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## Cooperatives & Fair Trade: Making Supply Chains work for Small Producers

Joint contribution to the future EU strategy on “Strengthening the Role of the Private Sector in Achieving Inclusive and Sustainable Development”



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## Introduction

This joint paper has been elaborated as part of a set of documents developed by the Fair Trade and cooperative movements as a contribution to the discussion on the opportunities and risks of the engagement of the European Union (EU) with the private sector in/for development. This topic is a key issue within the implementation of the EU development policy “Agenda for Change” and the discussions on the future global sustainable development framework once the United Nations Millennium Development Goals come to an end.

The paper highlights which opportunities the EU could gain from supporting and partnering with Fair Trade actors and cooperative enterprises to empower small producers in supply chains so as to achieve the EU poverty reduction & sustainable development goals, while guaranteeing secure and sustainable supply chains to satisfy also the EU market demand.

The paper is organised as follows:

- 1) Who is the private sector?
- 2) Fair Trade and cooperatives making supply chains work for small producers
- 3) What can the EU do to help create fairness in supply chains for small producers?

*This can be done by*

- a) Empowering small producers in the value chain
- b) Creating an enabling environment
- c) Adapting trade and trade-related policies
- d) Driving consumption through demand



## 1) Who is the private sector?

It is important from the outset to bear in mind that the “private sector” is not a homogenous set of actors but instead a term that is multifaceted, ranging from specific companies to networks of companies, from companies whose only motivation is to seek profit, to people-centred businesses. These can be economic actors from micro social enterprises to huge transnational organisations that work at the local, regional, national and international level. The private sector can be separated into the formal and informal sectors, also in terms of work and employment. It is therefore

important to bear in mind that due to this wider range of actors within the “private sector”, not all of them automatically deliver on development objectives even if they ‘provide jobs’.

There is therefore the need for a comprehensive and adapted EU policy framework that addresses these differences and puts in place differentiated strategies to engage with the various types of private sector actors to jointly achieve the EU development objectives.

## 2) Fair Trade and cooperatives making supply chains work for small producers

There are various definitions of the term “small producer”, the Organisation for Economic Co-operation and Development (OECD) for example defines small producers as ‘producers operating at a small scale, used to distinguish from industrialized producers; what is considered small-scale in one country or region, maybe considered large-scale in another’.

Small producers can be found in many sectors, e.g. in the production of handicrafts, but by far the most are engaged in agriculture. Latest estimates suggest that there are approximately 2.5 billion people involved in full- or part-time smallholder agriculture, managing an estimated 500 million small farms. By growing 70% of the planet’s food they play a central role in feeding the world’s growing population. Therefore, small producers are a critical part to the solution of providing food and employment to the poorest in the world

and hence have the greatest impact on poverty reduction. At the same time, small farms can be commercially viable, with small producers being the main investors in agriculture in many countries. But many farmers are trapped in the cycle of poverty, made worse by decades of price volatility and underinvestment in agriculture, and are now facing threats from a changing climate. Recently, there has been a slow tide turn in policy (for example from IFAD, FAO, UN, EU) where small producers have started to be recognized as playing a pivotal role to achieve i.e. food security, efficient development processes and long-term improvement of livelihood.

The cooperative and Fair Trade business models are market-based and put people at the very core of their businesses. Both apply a people-centred business model where profit

is simply a means to serve the people, not an end in itself.

Fair Trade and cooperatives have been part of the private sector for many years. They have contributed to bringing a more inclusive peo-

ple-based model to the economic system and proved that it is viable and can succeed commercially. A private sector that places people and not capital at the core of its business can achieve sustainable development and inclusive growth that will alleviate poverty.

This vision includes:

- All trade is fair: small producers have in all cases a fair share of the value of their product and receive a fair price for their work;
- Small producers are empowered and given a voice within the supply chain, especially women . This enables them to deal with power relations and possible corruption that occurs at different levels of the supply chain and increases their resilience to falling back into poverty;
- Small producers are organised in strong, democratic organisations such as cooperatives that represent them within the supply chain. This not only influences the supply chain and maximises production by realising economies of scale, but also increases capacities to lobby towards governments and to balance the macro-economic trade policy developments that have an adverse effect on small producers;
- The diversification and moving up the value chain by engaging in the first stages of processing, is encouraged so as to increase sustainability and give small producers access to diverse markets; this is particularly important if we consider Climate Change effects, the existence of an increasingly concentrated commodity market, and the current context of high price volatility primarily caused by financial speculation;
- Transparency in the supply chain is ensured, where producers and consumers understand and have full information of the supply chain process;
- Supply chains serve local communities' long term needs and allows local producers to benefit from their work through democratic participation and ownership;
- As much added value of the supply chain stays in-country as possible and the price of a product is not recognised as being the only factor determining value;
- Companies pay taxes in countries where they operate.



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### 3) What can the EU do to help create fairness in supply chains for small producers?

The Fair Trade and cooperative movements call on the EU Institutions to encourage an informed public debate at the EU level on the role of the private sector in development, which does not only focus on private sector development and private sector finance for development (including blending instru-

ments) but also covers how the businesses operate and how these operations contribute (or not) to sustainable development; how businesses are organised; and whether, when, and how the private sector can serve as a tool to achieve the EU poverty reduction and sustainable development objectives.

#### *a) Empower small producers in the value chain*

Small producers are clearly not all the same, and the factors holding them back will vary according to their particular context. However, even with large differences, some big challenges can be identified as common to most small producers, wherever they live and

whatever they produce. Addressing these challenges holds the potential to unleash the power of small producers to achieve food security, reduce poverty, and build more sustainable livelihoods.

## What can the EU do:

- Support the development and strengthening of producer and worker organisations and networks – such as cooperatives – in order to build local institutional and productive capacities, as well as the required education and training on the role of women and on management skills. This enables the development of a competitive local private sector through SMEs and cooperatives, as mentioned in the Agenda for Change;
- Support access to finances and mechanisms designed to help small producers and address the “missing middle” . Developing financial instruments must include developing more risk capital funds with substantial scale and leverage and strengthen tools such as seed capital, guarantees and equity; this needs to be ‘affordable credit’;
- Facilitate access to capacity building, especially around diversification of products, quality improvement and help to comply with standards and technical requirements, both for the local, regional and international markets;
- Encourage the development of transparency and documentation tools, to access information within supply chains, monitor changes in process and consumer demands in export markets, as well as importing channels, market price information systems, competition and business opportunities ;
- Support inclusive people-centred business models and encourage small producers to adhere to Fair Trade standards and to get organised in cooperatives;
- Support regional and national Fair Trade and cooperative networks, who aim to increase South-South Fair Trade, by increasing the exchange of local products for local communities. Support legal frames on competition law which are not only protecting consumers but also care about producers’ welfare.



## *b) Create an enabling environment*

A major constraint to cooperative enterprises in many countries is the poor enabling environment: either due to restrictive laws and regulations stemming from the legacy of state control or, in some cases, the complete absence of a cooperative legal framework. The negative impact of the lack of an enabling environment cannot be overemphasised.

To function well, such organisations do need a robust enabling environment with solid prudential regulation, protecting democratic member control and ownership, autonomy, as well as voluntary and open membership. Further, such a framework must be simple and transparent concerning its registration, auditing and reporting processes.

What can the EU do:

- Support the reflection processes within the cooperative sector on the cooperative-state relationship and their technical advice to governments in redrafting cooperative laws;
- Partner with cooperative federations and agencies providing assistance to their members on registration, auditing and legal issues;
- Invite Civil Society Organisations to the dialogue with EU Delegations and Institutions and partner governments and make the dialogue tripartite on legal issues concerning the cooperative model, to guarantee effective legal frameworks and the diversity of enterprises;
- Address the legal issues relating to land tenure, considering that the conditions of access to the land impact directly on smallholders;
- Support the diversity of entrepreneurial forms, including business models being based on democratic ownership and participation.



### *c) Adapt trade and trade-related policies*

The assumption that trade liberalisation will trickle-down to the poorest in societies does not work in practice, unless a number of other policies are put in place. There are numerous EU policies that have an impact on how small producers can (or not) trade their way out of poverty. Creating an enabling trade policy environment with better coordination between development, trade and other policy areas will encourage individuals, producers and consumers to make trade work for development. Trade policy needs to be more democratic and transparent. If this is achieved, Pol-

icy Coherence for Development will become more than nice wordings.

A recent Eurobarometer report of EU citizens' views on International Trade shows that "Almost 40% are willing to pay more for products if they were produced under certain social and environmental standards or to support a developing country"... "This may need to be factored into decision-making relating to future trade policy priorities", the report concluded.

#### What can the EU do:

- Put in place coordinated EU internal and external policies and measures that enable small producers in the Global South to reap benefits from trade;
- Have a clear participatory policy-making culture where small producers are at the heart of trade policy developments; this should be accompanied with impact assessments;
- Implement Human Rights Impact Assessments and incorporate clear conditionality and clauses on human rights and democracy in all trade agreements;
- Put in place a system of positive incentives in the Sustainable Development Subheadings of trade agreements, to encourage the import into the EU of agricultural products that comply with international environmental, social and human rights standards, in particular by ensuring fair revenues for producers and living wages for agricultural workers, as called for by the UN special rapporteur on the right to food;
- Ensure that Aid for Trade promotes poverty-reducing and inclusive instruments, based on small producers needs with an emphasis on developing local markets and sustainable value chains;
- Make trade a priority in Policy Coherence for Development, provided that it is understood as being more than multi- or bilateral government negotiations;
- Ensure that credible competition and merger regulation authorities exist, restraining the creation and abuse of dominant buyer power, protecting small producers.

### *d) Drive consumption through demand*

Fair Trade is not only a market-driven tool but a movement of active citizens, a pioneer in raising awareness on sustainable consumption. It shows that “development education and awareness” works best when it can be followed by “action”, as purchasing decisions resulting in signals to market operators. These choices allows the private sector in Europe to

contribute to support and integrate development into their thinking as well as indirectly benefit from it through increase in sales. It allows European consumers to put money towards development by buying pro-development products and support people-centred companies such as cooperatives.

#### What can the EU do:

- Encourage contracting authorities in the European Union to maximise the use of public procurement as part of their sustainable development strategies, through legislation, guideline documents, exchange of best practices and proactive strategies promoting sustainable public consumption;
- Support Fair Trade actors in their efforts of building awareness of Fair Trade and the cooperative business model in the Global South - as they have already started in South Africa, India, Nepal and Brazil through the introduction of a label, World Shops, and other retail stores.
- Provide consumers with better information and education on what happens along the supply chain as they lack information to make the right choice, including the environmental and social costs of a product;
- Ensure that investments are done in parallel to support small producers, and develop the markets in which these products should be sold;
- Enhance traceability in the supply chain and ensure that certifying and control bodies exist to help distinguish between good practices and green-washing.

The Fair Trade Advocacy Office and Cooperatives Europe look forward to continue working with the European Union to jointly achieve the EU development objectives, in particular in the discussions on the future EU strategies on Strengthening the Role of the Private Sector in Achieving Inclusive and Sustainable Development and the discussions on the future global sustainable development framework post 2015.

<sup>1</sup> Glossary of statistical terms. OECD, 2001 [viewed 3 October 2013].

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<sup>2</sup> IFAD. Smallholders, food security and the environment [Online]. 2013 [viewed 3 October 2013].

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<sup>3</sup> FAIRTRADE FOUNDATION. Powering up smallholder farmers to make food fair: a five point agenda. London: February 2013.

<sup>4</sup> SAHAN, E., THORPE, J. Power, rights and inclusive markets. Public policies that support small-scale agriculture [Online]. Oxfam, 5 June 2013 [viewed 3 October 2013].

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<sup>5</sup> European Union: European Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Increasing the impact of EU Development Policy: an Agenda for Change, 13 October 2011, COM(2011) 637 final [viewed 3 October 2013].

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<sup>6</sup> Cfr. Outcomes of the event organised the 5th June in the European Parliament: "People-centred businesses: Making supply chains working for small producers". <http://coopseurope.coop/node/377>

<sup>7</sup> CTB, Agence belge de développement. Les femmes, Actrices du commerce équitable. Bruxelles: CTB, mars 2013.

<sup>8</sup> NARAYAN, D. Moving out of poverty: success from the Bottom Up. World Bank, 2009.

<sup>9</sup> BYIERS, B., and ROSENGREN, A. Common or conflicting interests? Reflections on the Private Sector (for) Development Agenda, (ECDPM Discussion Paper 131). July 2012.

<sup>10</sup> The missing middle is the lack of access to appropriate financing tools for small and medium-sized enterprises. While microcredit can help the poor subsist from day to day, larger loans are needed to expand productive activities and thereby increase the assets.

NARAYAN, D. Moving out of poverty: success from the Bottom Up. World Bank, 2009.

<sup>11</sup> Cfr. page 9, access to capital and credit for cooperatives, <http://coopseurope.coop/resources/position-papers>

<sup>12</sup> For example see <http://www.stringtogether.com>

<sup>13</sup> Page 35 of EC Eurobarometer "International Trade report" <http://ec.europa.eu/trade/trade-growth-and-jobs/public-opinion>



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