

THESIS

THE FAIRTRADE ACCESS FUND: DOES LINKING ETHICAL INVESTMENT WITH
FAIRTRADE CERTIFICATION ENHANCE CREDIT OUTCOMES FOR SMALL
FARMERS?

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ABSTRACT

THE FAIRTRADE ACCESS FUND: DOES LINKING ETHICAL INVESTMENT WITH FAIRTRADE CERTIFICATION ENHANCE CREDIT OUTCOMES FOR SMALL FARMERS?

The Fairtrade Access Fund is a new ethical investment fund established to work with smallholder farmer cooperatives certified or becoming certified by Fairtrade International. How does the Fairtrade Access Fund fit in with current financing schemes in the developing world? Does the Fairtrade Access Fund's connection with Fairtrade International certification and ethical finance standards enhance the important positive aspects of credit access for smallholder farmers? Does the connection with Fairtrade Standards mitigate the potential risks inherent in debt finance? My study employs an economic sociology and political economy theoretical framework. It traces the certification requirements of Fairtrade International and analyzes how they intersect with the key institutions of ethical finance in order to answer the main research questions. The research includes information on both investors and recipients of the Fairtrade Access Fund and evaluates whether the fund differs from current forms of finance already available to some smallholder farmers. In sum, my findings indicate that linking ethical finance with Fairtrade certification schemes does enhance credit outcomes for smallholder farmers. Further, Fairtrade certification works as an important mechanism of risk management for ethical lending institutions.

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LIST OF ACRONYMS

BAFTS	British Association for Fair Trade Shops
CSAF	Council for Smallholder Agricultural Finance
CGAP	Consultative Group to Assist the Poor
CLAC	Coordinadora Latinoamericana y del Caribe de Pequeños Productores y Trabajadores de Comercio Justo
CSAF	Council for Smallholder Agricultural Finance
ESG	Environmental, Social, and Governance Factors
FAST	Finance Alliance for Sustainable Trade
FF	Fairtrade Foundation
FLO	Fairtrade Labelling Organization
FLO-CERT	Fairtrade Labelling Organization's Certification Body
FLOI	Fairtrade Labelling Organizations International
FMO	Netherlands Development Finance Company
FTAF	Fairtrade Access Fund
FTI	Fairtrade International
FT USA	Fair Trade United States of America
GF	Grameen Foundation
GIIN	The Global Impact Investing Network
IFPRI	International Food Policy Research Institute
IIM	Incofin Investment Management
ISEAL	International Social and Environmental Accreditation and Labeling
ISO	International Organization for Standardization
KfW	Kreditanstalt für Wiederaufbau (German Banking Group)
MEL	Fairtrade Monitoring, Evaluation, and Learning System
NAPP	Fairtrade – Network of Asia and Pacific Producers
NGO	Non-Governmental Organization
ODA	Official Development Assistance
OPIC	Overseas Private Investment Corporation
SPP	Small Producer Seal
TAF	Technical Access Facility
UNPRI	United Nations Principles of Responsible Investing

CHAPTER 1: INTRODUCTION

The Fairtrade Access Fund

The Fairtrade Access Fund (FTAF) is a “specialized investment fund” providing impact investments for smallholder farmers who are certified or working towards becoming Fairtrade certified by Fairtrade International. Fairtrade International, the Grameen Foundation, and Incofin Investment established the Fund in 2012 with a focus on providing long-term loans for Fairtrade farmers in Latin America, Africa, and Asia. In the words of the Grameen Foundation:

Smallholder farmers in developing countries have tremendous potential but generally struggle to break the cycle of agrarian poverty. They face high volatility in the agricultural sector, a disproportionate percentage of value accruing to aggregators and exporters, and inability to access appropriate financing for long-term investment in their farms. Where financing is available, it is typically limited to short-term, low risk export finance.

Grameen Foundation helped launch the Fairtrade Access Fund in late 2012 to meet this unmet demand for long-term financing by smallholder farmers in developing countries. The Fund lends to well-run, Fairtrade-certified (or certification-pending) producer organizations for the purpose of investing in processing facilities. The Fund also supports on-lending to cooperatives’ farmer members to invest in crop renewal, farm improvements, new equipment and working capital (GF 2016c).

In addition to long-term loans, the FTAF provides trade finance and working capital loans, with a unique focus on meeting farmer need for long-term finance, which, out of all forms of finance, is the least available form for smallholder farmers, due to lack of collateral (GF 2012; Milder 2008). The founding organizations of the Fund characterize it as the “first fund to focus on the unmet demand of smallholder farmers for long-term loans” and “uniquely designed to meet the most important financing and technical assistance needs of Fairtrade smallholder farmer cooperatives and associations” (GF 2012).

Fair Trade and Ethical Investment: Background and Overview

The Fair Trade Access Fund is an ethical investment fund that aims to provide financing for farmers in developing nations that are producing for Fairtrade commodity chains. As such, it lies at the intersection of two broad social movements: fair trade and ethical investing. Both fair trade and ethical investment institutions lie within the so-categorized “third sector” or “social economy” where economic actors and institutions are not led solely by the economic bottom-line, but, instead, are also guided by moral principles and concern for human and environmental well-being (Bridge et al. 2013). In addition, these institutions are neither solely part of the public sector nor the private sector; they constitute an expression of social and ethical motives in institutional form, while taking on many characteristics of the private sector. They “engage in trade in the market place” while pursuing a “social purpose” (Bridge et al. 2013:70).

Historically, the fair trade movement is a response to the unfair, unjust, and unequal North-South trading arrangements that harm producers in the global South (Fridell et al. 2007). The movement asserts that trade can work as a “fundamental driver of poverty reduction and greater sustainable development, but only if it is managed for that purpose” (FTI 2016d). Further, the movement claims that conventional trade often harms producers in the global South because “farmers and workers at the beginning of the chain don’t always get a fair share of the benefits of trade” (FTI 2016f). The Fair Trade movement has grown into a system of trade regulated through ‘standards’, which are “designed to address the imbalance of power in trading relationships, unstable markets, and the injustices of conventional trade” (FTI 2016f). While fair trade production and consumption is small in relation to conventional production, it is consistently growing and works to raise awareness among consumers concerning the poor production conditions and unfair returns that farmers receive for their labor in global commodity

markets (Bacon 2005; Raynolds 2009). According to the 2013-2014 Annual Report of Fairtrade International, there are currently 1.4 million Fairtrade farmers and workers in 74 countries, 80 percent of which are smallholders (FTI 2014b).

‘Socially responsible investing’ or ‘ethical’ investing has a long history that is broadly traced back to Jewish, Christian and Islamic roots (Berry 2016; Sauer 2002; Schueth 2003). Religiously motivated investment strategies include avoiding certain types of prohibited activities such as alcohol, tobacco, and gambling, known as “sin stocks” (Schueth 2003). In America, Quakers and Methodists avoided investing in businesses that supported the slave trade (Berry 2016). In addition, religiously motivated investing included investments in social enterprises that helped the poor and reduced social suffering. However, the current wave of responsible investing stems from the 1960s and the 1970s when concerns about civil rights, the Vietnam War, and equality for women “served to escalate sensitivity to issues of social responsibility and accountability” (Schueth 2003:190). This movement was further consolidated in the 1970s with the establishment of the Interfaith Center on Corporate Responsibility whose goal was to bring together investors against South African apartheid (Berry 2016). The growth and impact of the movement was apparent when over 50 corporations within the United States withdrew from South Africa in the mid 1980s. In addition, the movement grew to include other ethical and moral issues when labor unions and large pension funds became concerned with the impact of their portfolios and joined the movement to tailor portfolios toward environmental and social justice concerns (Berry 2016).

In addition to the religious and moral roots of responsible investment, Hawley (2016:16) traces the current rise of responsible investment to a “shareholder revolution” in the mid-1970s. He asserts that the move toward institutional ownership of corporations was transferred “from

individuals to institutional investors”, laying the foundation for responsible investment strategies, diversified fund portfolios, and the growing concern of long-term risks associated with debt and investment strategies (Hawley 2016:17-18). From Hawley’s perspective, the growth of responsible investment is connected with the ownership of shareholders and the financial risks they internalize due to “negative externalities” (19). Shareholders have a stake in their corporation; business strategies that cause damage to the environment and impede social justice create both financial risk and risk to the reputation of the corporation.

As pointed out by Wood (2010), today, responsible investing is becoming mainstream and is known by many names:

The language of mission investing includes overlapping practices such as socially responsible investing, community investing, shareholder advocacy, responsible investment, sustainable investment, impact investing, economically targeted investing, double- or triple-bottom line investing, and others. No matter what the language, the core practice is the integration of environmental and social considerations into the investment process, within the context of a disciplined financial strategy” (Wood 2010:259).

In addition, responsible investing strategies have become common in community development banks and credit unions that work towards local development goals. While there are differences in the approaches, investment strategies and goals of these diverse institutions, the movement has become more standardized since the United Nations developed the Six Principles of Responsible Investing that asserts the investor’s role in “environmental, social, and governance factors” (ESG) that influence the “long-term health and stability of the market as a whole” (UNPRI 2016). In sum, responsible investing aims to integrate environmental and social benefits into the process of earning financial returns (Wood 2010). Hoepner et al. (2016:34) asserts that as responsible investment becomes mainstream, it has the power to transform financial markets into a “driving force towards sustainable development”.

Ethical investors, community development banks, and fair trade consumers and organizations all attempt to employ concern for social justice and fairness. However, applying a concern for fellow human beings becomes problematic in the current state of economic globalization, where consumers cannot see and interact with producers and where investors are separated from the direct effects of where their money is invested. Martin Buttle (2007:1077) asserts that ethical investing, as well as the fair trade movement, represents examples of a “dispersed moral economy” as these movements involve dispersed and concerned economic actors who “attempt to facilitate care at a distance”. Historically, ethical banks were often credit unions focused on local investment of funds for the good of the community. Buttle (2007:1078) asserts that what is interesting about many “social finance institutions” “is they emphasise connectivity over localism”, which places them “in close relation to forms of ethical consumption and Fair-Trade”.

In the moral geography literature, space is problematic because increased distance decreases the ability of people to care for others (Buttle 2007:1079). However, with the growth of modern media, the ability for people to understand the plight of people in other nations increases their ability to take into account the negative impact caused by economic actions and systems. Social spaces that are distant according to material space become closer through networks of relations, which work to connect distant lands and the individuals in those social spaces in what is termed ‘geographies of responsibility’ (Buttle 2007). Archer and Fritsch (2010:112) assert that “fair trade resembles localized trade which works through global trade relations and – to borrow Rosenau’s term – represents a ‘distant proximity’”. Individuals become conscious of unfair global trade relations through their interactions with media, other individuals,

and social spaces. They can then come to identify “themselves as socially and environmentally conscious individuals” (Raynolds 2002:415).

Statement of the Problem

The Consultative Group to Assist the Poor (CGAP) estimates that 75 percent of the world’s poor, those living on less than \$2 per day, live in rural areas and participate in some form of agricultural work (Christen and Anderson 2013). Data indicates that an estimated 2.5 billion people live in 500 million smallholder farms throughout the developing world (Christen and Anderson 2013:3). These smallholder farmers typically cultivate less than 2 hectares of land, and, despite their work in agriculture, often experience hunger, unstable income, and face the brunt of climate change. A recent study conducted by The Initiative for Smallholder Finance found that banks are currently providing \$9 billion in debt financing to smallholder farmers in developing nations, a figure that is immensely short of the \$300 billion that farmers need (Goldman et al. 2014). This issue of access to credit is a widely known obstacle in successful rural development strategies and in the reduction of rural poverty (Chavan 2013).

This research seeks to answer three main research questions:

1. How are Fairtrade International certification and ethical investment institutions linked in their support of smallholder farmers?
2. What are the central characteristics of the Fairtrade Access Fund and how does this new initiative fit into the field of social investment programs?
3. Does the Fairtrade Access Fund, working in combination with Fairtrade Certification, offer important new opportunities for addressing the credit needs of smallholder farmers and mitigate the risks inherent in debt financing?

The intersection of Fairtrade certification systems and programs of international ethical finance provide a good starting point for assessing the difficulties of mitigating rural poverty in developing nations, as Fairtrade certification systems have ‘built-in’ mechanisms that aim to overcome this obstacle of lack of access to credit, as they contain provisions for ‘pre-finance’ in

their standards requirements. Smallholder farmers vary in their needs for finance based on farm size, whether they maintain employees, the commodities that they produce, types of markets they utilize, and other factors.

Meeting the financing needs of these farmers is a difficult task for both private and public institutions alike due to the lack of infrastructure, geographical isolation, needs for technical assistance, and volatility of agricultural markets. Fairtrade certification systems attempt to cut through many of these obstacles by instituting price floors, access to credit, and long-term contracts. These preliminary market supports may provide Fairtrade farmers an initial foundation that allows for further and more stable development patterns. This research will trace the certification requirements of Fairtrade International and analyze how they intersect with ethical finance institutions in order to answer this main question. In addition, it will look at the Fairtrade Access Fund and how it differs from current forms of finance already available to some smallholder farmers.

Methodology

This research primarily uses ethnographic content analysis in order to trace the characterization of the Fairtrade Access Fund, the Fairtrade movement, the rise of ethical investment strategies, and their connection in development approaches. Altheide (1997:65; 67) defines ethnographic content analysis as the “analysis of documents” that involves a “reflexive and circular” approach to the collection of data, its analysis and interpretation. Further, he explains that examining documents through ethnographic content analysis can help to “verify theoretical relationships” as it is “embedded in *constant discovery* and *constant comparison* of relevant situations, settings, styles, images, meanings and nuances” (68). For this research, I draw from the primary documents of Fairtrade governing institutions, leading ethical lenders that

work in the field of smallholder agriculture, and the three organizations that lead and manage the Fairtrade Access Fund. I embed my analysis of these documents within the theoretical frameworks of political economy and economic sociology.

The process of document analysis serves as my main approach for discovering the history and connections between the social movements of Fairtrade and ethical investment and for answering my research questions. I use this approach within the theoretical perspectives of economic sociology and political economy in order to understand how these movements have become institutionalized in modern organizations and how they navigate current political and economic circumstances. Finally, I also use this approach to gain an understanding of how these organizations characterize and utilize one another in their goals to assist smallholder farmers. Finally, I outline the development and institutionalization of the fair trade movement together with the ethical investment institutions that work with Fairtrade farmers in order to understand how Fairtrade standards and certification processes interact with and influence ethical investment loans to smallholder farmers.

As I was unable to obtain a complete list of Fairtrade Access Fund recipients and donors from the institutions that govern the Fund, I “mined” this data from Internet sources such as the websites of Incofin Investment, Fairtrade International, and several finance news sites. I used this information to assemble a dataset of loan recipients, loan amounts, loan types, and loan durations. This information is presented in Appendices A-C. For one of my research questions, I compared my dataset with the data presented by ethical investment institutions. For instance, the Fairtrade Access Fund is characterized as the first fund to focus on long-term loans. I compared the ratio of long-term and short terms loans disbursed by ethical lending organizations to the ratio offered by the Fairtrade Access Fund.

Chapter Overview

Chapter Two establishes a theoretical framework for analyzing the two broad movements of fair trade and ethical investing. It draws from economic sociology as a micro and meso foundation for explaining the processes of institutionalization and networks of social relations that characterize these movements. It then embeds that approach into political economy in order to understand how market processes explained by economic sociology are embedded within historical, state, and capitalistic systemic processes. For political economy, it draws mainly from the work of Karl Polanyi ([1944] 2001) in order to characterize the motivations and impetus behind these movements, utilizing Polanyi's "fictitious commodities", his "countermovement" and his "organizing principles". The chapter also contains a literature review on the efficacy of finance requirements in increasing credit access for Fairtrade farmers and introduces the Fairtrade Access Fund as the latest way that Fairtrade organizations have sought to meet the financing needs of these farmers. Since this research attempts to analyze the Fairtrade Access Fund within the broader context of international agricultural finance, this work will focus on Fairtrade International, a primary founder of the Fund.

Chapter Three presents a brief history of Fairtrade International in order to characterize the processes of institutionalization that the social movement adopted as it moved from a loose knit association of alternative traders who sought to obtain better returns for disadvantaged producers in the Global South to a 'standards' based system of third-party certification and labeling. The chapter also examines the stated goals of Fairtrade International and how the organization attempts to attain those goals through its economic and social interventions, including a discussion on its requirements for minimum prices, the Fairtrade premium, and pre-finance. Finally, the chapter examines Fairtrade International's "Theory of Change" and how the

economic interventions work through international commodity markets. These primary economic interventions attempt to overcome the most pronounced obstacles to smallholder farmer success in developing nations. This chapter will examine how they provide an essential foundation in order for farmers to improve their positions within the system of international trade, attain a steady return for products, and further achieve a sustainable and stable farming practice.

Chapter 4 outlines the connection of smallholder agricultural ethical lending institutions with Fairtrade International and Fairtrade producer organizations and finds they the two movements have developed in tandem with one other, due to the financing needs of smallholder Fairtrade farmers. It provides a short description of the seven main lending institutions that work with smallholder farmers and provides a discussion on how these institutions work in concert with their own ‘theory of change’ that aligns with the goals of Fairtrade International. The chapter finds that ethical lenders who work in the field of agricultural smallholder finance is a highly networked domain, where institutions collaborate on a pre-competitive basis in order to attain their goals of ethical investment in developing nations. It also finds that the field requires much collaboration with states and other more conventional business enterprises due to its highly risky nature. Finally, it discusses which levels of need these institutions address as well as the levels of need that are not being met.

Chapter 5 examines the Fairtrade Access Fund, its institutional collaborators and founders, as well as its investors and beneficiaries. It discusses the ongoing need for long-term finance within the field of smallholder agriculture and analyzes how the Fairtrade Access Fund is both different and similar to existing finance products already supplied by the other ethical lenders in the field. It finds that, like all ethical finance initiatives, the Fairtrade Access Fund is a highly networked undertaking that draws from inputs and supports from state-led development

banks, other ethical lending institutions, and other ethically motivated organizations working the field of development. It also finds that the fund supplies increased technical assistance for loan recipients and does achieve a greater proportion of disbursements as long-term loans than other ethical lenders. Finally, the chapter examines how Fairtrade certification is working as a mechanism of risk management for ethical lenders, which gives insight into why the Fairtrade Access Fund, characterized as the “first fund” to focus on long-term credit, targets specifically those smallholders that have or are in the process of attaining Fairtrade certification.

Chapter 6 concludes with a discussion on the broad findings of the research, its limitations, and directions for further research. In sum, my research sought to answer the question of whether linking ethical investment with Fairtrade certification could enhance credit outcomes for smallholder farmers. My findings conclude that yes, they do, and that Fairtrade certification is acting as a mechanism of risk management for ethical investors that are already aware of the importance of the economic interventions used by Fairtrade that work to stabilize global commodity markets through minimum prices, the Fairtrade premium, and access to pre-finance. Appendices A through C provide a complete list of fund beneficiaries and tables that break down Fund disbursements by commodity, region, and nation, between the years of 2013 and 2014.

CHAPTER 2: THEORETICAL FRAMEWORK / LITERATURE REVIEW

Theoretical Framework

While approaches to and analysis of responsible investment and fair trade as social movements vary by discipline and theoretical persuasion, I will approach both movements within the broad frameworks of political economy and economic sociology. These two views of the economy provide complimentary insight into responsible investment, fair trade, and the process of ethical finance between affluent investors in the global North and the smallholder farmers in the Global South in two key ways. First, political economy takes a macro focus to economic phenomena and has “pioneered thinking about the linkages between states, law, and markets and the historical emergence of systems of governance” (Fligstein and Dauter 2007:107). Second, economic sociology takes a meso and micro approach and is well suited to analyze the socially and politically embedded activities of economic actors. Political economy’s focus on global inequality and economic sociology’s focus on the actions and embeddedness of economic actors provide complimentary insight into the process of the transnational social movements incarnated in responsible investment and fair trade.

Historically, political economy and economic sociology have “developed in relative isolation from each other”, each having their own fields of inquiry (Beckert 2013:324). While the term ‘political economy’ is currently used in a wide variety of disciplines, historically, it implied the study of the economy within the political order of the state. Before the development of economics as its own discipline, the approach to economic phenomena included the study of the social bases of economic action (Granovetter et al. 2001). This focus on the links between states and the economy is one of the main strengths of political economy for this analysis since it

includes a focus on international inequality and the political processes and structures that uphold ‘uneven development’ in geographically differentiated spaces within the global economy (Smith 1990), as well as the social movements that seek to remedy inequality and uneven development.

Economic sociology is a subfield of sociology that focuses on the ‘embeddedness’ of economic action as rooted within social interaction, social structure, culture, and institutions. Fligstein and Dauter’s (2007:107) “Sociology of Markets” asserts that the broad approaches to economic sociology are lacking in their use of political economy, especially because political economy “has pioneered thinking about linkages between states, law, and markets and the historical emergence of systems of governance” and because the effects of “capitalist arrangements” have direct impact on the outcomes of “economic development”. In tandem, Jens Beckert (2013:324) asserts that political economy, with its focus on the “historically specific institutional contexts” and on its “interest on the general logics of capitalist reproduction” offers a “unifying research framework” for economic sociology. Further, he asserts that economic sociology, with its focus on the micro and meso foundations of economic institutions, can provide a microfoundation for political economy. Central to his argument is that contemporary political economy typically draws its theory of human action from the ‘rational actor’ of economics, which fails to take into account the “cultural, social, and political embeddedness” of economic actors (Beckert 2013:324).

The strength of economic sociology is its ability to consider the multiple motivations of human action and incorporate a relational approach to the activity that constitutes institutions (Zelizer 2012). The discipline sees institutions as the bedrock of the economy and, in turn, recognizes institutions as socially constituted processes. As such, political economy aligns well with the subject matter of economic sociology in that both fields consider the effect of

government and social forms and institutions on the economy in broad. Further, these two fields have many early thinkers in common, including Max Weber, Karl Marx, and Karl Polanyi. The connection between the two fields of political economy and economic sociology is useful for an analysis of the Fairtrade Access Fund, since they provide an approach to the structure, processes, and actions behind the institutions, which led to the creation, establishment, and maintenance of the Fairtrade Access Fund.

Political Economy and the Capitalist Global Economy

Jens Beckert (2013:324) explains that contemporary research in “political economy focuses on the varieties of capitalism and on the transformation of the institutional configurations of contemporary capitalism in the process of economic liberalization”. He defines capitalism as an “endemically dynamic economic system in which production of goods and services is motivated by expected profits, materializing in market exchange” (Beckert 2013:325). Also underpinning this system of capitalism is the expectation of constant growth and an increase in the “value of goods exchanged in the market” (Beckert 2013:325). Since endemic to the capitalistic system is the continual cycle of the production and exchange of goods, coupled with the expectation of constant growth and the “goal of profit maximization”, the system requires the “credit-based financing of investments” leading to the production and increase of wealth (Beckert 2013:327). Indeed, the predominant conceptualization of ideals surrounding ‘development’, the good life, and economic sustainability are all nested within the ideal of the capitalist dynamic.

This analysis will take this historically unique circumstance into account by utilizing an institutionalist political economy approach, specifically, by drawing from the work of Karl Polanyi’s ([1944] 2001) *The Great Transformation* and his political economic approach to

‘embeddedness’ and ‘double movement’. Polanyi’s *The Great Transformation* is considered a “canonical work for economic sociology and international political economy” (Block 2003:275). In this book, Polanyi provides a historical analysis to the social forces that gave birth to the establishment of a market economy. I will focus on three main points from his great work as a macro framework for my use of economic sociology. First, the goals, institutions, and mores associated with capitalism and market-based economies are not ‘natural’ and are not the only way to order society. Second, the attempt to create a self-regulating market system, which seeks to ‘disembed’ the economy from its’ social bases, has detrimental effects on society, on human beings, and on the environment. Third, the continuing political attempts to create a liberalized market structure has resulted in counter-movements, which attempt to protect society from the market, known as Polanyi’s ‘double movement’.

The first point reflects Polanyi’s effort to ‘de-naturalize’ the theories of economic activity associated with neoclassical economists. He asserts that human beings are not “naturally” inclined towards market-based activity, gain, and profit maximization; rather, in line with the work of Max Weber, he asserts that human beings are culturally oriented to the values and goals upheld in their respective society and unique to their historical timeframe. Human beings “respond to a range of motivations” (Block 2003:294). However, in the process of creating a market dominated society, individuals intent on profit-maximization are created: “Man can be as good or evil, as social or asocial, jealous or generous, in respect to one set of values as in respect to another” (Polanyi [1944] 2001:49). As explained by Block (2003:300): “As Polanyi makes clear, human beings are not born with Adam Smith’s propensity to barter and trade. On the contrary, economic actors have to be constructed; they have to learn how to behave in market situations”.

In the view of Fligstein's (1996) 'markets as politics' approach, he asserts that actions in the market are directed towards promoting the survival of institutions, creating market stability, and creating shelters from price competition. This conception works well for analyzing some of the stable and well-established market patterns associated with Fairtrade networks and ethical investment institutions. However, Polanyi provides an important component of this social dynamic by emphasizing that the behaviors associated with market-dominated societies do not emerge from the essence of humankind, but rather out of a particular social structure and arrangement that lifts up certain values and norms as primary. The creation of the market-dominated society gives birth to all the possibilities of social organization founded upon competition in the market place, which is the main focus of economic sociology. Therefore, my use of economic sociology, which theorizes action within economic organizations as 'power struggles' over control of the organization, recognizes the historically specific and directed nature of human actions within a market-dominated society and does not consider them as emerging from some biological or immutable eternal nature of human beings.

My second point revolves around Polanyi's conception of 'disembeddness'. Polanyi saw the creation of a free market economic system as an impossibility because of the social reality of human beings as embedded within the social and environmental context (Kaup 2015). Polanyi asserts that a true "self-regulating" market economy "could not exist for any length of time without annihilating the human and natural substance of society" (Polanyi [1944] 2001:3). The economy and the process of exchange is always embedded within the broader social and environmental system. To make this point, Polanyi points out that land, labor, and money, which the market economy attempts to treat as "pure" commodities that can be regulated through the price mechanism, are not real commodities, but are "fictitious commodities".

The labor force is composed of human beings; it is not a product produced and sold in the market place like a real commodity. The attempt to construct labor as a real commodity has produced all kinds of social ills such as child labor, worker exploitation, and others. This same assertion applies to land, which is apparent in the environmental destruction associated with capitalist production. Block (2003:296) points out that Polanyi emphasizes the minimum conditions surrounding the administration of land, which includes “assuring a stable food supply at reasonable prices that, in turn, involves protecting the farming population from dramatic income fluctuations that might drive them off the land”. This becomes pronounced in Fairtrade networks where governance structures have instituted mechanisms to stabilize prices, including minimum prices for commodities.

Block (2003:296) points out that the “administrative apparatus” surrounding money that provides the “infrastructure of embeddedness did not emerge until the last quarter of the nineteenth century with the rise of central banks that stabilized the banking system and smoothed the growth of the money supply”. However, surrounding the issue of money is a constant double movement. While it is fully embedded in national and international monetary systems, it constantly confronts “opposing pressures of the movement for *laissez-faire*” (Block 2003:296), where pure market forces determine the distribution and price of credit. The recent attempts to let the ‘market’ determine the distribution of credit under neoliberal economic policies have led to the reduction of credit for rural agricultural producers and many detrimental outcomes (Chavan 2013; Kennedy and King 2014; Banerjee 2009). All three of Polanyi’s ‘fictitious commodities’ demonstrates the fact that the economy must be embedded within social institutions, such as the state and other organizations that act on behalf of producers, consumers, and the environment. At the most basic level, these institutions protect labor and the environment from pure market forces

that create detrimental impacts if left unfettered. Further, the “construction of competitive markets requires ongoing state action” (Block 2003).

Finally, my third main point from Polanyi’s work is that of the “double movement”. Polanyi asserted that the idea of a “self-regulating market” as advanced by neoclassical economists was an impossibility that could never be achieved (Polanyi [1944] 2001:4; Block 2003). As proponents of the *laissez faire* market economy attempted to establish an economy based on free market economic principles, the social and environmental damages created by this process automatically produces a “counter-movement”: an “effort to protect society from the market” (Block 2003:294-295). This movement/counter-movement is Polanyi’s double movement. Many scholars who study the fair trade movement draw from Karl Polanyi’s ‘double movement’ and ‘embeddedness’ in order to explain the rise of fair trade which was motivated by a desire to protect farmers in the global South from the detrimental effects of liberalized trade regimes which secured cheap prices on food products for consumers in the global North (Bacon 2005; Bacon 2010; Raynolds 2000; Raynolds 2009; Raynolds 2014; Renard 1999; Taylor 2005; Le Velly 2015; Wilson and Mutersbaugh 2015). Not all of these scholars approach Polanyi and the double movement in the same way, but they all draw from Polanyi’s work in order to conceptualize the impetus behind the fair trade movement.

Levien and Paret (2012:725) assert that the 1990’s saw the global adoption of forms of economic neoliberalism, which became “institutionalized in the WTO, IMF, and the World Bank”. This institutionalization of a liberalized economy and market exchange in these global institutions placed further pressure toward deregulation of national economies and further attempts to ‘disembed’ the economy from its social structure. The resultant damage to labor forces, agriculture, farmers, and the environment was seen in the social protest movements

against these organizations in the 1990s, which constituted another wave of counter-movement (Levien and Paret 2012). These responses to the new pushes towards a global and liberalized economic system need to happen in order to protect humanity:

“For Polanyi argued that the tendency to treat labor as if it were a commodity throws the very survival of society itself into peril. Society, however, does not shrink back from such a threat; a counter-movement spontaneously emerges to demand social protections and prevent what would otherwise be the sure destruction of humanity” (Krippner and Alvarez 2007:229).

Some research on fair trade and on ethical investing utilizes a neoclassical economic framework, which contains important methodological and conceptual obstacles to a full analysis of the Fairtrade Access Fund. First and foremost for this analysis, neoclassical economics fails to take into account the value-laden nature of human economic activity. In addition, it views the economy as emerging from isolated exchange processes where actors attempt to maximize utility under conditions of constraint. Archer and Fritsch (2010) assert that in order to explain the behavior of fair trade consumers, one must escape the neoclassical assumptions of human behavior as modeled into international political economy. Drawing from the theory of action as modeled in economic sociology and institutionalist political economy helps circumvent these obstacles. Further, nesting economic sociology within the broader framework of political economy helps see fair trade and ethical investment as part of a broader social movement, a ‘counter-movement’, that attempts to prevent social and environmental damage stemming from global neo-liberal capitalist expansion.

Economic Sociology and the “Sociology of Markets”

As explained above, connecting economic sociological approaches with political economy is useful for analyzing Fairtrade networks and institutions and ethical investment organizations, both of which span across national borders and act as a response to the historically

unequal political and economic contexts in which global markets operate. As pointed out by John Lie (1997:351):

“Social networks exist inevitably within the larger historical and structural context. The embeddedness approach itself must be embedded in larger, historically transient, social structures—not only state institutions and suprastate organizations, but also historically shifting transnational relations and structures”.

Since institutions associated with Fairtrade and ethical investing occupy social and economic spaces within ongoing global geographical unevenness and the power differentials associated with the historical post-colonial global North-South divide, political economy provides a complimentary macro framework for economic sociology.

Approaches to economic sociology developed in response to the assumptions of neoclassical economic theory:

“In essence, they [economic sociologists] discovered that the atomized, price-taking actors, with perfect and symmetrical information assumed by neoclassical theory, did not seem to exist empirically. Social relations seemed to be crucial to the functioning of markets and market actors in a myriad of ways” (Fligstein and Dauter 2007:110).

In the view of economic sociology, markets and the structures that uphold them are created and maintained through social relations that are contested and infused with political struggles; they are not just the result of efficient economic processes. This conception of markets as social relations includes an understanding of the role of culture and the shared meanings of economic actors in the formation of markets.

Within the field of economic sociology, I will draw primarily from Fligstein’s (1996; 2001) ‘sociology of markets’ / ‘political-cultural’ approach for this analysis. This approach combines institutional approaches with network approaches and population ecology, but I will draw mainly from institutionalist and network approaches (Fligstein 1996). Fligstein (1996) asserts that combining these approaches of economic sociology overcomes the shortcomings of

each perspective by pulling together theories that explain the formation and resulting structure of institutions, organizational rules and politics, as well as providing a theory of human agency. In this “markets as politics” approach, Fligstein (1996:656, 657) constructs a “sociological view of action” where “economic worlds are social worlds”. In this view, the “purpose of action in a given market is to create and maintain stable worlds” (1996:658). Institutions are “political coalitions” and the members of organizations and institutions are motivated to create stability in order to survive. Because “actors engage in political actions vis-à-vis one another and construct local cultures that guide interaction”, the “production of market institutions is a cultural project” (1996:657). Fligstein (1996:657) points out: “I use the metaphor ‘markets as politics’ to discuss how these social structures come into existence, produce stable worlds, and are transformed”.

The institutionalist approach conceptualizes markets as “social spaces where repeated exchanges occur between buyers and sellers under a set of formal and informal rules governing relations between competitors, suppliers, and customers” (Fligstein and Dauter 2007:113). In this process of repeated exchange, “market actors will develop social structure to mediate the problems they encounter in exchange, competition, and production” (Fligstein and Dauter 2007:113). Therefore, market institutions are the result of the social processes where exchange takes place within a market economy (i.e. for money). These institutions are the “property rights, governance structure, conceptions of control, and rules of exchange [which] enable actors in markets to organize themselves” (Fligstein 1996:658). Market institutions change over time to solve important issues such as competition and coordination, known as “market dynamics”, and establish ‘legal forms’ of economic activity such as the “relationships between shareholder and employees, local communities, suppliers, and customers; and the role of the state in directing investment, owning firms and protecting workers” (Fligstein 1996:658).

Institutions compete with one another in the market place, where they form alliances, shared understandings, joint ventures, and strategies that help stabilize the process of production, as well as prices received for products (Fligstein 2001). Stable structures emerge from processes of exchange because economic actors create institutions with rules, procedures of governance, property rights, and hierarchies of power, with the goal of mitigating the internal struggle for control and power within organizations as well as competition that takes place between organizations within the capitalist economy (Fligstein 1996). Both of the movements in this analysis, Fairtrade and ethical investing, have become ‘institutionalized’ with stable markets where participants follow rules, regulations, and norms towards the mission of the respective organizations. Institutional approaches provide an apparatus for analyzing the organizational norms and rules, which stabilize the governing institutions that define the ‘rules of exchange’ and ‘conceptions of control’ within these institutions (Fligstein 1996:657).

Since institutional theories fail to consider the relations between actors within institutions, network theory provides an important dimension with its strength in analyzing connections between actors within the social structure. Fligstein asserts that “networks are at the core of markets to the degree that they reflect social relations between actors” (Fligstein 1997:657). Network theory asserts that “behavior and institutions are affected by social relations” (Granovetter 1985 cf. Granovetter and Swedberg 2001:51), an approach referred to as the “embeddedness of markets” (Fligstein 1996:656). This approach to economic action overcomes economics’ “undersocialized” view of human economic activity by taking into account the social and structural positionality of economic actors, the distance between them, and the relationships of trust that characterize the exchange process (Granovetter and Swedberg 2001; Fligstein 1996). In addition, Fligstein (1996:671) notes that “complex role structures in

markets operate through networks”. Network theory is able to demonstrate the hierarchies of control that characterize institutions in a capitalist economic structure.

Also within networks and relationships of trust, I will draw from the relational view of economic sociology, which takes a more cultural approach to the process of exchange by suggesting that consumers choose and purchase products that align with their values (Fligstein and Dauter 2007). This approach is associated with the work of Viviana Zelizer: “Her argument is that consumers must be convinced not just of the utility of products they buy and the trustworthiness of those of sell them, but also of the morality of the product” (Fligstein and Dauter 2007:108). While this view has been used to explain the emergence of culturally controversial markets, such as life insurance, I believe this view is useful in explaining the growth of markets for Fairtrade products, which is driven in large part by consumers who demand products produced through social justice standards and are willing to pay extra for them. In addition, ethical investing portfolios are supported by investors who seek to have their money invested in projects that do not harm the environment or other human beings and are often willing to receive less return on investments in order to achieve this. As such, fair trade consumers and ethical investors all seek products that align with their values.

The institutionalist and network approaches of economic sociology provide useful insights into the attributes of the structure and stable processes behind Fairtrade and ethical investment institutions, both of which started off as “social movements”, which then became institutionalized through social processes which resulted in the prevailing norms, rules, and structures that guide these organizations. These approaches also highlight how niche markets are created and the ‘processes of legitimation’ that take place when social movements “search” for structure in a market context (Fligstein 1996:671). Fairtrade and ethical investment started off as

“social movements” that sought to take into account social and environmental justice issues within the capitalist economy. This process becomes important within the context of the Fairtrade Access Fund, which is the result of the institutionalization of ethical investment funds as well as the fair trade movement.

Literature Review: Fairtrade and Finance

Polanyi explains that a market society has within it “two organizing principles”, each of which have the “support of definite social forces” and that employ “distinctive methods” to attain their goals (Polanyi [1944] 2001:138). The first organizing principle, he asserts, is economic liberalism which aims “at the establishment of a self-regulating market”, supported by the “trading classes” who use methods of laissez-faire and free trade (Polanyi [1944] 2001:138-139). The second organizing principle is “social protection” which aims “at the conservation of man and nature as well as productive organization”, supported “primarily, but not exclusively” by “the working and the landed classes” who use methods of “protective legislation... and other instruments of interventions” (Polanyi [1944] 2001:138-139).

Fair trade and ethical investment strategies can be seen as part of Polanyi’s second organizing principle and as part of the countermovement. Fair trade is characterized as an “alternative approach to conventional trade” that institutes economic and social interventions into production and trade practices with the aim of creating a fairer system of global trade (FTI 2016f). Ethical finance is characterized as an alternative to “speculative and market” finance, as it focuses on accomplishing social goals instead of maximizing profits at the expense of human and environmental well-being (Palmisano and Fuentes 2015). In addition, it “invests money in people and the environment, supporting actions for social and/or environmental enhancement and developing depressed areas at a high risk of social exclusion” (Palmisano et al 2015:4).

Ethical banking and finance institutions will not invest in or support non-sustainable enterprises that are known to damage the environment or people. There is a “natural partnership” between fair trade and ethical finance since they share “fundamental values” and work toward similar goals (Palmisano 2015:19).

The economic interventions employed by Fairtrade International in their certification standards include price guarantees, the Fairtrade Premium, pre-finance, and requirements of democracy and labor conditions. While all of these standards are important for answering my research questions, for the purpose of the literature review, I will focus on the previous research that discovered impacts on access to credit for smallholder farmers due to the requirement for pre-finance. Credit is an essential aspect of supporting agricultural production for both short-term working capital and long-term investment (Chavan 2013), and many ethical investment institutions have specialized funds specifically targeting smallholder producers.

Within the Fairtrade approach, one of the overarching goals is to create trader/producer relationships that can maintain stable and long-term trading relations that counter the high volatility of global agricultural commodity prices. This is achieved through clear, mutually determined contracts, which clearly stipulate the terms of the trade, price, quality, payments, etc. Payers are required to pay the Fairtrade Minimum Price or Market Price, whichever is higher, and the Fairtrade Premium for products. In addition, they are required to provide access to finance. The provision of pre-finance for products during the time of production is considered “one of the core benefits for producers within the Fairtrade System” (FTI 2015b:32). Once the contract is signed, buyers must make available up to 60 percent of the contract value as pre-finance. It is considered a “voluntary best practice” to make the finance available at a zero interest rate (FTI 2015b:34).

The finance institutions that work with smallholder farmers categorize finance products into three categories: trade finance, working capital, and long-term finance. The provision of pre-finance that is required by Fairtrade certification standards is trade finance. This is the only type of finance that buyers are required to offer, but in the Fairtrade standards, buyers are encouraged to offer other forms of finance to producer organizations at fair interest rates. Trade finance is a type of short-term financing that is typically extended for 6 months up to a year on the trade contract and covers much of the growing and selling season. When farmers work with cooperatives such as is the case in Fairtrade production, cooperatives need access to pre-export trade finance because it enables them to pay farmers for their products upon delivery. Without this type of finance, farmers would need to wait until the full contract is fulfilled and the entire product is sold, which can be months after the harvest (Devaney 2011). Farmers, who are struggling to feed their families, send their children to school, and meet other financial obligations, often cannot afford to wait months for payment.

As explained by Nicholls and Opal (2005) from a neoclassical economics perspective, conventional smallholder farmers are credit constrained in traditional markets not because of a lack of availability of credit in rural areas, but rather, lack of competition in the credit sector that creates imperfect markets for rural finance. In the absence of formal finance, farmers often turn to local middlemen for their finance needs. In Latin America, these local “middlemen” are known as “*coyotes*”. Middlemen extend credit (using the crop as collateral) to farmers in exchange for purchasing the crop at below market prices. Many times, middlemen have a monopoly on the market and can therefore demand exorbitant interest rates, which “can be as high as 100 percent per annum” (Nicholls and Opal 2005:36).

In the case of coffee, these relationships between the farmers and the *coyotes* can be especially constraining. Smallholder farmers, who compose over 50 percent of total coffee sales, are isolated from formal markets and therefore often must sell their product to *coyotes*. These *coyotes*, in turn, consolidate the coffee and sell it to the processing mill (Nicholls and Opal 2005; Tedeschi and Carlson 2013). Nicholls and Opal (2005) refer to a case study in Ecuador where coffee farmers became continuously indebted to *coyotes*, perpetuating relationships of exploitation.

As explained by Tedeschi and Carlson (2013:459), *coyotes* not only have a monopoly on the credit market in rural areas, but also act as the “monopsony purchaser of the farmers’ coffee”. From a neoclassical economics perspective, these researchers explain that the middleman’s monopoly influence on rural credit and his monopsony purchasing power combine with the problem of asymmetric information to create “inefficient” local credit markets (Tedeschi et al. 2013:459). Smallholder farmers are not likely to have a “formal credit history” and therefore banks have no way of determining which farmers are credit worthy. Due to these market inefficiencies, farmers are forced to use the services of the *coyote* in order to obtain pre-finance credit and bring their product to market. These market inefficiencies not only hinder the farmer in credit access but also lead to reduced output.

Tedeschi and Carlson (2013) found that the presence of the middleman as both monopoly provider of credit and monopsony purchaser of coffee leads to reduced credit, labor and output. Under these conditions, farmers are constrained on credit, pay higher interest rates, receive reduced profit, and are constrained in their ability to hire labor and increase production. While the researchers view both traditional non-competitive markets and fair trade markets as inefficient in comparison to perfectly competitive markets, they assert that the presence of fair

trade increases competition for the *coyote* and “drives up the price that the *coyote* must pay to the farmer”, which lowers the middleman’s profits and increases the farmer’s profits. In turn, the researchers find that under ‘fair trade regimes’, since the *coyote* no longer maintains a monopoly on the credit market, farmers are able to hire more labor and increase production (Tedeschi et al 2013:465). Therefore, they conclude that fair trade “does change the distribution of welfare gains from the *coyote* to the farmer” (Tedeschi et al 2013:465). These findings are in agreement with Podhorsky’s (2015:169) findings that the entrance of Fair Trade into a commodity chain dominated by “oligopsonistic intermediaries” effectively decreases the market power of the intermediary and, consequently, increases the price received for both Fairtrade producers and conventional producers. In addition, Guirking and Boucher (2008), in a study of rural credit constraints in Peru, found that agricultural output could be increased by at least 26 percent if the formal credit constraints were removed.

In the Fairtrade supply chain, the provision of pre-finance combined with the requirement of cooperative organization attempts to eliminate the isolation of smallholder farmers by replacing the *coyote* with cooperatives that secure pre-export finance from buyers themselves. This provision aims to eliminate the need of the *coyote* and allow farmers the ability to receive credit at fairer interest rates and sell their product at fair market prices. In a study of 13 cooperatives and 700 producers of coffee and bananas in Peru and Costa Rica, Ruben et al. (2009:781) found that the Fairtrade requirement of buyer/seller contract which includes a minimum price and the extension of pre-finance credit successfully allowed producers to access credit without being “trapped by local intermediaries”. In addition, the study found that “Almost without exception, all case studies reveal substantial and significant positive effects for FT households with respect to credit and asset value” (Ruben et al. 2009:783). Further, the

researchers examined three Peruvian cooperatives and found that those who were associated with Fairtrade longer, possessed more assets and had better access to credit. Murray et al. (2003:7) found that Fair Trade's requirement of pre-finance not only increased producers' access to credit, but also that Fair Trade certification yielded a "certain prestige" causing lenders to "extend credit under more favorable terms". It appears that Fairtrade certification may work as a mechanism in reducing asymmetric information in credit markets and reducing lending risk.

In a study of Fair Trade and conventional smallholders in Nicaragua, Bacon et al. (2008) found that Fair Trade certified coffee farmers are more likely to have access to pre-harvest credit than conventional farmers. Out of a survey of 177 Fair Trade and conventional farming households, 77 percent of Fair Trade farmers reported having access to credit versus 33 percent of conventional farmers. This trend also held in respect to women, with 47 percent of women selling in Fairtrade markets having access to credit, versus 14 percent selling in conventional markets. However, even with the gains to credit access seen in the study, Bacon et al. (2008:267) note that credit availability for Fair Trade cooperatives "remains insufficient": "In fact, most Fair Trade cooperatives could only access short-term financing". This makes sense, since Fairtrade certification requirements only contain a provision for short-term trade finance.

Mendez et al. (2010) performed an extensive study of 469 coffee producing households and 18 cooperatives throughout Central America and Mexico in order to determine the impacts of Fair Trade and Organic certifications on household livelihoods. While the researchers found that the certifications did not have a significant impact on some "livelihood-related variables", they did find that they had a "positive influence on saving and credit" (Mendez et al. 2012:236). On average, 40 percent of all households reported having access to some form of credit. The authors note that this was different between nations. In addition, the authors did not state whether

this reported figure was from middlemen or from formal lending institutions. Finally, when looking at all certified households combined (organic, Fair Trade, or Fair Trade/Organic combined), the author's did not see a significant increase in credit access compared to all farmers. However, this changed when they separated Fair Trade and Organic. Fair Trade certified farmers did have significantly higher access to credit, but organic growers did not. The authors note that organic certification does not include a provision for credit access. This compliments Reynolds (2009) findings that report that producers view the provision of credit as the second most important aspect of Fair Trade certification, second only to the minimum price guarantees.

While many studies confirm the positive impact of Fair Trade certifications on access to credit, there is more work to be done. In a study in Nicaragua, Bacon (2005) surveyed 228 farmers in order to determine the impact of Fair Trade and organic sales on farmer livelihood and vulnerability during the coffee crisis, which began at the end of the 1990s. Low coffee prices, drought, and Hurricane Mitch all added to farmer's vulnerability during this time. Many smallholder farmers lost their land when banks "foreclosed on debt-ridden farms" (Bacon 2005:503). He found that access to credit was an important determinant in level of vulnerability. In the case of Fair Trade producers, cooperatives work to pay farmers in a timely manner and to provide credit to farmers. However, cooperatives typically pay farmers in stages and, of those surveyed, "farmers waited an average of 73 days" for full payment (Bacon 2005:505). This period of waiting can lead to farmers selling portions of their harvest to middlemen. In addition, Bacon notes that smaller cooperatives join together to form "unions of cooperatives and, while these larger cooperatives can help farmers "manage the economies of scale", they "need access to larger credit lines to pay the farmers before their physical product is actually exported" (Bacon

2005:505). Unfortunately, these cooperatives often cannot access the types of credit lines needed: “Even well established export cooperatives with over US \$300,000 in working capital must rely on a handful of foundations and one roasting company for preharvest financing” (Bacon 2005:505).

This lack of credit access, even for Fair Trade cooperatives, can lead to farmers opting to use middlemen instead of joining Fair Trade cooperatives. In a study of producers in Jitlolol, Chiapas, Milford (2014) finds that even when producers have the option to join a Fair Trade cooperative, they may not. This choice stems from both economic and political factors, but, in brief, in addition to increased production requirements associated with organic growing methods, producers often chose to sell to the middleman because they could acquire a larger loan earlier in the production process. Producers will take a price decrease and succumb to less favorable selling conditions in order to obtain credit. She concludes that Fairtrade International may need to “improve credit schemes”, in order to reduce barriers to entry into Fairtrade production (Milford 2014:590).

Most studies conclude that Fairtrade certification systems provide producers and producer cooperatives with better access to credit under fairer terms and conditions. However, the type of credit provided is typically short-term pre-finance trade credit. The lack of long-term credit can pose a significant barrier to the growth and development of farms’ operations. In 2012, Fairtrade International took a survey of 456 Fairtrade farmers and found that 91 percent of them had unfulfilled finance needs (FTI 2015a). Sixty-five percent of those surveyed needed investment credit, 29 percent needed seasonal input finance and “most” of the farmers needed access to “long-term finance for production improvements” (FTI 2015a).

From the literature, it appears that Fairtrade interventions do work to alleviate credit constraints for smallholder farmers who are able to attain certification. However, even in Fairtrade markets, access to credit is not perfect or substantial and most research reviewed above concludes that farmers still need access to working capital and long-term finance. It was out of this pronounced need for long-term finance that the Fairtrade Access Fund (FTAF) was born and, in the words of Fairtrade International, “designed to meet the most important financing and technical assistance needs of Fairtrade smallholder farmer cooperatives and associations” (FTI 2013a). However, as the FTAF was instituted in 2012, there is no reported research on its impacts.

CHAPTER 3: FAIRTRADE INTERNATIONAL: HISTORY, GOALS, STANDARDS, AND THEORY OF CHANGE

Introduction: A Brief History of Fairtrade International

The fair trade movement is a broad social movement traced as far back as the 1940s when “religious and politically motivated Northern organizations” established handicraft shops selling handmade products from the Global South to Global North consumers (Bacon 2010:123). These alternative handicraft shops, including Ten Thousand Villages and SERVE International, increased over several decades and adopted the idea of ‘trade-not-aid’ as a way to increase consumer awareness of unfair global trade conditions and as a way to get a better price for artisans (Raynolds 2000, 2002; Wilson and Mutersbaugh 2015). The movement’s sole use of fair trade handicraft shops shifted in the 1980s with the establishment of the Max Havelaar label, the first label “specifically designed to certify the symbolic fairness of the product itself” and extending “fair trading to the agro-food sector” (Wilson and Mutersbaugh 2015:286).

While the system of labeling adopted under the Max Havelaar label originally began by certifying small coffee producer cooperatives in Mexico, further efforts were made to expand the certified fair trade coffee market with Equal Exchange in the US and Cafédirect in the UK (Raynolds and Greenfield 2015). Some of the impetus behind the certification of coffee, as explained by Bacon (2005), included market liberalization and the end of the international coffee agreement in 1989, which led to highly volatile world coffee prices and resulting record low prices and returns for producers in the South. Coffee producers in the South, disenfranchised by conventional capitalist standards, and consumers in the North, aware of the low prices and unjust production conditions, moved towards creating alternative markets that incorporate the values of fairness, justice, and sustainability (Raynolds 2000). In 1997, these labeling initiatives were

unified under one non-governmental organization (NGO), Fairtrade Labelling Organization International (FLO), now known as Fairtrade International.

In 2003, FLO split its operations with the establishment of FLO-CERT. FLO-CERT was formed as an “independently governed subsidiary of FLO” for the purpose of verifying certification standards and guaranteeing the “independence, quality and credibility of the Fairtrade certification system” (FLOCERT 2014), thereby creating a “third-party” system of certification. FLO, working in conjunction with FLOCERT, has grown consistently since its establishment and in their 2013-2014 annual report, Fairtrade International reported more than 1.4 million certified farmers and workers in 74 countries, with nearly \$6 billion in sales of seven main commodities: bananas, cane sugar, cocoa, coffee, flowers and plants, seed cotton, and tea, with coffee being the largest in volume (FTI 2014b:22). Fairtrade certification has now expanded to include “some 20 different commodities” (Riisgard 2015:120), originating from very different countries of origin and different types of producer organizations (Bennett 2015), while “coffee remains the core of the Fairtrade system and accounts for close to half of the value of all certified items” (Raynolds and Greenfield 2015:32). Products bearing the Fairtrade label can now be found in mainstream retail outlets throughout the global North (Raynolds and Greenfield 2015; Utting 2015).

In line with the assertions of economic sociology, the process of moving from handicraft shops to a formal labeling scheme requiring methods of certification and the defining of standards was, and remains, a highly contested process (Bennett 2015). Within the institutionalist perspective of economic sociology, the “purpose of action in a given market is to create and maintain stable worlds” (Fligstein 1996:658). This ‘purpose of action’ in the creation of the Fairtrade labeling system is apparent in the establishment of the Max Havelaar label, now

consolidated under Fairtrade International, which sought to secure more stable market prices for coffee producer cooperatives in Mexico. As explained above, the volatility of coffee prices during the 1980s led to the increasing instability in coffee markets, providing increasingly precarious returns for producers in the global South. It was within this ongoing instability of the coffee market that led to the organization setting a ‘minimum price’ for coffee – a standard that is central to labeling standards today.

However, also in line with economic sociological assumptions, this process of stabilizing Fairtrade markets has been highly contentious and has, many argue, modified the original mission and vision of the Fairtrade movement. The contentions surrounding this process take several forms and include disagreements over who should be certified (Bennett 2015), what type of organizations should be recognized as Fairtrade (Riisgaard 2015), and whether or not the certification system itself has been subsumed under profit maximizing capitalist principles that uphold neoliberal agendas and global North/South inequalities (Bacon 2010). While all of these debates are beyond this scope of this thesis, it is important to note the contentious issues in the field, as they are indicative of how economic and institutional actors navigate and “mediate the problems they encounter in exchange, competition, and production” (Fligstein and Dauter 2007:113).

The original creation of the labeling schema stemmed from the desire of Fairtrade advocates to expand the presence of Fairtrade products and the demand for those products. As such, the label was created as a viable mechanism to get Fairtrade products into more traditional retail outlets (Raynolds and Greenfield 2015). However, this “mainstreaming” of Fairtrade products, some argue, has greatly modified the original mission of Fairtrade and shifted the movement “from a trust-based ‘solidarity’ network to a standards-based commodity chain

subject to ISO (International Organization for Standardization) certification norms” (Wilson and Mutersbaugh 2015:281). As summarized by Reynolds and Greenfield (2015:26), “Fair trade organizations are deeply mission-driven and devoted to movement principles, yet at the same time they face significant pressure to adopt conventional business practices”. This aspect of the stabilization of the market has been researched by many scholars and remains an important issue to the Fairtrade movement.

In today’s globalized and highly rationalized society, the fair trade movement has come to take on rational and legalistic methods that include the necessary “conceptions of control”, “governance institutions” and “rules of exchange” as explicated by economic sociological theory (Fligstein 1996:658). As market institutions, they are subject to the “market dynamics” inherent in capitalistic systems of production and consumption, and must establish the “legal forms” of economic activity that allow for their operation in global markets. Fligstein (1996:657) explains in the “markets as politics” approach that as “social structures come into existence”, and “produce stable worlds”, that they themselves “are transformed”. Therefore, whereas “solidarity – not market opportunity – motivated most pioneer fairtraders through the risky innovation process of creating functional alternative trade relationships where none existed” (Bacon 2010:124), the movement’s insertion into broader market processes transforms the movement itself. In this conception, the goals of the social movement lead to the creation of social structures that attempt to stabilize the institutions associated with the movement and who drive the movement’s mission forward.

While the difficulties involved in the institutionalization of the fair trade movement are important, Reynolds (2000) asserts that the movement itself remains significant because it constitutes a critique of the unjust, unsustainable, and exploitive working conditions and trade

relations created by capitalist market principles. The values and standards associated with the global agro food system, which shape global production procedures, are “ecologically and socially destructive” (Raynolds 2000:297). Capitalist market principles dehumanize the relationships between consumers and producers and work to hide processes of production that are essentially exploitative. As such, the movement attempts to maintain its goals to create fairer standards for trade and production within the historical and continuing unequal international trade relations by shortening the distance between consumers and producers and re-embedding production and distribution in more “equitable social relations” (Raynolds 2000:297; Raynolds 2009).

The Goals of Fairtrade International

Fairtrade International embraces the belief that trade can work to reduce poverty and create sustainable development only if it is guided and managed towards that goal (FTI 2016d). Led by this belief, the organization asserts: “Our mission is to connect disadvantaged producers and consumers, promote fairer trading conditions and empower producers to combat poverty, strengthen their position and take more control over their lives” (FTI 2016d). The mission is typically asserted as three main long-term goals: “make trade fair”, “empower small producers and workers”, and “foster sustainable livelihoods” (FTI 2013b:5), which are pursued through a system of certification, partnerships, support, and interventions.

These three goals are realized through the Fairtrade standards that act as economic and social interventions into the global trading process and into the Fairtrade commodity chain. In line with Polanyi’s second organizing principle that asserts that “social protection” is necessary in order to support and protect producers, farmers, labor and preserve productive organization, Fairtrade’s interventions aim to maintain Fairtrade as an ‘alternative’ trade system which aims

“to support producer empowerment, closer producer-consumer relationships, gender equity, long term partnerships, transparency, and sustainable community development” (Bacon 2010:122-123). In this approach, there are two broad types of “interventions”. First, the establishment and maintenance of standards that set rules for fair trading practices and “codify” the principles of Fairtrade, and, second, the strategies that “enable engagement in Fairtrade” (FTI 2013b:5). Both interventions emphasize the need for “good governance” of Fairtrade supply chains, which emphasizes accountability, transparency, and fair representation of all stakeholders in the Fairtrade network.

Within the theoretical framework of economic sociology, institutions must establish property rights, governance structures, conceptions of control, and rules of exchange in order to operate in markets (Fligstein 1996). In this framework, property rights are the “social relations that define who has claims on the profits”; governance structures are the “general rules ... that define relations of competition, cooperation, and market-specific definitions of how firms should be organized”; the conceptions of control are the “understandings that structure perceptions of how a market works and that allow actors to interpret their world and act to control situations”; and the rules of exchange are the rules that “define who can transact with whom and the conditions under which transactions are carried out” (Fligstein 1996:658).

Governance Structure: The Institutional Structure of Fairtrade International

Fairtrade International is headquartered in Bonn Germany. It represents a ‘global system’ composed of Fairtrade International, FLO-CERT, 19 national organizations, and three producer networks. As stated on the organization’s website, Fairtrade International “coordinates Fairtrade labelling at an international level”, sets “international Fairtrade standards, organize[s] support for producers around the world, develop[s] global Fairtrade strategy, and promote[s] trade justice

internationally” (FTI 2016g). The organization is governed by a general assembly, composed equally of producer and national organization representatives, and a board of directors. The standards determined by this body apply to all Fairtrade producers, and companies who market Fairtrade products, including “importers, exporters and licensees” who seek to sell products with the Fairtrade mark (FTI 2016g).

The process of attaining certification is led by FLO-CERT, an “independently governed subsidiary” of Fairtrade International (FLOCERT 2014). Organizations who want products to be sold as Fairtrade certified, must apply to and be certified by FLO-CERT. FLO-CERT certifies organizations and producer cooperatives and verifies their continuing conformity with Fairtrade standards. A primary goal of FLO-CERT is to guarantee the “independence, quality and credibility of the Fairtrade certification system” (FLOCERT 2014). The broad goal is to ensure that all aspects of the international Fairtrade supply chain meet Fairtrade standards. Together, Fairtrade International and FLO-CERT work to establish and enforce the standards of Fairtrade.

The 19 national organizations of Fairtrade International are concentrated in North America and Europe, in addition to Brazil, Kenya, South Africa, India, Australia, New Zealand, and Japan. Each national organization participates in the governance of Fairtrade International by attending the annual meeting of the general assembly (Fairtrade Canada 2015). The role of the national organizations is to issue licenses to nationally based companies to use the Fairtrade mark and ensure that products sold in their respective nations meet the Fairtrade standards. Finally, they work to promote Fairtrade products in their respective nations (FTI 2016c).

The producer networks are regional associations located in the regions of Africa (Fairtrade Africa), Latin America and the Caribbean (CLAC), and Asia and the Pacific (NAPP) and are composed of farmers and workers who produce Fairtrade products. Together, the three

networks represent 1.5 million producers in 74 countries (FTI 2016h). For this purpose of this analysis, I will focus primarily on small producer organizations, since they are a focal interest in my analysis of the Fairtrade Access Fund and “still comprise the backbone of production” (Raynolds and Greenfield 2015:35). According to Raynolds and Greenfield (2015:35) there are a total of 754 “affiliated small farmer cooperatives” worldwide, with “469 small producer organizations with 280,000 members” in Latin America and “217 producer cooperatives... with over 663,000 members” in Africa.

The stated goals of each network include representing the needs of the farmers and workers and to ensure their voice is represented in the production and trade process represented by Fairtrade International (FTI 2016b). Further, these regional associations work to increase productivity and trade capacity by “providing technical, organisational and financial support” (FTI 2016b). By helping to forge long-term partnerships for trade, the networks seek to continually generate trade opportunities based on fairness and sustainability, which, in turn, aid the development process and create “secure and sustainable livelihoods” for farmers and workers (FTI 2016d).

Fairtrade Standards: The Economic and Social Interventions of Fairtrade International

The economic and social interventions associated with Fairtrade production and trade strategies are expressed and operationalized through the Fairtrade Standards. When viewing the standards through the lens of economic sociology, the Standards constitute the “rules of exchange” and the “property rights” that define the rules of transactions and determine the distribution of profits and other benefits for those working with and in Fairtrade certified commodity chains. Within the Fairtrade International model, the standards apply in varying ways based on commodity, type of organization, and type of producer and are nested within the broad

goal and aim of “making trade fair”. According to Fairtrade International, the standards for certification follow “internationally recognized standards and conventions” determined by the International Labour Organization and ISEAL’s Code of Good Practice (FTI 2011:3).

The standards are divided into two main categories: core requirements and development requirements (FTI 2016a). Core requirements are the standards that every producer must meet in order to be Fairtrade certified and include three main requirements: the Fairtrade minimum price, the Fairtrade premium, and pre-finance. In addition to these required interventions, there is another that is strongly encouraged in the Fairtrade Trader Standard, further resources for credit to be provided by buyers. Fairtrade International asserts that these standards, along with long-term contracts, are the key to empowering small producers, as they enable “farmers to negotiate better trade terms, attract investment and strengthen their collective voice” (FTI 2014b:6). Development requirements “encourage” producers to grow and develop their enterprises by investing in their organizations and their workers (FTI 2016a). The standards stipulate that organizations “should have democratic structures” and a “transparent administration”, and be headed by a general assembly with equal voting rights for members (FTI 2011:33). Members of the general assembly must be chosen in “free, fair and transparent elections” and be accountable to members (FTI 2011:33). The development standards mandate that producer organizations create a Fairtrade Development Plan that promotes the progress of the “business organization, members, workers, community, and/or the environment”, the activities of which are supported by the money received through the Fairtrade premium (FTI 2011:30).

Fairtrade International provides five main objectives of its standards. First, provide farmers with a price for their product that covers the average cost of production. Second, provide an additional premium that contributes to “social, economic, and environmental development”,

known as the Fairtrade premium (FTI 2016e). Third, provide access to pre-financing, if needed. Fourth, create partnerships between buyers and producers that are long-term, in order to create a more dependable outlet for selling crops and more stable commodity markets. Fifth, establish clear criteria to ensure that products labeled with the Fairtrade seal are produced in a “socially, economically fair and environmentally responsible” manner (FTI 2016e).

Core Requirement: The Fairtrade Minimum Price

The Fairtrade minimum price acts as a ‘price floor’ against sudden drops in market prices and aims to decrease risk by stabilizing market prices and producer incomes, guaranteeing a living wage, and covering the “average cost of production” (FTI 2007:18). Buyers are required to offer producers either the minimum price as determined by Fairtrade International or the Market Price, whichever is higher. At times, when market prices are very low, the minimum price acts as a safety net against vulnerability. If the producer also obtains organic certification, the minimum price will be higher, known as the ‘organic differential’ (FTI 2016a). In 2011, Fairtrade International raised the minimum price for Arabica coffee by 15 cents per pound. In addition, it raised the organic differential for coffee from 20 cents per pound to 30 cents per pound (FLOI 2011). In some product categories, there is no minimum price and in these cases, the buyers and sellers negotiate an acceptable price (FLOI 2010).

Fairtrade International reported that during the 2013 growing season, the minimum price was especially important for coffee farmers in Latin America, as market prices fell “below the cost of production for many coffee farmers” (FTI 2014a:78). Conventional farmers received only an average of \$1.00 per pound, whereas Fairtrade farmers received a minimum price of \$1.40 per pound. This also led to an increase in producers joining Fairtrade producer organizations (FTI 2014a:78). In addition, in 2013, coffee farmers in Latin America were negatively impacted by

coffee rust, which led to a 30-40 percent decline in coffee production (FTI 2014a:78). The minimum price provided important support for impacted Fairtrade farmers (FTI 2014a:10).

Core Requirement: Fairtrade Premium

The Fairtrade premium is a fixed amount received by producers above the minimum price, which is paid by the buyer of the product, as stipulated in the Fairtrade Trader Standard. Officially, the premium “is intended for investment in the producers’ business and community (for Small Producers’ Organizations or Contract Production projects) or for the socio-economic development of the workers and their communities (for Hired Labour situations)” (FLOI 2010:2). The amount of the Fairtrade premium has been raised in order to account for market changes and provide more support for worker and producer organizations. In 2007, the premium for coffee was raised from 5 to 10 cents per pound. In 2011, the premium for coffee was raised from 10 cents to 20 cents per pound, with 5 cents earmarked for “productivity and quality improvement efforts” (FLOI 2011:2).

FIGURE 3.1 provides a visual representation of how, in the case of coffee, the final overall price differential is determined, including the Fairtrade Minimum Price, the Fairtrade Premium, and an additional premium for Organic certification. The producers and the buyers

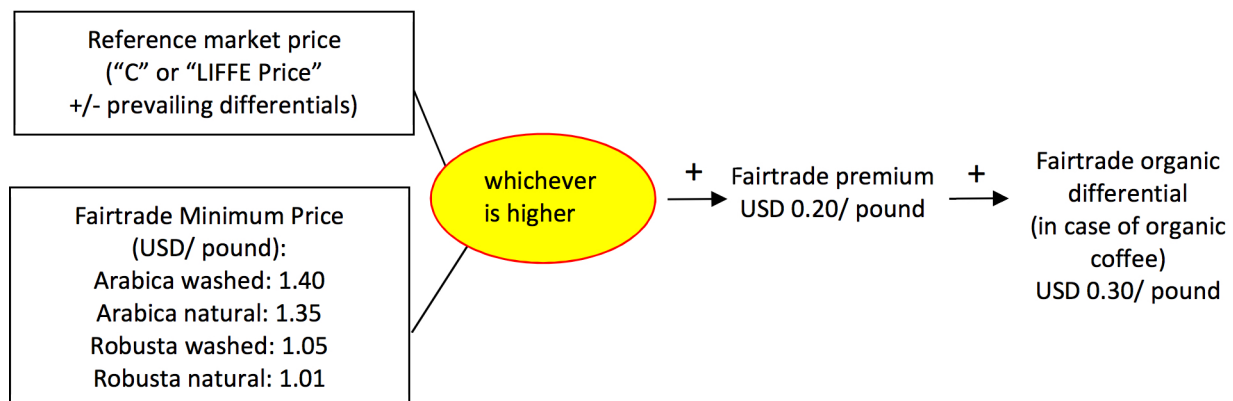


FIGURE 3.1: Fairtrade International, Calculation of Prevailing Differentials

Fairtrade International. 2013. “Fairtrade International Reference Guide on Prevailing Differentials.”

begin with the market price, or the minimum price, whichever is higher. On top of that price, the Fairtrade premium is added. Then, additional differentials for other certifications, such as organic, are added, resulting in the price that will be agreed in the contract. According to Fairtrade International's "Monitoring the Scope and Benefits of Fairtrade" for 2014, in the 2012-2013 growing season, 85 percent of all premiums worldwide went to small producer and contract production organizations and 15 percent went to hired labor organizations (FTI 2014a:66). Seven main products account for almost 95 percent of the premium: coffee, bananas, cocoa, cane sugar, flowers and plants, tea, and seed cotton.

In its 2012-13 report, Fairtrade International reported the main uses for the Fairtrade Premium as determined by both small producer organizations and hired labor organizations. In sum, the organization estimates that about 41 percent of the Premium was used for "direct services to farmer members, including the provision of training, tools, inputs, and credit and finance, as well as direct payments to members over and above Fairtrade prices" and around 23 percent was used for investments in facilities and infrastructure (FTI 2014a:11). Combining infrastructure and farmer services, the organization asserts that approximately 37 percent was used as investments towards improving productivity and quality. Many impact studies have confirmed that the benefits of the Fairtrade premium extend beyond small producers and workers out to the community. Further investments include education, housing, and healthcare.

Fairtrade International divides the allocation of the premium into four main categories. For small producer organizations, the categories are: 'investments in the producer organization', 'services for communities', 'services for farmers', and 'other'. Small producer organizations use the majority (48 percent) of their premium to invest in their organizations. Within this category, the premium is divided between 'human resources and administration' and 'investments in

facilities and infrastructure’. The next largest investment category is ‘services for farmers’, which includes ‘payments to farmers’, money for agricultural inputs such as fertilizer and tools, funds to train farmers in agricultural or business practices, and other. Also in the category is the allocation towards credit and finance, which was 4 percent of the total premium. TABLE 3.1 presents data from Fairtrade International for 2013, highlighting some key areas of investment for small producer organizations.

TABLE 3.1: Division of the Premium: Small Producer Organizations

Allocation Category	Percent of Total	Estimated Amount 2013
Investments in Producer Organizations	48%	\$51,637,514
Human Resources and Administration	24%	
Facilities and Infrastructure	23%	
Training / Capacity Building	1%	
Services for Communities	9%	\$9,682,035
Education and Healthcare	4%	
Social, Economic, and Environment	3%	
Community Infrastructure	1%	
Services for Farmers	41%	\$44,107,043
Payments to Farmers	17%	
Agricultural Tools/Inputs	7%	
Credit and Finance	4%	
Education and Healthcare	2%	
Other	2%	\$2,151,563
Premium Total - Small Producer Organizations:	100%	\$107,578,155

* Data from Fairtrade International. 2014. *Monitoring the Scope and Benefits of Fairtrade: Sixth Edition 2014*. Dollar amounts have been converted from Euros to USD using the average of the annual conversion rate for the years of 2013 and 2014, which was 1.3288145

Core Requirement: Pre-finance

As explained by Fairtrade International, some crops, which are produced year round, have a constant flow of income. However, crops such as coffee, cocoa, and cotton require a growing period without income, which poses impediments to growing, as farmers may lack the funds to secure needed inputs such as seeds, fertilizers, etc. (FTI 2015a). Therefore, according to

Fairtrade standards, buyers are required to supply pre-finance, a form of trade finance to producers. This provision, along with the minimum price, is intended to reduce price volatility and risk for producers (FTI 2014a). The main purpose of pre-finance is to provide short-term finance to producer organizations, which enables them to purchase products from their members (FTI 2015a). Without the pre-finance provision, member farmers would need to wait for payment from cooperatives until the product was sold. Pre-finance allows farmers to be paid once buyers and producers agree to a contract, buyers are required to provide up to 60 percent of the contract value before the product is delivered.

Pre-finance can be provided directly by buyers themselves or they can arrange for the pre-finance to be provided by a third party. If it is provided directly, it is required that buyers and producers “agree in writing” in the amount, duration, payment terms and other changes, and consequences in case of problems with the quality of the delivered product or in the case of non delivery (FTI 2015b:33). Buyers are not permitted to charge interest rates higher than the “companies own cost of borrowing” (FTI 2015a). If the pre-finance is provided by a third party, the buyer is required to take necessary steps to ensure that the credit is secured. In this case, the buyer is required to act as a reference for the producer, confirm that the contract is valid and can be used as collateral for the loan, and agree with the producer on how the loan will be repaid (FTI 2015b:34). In the latest version of the Fairtrade Trader Standard, Fairtrade International encourages extra measures that traders can take to ensure “voluntary best practices” (FTI 2015b:34). A ‘voluntary best practice’ for pre-finance is for the buyer to supply pre-finance at a zero percent interest rate and to provide or facilitate other forms of credit to the producer for the purpose of investment in the business.

As explained earlier, buyers who purchase Fairtrade products must provide up to 60 percent of the contract value as pre-finance to the producer cooperative upon request. Fairtrade cooperatives are “jointly owned and democratically governed by the producers themselves” and are structured into 1st grade, 2nd grade, and 3rd grade organizations (FTI 2012). First grade cooperatives are composed of farmers/producers who join together from a certain locality. 2nd grade cooperatives are composed of the 1st grade cooperatives and 3rd grade cooperatives are formed of members from 2nd grade cooperatives. The structure and hierarchy of the cooperatives is an important aspect of the methods surrounding the distribution of funds from pre-finance.

Buyers of Fairtrade commodities can also use a third-party finance supplier to secure the pre-finance. The buyer or the third-party financier provides the pre-finance to the cooperative, which then distributes it amongst the farmers. In the case that the buyer/exporter supplies the pre-finance directly, FIGURE 3.2 illustrates the Fairtrade coffee supply chain, when the cooperative is a 1st grade cooperative.

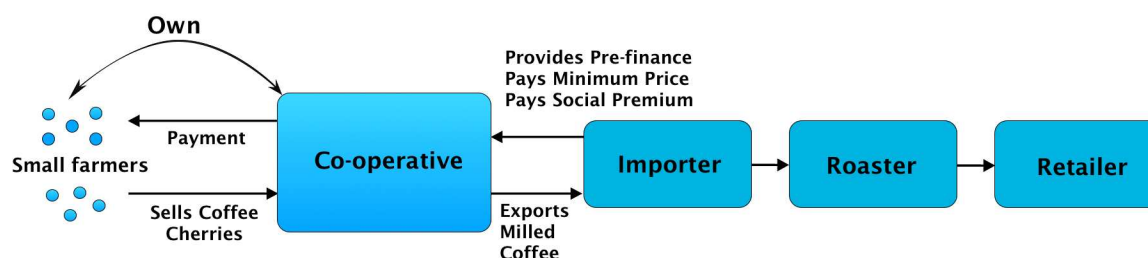


FIGURE 3.2: Simple Fairtrade Coffee Supply Chain – Role of the Cooperative

Image credit: Figure reproduced and modified from Nicholls, Alex and Charlotte Opal. 2005. “Fair Trade Market-Driven Ethical Consumption”. Sage Publications Ltd p. 83.

Referring to the discussion earlier on the problem of middleman who supply finance in exchange for the crop at harvest, this provision of finance coupled with the democratic organization of Fairtrade cooperatives is intended to eliminate the link where the “most serious exploitation” occurs, and, “because the co-operative is owned by the farmer members, the profits normally

retained by the *coyote* are instead captured by the farmers themselves” (Nicholls and Opal 2005:82).

The buyer also has the option of securing the pre-finance credit from a third party financier. As discussed above, several ethical finance institutions have formed in response to the credit needs of Fairtrade farmers. These institutions typically use the export contract itself as collateral for the loan. FIGURE 3.3 from “Financing Fair Trade” by Whitney Thomas (2005) gives an illustration of the steps that occur when the buyer uses a third party financier, using a 2nd grade cooperative as an example. In this case, the 2nd grade cooperative works as both a consolidator of farmer’s products and as exporter. In both cases, the cooperative is an integral part of the process and provides farmers with the organization and voice to determine how the

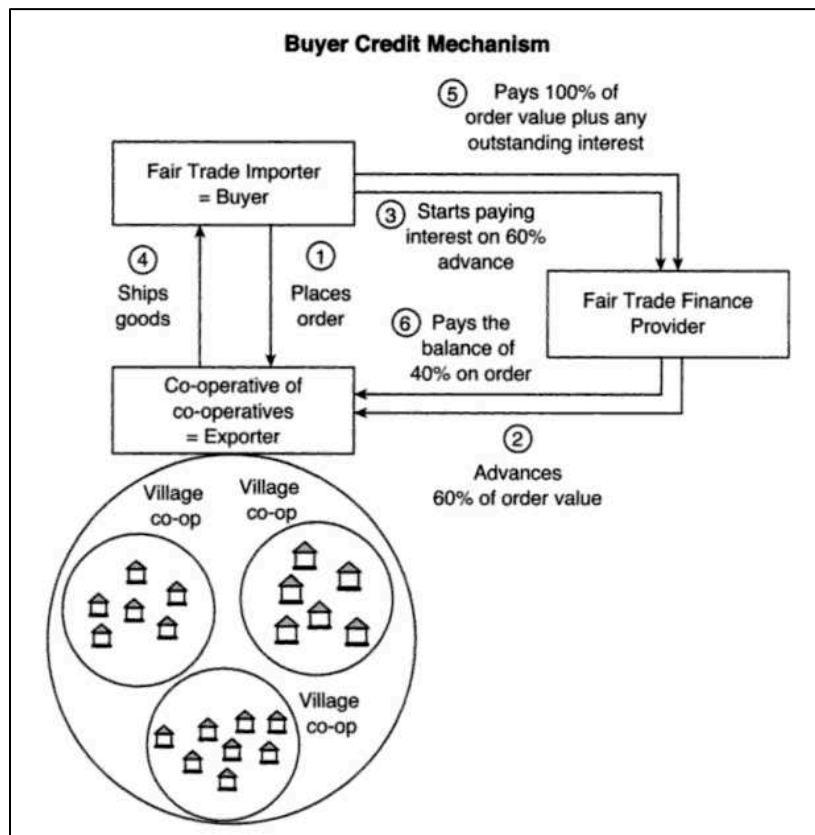


FIGURE 3.3: Pre-finance Provided Through a Specialized Lender

Image Credit: Thomas, Whitney. 2005. “Financing Fair Trade”. Pp. 105-126 in *Fair Trade: Market-Driven Ethical Consumption*, by Alex Nicholls and Charlotte Opal. 2005. Sage Publications Ltd. p. 112.

money is spent and distributed. In addition, as stipulated in Fairtrade Standards, the interest rate must be fair. In some cases, the buyer pays the interest, but most often the interest is paid by the cooperative (Thomas 2005:111).

The Fairtrade Trader Standard includes exemptions to the pre-finance requirement if producers have “proven high risk” (FTI 2015b:33). In this case, the buyer has the option of documenting that risk for an exemption. This can include the risk for a high chance of default on the contract, non-repayment, or high chances for quality issues. The producer can also decline to receive pre-finance. Finally, if pre-finance is not legally allowed in the country the buyer is operating in, they are not required to provide it. Fairtrade International explains that risk is a major reason that producer organizations producing coffee, cocoa and cotton may not have financing available (FTI 2015a).

Many Fairtrade cooperatives have also formed finance programs for producer farmers. These cooperatives use funds from the Fairtrade premium and other sources to grant loans and lines of credit for various needs. There are several instances of this practice; two examples are the Kibinge Coffee Farmer Cooperative Society and the Manduvira Cooperative in Paraguay. The Kibinge Coffee Farmer’s Cooperative Society in Uganda elected to establish a savings and credit union with its Fairtrade premium funds, which was completed in 2013. The cooperative provides credit to both “members and non members at an affordable rate” (FTI 2014b). The cooperative currently has over 1600 members and 15 full time staff. According to the cooperative’s website, “Members can apply for a variety of loans including business development, agribusiness, emergency, and school fees. In the first year the Savings & Credit Unit has seen exciting growth and assisted over 700 individuals” (Kibinge Coffee 2016). David Lukwata, the general manager of the Kibinge Cooperative, states:

“Now the farmers have access to financial services on their doorstep. They can open accounts, get credit facilities. They can save money with us and get a loan – for personal or business use... Without this facility, they would go to middlemen if they ran out of money before the harvest was ready... Now the farmers can come to their own credit union to solve their financial problems” (FTI 2014c).

The Manduvira Cooperative in Paraguay produces sugar and exports it to “over 20 countries”; the cooperative is composed of over 1750 farmers who produce sugar, cotton, sesame, and fruits and vegetables (FF 2016a). The cooperative actually began as a “savings and credit cooperative” in 1975 and grew into a Fairtrade producer cooperative by 1999, when they received Fairtrade certification (FF 2016a). The cooperative now uses part of its Fairtrade Premium to support a “savings and credit scheme” for its members. According to the Fairtrade International website, the premium supports a number of services including “savings and credit, agricultural assistance, health and agriculture training and education, art, music, languages and computing courses and, for children of low-income families, uniforms and school materials” (FTI 2014c).

As access to credit remains an important element in development strategies for rural farmers, Fairtrade International supports producer cooperatives in securing finance from other ethical lending institutions, which is discussed at length in the next chapter. In addition to funds for agricultural inputs and trade support, farmers need financing for improvements in infrastructure, capital investments, and for administrative costs. In addition to the pre-finance requirements included in the Fairtrade Trader Standard, Fairtrade International encourages buyers to provide other types of finance to producer cooperatives. Finally, the organization has a “Global Producer Finance Unit”, which helps cooperatives produce and disseminate “relevant and reliable credit profiles” to “potential finance providers” (FTI 2015a). At the local level, cooperatives themselves work to help producers attain finance.

Role of the Consumer

One of the key ways that Fairtrade reaches its three key goals above is by attempting to reduce the distance between producer and consumer by creating “more direct trade relations” (Riisgaard 2015:123; Reynolds 2002). In this trading relationship, consumers are ‘ethically’ motivated and willing to pay extra for Fairtrade products. The Fairtrade label works as a mechanism of assurance for consumers that products were created and produced in a way that aligns with the standards of fairness and responsibility (Suranovic 2015). According to Suranovic (2015), the Fairtrade model not only provides alternative trading networks, but also provides consumers an option “to buy products produced at high social standards”, which, in turn allows them express themselves as “ethically responsible consumers” (46).

The role of the consumer in Fairtrade trading networks is important because Fairtrade consumers, who pay extra for fairly produced and traded products, provide the material means through which Fairtrade organizations can remunerate the minimum price and the social premium. In the context of economic sociology, Viviania Zelizer (2012) is able to demonstrate how markets are dependent upon the culture of human interactions and how consumption is built upon a values and morality. This view finds that “consumers must be convinced not just of the utility of products they buy and the trustworthiness of those of sell them, but also of the morality of the product” (Fligstein and Dauter 2007:108). This concept is pertinent in the context of Fairtrade markets, which work through alternative trading relations between producers and consumers as communicated through ethical and value labeling. The process is a ‘value-added’ facet of production that makes fairness an element of value in products themselves and is essential for the ability of Fairtrade to achieve its goal of providing greater financial and social returns to producers who produce for Fairtrade commodity chains.

Fairtrade International’s “Theory of Change”

Fairtrade International’s Theory of Change stems from the Theory of Change Project which was conducted in 2012 and 2013 through seven workshops with Small Producer and Hired Labor representatives in Asia, Africa, and Latin America and the Caribbean (FTI 2014a:16). The goal of the project was to allow Fairtrade stakeholders to define and articulate the main changes that Fairtrade should “bring about for farmers and workers” (FTI 2014a:16). The resultant “Theory of Change” is a “generic theory” intended to serve as a “guiding framework for the design of monitoring and research activities” (FTI 2013b:3). In brief, the ‘Theory’ describes the change that Fairtrade International “wishes to see in the world and its understanding of how it will contribute to that change” (FTI 2013b:3).

The ‘Theory’ begins with the foundational goals of Fairtrade International, as stated previously: “make trade fair”, “empower small producers and workers”, and “foster sustainable livelihoods” and considers the range of activities Fairtrade International as a system uses in order to attain those goals (FTI 2013b:5). The range of activities is referred to as “interventions” that aim to “bring about simultaneous change in four spheres”: Small producer and worker organizations, supply chain business practices, consumer behavior, and civil society action (FTI 2014a:6).

There are two broad types of interventions used by Fairtrade International. First, the establishment and maintenance of the standards that set rules for fair trading practices and “codify” the principles of Fair Trade, and, second, the strategies that “enable engagement in Fairtrade” (FTI 2013b:5). Both interventions emphasize the need for “good governance” of Fairtrade supply chains, which includes accountability, transparency, and fair representation of all stakeholders in the Fairtrade network.

The first type of intervention, the standards and rules that codify the key principles of Fairtrade, incorporate key tools of Fairtrade's strategy including policies of economic protection, policies intended to empower workers and producers, the Fairtrade Premium, and the Fairtrade Mark. The "key tools" of economic protection aim to minimize the risk of producers and decrease the volatility of markets. This is primarily achieved through the Minimum Price, which acts as a price floor, and providing access to credit for cooperatively organized farmers. Policies that empower workers include the support of workers through democratically organized cooperatives where farmers can voice their needs and concerns. The Fairtrade Premium provides farmers and workers with an important resource for instituting the improvements they feel need to take place in their community. Finally, The Fairtrade mark communicates the process of certification and the ethical values of fairness and sustainability to consumers to enable them to actively choose products that were created under fair conditions and support marginalized farmers and workers.

The second type of intervention, the strategies and policies that enable engagement in Fairtrade, focus on building Fairtrade markets, supporting small producers and workers, developing networks and alliances, and intensifying advocacy and campaigning (FTI 2014a:6). Since the strategies focus on the growth and development of extensive Fairtrade markets, they include a focus on raising consumer awareness of Fairtrade markets, and "mobilizing civil society around trade justice" and emphasize the need for continual good governance, fair representation, and "growth with integrity" (FTI 2014a:7).

The monitoring of the outcomes and impacts of Fairtrade interventions is known as the 'Fairtrade Monitoring, Evaluation and Learning (MEL) system.' The MEL system and the Theory of Change work together as a method of evaluating the outcomes of interventions with

the goal of improving interventions to more effectively achieve the official goals of Fairtrade. Fairtrade officials and planners recognize the Fairtrade system as a “dynamic system” that adopts and innovates according to the differing situational context of producers and traders. The interventions imposed by Fairtrade can have “unexpected or unintended consequences, both positive and negative” (FTI 2014a:8). The situational context of producers, referred to as contextual factors, refer to all the various exigencies that can impact producers working and selling in the Fairtrade system. Contextual factors can either enhance or limit the impact of Fairtrade: “In many cases Fairtrade will have relatively little impact on outcomes for small producers and workers compared to external factors” (FTI 2014a:7).

Therefore, Fairtrade International has developed a method for evaluating the impact of interventions through a union of the data collection and evaluation system (MEL) and its Theory of Change. The Theory of Change incorporates a learning system through which the organization can assess and adapt its strategies. Through the MEL system, data is collected through audits and producer support visits (FTI 2014a:17). The data is used to create evaluation and impact analyses to determine if the intended outcomes resulted. First, an “intervention” is instituted such as agricultural training. The “output” is the direct and tangible result of the intervention, such as increased agricultural skills. The outputs from the interventions lead to “outcomes” in the short- and medium- term, such as higher yields of produce. Finally, the outcomes lead to long-term “impacts”, such as higher income and a reduction in poverty (FTI 2013b:10). FIGURE 3.4 provides a graphical representation of Fairtrade International’s Theory of Change as a simplified impact chain.

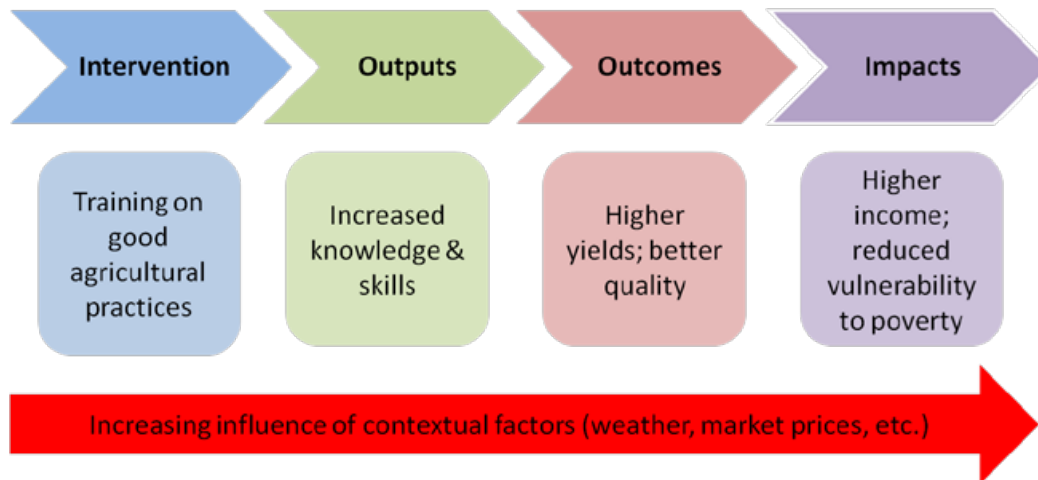


FIGURE 3.4: Simplified Example of a Results Chain

Image credit: Fairtrade International (FTI). 2013b. *Fairtrade Theory of Change*.

This monitoring program creates a system of evaluation and analyses aimed at keeping the Fairtrade system in line with its original goals. A series of themes that stem from the Fair Goals act as guides in the evaluation process. From these themes, core indicators are developed that allows the organization to measure the impact of the intervention. For example, one goal is to improve “significant and sustained access to Fairtrade Markets” (FTI 2014a:21). For this theme, the ‘core indicators’ would be the percent of small producer organizations selling certain volumes of Fairtrade products and the percent of small producer organizations that have a sustained participation in Fairtrade year after year. In sum, all the interventions are measured and analyzed against the main goals of Fairtrade International. Finally, weaknesses and unintended consequences can be addressed through improved interventions. FIGURE 3.5 demonstrates the process of change in broad.

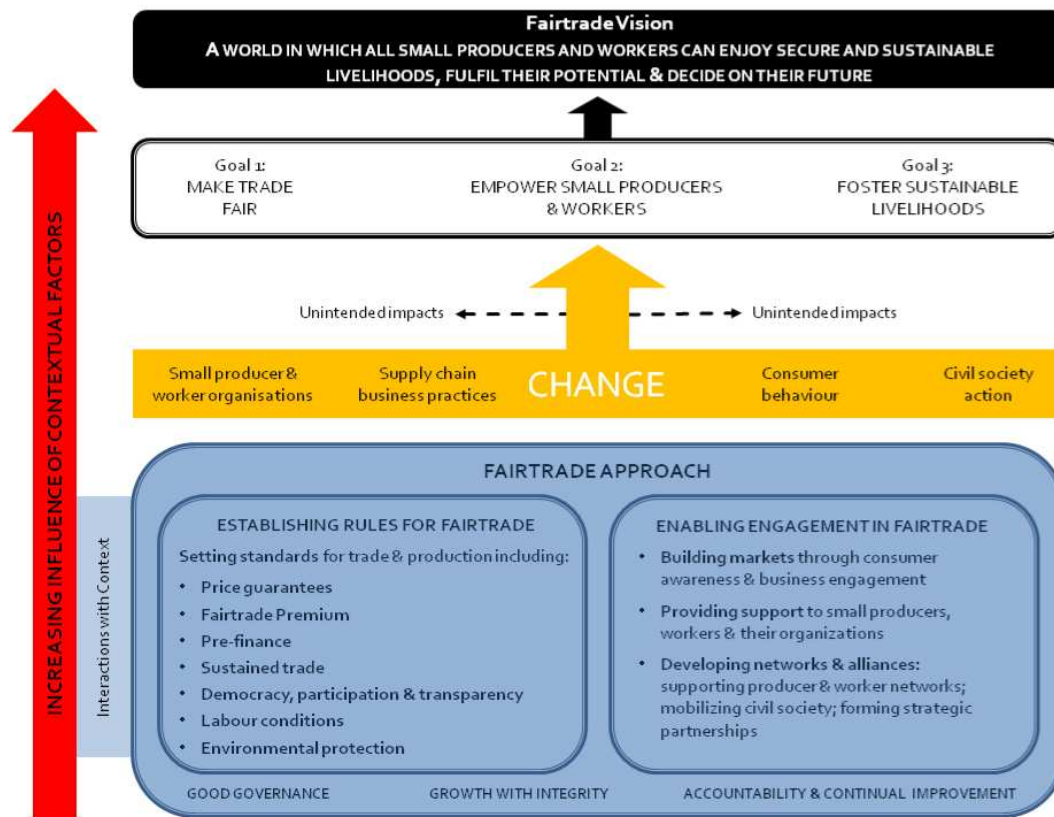


FIGURE 3.5: Linking Fairtrade’s Vision, Goals, and Approach

Image Credit: Fairtrade International. 2014a. *Fairtrade International Monitoring Evaluation and Learning Programme System Report – January 2014*:10.

Conclusion

Within the theoretical framework of Polanyi’s political economy, Fairtrade labeling schemes and the standards associated with them constitute a form of his “second organizing principle”, as advocates of Fairtrade certification schemes support “definite social forces” and employ “distinctive methods” to attain their goals (Polanyi [1944] 2001:138). These “distinctive methods” are most pronounced in Fairtrade standards and the methods employed in implementing the standards, as they attempt to create ‘more fair’ trading conditions for producers in the global South through “protective legislation... and other instruments of interventions” (Polanyi [1944] 2001:138-139). In addition, as mobilized through Fairtrade’s “Theory of

Change”, and in line with Polanyi’s second principle, these interventions attempt to protect farmers and producers in the global South and attempt to create more ‘embedded’ relations of exchange between producers and consumers. This attempt at ‘embeddedness’ involves an emphasis on empowerment, which is realized through standards for the democratic organization of farmers and an emphasis on collective bargaining and freedom of association and requires the continued support of consumers who purchase fairly traded products at prices that enable farmers to cover the average cost of production and earn a premium for investment into their communities.

Within the framework of economic sociology, the methods associated with operationalizing the Fairtrade mission through the standards are definite ‘conceptions of control’ that determine relationships of hierarchy both within the cooperatives and between the producers and within and between the governing structures established in Fairtrade International and FLO certification bodies. Also, in the framework of economic sociology, Fairtrade has definite ‘rules of exchange’ and ‘property rights’ that are expressed through the methods that govern the process of production, export, labeling, and retail of Fairtrade products within the Fairtrade supply chain. The “rules of exchange” and the “property rights” also define the rules of transactions and determine the distribution of profits and other benefits for those working with and in Fairtrade certified commodity chains. The main economic interventions of Fairtrade International, the minimum price, the Fairtrade premium, and pre-finance are the essential tools through which Fairtrade International aims to reach its goals of creating more stable and sustainable production and supply chains within the global economy. Each one is intended to lead to the social, economic, and environmental development that aids in poverty reduction and the creation of long-term networks of trade, that, in turn, lead to the development of “entire rural

communities” (FTI 2016a). While the results of these methods and their efficacy and effectiveness in achieving the stated goals are highly contested subjects in Fairtrade literature, much of the contentions over the process of Fairtrade ‘mainstreaming’ is explained by processes that take place when social movements become institutionalized and are required to operate within the context of the broader market economy that, in turn, are nested within ongoing historical power differentials and the ongoing developmental differences of nations themselves.

CHAPTER 4: FAIRTRADE FINANCE AND ETHICAL INVESTMENT INSTITUTIONS

Introduction

Within the economic sociology framework, institutions are “political coalitions” through which members of organizations and institutions are motivated to create stability in order to survive. This conception is especially relevant when looking at how Fairtrade works with ethical investment institutions in order to secure needed resources for Fairtrade producer groups. Fairtrade International’s Global Producer Finance Unit works to coordinate needed credit and finance services for Fairtrade producers and buyers. In addition, it “supports financial institutions in pioneering and developing Fairtrade financing services, in particular, services relating to investment finance as this is the biggest finance challenge to Fairtrade producers” (FTI 2015a). Access to finance is an essential part of the Fairtrade supply chain for both producers in the Global South and buyers who bring products to Northern consumers. As Fairtrade markets have grown in popularity, the need for financing has grown as well.

According to a report from the Price Project, there is a “natural partnership” between fair trade and ethical finance since they share “fundamental values” (Palmisano 2015:19). The Price Project is an “international project” funded by the European Union and nine European nations that researches the role of ethical finance in development projects such as those undertaken in fair trade and other ethical certification movements (Palmisano and Fuentes 2015). The Project defines finance as a “neutral tool” that can be used both in a way that is “speculative” resulting in “negative externalities” or in a way that is directed towards making positive impacts resulting in positive externalities, leading to the “well-being of the many” (Palmisano and Fuentes 2015:4). Ethical finance is characterized as an alternative to “speculative and market” finance, as it

focuses on accomplishing social goals instead of maximizing profits at the expense of human and environmental well-being. In addition, it “invests money in people and the environment, supporting actions for social and/or environmental enhancement and developing depressed areas at a high risk of social exclusion” (Palmisano and Fuentes 2015:4). Ethical banking and finance institutions will not invest in or support non-sustainable enterprises that are known to damage the environment or people.

In broad, there are three main types of ethical financial institutions: ethical banks, ethical finance cooperatives, and microfinance cooperatives. Ethical banks provide the same services as commercial banks, but, in contrast, they are concerned with the “social and environmental impacts” of their loans and services (Palmisano and Fuentes 2015:5). Ethical finance cooperatives are democratic organizations that typically specialize in loans, insurance and associated services in providing finance and microfinance to small producers. Microfinance cooperatives provide small loans to poor groups of people in developing nations. Several ethical finance institutions work with ethically certified producers and buyers including fair trade, organic, renewable energy, and eco-friendly businesses. In addition, several of these institutions have funds dedicated to a specific certification.

According to the Finance Alliance for Sustainable Trade (FAST), one of the “early drivers” for financing smallholder agriculture in developing nations was the “Fairtrade Certification System”, and, due to its connection with Fairtrade, ethical finance systems have developed on a “parallel path” with Fairtrade (Larrea et al. 2013:20). In addition, FAST asserts there are several key reasons that ethical finance and Fairtrade are complementary. First, the process of certification assures consumers and serves “as a proxy for the social and environmental performance of investment in agricultural production” (Larrea et al. 2013:43).

Second, certification mandates certain “management standards”, which lead to “more robust management systems”, which result in “positive externalities for overall risk management” that reduce the “social and financial risks associated with agricultural production” (Larrea et al. 2013:43). Finally, certification reduces the volatility of prices and enables producers to access more stable international markets. In sum, the process of certification leads to positive externalities such as better management and more stable markets thereby reducing risk to financiers who seek to invest in sustainable social and environmental enterprises.

Credit Organizations that work with Fairtrade Smallholder Farmers

There are several ethical finance institutions that specialize in financing Fairtrade producer organizations and buyers. As of 2011, seven main ethical finance institutions represented 90 percent of the lending to all smallholder farmer organizations in developing nations: Alterfin, Oikocredit, Rabobank Rural Fund, responsAbility, Root Capital, and Shared Interest, see FIGURE 4.1 (Carroll et al. 2012).

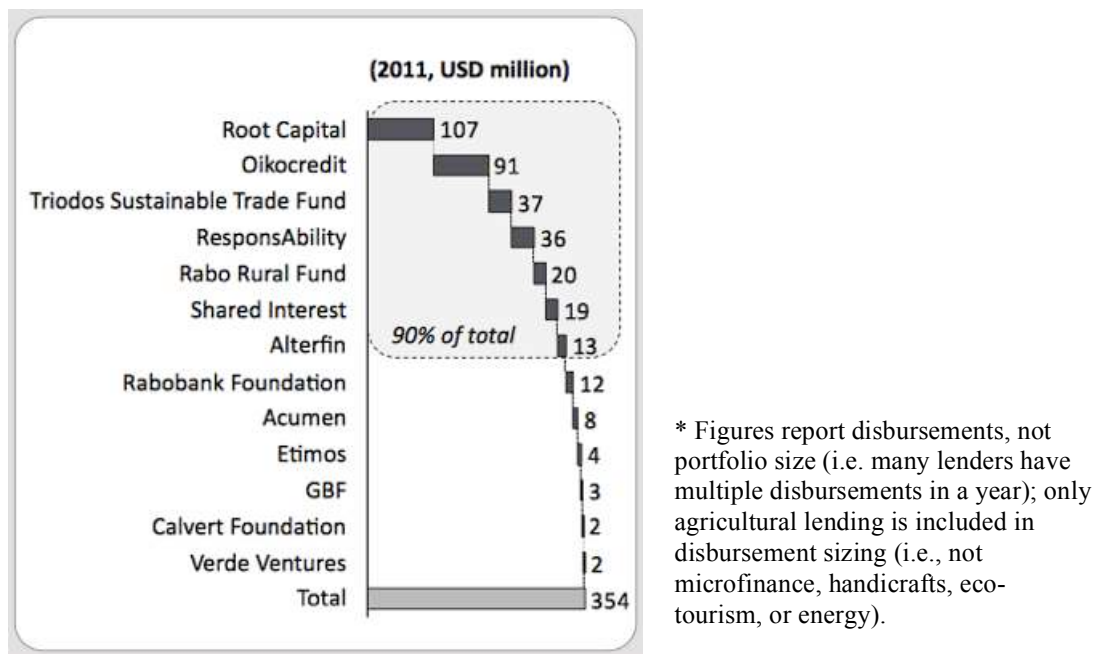


FIGURE 4.1: Disbursements from Global Social Lenders, Dalberg Report

Image/Text Credit: Carroll, Tom et al. 2012. *Catalyzing Smallholder Agricultural Finance*: p. 17.

These institutions embrace ethical goals in their investments and financial services and pursue various development strategies including microfinance, education investment, and finance for rural producer groups. In addition, they often work together towards development goals aimed at reducing rural poverty in developing nations through finance instruments and collaborate on a “pre-competitive basis” in order to achieve their overarching social goals. The Council for Smallholder Agricultural Finance (CSAF) is one such instance of pre-competitive collaboration. The organization is composed of “representatives from Alterfin, Oikocredit, Rabobank, Rabo Rural Fund, Responsibility Investments AG, Root Capital, Shared Interest Society and Triodos Investment Management” (CSAF 2016a). The organization characterizes itself as:

an alliance of social lending institutions focused on creating a thriving, sustainable and transparent financial market to serve the financing needs of small and growing agricultural businesses in low- and middle-income countries worldwide (CSAF 2016b; 2016a).

CSAF’s (2016a) website states that the organizations realized the “need to develop industry standards and best practices for social lenders” and, towards this goal, they work with other social lenders in defining success and measuring the impacts of investments, which is important because the success of ethical investment firms cannot be measured solely by investor profits. Since these organizations work not only with Fairtrade certified smallholder farmers, but also seek to provide financial assistance to all smallholder farmers, it is helpful to outline how these institutions characterize their finance activities with smallholder farmers and how Fairtrade farmers fit within the larger context of smallholder farmers worldwide.

Access to Credit as a Primary Obstacle for Smallholder Farmers

According to these ethical investment organizations, the instability of food markets, coupled with rising food prices and the degradation of natural environments, has led to an

increasing recognition among development organizations of the importance of smallholder farmers and agricultural workers within prominent development strategies. The Dalberg (2012) report on smallholder agricultural finance asserts that smallholder farmers are the “stewards of natural resources that are in need of sustainable management to prevent deforestation and degradation of ecosystems” (Carroll et al. 2012:1). Bacon (2005:497) notes that smallholder coffee producers “live in poverty and manage agroecosystems in some of the world’s most culturally and biologically diverse regions”. These linkages between rural poverty reduction, environmental concerns, and food security have led to an increase in the focus on supporting and investing in smallholder farms in developing nations at both the governmental and organizational levels. Supporting sustainable smallholder farmers is seen as a way to mitigate climate change by advancing “climate-smart” agriculture, which, in turn, could increase food stocks and global food security, and decrease environmental destruction from inferior agricultural production strategies such as slash and burn agriculture, logging, and intensive monoculture (Carroll et al. 2012; IFPRI 2015:9).

In tandem with the widespread recognition of the benefits of developing and supporting sustainable agriculture, there are also several obstacles that limit smallholder farmers’ ability to increase productivity and returns for agricultural production, and to move to sustainable production techniques. According to the International Food Policy Research Institute (IFPRI), these factors include the high volatility of the global food market due to extreme weather and climate events, “diversion of crops for biofuel”, and financial speculation on food markets (IFPRI 2015:28). This volatility leads to decreasing returns to smallholder farmers who are often unable to receive a fair price for the products they produce and are often unable to cover even their cost of production. In addition, climate change impacts smallholder farmers more than it

impacts large holder farmers, due to their reliance on “climate-dependent agriculture” and limited resources to mitigate the impact of climate change (IFPRI 2015:28). Finally, smallholder farmers lack access to financial services such as loans and bank accounts that provide access to and management of capital and operating inputs for production and expansion.

Investing in smallholder agriculture is considered “high risk” and “low return” for formal banking institutions (Milder 2008). The withdrawal of government supported and subsidized rural banks under the global economic push towards privatization has left smallholder farmers without necessary supports, inputs, and capital to expand and improve production techniques to the point where a viable profit can be maintained (Hazell et al. 2010). This has created a significant financing gap, referred to as the “missing middle” (Milder 2008). Smallholder farmers are viewed as are too remote and too ‘risky’ for commercial lenders and too large for microfinance institutions, leaving this field of financing to specialized social lenders and not-for-profit organizations.

Smallholder farmers live and operate in highly dispersed rural landscapes and are often isolated from each other, from modern markets, and from modern banking facilities. They often lack access to knowledge about the value (global market price) of the products they produce. Since they are isolated from modern markets, they often take loans from and sell their products to local middlemen who charge exorbitant interest rates for loans and pay below market prices for products. In addition, smallholders typically lack hard collateral in order to secure loans. As explained by Milder (2008:2), “banks that are willing to lend in rural areas typically require hard collateral in the form of deeds of land and buildings and coverage ratios of two to three times loan value”. Developing countries often have “poorly defined property rights”, which prevent smallholders from using their land as collateral (Carroll et al. 2012). Even in cases where

smallholders could offer their land as collateral, many will not, due to fear of land loss. A smallholder who offers his or her land as collateral, who then falls on a bad growing season, may lose their land to the banks and become even more vulnerable (Bacon 2005). The risks associated with smallholder agricultural production combined with the geographical isolation of smallholder farmers, work to maintain a ‘cycle of poverty’ for many smallholder farmers in developing nations.

In order to gain a better picture of the financing needs of smallholder farmers and where the Fairtrade Access Fund fits within the current lending landscape, it is helpful to outline the differences in the operations of smallholder farmers that help determine their financing needs. As stated above, The Consultative Group to Assist the Poor (CGAP) estimates that there are approximately 400 – 500 million smallholder farms in low and middle-income countries, containing up to 2.5 billion people (Christen and Anderson 2013:3). These communities are heterogeneous and diverse, and agricultural activities are greatly varied. While there have been multiple attempts to ‘segment’ the differing characteristics of these farmers based on income, land size, employment of workers, and others, the study by CGAP develops a segmentation framework based on general type of crop (whether staple crop or cash crop), level of engagement with the market, and how farmers and markets are organized. This segmentation scheme places smallholder farmers into three broad categories: noncommercial smallholders, commercial smallholders in loose value chains, and commercial smallholders in tight value chains. FIGURE 4.2 provides a graphical depiction of the amount of farmers in each category.



FIGURE 4.2: CGAP’s Segmentation Framework for Smallholder Farms

Image Credit: Council on Smallholder Agricultural Finance. 2014. *The Council on Smallholder Agricultural Finance (CSAF): 2014 Year In Review*, p. 7.

According to the CGAP typology, the largest group of rural farmers is subsistence farmers, termed “noncommercial smallholders”, who compose an estimated 60 percent of smallholders, or approximately 300 million farmers and “a total of roughly 1.5 billion people [who] live in these households” (Christen and Anderson 2013:12). This group farms primarily for “sustenance and survival” and typically produces staple crops and small livestock. They are highly vulnerable and have limited access to “land, technology, education, markets, and information about weather and production methods” (Christen et al. 2013:9). They often sell their labor and are not connected to a “structured value chain of any kind” (Christen et al. 2013:9). The second segment is termed “commercial smallholders in loose value chains” and composes approximately 33 percent of smallholder farmers, or roughly 165 million farmers with 825 million household members. This segment is “still considered very poor” but “less so than the noncommercial smallholder segment” (Christen et al. 2013:9). Their work in farming produces a small surplus that may be sold in “local and regional markets” (Christen et al. 2013:9-10). They have somewhat more access to land but still limited in the same categories as noncommercial smallholders. Finally, the smallest segment is the “commercial smallholders in tight value chains” who compose 7 percent of the total or 35 million farmers and 175 million household members (Christen et al. 2013:9-10). This group is the least vulnerable of the three

segments as they earn income from contracted cash crops. These farmers typically produce high quality specialty crops and have access to more stable national and international markets. In addition, they may have better access to weather information, technical assistance, steadier prices, and high quality agricultural inputs.

Smallholder farmers associated with Fairtrade International fit primarily into the third category of the CGAP typology. Fairtrade farmers experience many of the same obstacles as traditional farmers but their financing needs are specific to their position within Fairtrade commodity chains. As explained above, Fairtrade standards create certain interventions into Fairtrade commodity chains that attempt to correct some of the instability of agro-food chains and provide more stable, sustainable, and fair outcomes for smallholder farmers. In addition to price guarantees, there are several key mechanisms which work to combat many of the most pronounced risks associated with smallholder agricultural production, and mitigate some of the primary obstacles associated with farmers in the first two categories of the CGAP typology.

First, Fairtrade certified farmers are required to form producer organizations that operate democratically. These producer organizations link local producers together in order to strengthen their position within the supply chain, which helps overcome the issue of isolation. Second, Fairtrade links farmers and producer groups with commercial markets through stable contracts and guarantees for a fair market price for producers, which works to provide access to well-coordinated commodity chains. In addition, Fairtrade producers receive a “premium” above the market price, this, combined with consistent contracts that guarantee a fair market price, allow farmers to plan, take loans, and make stable payments. Third, Fairtrade requires that buyers supply pre-export finance, which provides access to an important form of financing for needed inputs and supports during the production and export process.

Whitni Thomas (2005), in her analysis of the financial needs of Fairtrade farmers, provides TABLE 4.1 as an itemization of the types of financial products needed by all farmers and cooperatives. Thomas points out that the financing needs of Fairtrade farmers and cooperatives are similar to those not producing for Fairtrade because Fairtrade farmers typically only sell a small portion of their total product through Fairtrade commodity chains. Both Fairtrade and conventional farmers face similar cycles and risks in throughout the growing season. Finally, Fairtrade certification requirements only meet some of these financing needs, mainly the need for pre-export finance (Thomas 2005).

TABLE 4.1: The Financial Needs of Smallholder Farmers

Type	Description
Savings	Formal savings opportunities are instrumental to risk mitigation for farmers
Leasing	To buy farm machines, irrigation equipment, livestock, processing equipment and to make land improvements
Pre-harvest working capital	To buy agricultural inputs – seeds and fertilizer – and to prepare the land
Pre-export working capital/trade finance	To finance the period from harvest to shipping, known as ‘pre-finance’
Term Finance	To buy farm machines, irrigation equipment, livestock, processing equipment and to make land improvements
Equity	To invest in the co-operative and build its capacity
Insurance	To insure against crop failure and price fluctuations

* Thomas, Whitney. 2005. “Financing Fair Trade”. Pp. 105-126 in *Fair Trade: Market-Driven Ethical Consumption*, by Alex Nicholls and Charlotte Opal. 2005. Sage Publications Ltd. p. 110.

Most finance institutions that work with smallholder farmers categorize the finance portion of these banking needs into three broad finance products: trade finance, working capital, and long-term finance. As explained above, trade finance is an important form of short-term financing, which typically uses the production contract as collateral for the loan. It is typically

extended for 6 months up to a year and covers much of the growing and selling season. Trade finance loans, often called ‘production cycle loans’, are an important part of maintaining regular operations, but do not necessarily allow for growth of the farming operation or the purchasing of needed machinery in order to increase efficiency or quality. This leads to the importance of working capital and long-term loans, which provide longer finance terms. Some organizations place working capital in short-term loan categories; others place them in the long-term category. Working capital typically is used to support the production cycle but terms can extend for up to 7 years in some cases (Grant Thornton LLP 2014). Long-term loans typically have terms from 1-5 years, and sometimes as long as 7 years. These types of loans are more difficult for smallholders to obtain, since, as discussed above, smallholders typically do not have enough assets to use as collateral. Obscure land rights and risk of loss provide the basic obstacles to using land as collateral. In many cases, land may be the only hard asset possessed by smallholders.

As stated above, there are seven main ethical finance institutions that represent the bulk of lending to smallholder farmer organizations and several of them integrate financing Fairtrade farmers and farmers with other certifications as a central aspect of their loan strategies. While these ethical finance institutions have similarities and differences in their histories and in their approaches, they all employ ethical lending strategies and attempt to create standards of ethical investment that will protect smallholders from too much debt and create mechanisms through which sustainable rural agriculture can develop. Therefore, my analysis will focus on these institutions and how they intersect with the Fairtrade Access Fund and its goals and strategies. Again, these institutions are Alterfin, Oikocredit, Rabobank Rural Fund, responsAbility, Root Capital, and Shared Interest.

As stated above, in the context of Fairtrade governance strategies, and in line with economic sociology, these ethical investment institutions collaborate with one another, as well as other financiers, in order to create stable and predictable business outcomes. Another example of this collaboration is “The Initiative for Smallholder Finance” which has consolidated an “emerging consensus” on rural development expressed in a “Universal Theory of Change” for the “smallholder agricultural finance community” with input from “technical assistance experts, certification bodies, [and] commercial agricultural brands” (Larrea et al. 2013:3). FIGURE 4.3 illustrates this ‘Theory of Change’. The ‘Theory’ begins with the types of economic interventions and technical assistance which the companies believe will lead to a “virtuous cycle within agricultural value chains” leading to healthy rural development (Larrea et al. 2013:4). Inputs to smallholder farms such as loans, technical support, infrastructure, and market access

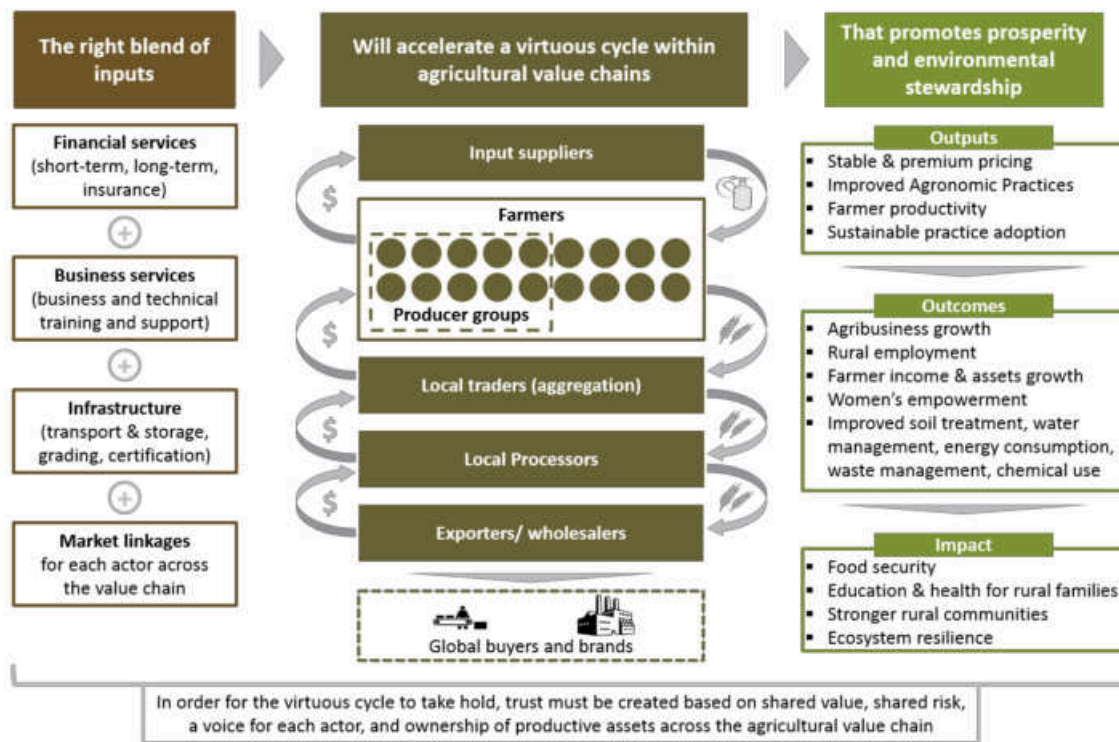


FIGURE 4.3: The Initiative for Smallholder Finance Universal Theory of Change

Image Credit: Larrea et al. 2013. *Investing for Change: An Analysis of the Impacts of Agricultural Investment from Select FAST Social Lenders*, p. 4

are hoped to bring about greater productivity, adoption of sustainable practices, and greater rural employment leading to the impacts of food security, greater education in rural areas, stronger rural communities, and healthier ecosystems.

In this Theory of Change, “the right blend of inputs” includes financial services, business services, infrastructure, and market linkages. The Theory places ‘certification’ as a means to attain infrastructure improvements. It is interesting that certifications were not placed under the ‘market linkages’ category since they are an important avenue for accessing international markets and often help producers secure greater returns for products. Many producer organizations actually hold several certifications including Fairtrade, Organic, and Rainforest certifications. It appears that certifications may be a signal for ethical lenders of credit worthiness; especially since Fairtrade farmers do experience greater stability and greater returns than farmers without certification and farmers in the first two categories of the CGAP typology above.

Ethical Finance Institutions: Top Seven Lenders in Agricultural Finance

The following presents a brief introduction of each of the seven main lenders listed above, which also founded CSAF. These lenders attempt to serve “the most underserved segments, such that, to the extent possible, credit that is extended is additional to what a business would otherwise have access to” (CSAF 2016a). These lenders stand out from other, newer entrants into the field because of their focus on getting finance services to some of the “riskiest” borrowers and often handle risk by commodity and region diversification.

Shared Interest

Shared Interest, which began in 1990, is one of the first organizations founded specifically for fair trade finance. Shared Interest refers to itself as a “cooperative lending

society”, as it takes investments from UK residents and lends to producer and buyer organizations associated with Fairtrade International, World Fair Trade Organization, The British Association for Fair Trade Shops and Suppliers (BAFTS), Small Producer Seal (SPP) and Fairtrade Foundation (Shared Interest 2015a). Their website asserts: “We form the link between UK social investors and fair trade organisations across the globe needing finance to grow their business and improve livelihoods” (Shared Interest 2012a). The organization is headquartered in New Castle, UK, with affiliate offices in Kenya, Peru, Costa Rica, and Ghana. Residents of the United Kingdom can invest anywhere from £100 – £100,000, which is approximately \$130 – \$133,000 in USD.¹ The invested money is then loaned to both producer and buyer organizations, but the focus is on lending to Fair Trade producers in “remote areas across the globe that are unable to access fair finance” (Shared Interest 2012b). As loans are repaid, the money is reinvested as needed. The company’s 2014 Financial Statement reports ‘total share capital’ at \$41.6 million from almost 9,000 investors (Shared Interest 2014a).

The theme of the company’s investment strategy is ‘sharing the risk’ of investments in order to achieve something good: “Together we take and share risk, because we value the difference that fair and sustainable trade makes” (Ridley 2014:3). While investors mostly hope to make a positive impact in producer’s lives, investments do earn an interest rate at .5 percent, which they can donate, waive, or have added into their “share account” (Shared Interest 2015c). The company minimizes risk by only loaning out 70 percent of the total share capital, providing a “bad debt” fund in the case of non-repayment. The company asserts that in all its years of operation, investors have never lost investment money (Shared Interest 2015c). During the year

¹ Dollar amounts have been converted from Euros to USD using the average of the annual conversion rate for the years of 2013 and 2014, which was 1.3288145.

of 2014, the company reports payments totaling \$64 million to 400 organizations in 65 countries (Shared Interest 2014b).

Finally, Shared Interest asserts that its interest rates for borrowers are lower than the interest charged from other lenders in the respective region, based on comparing external interest rates by region received by producers who are also Shared Interest borrowers. Interest rates vary based on risk level of region and individuals receiving the loans. In South America, producer organizations could pay interest rates as high as 60 percent compared to Shared Interest's rates, which range from 8.25 to 12 percent. Borrowers in East Africa pay interest rates as high as 49 percent to external lenders, whereas Shared Interest's rates range from 9 percent to 12.5 percent (Shared Interest 2014b:9). In addition, the company's literature states that larger financial institutions have entered "the field of social finance", which have the ability to charge more competitive interest rates to "larger and safer customers" (Shared Interest 2014a:4). This poses problems for Shared Interest since the company minimizes the risk of loaning to "more marginal and less-well served producer organisations" by also loaning to "lower risk customers" (Shared Interest 2014a:4).

As stated before, Shared Interest provides finance to both producer and buyer groups of Fair Trade products. The main type of credit extended to buyer groups is pre-finance, which, in line with Fairtrade Standards, is extended on 60 percent of the export contract; in the case of handcrafts, this is extended to 80 percent. In addition, it offers working capital, term loans, and shop loans for buyers, intended for business's growth and the building and stocking of Fair Trade shops and stores. Types of producer credit include export credit, term loans, and pre-harvest loans. Export credit is extended on export contracts with both buyer groups that have accounts with Shared Interest and those who do not. Term loans are for investments in infrastructure and

machinery and pre-harvest loans target needed farm inputs such as fertilizer (Shared Interest 2015b).

Triodos Bank

Triodos Bank calls itself “the world’s leading sustainable bank” with the mission of making “money work for positive social, environmental and cultural change” (Triodos 2016). It is a “medium sized” bank located in Europe, headquartered in Zeist, Netherlands with branches in Belgium, the United Kingdom, Spain, and Germany. The company primarily uses deposits and other core financial activities to fund its impact investing in three main areas: nature and the environment, culture and welfare, and social businesses. It utilizes 17 funds to invest in sustainable enterprises including energy and climate investment, real estate, emerging markets, arts and culture, sustainable food and agriculture, and socially responsible investment (Triodos 2014).

The main Triodos fund that works with fair trade is the Stichting Triodos Sustainable Fund, which became operational in 2008. The fund provides value chain finance, in the form of pre-export credit, which is lent to agricultural exporters in Africa, Latin America, and Central Asia. The fund specifically targets fair trade and organic value chains (Triodos 2013). According to its 2013 annual report, the fixed assets of the fund were almost \$17 million and these funds were used to make \$32.5 million in disbursements to 33 organizations worldwide during the year.

Rabobank Rural Fund

Rabobank is a large cooperative banking network located in the Netherlands, with over 10 million members worldwide. In 1974, several local Rabobank cooperatives formed the charitable arm of Rabobank, the Rabobank Foundation. The Rabobank Foundation, together with

Cordaid and the Dutch Ministry of Foreign Affairs, fund the Rabo Rural Fund, which is the main fund from this organization that works with smallholder farmers. The Fund was formed in 2011 and provides pre-finance credit for farming cooperatives, including several fair trade cooperatives. The fund focuses on the commodities of “coffee, cocoa, honey, cotton, spices, nuts, peppers, soya and canned and dried vegetables” in the regions of Latin America, Africa, and Asia (Rabobank 2016). In addition to trade finance, Rabobank Foundation also supports savings and credit cooperatives run by producer organizations as well as training for producer cooperatives. The Foundation reports that 83 percent of the savings and credit cooperatives they fund provide long-term loans to farmers, a key aspect of farm growth and the building of local communities (Rabobank Foundation 2014). As of 2014, the Fund size was almost \$24 million.

Oikocredit

Oikocredit is also a cooperative investment organization with a focus on social investing. It first began in the early 1970’s when Ecumenical Church members sought to create a way to invest in ethical and peaceful enterprises. While the majority of its funds are dedicated to microfinance, it began to invest specifically in fair trade organizations and cooperatives in the early 1990’s. As of 2014, 86 percent of its investments were in microfinance and 14 percent were in small and medium enterprises, including Fair Trade. Also in 2014, the company reported 89 Fair Trade partners with \$54.5 million in Fair Trade investments (Oikocredit 2014). The company provides “medium and long term loans, pre-export financing, equity investments, and capacity building” to Fair Trade Organizations (Oikocredit 2016c).

Root Capital

Root Capital is a non-profit social investment fund headquartered in Massachusetts, US, founded by William Fulbright Foote in 1999 who sought to finance small, rural businesses (Root Capital 2016c). The fund characterizes itself as an:

“agricultural impact investor that grows rural prosperity in poor, environmental vulnerable places in Africa and Latin America by lending capital delivering financial training, and strengthening market connections for small and growing agricultural businesses” (Root Capital 2016a).

It provides credit to many Fair Trade cooperatives in these regions through the Sustainable Trade Fund, which had a reported balance for the first quarter of 2015 at \$104 million. The Fund offers short-term or “production cycle” loans, term loans for up to 7 years, and working capital loans with terms from one to seven years (Grant Thornton 2014:10). Root Capital is funded primarily by grants from organizations including Starbucks, OPIC, and the Bill and Melinda Gates Foundation.

ResponsAbility Fair Trade Fund

ResponsAbility is an investment firm founded in 2003, headquartered in Zurich, Switzerland, specializing in development investment in small and medium sized enterprises in developing countries who have the ability to grow and expand to include large numbers of people (responsAbility 2016). The company utilizes six active funds towards its primary investment areas of finance, agriculture, energy, health, and education. The responsAbility Fair Trade Fund, founded in 2011, is the main fund for investment in sustainable agriculture, targeting “fair-trade-oriented” institutions (responsAbility 2015:1). As of 2014, the Fund had assets totaling \$71.1 million invested in over 40 countries (responsAbility 2014a). The Fund primarily provides pre-finance loans for cooperatives for “terms of up to one year” (Wild 2012:1). As of 2014, around 75 percent of its investments were made in South America, Asia Pacific, and sub-Saharan Africa (responsAbility 2014b).

Alterfin

Alterfin is a “cooperative society” established in 1994, which uses investment money from social organizations (NGO’s) and private citizens who wish to invest “in a meaningful way” in development projects in global South (Alterfin 2015). The company is based in Belgium and provides financing to microfinance and fair trade organizations. At the end of 2014, Alterfin had 43.7 million in investment funds, 61 percent of which was used for sustainable agriculture; 79 percent of sustainable agricultural investments went to cooperatives that were Fair Trade certified. The company provides two types of loans to producer cooperatives, short term pre-finance loans and long term investment loans with terms as long as five years (Alterfin 2016). In 2014, the company invested \$34.5 million in sustainable agriculture in 58 organizations in 28 countries.

TABLE 4.2 provides estimated amounts invested in sustainable agriculture or in farmers with some sort of Fair Trade certification by the seven main ethical lenders.

TABLE 4.2: Estimated amounts of Ethical Lenders’ Portfolio Invested in Fair Trade

Organization	Type	Fund	Amount (mln)
Root Capital	Investment Fund	Sustainable Trade Fund	\$104
Shared Interest	Cooperative	Entire Amount	\$41.6
Oikocredit	Cooperative	14% in Sustainable Agriculture	\$54.5
Alterfin	Cooperative	61% in Sustainable Agriculture	\$34.5
Rabobank	Cooperative Bank	Rabo Rural Fund	\$24
Triodos	Bank	Stichting Triodos Sustainable Fund	\$17.3
responsAbility	Investment Firm	responsAbility Fair Trade Fund	\$7.1

* Data compiled from the 2014 Annual Reports of each organization. Dollar amounts have been converted from Euros to USD using the average of the annual conversion rate for the years of 2013 and 2014, which was 1.3288145.

Conclusion

The annual reports of these institutions as well as the organizations that they participate in reveal a close association with Fairtrade certification and they may often choose to lend money to Fairtrade certified cooperatives over other cooperatives. This is important to an analysis of the Fairtrade Access Fund because it characterizes itself as the “first” fund to focus on providing long-term credit to producer organizations. As discussed above, long-term credit is the “riskiest” form of credit, primarily because it may need to be extended without collateral. Several of these organizations do provide long-term finance to smallholder cooperatives, and the majority of recipients do have some sort of ethical certifications. Trade finance is less risky than long-term finance because it is granted on the terms of the contract itself. Fairtrade contracts include a minimum price and a premium, which creates safeguards against some of the vulnerability of smallholder farmers. In addition, smallholder farmers that have attained forms of certification such as Fairtrade and organic have already attained some form of democratic structure and have attained contracts with buyers and have access to Northern markets. These mechanisms that work in Fairtrade certification and the goals through which Fairtrade frames its standards may actually be creating mechanisms of risk management for ethical lending organizations and new entrants in the field such as CitiBank and the Mastercard Foundation.

In line with Polanyi’s second organizing principle, these organizations create definite methods that are intended to avoid many of the damages associated with traditional credit markets and employ protections for producers and the environment in loan strategies (Polanyi [1944] 2001: 138-139). As explained above in the report from the Price Project, Fairtrade and other ethical certifications provide ethical lenders with additional standards that signal to lenders that supporting a particular producer may align with the overall goals of not investing in

enterprises that harm the environment or people working in those enterprises (Palmisano 2015:19). These institutions aim to avoid the “negative externalities” associated with the processes of financialization and specifically work to direct funds and assistance in a way that creates “positive externalities” for cooperatives and communities receiving ethical investment funds.

Also, in line with the theoretical framework of economic sociology, ethical investment organizations attempt to create stable patterns of engagement with the market and are thus required to engage with “risk management” and collaboration with institutions that share common goals. As explained above by the Price Project, there is a “natural partnership” between Fair Trade and Ethical Finance since they share “fundamental values” (Palmisano 2015:19). Economic sociology asserts that in the process of repeated exchange, “market actors will develop social structure to mediate the problems they encounter in exchange, competition, and production” (Fligstein and Dauter 2007:113). These organizations work together on “pre-competitive” basis in order to create standards and methods in the ethical investment field to maximize their social justice goals. In addition, many of them fund the same producer cooperatives and work together to mitigate harms from possible over-indebtedness.

In Fligstein’s ‘markets as politics’ approach, the process of institutionalization is not the only important aspect of how institutions create stability in market structures. In addition, actors and institutions are composed of networks and social relations that are at “the core of markets” (Fligstein 1997:657). This approach is referred to as the “embeddedness of markets”, as markets are seen as embedded within and emerging from the social and political relations from which exchange takes place (Fligstein 1996:656). This point is especially pertinent when evaluating the mechanisms through which ethical financiers create and maintain their work in smallholder

agricultural, which is an extremely risky venture. These institutions network with one another, with government-based development organizations and with more conventional actors in the market in order to create stable patterns of investment that maintain levels of capital and protect investor's money. The goal of most social investment ventures is to create a 'double bottom line' where investments lead to a positive impact for the target venture as well as creating positive economic returns, all while attempting to protect investors and lenders.

In one example of this highly networked approach, Root Capital's investments are guaranteed by Starbucks, General Mills, Peir1 Imports, and Whole Foods Market (Root Capital 2016b). In addition, these social lenders network with ethical certifications such as Fairtrade. For example, Triodos states that they only invest in "sustainable" supply chains since traditional supply chains "remain ad hoc, anonymous and purely opportunistic, bringing little or no value to the farmer and creating no basis for investing in the future" (Triodos 2014:5). They state that investing in fair trade and organic is essential to their investing practices:

"The best examples of sustainable value chains are found in the fair trade and organic market. This is partly because of the typical requirements of the fair trade and organic certification schemes. Another reason is that relatively more buyers in these markets take a genuine interest in the development of the farmers from whom they are sourcing" (Triodos 2014:5).

The field of ethical investing is highly networked; both in how organizations network with one another, in how they collaborate on 'pre-competitive' basis and in how they establish and work through organizations such as CSAF and CGAP, and with other ethically motivated institutions such as Fair Trade. In addition, these organizations network with more conventional market actors in order to secure investments that conventional lenders believe are far too risky.

CHAPTER 5: THE FAIRTRADE ACCESS FUND

Introduction

According to survey taken in 2012, Fairtrade International estimates that 91 percent of their farmers have some form of credit need (FTI 2015a). Sixty-five percent of those surveyed stated that they needed access to long-term loans and 29 percent stated they needed access to seasonal finance (FTI 2015a). Fairtrade International, the Grameen Foundation, and Incofin Investment launched the Fairtrade Access Fund (FTAF) in 2012 as a joint effort to fill this finance gap for Fairtrade certified farmers. The Fund is “designed to meet the most important financing and technical assistance needs of Fairtrade smallholder farmer cooperatives and associations” (FTI 2013a). While the fund was introduced and characterized as “the first fund to focus on the unmet demand of smallholder farmers for long-term loans” (GF 2012:1), it also offers trade finance and working capital loans. Long-term loans have terms ranging from 1-5 years while trade finance and working capital loans have terms of up to 1 year. TABLE 5.1 provides a basic list of these loan facilities.

TABLE 5.1: Fairtrade Access Fund Loan Types and Duration

Loan Type	Duration
Long Term	1-5 years
Working Capital	Up to 1 year
Trade Finance	Up to 1 year

CSAF states that long-term finance is the hardest type of financing for smallholders to obtain and this is an important obstacle to agricultural development, since this is the type of

capital that allows for farm improvement. In addition, the organization states that the lack of long-term investments has impaired agricultural growth:

Approximately 70% of disbursements by social lenders in 2013 were trade credit loans, with the cash typically being used by the borrower business to purchase the harvest from smallholder suppliers. Another 23% was general working capital, with longer-term loans for capital expenditure representing only 6% of disbursements. Indeed, longer-term loans represent a significant opportunity for growth in disbursements and in impact. Agricultural businesses often find long-term debt even more difficult to obtain than short-term debt, resulting in underinvestment in capital equipment (e.g., processing facilities that improve product quality and capture more of the value of the end-product). Meeting more of these long-term capital needs is essential to growing prosperous agricultural businesses and building sustainable livelihoods for smallholders (CSAF 2016c).

According to the quote above 70 percent of all disbursements by social lenders were typically given to borrower businesses to purchase the harvest and a small minority of disbursements went to long-term investments. The Fairtrade Access Fund positions itself within this need for long-term finance:

The Fairtrade Access Fund will provide farmers' cooperatives and associations the long-term loans they need to renew their farms or adopt new technologies and equipment.

Smallholder farmers in developing countries have tremendous potential but are held back from growth because they cannot access the financing they need. According to a 2010 survey conducted by Fairtrade International, Fairtrade farmers in Latin America alone say they need \$500 million to cover their financing needs, more than half of this for long-term loans (GF 2012).

Press Releases associated with the Fairtrade Access Fund characterize the arrangement between the Grameen Foundation, Fairtrade International, and Incofin Investment as “three complimentary partners with a common goal”, since they “all focus on giving people in developing countries the opportunity to build their own businesses and improve their lives” (GF 2012). In this arrangement, the organizations collaborate with a key role. In addition, the Fairtrade Access Fund uses the Grameen Foundation’s Progress out of Poverty Index, which is

characterized as “a poverty measurement tool for organizations and businesses with a mission to serve the poor” (GF 2016b).

Institutional Collaborators

The Role of Fairtrade International

According to the announcement by the Grameen Foundation, the role of Fairtrade International is to “assess possible fund beneficiaries according to Fairtrade Access Fund criteria” (GF 2012). Further, the role of Fairtrade International is to certify producer organizations “so they can access benefits which include Fairtrade Premium Income... minimum prices for their crops, more stable contracts with buyers, and growing demand for Fairtrade products” (GF 2012). As discussed above, it appears clear that ethical investment institutions place an emphasis on these market supports for risk management strategies. Therefore, Fairtrade International provides a key role in this process as it works alongside FLO as the certifying body to ensure that loan recipients have stable contracts and access to international markets for their products.

The Role of the Grameen Foundation

The Grameen Foundation was founded in 1997 as a non-profit organization following the lead of Dr. Muhammad Yunus who pioneered microfinance in Bangladesh in the late 1970s. Dr. Yunus witnessed first hand the struggles of the poor in Bangladesh who were working on projects such as basket weaving. He realized that women in Bangladesh were cut off from formal sources of credit in order to attain needed supplies for their work. Many of these women obtained credit from local moneylenders who charged very high interest rates, which constrained the women’s ability to make a profit from their work. Dr. Yunus first tried to convince local banks to make loans to the women. Since the banks refused, he began to loan from his own

money and later convinced the banks to make the loans with him as guarantor (Engler 2009). From his actions, he created the Grameen Bank and worked to pioneer approaches to providing credit to poor people in remote areas. Following many of the initial insights from Dr. Yunus, as well as the loan strategies and a focus on poor people, the Grameen Foundation characterizes its work as focusing “on harnessing the underappreciated strengths of the poor” (GF 2016a). The organization is headquartered in Washington DC and has offices throughout the United States, Africa, Asia, and Latin America and the Caribbean (GF 2016a).

The main role of the Grameen Foundation in the Fairtrade Access Fund is to provide “technical assistance and social performance measurement” (GF 2012). The organization defines social performance as “the effective translation of an institutions’ mission into practice in line with accepted social values” (GF 2016b). The organization measures social performance through the Progress out of Poverty Index, developed by “Mark Schreiner of Microfinance Risk Management L.L.C. and Grameen Foundation”, which is intended to indicate “how well an organization is achieving its mission, or social goals” (GF 2016b). The Grameen Foundation states that the tool is intended to aid both investor and recipient by giving mobile phones to loan recipients. On the investor side, the mobile phones enable the collection of data from the recipients, which allows the investor to obtain information about the impacts of their investments and to track poverty levels “over time” (GF 2106b). Through the mobile phones, loan recipients take a 10-question survey that is meant to “compute the likelihood that the household is living below the poverty line – or above by only a narrow margin” (GF 2106b). For the loan recipients, mobile phones provide access to market information, information about local and international markets, and information on Fairtrade certification practices (Incofin 2012). In the words of the Grameen Foundation, this form of technical assistance is intended to provide:

...agricultural cooperatives and their farmer members with the tools and information they need to improve productivity, decrease risks, build organization capacity, facilitate certification, and promote access to extension services and valuable information via mobile phones” (GF 2016c).

The Role of Incofin Investment

According to the Grameen Foundation website, it was the Grameen Foundation and Fairtrade International who ‘originated’ the ‘Fund concept’ and these organizations then approached Incofin Investment to “serve as the fund advisor” (GF 2016c). Incofin Investment Management (IIM) is an ethical investor based in Belgium that manages seven impact funds that target microfinance institutions in developing countries (GIIN 2016). The organization provides finance, savings and insurance and aims to serve “people who cannot have recourse to regular banks” (GIIN 2016). In addition, the organization specifically targets agricultural investments in secluded rural areas. It has offices in Belgium, Colombia, Kenya, and India and asserts that from these locations they serve borrowers in over 40 countries (GIIN 2016). The organization characterizes itself as aiming for the ‘double bottom line’ by working “towards a balanced combination of financial and social performance” (Incofin 2016b). The role of Incofin Investment in the Fairtrade Access Fund to manage the fund in a way that achieves “balanced social and financial returns” (GF 2012).

Fairtrade Access Fund: Investors

The Fairtrade Access Fund is characterized as an “open-ended structure” that allows for investors to invest and withdraw money as needed (KfW 2016c). The minimum amount of money required to invest is the US equivalent of 125,000 EUR, which, at current rates is about \$140,000. Technically, the Fund is classified as a SA SICAV SIF fund that is governed by the Luxembourg Law of 2007, for Specialized Investment Funds. In this legal structure, the Fund “takes a collective investment approach ... and applies the principle of risk diversification”

(KfW 2016c). I could not obtain a complete list of investors in the Fairtrade Access Fund portfolio, so this section will only include a brief introduction to the investors that are publicly available. By far, the most vocal public investor is Starbucks, and the other investors are government owned development banks and institutions from Germany, the Netherlands, and the United States.

Starbucks

Starbucks is an American-based coffee company headquartered in Seattle, Washington representing well-known coffee houses worldwide. Starbucks was the first private investor in the Fairtrade Access Fund and provided a seed capital investment of \$1.3 million in 2012. Starbucks also invests in smallholder coffee farmers through other finance initiatives and in 2000 “began investing in farmer loans” with an investment in Root Capital of \$150,000 (Starbucks 2016). The company states that in 2014, their “total loan commitment” was at \$16.3 million, with \$15 million invested in Root Capital (Starbucks 2016). In a press release of Starbucks’ investment in the Fund, Harriet Lamb, the then Chief Executive of Fairtrade Foundation, and now the chief executive officer of Fairtrade International, announced the investment of Starbucks in the formation of the Fairtrade Access Fund:

We all know how small companies in the UK are banging the table about not being able to get finance. Imagine the problem multiplied tenfold. Smallholder farmers are not exactly the darling of the banks, who consider them too high risk – and constantly shut the door in their face. While the need of a coffee cooperative is for more than micro-credit agencies, which have expanded rapidly, can offer. Farmers’ leaders say that the problem has got worse since the economic crises of 2008, with rural banks closing and conditionalities rising. Yet they desperately need cash to kick-start a virtuous cycle of investments in improving their farms, their quality or productivity. Which is why Fairtrade International, Grameen Foundation and Incofin put our heads together to come up with a solution – the Fairtrade Access Fund.

And guess who was the first company to put up their hand, and put in their money? Yes – Starbucks (Lamb 2012).

Overseas Private Investment Corporation

The Overseas Private Investment Corporation (OPIC) is “the U.S. Government’s development finance institution” and provides investment finance, political risk insurance, and support for investment funds for U.S. businesses operating in developing nations where doing business is ‘risky’ due to war, political instability, lack of infrastructure, and other impediments to a fully functional market economy (OPIC 2016a). OPIC’s investment and insurance portfolio as of its 2014 annual report was over \$18 billion, dedicated to projects in more than 100 countries. OPIC plays a key role in US development projects that aim to promote “liberal economic reform” and works in some of the ‘poorest’ nations around the globe (Hendrickson 2012:68).

The main impetus and philosophy behind OPIC’s operations stem from a belief in the power of private investment and enterprise in the global development process. The philosophy is based on the view that while public aid assistance, termed “official development assistance (ODA)” is an important aspect of assisting developing nations, private investment capital is more effective in poverty reduction. This view embraces the belief that, in the fight against absolute poverty and starvation, and in the need to develop national infrastructure, private investment allows for a more efficient development of markets, a market economy, and allows developing nations to “finance their own development and reduce their dependence on foreign aid” (The White House, Office of the Press Secretary 2015). As stated on OPIC’s website: “leveraging private capital is increasingly recognized a highly effective, efficient, and necessary way to advance sustainable development in emerging markets” (OPIC 2014:2). OPIC invested \$10 million in the Fairtrade Access Fund and also finances the activities of other social investors that work in agricultural finance, such as Root Capital (OPIC 2016b).

KfW Development Bank

KfW Development Bank is a German owned development bank based in Frankfurt Germany. The Bank's website states that it was founded in 1948 and has "provided nearly 1 trillion in loans" over the past 65 years (KfW 2016b). The Bank was first established under the United States' Marshall Plan to rebuild Europe after World War II. As early as 1950, the Bank began to issue export finance "on a medium and long-term basis" and has continued to provide both "supplier credit" and "buyer credit" through changing international contingencies throughout the 1960s and up to today. According to its website, "It has become firmly established as a specialised financial institutions serving German and European interests by facilitating financing worldwide" (KfW 2016a).

In 2016, Incofin investment announced that KfW Bank became a "cornerstone Donor of the Facility [the FTAF]" by providing 1 million EUR from the German Federal Ministry for Economic Cooperation and Development (Incofin 2016a). With this money, the FTAF will expand its technical assistance services to long-term loan recipients in order to "support" the investors in the Fairtrade Access Fund as well as "potential investees". This new Technical Access Facility (TAF) will work alongside the Fairtrade Access Fund in a complementary role: while the FTAF provides "trade finance, working capital and long-term loans" to "smallholder farmer-focused actors", the 'TAF' will support "development initiatives" of investees in the Fairtrade Access Fund (Incofin 2016a). KfW development bank played a pivotal role in developing this Technical Access Facility in the defining of "objectives, targets, and procedures" (Incofin 2016a).

FMO Entrepreneurial Development Bank

FMO is a Dutch development bank offering "capital and knowledge to companies, projects and financial institutions in developing countries" (FMO 2016c). The Bank's website

states that its mission is to “empower entrepreneurs to build a better world” (FMO 2016a). The Bank characterizes its financing emphasis as a focus on “businesses, projects, and financial institutions in developing and emerging markets, with the aim of supporting sustainable private sector development” (FMO 2016d). In 2013, FMO development bank provided \$5 million in financing to the Fairtrade Access Fund. They state that they agreed to support the fund because the “cooperatives supported are all Fairtrade certified (or in the process of certification) so they also adhere to high social standards and good agricultural practices” (FMO 2016b).

Fairtrade Access Fund: Statistical Data

I was unable to obtain a complete list of fund disbursements from Incofin Investment. Therefore, the following data comes from public announcements, which I mined and compiled from Internet sources. Appendix A contains a complete list of all public announcements of loan recipients as well as the sources through which I collected the data. According to these public announcements, the Fairtrade Access Fund began making disbursements in 2013 with totals for the year at \$10,014,000. In 2014, disbursements were \$16,045,000, for a total of \$26,059,000 for the years combined. At the time of this writing, there had been no public disbursement announcements for the year of the 2015.

In sum, eleven nations have received Fairtrade Access Funds, ten of which are in Latin America and one in Africa (See Appendix B.2: Totals by Nation). The country receiving the first and the most overall loans is Honduras for coffee investments, totaling approximately 30 percent of all disbursements. Latin America received 96 percent of disbursements and Africa received 4 percent (See Appendix B.1: Totals by Region). Seventy-Seven percent of all disbursements went to 5 nations: Honduras (30%), Paraguay (16%), Nicaragua (11%), Chile (10%), and Peru (10%). (Appendix B contains a full list of disbursements by Region, Nation, and Commodity.) The

leading commodity to receive FTAF disbursements was coffee at 54 percent, while the second was sugar at 16 percent of disbursements. Three commodities received 83 percent of all disbursements: coffee (54%), sugar (16%) and honey (13%).

The majority of the loans disbursed from the Fairtrade Access Fund are trade finance loans at 85 percent. Of all loans disbursed that I have data for, 13 percent are long-term loans with \$3,180,000 in disbursements over the two years. TABLE 5.2 presents the long-term loan disbursements by country and sector along with the total amount of the long-term loans received by the cooperative. Long-term loans went to the commodities of coffee, cocoa, and sugar, except for one, which went to a cooperative in Peru to be used for a non-profit savings and credit program offering finance to Fairtrade coffee farmers. As noted above, 13 percent of loan disbursements for the years of 2013 and 2014 were for long-term loans. While this figure may seem low, it does indicate a greater proportion of funds going to long-term investment compared to the proportion of long-term loans disbursed by social lending institutions combined, which, as reported above, is only at 6 percent. Therefore, it does appear that the FTAF is disbursing a greater proportion of their overall investment portfolio as long-term loans.

TABLE 5.2: Long-Term FTAF Disbursement Totals by Nation and Sector

COUNTRY	SECTOR	TOTAL
Peru	Coffee/Cocoa	\$370,000
Peru	Savings/Credit	\$760,000
Honduras	Coffee	\$1,000,000
Nicaragua	Coffee	\$550,000
Paraguay	Sugar	\$500,000
Total		\$3,180,000

Fairtrade Access Fund: Fund Beneficiaries

In order to be eligible for Fairtrade Access Funds, the organization must be an “agricultural cooperative or association of small-holder farmers” (FTI 2013a). Cooperatives must be Fairtrade certified or be in the process of becoming Fairtrade certified. In addition, producers typically must be well-established producers with three years of production contracts in which they did not lose money (Cerise 2014). Since the Fairtrade Access Fund was started in order to address the need for long-term loans, this section briefly introduces those cooperatives that have received long-term Fairtrade Finance Funds during the years of 2013 and 2014. For a complete list of publicly available disbursements from the Fairtrade Access Fund, see Appendix C: Chart of Fairtrade Access Fund Loan Disbursements. TABLE 5.3 provides a list of cooperatives that received long-term loans from the Fairtrade Access Fund. There has been a total of \$3,180,000 in long-term loan disbursements, received by 6 cooperatives in Latin America. All of these cooperatives are well-established cooperatives holding multiple ethical certifications.

TABLE 5.3: Chart of Fairtrade Access Fund Long-Term Loan Disbursements and Recipient

COOP	SECTOR	YEAR	COUNTRY	AMOUNT
COCAFCAL	Coffee	2013	Honduras	\$500,000
COCAFELOL	Coffee	2014	Honduras	\$500,000
UCA San Juan	Coffee	2013	Nicaragua	\$550,000
COCLA	Coffee/Cocoa	2013	Peru	\$370,000
NORANDINO	Savings / Credit	2013	Peru	\$760,000
CM	Sugar	2013	Paraguay	\$500,000
				\$3,180,000

COCAFAL

COCAFAL, the Cooperativa Capucas Limitada, is located in western Honduras. Its members produce coffee that is “‘strictly high-grown’ Arabica coffee with Organic, Rainforest Alliance, Fair Trade, UTZ Certified and Bird Friendly certification” (Oikocredit 2016b). The cooperative is a 2nd grade cooperative representing over 800 farmers. According to Incofin, the long-term loan received by COCAFAL will be used in a rehabilitation program of coffee farms “benefiting 173 smallholder coffee farmers”. These farmers have been dealing with coffee rust and the money will allow the farmers to address this problem (Incofin 2014d).

COCAFELOL

COCAFELOL, Cooperativa Cafetalera Ecológica 'La Labor Ocotepeque' Ltd, is a coffee cooperative located in Honduras, established in 2000 with 24 members that now includes more than 300 farmers (Oikocredit 2016a). The cooperative has certifications in Fairtrade, Organic, and Rainforest Alliance. According the Incofin investment, the long-term loan from the Fairtrade Access Fund will be used for land rehabilitation for 291 farmers, once again, for coffee rust (Incofin 2014b).

UCA San Juan

UCA San Juan, Unión de Cooperativas Agropecuarias de San Juan del Río Coco, is a 2nd Grade coffee cooperative composed of 11 village cooperatives in the northeastern region of Nicaragua (FT USA 2016b; FF 2016b). The cooperative serves as an “umbrella organization for eight smaller coffee cooperatives, providing services to a total of 420 small coffee farmers, 80 of which are women” (FT USA 2016b). The cooperative received organic certification in 1993 and Fairtrade certification in 2004 (FF 2016b). According to Incofin, the long-term loan will be used to acquire machines for coffee processing and for lending to farmers for land rehabilitation (Incofin 2013c).

COCLA

COCLA, Central De Cooperativas Agrarias Cafeteleras, is a large 2nd grade cooperative in Peru representing 8,496 smallholder coffee producers. In addition to coffee, the members of the cooperative also produce cocoa (Cafédirect 2016; FT USA 2016a). COCLA has Fairtrade certification, organic certification, and UTZ certification and was the first cooperative to receive a long-term loan from the Fairtrade Access Fund. The loan was used to “purchase modern machinery for the drying of coffee and cocoa” (Incofin 2013b).

NORANDINO

NORANDINO, Coopetiva Agraria Norandino Ltd, is a 2nd grade cooperative composed of 19 primary level cooperatives with a total 6,600 farmer members located in Peru. It became Fairtrade certified in 1996, and also has organic certification (Equal Exchange 2016a). The funds from the Fairtrade Access Fund will be used in the cooperative’s activities as a savings and credit cooperative. The cooperative provides banking and loan services to coffee and cocoa producers throughout the region “interest rates charged are well below the average of the Peruvian market” (Incofin 2013a).

CM/Manduvira Cooperative

CM, Cooperativa Producción Agroindustrial Manduvirá, is a large cooperative composed of sugar cane producers in Paraguay. The cooperative was founded in 1975 with only 39 members, and now has over 1,500 member farmers. The cooperative has organic and Fairtrade certifications (Equal Exchange 2016b). In this long-term investment from the Fairtrade Access Fund, it joins with other social lenders to assist in CM’s acquisition of a new sugar-processing mill. This cooperative exports Fairtrade and organic sugar to 18 countries around the world (Incofin 2014a).

Conclusion

The Fairtrade Access Fund has strong requirements to eligibility and only grants money to ‘well-established’ cooperatives (GF 2016c). It has similar lending procedures as other ethical investors working in the field, but, on average, appears to achieve a greater proportion of disbursements as long-term loans. In addition, the FTAF comes with a specific form of technical assistance that is guided by the services of the Grameen Foundation. While the FTAF is an open-ended fund, in which anyone can invest, its largest investors are the development banks of OPIC, KfW Development Bank, and FMO Entrepreneurial Development Bank. The first recipients of FTAF funds are 2nd grade Fairtrade certified cooperatives that represent large numbers of smallholder farmers throughout Latin America.

In Polanyi’s political economy theory, ethical and impact investing and, specifically, the Fairtrade Access Fund constitute an attempt to “re-embed” credit and finance into the social and environmental context. Chavan (2013) found that the global adoption of neoliberal reforms on credit markets in rural areas resulted in a reduction of finance and credit in rural markets and especially a reduction in long-term credit. As such, the rise of ethical investment strategies that attempt to overcome these losses are part of Polanyi’s second organizing principle where proponents attempt to institute “protective legislation” to preserve “productive organization” such as that seen in Fairtrade smallholder cooperatives (Polanyi [1944] 2001:138-139). Ethical investment institutions and the Fairtrade Access Fund are especially focused on maintaining fair interest rates for producers, which is another important element of these protective measures. According to Block (2003), Polanyi’s counter movement leads to the creation of institutions that seek to protect labor, farmers, and the environment from pure market forces because they have detrimental impacts. Also, in line with network theory and economic sociology, the Fairtrade

Access Fund is the product of the collaboration of organizations and institutions that have a common purpose in supporting smallholder agriculture. Block (2003) notes that the construction of competitive markets requires ongoing state action and this becomes apparent in the establishment of the Fairtrade Access Fund and its connection with government-run development banks, private interests, and individual investors in establishing importance finance resources and in its management. Granting loan-term loans in agriculture in developing nations can be an extremely risky venture. As noted above, smallholder farmers are at risk from climate change, crop failure, and other precarious conditions. Therefore, it becomes apparent why the field of agricultural finance in general, and the Fairtrade Access Fund in particular is upheld by a highly networked collaboration of institutions.

CHAPTER 6: DISCUSSION / CONCLUSIONS

This research sought to answer the following three main research questions:

1. How are Fairtrade International certification and ethical investing linked in their support of smallholder farmers?
2. What are the central characteristics of the Fairtrade Access Fund and how does this new initiative fit into the field of social investment programs?
3. Does the Fairtrade Access Fund, working in combination with Fairtrade Certification, offer important new opportunities for addressing the credit needs of smallholder farmers and mitigate the risks inherent in debt financing?

In an effort to answer these questions, I have traced the development and institutionalization of the fair trade movement together with the ethical investment institutions that work with Fairtrade farmers. Much of this research was motivated by my exposure to previous research that found many adverse impacts associated with debt financing – especially as it is nested within ongoing historical power differentials between nations in the global South and the global North (Haase 2012; Isserles 2003). Many researchers found negative impacts from microfinance lending schemes when artisans were unable to repay loans (Haase 2012; Isserles 2003). As such, I wanted to learn whether tying ethical finance to Fairtrade standards helped mitigate the possible risks inherent in debt finance schemes that are physically situated within this global North/South divide with investors located in the global North and recipients in the global South.

My first research question, ‘How are Fairtrade International certification and ethical investing linked in their support of smallholder farmers?’, required gaining an understanding of the economic and social interventions employed by Fairtrade certification schemes and how they interact with ethical investment strategies. I found that Fairtrade certification strategies actually employ two types of interventions, those economic interventions that are expressed through the standards of the minimum price, the Fairtrade premium, and the requirement for pre-finance and

those strategies that “enable engagement in Fairtrade” (FTI 2013b:5). Both of these types of interventions are essential to understanding how Fairtrade standards are interacting with ethical investment strategies.

First, the economic interventions of the minimum price, the Fairtrade premium, and pre-finance are essential to providing more fair and sustainable returns to agricultural production as they allow farmers to secure better prices for products and to receive a social premium through which to improve their surrounding social conditions. In addition, the requirement for pre-finance has actually historically impacted the ethical lending landscape by stimulating the need for buyers to acquire and provide pre-export finance. This is most pronounced in the development of Shared Interest, which began solely as a way to provide trade finance to fair trade producers, and investing in Fairtrade remains a main focus for many of these organizations that have funds dedicated to Fairtrade certified producers. In sum, these economic interventions are very important in enhancing credit outcomes for small farmers because they provide stable terms of trade that give farmers the ability to plan and make payments on loans. These same mechanisms work to mitigate the risks inherent in debt finance as farmers have stronger long-term contracts for their products that allow for calculable returns for products that support the ability to fulfill loan requirements. Therefore, Fairtrade certification works not only to enhance credit outcomes, but also works to secure greater access to credit for smallholder farmers.

However, while these economic interventions are essential, they may actually be secondary in importance to Fairtrade’s 2nd type of intervention, the strategies that “enable engagement in Fairtrade” (FTI 2013b:5). These strategies require that farmers be organized into farmer cooperatives in order to access supports for both inputs and provide access to export markets. Cooperatives play an important role in the collection, consolidation, and, often times,

processing of farmers' products and making them ready for export to international markets.

Cooperative organization works both as a way to connect producers to international markets and as a way to create democratic development patterns and works as a key element in reducing the need for 'middlemen' for both finance and exports. Most ethical investment institutions lend to producer cooperatives, not to individual farmers, therefore, being connected with a cooperative is essential in not only mitigating the isolation of smallholder farmers and accessing larger markets for products, but also for accessing finance at fairer interest rates.

Finally, ethical investment institutions already answered this first research question. I was surprised to find that Fairtrade and other ethical certifications were already part of the risk management strategies employed by these institutions. The "natural partnership" between fair trade and ethical finance (Palmisano 2015:19) also becomes apparent in the broad 'theories of change' employed by Fairtrade and by ethical finance institutions. Both of these 'theories of change' assert that the right interventions can lead to "virtuous" and "sustainable" patterns of growth and development. In addition, both theories employ the idea and goal of creating 'market linkages' that form strategic partnerships and better outcomes. Finally, each 'theory of change' employs an element of the other. For instance, The 'theory of change' presented by ethical finance institutions includes 'certifications' as an essential input that will "accelerate a virtuous cycle within agricultural value chains" (see p. 66) and the 'theory of change' presented by Fairtrade International includes pre-finance as an essential economic intervention in its goal of making trade fair (see p. 56). Therefore, it appears that ethical finance institutions already believe that Fairtrade certification and ethical investment strategies can enhance credit outcomes for smallholder farmers and that they work to reduce risk in the finance venture.

Finally, in Fairtrade certified commodity chains, farmers are required to work in a way that is environmentally sustainable. Many ethical investment institutions only seek to invest in enterprises that do not harm the environment. They state that this aspect of Fairtrade certification is especially important for investment strategies as they see it as a way that they can be sure they are investing in sustainable agricultural production. In this context, Fairtrade certification is actually working as a signal to ethical investment institutions that producers and their production techniques align with investors' goals in working towards the "double bottom line". This use of certification in ethical lending strategies works to create greater access to credit for Fairtrade certified farmers and also works to provide farmers access to the technical support supplied by these institutions.

My second research question, 'What are the central characteristics of the Fairtrade Access Fund and how does this new initiative fit into the field of social investment programs?' was also answered by tracing the loan products and strategies in the seven most prominent ethical lenders working in the area of smallholder finance. I discovered that the field of ethical finance is a highly networked field that stems from the highly precarious nature of providing investments to smallholder farmers in the context of global capitalism. As explained by Beckert (2013) in the theoretical context of political economy, global capitalism creates a system of production that is dependent upon the production of goods to be exchanged in the marketplace for profits that requires the "credit-based financing of investments" (Beckert 2013:327). Like other producers working within global capitalist contexts, smallholder farmers are in need of cyclical finance that stems from the needs of producing their particular commodity.

Global food markets are supplied through global commodity chains that have, at the producer end, many smallholder producers. As such, the real need for production support has led

to the creation of finance institutions that work to meet that need. However, free-market approaches that seek to let the market determine the distribution of credit have created difficulties in access to finance for smallholder producers around the globe (Ramachandran et al. 2004; Chavan 2013). As such, there has been a growing awareness of the need to meet the finance needs of smallholder farmers by ethical lenders.

In comparison to the loan products supplied for Fairtrade producers by the seven main lenders in the ethical finance field, the Fairtrade Access Fund is very similar. It provides the same types of loan products: trade finance, working capital, and long-term loans and it supplies forms of technical assistance. While the Fairtrade Access Fund is not the only ethical lender to provide long-term finance, it is unique its focus on long-term finance and has been able to achieve a greater proportion of its disbursements as long-term loans. Finally, the Fairtrade Access Fund is also not unique in its targeting of Fairtrade farmers, which has been a surprising aspect of my research. Fairtrade is actually central to the loan strategies of all the major ethical lenders. The ethical lending field in agriculture in developing countries is tightly intertwined with Fairtrade and other ethical certifications. While I found that many recipients of loan products have multiple certifications, Fairtrade certification is the only ethical certification to require pre-finance and is therefore more closely linked with improving credit access for smallholder farmers.

This brings me to my third and final research question, ‘Does the Fairtrade Access Fund, working in combination with Fairtrade Certification, offer important new opportunities for addressing the credit needs of smallholder farmers and for mitigating the risks inherent in debt financing?’ As stated above, my research finds that the Fairtrade Access Fund has many similarities with other forms of ethical finance currently being offered by social investors

working with smallholder farmers and that all the ethical lenders target farmers with Fairtrade certification. Further, my research finds that all lenders appear to be using Fairtrade certification as a mechanism of risk management, as Fairtrade certification requirements and economic interventions appear to work to reduce risk for both investors and farmers. Therefore, the main ‘new opportunity’ for smallholder farmers offered by the Fairtrade Access Fund is its focus on long-term finance. However, as the FTAF is still very young, it is too early to determine the impacts of long-term loans thus far.

Concerning the question of whether the FTAF offers new opportunities for mitigating risk, I do not have enough information to determine how the technical assistance offered by the FTAF differs from the technical assistance offered by the other ethical lenders. However, it does seem apparent that Fairtrade standards do work to reduce risk to smallholder farmers. As discussed above, Fairtrade standards work to democratically organize isolated producers and connect them with international markets, which allows for more stable trading patterns and greater returns for products. Access to international markets and the economic interventions employed in Fairtrade certification work to mitigate many of the conditions associated with farmers working in the first two categories of the CGAP typology discussed above: those “noncommercial smallholders” who work primarily for sustenance and survival and are very vulnerable to contingencies such as crop destruction and weather difficulties and those who work in “loose value chains” who only have access to regional and local markets. Farmers connected to the “tight” value chains associated with Fairtrade production have access to minimum prices for their products as determined by global market prices. They have access to a sum above that price, the Fairtrade premium, and they often have access to pre-finance. These create conditions very different from those farmers working in the other two categories of the CGAP typology.

Fairtrade certification also works to reduce risk to investors through these same mechanisms. Farmers with access to stable contracts and better prices are more able to repay loans in a timely manner. However, the Fairtrade Access Fund does appear to provide an additional form of risk management for investors. As discussed above, the FTAF also provides technical assistance from the Grameen Foundation through the Progress out of Poverty Index. In addition, in March of 2016, Incofin Investment (2016a) announced that the Fairtrade Access Fund had launched a new “Technical Assistance Facility” of the Fairtrade Access Fund designed to “support FAF investees and potential investees in attaining their development potential by providing access to skills and technical assistance services”. The organization states that the ‘theory of change’ of the FTAF employs an equation that provides, on the one side, finance for smallholder farmers, and, on the other side, technical assistance to support “knowledge sharing across the sector”. The technical assistance aims to promote better agricultural practices and “increased interest in agricultural finance” (Incofin 2016a). As discussed earlier, KfW Development Bank helped launch the facility and works with the “steering committee” to achieve five main goals. I provide these goals in their entirety from Incofin’s website:

1. To improve the productivity and/or quality of smallholder farmers’ crops by providing them with better access to services and critical, actionable information that will enhance yields, reduce or prevent the impact of diseases, and improve quality, thereby enabling them to meet international market requirements and/or have better access to markets;
2. To improve the capacity of smallholder farmers to comply with fair trade and sustainable certification processes and to maintain their certifications, thereby facilitating their access to fair trade and sustainable markets, as these markets offer organized value chains, where commodity pricing reflects the added value of the fair and sustainable practices employed;
3. To build the capacity of FAF Investees and potential Investees, particularly Small Producer Organizations, to manage their business effectively and efficiently by improving management, governance and planning capabilities, thereby allowing them to provide better services to smallholder farmers and to increase their outreach;

4. To strengthen the operational and social performance management of FAF Investees and potential Investees by implementing poverty assessment tools, farmer socio-demographic baselines and profiling activities;
5. To contribute to a fair agricultural sector through knowledge sharing (Incofin 2016a).

Therefore, this technical assistance facility does aim to reduce risk to investors, which is highly intertwined with reducing risk to farmers. In addition, the managers of the Fund aim to increase interest in agricultural finance, which is a very important aspect of meeting the finance needs of smallholder farmers. However, since I have no direct information on how this technical assistance differs from the technical assistance offered by other ethical lenders, I cannot determine if it constitutes a “new opportunity” in mitigating risk. In sum, it appears that the connection between certification and ethical investment strategies do work to mitigate risk and, as stated before, that Fairtrade certification does work as a mechanism of risk management for ethical lenders. It is not surprising that the first fund to focus on providing long-term investment specifically targets Fairtrade certified farmers and contains an extra technical assistance facility aimed extending certification for more farmers and at maintaining certification standards.

Limitations

My research is limited in its empirical findings from several main shortcomings. First, I did not have access to a complete data source of Fairtrade Access Fund recipients, of the interest rates paid by Fund recipients, and was unable to obtain data on default rates, or the impact of Funds within communities. Second, I was unable to communicate with Fund officials and was only able to review documents publicly available. It would have been helpful to interview Fund officials in order to understand how they view the Fund and its technical assistance as “unique” to the current finance products already available through the other prominent ethical lenders working in the field. Third, I have no direct knowledge of the success of projects undertaken

through the long-term loans disbursed by the Fund. Further research could benefit from direct impact studies that can more directly assess how funds are improving farm operations, affecting communities at large, and creating the “virtuous cycle of production” desired by ethical finance institutions. Finally, I have no access to information on the methods of debt collection used by the managers of the Fairtrade Finance Fund in the event that farmers are unable to pay. Some of the risks inherent in debt finance include loss of investment to investors and loss of important assets to farmers. I have no information on whether collateral is required for long-term loans and if farmers are at risk for loss of capital. Further research would need to take these factors into account if attempting to answer the question of how Fairtrade certification and ethical finance strategies mitigate these risks.

Conclusion

The research traced the two broad social movements, that of fair trade and ethical investment, in order to analyze whether linking ethical investment strategies with Fairtrade certification can enhance credit outcomes for smallholder farmers. It utilized a theoretical framework that combined the approaches of economic sociology and political economy. Economic sociology, with its focus on the social relations and networks that constitute economic markets served as a micro and meso foundation for political economy and helped to situate Fairtrade within a framework that posits a process of institutionalization and the characteristics of social movements that undergo this process. Political economy, with its macro focus on economic phenomena as embedded with historical and national contingencies, and its ability to focalize the linkages between states, markets, and institutions served as my overarching macro theory. Specifically within institutionalist political economy, I drew from the work Karl Polanyi, in characterizing both ethical investment and Fairtrade as movements within his “second

organizing principle”, where individuals and organizations seek to attain “social protection” which aims “at the conservation of man and nature as well as productive organization” (Polanyi [1944] 2001:138-139). Linking these two theoretical approaches enabled me to understand the process of institutionalization that the Fairtrade movement undertook as it entered market specific contexts in international trading schemes. In addition, it allowed me to see two apparently conflicting motives behind the market methods utilized by Fairtrade certification. On the one hand, Fairtrade seeks to ‘reembed’ consumption and production into the social relations that comprise them, and, on the other, it uses market specific standards to attain that goal. Economic sociology sees this process as inherent when social movements become institutionalized in market based situations. Within Polanyi’s counter movement approach, Fairtrade and ethical investment schemes are seen as movements that seek to ‘reembed’ market processes within social relations and create better outcomes for smallholders. Polanyi emphasizes that there are requirements surrounding the minimum conditions of the use of land, since land is the source of humanity’s food supply (Block 2003). Fairtrade and ethical investment proponents utilize discourses surrounding sustainable development and the need to preserve the environment in their characterization of the problems they address.

In brief, I found that, yes, linking ethical investment with Fairtrade does enhance credit outcomes for smallholder farmers, a fact already understood by ethical investors. I discovered that there is a ‘natural partnership’ between Fairtrade and ethical investment and that Fairtrade certification is acting as a signal to ethical investors and works as a mechanism for risk management in the highly precarious and risky field of investment. This connection between Fairtrade and how it intersects with ethical lending strategies and credit outcomes for smallholder farmers is an important and under-researched facet of Fairtrade certification schemes

and smallholder outcomes. Finally, the fact that ethical lending institutions already use Fairtrade certification as a mechanism of risk management, I think, has larger implications for development in broad. The economic interventions employed by Fairtrade certification schemes including minimum prices, pre-finance, and the Fairtrade premium seem to be essential to mitigating risk and this is important for development strategies that seek to bridge the divide between the global North and the global South.

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APPENDICES

Appendix A: Fairtrade Access Fund: Loans by Region, Country, Type, and Amount

Latin America

TABLE A.1: Bolivia FTAF Loan Disbursements

BOLIVIA				
COOP / COMMODITY	DATE OF ANNCMT	LOAN TYPE	PURPOSE	AMOUNT
PAMOC SRL / CHESTNUTS Members: 300 families including a Fairtrade indigenous association of 210 families (AirMujie)	12/4/2014	Trade Finance	2014/2015 Chestnut Collection	\$500,000
			TOTAL PAMOC SRL:	\$500,000
Green Forest Products S.A. Buys almonds directly in the collecting facilities of the small producer organizations	12/4/2014	Trade Finance	2014/2015 Chestnut Collection	\$500,000
			TOTAL GREEN FOREST PRODUCTS S.A.:	\$500,000
				TOTAL BOLIVIA: \$1,000,000

Incofin Investment Management. 12/04/2014. "Fairtrade Access Fund welcomes new country and new product in its portfolio." <https://www.incofin.com/en/news/fairtrade-access-fund-welcomes-new-country-and-new-product-its-portfolio>

TABLE A.2: Bolivia – Loan Type Summary

Loan Type	Amount	Percent of Total
Trade Finance	\$1,000,000	100%
Long Term	\$0	0%
Working Capital	\$0	0%
Total Loans	\$1,000,000	100%

TABLE A.3: Brazil FTAF Loan Disbursements

BRAZIL				
COOP / COMMODITY	DATE OF ANNCMT	LOAN TYPE	PURPOSE	AMOUNT
Casa Apis / HONEY Unites 8 honey producing cooperatives Location: Piauí and Ceará, northeastern Brazilian states Founded: 2005 Members: 1,000 FT Certification: 2010	9/24/2014	Trade Finance	Export of conventional and organic honey to EU and USA	\$800,000
TOTAL Casa Apis:				\$800,000
COOPFAM / COFFEE Members: 300 small coffee producers Location: Minas Gerais, southeastern Brazil	12/15/2014	Trade Finance	2013/2014 Harvest/Export Cycle	\$500,000
TOTAL COOPFAM:				\$500,000
TOTAL BRAZIL:				\$1,300,000
Incofin Investment Management. 9/24/2014. "First investment of the Fairtrade Access Fund in Brazil." Retrieved August 7, 2015: https://www.incofin.com/en/news/first-investment-fairtrade-access-fund-brazil				
Incofin Investment Management. 12/15/2014. "Second investment of the Fairtrade Access Fund in Brazil." Retrieved August 7, 2015: https://www.incofin.com/en/news/second-investment-fairtrade-access-fund-brazil-0				

TABLE A.4: Brazil – Loan Type Summary

Loan Type	Amount	Percent of Total
Trade Finance	\$1,300,000	100%
Long Term	\$0	0%
Working Capital	\$0	0%
Total Loans	\$1,300,000	100%

TABLE A.5: Chile FTAF Loan Disbursements

CHILE				
COOP / COMMODITY	DATE OF ANNCMT	LOAN TYPE	PURPOSE	AMOUNT
APICOOP / HONEY	9/2013	Trade Finance	2012/2013 Export Cycle	\$1,314,000*
Apícola Campesina Founded: 1987 Location: Paillaco town, southern Chile Members: 350	12/19/2013	Trade Finance	2013/2014 Export Cycle	\$1,314,000
TOTAL APICOOP:				\$2,628,000
TOTAL CHILE:				\$2,628,000

Incofin Investment Management. 12/12/2013. "Fairtrade Access Fund Finances Purchase and Stock of Honey Producers in Chile." Retrieved August 7, 2015: <https://www.incofin.com/en/news/fairtrade-access-fund-finances-purchase-and-stock-honey-producers-chile>

TABLE A.6: Chile – Loan Type Summary

Loan Type	Amount	Percent of Total
Trade Finance	\$2,628,000	100%
Long Term	\$0	0%
Working Capital	\$0	0%
Total Loans	\$2,628,000	100%

TABLE A.7: Colombia FTAF Loan Disbursements

COLOMBIA				
COOP / COMMODITY	DATE OF ANNCMT	LOAN TYPE	PURPOSE	AMOUNT
Expocosurca S.A./ COFFEE	7/1/2014	Trade Finance	2013/2014 Harvest Season	\$600,000
Supports 3,800 producers Location: Cauca department, south-western Colombia				
			TOTAL Expocosurca S.A.	\$600,000
ASOANEI / COFFEE	9/16/2014	Trade Finance	2013/2014 Harvest Season	\$500,000
Asociación de Productores Agroecológicos Indígenas y Campesinos de la Sierra Nevada de Santa Marta y la Serranía del Perijá: Founded: 1996 Members: 400 families Location: north coast of Colombia				
			TOTAL ASOANEI:	\$500,000
C.I. Kyoto S.A.S. (Kyoto) / COFFEE	9/23/2014	Trade Finance	2013/2014 Harvest Season	\$600,000
Founded: 2006 Location: Sierra Nevada de Santa Marta				
			TOTAL KYOTO:	\$600,000
				TOTAL COLOMBIA: \$1,700,000
Incofin Investment Management. 7/1/2014. "Fairtrade Access Fund Makes First Investment in Colombia." Retrieved August 7, 2015: https://www.incofin.com/en/news/fairtrade-access-fund-makes-first-investment-colombia				
Incofin Investment Management. 9/16/2014. "Fairtrade Access Fund Supports Indigenous Coffee Producer Organisation in Colombia." Retrieved August 7, 2015: https://www.incofin.com/en/news/fairtrade-access-fund-supports-indigenous-coffee-producer-organisation-colombia				
Incofin Investment Management. 9/23/2014. "Fairtrade Access Fund welcomes Second Colombian Coffee Exporter in its Portfolio." Retrieved August 7, 2015: https://www.incofin.com/en/news/fairtrade-access-fund-welcomes-second-colombian-coffee-exporter-its-portfolio				

TABLE A.8: Colombia – Loan Type Summary

Loan Type	Amount	Percent of Total
Trade Finance	\$1,700,000	100%
Long Term	\$0	0%
Working Capital	\$0	0%
Total Loans	\$1,700,000	100%

TABLE A.9: Guatemala FTAF Loan Disbursements

GUATEMALA				
COOP / COMMODITY	DATE OF ANNCMT	LOAN TYPE	PURPOSE	AMOUNT
ACODIHUE / COFFEE	12/2/2014	Trade Finance	2014/2015 Harvest Season	\$500,000
Asociación de Cooperación al desarrollo Integral de Huehuetenango: Founded: 1996 17 grassroots organizations Members: 2,000				
TOTAL ACODIHUE:				\$500,000
TOTAL GUATEMALA:				\$500,000

Incofin Investment Management. 12/02/2014. "First investment of the Fairtrade Access Fund in Guatemala."

Retrieved August 7, 2015: <https://www.incofin.com/en/news/first-investment-fairtrade-access-fund-guatemala>

TABLE A.10: Guatemala – Loan Type Summary

Loan Type	Amount	Percent of Total
Trade Finance	\$500,000	100%
Long Term	\$0	0%
Working Capital	\$0	0%
Total Loans	\$500,000	100%

TABLE A.11: Honduras FTAF Loan Disbursements

HONDURAS				
COOP / COMMODITY	DATE OF ANNCMT	LOAN TYPE	PURPOSE	AMOUNT
COPROCAEL / COFFEE	2/6/2013	Trade Finance	2012/2013 Harvest Season	\$570,000
Founded 2000 FT Certification: 2008 Members: 170				
TOTAL COPROCAEL:				\$570,000
COCAFAL / COFFEE	1/11/2013	Trade Finance	2012/2013 Harvest Season	\$500,000
Cooperativa Cafetalera Capucas Limitada				
	12/13/2013	Trade Finance	2013/2014 Harvest Season	\$2,000,000
Location: southwestern hills of Honduras.				
Founded: 1999 with 55 coffee producers.				
	9/02/2014	Long-Term	Coffee Rust Rehabilitation: 319 hectares benefiting 173 smallholder coffee farmers	\$500,000
Fairtrade certification: 2009				
Members: 835				
	9/02/2014	Trade Finance	2014/2015 Harvest Season	\$1,500,000
TOTAL COCAFAL:				\$4,500,000
CARUCHIL / COFFEE	12/12/13	Trade Finance	2013/2014 Harvest Season	\$500,000
La Cooperativa Agropecuaria Regional Unión Chinacla Limitada Formed: 1991 FLO-certification: 1993. Members: 556 small coffee producers (ave 6 Ha/producer)				
TOTAL CARUCHIL:				\$500,000
COCAFELOL / COFFEE	2/11/2014	Trade Finance	2013/2014 Harvest Season	\$500,000
Ocotepeque Department in Western-Honduras				
	9/2/2014	Trade Finance	2014/2015 Harvest Season	\$500,000
Members: 306 Projected members:				

490	9/2/2014	Long-Term	Coffee Rust rehabilitation: 255 hectares of coffee plantations of 291 smallholder coffee farmers.	\$500,000
TOTAL COCAFELOL:				\$1,500,000
COAGRICSAL/COFFEE	5/21/2013	Trade Finance	2012/2013 Harvest Season, loan includes purchase and sale contract with three international coffee buyers	\$600,000
The Cooperativa Agrícola Cafetalera San Antonio Founded: 1998 Members: 800	3/17/2014	Trade Finance	2013/2014 Harvest Season	\$600,000
TOTAL COAGRICSAL				\$1,200,000
TOTAL HONDURAS				\$8,270,000

- Global Coffee Report. 2/6/2013. "Fairtrade Access Fund Provides First Loan to Honduras Coffee Co-Operative." Retrieved August 13, 2015. <http://gcrmag.com/news/article/fairtrade-access-fund-provides-first-loan-to-honduras-coffee-co-operative>
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TABLE A.12: Honduras – Loan Type Summary

Loan Type	Amount	Percent of Total
Trade Finance	\$7,270,000	88%
Long Term	\$1,000,000	12%
Working Capital	\$0	0%
Total Loans	\$8,270,000	100%

TABLE A.13: Mexico FTAF Loan Disbursements

MEXICO				
COOP / COMMODITY	DATE OF ANNCMT	LOAN TYPE	PURPOSE	AMOUNT
FIECH / COFFEE	12/16/2014	Trade Finance	Pay producers upon reception of coffee at the collection centres / guaranteed sales agreements with buyers	\$600,000
Federación Indígena Ecológica de Chiapas S.de S.S. 19 Organizations Members: 3,258 including Indigenous communities Tzotzil, Chuj, Tojolabal, Cak'chiquel and Mame				
TOTAL FIECH:				\$600,000
TOTAL MEXICO:				\$600,000

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TABLE A.14: Mexico – Loan Type Summary

Loan Type	Amount	Percent of Total
Trade Finance	\$600,000	100%
Long Term	\$0	0%
Working Capital	\$0	0%
Total Loans	\$600,000	100%

TABLE A.15: Nicaragua FTAF Loan Disbursements

NICARAGUA				
COOP / COMMODITY	DATE OF ANNCMT	LOAN TYPE	PURPOSE	AMOUNT
UCOSEMUN / COFFEE Union of coffee producer cooperatives Founded 1998 Members: 14,000	6/19/2013	Working Capital	Support 5 FT member coops in preparation of the 2013-2014 harvest season Term: 1-year	\$500,000
TOTAL UCOSSEMEN:				\$500,000
UCASUMAN / COFFEE Union of cooperatives – covers 60% of Nicaragua’s national coffee production Founded: 2001	6/19/2013	Trade Finance	Purchase Fairtrade certified harvested coffee from the many smaller cooperatives that make up UCASUMAN	\$350,000
TOTAL UCASUMAN:				\$350,000
UCA San Juan / COFFEE Union of eight cooperatives Members: 400	12/5/2013	Trade Finance	2013/2014 Harvest Season	\$500,000
	12/5/2013	Long-Term	Acquisition of machinery “selecting electronic”, for the Dry Mill Coffee rust rehabilitation of 287 Ha, belonging to 123 small farmers Term: 5 Years with 2 year Grace Period	\$550,000
	9/15/2014	Trade Finance	2014/2015 Harvest Season	\$800,000

TOTAL UCA San Juan: \$1,850,000

TOTAL NICARAGUA: \$2,700,000

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TABLE A.16: Nicaragua – Loan Type Summary

Loan Type	Amount	Percent of Total
Trade Finance	\$1,650,000	61%
Long Term	\$550,000	20%
Working Capital	\$500,000	19%
Total Loans	\$2,700,000	100%

TABLE A.17: Paraguay FTAF Loan Disbursements

PARAGUAY

COOP / COMMODITY	DATE OF ANNCMT	LOAN TYPE	PURPOSE	AMOUNT
CM / SUGAR	7/26/2013	Trade Finance	2012/2013 Season	\$1,500,000
La Cooperativa Manduvira Ltda Founded: 1975 Members: 1,700 FT Certification: 1999	6/6/2014	Trade Finance	2013/2014 Season	\$2,000,000
	6/6/2014	Long-Term	New Sugar Processing Plant	\$500,000

TOTAL CM: \$4,000,000

TOTAL PARAGUAY: \$4,000,000

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TABLE A.18: Paraguay – Loan Type Summary

Loan Type	Amount	Percent of Total
Trade Finance	\$3,500,000	88%
Long Term	\$500,000	12%
Working Capital	\$0	0%
Total Loans	\$4,000,000	100%

TABLE A.19: Peru FTAF Loan Disbursements

PERU				
COOP / COMMODITY	DATE OF ANNCMT	LOAN TYPE	PURPOSE	AMOUNT
COCLA / COFFEE, COCOA Founded: 1967 24 agricultural cooperatives Members: 8,000 Location: province of La Convención, Cuzco. Fairtrade certification: 1996	2/27/2013	Long-Term	Purchase modern machinery for the drying of coffee and cocoa. Term: 2.5 years	\$370,000
TOTAL COCLA:				\$370,000

NORANDINO / COFFEE, COCOA, SUGAR	5/22/2013	Long-Term	Loan is for the non-profit savings and credit program of the cooperative to offer financing to Fairtrade coffee farmers.	\$760,000
Founded: 2005 Members: 7,000 70% coffee producers 15% cacao producers 5% sugar producers			Term: 24 Months	Issued in local currency: PEN 2,000,000
TOTAL NORANDINO:				\$760,000
NARANJILLO/COCOA	6/5/2014	Trade Finance	Purchase cocoa beans from members	\$1,000,000
Founded: 1964 Members: 4,000 FT Certification: 2004	6/5/2014	Trade Finance	Purchase cocoa beans from members	\$300,000
TOTAL NARANJILLO:				\$1,300,000
TOTAL PERU:				\$2,430,000

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TABLE A.20: Peru – Loan Type Summary

Loan Type	Amount	Percent of Total
Trade Finance	\$1,300,000	53%
Long Term	\$1,130,000	47%
Working Capital	\$0	0%
Total Loans	\$2,430,000	100%

Africa

TABLE A.21: Cote d'Ivoire FTAF Loan Disbursements

COTE D'IVOIRE				
COOP / COMMODITY	DATE OF ANNCMT	LOAN TYPE	PURPOSE	AMOUNT
Ecookim / COCOA	11/4/2014	Trade Finance	Purchase of members' cocoa beans	\$931,000
Union of 8 Cooperatives Founded: 2003 Members: 3,700 Leading FT cocoa producing cooperative in Ivory Coast				
TOTAL ECOOKIM:				\$931,000
TOTAL COTE D'IVOIRE:				\$931,000

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TABLE A.22: Cote d'Ivoire – Loan Type Summary

Loan Type	Amount	Percent of Total
Trade Finance	\$931,000	100%
Long Term	\$0	0%
Working Capital	\$0	0%
Total Loans	\$931,000	100%

Appendix B: Summary of FTAF Loans by Region, Nation, Commodity, and Type

TABLE B.1: Totals by Region

Region	Loan Total	Percent of Total
LATIN AMERICA:	\$25,128,000	96%
AFRICA:	\$931,000	4%
TOTAL:	\$26,059,000	100%

TABLE B.2: Totals by Nation

Country	Loan Total	Percent of Total
BOLIVIA:	\$1,000,000	4%
BRAZIL:	\$1,300,000	5%
CHILE:	\$2,628,000	10%
COLOMBIA:	\$1,700,000	6%
COTE D'IVOIRE:	\$931,000	4%
HONDURAS:	\$8,270,000	30%
GUATEMALA:	\$500,000	2%
MEXICO:	\$600,000	2%
NICARAGUA:	\$2,700,000	11%
PARAGUAY:	\$4,000,000	16%
PERU:	\$2,430,000	10%
TOTAL:	\$26,059,000	100%

TABLE B.3: Totals by Commodity

Commodity	Loan Total	Percent of Total
COCOA:	\$2,801,000	9%
COFFEE:	\$13,700,000	54%
COFFEE AND COCOA:	\$370,000	1%
CHESTNUTS:	\$1,000,000	4%
HONEY:	\$3,428,000	13%
SAVINGS/CREDIT:	\$760,000	3%
SUGAR:	\$4,000,000	16%
TOTAL:	\$26,059,000	100%

TABLE B.4: Totals by Loan Type

Loan Type	Loan Total	Percent of Total
TRADE FINANCE:	\$22,379,000	85%
LONG TERM:	\$3,180,000	13%
WORKING CAPITAL:	\$500,000	2%
TOTAL:	\$26,059,000	100%

TABLE B.5: Percent of Long Term Loans out of Total Disbursements by Year

Year	Loan Total	Long Term Loan Total	Percent of Total
2013	\$10,014,000	\$1,680,000	17%
2014	\$16,045,000	\$1,500,000	11%
TOTAL:	\$26,059,000	\$3,180,000	12%

Appendix C: Chart of Fairtrade Access Fund Loan Disbursements

TABLE C.1: Fairtrade Access Fund Disbursements 2013-2014

COOP	COMMODITY	YEAR	COUNTRY	LOAN TYPE	AMOUNT
COPROCAEL	Coffee	2013	Honduras	Trade Finance	\$570,000
COCAFAL	Coffee	2013	Honduras	Trade Finance	\$500,000
		2013		Trade Finance	\$2,000,000
		2014		Long-Term	\$500,000
		2014		Trade Finance	\$1,500,000
CARUCHIL	Coffee	2013	Honduras	Trade Finance	\$500,000
COCAFELOL	Coffee	2014	Honduras	Trade Finance	\$500,000
		2014		Trade Finance	\$500,000
		2014		Long-Term	\$500,000
COAGRICSAL	Coffee	2013	Honduras	Trade Finance	\$600,000
		2014		Trade Finance	\$600,000
UCOSEMUN	Coffee	2013	Nicaragua	Working Capital	\$500,000
UCASUMAN	Coffee	2013	Nicaragua	Trade Finance	\$350,000
UCA San Juan	Coffee	2013	Nicaragua	Trade Finance	\$500,000
		2013		Long-Term	\$550,000
		2014		Trade Finance	\$800,000
COCLA	Coffee/Cocoa	2013	Peru	Long-Term	\$370,000
NORANDINO	Savings / Credit	2013	Peru	Long-Term	\$760,000
NARANJILLO	Cocoa	2014	Peru	Trade Finance	\$1,000,000
		2014		Trade Finance	\$300,000
Casa Apis	Honey	2014	Brazil	Trade Finance	\$800,000
COOPFAM	Coffee	2014	Brazil	Trade Finance	\$500,000
FIECH	Coffee	2014	Mexico	Trade Finance	\$600,000
PAMOC SRL	Chestnuts	2014	Bolivia	Trade Finance	\$500,000

Green Forest Products S.A.	Chestnuts	2014	Bolivia	Trade Finance	\$500,000
APICOOP	Honey	2013	Chile	Trade Finance	\$1,314,000
		2014		Trade Finance	\$1,314,000
ACODIHUE	Coffee	2014	Guatemala	Trade Finance	\$500,000
Expocosurca S.A.	Coffee	2014	Colombia	Trade Finance	\$600,000
ASOANEI	Coffee	2014	Colombia	Trade Finance	\$500,000
C.I. Kyoto S.A.S.	Coffee	2014	Colombia	Trade Finance	\$600,000
CM	Sugar	2013	Paraguay	Trade Finance	\$1,500,000
		2014		Trade Finance	\$2,000,000
		2014		Long-Term	\$500,000
ECOOKIM	Cocoa	2014	Cote d'Ivoire	Trade Finance	\$931,000
TOTAL:					\$26,059,000