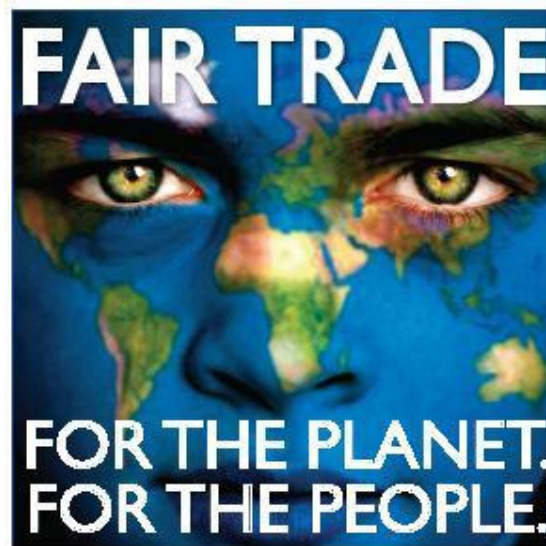




**Fair Trade, CrossBorderProsperity and Muhammad
Yunus: Together for Worldwide Prosperity and
Empowered Producers in Developing Countries**



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I Executive Summary

The objective of this paper is to examine how a combination of the concepts of Fair Trade, CrossBorderProsperity (CBP), Yunus' microcredit and social business could strengthen the producers' socio-economic situation and position in the free market. Small-scale producers¹ in developing countries are being exploited and live in many cases in poverty without perspective to lift themselves out of their situation.

- **Fair Trade** advocates fair trading practises by paying a 'fair' price and establishes an equal partnership based on trust and respect with producer cooperatives in developing countries.
- **CBP** is a concept of change management from the roots, taking the local culture into account and empowers the poor by making them aware of their capabilities and resources.
- **Microcredits** are small loans to poor people, who are otherwise left out by financial institutions because they believe that poor people are not credit-worthy. These loans have low interest rates and provide poor people with the possibility to start business activities.
- **Social Businesses** do not aim to maximise profit, but social good. Profit generated is not paid to shareholders, but invested back into the business' social cause.

As these concepts in themselves improve the producers' socio-economic situation and position in the free market, the actual aim and challenge is to create a synergy effect by combining these concepts such that the producers will be empowered from which an interdependent and equal partnership will arise.

The important findings in this thesis are that there is not one single approach having the power to improve the producers' socio-economic situation and position in the free market. However, a crucial condition to the worldwide spread and success is the paradigm switch from profit maximisation to social responsibility and social entrepreneurship and awareness raising that poverty is organised and thus prosperity can be organised too. The recommendations given are evident for any approach aiming to provide producers the ability of self-help.

¹ The definition of producers/ small-scale producers as used in this thesis can be found in the introduction.

Recommendations:

- Empower producers and make them aware of their capabilities and resources.
- Make information technology accessible in developing countries, also in rural parts, so poor people are not left out and can obtain relevant information (for example market prices).
- Advocate community spirit, problems can be solved in a well-functioning community.
- Include grass roots and Diaspora, to ensure local characteristics are adhered to and to ensure success in a sustainable way.
- Make use of ethical banking and sustainable banks which invest transparently and ethically, and whose goal is maximising social good.
- Advocate forming of producer communities as it is beneficial to performance, but also ensures producers have a stronger position in negotiations.
- Raising awareness that poverty is organised and that therefore prosperity can be organised too.
- Further research. CCODER in Nepal is an example of best practise in empowering producers.

II List of Acronyms in Text

CBR	CrossBorderRelations (Stichting CBR KvK)
CBP	CrossBorderProsperity (the concept ‘change management from the roots’ behind CBR)
CCODER	Center for Community Development and Research
EFTA	European Fair Trade Association
FLO	Fairtrade Labelling Organisation
NGOs	Non Governmental Organisations
SMEs	Small and Medium Enterprises
WTO	World Trade Organisation

III List of Figures

Figure 1: Plan of Approach

Figure 2: An Overview of the Structure of the Thesis

Figure 3: Prosperity Triangle

Figure 4: How CBP supplements Fair Trade

Table of Contents

I EXECUTIVE SUMMARY	2
II LIST OF ACRONYMS IN TEXT	4
III LIST OF FIGURES	5
TABLE OF CONTENTS	6
1 INTRODUCTION	8
1.1 Problem description.....	9
1.2 Research objective and research question	11
1.3 Research Method and Plan of Approach	12
1.4 Structure of the Thesis	13
2 CONCEPTS.....	15
2.1 Fair Trade.....	15
2.1.1 Fair Trade the Concept.....	15
2.1.2 Stakeholders involved	17
2.1.3 Money Flow.....	18
2.2 CBP Concept.....	19
2.2.1 CrossBorderRelations the Organisation	19
2.2.2 CBP Concept: Change Management from the Roots	21
2.3 The Ideas of Yunus	22
3.3.1 Background Information	22
2.3.2 Microcredit.....	23
2.3.3 Social Business.....	23
3 ANALYSIS	25
3.1 Shortcomings of Fair Trade	25
3.2 Shortcomings of CBP	26
3.3 Strengths of Fair Trade.....	26
3.4 Strengths of CBP and How They Could Supplement Fair Trade.....	27
3.4.1 Continuous improvement	27
3.4.2 Difference in Knowledge sharing	27

3.4.3 Close Gap between Theory and Practice	28
3.4.4 Social Business and Transparent Money Flow	28
3.4.5 How CBP supplements Fair Trade	28
3.5 Shortcomings of Microcredits and Social Businesses	29
3.6 Strengths of Microcredits and Social Business.....	29
3.7 Synergy: A Comprehensive Approach.....	29
4 CONCLUSION	31
5 RECOMMENDATIONS	33
REFERENCE LIST	35
APPENDICES	39
Appendix A: Interview Questions and Interviews	39
Appendix B: Percent of People in the World at Different Poverty Levels, 2005	41
Appendix C: Fair Trade Standards	42
Appendix D: Price Calculation	44
Appendix E: Net Income Effects	45
Appendix F: Supply Chains	46

1 Introduction

'Every cow in Europe today is subsidised two dollars a day. That is twice as much as the per capita income of half of Africa. It is the extraordinary distortion of global trade, where the West spends \$360 billion a year on protecting its agriculture with a network of subsidies and tariffs that costs developing countries about US\$ 50 billion in potential lost agricultural exports. Fifty billion dollars is the equivalent of today's level of development assistance. In short, there are huge distortions in the global political economy going way beyond the modest levels of development assistance, which have to be tackled' The UNDP Administrator Mark Malloch Brown in his speech at Makerere University in Uganda 2002 (Brown, 2002).

In fact, almost a billion people on this planet live on less than \$1 per day. 2,6 billion on \$2 and more than 80% live on less than \$10 a day according to the World Bank in 2008.² Many producers in heavily populated regions such as Mexico and Latin America, Indonesia, Pakistan and Bangladesh are living and working in circumstances common in Europe and the United States in the 19th century (Ransom, 2001, p. 17).

The practise of Fair Trade³ is a relatively well known answer to address the problems of subsidies and protectionism imposed upon the developing countries by developed countries. Fair Trade improves the producers' position in the market by buying their products for a fair price.⁴ However, there is always room for improvement in any concept. Fair Trade is not an exception. In this context, the Japanese Kaizen philosophy of continuous improvement illustrates it impeccably by arguing the following principle: "It ain't broke, fix it anyway" (Healthcare Performance Partners, 2007).

For producers to become independent from development aid, improvement of their socio-economic situation is needed. The CrossBorderProsperity (CBP) concept, 'change management from the roots'⁵, offers a more comprehensive approach which combined with the ideas of Muhammad Yunus, the Bangladeshi 'banker of the poor' and the initiator of microcredits and social businesses, could empower⁶ the producers in the developing countries. When referring to

² Appendix B provides the graph from the World Bank.

³ Fair Trade is explained and defined in chapter 2.1.

⁴ 'Fair Trade producers receive a "fair price" for their products. This price is mutually agreed between Fair Trade producers and buyers with the objective of providing a living wage and of covering the costs of sustainable production (all production costs are taken into account). For many Fairtrade certified products, this also implies the setting of a minimum price' (Fair Trade 2007).

⁵ Explained in chapter 2.2.2.

⁶ Empowerment literally means 'to give someone more control over their own life or situation' (Longman - Dictionary of Contemporary English, 2010). Empowerment is a form of self-control and awareness enabling a person to decide and act independently. It ensures that a person learns what he/she desires and receives what is desired. Furthermore,

producers in this paper small-sale producers are meant. ‘Small-scale producers are producers operating at a small-scale, used to distinguish from industrialised producers’ (OECD, 2010). These producers are limited in their scope or extent as they do not have the means to operate on an industrial level. Small-scale producers can produce agricultural and non-agricultural products.

The objective of this paper is to examine how the combined concepts of Fair Trade, CBP and the ideas of Yunus could strengthen the producers’ socio-economic situation and position in the free market. Hence, the central research question is as follows: *How to combine the concepts of Fair Trade, CBR and Yunus such that it improves the socio-economic situation of small-scale producers in developing countries and strengthens their position in the free market?*

The named concepts are chosen for different reasons, but one characteristic they all have in common is attempting to improve the producers’ position in one way or another. Another reason for choosing for Fair Trade is that it is one of the fastest growing markets in the world (Krier, 2008, p. 7). Microcredits provide producers with the means to start their own business and social businesses use their profit and energy to do good. CBP is chosen because it empowers producers by making them aware of their capabilities and resources.

CBP, Fair Trade, microcredits and social business are having a significant difference: They do not operate with the same or similar structures. Fair Trade is run by various organisations such as producer, importing, labelling and non-governmental organisations. CrossBorderProsperity on the other hand, is only supported by CrossBorderRelations. Microcredits are tools every NGO, bank or other organisation can utilise and social business is a mind set for people who are seeking to do business in a social responsible manner. For the difference in nature and structure, a comparative analysis of the concepts is unfeasible.

1.1 Problem description

Small-scale producers in developing countries are often exploited, as they have a weak position on the free market. There is no equal power distance between the players in the supply chain. In most cases, small-scale producers have enjoyed little to no education and are illiterate. In consequence, they do not have the knowledge, the network nor the capital to lift themselves out of their impoverished situation by themselves. They are often dependent on middlemen who

empowerment can be related to the community if someone is using and developing his/her capacities to actively shape his/her own life and utilises these capacities to enrich the community. The capacities are ranging from individual skills and confidence to material prosperity and social as well as political participation. In Gandhi’s political strategy ‘Satyagraha’, empowerment as a tool for the masses was fundamental (Mandela, 2007).

purchase their products for a very low price, often even well below the world market price (Yunus, 2008, p. 46). They have no means to inform themselves about market prices and other crucial information. Selling their products to a different middleman who, for example, is situated 20 kilometres further, might be more beneficial. In many cases these middlemen are also operating as money lenders (Yunus, 2008, p. 46) as a result of which producers become even more embedded in their already dependent position. In short, their situation is unacceptable to say the least from an ethical point of view.

Regarding development aid, many individuals, NGOs and other charity organisations operating in what are commonly referred to as developed countries assume that they are contributing to a better world while in fact they are doing the exact opposite. More people than ever before are starving (Patel, 2008). Aid has resulted in more dependency rather than empowered producers and enabled of self-help. It has made entire nations economically and mentally more dependent (Silos, 2010, p. 3). In her book "Dead Aid" Dambisa Moyo describes the negative outcomes of the aid industry and points out that development aid actually stimulates corruption in Africa (Moyo, 2009, p. 95). Moyo states that development aid has not enhanced the situation in Africa, but has worsened it and has led to a stagnation of economic growth (Moyo, 2009, p. 22). Development aid is an enormous industry and employs many people. These organisations are convinced that what they are doing is right and, as is typical for any type of organisation, are reluctant to change (Griffin & Moorhead, 2010, p. 479). Hence, it is difficult to create a paradigm shift in the development aid industry. Additionally, developed countries do not seem to be in any rush whatsoever to alter the situation of developing countries for the better as one can conclude from the results of the WTO conferences (Ymata & Bong, 2008). The refusal to stop protectionism, upholding market tightness and subsidising farmers, are practises that lead to an unequal and unfair competition from which the developing countries directly suffer.

An illustrative example is the subvention of US cotton farmers by the USA, but also the Common Agricultural Policy (CAP) and the agricultural subsidisation policies by the European Union. CAP accounts for more than 45% of the EU's budget and adds up to €43 billion per annum (BBC, 2008).⁷ However, at the same time, both the EU as well as the USA, state that they are actively contributing to eradicate poverty by giving development aid and setting Millennium Development Goals. In fact, the EU in 2006 allocated merely €9.8 billion to official development assistance (ODA) (EU, 2010). These figures are illustrative of protectionist behaviour.

⁷ Wyn Grant claims it was even 49,446 billion € in 2005 (Grant, 2006).

Moreover, by dumping excess production in developing countries, especially as by the EU, the developing countries' industry is destroyed (Cooper, 2005, p. 12). In addition, the practices of the WTO conferences are not fair either. Many meetings are held simultaneously and poor developing countries do not have the resources (Ransom, 2001, p. 15) to send a delegation to each meeting, while developed countries do and ensure in this way they are being heard and the developing countries are left out (Global Exchange, 2009).

According to Oxfam International's Make Trade Fair Report, African countries could earn \$70 billion if their share of world exports was increased by 1%, this being approximately five times what the continent receives in aid (Fair Trade Federation, 2010).

With Fair Trade a step into the right direction has been taken: trade and pay fair; trade not aid. Fair payment averts the exploitation of the producers and ensures they are able to earn their living. The Fair Trade concept is one way to improve the position of the producers in the free market. It addresses however, only a part of the problem, namely exploitation and the strong dependency on the world market price.

In order for producers to become interdependent,⁸ improvement of their socio-economic situation is needed as well. As a solid socio-economic situation is the foundation for being able to act as an equal partner.

1.2 Research objective and research question

The objective of the research is to determine how the three concepts of Fair Trade and CBR together with microcredits and social businesses could create a synergy⁹ effect and contribute to the improvement of the producers' socio-economic situation and strengthen their position in the free market, empower them and lay freedom of choice in their hands. Recommendations to everyone striving for eradication of poverty and empowered producers in developing countries are given. The recommendations are not aimed at a specific group of people operating by the means of a certain concept, but to everyone who truly wants to contribute to the drastic improvement of small-scale producers' livelihood in developing countries by enhancing the socio-economic situation and the small-scale producers' position on the free market. Socio-economic refers to

⁸ Interdependence creates synergy 'by open communication and positive interaction with others' (Covey, 1989, p. 188).

⁹ Synergy is 'the interaction of two or more agents or forces so that their combined effect is greater than the sum of their individual effects' (Answers.com, 2010). Synergy is created when things work in concert together to create an outcome that is in some way of more value than the total of what the individual inputs is' (Adams, 2010).

‘studies/indicators looking at both social and economic conditions relevant to well-being’ (BC Stats, 2010). Indicators are for example, economic hardship, health problems, education concerns, children and youth at risk.

Central Research Question

How to combine the concepts of Fair Trade, CBR and Yunus in such that it improves the socio-economic situation of small-scale producers in developing countries and strengthens their position in the free market?

In order to improve the socio-economic situation and position in the free market (improving the producers’ access to markets, reducing middlemen and accomplishing an equal power distance between the producers, importing organisations and other players), empowerment of the producers is important.

Sub-questions

- What are the producers’ problems?
- What is the Fair Trade concept about and how does it work?
- What does CBP concept change management from the roots involve?
- What are Yunus’ ideas about Microcredits and Social Businesses?
- What could a comprehensive approach involve?

1.3 Research Method and Plan of Approach

In this paragraph, the research method and approach are outlined. The information used in this thesis is gathered by desk research (literature review) and semi-constructed interviews. Semi-constructed interviews are a fairly open framework that advocates two-way communication. In this way, it provides more flexibility than standardised methods such as the structured interview or survey. Semi-constructed interviews provide the scope to pursue and probe emergent ideas making this particular method best suitable to gather relevant information. The interviewees are Klaus Voss, the CEO of an importing organisation importing Fair Trade roses from Africa to Europe and the United States, Fadoua Semlali who works for a NGO dedicated to helping women cooperatives to produce fair products and Kees van der Meijden, owner of the WAAR shop in The Hague. Appendix A contains the interview questions.

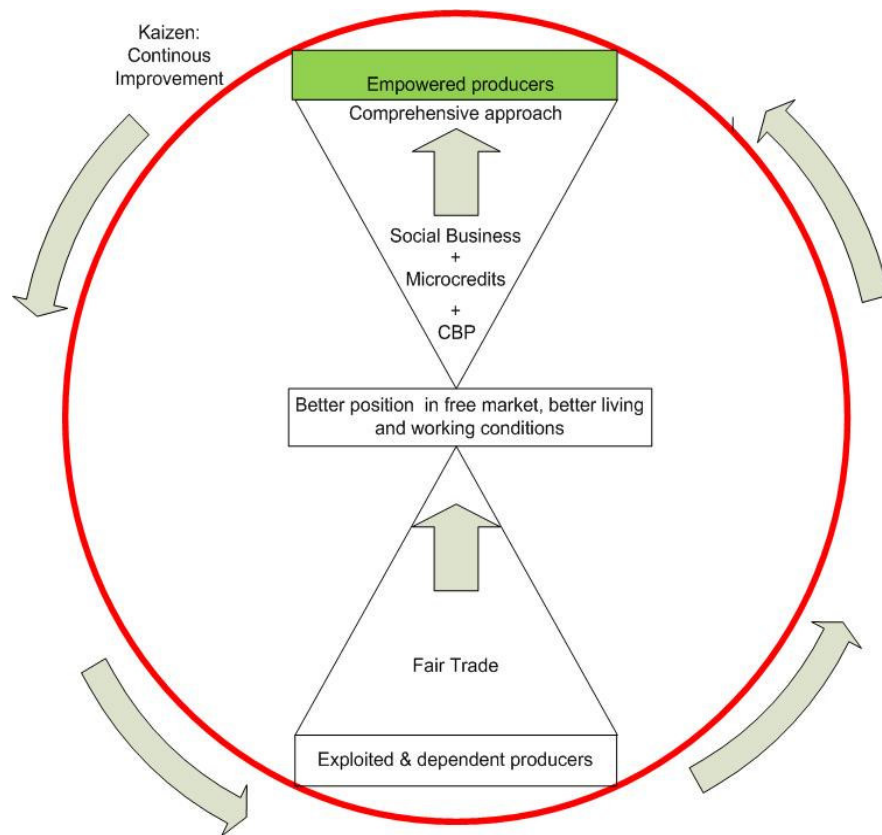


Figure 1: Plan of Approach

Figure 1 explains the plan of approach of the research. The kaizen circle of continuous improvement underlines the philosophy behind this paper. The mentioned concepts are all worthy and relevant to change the producer's position for the better and empower them to some extent. The text box in the bottom states the situation of many producers in developing countries at present. Fair Trade helps to improve their position in the free market, as well as living and working conditions. Synergy between fair trade, CBP, microcredits and social business can lead to a comprehensive approach which empowers the producers (text box in the top). The red circle, illustrates the role of the Japanese kaizen philosophy which emphasises everything can be continuously improved.

1.4 Structure of the Thesis

Figure 2 gives an overview of the structure of the thesis. Chapter one attempts to give insight into the problem and describes the situation of small-scale producers in developing countries.

Furthermore, it explains the research methods, objectives and questions are stated, followed by the research method, plan of approach and an explanation of the importance of empowerment. Chapter two of this thesis gives detailed insight into the concepts of Fair Trade, CBP, Yunus' microcredits and social business. In Chapter three, the shortcomings and strengths of Fair Trade, CrossBorderProsperity (CBP), microcredits and social businesses, how the strengths of CBP are complementary to Fair Trade and the synergy between the concepts is outlined. Finally, in chapter four, a conclusion is given, followed by chapter five with recommendations on how producers in developing countries could be empowered.

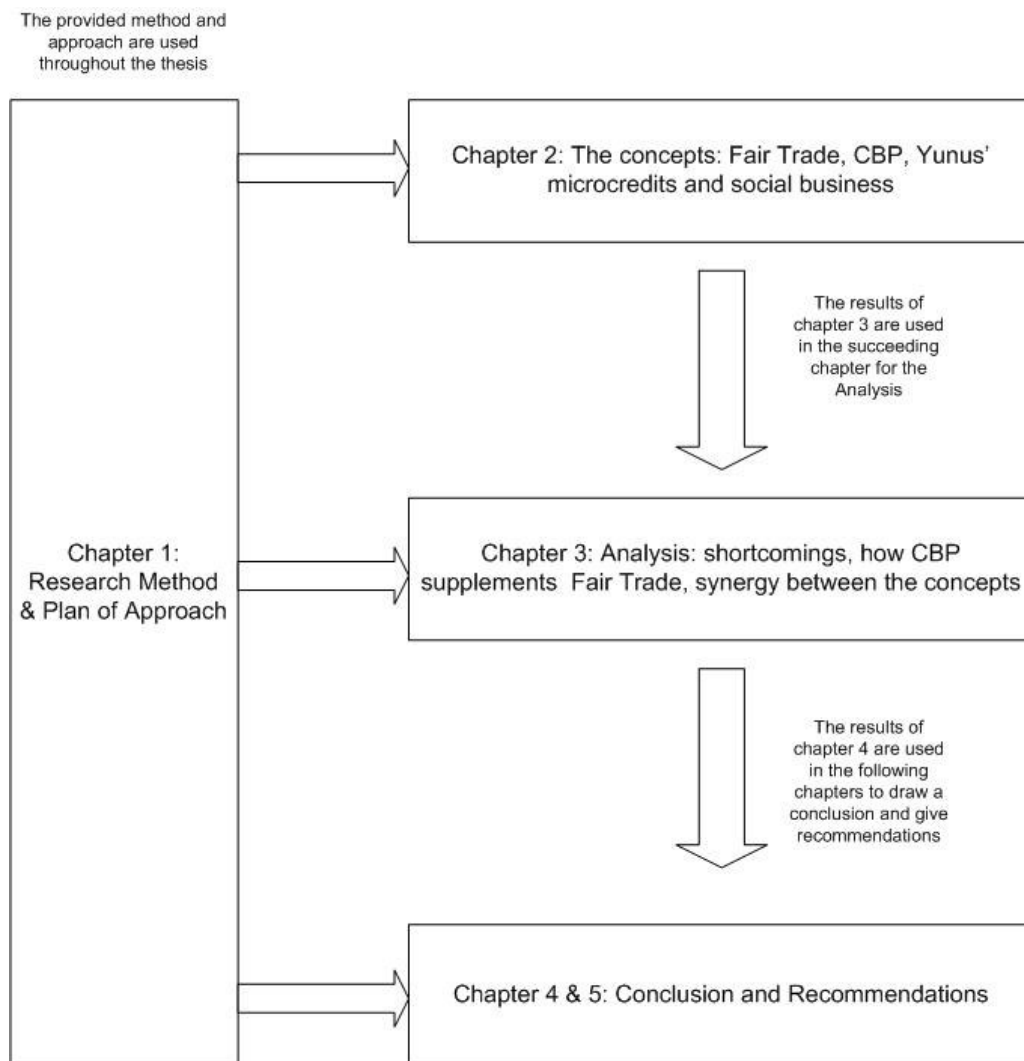


Figure 2: An Overview of the Structure of the Thesis

2 Concepts

This chapter describes the concepts relevant to create a comprehensive approach. Fair Trade, CBP ‘change management from the roots’, Yunus’ microcredits and social business are these concepts. First the background of the concepts is illustrated and then the concept itself is explained.

2.1 Fair Trade

This section explains firstly the concept of Fair Trade, then the stakeholders involved are named and lastly a description of the money flow is shown.

2.1.1 Fair Trade the Concept

Although Eduard Douwes Dekker, under the pseudonym Multatuli, started criticising the Dutch trading practice in Java, Indonesia with his book ‘Max Havelaar: Or the Coffee Auctions of the Dutch Trading Company’ in 1860, it took society until the 1970s to start evolving to a fairer trading system. Churches played a significant role in the beginning of the Fair Trade movement. In the 1970s first fair traded handcraft was sold to world shops and in 1988 Fair Trade¹⁰ began on a bigger scale: coffee was sold through supermarkets and institutional channels (Ruben, 2008, p. 21). Many Fair Trade products entered the market since then, food products like bananas, cocoa, tea, fresh and dried fruits, spices, handcrafts such as baskets, jewellery, instruments, decorations as well as cosmetics (Krier, 2008, p. 27).

Fair Trade advocates for a fair trade between producers and consumers on the basis of mutual respect that shall contribute to the happiness of both parties (Cooper, 2005, p. 40) and thus incorporates the local values trust, respect and partnership on a global level (Raynolds, 2002, p. 410).

Definition of Fair Trade by FINE¹¹ in 2004: *‘Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of,*

¹⁰‘The term Fairtrade is used to describe the certification and labelling system governed by FLO. TheFairtrade system allows consumers to identify goods that have met Fairtrade standards. The term Fair Trade is used to refer to the Fair Trade movement as a whole and can be used to describe both labelled and unlabelled goods and the work of Alternative Trade Organizations (ATOs), Fair Trade federations and networks such as NEWS, EFTA etc. The term fair trade is a broader term often used to describe one or many of the above, and is also used to refer to trade justice issues’ (FLO international).

¹¹ FINE is a network of organisations promoting fair trade in Europe: Fairtrade Labelling Organizations (FLO International), International Federation for Alternative Trade (IFAT), Network of European World Shops (NEWS!), European Fair Trade Association (EFTA) (Traidcraft, 2004).

marginalized producers and workers - especially in the South¹². Fair Trade organisations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade.'

In practice, this means Fair Trade producer cooperatives receive a fair price for their products. This price is guaranteed and agreed upon by importing organisations and producer cooperatives together. On top of the price per product the cooperative receives a premium which is used for the producers' community. The amount of the premium differs from organisation to organisation and from product to product. According to the Fairtrade Labelling Organization standards, the premium for certified coffee is 10 Cents per kilo and for organic Fair Trade coffee it is 20Cents per kilo (Fair Trade Federation, 2010).

A democratically elected board decides how this premium is spent. In general, it is used for improving working conditions, improving production qualitative building schools, hospitals (health services), pension funds and sanitation projects. The Fair Trade initiatives are challenging the 'assumptions that conventional prices represent a legitimate instrument for valuing commodities and organizing international exchange' (Raynolds, p.409) and present an alternative to development aid. Fair Trade does not signify organic production. However, it does strive for organic production. 39% of Fair Trade coffee is also organic and dual labelling (Fair Trade and organic) is rising (FLO, 2002).

According to FLO international there are currently 1million Fair Trade producers and workers in 58 developing countries, around 3000 traders of certified Fair Trade products in over 73 countries and 60 countries where Fair Traded products are available (FLO, 2009).

Fair Trade is one of the fastest growing markets in the world (Krier, 2008, p. 7); in Europe the EFTA members¹³ have experienced an increase in turnover of 29% from 2002 to 2006. In the United States and in Canada there has been a growth of 102% between 2004 and 2006 (Fair Trade Federation, 2008). And the raising awareness of the consumer suggests that the increase is likely to continue. In the United States for example, 75% of the consumers think they have an obligation to ensure producers and workers 'in international production sites do not work in harsh or unsafe conditions' (Raynolds, 2002, p. 415). This figure forms a great potential for fair trade. According to the Fairtrade Labelling Organization (FLO) the global Fair Trade tea sector in 2008

¹² South or countries in the South is another way of referring to developing or third world countries, especially used by Fair Trade related organisations.

¹³ EFTA (European Fair Trade Association) is an association of 11 importing organisations from 9 European countries.

experienced a growth of 112%. In the same year fair cotton product sales increased as well by 94% and fair coffee sales by 14% (FLO, 2009). The global fair trade sales of certified and non-certified products was 2,646 million € in 2007.90% of these products were certified. The number of organisations in quest of certifying their products by FLO is increasing, as well as organisations eager to join existing Fair Trade network associations (Fair Trade Federation, 2008, p. 13).

2.1.2 Stakeholders involved

The European Fair Trade Association (EFTA) states that 'Fair Trade 'humanizes' the trade process-making the producer-consumer chain as short as possible' (Raynolds, 2002, p. 404). It can be distinguished between four different types of organisation that are involved in the trading chain.

1) Producer organisations are often organised in cooperatives. Producers produce or cultivate a variety of products and sell their products for a fair price to the

2) Importing organisations. The importing organisations are functioning as wholesalers or retailers in their home countries and at times they also function as both. The importing organisations do not only buy products at a fair price but support the producers in fields of product development, skill and management training (Krier, 2008, p. 27). They reduce the risk that comes from the strongly fluctuating world market prices and enable producers to make long-term investments. Many importing organisations, like EZA (Australia) or IDEAS (Spain) are either offering pre-payments or microcredits. The importing organisations furthermore, initiate or support other organisations (e.g. NGOs) consumer awareness raising campaigns.

3) Worldshops buy the products from the importing organisation. Worldshops are shops specialised on Fair Trade products and offer next to the products also information to the public (Krier, 2008, p. 27).

Notice: There is not always a clear separation between importing organisations and retailers. In some cases, this two types mix and form a single organisation e.g. in the Belgium, Oxfarm Worldshops are the owner of the importing organisation Oxfarm Fair Trade (Krier, 2008, p. 27).

4) Fairtrade Labelling initiatives give a guarantee that the products claiming to be Fair Trade are in fact fairly traded according to the standards¹⁴. They are licensing and promoting the Fairtrade certification mark. The international umbrella organisation Fair Trade Labelling

¹⁴ Fair Trade standards can be found Appendix C.

Organizations International (FLO) is a network of 19 Fairtrade labelling initiatives in 23 countries (FLO, 2010). In the case of the United Kingdom 'Fairtrade licensees pay a fee of 1.8% of net wholesale value which pays for this work and for the Fairtrade Foundation's work in promoting Fairtrade in the UK' (The Fair Trade Foundation, p. 1).

There are other types of organisations involved too; NGOs who are setting up consumer awareness programmes or organisations that help producers meet the European market requirements (Krier, 2008, p. 27). Volunteers form an important force, alone in the EU there are at least 82,167 volunteers working. The volunteers are mainly involved in the Worldshops (Krier, 2008, p. 49).

2.1.3 Money Flow

There is not a certain percentage the producer receives because their profit depends on the product. Often it is difficult to determine a 'fair' price because there are so many different products with different intended purposes produced out of different materials in differing conditions (GEPA, 2010). Fair Traders nevertheless ensure that the producer usually receives more than the world market prices. GEPA-The Fair Trade Company uses the example of organic coffee farmers in Mexico. The producer receive 1,20€ per pound coffee that is sold by shops at 7,38€ per pound¹⁵, in this case the producer receives 16,26% in contrast to the 10% in the free market (Cooper, 2005). 0,31€ for the premium, 0,59€ for external storage costs, 1,10€ coffee tax and 0,36€ certification costs add up to the 3,56€ GEPA pays for the coffee. GEPA sells the coffee at 5,59€ to retail and 1,31€ retail margin plus 0,48€ value added tax add up to final price the consumer is paying. However, as pointed out before, Fair Trade does not always mean a better price than the free market price. Moreover, as Ruben points out, in the Fair Trade and Organic segment the producer obtains a higher income (Ruben, 2008, p. 32).

¹⁵ Appendix D provides the calculation.

2.2 CBP Concept

This part gives information about the network organisation CrossBorderRelations and explains the concept behind it: CrossBorderProsperity (CBP), ‘change management from the roots’¹⁶ by empowering the core values of esteem, respect, trust and knowledge.

2.2.1 CrossBorderRelations the Organisation

Vision

Create infinite prosperity worldwide.

Mission

CBR aims to accomplish worldwide prosperity by giving people in developing countries at grass roots level access to knowledge, capital and relations to implement social business models. Teaching personal leadership, cultural sensitivity, empowering locals, teaching and implementing social business models are the core activities of CBR. CBR believes prosperity is not just found in physical self-reliance, but should be accompanied by mental self-reliance. In order to reverse the process of creating physical and mental dependency of many development countries CBR aims to support the development of small and medium enterprises (SMEs).

The aim of CBR is to create worldwide prosperity¹⁷ through teaching and implementing social business models. Social business models do not aspire to maximise profit but to maximise prosperity for *all* people through profit. CBR operates from the perspective that poverty is organised¹⁸; therefore prosperity can be organised too. CBR was founded in 2002 and develops international Prosperity programmes in which social and financial investments in People and Planet result in Pleasure and Profit. Students form the majority in CBRs workforce since they are the living future, the new leaders. Students can gain knowledge, develop their skills and cultural intelligence and experience a new type of organisation; a flexible, creative network organisation.

CBR is a network organisation, meaning that there is no traditional hierarchical structure to be found in CBR. All partners of CBR are working for the same goal and vision: Creating a world of infinite prosperity. The organisational structure can be compared with a fractal. A fractal is ‘a rough or fragmented geometric shape that can be split into parts, each of which is (at least

¹⁶ Roots: the culture, knowledge and other abilities by the locals (origin).

¹⁷ Prosperity in the context of CBR is understood as societal accountable social and economic growth.

¹⁸ Poverty is manmade. Organised poverty is the direct result of trade barriers in combination with the development aid sector. Trade barriers result in an enormous loss of income in the so called development countries. The so created poverty is a market for the aid industry. Today’s practice of development aid is still the same as years ago; it makes the inhabitants of poor countries dependent on donations (Silos, 2010).

approximately) a reduced-size copy of the whole' (Mandelbrot, 1982). For every project/Prosperity Programme working groups out of CBR partners are formed. All partners are independent and are working on a voluntary basis for CBR. The self-management of the crews is the cornerstone of the organisation. The flat organisation is effective, proactive and cost effective. The dynamic of the organisation demands a web-based communication structure.

The Prosperity programmes, which are the core and aim of CBR, are fuelled by the CrossBorderAcademy, CrossBorderNetwork and CrossBorderCapital. The Prosperity Triangle in Figure 3 illustrates the correlation of the different activities.

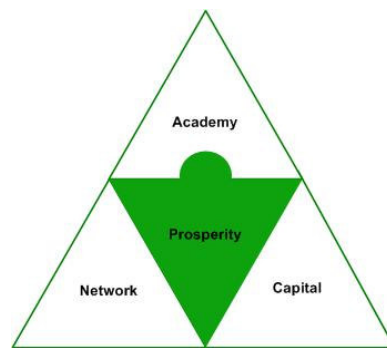


Figure 3: Prosperity Triangle

CBAcademy is all about knowledge sharing and stimulating self-reliance. CrossBorderAcademy provides a university minor to stimulate students to make the paradigm shift from profit maximisation to social entrepreneurship and to teach the lessons learned from the Prosperity programmes. Moreover, the minor also emphasises personal leadership and cultural sensitivity and makes it possible for students to take part in Prosperity programmes abroad where they can put the knowledge they have gained through the minor and their personal expertise into practice by means of an internship or final thesis. Another part of the CrossBorderAcademy is training local people to become certified CrossBorderRelations trainers who on their turn prepare their fellow citizens to run the Prosperity programmes and become physically and mentally independent of the Dutch headquarters.

The CBNetwork provides a platform for cross border relations between socially responsible knowledge institutions, teachers, students, government- and business professionals who would like to exchange knowledge and/or contribute to the CrossBorderAcademy, -Capital and -Prosperity.

CBCapital shows in a transparent manner the CBR money flow. Once the Prosperity programmes are self-reliant and past break-even, they become part of the CrossBorderSocialBusinessCommunity. 20% of the profit is invested back into CrossBorderRelations to initiate new Prosperity programmes.

2.2.2 CBP Concept: Change Management from the Roots

Change management is used to describe the processes of renewing, changing and improving the status quo by means of a strategic approach. The area of expertise around change management mainly deals with individuals and organisations, thus also applies to a network organisation like CBR. Change Management is a process in which the current undesirable situation is replaced by a desired future situation. A crucial point to change management is the agreement that changes do not always happen by themselves and do not always turn to the desired direction. The CBP (CrossBorderProsperity) concept is a concept of change from the roots designed to provide people and organisations with knowledge tools enabling them to change, from the roots, in a sustainable way. With 'from the roots' Roy Silos, the initiator of CBR, made an important addition to the traditional change management theory, as the effectiveness of the change highly depends on the people involved. Every country has a different culture where different approaches lead to the goal. For this reason, change management from the roots is designed per country according to the countries' culture, language, diversity and customs. This concept was developed out of best practice and already existing relevant theories on this matter:

- Business Process Reengineering by Hammer & Champy (2001) → chain redesign;
- Theory of Constraints by Goldrath (1984) → bottleneck elimination in the chain;
- Deming Circle by Deming (1994) → sustainability;
- Kaizen method by Imai (2000) → continuous improvement;
- The fifth discipline by Senge (1990) → learning organisation based on networks;
- Creating a world without poverty by Yunus (2007) → Microcredits.

It is important to comprehend that the way to the goal of change from the roots differs from country to country because of its cultural roots and traditions. In order to take the right way for every country CBR is working with Diaspora, since they are best familiar with the countries' history, culture, habits, art, local media, the most effective way to address locals and what role models they identify with. Another reason for CBR to cooperate with Diaspora is their economic

importance to their respective home country. The amount Diaspora worldwide sending ‘home’ accounts for more than the global development aid.

KISS (Knowledge sharing, Innovation, Sustainability, Self-reliance)¹⁹ is the tool box of CBR. The K for knowledge sharing and the I of Innovation constitute a combination of the unique selling points (distinctiveness) of CBR compared to other organisations. The S for Sustainability combined with the S for Self-reliance is making the difference. The development within the concept CBP of a fraud free CBR Capital (current system) is also one of the unique selling points of CBR.

2.3 The Ideas of Yunus

In this section Yunus ideas relevant to the research namely microcredits and social business are outlined. Firstly, some background information is given on how Yunus’ involvement in creating a world without poverty started.

3.3.1 Background Information

Muhammad Yunus was born in 1940 in (East) Bengal at that time still British India and since 1971 Bangladesh. In 1972 Yunus decided to return to his birthplace, he was working and living in the United States as an assistant professor at Middle Tennessee State University. He returned to Bangladesh because he wanted to contribute helping to build a free, prosperous nation (Yunus, 2008, p. 44). He worked as an economics professor at Chittagong University. In the mid 1970s a devastating famine spread throughout Bangladesh and Yunus decided to do something immediate to help the starving people. Yunus wanted to help the farmers to improve the agricultural productivity by means of irrigation. The project turned out to be a success. Yunus however, was not satisfied as he realised the situation of the poorest did not improve as much as he hoped. The landlords, on the other hand, were benefiting from the additional harvest. Yunus spent a lot of time in the village Jobra trying to find out and understand what was constraining the people. He realised it was not a lack of effort, but due to local moneylenders. They were taking advantage of the people who had to borrow money from them. The moneylender only agreed to lend money if they would sell their products exclusively to him, at a price he would decide (Yunus, 2008, p. 46). Consequently, this pact left the producer with almost nothing, to Yunus this was a ‘way of recruiting slave labour’ (Yunus, 2008, p. 239). He discovered that 42 people (and so their families) in that village were borrowing less than \$27. He was impressed by his discovery of 27\$ having the means to constrain a whole village from living in prosperity. The idea of the

¹⁹ KISS is the English translation of the Dutch KIDZ (Kennisdelen, Innovatie, Duurzaamheid, Zelfredzaamheid).

microcredit emerged²⁰. Yunus is convinced that poverty is an absence of all Human Rights and a threat to peace (Mandela, 2007).

2.3.2 Microcredit

With his discovery of poor people being left out by financial institutions, Yunus' idea of microcredits emerged. 2/3 of the world population is left out by financial institutions (Mandela, 2007) and are the ones paying the highest prices for financial services (Yunus, 2008, p. 50). Yunus initiated Grameen Bank (Village Bank) which gives loans to the poor people at very low interest rates. So that they can start their own small businesses like 'paddy husking, lime-making, manufacturing such as pottery, weaving, and garment sewing, storage and marketing and transport services' (Grameen Bank, 2010).

Today, Grameen Bank gives loans to over 8 million people, 97% of them are women. The payment rate is 99%. Yunus describes microcredits as a revolution that is silent and non-violent where women participation resulted in their steady empowerment. Grameen Bank focuses on women, since giving a loan to a woman benefits the whole family and strengthens the position of women in society. In 2006 Yunus and the Grameen Bank won the Nobel Peace Prize.

2.3.3 Social Business

To Yunus the free market economy neglects to see human beings from a different perspective than for the purpose of maximising profit. Yunus claims many social and economic problems the world is facing can be resolved by defining 'entrepreneur' in a broader way by adding to profit maximisation 'doing good for the people and the world' (Yunus, 2008, p. 243). From a social business investors will receive their investments back, but will not receive any dividends. The profit generated is invested in improving product quality or service. With social businesses almost all social economic problems can be addressed in a 'cost-effective' and 'efficient' manner (Yunus, 2008, p.23). Yunus suggests that especially the non-profit sector could make use out of this idea since the energy spent on raising funds could now be used in a more effective way. Grameen created a well functioning social business with Danone bringing nutritious yoghurt into the rural parts of Bangladesh helping to improve the children's nutrition. Another social business Grameen bank is planning is an eye-care hospital which will offer its services for different prices depending on the patients economic background. In Yunus' theory there are two kinds of social businesses 1) a business aiming for social benefit instead of profit maximisation and 2) a profit maximising business that is owned by the poor. Grameen Bank is an example of the latter, 94% of

²⁰ For further reading Muhammad Yunus' book 'Creating a World Without Poverty'.

the bank is owned by poor people. The social benefit in this case is the spreading of profit to the poor. Of course, a combination of both is possible too.

3 Analysis

In this chapter, based on the findings from chapter two, the shortcomings and strengths of the concepts are outlined and the way the concepts supplement each other and create synergy is shown.

3.1 Shortcomings of Fair Trade

As already outlined in the problem description, Fair Trade is an important step into the right direction. It helps in strengthening the producers' position in the free market and improves the socio-economic situation through the premium, in theory that is. When looking at the net income of fair trade producers, Fair Trade does not always pay better than Non-Fair Trade. For example, Fair Trade coffee producers in Peru have less household income than Non-Fair Trade producers²¹. Higher incomes can be achieved in the Fair Trade & Organic section (Ruben, 2008, p.32). On the other hand, Fair Trade producers receive a stable income, plus the premium for the community. Additionally, importing organisations establish a long-term relationship with the producers. Goods are not just purchased once. If the customers' interest in a certain product declines, importing organisations advice and support the producer cooperatives finding a modified or new product which could interest the customer.

Maseland and de Vaal state Fair Trade 'is far from an unambiguously wise option (...) (it) has effects that actually sometimes consist of a deterioration according to its own criterion of fairness' (Maseland & de Vaal, 2001, p. 23). However, the authors acknowledge, they merely have been concentrating on the benefits Fair Trade creates in the short term. Organisations involved with Fair Trade claim Fair Trade offers an improvement of the producers' situation in the long term. As a matter of fact, the effects are largely dependent on the product concerned. Coffee producers in Oaxaca, Mexico receive through Fair Trade an income that is 30% higher in comparison to conventional trade, in Peru the producers receive 40% more. The example of the Nepal Blue Mountain coffee shows that producers can receive between 45% and 60% of the profits (market price 33€ per 500 gram) (Schmelzer, 2010). That is Fair Trade advanced as opposed to the 16% the producer from the organic coffee in Mexico receives or the 15% artisans earn. It illustrates the margin of profit producers could receive. The question arises: how fair is fair trade? Or put differently: does fair trade improve the situation of the poor? It certainly does not tap the full potential of fair trade.

²¹Appendix E: Net Income Effects.

Another shortcoming of Fair Trade is the gap between theory and practice. Fair trade should evolve to a more stringent and systematic concept by making use of the currently conducted research (Krier, 2008, p. 58). Additionally, according to van de Meijden it takes too much time until the products are in the shelves of the Workshops and other shops selling Fair Trade goods. Fair Trade often lacks stock for products in demand (Meijden, 2010). Van de Meijden states that Fair Trade is also particularly late with in reaction to trends. If something is fashionable in January, Fair Trade shops have the product by the end of the year – too late for the rapid market changes nowadays. Another problem van de Meijden addresses is quality. Although he has seen a great improvement over the last 10 years, a constant quality check is needed. Furthermore, van Meijden says there is a communication problem within the Fair Trade network. Sometimes he has products where the country of origin is unknown.

There are other obstacles and doubts with Fair Trade, too. There is not a lot of literature about Fair Trade, as it is a topic that is not very much researched yet. There is limited information especially about the money flow and how much the producer receives from the market price. The question arises who really makes a profit with Fair Trade and one might begin to wonder if it is all a marketing ploy.

3.2 Shortcomings of CBP

CBP is a fairly young concept, only implemented in a few countries yet. Therefore, it is hard to determine what the shortcomings of CBP are. It would be advisable though to work with producer cooperatives in CBRs' target countries. A cooperative is a network of producers and in this manner through one contact several producers can be reached at the same time. Making CBP more effective since it does not have to deal with many producers one by one but has one single contact. Naturally, it is not CBR forming the cooperative. However, CBR could advice producers to create cooperatives if not existing yet.

3.3 Strengths of Fair Trade

The strengths of Fair Trade are advocating the community spirit by means of encouraging producers to form cooperatives as well as forming a democratically elected board that decides how to utilise the premium most advantageously. Another important strength is the fast grow of Fair Trade.

3.4 Strengths of CBP and How They Could Supplement Fair Trade

This section marks the strengths of CBP and the weaknesses of Fair Trade and shows how CBP can complement Fair Trade.

3.4.1 Continuous improvement

CBR is a learning network organisation consisting of individual partners, all striving for the same goal of eradicating poverty. Consequently, CBR is not reluctant to change, but even appreciates new input. This is an enormous difference to Fair Trade. The interview with Omiflora's CEO Klaus Voss confirmed. Fair Traders believe their concept is almost perfect. Voss merely sees the necessity of offering a wider range of products, involving more businesses and consumer and not only focus on improving the producers, but also environment, protection (Voss, 2010).

3.4.2 Difference in Knowledge sharing

Both supply chains start with the producer manufacturing the products which are being transported and sold in developed countries. In the Fair Trade concept importing organisations buy the products from the producers and sell them to wholesalers and retailers in their respective home country. The only ones having an overview of the chain, management, marketing and all other factors are the importing organisations, the wholesalers and retailers. Fair Trade provides the producers with certain knowledge on product quality and management, production, working and living conditions improvements. Voss, the founder of Omniflora sees continuously improvement of the financial and social situation of the producers through Fair Trade. The handling with chemicals, protective clothing, water recycling and taking the environment into account are some of these improvements (Voss, 2009). Thus the producers are being empowered to do their jobs well in better conditions. However, producers do not possess knowledge of managing, marketing and distribution. In the CBP chain products are directly sold to the Web shops or Worldshops. The difference here is cutting out of the importing organisations and most importantly, every chain link possesses the same knowledge of managing the chain from soil to market/client. Like this, co-creation and value added partnerships are created. The resource of knowledge (marketing, distribution, logistics, product design, innovation, management) in this scheme is the CrossBorderAcademy. Through cooperation with CBAAcademy and Prosperity Programmes the knowledge is shared with every chain link. Producers are empowered not only to do their job well, but also to expand their circle of influence (Covey, 1989, pp. 81-91).

3.4.3 Close Gap between Theory and Practice

Obviously, there is extensive market research needed to address the problems of not being up-to-date with trends and the lack of stock. CBR employs students who can make use of their expertise. It is a win-win situation, students are able to put their theoretical knowledge into practise and CBR can use their expertise for its projects and programmes.

3.4.4 Social Business and Transparent Money Flow

CBR has incorporated a type of social business in the organisation. The CrossBorderSocialBusinessCommunity is made up by partners of CBR that invest 20% of their business profits in CBR. Fair Trade does not have a social business approach in that way. Furthermore, CBR is developing a transparent fraud free CBR Capital (current system). Thus the money flow is transparent. Opposed to Fair Trade where it is difficult to follow which chain links receive what quota of the profit.

3.4.5 How CBP supplements Fair Trade

As Figure 4: How CBP supplements Fair Trade illustrates, Fair Trade and CBP are sharing ideas.

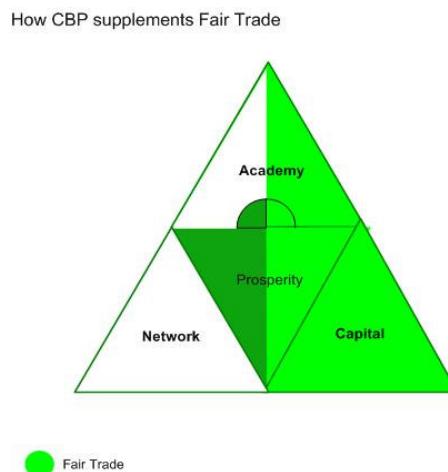


Figure 4: How CBP supplements Fair Trade

Fair Trade and CBP both implemented microcredits invented by Yunus. Both concepts share knowledge with the producers, though Fair Trade limited since the producer do not have the knowledge about the chain as a whole. Finally, both share the idea of creating prosperity. However, Fair Trade limits the options by not sharing all knowledge and network with the producer. CBP teaches producers to become self-reliant in a mental and financial manner and shares its relations (network) with them.

3.5 Shortcomings of Microcredits and Social Businesses

Microcredits provide the poor with capital for starting their own small businesses. However, it does not provide the poor with knowledge, network and fair market practises. These aspects are important to succeed in escaping poverty.

In order for social businesses to evolve, a paradigm shift from profit maximisation to social responsibility and social entrepreneurship is necessary. For most businesses profit maximisation is the main objective. Therefore, awareness has to be raised of another, ethically correct way of doing business, which does not include exploitation. However, this paradigm shift needs time and the efforts of people who believe in it, spread it and put it into practise. Otherwise, it just remains an idea.

3.6 Strengths of Microcredits and Social Business

A very important aspect of microcredits is that, if well-handled, microcredit banks can be self-sufficient and do not need any subsidies from governments or other organisations. Thus microcredits can be the driving force behind the financing of any well-managed small business or project.

Social business can solve many problems human kind is facing such as mal-nutrition, insufficient health care, financial services only available for a few and polluted environment in a 'cost-effective' and 'efficient' manner, applicable to every culture and country (Yunus, 2008, p.23).

3.7 Synergy: A Comprehensive Approach

An important aspect in the process of overcoming poverty is the empowerment of the least well off (IFAD, 2010). Poverty is lack of income, physical vulnerability and lack of power within social and political structures (Anderson, 2003). Furthermore, it means 'being deprived of choices, opportunities, access to basic resources and a voice in decision-making' (UNDP, 2004). Through empowerment the poor can gain access to 'the material, social, and spiritual means to develop their capacities' (IFAD, 2010). Hence, empowerment is not a one-time action, but a process through which poverty can be escape from. Therefore, it is essential to empower the poor. To turn empowering the poor into a success, an approach is needed that begins with raising the producers' awareness of their capabilities and resources (IFAD, 2010). Fair Trade, CBP, Yunus' microcredits and social business are concepts which empower the least well off with different approaches.

However, none of the concepts taps into the full potential of empowering the producers and therefore does not fulfil the improvement of their socio-economic situation and their position in the free market to the fullest extent possible.

Creating synergy balances the weaknesses of one concept out through the strengths of another. Fair Trade provides fair payment for the products manufactured and fair overall practises. Furthermore, Fair Trade improves the standards of living and working conditions, and through the premium, it also improves also community life. Though, Fair Trade does not provide further aspects necessary to escape poverty such as knowledge, network and capital. Microcredits can serve as starting capital for poor people to perform business activities, and set an end to their dependency on local moneylenders. However, they do not provide further aspects necessary to escape poverty such as network and knowledge. Here CBP comes in, as it shares knowledge about the chain from soil to customer with the small-scale producers and empowers them, by making them aware of their capabilities and resources, sharing relations and capital with them, to set up their own business. CBP can tap into Fair Trade's cooperation with producer cooperatives in order to be more efficient. CBPs' cutting edge is taking into account the respective country's culture, involving grass roots and Diaspora. Moreover, it acknowledges cultural differences and comprehends that approaches have to vary in different countries in order to empower the underprivileged. Other shortcomings of Fair Trade can be balanced out by CBP. For example, Fair Trade often lacks in stock and is not on time to react on new trends. By utilising students' expertise, as CBP does, extensive market research could be done in order to prevent lacking stock and late reaction to trends. Fair Trade's value of long-term relationship should be used throughout the chain. Additionally, organisations hampering the efficiency and cost-effectiveness should be cut out. Examples here are the importing organisations. If the producer cooperatives have enough knowledge about the chain as a whole, marketing and logistics, importing organisations may not be necessary anymore. This would lead to a higher profit for producers, but most importantly to empowered producers. These aspects combined with the social business concept which can be the solution to many problems today, can lead to a drastic improvement of all people in developing and developed countries as it is the missing link making the concept comprehensive. Social business is not merely a concept but a mentality too. That is why a paradigm shift from profit maximisation to social responsibility and entrepreneurship is crucial.

4 Conclusion

The objective of this paper is to combine the concepts of Fair Trade, CBP, Yunus' microcredits and social business in order to reach synergy and find a comprehensive approach which empowers small-scale producers in developing countries to improve their socio-economic situation and their position in the free market. In the course of gathering information, reflecting and analysing, it became clear, there is not one approach having the power to improve the producers' situation. The recommendations given in the next chapter are guidelines for any approach aiming to be successful in creating worldwide prosperity. For any approach to work, raising awareness of the current working and living conditions in developing countries is crucial, as well as informing about approaches that could bring the desired change. A paradigm shift from profit maximisation to social responsibility and entrepreneurship is compulsory in the first place.

For example, Fair Trade could become a social business. Like this, the profit obtained would be generated back into the business and the business' cause. In this way, the deficits of Fair Trade such as quality, market research and knowledge sharing, could be addressed and living and working conditions could be improved as well as health care, education, pension funds. Through Fair Trade becoming a social business the question if Fair Trade producers earn better than conventional producers would be decrepit, as social business aspire improving constantly. Furthermore, to combat the difference in income in some product areas Maseland and de Vaal suggest a second line of action where fair products are sold against market price attain higher profits but at the same time 'guarantee that some basic principles are respected' (Maseland & de Vaal, 2001, p. 24).

As Mamoon says, we are living in a global village and information is only a click away (Mamoon, 2007). This is only true for privileged from developed and developing countries. The global village facilitated by IT is leaving the less well off out. An important drive for empowerment is ensuring developing countries are taken along in our ride to a global village and receive the same access to information. If including developing countries in this ride fails, the separation of the world is only increasing and with it the gap between rich and poor. By sharing knowledge and including producers in the whole process from soil to the customer the circle of influence of the producer in developing countries is expanded and they are able to take more decisions. Empowered and interdependent producers are the ultimate goal, not independent producers. Only interdependency creates synergy 'by open communication and positive interaction with others' (Covey, 1989, p. 188) and in that way self reliance and thus prosperity can be generated. However, to be interdependent one first has to become independent, only

independent people can choose for interdependency. Self respect derives from dominion over self and independence (Covey, 1989, p. 186). Therefore, it is evident to make people aware of their capacities and resources, so that they can tap their full potential. All described concepts are making the producers a bit more independent, but in a comprehensive approach all the elements come together in synergy and create empowered, interdependent producers. Only with interdependent producers an equal partnership, with no difference in power, and no one sided dependency is possible.

It is crucial to comprehend there is not one comprehensive approach which provides producers with means to obtain capital, knowledge, relations, freedom of choice, community development, access to markets and equal power distance/partnership. Furthermore, it should be remembered, continuous improvement is vital, accomplished through best practise and kaizen.

5 Recommendations

The objective of this paper is to create a synergy effect and to make recommendations on how to empower producers in developing countries in strengthening their socio-economic situation and position in the free market. The recommendations given are guidelines that every concept should contain. A condition to the success of any approach or concept is the mentality shift from profit maximisation to social responsibility and social entrepreneurship.

The recommendations drawn from the research are

- Empower producers. Empowerment is the key to make people believe in their capacities and to give them the strengths to lift themselves by own force out of poverty. One important point is making it clear to the people that they are the masters of their own destiny. When talking about empowerment not just social and economic empowerment are necessary, but also legal empowerment. That means the creation of rights, 'capacities, and/or opportunities for the poor that give them new power to use law and legal tools to escape poverty and marginalization' (van de Meene, 2008, p. 6).
- Bringing Information Technology to developing countries. IT gives the possibility to take initiative such as addressing a parliamentarian or other people in important functions and to be better informed for example about market prices and in this way not become victim of unfair and exploiting middlemen.
- Advocate community spirit. Communities can be a strong pillar, each member can benefit from the right community spirit. If problems arise they can be addressed more effectively in unity, in cooperation with neighbours and if that joint effort is not sufficient, with the whole community.
- When looking for options how to address poverty, include grass roots. Local people know their culture best and can if encouraged in a fertile manner create meaningful changes for themselves, their community and their country. Sustainable change can only happen from the roots by the underprivileged.
- Diasporas are sending money to their families and have an interest in improving the peoples' situation. Diasporas have an insight in the local culture and can therefore form an important pillar in the implementation of programmes aiming at empowerment and self-help.

- Ethical or sustainable banks, like Triodos Bank in The Netherlands, Belgium, the UK and Spain or EthikBank in Germany and Austria can form the financial engine. These banks invest transparently and ethically. Their motive is not only profit maximising, but also maximising social good.
- Encouraging the creation of producer cooperatives, as having a single point of contact simplifies the communication between importing organisations and producers. Working together in a community is beneficial to the performance through positive competition as everybody is doing their best to achieve the goals set (Semlali, 2010). Additionally, a group or community has a better negotiating position than one producer.
- Awareness raising. Raising awareness of the current situation of poverty and inequality in the world can be changed and illustrating that there are ways of improving the situation, for example a concept empowering producers.
- Further research into best practises such as CCODER in Nepal. It is a people first, non-profit and non-government organisation which believes in 'self reliant development of the underprivileged by the underprivileged' (CCODER, 2007).

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Appendices

Appendix A: Interview Questions and Interviews

1. Are the producers you are working with organised in a cooperative? Why/Why not?
2. The partnership between importing organisations and producer cooperatives is often described as a partnership based on trust and respect. How exactly does that look like? (How does agreeing together on the fair price work?)
3. How does the money flow in the supply chain look like? What is the percentage every chain link receives? (producers, storage, transportation and certification costs, importing organisations, retail)
4. How do you support the producers/cooperatives? Do you support the people deciding what to do with the premium?
5. Do you give trainings of some kind to the producers? In what way are you sharing knowledge with the producers in terms of marketing, logistics and resource management?
6. What room for improvement do you see for Fair Trade?

Interview with Klaus Voss, CEO of Omniflora, an importing organisation trading Fair Trade roses from Africa:

The interview with Voss gave a good insight into the Fair Trade world. Omniflora is working not with small-scale producers or cooperatives formed by small-scale producers, but with SMEs. The answer to question number 2, how the partnership of equal trust exactly looks like, was quite vague. Voss only stated, agreeing on a price is happening after the consideration of all costs. To the question of the money flow Voss answered, Omniflora would pay the free on board price plus the Fair Trade premium, but was not involved with the use of the premium whatsoever. More information on how exactly the money distribution in the chain looks like were not provided. Voss is not of the opinion that Fair Trade the concept itself should be improved in any way. The only things he saw room of improvement for, are the range of products, the attraction of more businesses and consumers, as well as an improvement in sustainable production.

Interview with Fadoua Semlali, head of the department for fair trade products of the Moroccan NGO Amappe:

The producers Semlali is working with are organised in cooperatives. The reasons for the formation of cooperatives are:

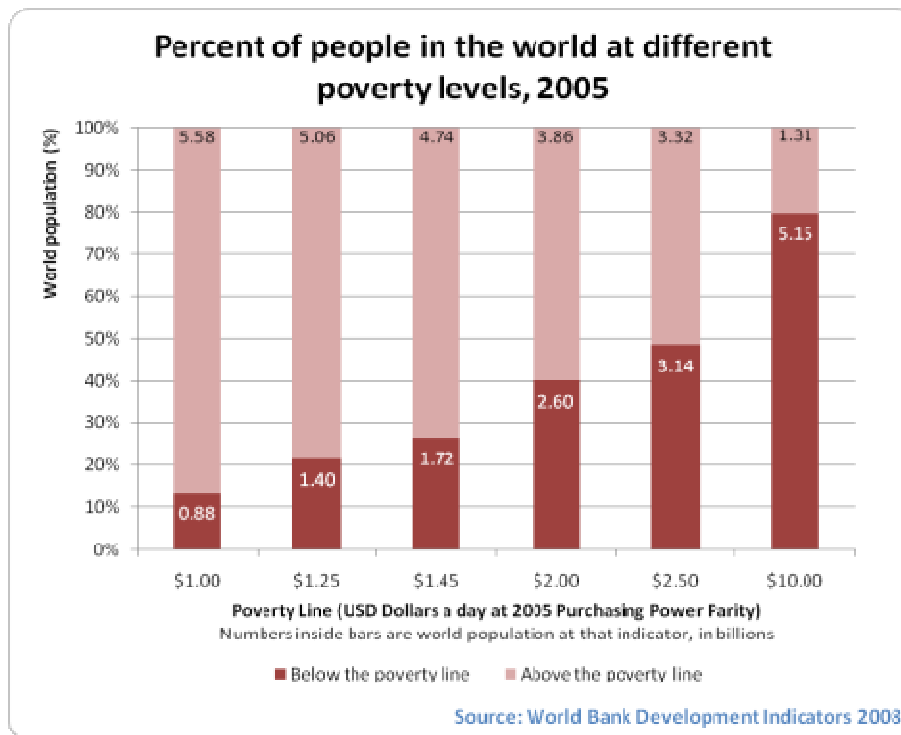
- The more people are grouped, the better the production is.
- It is easier for Moroccan women to work in group rather than individually (culture value).
- It creates a group competition so that everyone is doing her best to succeed.

Most importing countries are situated in the Middle East, they are Arabs and have the same culture as Moroccans. Trust is a very important value. Contracts involve every one's attributes. The fair price is negotiated and then fixed in the contract. To receive concrete information on the money flow was difficult too. Semlali stated that she could not give information how much percentage every chain link earns. According to her, every group in the supply chain defines the money it is in need of. Amappe supports the producers by training them on production management, paying for teachers and a professional who makes the marketing strategy for them. Additionally, Amappe pays some of the production material and the packaging.

Interview with Kees van der Meijden, the owner of the WAAR shop in The Hague:

In his function as a shop owner, van der Meijden has an insight in Fair Trade. However, as his business is retail he answered on the question what the shortcomings of Fair Trade are. Van der Meijden named various shortcomings such as lack in stock, quality problems, missing information, problems with identifying trends and acting quickly upon them.

Appendix B: Percent of People in the World at Different Poverty Levels, 2005



Appendix C: Fair Trade Standards

The Fair Trade Federation, International Fair Trade Association, and Fairtrade Labelling Organizations International have each established expected principles their work.

Fair Trade Federation members fully commit to eight principles:

- Providing fair wages in the local context,
- Supporting safe, healthy, and participatory workplaces,
- Supplying financial and technical support to build capacity,
- Encouraging environmental sustainability,
- Respecting cultural identity,
- Offering public accountability and transparency,
- Building direct and long term relationships, and
- Educating consumers.

The International Fair Trade Association has 10 standards for its members:

1. Creating Opportunities for Economically Disadvantaged Producers
2. Offering Transparency and Accountability
3. Building Capacity
4. Promoting Fair Trade
5. Supporting the Payment of a Fair Price
6. Supporting Gender Equity
7. Fostering Safe and Healthy Working Conditions
8. Ensuring No Forced Child Labor
9. Promoting Responsible Environmental Production, and
10. Fostering Trade with Concern for the Social, Economic and Environmental well being of Marginalized Small Producers which does not Maximize Profit at their Expense.

The Fairtrade Labelling Organizations International set four standards for Trader

Organizations which stipulate that traders who buy directly from fair trade producer organizations must:

- Pay at least a price to producers that at least covers the costs of sustainable production (the Fairtrade Minimum Price)
- Pay a premium that producers can invest in development (the Fairtrade Premium)
- Partially pay in advance, when producers ask for it.
- Sign contracts that allow for long term planning and sustainable production practices.

FLO has also established specific product standards for each commodity with which they deal.

Fair Trade Federation Interim Trends Report, July 2008

Appendix D: Price Calculation

Preiskalkulation anhand des Biokaffees von CEPCO, Mexiko und des gerösteten Bio Café Orgánico (Stand August 2007):

Biokaffee aus Mexiko, CEPCO:		
Auszahlung an den Bauern für Rohkaffee	1,20 €	rund 80 % des F.O.B – Preises
Genossenschaftsanteil (inkl. Entwicklungsaufschlag und Bioprämie)	0,31 €	Seminare und Sparfonds, Aufbereitung, Transport in Mexiko und Export
F.O.B-Preis auf der Basis von 573g Rohkaffees, der für 500g Röstkaffee benötigt wird.	1,51 €	Preis ab Hafen Mexiko
Beschaffungskosten, Rösten und Verarbeiten	0,59 €	Fracht, externe Lagerkosten
Kaffeesteuer	1,10 €	
Siegel-Gebühren	0,36 €	TRANSFAIR, Naturland
Einkaufspreis	3,56 €	
GEPA	2,03 €	GEPA Lager und Versand, Einkauf, Produktmanagement, Verwaltung, Information, Vertrieb zentral und regional
Skonto 2 % und		
Spanne Einzelhandel	1,31 €	
Mehrwertsteuer	0,48 €	
	7,38 €	empf. Verkaufspreis für 1 Pfund Bio Café Orgánico

Das ergibt einen höheren Preis von circa 1 Euro im Vergleich zu einem hochwertigen Bio-Premium-Kaffee anderer Anbieter – pro Tasse macht das etwa 1,5 Cent mehr!

Appendix E: Net Income Effects

Ruud Ruben

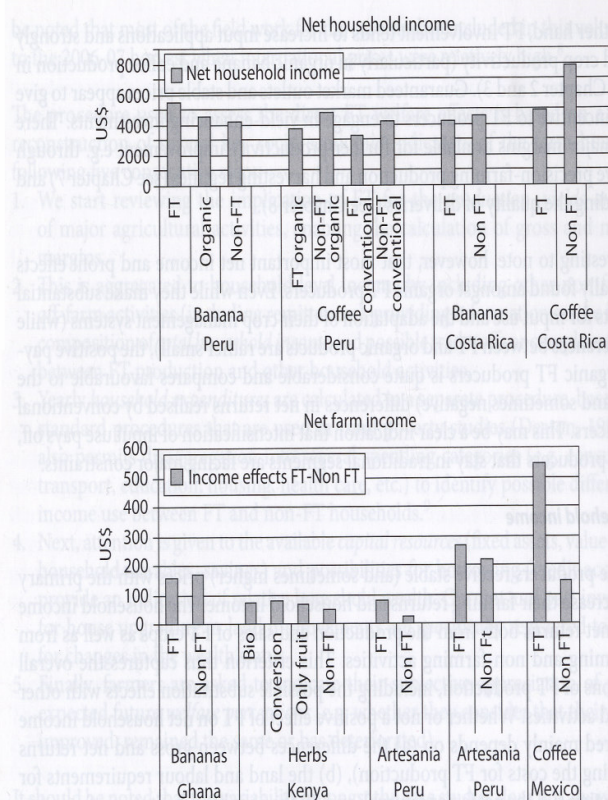


Figure 1. Net income effects.

Appendix F: Supply Chains

