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BRINGING THE POOR INTO THE EXPORT PROCESS: LINKAGES AND STRATEGIC IMPLICATIONS

'THE FAIR TRADE INITIATIVE: SUSTAINABLE COMMERCIAL OPPORTUNITY OR DEVELOPMENT TRAP?'

A paper contributed by
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Abstract

This paper is submitted to the International Trade Centre Executive Forum Global Debate 2006. It offers case study research to inform discussion on the following subject: 'The Fair Trade Initiative: Sustainable Commercial Opportunity or Development Trap?'

The statement is evaluated in the context of global development indicators and current trends in the trade of agricultural commodities. Fairtrade is identified as a response to: significant inequalities in the distribution of global income, and: increasing concentration of revenues by purchasers of agricultural commodities.

The inquiry is informed by a forensic analysis of the business practices and finances of Cafédirect, the United Kingdom's leading Fairtrade hot drinks brand. Products sold by Cafédirect are certified by the Fairtrade Labelling Organizations International, FLO.

The company's accounts are scrutinised in the context of trends in the Fairtrade sector. Fairtrade is seen to be founded on realizing a sustainable commercial opportunity.

The development impact of Fairtrade is assessed in the context of the Millennium Development Goals. Fairtrade supply chains are seen to be more effective in redistributing wealth from developed to developing countries than conventional agricultural commodity supply chains. Cafédirect is seen to deliver significant development outcomes by combining Fairtrade practices with a commitment to social justice.

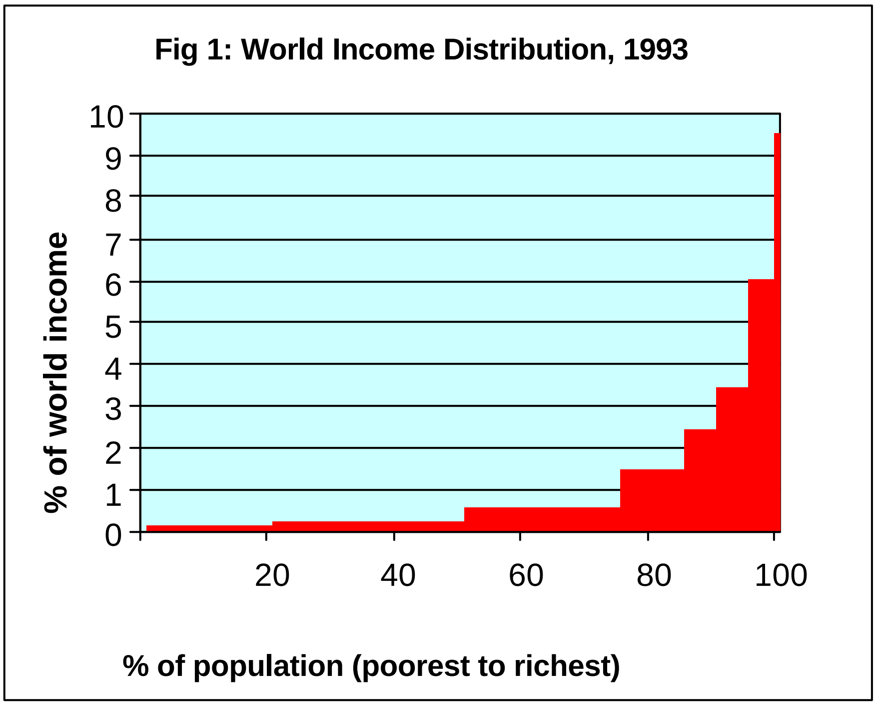
The analysis considers changing practices in the consumption of products derived from agricultural commodities before offering the following conclusions:

- Fairtrade represents a sustainable commercial opportunity.
- Fairtrade supply chains redistribute wealth more effectively than conventional ones.
- Companies can deliver significant development outcomes when they combine Fairtrade practices with a commitment to social justice.
- In a market increasingly dominated by leading brands, Fairtrade may become a development trap unless it ensures that producers have a stake in the brands under which their produce is sold.

1. Global Trade and Economic Development

In 2003, the 6.5 billion people on the planet generated combined income of $ 43.92[1] trillion (currency). This represents an average per capita income of $5,755[2].

However, this income was not evenly distributed among us. Under existing global political economic conditions, the poorest 10 per cent of the world's population earn just 0.8 per cent of world income, while the richest 10 per cent earn 50.8 per cent[3].



Significant global poverty exists. In 2001, about 1.87 billion people were classified by the World Bank as moderately poor, earning average incomes of less than $2 per day. Of these, 1.1 billion, representing 1/6th of the world's population, earn less than $1 per day and are considered 'absolutely poor'.

World income is due to rise at 4.9% in 2006. Technological advances, increased trade, improved governance, and freer movement of both capital and

1 All financial data presented in this article is in US$ and Cents.

2 http://en.wikipedia.org/wiki/World_economy.

3 Statistic and diagram from „Growth isn't working. The unbalanced distribution of benefits and costs from economic growth". New Economics Foundation. January 2006.

labour, all underpin growth in global GDP. However, unless the trading relations between developed and the least developed countries change substantially, increased global income will have at best a modest impact on the welfare of the poorest. At worst, it can be expected to make them poorer still because they bear the brunt of anthropogenic climate change.

In 1980, median income in the richest 10% of countries was 77 times greater than in the poorest 10%; by 1999, that gap had grown to 122 times. In 1980, the world's poorest 10%, or 400 million people, lived on 72 cents a day or less. The same number of people had 79 cents (nominally) per day in 1990 and 78 cents in 1999[4].

During successive multilateral trading rounds since the 1947 meeting in Geneva, which gave rise to GATT, deregulation of protected markets has fostered an increase in the volume of global trade. However, this has not necessarily delivered development benefits to the poorest. The case of Mexico is illustrative.

'After ten years, Mexico's experience of trade liberalisation under NAFTA has been mixed… growth during the first decade of free trade was slower than it had been in earlier decades (prior to 1980), mean real wages at the end of the decade were lower, and some of the poorest had been made worse off as subsidised American agricultural products flooded the market and lowered the price received for their domestic production. Inequality and poverty both increased under NAFTA.'[5]

A brief look at how income is distributed in the value chains of agricultural commodities explains why the poor are becoming even poorer in the context of increasing global trade and income growth. Large numbers of poor people are engaged in the production of agricultural commodities, which are sold in the developed world.

4 'The Unremarkable Record of Liberalised Trade' Economic Policy Institute policy briefing paper number 113 October 2001.

5 Stiglitz, J.E & Charlton (2005) 'Fair Trade for All. How Trade Can Promote Development'.

For example, coffee is regularly drunk by 40% of the world's population and engages 25 million people, many of whom are poor, in its production[6]. Coffee sales constitute a significant proportion of export income for the less developed countries in Sub Saharan Africa and Latin America.

Fig 2 The inter-country distribution of income as a percentage of revenues generated from retail coffee sales[7].

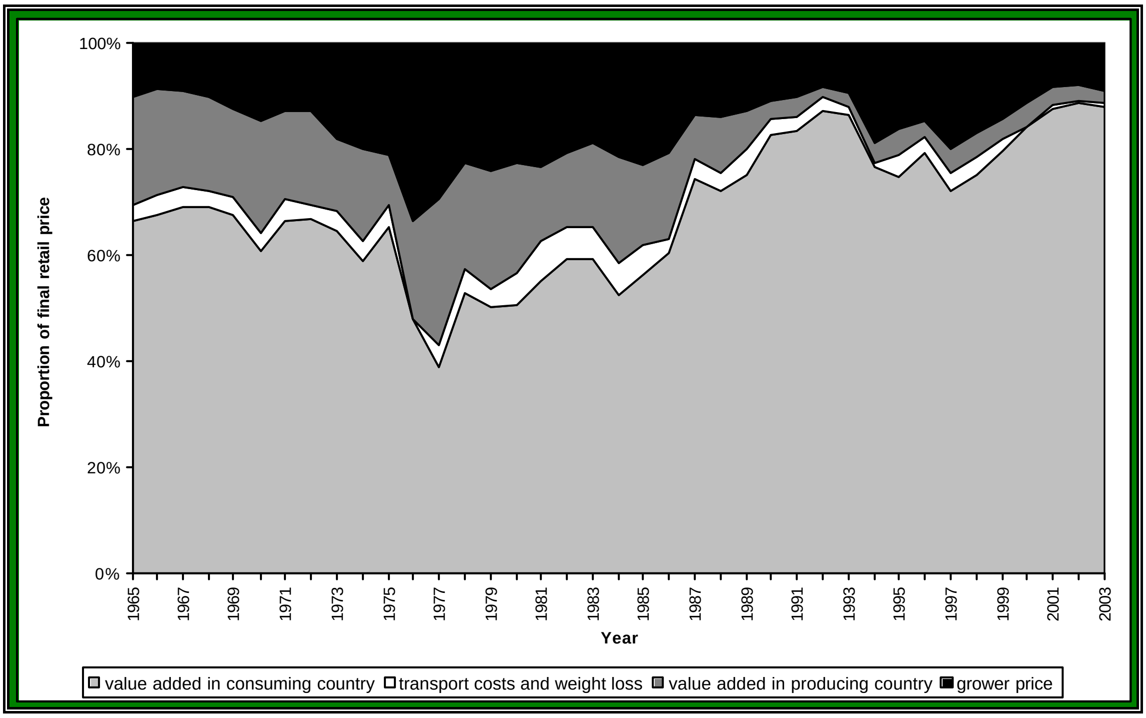


Figure 2 illustrates that from 1965-2003, stakeholders in coffee consuming countries found their share of income generated from global coffee sales increased from about 45% to over 80%; while stakeholders in coffee producing countries saw their proportion drop from about 35% to less than 10%.

This redistribution of revenue in the coffee value chain was caused by consolidation of buying power in the retail grocery sector, increased concentration in the coffee manufacturing sector, and a dismantling of nationalised marketing structures in producing countries[8]. Currently, coffee farmers receive about 5% of the price paid by British consumers for a jar of instant coffee and less than 1% of average retail price of coffee sold in a British

6 Kaplinsky R (20004) Competitions Policy and the Global Coffee and Cocoa Value Chains.

7 Update of data from Talbot (1997) presented by Kaplinsky (2004).

8 Kaplinsky, R (20004) Competitions Policy and the Global Coffee and Cocoa Value Chains.

coffee bar[9]. Under these conditions, it is hard to see how increased trade offers a solution to global poverty.

1.1 The Fairtrade Sector

As a response to the worsening terms of trade for producers in less developed countries, British charities founded 'Alternative Trade Organisations[10]' in the 1950s and 1960s. In the 1980s, Fairtrade production was used to describe the practices of the ATOs and continues as a broad term, which is used to describe a range of commercial relations in the supply chains of products[11].

'Fair Trade is a trading partnership, which seeks greater equity in north-south trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, disadvantaged producers in the South. The Fair Trade movement is actively engaged in supporting producers, in raising awareness, and in campaigning for changes in the rules and practice of conventional, international trade[12].'

In reality a spectrum of supply chain management practices exist within the Fairtrade sector, extending from self-proclaimed 'ethical trade', to trading practices which are independently certified by the Fairtrade Labelling Organization International, FLO. Certification of products with the FAIRTRADE mark, which represents the industry standard, requires compliance with the following supply chain management practices[13]:

- purchase at a price that covers the costs of sustainable production and living;
- pay a 'premium' that producers can invest in development;
- make partial advance payments when requested by producers;
- sign contracts that allow for long-term planning and sustainable production.

9 Oxfam (2002) Mugged: Poverty in Your Coffee Cup.
10 Notably, Twin Trading, Oxfam Trading, and Equal Exchange.
11 Daviron & Ponte (2006) The Coffee Paradox.
12 Definition agreed at Arusha, Tanzania (June 2001) by the International Federation of Alternative Trade.
13 http://www.fairtrade.org.uk/about_standards.htm

From its inception in the late 1950's, the Fairtrade economy has grown in scale, by sector and geographically. Strong consumer demand has underpinned growth. In Europe, Fairtrade sales have grown at an average 20% per year since 2000[14]. In Canada, sales of certified Fairtrade products have grown at an average rate of 55% since 2001[15].

Growth in the global Fairtrade coffee sector is particularly impressive. 'Worldwide, sales of Fairtrade-certified coffee have increased from $22.5m. per year to $87m. per year since 1998'[16].

Market penetration is significant in certain countries. In the United Kingdom, Fairtrade certified products have achieved a 5% share of the tea market, a 5.5% share of the banana market and a 20% share of the ground coffee market[17]. Customer research suggests that the FAIRTRADE mark, used by the Fairtrade Foundation is currently recognized by half of the adult population[18].

Currently, approximately 548 organisations from 51 countries are certified as producing products to industry standards. Over 1 million producers are employed in Fairtrade production, supporting beneficiaries of a further 4 million people. Africa, Central America and South America each host similar numbers of Fairtrade producer groups[19]:

Fig 3: Distribution of certified Fairtrade producers by region. Dec 2005				
Asia	Africa	Caribbean	C. America	S. America
78	152	28	143	143

Not only is Fairtrade extending across new products and sectors, the characteristics of Fairtrade supply chains, required by FLO, are increasingly

14 All data on European market from IFAT (2006) 'Fair Trade in Europe 2005' at www.ifat.org
15 TransFair Canada press release 21st February 2006 at www.transfair.ca
16 'Fair enough. Coffee in Central America.' The Economist (April 1st-7th 2006)
17 Ibid
18 Research undertaken by MORI for the Fairtrade Foundation published in May 2005.
19 all data of producer groups from FLO International News Bulletin January 2006 at www.fairtrade.net

incorporated within the supply chains of conventionally traded products. This is because they reduce risk and make good business sense[20].

1.2 About Cafédirect

This case study paper informs debate on whether Fairtrade represents a sustainable commercial opportunity or a development trap by analysing the trading relationships in the supply chain of Cafédirect plc[21].

Cafédirect is the United Kingdom's leading Fairtrade hot drinks company. It sells tea, coffee and cocoa products, supplied by 35 producer partners in 11 different countries. Established as a company with explicit development aims, Cafédirect aspires to be the leading brand which strengthens the influence, income and security of producer partners in the South, by linking them directly to consumers in developed countries. While FLO provides the industry standard, Cafédirect strives to surpass it.

Consumers are concerned Europeans. Producers are farmers, principally, from co-operatives and smallholder owned factories in Africa, Asia and Latin America. Referring to Fig.1, Cafédirect's supply chains link those in the bottom left to those in the top right.

A rapidly expanding enterprise, Cafédirect is publicly owned and profitable. Having floated in 2004, the company generated revenues of $33.88[22] million in financial year 2004/05 and paid its first dividend to shareholders in April 2005.

On the 30th September 2005 Cafédirect held fixed assets valued at $70,243 which represents 6% of the company's shareholder capital. Instead of carrying significant fixed assets on its balance sheet, Cafédirect operates as something of a 'virtual company', co-ordinating a supply chain of producers, blenders, packagers, and retailers. This position enables the company to absorb

20 The Economist (April 1st-7th 2006) reports that the purchasing policy of Starbucks is similar to that of certified Fair Trade coffee brands.

21 www.cafédirect.co.uk

22 All financial data from Cafédirect is converted at the following rate £1=US$1.72

significant fluctuations in commodity prices or revenue flows, whilst permitting rapid leveraged growth, if required.

Cafédirect is outperforming established sector peers and has been successful in growing its market share in the context of stagnant sectors. This has been fuelled by significant demand from increased out-of-home sales. In Financial Year 2004/5 the company's retail sales grew by over 9%, contrary to an industry-wide trend, which has seen a small overall decline in tea and coffee drinking. Strong performance was seen across the whole of its product range: roast & ground coffee (+16.3%), freeze dried coffee (+17.5%), tea (+8.5%) and drinking chocolate (+ 58%)[23].

This paper analyses how Cafédirect operates. It shows how Fairtrade supply chains can deliver significant development goals. Based on evidence presented, the hypothesis that Fairtrade represents a development trap is appraised.

23 IRI MAT 52 01 Oct 2005.

2. The Cafédirect Business Model

By linking consumers directly to producers, and by offering quality products, Cafédirect ‘de-commodifies’ globally traded agricultural produce. This is achieved through a business model, which is founded on a distinctive approach to partnership, purchasing, and ownership. These three factors are central to Cafédirect’s Gold Standard, which sets out the terms of business, by which commercial objectives and development goals are delivered.

The Gold Standard is at the heart of the Cafédirect brand, which represents best practice in the Fairtrade sector. With every purchase, consumers buy into the following core principals, which govern relationships throughout the supply chain:

- Partnership
- Purchasing
- Ownership

2.1 Partnership

The Gold Standard ensures that partnerships with growers are long-term relationships, which are based on trust, transparency and commitment. Once grower partners are incorporated into the Cafédirect supply chain, they receive substantial technical and financial investment to strengthen the efficiency and competitiveness of their operations. This investment, delivered through the Producer Partnership Programme, builds capacity in grower organisations, empowering them to trade more successfully.

For its volume of business, Cafédirect enters into a relatively large number of comparatively small partnerships. This reflects an explicit management objective to reduce risk associated with over-dependence on a limited number of larger suppliers. Cafédirect limits its purchases to no more than 15% of the total output of an individual supplier (which is usually a co-operative or producer owned factory). This policy has the added advantage of spreading climatic and political risk as well as development benefits.

In Financial Year 2004/5, Cafédirect invested $987,280 (86% of its operating profits) in the Producer Partnership Programme.

2.2 Purchasing

Cafédirect consumers pay a fair price for the products which they purchase. This goes beyond the minimum standards laid down by the Fairtrade Labelling Organizations International. Cafédirect buys from its suppliers at a guaranteed price, which is always higher than the world market price.

There are three basic objectives of the fair price paid by Cafédirect. First, it meets in full the true costs of production (and it is argued that conventional supply chains for some agricultural commodities fail to do this). Second, it provides producers with a decent income, which allows them to meet their fundamental needs. Finally, it allows for investment at the household level to address social and economic priorities identified by them.

Purchasing policies seek to transfer risk from seller to buyer. This is achieved by providing advanced forecasts of the company's purchasing intentions. Forecasts are issued to suppliers 12-18 months before purchases are made. With each forecast comes a guarantee that, at minimum, Cafédirect will buy 75% of the stated quantity. Price fluctuations in globally traded agricultural commodities are significant. By over-riding revenue fluctuations related to changing commodity prices, and by providing a guarantee of future income, this purchasing policy allows for investment in both economic and social priorities.

Offering producer partners guaranteed, above market prices, secures quality supplies for Cafédirect, which are required for the speciality products sold by the company. This is particularly relevant in the coffee sector, where competition for differentiated, high quality, Arabicas, is strengthening. Indeed, the Cafédirect purchasing policy reflects a sector trend. An increased number of specialist buyers are purchasing directly from suppliers without trading through the New York Stock Exchange, the principal global market. For example, Starbucks currently buys 2.5m. bags of gourmet coffees directly from suppliers.

While Cafédirect adheres to the same minimum price as other Fairtrade buyers, the company's Gold Standard policy stipulates that a Social Premium of an additional 10% is added on top of the market price. If the addition of 10% still means the total is below the minimum price, Cafédirect will nevertheless pay the minimum price. If, however, the new figure is above the minimum price, then the new higher price is paid.

For coffee, Cafédirect always pays an extra 10% social premium on top of the market price or the guaranteed minimum price of $126 per pound of Arabica, or $106 per pound of Robusta. For tea, Cafédirect pays a social premium on top of the world market price of $60 per metric tonne, or the guaranteed minimum price of $201 per metric tonne, whichever is the higher[24.] For cocoa, Cafédirect pays a social premium on top of the world market price of $250 per metric tonne or the guaranteed minimum price of $1,750 per metric tonne, whichever is the higher.

Figure 3 summarises the prices at which Cafédirect purchased commodities on 31st January 2006. This data is historical and is presented for illustrative purposes. Market prices and prices paid by Cafédirect vary over time.

24 As there is no FLO standard for fair trade purchases of tea. Cafédirect define their own pricing for the commodity.

Fig. 4: Summary of Cafédirect Purchasing 31st January 2006[25]			
Commodity purchases	World market price (cents/lb)	Price paid (cents/lb)	% paid above market price
Standard Arabica	100.2	126	26%
Robusta	41.6	106	155%
Tea[26]	132	201	35%
Cocoa	1380	1750	18.1%

Cafédirect, therefore, consistently purchases commodities above market price. The difference between the sum paid by Cafédirect and the market price is known as the 'Premium'. Premium funds are spent by the Fairtrade Premium Committees of each producer partner. These Premium Committees are transparent, accountable, bodies, whose members are democraticly elected by producers to represent their interests.

Responding to local development priorities, forwarded by producers, Premium Committees work to deliver Millennium Development Goals, often in partnership with local government. Local communities are usually involved in implementing Premium projects, which successfully lever additional resources from the local government.

For example, to improve local healthcare, the Premium Committee may pay for all materials and contract an architect to design and oversee construction of a health post. The local community will provide the labour to build the health post, on condition that local government will staff and equip it.

Premium Funds generated from commodity purchases by Cafédirect totalled $2.8m. in Financial Year 2004/5.

25 Data from 'Cafédirect Key Facts' download available at http://www.cafedirect.co.uk/pressoffice/ (Prices correct at close of trade on 31 January 2006)

26 Prices paid for tea purchases vary according to country of origin.

2.3 Ownership

A further, distinctive, characteristic of the Cafédirect business model is that producer partners have a share in the company. In 2004/5 Cafédirect Producers Limited owned 4.9% of group equity (440,000 shares). The Group paid its first dividend of 2 pence per share in April 2006, delivering an income of $15,136 to share-owning producer partners. This sets Cafédirect apart from many other Fairtrade suppliers and ensures that stakeholders throughout the supply chain are aligned to the same commercial and development goals.

Two places on the Cafédirect board are reserved for representatives of producer partners. In addition, as shareholders, producer partners have decision making powers, and appoint a representative to vote on their behalf at Cafédirect's Annual General Meeting in London each year. In addition to inclusion in corporate ownership, producer partners also have autonomy over local investment decisions and local development priorities.

It is through these distinctive features of the business model, that income is continuously being redistributed along Cafédirect supply chains from point of sale to producers. This is quite unlike conventional commodity value chains, in which income is concentrated among stakeholders who are close to the point of sale.

2.4 Summary

Figure 4, presented below, identifies the features of Cafédirect's business model, through which revenues are transferred to producer partners. The absolute sums of the resource transfers are from the company's most recent published accounts[27]. In financial year 2004/5 this sum, which totalled $11.87m., comprised: purchases of agricultural commodities totalling $8.01m.; Fairtrade

27 Cafédirect Transformer. Cafédirect plc annual report and accounts 2004/5.

Premium payments totalling $2.86m.; PPP investments totalling $987,280; and $15,136 in dividend payments.

The net result is that 35% of revenues from the sale of Cafédirect's products, flow directly downstream to benefit the production end of the supply chain. This exceeds industry standards in redistributing wealth. Research suggests that on average, Fairtrade coffee brands return between 12 – 21% of the final coffee price to producer co-operatives[28]. As discussed in section 1, comparable figures for conventional coffee supply chains are less than 5%[29].

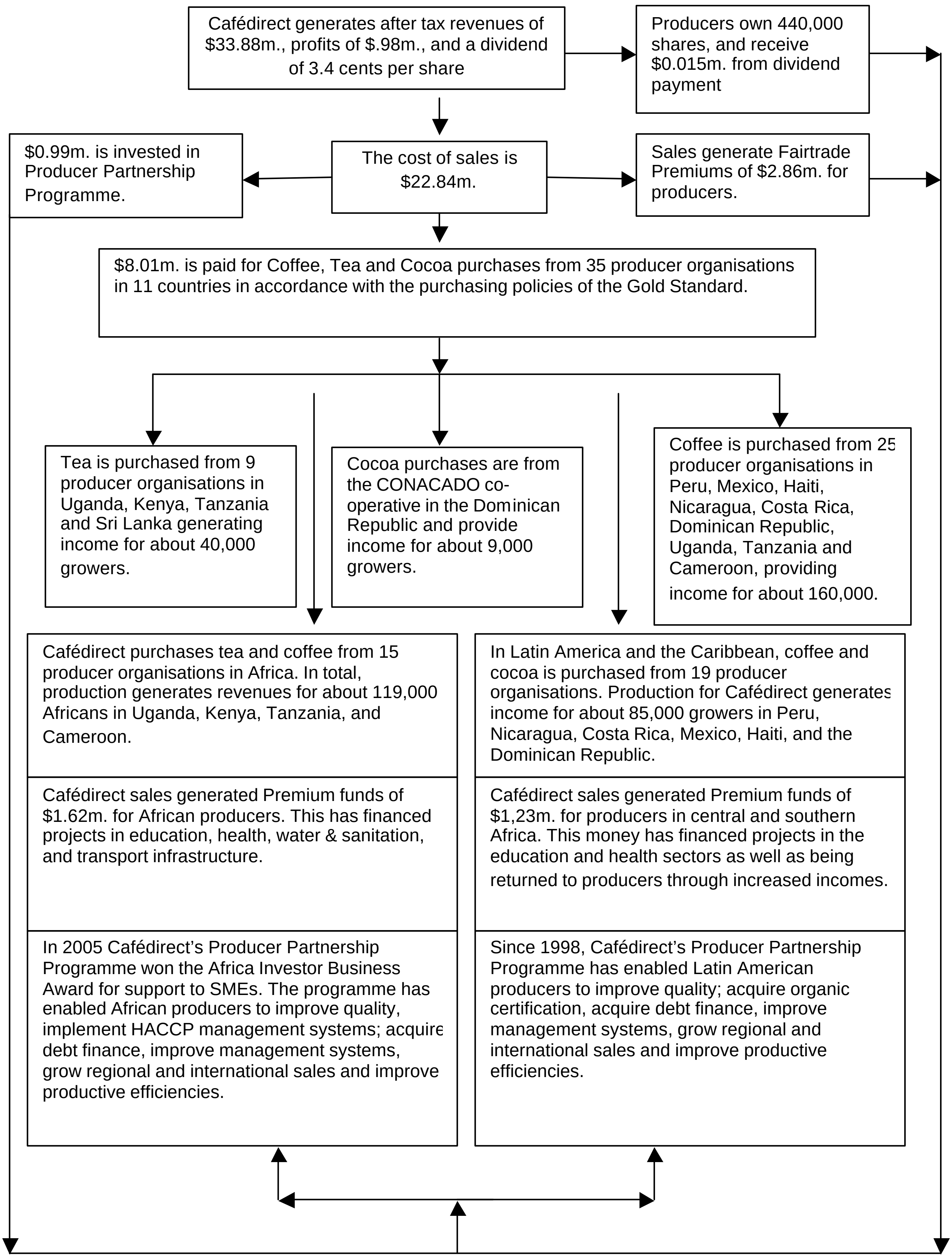
Based on this scrutiny of the Cafédirect business model and accounts, and informed by the analysis of the trends in the global Fairtrade sector, the hypothesis that Fairtrade represents a sustainable commercial opportunity is affirmed.

The next section of this case study paper assesses whether Fairtrade represents a development trap by considering the development impact of Cafédirect's operations.

28 Daviron & Ponte (2006) The Coffee Paradox

29 By returning 33% of revenues to producers, Cafédirect outperforms the Fair Trade sector against this criterion.

Fig 5: Overview of Cafédirect Business in Financial Year 2004/ 2005



3. The Development Impact of Cafédirect

The volume of trade, together with the relationship between stakeholders in commodity supply chains, determines the socio-economic impact of activities. Having examined the scale and nature of investment in the production end of the supply chain, attention is now given to the development impact of Cafédirect.

Approximately 209,000 farmers from 35 locations in 11 countries, grow agricultural produce which is sold by Cafédirect. On average, producers support 4 dependents, suggesting that the socio-economic impacts of Cafédirect's activities affect over 1 million people, about half of them are children aged below 12. It is estimated that about 80% of farmers who produce commodities for Cafédirect earn incomes of $ 2–3 per day. The remainder live on daily incomes of $1 - 2 per day.

As detailed in section 2, there are three principal mechanisms through which Cafédirect delivers positive socio-economic impacts. These are: purchasing at guaranteed, above market prices; Producer Partnership Programme (PPP) investments to strengthen the business of suppliers; and, resource transfers through Premium funds to address local social priorities.

The development impact of these mechanisms is greatly enhanced because the monies spent by Cafédirect, through these processes, levers additional investment from private and public sources. The purchasing policy, reduces risk, increases revenues, and provides producer partners with better access to short and long term debt at improved rates. Technical assistance delivered through the PPP increases revenues and margins by enabling producer partners to access new markets and by improving operational efficiency. Premium Funds are complemented by purchases from other Fairtrade buyers and projects, financed with them, lever counterpart resources from local communities, national government and donor agencies.

The financial value of capacity building activities delivered through Cafédirect's Producer Partner Programme is significant. Peter Rowland, managing director of the Kibena Tea Estate Ltd, one of Cafédirect’s producer partners estimates that technical assistance to comply with new food safety standards demanded by UK retailers, is worth about $491,400 to his company during the first 3 years of inception. He places an overall value on the relationship between the Kibena Tea Estate and Cafédirect at $19m. to the local people and community, over 20 a year period. This is because association with the Teadirect brand allows them to differentiate in an increasingly competitive commodity market[30].

Development impacts are delivered to Cafédirect’s producer partners at three levels; at the business level (which is typically a co-operatively owned processing unit); at the community level; and at the household level. By channelling resources through complementary activities at each of these levels, synergies are generated. These further enhance the positive impact on local development, which is delivered by investments from the sale of Cafédirect products. For example, producer partners in Peru have been driving region–wide development programmes, in partnership with local government.

3.1 Empowering producers

By treating producer partners as equals and including them as shareholders, Cafédirect builds confidence among producer groups. Coupled with a greater understanding of both the market and the products which they offer it, this confidence enables producer partners to add value in their own businesses. Having focussed on producing high value, quality commodities, producers can command above market prices for their goods.

In this way, Cafédirect’s producer partners break down the barriers, which usually prevent smallholders from trading directly with global purchasers. Equipped with improved market information, an extensive network of contacts, and a proven ability to fulfil contract obligations, producer partners now deal

30 Edinburgh Development Consultants (2005) The Cafédirect Effect, Impact Assessment of Teadirect Production.

directly with international purchasers. In addition to being empowering, this enhances efficiencies in agricultural commodity supply chains.

3.2 Investing in the assets of the poor

The Sustainable Livelihoods Framework developed by the UK Government Department for International Development, provides a useful analytical tool to understand the development impact of Cafédirect on the welfare of poor agricultural producers in Less Developed Countries. In its simplest form, the framework views people as operating in a context of vulnerability. Within this context, they have access to certain assets or poverty reducing factors[31].

'A livelihood comprises the capabilities, assets (including both material and social resources) and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base[32]. '

The livelihoods approach is concerned first and foremost with people. It seeks to gain an accurate and realistic understanding of people's strengths (assets or capital endowments) and how they endeavour to convert these into positive livelihood outcomes. The approach is founded on a belief that people require a range of assets to achieve positive livelihood outcomes; no single category of assets on its own is sufficient to yield all the many and varied livelihood outcomes that people seek. This is particularly true for poor people whose access to any given category of assets tends to be very limited. As a result they have to seek ways of nurturing and combining what assets they do have in innovative ways to ensure survival. Figure 5, below, shows how Cafédirect strengthens the resources of producers, in all of the five asset classes, identified by DFID's Sustainable Livelihoods Framework.

31 http://www.livelihoods.org/info/guidance_sheets_rtfs/Sect1.rtf

32 Adapted from Chambers, R. and G. Conway (1992) Sustainable rural livelihoods: Practical concepts for the 21 st century. IDS Discussion Paper 296. Brighton: IDS.

cafédirect

Fig 6: Cafédirect increases the assets of the rural poor in LDCs

Asset Class	Human Capital	Physical Capital	Social Capital	Financial Capital	Natural Capital
Factory/ Producer Group level	PPP strengthens management capacity of suppliers with training and consulting support	Investment in improved ICT, production facilities and operational equipment	Suppliers join a global network of Fairtrade organisations and are shareholders of Cafédirect	PPP investments strengthen the business of suppliers making them more competitive	Producers comply with social and environmental legislation. PPP investment assists implementation
Community Level	Accountable, democratic, Premium Committees work with local government	Improved bridges, road infrastructure and storage facilities at village level	Premium funds invested in health and education projects with full community ownership	Premium committees partner with micro finance agencies to provide credit	Reduced use of pesticides and improved management of communal water resources
Household level	Improved health, education and understanding of communicable diseases	Improved water and sanitation infrastructure as well as physical fabric of households	Producers are served by Premium Committees and involved in the delivery of local development projects	Increased incomes through sales to Cafédirect. Greater access to micro-credit via Premium Committee projects	Reduced transmission of water borne disease, reduced handling of pesticides, improved management of disease vectors

3.3 Improving the delivery of health and education services

Improved delivery of health and education services to rural producers is a further indicator of the development impact of Cafédirect. Premium Funds, generated from the sale of Cafédirect products, belong to producers and are invested at the discretion of local Premium Fund Committees. Premium Funds are either distributed among producers as additional salaries or are used to finance projects, which address local social priorities.

Projects are principally in the health, education, water and sanitation sectors and are successfully lever counterpart resources[33]. Typically, allocations from Premium Funds assist successful projects to purchase materials, such as cement, bricks, corrugated iron sheets, electrics, drains, windows and doors to construct a new health post or school. The village provide the labour to undertake the construction work (often supervised by a local architect or engineer). The local government provide the professional staff (either health care workers or teachers) to operate the facility.

Beneficiaries are actively involved in the design, construction and monitoring phase of the project cycle. As a result, there is a high degree of local project 'ownership'. By working in partnership with local NGOs and local government, the Premium Fund projects are delivering a high social impact for a relatively small investment.

This is confirmed by an evaluation of two of Cafédirect's tea Production Partners in Sub Saharan Africa. Situated at Kibena, Tanzania and Kayonza, Uganda, these two organisations produce about 9% of the commodities purchased by Cafédirect (by value in $)[34]. Since starting trading with Cafédirect in 1998, these two producer partners had generated a total of $1.462m. in Premium Funds, which had supported 100 projects, benefiting an estimated 30,000 people.

Fig. 7: Projects supported by Cafédirect Premium Funds at Kibena & Kayonza

Location	Education	Health	Water & Sanitation	Other	Total	Value ($)
Kibena	36	9	4	16	65	1,135444
Kayonza	20	6	3	6	35	326,969
Total	56	15	7	22	100	1,462,413

33 In addition, limited investments have been made to improve communications infrastructure.

34 Edinburgh Development Consultants (2005). 'The Cafédirect Effect. Impact Assessment of Teadirect Production'.

As the summary in Figure 6 illustrates, these two producer partners have constructed 15 health posts and installed water and sanitation infrastructure in 7 communities with Premium Funds. The impact of these projects is impressive in a region where health indicators are particularly poor. Sub-Saharan Africa is the only region in the world where the number of child deaths is rising. 4.8 million children in Sub-Saharan Africa die before the age of 5 every year; 9 deaths every minute. With a fifth of the world's births, Sub-Saharan Africa accounts for 45% of child deaths. In Tanzania alone, 237,000 children under 5 die each year[35].

Over half of the projects supported with Premium Funds by the two producer partners, have been in the education sector. These include the construction of 43 schools, 33 primary schools and 10 secondary schools, which provide an education for 16,860 pupils (14,943 primary and 1,917 secondary). Again, these projects deliver a significant public good in a region where education indicators are the lowest in the world. Sub-Saharan Africa currently accounts for 43 million of the world's 115 million children out of school. Of the 14 countries in the world where girls account for less than 80% of the primary school attendance, 11 are in Sub Saharan Africa[36].

3.4 Can Fairtrade deliver the Millennium Development Goals?

Partnership is central to the value of Cafédirect and this particular aspect of the company’s ethos is particularly valued by producers. Being treated as equal trading partners; being supported in achieving their development priorities; being valued, and having hope for a brighter, less marginal future, are all highly prized characteristics of Cafédirect’s trading relationships.

Through this partnership approach, incomes are increased, health and education services are improved, and the assets of the poor grow. In this context, Cafédirect is a partner in delivering the Millennium Development Goals.

35 Human Development Report Office Draft Background document EMBARGO 9 June 2005. "Sub Saharan Africa - The Human Costs of the 2015 'Business as Usual' Scenario".

36 Ibid

The UN Millennium Development Goals (MDGs) evolved from a series of 'International Development Goals' first developed by the Development Co-operation Directorate (DAC) of the Organisation of Economic Co-operation and Development (OECD) and published in the OECD strategy 'Shaping the 21st Century', which was adopted by aid donors in 1996.

Offering a programme to achieve focussed social policy objectives through multilateral co-operation, the following 8 Millennium Development Goals were set out in the declaration of the UN Millennium Assembly of September 2000, adopted by the UN General Assembly in September 2001.

It is significant that all eight Millennium Development Goals are being addressed by Cafédirect’s producer partners, working in association with local government.

GOAL	INDICATORS
Eradicate extreme poverty and hunger	■Half the number of people living on less than a dollar a day ■Half the number of people who suffer from hunger
Achieve universal primary education	■Ensure that all boys and girls complete primary schooling
Promote gender equality and empower women	■Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015
Reduce child mortality	■Reduce by two thirds the mortality rate among children under five
Improve maternal health	■Reduce by three quarters the maternal mortality ratio
Combat HIV/AIDS, malaria and other diseases	■Halt and begin to reverse the spread of HIV/AIDS ■Halt and reverse the incidence of malaria and other diseases
Ensure environmental sustainability	■Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources ■Half the numbers without sustainable access to safe drinking water ■Improve the lives of at least 100 million slum dwellers, by 2020
Develop a global partnership for development	■Provide access to affordable essential drugs in developing countries ■In cooperation with the private sector, disseminate new technologies — notably information and communications technologies. ■Address the needs of landlocked and small island developing States ■Make developing countries' debt sustainable in the long term. ■Develop decent and productive work for youth. ■Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory. Includes a commitment to good governance, development and poverty reduction ■Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction

3.5 Does Fairtrade represent a development trap?

This evidence suggest that Cafédirect delivers significant development outcomes, but none of these contributions to human development count for anything if Fairtrade producers are simply responding to inflated purchasing prices by oversupplying commodities to markets which are already in glut.

Observers comment that commodity prices are falling because supply exceeds demand. And, by concentrating factors of production on sectors which are in long-term decline, Fairtrade is ultimately unsustainable. When the Fairtrade bubble bursts and artificially protected suppliers are exposed to real commodity prices, shattered livelihoods and widespread poverty will be delivered in the long term.[37]

This perspective fails to recognise that there is considerable differentiation in saturated agricultural commodity markets. The Fairtrade sector is focused on delivering high quality, speciality products, which are differentiated from low value volume brands. Global coffee prices reflect this. Since 1998, the price of high quality, mild Arabica coffee beans, representing about 6% of global coffee production has been about double the price of Robusta coffee beans, which comprise 94% of market supply.[38]

37 For an eloquent critique of Fair Trade see Lindsey, B. (2004) 'Grounds for Complaint Fair Trade and the Coffee Crisis' Published by Smith Institute, UK, and Cato Institute, USA..

38 The Economist (April 1st-7th 2006), Daviron & Ponte (2006) The Coffee Paradox, Cafédirect Transformer. Cafédirect plc annual report and accounts 2004/5.

4. Conclusion

This analysis of Cafédirect provides empirical evidence that Fairtrade can deliver significant development outcomes by realising sustainable commercial opportunities.

Development outcomes are delivered by redistributing wealth and by promoting social justice. These two objectives inform the management practices, which are enshrined in The Gold Standard, and which inform all aspects of supply chain management.

The business practices of Cafédirect exceed the minimum standards of the certified Fairtrade sector. And while Fairtrade supply chains can increase producer incomes, they are less successful at delivering broader development goals.

This is because FLO certification embodies no requirement to move beyond a traditional producer-consumer relationship and incorporate equitable governance and ownership structures in production systems. Thus, while FLO certification does lead to a greater redistribution of wealth, it does not, de facto, promote social justice.

In a changing global commodities market, this may compromise the ability of fairly traded products to deliver development outcomes. Since the mid 1990s, there has been increasing discontinuity between the goods purchased by consumers and those sold by producers in agricultural commodity supply chains. In the hot drinks sector, brands are increasingly differentiated by quality issues, which revolve around material properties, symbolic characteristics and in person-service attributes. And, as demand becomes less elastic, market concentration has grown.

This is most apparent in the coffee sector, where brand differentiation has occurred during a period of increased consumption, referred to as 'the Late Revolution'. Currently, the global coffee trade is 'an explicitly buyer-driven chain – a roaster driven one, to be more precise. The bargaining power of operators based in consuming countries now allows them to dominate actors in producing countries, especially farmers and their governments[39]'.

This paper demonstrates that producers do receive more reasonable incomes from the sale of fairly traded commodities. However, under new market conditions, their command of revenues will continue to diminish, unless they have a stake in the business by which their produce is branded. The Cafédirect business model indicates that global trade in agricultural commodities delivers development objectives most effectively when it embodies all of the following supply chain management practices:

- Robust, transparent governance structures.
- A commitment to redistribute revenues down the supply chain.
- Shared ownership, which involves producers in company decision-making.
- Durable, long term equitable commercial relationships.

Current industry standards set by FLO, fail to embrace all of these attributes. For this reason, Fairtrade falls short of both redistributing wealth and spreading social justice. Unless this imbalance is addressed Fairtrade may, indeed, become a development trap.

39 Daviron & Ponte (2006) The Coffee Paradox

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