trade information websites. Substantially less information is available about the proposed projects of Weatherly Consulting. I, therefore, had to rely almost exclusively on information provided directly by Paul Weatherly. At the present time there is no independent verification of the projects' impact or success.

Because of the timeframe in which the research was conducted, I was unable to interview the managing director of either Twin Trading or the Day Chocolate Company. I had a commitment for a telephone interview with Albert Tucker of Twin Trading and a referral for information to Sophi Tranchell of the Day Chocolate Company but my schedule conflicted with the FairTrade Fortnight in the UK and their work schedule in preparation for it. I hope to eventually communicate with them to clarify specific questions regarding ownership shares and the agreements as to how the shares should be treated for investment purposes.

**Recommendations for Further Research**

I would like to research further how for-profit businesses can facilitate capacity-building projects within a for-profit structure. I have made a conscious choice to pursue this venture as a for-profit-business although it is trying to achieve ends that are more typical of an NGO–providing a living income to marginalized producers, preserving an historically notable and ecologically fragile landscape, and reinforcing the indigenous culture. I believe that it is important to look at for-profit businesses such as ForesTrade and examine how they are financially able to support social and economic development activities in the communities in which they operate.

Many parts of this research could be examined in more detail. In particular, I hope to follow up with the managing directors of Twin Trading and the Day Chocolate Company. I would also like to become more familiar with project evaluation techniques, in order to be better equipped to assess the impact of the new business and its progress toward accomplishing its stated goals.

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## APPENDIX A

Fair Trade Standards

There are several organizations that set standards and certify Fair Trade. The International Federation of Alternative Traders (IFAT) has traditionally worked with craft producers that sell their products through alternate trade organizations. IFAT member organizations self-assess themselves on meeting the following principles (IFAT, n.d.):

- Working with economically disadvantaged producers
- Transparency and accountability in all relationships and transactions
- Capacity building of producers
- Promoting Fair Trade principles
- Payment of a fair price
- Gender equity
- Guaranteeing safe and healthy working conditions
- No child labor
- Protection of the environment

In the United States, Fair Trade Federation is an association of wholesalers, retailers and producers who pledge to adhere to the following principles (FTF, n.d.):

- Pay a fair wage in the local context.
- Offer employees opportunities for advancement.
- Provide equal employment opportunities for all people
- Engage in environmentally sustainable practices.
- Be open to public accountability.
- Build long-term trade relationships.
- Provide healthy and safe working conditions within the local context.
- Provide financial and technical assistance to producers whenever possible.

The FLO is the fair trade standard setting and certifying organization for products. FLO guarantees that products with the Fairtrade label meet fairtrade standards. Currently there are standards for only 10 products: bananas, cocoa, coffee, fresh fruit, honey, juices, rice, sugar, tea and soccer balls (FLO, n.d.).

The standards are defined in four areas:

Social

Economic

Environmental

and Standards of Labor Conditions, if a significant number of people are employed.

Traders must be able to document that they:

- Pay a price to producers that covers the costs of sustainable production and living
- Pay a premium that producers can invest in development
- Partially pay in advance, when producers ask for it
- Sign contracts that allow for long-term planning and sustainable production practices.

In addition, they are to work toward:

- Encouraging producer organizations to improve working conditions and product quality, increasing the environmental sustainability of their activities
- Investing in the development of the organizations and their producers/workers.

# APPENDIX B
Kuapa Kokoo Processing Tree

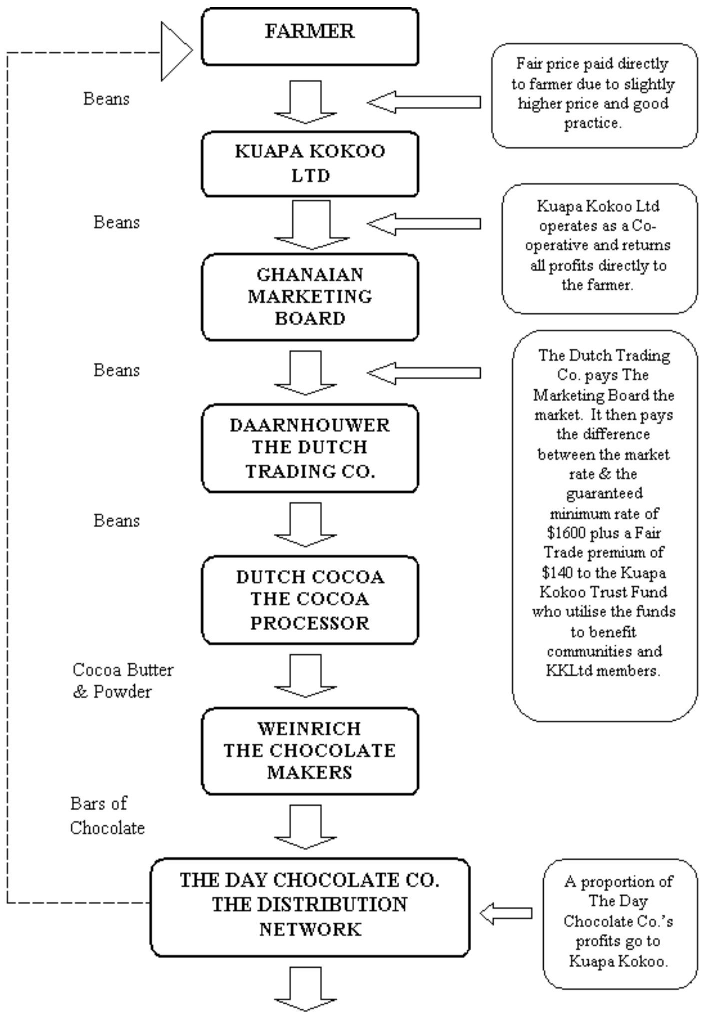


**Figure 3: Processing Tree**

Source: Kuapa Kokoo (n.d.).

# APPENDIX C

## Organization Structure and Equity-Sharing Mechanism in Relation to Indicators of Equity Ownership and Adherence to Fair Trade Principles

### Cafédirect and Cafédirect Producers Ltd.

Cafédirect works in partnership with 33 producer organizations in 11 countries, involving over 250,000 farmers. The company has expanded from 1 product in 1994 to 41 products in 2004.
Company turnover in 2002-2003 was ₤13.6million with a pretax profit of ₤0.5 million. (Cafédirect Share Issue Prospectus)

| **Indicators of equity ownership:** | |
|---|---|
| Amount of Equity Ownership | On successful completion of the current share issue, Cafédirect Producers Ltd. will own 4.9 percent of Cafédirect. Of this holding 1.2 percent will be fully paid and 3.7 percent will be nil-paid. |
| Acknowledgement by farmers within the assessment literature that they are more than Fair trade supplier; that they have awareness of ownership in a larger process. | Biennial Producers' Conference September 2003 brought together 44 producer reps, Cafédirect and Twin Trading. One of the "hot issues" that was identified by delegates was structure of producer ownership and what form it should take. (Cafédirect, 2003). Until 1995 producer involvement in Cafédirect management focused on use of premiums. (Tallontire, 2000) Until now, 2 producer reps attend board meetings but are non-voting. |
| Voting representation on the Board of Directors or Board of Advisors in ownership entity | Cafédirect Producers Ltd. will nominate two Directors to the Board of Cafédirect. The nil-paid shares held by producers carry voting rights but may be forfeited if calls made on the holder are not paid when due 31 March 2006. (Cafédirect, 2004) |
| Dividends paid on profits | 2002 dividends on equity shares ₤23,000 (Cafédirect, 2002) |
| Access to credit based on equity shares | N/A |
| Pay out to farmers if they chose to withdraw from participation | N/A |

| **Indicators of Fair Trade** | |
|---|---|
| **Economic** | |
| ▪ Price above conventional market price with a commitment to long term trading relationships- Fair trade prices, premium prices | Pays Minimum fair trade price plus a 10 percent premium on market price. Has developed own fair trade minimum guaranteed price for Tea. (Cafédirect, 2004) Stated aim of Twin is to maintain relationships with producers over longer periods. Does not drop producers but encourages producers to learn from mistakes. (Tallontire, 2000)<br><br>20 percent of Cafédirect turnover was paid in premiums (above market FOB price) to farmers in 2002. ₤1,902,000 on coffee and ₤196,000 on tea. (Cafédirect, 2002) |
| ▪ Pre-order financing | Pre-payment of up to 60 percent of total cost of order. Through network partners offered pre-finance of US$1.75 million to coffee farmers (Cafédirect, 2002) |
| ▪ Loans or developmental grants for business infrastructure development such as processing centers | Helps arrange equipment for projects supported by NGOs or sought by organizations in the South. This includes help with equipment specification, purchasing, inspection, packaging, shipping, installation, commissioning, training, and maintenance. (Durst, n.d.) |
| Product development | |
| ▪ Assistance in improving product quality | Producer Support & Development program invested ₤299,000 or 8 percent of gross profit in the development of stronger producer |

| | |
|---|---|
| | organizations. (Cafédirect, 2002). Trade development programs are designed for each individual producer group. **W**orks to improve the quality of coffee by providing market information, by designing market-oriented incentives which reward farmers for quality, and by delivering advice on quality production, strategies and support (Cafédirect, 2000). |
| ▪ Assistance with market development | Twin has continued to oversee and assist organizations with export strategy. (Tallontire, 2000) Twin Trading carries out trial importation and tests markets for products from new sources. Twin develops brand and marketing strategies and wholesale distribution systems for selected products (Durst, n.d.). |
| ▪ Related organizational skills training | Local networking – supporting organizations offer advice and know-how to neighboring producers. Cafédirect has started to engage local people to provide support to co-operatives. |
| ▪ Technical assistance with environmental and sustainability issues | Encourages organic and other environmental friendly methods of production |
| Producer social services | |
| ▪ Community empowerment and respect for cultural traditions | Many examples: "The premium helps the whole community with small but important projects like providing cement for our schools and piping for clean water". (http://www.cafedirect.co.uk/news.php/000075.html) |
| Consumer education and awareness | |
| | Conferences sponsored by Twin bring producer and consumer groups together, and Twin will be as helpful to consumer groups seeking partners as to producer groups (Durst, n.d.).<br>Cafédirect is promoting their 5065 instant coffee with students, giving them the opportunity to sample the coffee as well as find out the hard-hitting facts about the coffee crisis and the difference that Fairtrade makes (http://www.cafedirect.co.uk/news.php/000055.html).<br>Launched website in 1999 which gives insight into life of growers, principles of fair trade. Major supporter of Fair Trade Fortnight, with major advertising campaigns highlighting the impact of fair trade.<br>Has been the subject of several BBC specials (Cafedirect, 2000). |

Comments: Prepayment of up to 60 percent is not the norm with fair trade companies. There is no set minimum that is required to be paid.

## Day Chocolate Company and the KKU

The Kuapa Kokoo Union currently consists of 462 primary village societies with a total membership of 30,000 farmers (Mayoux, 2001).
Day Chocolate Company markets *Divine,* a fair trade milk chocolate bar, *Dubble,* a new fair traded children's chocolate bar, and has just expanded it product line to include 4 additional flavored chocolate bars, chocolate eggs and coins and a chocolate drink powder.

| **Indicators of equity ownership:** | |
|---|---|
| Amount of Equity Ownership | The farmer's association KKU holds 33 percent of the shares in Day Chocolate (Ronchi, 2002). |
| Acknowledgement by farmers within the assessment literature that they are more than fair trade supplier; that they have ownership in a larger process. | Waiting lists of cooperatives to join the KKU.<br>Farmer's enjoy sense of empowerment through their ownership stake and their say in how to run it. At KKL Annual General meeting, reps of each farmer's society discuss and formulate company policy. (DFID, 2000)<br>The ownership structure of Kuapa and Day Chocolate creates an increased sense of control over the development process and this is despite the fact that Day is responsible for only a small portion of their fair trade sales (Ronchi, 2002) |
| Voting representation on the Board of Directors or Board of Advisors in ownership entity | Chair of KKU and the Managing Director of KKL represent the farmers on the Board of Day Chocolate. Farmers vote for regional reps who in turn select national KKU reps (Mayoux, 2001). |
| Dividends paid on profits | 66 percent of profits go to into the Kuapa Kokoo Trust Fund (Mayoux). |
| Access to credit based on equity shares | Examined by Day but not until it can be differentiated from already existing loan schemes. |
| Pay out to farmers if they chose to withdraw from participation | Not indicated in information |

Comments:
The organizational model of Day as a partnership between a FT organization, producers and an ethically minded business has help it overcome the difficulties of market penetration for a small company (Ronchi, 2002).
Because of the unique partnership, the cost systems are quite different from the competitors. Competitors pay less for raw ingredients and manufacturing, but spend huge amounts on advertising. (Social Enterprise Coalition, n.d.)

Impact study questions the degree to which all farmers are involved in decisions about use of community funds and the degree to which they value community assets from premiums over higher bonuses on sales (Mayoux, 2001). Many farmers expressed a preference for receiving the benefits of FT premium in the form of higher price or bonus rather than in the form of community development projects (DFID, 2000).

Most significant benefits are concentrated among the following groups: Executive committee members who receive a commission on each bag of cocoa and receive training from KKU; Senior staff and KKU Board members that benefit from capacity building initiatives and exposure to cocoa supply chain, i.e. Day Chocolate; and communities that receive project funds from premiums. (DFID, 2000)

| **Indicators of Fair Trade** | |
|---|---|
| **Economic** | |
| ▪ Price above conventional market price with a commitment to long term trading relationships- Fair trade prices, premium prices | KKL is the only buyer that pays more than the government set price although premium is very small. Only 2.1 percent of FT cocoa is sold into the FT market of which Day is a buyer. (DFID,2000)<br>At end of each year, farmers are paid a cash bonus on a per sack basis. (Day Chocolate Company, n.d.) Only about 25 percent of premium goes directly to farmers, the remainder spent on investment in the |

| | |
|---|---|
| | trading and production companies in Ghana and community projects (Ronchi, 2002).<br>Premiums were divided among supporting development of a strong commercial trading company, individual income bonuses and funding community projects. (Ronchi) |
| ▪ Pre-order financing | In 1996 KKU started a policy of "credit sales". Under deferred system, farmers who agree to wait for payment until KKU is credited with the sale will receive money saved from the interest which would have been payable on the loan needed to advance them money. (Kuapa Kokoo, n.d.) |
| ▪ Loans or developmental grants for business, infrastructure and development | Department for International Development (DFID) UK, provided a ₤400,000 loan guarantee to commercial bank for Day Chocolate. (Mayoux, 2001).<br>DFID approved a Credit and Savings Feasibility Project for KKL in association with Twin and capitalized at ₤20,000 (DFID,2000). |
| Product development | |
| ▪ Assistance in improving product quality | Day Chocolate subcontracts the manufacturing to chocolate companies in Belgium and Germany. Uses only cocoa butter.<br>By paying a premium has the choice of best bean. Employs agricultural extension workers to work with farmers (Appendix B) |
| ▪ Assistance with market development | Day Chocolate has secured media exposure from local newspapers to national television through the medium of its chocolate and the activities associated with the launch and distribution of its product (Ronchi, 2002).<br>Twin continues to provide business and financial expertise (Mayoux, 2001).<br>Christian Aid ran a campaign for Day Chocolate to encourage supermarkets to carry the brand; The Body Shop stocked the chocolate in their stores (The Day Chocolate Company, n.d.). Using marketing concept of Divine towns (Ronchi, 2002). |
| ▪ Related organizational skills training | KKU has Social Development Department with 9 officers. Training: leadership skills, enterprise development, Education: literacy, legal awareness, health and sanitation; Research: support groups (esp women) for alternative economic activities, feasibility studies.<br>SNV-Ghana continues to support KKU staff educational and train programs (Mayoux, 2001). |
| ▪ Technical assistance with environmental and sustainability issues | Conducts agriculture extension programs. Promotes organic production. |
| Producer social services | |
| ▪ Community empowerment and respect for cultural traditions | The KKFarmer's Trust was set up to receive all premium funds for farmers earned from the sale of cocoa on the FT market abroad. Disbursement is made to meet needs of farmers as determined by them in such areas as income generation, social infrastructure and credit schemes (Mayoux, 2001).<br>Development officer to assist in identifying welfare programs, community assisted programs (Mayoux). To present, 41 of 53 community projects have been funded with fair trade premium earnings including a school, supplies for medical clinic, building sanitation services, 31 water projects and 7 corn mills for alternative income generation. 40 percent of village societies have initiated projects. Over 100,000 people in communities with societies have received free medical care and prescriptions (Ronchi, 2002). |
| Consumer education and awareness | |
| | Comic Relief has endorsed the Divine Chocolate bar and is |

| | |
|---|---|
| | implementing a £200,000 FT education and awareness raising project for UK teachers and their awareness of FT, running a chocolate challenge in conjunction with a TV show, designed free info packs on FT for schools, PR and educational activities linked to contests, a FT element in the Comic Relief website (DFID, 2000). 17 percent of all UK primary schools and 26 percent of all secondary schools actively requested the information packets (Ronchi, 2002). |

Comments: Although the KKU emergence was not dependent on assistance from TWIN, it was significantly assisted by donor-funded capacity building and trade facilitation (Mayoux, 2001).

## Kibale Forest Foundation and The Wild Coffee Project

KFF has contracted an equity share in an “eco-coffee” blend “Kibale Forest Wild Coffee” that blends wild coffee from this project with an arabica Ugandan organic coffee in a ratio of 1:100 (Wild Coffee Project).

| **Indicators of equity ownership:** | |
|---|---|
| Amount of Equity Ownership | KFF serves as management company that negotiates marketing contracts for coffee beans harvested through project. KFF has secured 1/3 share of equity in a specific brand blend of coffee. |
| Acknowledgement by farmers within the assessment literature that they are more than fair trade supplier; that they have awareness of ownership in a larger process. | Not seen in limited amount of information.<br>Educational training sessions included introduction to the idea of passive income from royalties and dividends. “Members of the community are beginning to understand the distinction between earned income from their labor and passive income from investments KFF will hold in trust for the communities” (Wild Coffee Project, n.d.). |
| Voting representation on the Board of Directors or Board of Advisors in ownership entity | No, KFF has 3 trustees but they are not actively involved in management of KFF. Advisors and contacts only. (Weatherly interview) |
| Dividends paid on profits | Any profits will be held in trust for the producers. |
| Access to credit based on equity shares | N/A |
| Pay out to farmers if they chose to withdraw from participation | N/A |

| **Indicators of Fair Trade** | |
|---|---|
| **Economic** | |
| ▪ Price above conventional market price with a commitment to long term trading relationships- Fair trade prices, premium prices | Only a token amount of wild coffee may be harvested from the buffer zone. Permits are granted to local villagers for the harvest of a pre-determined sustainable amount of coffee from the park’s buffer zones. For the first two harvests, villagers were paid 3-4 times the prevailing market rate for coffee for their permit allotment (Wild Coffee Project, n.d.). |
| ▪ Pre-order financing | No |
| ▪ Loans or developmental grants for business, infrastructure and development | No |
| Product development | |
| ▪ Assistance in improving product quality | Worked with Uganda Coffee Trade federation to build a system to manage and market wild coffee. The commercial roaster partner in the US does roasting and blending (Wild Coffee Project, n.d.). |
| ▪ Assistance with market development | Farmers are not involved in this aspect |
| ▪ Related organizational skills training | Private Sector Foundation (Uganda) is contracted to build capacity among the communities to manage the income earned from the project (Eco-resorts, n.d.). |
| ▪ Technical assistance with environmental and sustainability issues | KRAV of Sweden inspects, monitors and certifies compliance with organic and wild food standards. Part of KFF mission statement is to preserve the wild home of native coffee. Park staff observe and supervise the harvest to guarantee that harvesting occurs in an environmental sound manner (Wild Coffee project, n.d.). |
| Producer social services | |
| ▪ Community empowerment | KFF will hold passive income from royalties in trust for the |

| | |
|---|---|
| and respect for cultural traditions | community. Kabirizi leaders were planning to buy small piece of land for building a village office (Wild Coffee Project, n.d.) |
| Consumer education and awareness | |
| | Part of mission statement to educate consumers about Wild Coffee's native home. Maintains an informational website www.wildcoffee.org about the Kibale rainforest and how the Wild Coffee project facilitates a direct relationship between consumers, Kibale and its people. Packaging carries extensive information about wild coffee and how the sales support ecological diversity and community development in the area surrounding the National Park. |

Comments: Kibale National Park is a 296-square-mile tropical forest remnant established as a protected area to conserve the wealth of wildlife inhabiting the region during a time of rapid deforestation. When Kibale became a protected area, the communities lost the chance to supplement their wages because they were now prohibited from entering the park ("When animals attack", 2001).

### KKF Management Company and Proprietary Commodity project

Estimated involvement will be 3,500 farmers providing commodities to manufacturing and retailing companies in Europe and the US. (Weatherly, 2004)

| **Indicators of equity ownership:** | |
|---|---|
| Amount of Equity Ownership | Ownership by producers will be 20-30 percent of Management Company. |
| Acknowledgement by farmers within the assessment literature that they are more than fair trade supplier; that they have awareness of ownership in a larger process. | Not seen in limited amount of information |
| Voting representation on the Board of Directors or Board of Advisors in Management Company | No. Management Company has a performance incentive to negotiate the best deal for the farmers. Incentive suggested at 20 percent of the total brand equity or royalty stream negotiated with partner retailing firm. |
| Dividends paid on profits | A small share of the Management Company's profits will be returned to farmers based on their annual contribution as an immediate benefit. Largest proportion of profits will be invested with Retailing Company in return for an equity share in that company. |
| Access to credit based on equity shares | Farmers must hold shares for at least 5 years but can use a portion as collateral after 2-3 years. |
| Pay out to farmers if they chose to withdraw from participation | After 5 years each farmer will have individual equity that is based on the value of the Retailing Company, the length farmer has been a contracted producer for the Management Company and the amount of commodity contributed. Has proposed several models for determining ownership equity for individual farmers. |

| **Indicators of Fair Trade** | |
|---|---|
| **Economic** | |
| ▪ Price above conventional market price with a commitment to long term trading relationships- Fair trade prices, premium prices | Price paid for commodity would be a stable, market set price including premium offered for organic certification. The strategy for this project "is to provide a potentially lucrative entry, short term stay and profitable exit for farmers" when they are no longer price competitive on an international market. |
| ▪ Pre-order financing | Unknown factor |
| ▪ Loans or developmental grants for business, infrastructure and development | Focus of this project is to invest farmers' profits in the Retailing Company which is assumed to have an increasing market value as sales increase rather than into the means of production that will be uncompetitive in a few years. |
| **Product development** | |
| ▪ Assistance in improving product quality | Will work in conjunction with organizations and agencies currently providing this type of in-country development |
| ▪ Assistance with market development | Marketing company will focus on helping to develop a national brand image for all products from this country or region. |
| ▪ Related organizational skills training | Will work in conjunction with organizations and agencies currently providing this type of in-country development |
| ▪ Technical assistance with environmental and sustainability issues | Will work in conjunction with organizations and agencies currently providing this type of in-country development |
| **Producer social services** | |
| ▪ Community empowerment and respect for cultural traditions | Not indicated in available information |

| Consumer education and awareness | |
|---|---|
| ▪ Campaigns | By 2006 a participatory process will be used to formulate and adopt a nation branding strategy that supports export products.<br>Brand enhancing stories will be used in the marketing of the retail products. Compensation for the use of their story will be reflected in the assumed increase in market value of the Retailing Company of which they own an equity share. |

Comments: Although farmers may be organized as cooperatives, this is not a requirement for partnership with the Marketing Company.

# APPENDIX D

Lecture and Interview Notes from Forestrade

Sylvia Blanchet, Co-Founder of ForesTrade, SIT Social Entrepreneurship Class, March 9, 2004.

I arranged to interview Sylvia Blanchet, co-founder of ForesTrade, after she spoke at the Social Entrepreneurship class of Ted Borek. As it turns out, I spoke with her briefly before the class and had a few minutes for follow-up questions after the class. I told her I was most interested in how a for-profit business could fund activities that were normally associated with non-profit organizations. During her talk she tried to address this specifically. Afterwards, I spoke with her briefly about the idea of producer ownership in a business.

Notes were taken during her talk; the following is a summary of that talk and our brief discussion:

ForesTrade has had an average growth rate of 84 percent. They currently supply 12 percent of the fair trade coffee in the United States and are the world largest supplier of organic species.

Their business model has been to create alliances and multi-stake partnerships:
Farmers: They offer a premium price, help with market intelligence, are a consistent buyer of their produce and provide staff to train farmers and also actually do the certification procedures and internal control systems for certification.

- NGOs: NGOs have been very responsive to working with them because FT provides the market and the market expertise which is usually lacking for the NGOs who are doing extension and development work.
- Local Businesses: FT helps them with quality control and certifications that are beneficial to a business' development, such as ISO certification. They try to facilitate working capital for business start up.
- ForesTrade's Customers have been the key to their success. They have provided grants to producer/producer organizations or related businesses to help them improve their quality, which in turn supports the customer mission of fair trade. FT has helped facilitate over US$2M in loans to farmers for processing plants and working capital to buy products. Much of that has come from the EcoEnterprise Fund. FT's customers have given US$80,000 in grants to producers. FT spends a great deal of their time writing grants for their partners.

ForesTrade tries to be flexible in how they deal with different producer groups. They usually pay a premium price with bonuses at the end of the season. Part usually goes to the individual farmer and part goes to community organization development. The money has been used to pay for mosque restoration, roads, and schools water systems.

Company growth:
This type of business (working with marginalized producer groups in isolated areas) has been hampered by lack of access to working capital from the general commercial market.

There is more organic supply than the market can take. The market has become much more competitive. Companies with no commitment to fair trade are now entering the organic market. FT is in it for the long haul; whereas other companies are buying on the spot market. In the beginning they were working with natural food companies that had a similar set of principles.

In their experience, they had a lot of problems in some areas with dishonesty and corruption. Distribution partners failed, processors were not reliable about accountability. They therefore got into developing their own systems and hiring workers themselves.

The current US government administration has put more emphasis on businesses doing more of the development work. FT was successful in writing a proposal to USAID for the guarantee of commercial loans. The paperwork associated with that type of loan is overwhelming though.

Concerning the question about producer ownership:
This was one of the original intentions when they started. But the growth of the business was not well planned and they grew as needs and demands arose. It just became one of the many things that they didn't have time to pursue when they were struggling to keep the business afloat. If they had had some sort of structure in the beginning to include producers perhaps they could have done it. There are several reasons why it is not feasible at this time but first and foremost, the investors. It was not something that was brought up in the beginning and so investors did not invest in the business with that in mind. It would be unfair to them to bring in more owners at this time just as the business approaches some sort of profitability.

In business, the product emphasis is always changing. She was unsure how that would work when the producers' primary interest and income is from selling a product. When the product emphasis changes, would the producers/owners support the change for the good of the company as opposed to their own self-interest? Also, the logistics and cost of having people all over the globe being involved in management decisions was too daunting when they have difficulty getting the people in the same room to make a decision. (laugh)