FAIR TRADE
AND ETHICAL FINANCE:
THE POSSIBLE SYNERGY
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This guide has been produced in the context of the PRICE project. More information on the project can be found at the back of the guide, or on the project website www.thepriceproject.org

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With the support of the European Union
Promoting Responsible Investments and Commerce in Europe

PRICE (Promoting Responsible Investments and Commerce in Europe: Fair Trade and Ethical Finance Responds to Global Crisis) is an international project which aims to raise public awareness and promote education to mobilise greater financial support for actions against poverty and for fairer relations between developed and developing countries. This takes place in the field of responsible investments for fair and sustainable trading activities. PRICE is co-financed by the European Union, and involves 9 European countries on the issue of Fair Trade and Ethical Finance with the intention of researching and verifying the causes and factors that may bring greater collaboration between the two sectors and expand their range of action.

The project is run in three phases:

1) Research and development of training materials: in particular, the research intends to shed light on the relationship between Ethical Finance and Fair Trade, the current level of interaction between the two concepts (demand / offer of services for pre-financing or for imports) and the levers and tools for greater collaboration. The results of this research will allow the development of a set of training tools that will be used during phase two.

2) Training and awareness raising: diversified training initiatives to bring together national experiences and disseminate good practices and innovative solutions.

3) Campaigning on Fair Trade and Ethical Finance: use outreach events to mobilise public opinion.

PRICE is coordinated by the Spanish NGO COPADE, with the participation of partners from 8 other European Union countries: AGICES (Assemblea Generale Italiana del Commercio Equo e Solidale in Italy), FCRE (Fondazione Culturale Responsabilità Etica in Italy), WFTO (World Fair Trade Organisation headquarters in The Netherlands), Equação (Portugal), Fair Trade Hellas (Greece), Ideas Factory (Bulgaria), Koperattiva Kummerč Gust (Malta), the Polish Fair Trade Association (Poland) and Védegylet - Protect the Future (Hungary).

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# TABLE OF CONTENTS

## METHODOLOGICAL NOTE

5

## INTRODUCTION

North and South of the World: from global financial crisis to Fair Trade relationships

6

## CHAPTER 1

Fair Trade – a sustainable and responsible economy

7

1.1 The evolution of the Fair Trade worldwide: commercial aspects and raising awareness 8

1.2 Fair Trade in Europe 10

1.3 The growth of Fair Trade and the reinforcement from the South 22

## CHAPTER 2

The role of Ethical finance in the empowerment of Fair Trade actors

25

BOX 1 - A EUROPEAN DEFINITION OF ETHICAL FINANCE 26

2.1 Ethical Finance in Europe in support of Fair Trade 27

BOX 2 - THE CASE OF SHARED INTEREST 34

2.2 New instruments for the financing of Fair Trade 35

## CHAPTER 3

Ethical Finance and Fair Trade: how they relate to each other

40

3.1 The limits of Ethical Finance in relation to alternative economy 40

3.2 Ethical Finance operations and relationship with Fair Trade 41

## CHAPTER 4

Conclusions: building the synergy

40

BOX 3 - AGREEMENT BETWEEN FIARE AND THE COORDINADORA ESTATAL DE COMERCIO JUSTO 43

## BIBLIOGRAPHY

44
METHODOLOGICAL NOTE

The research that follows was carried out using a variety of different sources and analysis. More than 20 in-depth interviews with experts and organisation leaders in the field of Fair Trade and Ethical Finance have been conducted, together with other testimonies which have been collected during the meetings of the project partners. A specific questionnaire was distributed to a list of European and international organisations (including through the WFTO network), to which more than 300 have responded, half of which in full. The text also makes use of bibliographic tools and websites, as well as reports of the Fair Trade and Ethical Finance networks and associations.
INTRODUCTION

North and South of the World: from Global Financial Crisis to Fair Trade relationships

The dominating development model of the last decades has favoured the emergence of severe global inequalities. In 2007, its financial crisis has resulted in an exponential increase of populations who are in conditions of vulnerability and marginalization: more impoverished people, more working poor.

The present work aims at helping promote, especially at the European level, Fair Trade as a strategic movement in building an economy of justice, through the support of organisations that operate in Ethical Finance.

After outlining the relevance of both Fair Trade and Ethical Finance in Europe, their relationship is analysed, in order to understand how to better realize a synergy to pursue their common objectives, aimed at promoting the role of those who are marginalized in today’s economic system (starting from small producers), as well as giving a perspective to many citizens increasingly aware of their power as consumers/savers and of their role in the political construction of the European Union.

In order to definitively realize this synergy, we will need to start from what has been achieved in recent years, promoting good practices, but also reviewing and overcoming limitations and weaknesses, as well as adapting to current economic and social relationships that can express a lot of new potential. Through this synergy, as a matter of fact, the Ethical Finance and the Fair Trade movements will bring forth the proposals of the many people whom they ideally represent in front of those institutions that have been deaf to the requests for a fair and just economy, and have therefore lost a significant part of their democratic legitimacy. Such legitimacy can be recovered by taking into account the Fair Trade and Ethical Finance proposals, realizing those reforms which are capable of directing finance and the market to respect human rights and the environment.

Only by adopting reforms that put an end to merely speculative financial activities and to unsustainable productive and trade practices, these institutions will be able to recover the legitimacy needed to relaunch the European Union as a common pact among all its citizens.
CHAPTER 1

Fair Trade for a sustainable and responsible economy

“Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South. Fair Trade Organisations, backed by consumers, are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade.”

With these words, four European organisations reunited in 2001 in the informal network FINE1 created a widely accepted definition of Fair Trade, from which the following fundamental principles are derived and constitute the core of the Charter of Fair Trade:

- Market access for marginalized producers, so that they can employ traditional forms of production to provide social benefits to their communities through increased gain achieved thanks to a shortened trade chain.

- Sustainable and equitable trading relationship: in Fair Trade, all production costs (direct and indirect) are taken into account, including the protection of natural resources and the needs of future investments. This allows manufacturers and workers to maintain sustainable living conditions, while creating the possibility for continuous improvement, and is ensured by the application of commercial terms such as pre-financing and defining long-term business relationships.

- Capacity building and empowerment: producers’ organisations are assisted to better understand the trends and market conditions and to develop knowledge, skills and resources, to exert more influence and control over their lives.

- Consumers awareness raising and advocacy: consumers are put in relations with manufacturers and are sensitized to the need of global market rules reform, making it more attentive to the needs of social justice. Consumer support enables Fair Trade organisations to promote the reform of international trade rules to create a more equitable and fair system.

Fair Trade principles extensively apply and interpret ILO rules to protect workers’ rights. Stringent commitments are undertaken for the greater sustainability of production and for the largest possible participation in the monitoring of productive activities, with the aim of guaranteeing their continuous improvement.2

The Fair Trade system has allowed a virtuous relationship to be established between emerging and

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1. The network was formed by Fairtrade Labelling Organisation (FLO); International Fair Trade Association (IFAT, now WFTO); Network of European World Shops (NEWS) and EFTA (European Fair Trade Association)
industrialized countries, with highly differentiated roles at the beginning which are now challenged by the changes in the global economy, both in terms of opening up new opportunities in some emerging countries and from (more) responsible trade initiatives in industrialized countries.

1.1 The evolution of the Fair Trade worldwide: Commercial aspects and awareness raising

Fair Trade has progressively structured its presence on a global scale through the World Fair Trade Organisation (WFTO), which today can count on more than 400 members in over 70 countries in 5 continents. The most recent reports show how the African Fair Trade market is experiencing a major growth and development of professionalism, while still having to deal with problems related to high cost of credit; shipment costs more expensive than in other continents such as Asia or Latin America; the time taken to pay producers and the stability of employment, as well as the limited Fair Trade product lines and the adverse consequences of the crisis in the destination countries of Fair Trade products. In 2011, New Koforidua, Ghana has become the first Fair Trade Town in the Continent.

The development of Fair Trade in Asia is also significant, mainly thanks to the efforts of Friends of Fair Trade, born from voluntary activists who have allowed to bring the issue of Fair Trade within the national institutions (Philippines, India, Nepal) and local (Seoul, which has embarked on the path to become “Fair Trade Town”). This success must however deal with the need to further promote consumers awareness, meeting price as per inflation on raw materials and guarantee the proper implementation of the WFTO Guarantee System.

In Latin America the Fair Trade movement (through WFTO activity) has managed to build national, regional and global networks; increase the power of influence of small producers in their relationship with their own government and work to promote change in the international trade rules. The work of the two regional networks has been fundamental: CLAC (Coordinadora Latinoamericana y del Caribe de Pequeños Productores de Comercio Justo) and RELACC (Red Latinoamericana de Comercio Comunitario). The producers associated with WFTO work mainly in handcraft (84%), but there are also food producers (15%). The World Shops activity engages 52% of the members, while 7% deals

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with responsible tourism.  

The important advocacy work realized by the WFTO Regional Office, which has reached an agreement with the Brazilian Government to support the 2013 WFTO Rio de Janeiro Conference (in this context it is necessary to recall the strategic alliances made with FACES DO BRASIL and Brazilian National Secretariat for Solidarity Economy and Fair Trade, a governmental institution under the Ministry of Labour and Employment) has contributed to the creation of World Fair Trade Day. The ability of the Fair Trade movement to influence the institutions in this country is confirmed also at local level, as evidenced by the case of Poços de Caldas, the first Brazilian municipality that has become a Fair Trade Town. In audits by Fairtrade, the situation in this area has begun to grow: in 2014 CLAC is expected to start having direct control over productive activity (producer services). Finally, in this region Fair Trade is facing the challenge of promoting a South - South trade, which is combining the experiences of Fair Trade and the Solidarity Economy, even in the emerging network of World Shops.

In the Pacific region and North America, despite the difficult economic situation, Fair Trade continues its evolution (receiving particular attention from the U.S.A.), with new organisations joining each year and the increase in the wholesale and retail trade. Certification processes are spreading and there is growing interest in Fair Trade Towns and by Universities which have made a commitment to Fair Trade. In addition, there are the positive results of online sales, while new retail stores are being opened, indicating that these structures still have attractive operating margins (especially in the U.S.A), despite the recent closure of many World Shops which occurred in areas particularly affected by the economic crisis. The recent divisions that have occurred - in particular the exit of Fair Trade USA from the FLO international certification system for Fair Trade food products - highlight how alive the debate is on issues related to Fair Trade as, for example, “direct Fair Trade.”

These major changes experienced in producing countries, however, must remind us that in their daily lives many small producers continue to be subject to their own countries’ difficult conditions that make it hard to carry out productions that meet the needs of the main outlet market for Fair Trade: Europe. To understand these issues in detail, the PRICE Project has interviewed some of the largest importers such as the German GEPA, who emphasized how the daily lives of many small producers is marked by the difficulty of access to working capital at a low enough interest rate,
by the weak infrastructures, by the great effort to obtain the means of production, by the lack of access to market information and the negative consequences of climate change on crops.

The problems of capitalisation and assets that do not always seem to fully comply with the standards of Fair Trade are recalled in the responses of the German organisation *El Puente*. The problem of consistent compliance with the Fair Trade norms in relation to capitalisation and assets are recalled in the responses of the German organisation *El Puente*, while the Austrian importer EZA emphasizes the need to address the impact which results from increased costs of production in the countries of origin. At the same time it EZA underlines the problem of maintenance of the equity in earnings and in price. In this analysis, we must also take into account the operational problems in producing countries in terms of quality, delivery, communication (problems underlined also by Oxfam *Magasins du Monde*), lack of resources to support production and trading partners in the resolution of such problems, as well as the lack of commitment, efficiency and the permanence of unfair wages in certain areas.

Naturally, the partnership between European importers and producers in the South is being developed (for example, *El Puente*, pointed out that the cooperation with the producers has grown at a rate of 5-10 % *per annum* in the last decade), but the persistence of these problems makes it difficult to satisfy the needs of an increasingly demanding clientele, in a European context full of great potential, but also great challenges, all of which the Fair Trade movement must address.

### 1.2 Fair Trade in Europe

Fair Trade has its main market in Europe, which accounts for 60-70 % of global sales, though there is a great diversity among the 13 national networks, which represent organisations that are very different from one another. In recent years, there have been countries with fast-growing markets (Sweden) and other situations in which this market is new (the new Member States in Eastern Europe, among them the Czech Republic, and Baltic countries particularly stand out). Other Member States, also leaders in the Fair Trade Market, must address some critical issues in order to ensure its consolidation.

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15. Commission of the European Communities, Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee. Contributing to sustainable development, op. cit. p. 4
The United Kingdom

The United Kingdom represents one of the main Fair Trade markets in Europe. Currently, the sales of these products are over 1.700 million euros (in 2001 they amounted to just 37 million) outlining a growth strongly marked by the evolution of Fairtrade label in the large-scale retail trading system. In recent years the success of Fair Trade has greatly benefited from the contribution of organisation such as Twin Trading, Café Direct; Traidcraft, Equal Exchange or Divine, which have invested heavily in improving products quality and the supply chain. The food market in the United Kingdom is largely handled by large distribution chains, which has pushed Fair Trade organisations to invest mainly in these realities to promote products. The positive feedback they received have facilitated the continuous improvement of demand. Among the alternative sales channels, there are several churches, in addition to World Shops, which generally sell products from other circuits than Fairtrade. These realities collect the purchases of more sensitive consumers, which are also the main users of on-line services, such as those of Traidcraft.17

However, in this area, the Fair Trade movement has to face some challenges. The U.K., for example, has seen an increase of certification companies and trademarks which determine the need to maintain this evolution consistent with the original purpose of Fair Trade, so that it is not sacrificed to the sole interests of the consumers.18

The British Association of Fair Trade Shops (BAFTS) illustrated a multi-faceted situation, with some World Shops that expressed a sales increase of 10 % in 2012 over the previous year, while others have suffered a 50% drop in the same period. Notwithstanding, every effort was made to improve the quality and level of customer loyalty and awareness,19 while predictions about the future remain uncertain, however, as many British retailers are convinced of the persistence of the negative effects of the recession and believe that even if there were room for growth, it would be very limited.20

In the United Kingdom there are important initiatives to raise awareness of the Fair Trade world, such as the “Fairtrade Fortnight”, an event which is held annually for fifteen days between February and March. Currently, 90% of United Kingdom citizens have heard about Fair Trade, while 77% of them know the Fairtrade label, as result of its market success (the most recent estimated retail sales show a 12% increase)21 and also of the awareness created by the Fair Trade movement, that has managed to involve Universities, Schools and Municipal administrations, through the Fair Trade

18. Interview with Rudi Dalvai, The Italian example, in: Rapporto AGICES 2013, op. cit. p. 16
19. BAFTS Retailers, who have answered to a WFTO survey and have seen a decrease in sales, have been working to refine their product selection, decrease the amount of stock held in stores and to break ties with suppliers that have been unable to provide products in a timely manner. Retailers who have participated in the survey affirmed also to have made efforts to create personalized customer services, using social media to connect to consumers and spread awareness. Lindsey Hethcote, Fair Trade Retailing in Europe: a Quick Scan, WFTO 2012 http://www.wfto.com/index.php?option=com_content&task=view&id=1792&Itemid=314
20. Lindsey Hethcote, Fair Trade Retailing in Europe: a Quick Scan, op. cit.
21. Fairtrade Internationa, Strong producers, op. cit. p. 19
Towns program, supported by the central government since 1997.22

The Netherlands

The Netherlands represent one of the main centres for the development and diffusion of Fair Trade in Europe, as well as being a precursor (along with Great Britain) of the “Trade, not aid” civil society initiatives.21 In the mid-Sixties a number of NGOs began to work in this area and by 1967 the importing organisation Fair Trade Original was established in the Netherlands. The first Worldshop opened its doors in 1969.24 Fair Trade Original is still active today and in its latest report, despite some difficulties due to the recession (the organisation recorded a decline in sales of 6% in 2012), it relaunched its commitment by investing in brand and packaging for food: FTO is the first company to introduce a line of Asian Fair Trade culinary products in the Netherlands. In 2013, FTO aimed to stabilize the retail turnover and acquire new customers in catering services; in order to rationalize its operations, it also created a spin-off of the business for the non-food products (“gifts and living”), called FairForward.

In recent years, an important impact has come from partnerships the FTO has activated, such as the agreement signed in 2012 with Max Havelaar and the Dutch National Association of World Shops, with the contribution of the National Postcode Lottery, allowing FTO to implement the Fairbezig campaign, which aims to promote the consumption of Fair Trade products. Another partnership with the coordination of 60 Dutch Development NGOs has funded a multi-stakeholder program of FTO for activities with citrus fruit growers in Ghana and workshops in South Africa and Peru.25

The contribution of the DAWS - Dutch Association of World Shops, a network of about 300 World Shops (better known as Wereldwinkels) - is also relevant: at the end of 2013, it concluded an agreement with the Centre for the Promotion of Imports from developing countries (CBI, an agency of the Ministry of Foreign Affairs), which will allow the professionalization of producers’ and traders’ work in the manufacturing sector, enabling their certification and the best possible penetration in the European market. DAWS and CBI will work to make this system more widely available and to promote it. The label should be ready in 2015.26

The Fair Trade Town initiative is present also in the Netherlands (Groningen was the first city to take part in the initiative). Not surprisingly, Holland also is the place where the Fairphone was conceived and developed: the first mobile smart phone to have a traceable supply chain (all the way from the source of minerals to the Chinese assembly line) and to be inspired by Fair Trade. In an industry as complex as the electronics one, it is quite an achievement. The first batch of 25.000 phones was

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22. Mike Gidney, ¿Qué hay detrás del éxito de Fairtrade Reino Unido?, op. cit. pp. 72-73. More information on this issue are found in the PRICE project research “Strengthening the Public role in the promotion of Fair Trade”, 2014.
23. The United Nations Conference on Aid and Development (UNCTAD) embrace the “Trade not Aid” concept, bringing the emerging Fair Trade principles into development policy in 1968.
26. Centre for the Promotion of Imports from Developing Countries – Ministry of Foreign Affairs, Fairer Trade, better business, December 20, 2013 http://news.cbi.eu/fairer-trade/
pre-financed through a crowd-funding campaign in 2013.\textsuperscript{27}

Germany

The dynamics of Fair Trade in Germany are also striking: already in 2011 there had been an increase of 18\% in sales of products under the “Fairtrade” label, with a total market value estimated at about € 400 million (through April 2012), of which € 82 million for the benefit of the foreign producers. Although in the previous two years the growth of the market had been much more significant (27\% and 26\% respectively), it is consistent with trends experienced since 2002, as the Fair Trade market has grown eightfold, thanks in part to customized brands\textsuperscript{28} (FLO estimated a markup of 33\% for retail sales between 2011 and 2012 and 23\% in the latest estimates).\textsuperscript{29}

In 2012 there were approximately 36,000 shops in Germany where Fair Trade products could be bought, while there were 800 specialized World Shops. The German market has certainly experienced significant evolution: in fact, if on one hand products such as coffee are now also found in the general distribution outlets (from Starbucks to Aldi), on the other hand there is the affirmation of new products (East African roses are stepping forward) and new interest for other items (as candy, orange juice, rice and cotton used in textile production).\textsuperscript{31}

The German World Shops Association observed a continuous and rapid growth in the German market but found an inadequacy of the World Shops’ system to meet the needs of consumers. This has led to the opening of new World Shops in order to increase sales, while pursuing both a more targeted marketing policy and an improvement in the skills of volunteers and employees, in order to have a system which is able to meet the growing demands for innovation. For German retailers, “raising awareness of customers” is clearly of great importance and, in this regard, there is much attention paid to events such as the World Fair Trade Day (called “Weltladentag”) and the “Fair Week”, an event held in September with 2000 concurrent events across the country. Through the initiative ÖKOPLUSFAIR, German organisations have also been able to make the first steps towards the strengthening of relations between shops and manufacturers. The German World Shops Association predicted, for the future of Fair Trade, a division between large commercial entities, primarily driven by commercial motives with a low standard of Fair Trade, and small enterprises,

\textsuperscript{27} Each Fairphone sold also contributes to the Worker Welfare Fund, which was established between Fairphone and the Chinese manufacturer (Guohong), in order “to improve the welfare of Guohong’s workforce and increase their representation skills and channels. The fund will support activities that align with these objectives in the broadest sense. The worker welfare improvements will address (but aren’t limited to): Working conditions at the factory, Training and skills development, Wage, Better work/life balance. The Worker Welfare Fund will be governed by representatives from the factory workers, factory management and Fairphone. All representatives will have voting rights.” For more information: https://www.fairphone.com/2014/05/15/establishing-a-worker-welfare-fund-with-our-production-partner-guohong

\textsuperscript{28} Consumer Rights Association, Germany. Fair Trade is in good health, 24 aprile 2012 http://www.aduc.it/notizia/commercio+equo+solidale+buona+salute_125288.php

\textsuperscript{29} FLO, Unlocking the Power, op. cit. p. 13 Fairtrade International, Stronger producers, op. cit. p. 19

\textsuperscript{30} The PRICE Project has interviewed the German Fair Trade importer GEPA, who pointed out that among the most important aspects which occurred in recent years in the domestic Fair Trade, there is just an increase in the assortment in supermarkets such as LIDL or ALDI. The importer El Puente shares the same opinion.

\textsuperscript{31} Interview with Susanne Kuhlman Dieter Overath, «Fair Trade celebrates its twentieth anniversary in Germany», January 9, 2012 (http://www.allemagne.diplo.de/Vertretung/frankreich/fr/__pr/afr/2012/2012-01-09-commerce-equitable-pm.html)
which still aim to encourage disadvantaged producers.32

In the interview for the PRICE Project, the importer GEPA emphasized the importance of awareness-raising activities, recalling other examples such as Fair Trade Towns and Fair Trade Schools. GEPA also stressed its commitment to create synergies with schools, universities and the world of volunteering as well as with SMEs. However, in recent years there haven’t been significant developments in this field. Another importer, *El Puente*, also reaffirmed its commitment to support for outreach activities and networking between small importers and NGOs. While noting a significant improvement in the quality of products, the testimony of GEPA is important for the understanding of how the aforementioned problems of infrastructure, economic, social and environmental aspects determine some difficulties in the relationship with the producers, resulting in communication problems, delays in delivery and quality issues. In terms of distribution, GEPA encountered difficulties in negotiating with the mass retail distribution.

Operational problems are similarly highlighted by *El Puente*, who stated that in recent years there has been a moderate growth in Fair Trade specialized business activities, some of which have not yet fully met the agreed criteria. With particular reference to World Shops, *El Puente* pointed out delays in their organisation and professionalisation, requiring collaborative efforts with some of the shops in terms of networking, consulting, and extensions of payment terms.

GEPA declared that between 2010 and 2011 the increase in the price of coffee in the world market as credit limits for pre-financing activities were reached (and this led in turn to a partnership agreement with the investment nonprofit fund Root Capital), a difficulty which has now been overcome thanks to the return of coffee prices to lower values. GEPA has never received public aid, however, and does not consider it necessary to develop new channels of financing (as opposed to *El Puente*), since it has developed its own investment company that can generate private capital.

**Austria**

On the basis of an interview made with the importer EZA Fairer Handel, we learned that the concept of Fair Trade is widespread in the country: 80% of the population is aware of products with the “Fairtrade” label, which are highly present in supermarkets.33 EZA notes, however, a progressive increase in the level of competition in the Fair Trade market, between Fairtrade actors and Fair Trade organisations, but also within the same movement, which could be detrimental to the promotion of its values. The problems regarding the difficulties encountered in the production process, make it hard to clearly address the market at home, where there is a high expectation on the consumers’ side of the quality of products and a lower demand in World Shops. Pre-financing activities are also complex, given the shortage of funds and liquidity. EZA believes new financing channels should be found, even if it has not yet felt the effect of any new initiatives. It has benefited from government intervention through the provision of credit created by the Chamber of Commerce of Salzburg (and funded by eight local banks). This organisation is launching an exciting initiative aimed at promoting a national alliance with other social actors (Fair Trade Forum, trade unions, the Organic farmers’

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32. Lindsey Hethcote, Fair Trade Retailing in Europe: op.cit.
33. Fairtrade estimated a +7% increase in retail trade sales for 2011-12, whereas for 2012-13 they are around +21%. Fairtrade International, Unlocking the power, op. cit. p. 13
movement, and others).

Spain

Since the year 2000, Fair Trade sales in Spain have quadrupled (at an average growth rate of 11.4%). In 2012, according to a recent report published by the Coordinadora Estatal de Comercio Justo - CECJ - in collaboration with Fairtrade España, the Fair Trade market slowed down. However this result also incorporates a decline in sales in World Shops (and other small retailers) and the negative performance of handicraft products. The growth of the internal market is explained by the adding together of all the different channels, since the sales made by social enterprises (which in 2012 led to half of the total invoiced for an amount of 14 million euro) have joined forces with those made by conventional enterprises. The latter have generated a 33% increase in sales since the beginning of the crisis, which was not due to a higher per capita spending of traditional Fair Trade products consumers, but to the increase in number of people who access that market through other channels (as Gonzalo Donaire, responsible of CECJ studies affirmed). Finally, it is estimated that 78.8 % of the products sold bear the “Fairtrade” label (+11.5% in 2012).  

All this data shows that in Spain consumers are also increasingly attentive to responsible consumption. This growth, however, is characterized by the presence of sales channels which are able to cover the declining performance of small Fair Trade shops. Since the beginning of the crisis, Spanish World Shops have experienced a 29% decline in sales, although the trend of this decline has been reduced over the years. This decline is of great concern, considering the fundamental role World Shops play in promoting an alternative economy and that in these outlets there are many products which are not present in the other channels. To respond to this problem, special attention was paid to promote visibility on the Internet, to keep the outlets updated and attractive, as well as by creating a closer connection with producers through cultural exchange programs such as “Solidarity Stays”. However, regarding this problem are expected in the future.

Italy

Italy also records the growing success of Fair Trade products for consumers, though they have suffered due to the crisis. The share of non-institutional actors such as Solidarity Buying Groups – GAS - was relevant, as they have compensated for the inadequacy of the institutions, often unable

34. According to the Coordinadora Estatal de Comercio Justo, Fair Trade consumption grew by 6% in 2012 in Spain, reaching 28 million euros. (http://comerciojusto.org/el-consumo-de-comercio-justo-crecio-un-6-en-2012-en-espana-hasta-alcanzar-los-28-millones-de-euros)
36. Lindsey Hethcote, Fairtrade Retailing in Europe, op. cit.
37. Assobottege, in the interview given for PRICE Project finds a greater critical awareness of consumers in relation to production/distribution/consumption chains; a greater citizens perception about the added value of Fair Trade idea compared to conventional distribution; a polarization in consumers choices.
38. GAS are “groups of people who buy together, following the principle of solidarity, which leads them to prefer small and local producers, who respect the environment and workers, with whom they establish a direct relationship.” The definition is taken from the portal Unimondo http://www.unimondo.org/Guide/Economia/Gruppi-di-acquisto-solidale
to carry out the work of consumer education, better performed in Northern Europe.\textsuperscript{39} Eleven Italian Regions, to date, have regulated Fair Trade even in the absence of a national law.

To further qualify the Italian case, there is the presence of a certified supply chain guarantee system created by AGICES (Italian General Assembly of Fair Trade – the national association that federates the main actors of Italian Fair Trade), which represents an important contribution to a market that must deal, however, with a per capita consumption of products far below that of North and Central European countries.\textsuperscript{40}

Even in this country, one of the most significant aspects of Fair Trade is given by the activity of World Shops (called in Italy “

Botteghe del Mondo”), capable of better sales performances than in most other European countries.\textsuperscript{41} The Italian World Shops are experiencing deep changes, with the foreclosure of the smallest ones, but the increase of the total number (Fair Trade Organisation members have also grown to about 30.000 in 2014). If until the early years of the new Millennium there had been a growth of the sales proceeds, in later years a decline has begun (except for the recovery signs of 2011). In 2012, after three years of growth in contrast to the market, revenues of the organisations included in the register of AGICES have fallen by 6%, though the major cause has been a decrease of revenue from funded projects and contributions. It is, however, difficult to give a general outline: many products have become more and more elaborated, needing higher investments, particularly in the handcraft sector.\textsuperscript{42}

Most of the World Shops in Italy were established over twenty years ago and suffer from a decline in consumer enthusiasm, which is also determined by the difficulty in promoting a generational change, an issue that also affects other countries.\textsuperscript{43} In fact, while noting an increase in the communication, organisational and productive capacity of the different Fair Trade Organisations, the World Shops’ association “Assobotteghe” found they have financial difficulties and do not or cannot pursue opportunities provided by public funding. To overcome the crisis, AGICES affirmed the importance of developing synergies between World Shops and Solidarity economy initiatives (whose criteria, however, need to be better defined), expanding the offer and relaunching the value of Fair Trade’s distinguishing mark, represented by the guarantee system it can offer on ethical production.

Assobotteghe’s president Massimo Renno stressed the need to be conscious about the end of the pioneering period, marked by “unusual products”, advancing the idea of overcoming the approach merely based on products to put more attention on services. This new approach should lead to outline more specific reference targets, bringing World Shops to specialize progressively, adapting to the territory where they are. According to Renno, it is important to reorient the Fair Trade identity framework, renewing the system internally, redefining multiple identities, returning to the community and promoting a purchasing alternative that could also be a political one. The realization of this strategy requires a shared action by the whole movement, to strengthen political action,
occupying spaces that are already available.

World Shops still appear as privileged sales channels in Italy, though large-scale retailers have increased significantly. According to Fairtrade Italy Director Paolo Pastore, the 6000 supermarkets carrying Fair Trade products today have allowed the increase of sales opportunities (and, therefore, of fair remuneration for producers), and the awareness raising of citizens/consumers otherwise difficult to reach. It has been possible to put into practice relevant good practice policies, as demonstrated by the success of CTM Altromercato bananas, sold in the large-scale retail trade chain “Coop” with the Fairtrade label. According to these analysis, the future of the Fair Trade activities is linked to abilities to develop greater professionalism and, more generally, to update and relaunch the qualifying aspects of Fair Trade practices.

France

If in countries such as Italy the crisis has not prevented a continuous affirmation of the Fair Trade market, other countries have had to deal with a particularly unfavourable economic trend. An example in this sense is France, the first European country to have officially recognized the “commerce équitable” (August 2, 2005 in the Law n. 882). This specific measure, which intervened in a context where there had not yet been a reorganisation of the market (standardizing the certification of Fair Trade activities) has resulted in the perpetuation of plethora of brands and labels, and this has not helped to develop the necessary confidence among consumers.

The law does not dwell on the characteristics of the entities that operate in this market and delegates the issue to a subsequent decree, defining the criteria for the recognition of organisations which should ensure compliance with the rules of Fair Trade, in addition to establishing the National Commission on Fair Trade. After five years, the Commission (created by Decree n. 2007-986), has become operational, thus being able to confirm the certification bodies which give consumers a complete information on products that can really be labelled Fair Trade. The supply chain of French Fair Trade is certainly relevant, counting more than 400 enterprises (SMEs) and employing over 10,000 people. However, based on recent years data, sales were collapsing compared to

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44. The products marketed by Fair Trade organisations continue to reach consumers mainly through World Shops and solidarity economy organisations representing 46% of sales (versus 30% of distribution on traditional channels). Eleonora Dal Zotto, A look inside and outside the numbers, in AGICES Annual Report 2013 op. cit. p. 4-7.
46. Eleonora Dal Zotto, A look inside and outside the numbers, AGICES, Annual Report 2013 op. cit. p. 5
49. Laurence Moulin, Plan de soutien de 7 millions pour le commerce équitable, 29 April 2013 http://www.aboneobio.com/blog/category/Commerce-equitable
2007, with a performance of annual consumption per capita (€ 6.4) abundantly lower than Great Britain’s or Switzerland’s (€ 34).

The French government has released a budget of €7 million in favour of the distribution capacity of small producers in emerging countries and for the strengthening of the distribution network of domestic vendors, creating a plan that is designed primarily for medium and large distributors, because they are enterprises with the greatest development potential.\(^50\) The plan aims essentially to triple the consumption in three years, promoting the action of those organisations that allow the implementation of this activity (especially through the pre-financing system), increasing the sectors involved and encouraging the knowledge of labels among consumers.\(^51\) Recent analysis of this country were made possible by the assessments (gathered by WFTO) of organisations such as *Artisans du Monde* (ADM), which in the last years have experienced the stagnation of their sales, due not only to the decline in sales of handicraft products, but also to the variation of the price of coffee.

The French, like the Germans, seem to look with renewed attention to the role of staff in World Shops, as evidenced by the insertion and training of new volunteers. The “reform” aims to enter the organic market and develop new mechanisms for marketing and communication, as well as to develop a new range of products. Even in this market, the intent to develop reciprocal relationships with manufacturers becomes relevant, first of all by including them in the communication of expectations and encouraging the product improvement with a direct comparison based on previous evaluations, including through direct meetings.\(^52\) In France, therefore, there is some optimism for the future of the Fair Trade market, consumer awareness and affirmation of the centrality of the producers. The data for 2012 seems to have rewarded this trust, marking a significant increase in turnover (+10%).\(^53\)

**Belgium**

In the Francophone area, the situation in **Belgium** is significant: this country has witnessed a growth of 12 % in 2012 and planned to reach 15% in 2013.\(^54\) In its last report, Fairtrade estimates a 9% increase in retail trade stores (the estimates for 2011-2012 were a 21% increase).\(^55\) The importer *Wereldwinkels* Oxfam, interviewed for the PRICE Project, emphasized the importance of building relationships not only in the South but also in Belgium, through initiatives such as the Fair Trade Towns, while not hiding the difficulties of a market where there is a downward trend in visits at the World Shops. The importer *Magasins du Monde* Oxfam, stressed the need to improve World Shops’

51. Laurence Moulin, «7 million euro plan to support Fair Trade», op. cit.
52. Lindsey Hethcote, Fair Trade retailing in Europe, op. cit.
communication and information services, firstly through better training for the volunteers.

We must look carefully, also, at the development of Fair Trade in Eastern Europe, where it faces significant challenges: for example, communities that don’t have sufficient familiarity with the Fair Trade concept, and where there are few strong NGOs, which have few resources. However, in this area a qualified and urbanized middle class is growing, which looks with attention to social and environmental problems. There is also a younger generation, who is discovering its own power as consumers and is inspired by the Western European model.

The pioneers of Fair Trade are, generally, consumer movements and environmental NGOs, and have set the goal to develop public awareness of Fair Trade (even through initiatives like World Fair Trade Day). Many organisations do not have the resources to import products directly, so they take advantages of collaborating with Western Europe organisations.

**Czech Republic**

In the Czech Republic, the first activities were made possible thanks to the commitment of the Ecumenical Academy of Prague and of the volunteers of the Protestant parishes. In 2003, the small organisation *Jeden Svět* became the first wholesaler of Fair Trade products in the country. In the same year, in Brno, *Společnost pro Fair Trade* was created, an organisation that manages eight World Shops, an e-shop and its own brand of roasted coffee in the Netherlands. In 2004, the Czech Fair Trade Association was established and in 2009, thanks to an agreement with FLO, it became the first national certification organisation in Eastern Europe and now consists of nine member organisations. Until 2008, Fair Trade products were sold mostly by World Shops and specialized organic food shops. Subsequently, Fair Trade products started to be offered in large-scale retail distribution, favouring the development of a new segment of consumers. This country now has four Fair Trade Towns: Litoměřice, Vsetín, Volyně and Český Krumlov. 56

The Czech Fair Trade Association has evaluated the sales growth in the Czech Republic at 15% since the last decade, with the prospect of strengthening the relationship with the manufacturers, creating direct relationships and cutting out the middlemen, in order to reduce prices, while seeking to increase their market share. At the same time, they aim to strengthen awareness on the values of Fair Trade, starting with the quality of products. More specifically, retailers provide a slow but steady growth in the market, with a shift from the pre-eminence of wholesale to retail.57

**Poland**

Another country in the area which has been experiencing the development of Fair Trade (although to a lesser extent) is Poland, where in 2003 *Trzeci Świat i My*, now known as Polish Fair Trade Association (PFTA) was founded. After the launching of a series of initiatives in 2006 (with the German Transfair’s contribution) the organisation built an e-shop, encouraging shops and catering establishments to sell and offer Fair Trade products. Together with FLO, it assumed the responsibility

57. Lindsey Hethcote, Fair Trade retailing in Europe, op. cit.
for the legal registration of the quality label in Poland. The Fair Trade message spread between student and civil society organisations. In 2009, nine organisations built the Polish Coalition for Fair Trade. According to its 2013 reports, the PFTA encompasses approximately 400 points of sale across the country, with products that generally come through Transfair or El Puente. In 2012 the turnover amounted to 600,000 euro and retailers are demonstrating an increasing interest in Fair Trade. The first national Worldshop opened in Poznań (today a Fair Trade Town) in 2011.58

**Switzerland**

A different evaluation needs to be done for Switzerland, where WFTO has collected information from CLARO (for the German-speaking market) and ASRO - Association Romande des Magasins du Monde (for the French-speaking market), which have documented a situation of slight decrease in sales due to the European recession, even though there’s a better situation for food rather than for crafts. CLARO is moving to online sales and new product lines, while ASRO has organised a series of meetings in order to identify ways to stimulate the attention of consumers, and to create good ties between volunteers and suppliers. In the meetings held by affiliates, the attention has been focused, however, not only on the communication of the practices and the principles of Fair Trade, but also on logistical issues related to the presence of the World Shops in the country.

Both in the French and the German-speaking areas, the development of direct relationships with producers has been encouraged, in order to foster the certification process and skills sharing, while at the same time turning more and more attention towards consumers with targeted marketing and informative material. In Switzerland, they believe that there will be a general growth of Fair Trade, given the distribution potential that supermarkets are acquiring, though its gradual affirmation can leave small businesses with a marginal role.59

**The Nordic countries**

Fair Trade has one of its main retail markets experiencing growth in the European Nordic countries, as the most recent retail sales reports from Fairtrade confirm: in Sweden +29%, in Norway +9%, in Finland +3% and in Denmark +13%.60 One of the most interesting aspects of the promotion of Fair Trade in this region stems from the consumer cooperatives, which promote the Co-op to Co-op Trade, an activity that allows the linkage of these small enterprises with the small producer cooperatives in the South.

Coop Trading (CT) is a prominent example: it networks together consumer cooperatives from Denmark, Finland and Norway and acquires food, personal care and houseware products, directly from the source (eg. From small producer cooperative in the South). CT has an annual turnover of about 1.3 billion US dollars (fruit and vegetables alone amount to 130 million US$) and their products represent 20% of the retail sales of consumer cooperatives in the Nordic countries. To date, the amount of Fair Trade products acquired through this channel, however, is minimal compared to

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58. Trade For Development - The Belgian Development Cooperation, Portraits of Pioneers, op. cit. pagg. 2-3
59. Lindsey Hethcote, Fair Trade Retailing in Europe, op.cit.
60. Fairtrade International, Stronger producers, op. cit. p. 19. It is also important to acknowledge the medium annual per-capita consumption of Fair Trade products in Sweden (12,87 euros); Norway (12,92 euros); Finland (28,19 euros); Denmark (12,87 euros). Gonzalo Donaire, La comercialización de productos de Comercio Justo, op.cit. p. 11
the total. For instance, only 5% of CT’ coffee comes from Fair Trade, while other certified products are supplied to an even lesser extent, as is the case of chocolate, fruit and vegetables. This is mainly due to the fact that the interest of the consumers is aimed more at “green” products; therefore increased demand, in the future, will encourage the purchase of Fair Trade products.

In Sweden, an example there is “We Effect” (formerly known as the Swedish Cooperative Center), which coordinates a project on Fair Trade coffee in Nicaragua with the organisation Prodecoop, imported through the intervention of Swedish consumer cooperatives. 61

There are also other important initiatives for the promotion of Fair Trade, as demonstrated by the good practices in schools and universities (Telemark University College in Norway, the first higher education institution in the country to achieve the Fairtrade 62 certification), as well the contribution of the Fairtrade Towns (Malmo, Tampere and Sauda). 63

The challenge of World Shops in Europe

World Shops in Europe clearly need to renew their supply at commercial and cultural levels (given the difficult situation they face in different countries). The Fair Trade Importers are challenged to innovate as well, both overcoming the internal logic of competition and aiming at expanding their market to new products, in order to give an alternative on a larger range of categories. According to some experts, in order to achieve this result, it is necessary to develop the technologies necessary for the processing of raw materials in producing countries, which would affect the entire production in these countries, to create whole Fair Trade supply chains by linking producers of raw materials with local processors (who are also required to observe the standards of Fair Trade certification).

This process would shift the focus of the compliance with the criteria from raw material to the finished product, generalizing the benefits of membership in the system to a greater number of actors and promoting greater contact within the industry, while offering the consumer a completely Fair Trade product. Of course, these initiatives require a greater range of financial transactions and investments, which probably need different tools, partnerships and financial structures. Such initiatives could be justified only by making the final productions accessible to a wider audience, through the development of new commercial channels and a deeper penetration into the mainstream distribution. 64

This perspective of innovation is also advocated by Assobotteghe. Through a testimony given by its President Massimo Renno, the Italian association of World Shops stated that attention will in the future increasingly move from product to service, creating a paradigm shift that starts from the

62. Telemark University College, TUC – first Norwegian college or university to obtain Fairtrade certification, March 13, 2013 http://www.hit.no/eng/Hit/About-TUC/Nyhetsarkiv/2013/First-Fairtrade-college
63. These are the first Fair Trade Towns in Sweden, Finland and Norway. Visit the Fair Trade Towns website for more information: http://www.fairtradetowns.org
shops themselves and is expressed with a return of the movement to a “political function”. Such a shift will allow the affirmation of the ethical value of the product, which in turn will result in the increase of its demand, thus also promoting the craft sector, which must be reorganized in favour of producers and their potential for renewal.

According to Assobotteghe, the larger enterprises could be involved as investors (in a consortium relationship with World Shops and importers) for the construction of distribution systems in Italy and the rest of Europe, which could also represent a good guarantee for the access to credit and, above all, innovate the entire Fair Trade network, raising the perspective of international solidarity and fairness locally. Also AGICES considers that this proposal should be studied without prejudice, by paying attention to the importance of the importers’ role, who have a guarantee structure that cannot be replicated by World Shops.65

Fairtrade Italia, in the interview for the PRICE Project, stressed its interest for the development of new distribution practices, which could inspired by some successful cases, such as “Alce Nero”, an Italian consortium that aggregates more than 1000 organic food producers.66

What Fair Trade faces today, in particular, is the challenge of opening up new opportunities for small producers, providing them with the tools they need (also with the help of new recently introduced instruments, such as the WFTO Product Label) to enter new markets and thus demonstrate that Fair Trade is able to resist and re-invent itself.67 Overcoming the “pioneering phase” affects the growth of the European markets, the development of production and consumption processes, without compromising the origins and consolidation of traditional structures of reference. The future challenge, therefore, also relates to growth governance. Fair Trade activities should then beware of the competition generated naturally from a common market in which companies have the need to declare their adherence to ethical-social standards of responsible behaviour.

1.3 The growth of Fair Trade and the reinforcement from the South

Over the years, the Fair Trade movement has grown steadily, and this has inevitably generated the need for a tighter comparison between the many different realities that it encompasses. One of the most important challenges for the future of the movement will be to maintain and implement a fully shared mission from the point of view of its operating logics, which today are being put into question from within.

Some Fair Trade entities in the South, for example, have criticized the Fair Trade definition itself, as

65. In the interview for the PRICE Project, AGICES President Franceschini recalled how a first attempt was made in the past by the importer “Commercio Alternativo”, who realized a federation among a series of producers who bought each other’s products, but it ended up generating a duplication of costs that made the realization of this approach very burdensome. According to Franceschini, administrative and clearance of goods costs are too high for the World Shops, while Central Importers can better realize economies of scale.

66. The company has strengthened its partnership with Sin Fronteras, working on a vertical integration of the manufacturers supply chains, who have associated themselves providing it directly. Alce Nero has promoted this consortium thanks to Fairtrade support. Fairtrade has certified producer cooperatives, acting as a glue between them. Fairtrade label has also facilitated the sales of products.

67. Message of the President Rudi Dalvai, in WFTO Annual Report 2012 op. cit. p. 4
not capable of representing the huge potential of transformation and bottom-up construction of a more sustainable economic model. Also FLO’s activity of harmonization of the national certification criteria has been questioned, as it would produce a bureaucratic system with a strategic vision distant from Fair Trade general principles, diluting the criteria and allowing the inclusion in its circuits of enterprises that do not share Fair Trade historical aims.

Among the organisations who have strongly expressed criticism, there is the Coordinadora Latinoamericana y del Caribe de Pequeños Productores de Comercio Justo (CLAC), a continental network that represents more than 300 organisations of small producers in 21 countries of the Latin America and the Caribbean regions. CLAC’s work is part of a radical social action, aimed at countering the aspects that are not shared (and considered a source of inequity) within the Fair Trade movement itself.68

Recently, equal voting rights have been accorded to producers in the Fairtrade General Assembly, thanks to the reform of the Fairtrade International constitution (January 2013).69 Also, during these last few years, a number of tools have been developed to facilitate the dissemination of the benefits of Fair Trade on the whole producer community. An example is FLO’s Fairtrade Premium, a mechanism whereby every time a certain product is sold or exported, producers are paid with a fixed amount established annually. The use of this tool, however, is restricted to projects of local self-development, democratically decided by the producers themselves (without prejudice on the power to control the correctness of the operations by FLO-Cert).70 According to Fairtrade, in 2011-2012 more than 80 million Euros were redistributed: 53% of these funds were invested by small producers to improve their business, in terms of quality, productivity, and organisational development.71

There are many examples of support to producers on a professional level that exist today. The AGICES 2013 report, for example, emphasizes that these organisations have grown by structuring and organising themselves through mergers and the creation of second and third level organisations, for marketing purposes and export services, thus optimizing their export activities. Surely the data of imports from countries such as Italy is further evidence of the difficulties the craft sector is facing.72 However, new opportunities are emerging, mostly determined (at least in countries where the purchasing power is growing) by the development of an internal market for Fair Trade products. In this regards, artisans have actually started to look more at this prospect, with some first positive results,73 whereas food producers, faced with a fierce competition by multinational companies that

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69. Fairtrade, Unlocking the power, op. cit. p. 18
70. Emanuele Isonio, That 50 million “treasure” for the communities, in Fair Trade Special, Valori Magazine http://www.fairtraditalia.it/sites/default/files/Fairtrade-Equo-Commercio-2012.pdf pp. 6-7
71. FLO, Unlocking the power, Annual Report 2012-2013, op. cit. pp. 3 and 6
72. The AGICES Report, while highlighting the increase in imports (based on the latest available data referred to 2011), points out that 48% of the total value is imported from Latin America (+ 6.3% over the previous year), followed by Asia with 41% (- 4.4%) and Africa with just over 11% (- 1.8%), a trend that identifies the decline in sales of craft products in favor of food. AGICES, Annual Report, 2013, op. cit. p.14
73. Some good practices are found in Kenya, where 80% of handicraft products are now sold in the local market. Interview with Rudi Dalvai in AGICES, Annual Report, 2013, op. cit. p. 17
have not been able to achieve yet. The opportunity for greater interaction with organisations such as the peasant movements or workers self-managed factories should be seriously taken into account, in order to foster “south-south” cooperation and to develop adequate productive capacity.\textsuperscript{74}

New relationships in the Fair Trade market are helping to unite and strengthen the producers, promoting the improvement of living conditions of their communities, defining new job opportunities for young people, and acquiring the capacity to act also in the domestic market. The progressive strengthening of Fair Trade in the world requires a more plural governance structure, allowing each organisation of the movement to address the common challenges of all members, while preserving its specificities. In the case of the WFTO, this was done through the preparation of a Memorandum of Agreement signed at the end of 2012, by which the relations between the global network and the regional ones have been regulated, defining roles and responsibilities. In the same year, the decentralisation/regionalisation process was concluded, handing the control over membership application and monitoring process to regional chapters, without prejudice to the coordination carried out by the WFTO Secretariat.\textsuperscript{75}

At the end of this first part of the analysis, we can affirm that the Fair Trade movement today is alive and has a set of challenges that affect all its components: the producers, who are designing their own stand-alone profile at the trading level; the importers, who must find a role in redefining their relationships with their partners; the World Shops, which need to regain their political and commercial function together. It is also becoming important for Fair Trade to structure its relationships in the context of the Solidarity Economy, seeking dialogue with all those people who are able to make proposals for a sound alternative economy.

\textsuperscript{74} See Costantino - Leproux, Means, purposes and models of development; op. cit. p. 11
\textsuperscript{75} WFTO Annual Report 2012, op. cit. pp. 5-8
CHAPTER 2

The role of Ethical Finance in the empowerment of Fair Trade actors

As Fair Trade evolves, Ethical Finance is called to be more proactive in supporting and in further enhancing the action of the Fair Trade movement. There’s a need to improve the economic as well as the political partnership, to build important initiatives at the economic, social and political levels in order to have a stronger influence and leverage on the various institutional levels. To understand how this synergy can be achieved, we need to start from a contextualization of Ethical Finance.

The international financial crisis offers the opportunity to those who are most affected by it to start anew. An increasing number of people are on the very edge of the financial and economic system: the increasing number of unemployed, single parents or large families, working poor (underpaid workers and casual workers), farmers who practice subsistence agriculture, the disabled, the homeless as well as all those who are in a situation which is clearly the results of economic imbalances of globalisation, such as victims of trafficking and migrants.

A credit policy that caters to these people is of great importance, since it encourages and promotes different financial decisions and the empowerment of people who, without access to credit, are doomed to remain excluded from any decision on their future, as still is the case today in industrialized countries of Europe such as Italy and Spain, 76 Greece and Portugal.

76. In Italy almost 15% of the adult population does not have access to basic financial services. In Spain 20% of the population (almost nearly nine million people, especially elderly women and migrants) is at the limit of social inclusion, in part because of lack of access to credit and savings. Marco Gallicani (in collaboration with Alberto Lanzavecchia) Atlas of European Ethical finance, University of Padua - Department of Economic Science “Marco Fanno”, December 2012 pp. 13-37
BOX 1 - A European definition of Ethical Finance

The attempt to give a univocal definition of Ethical Finance within the banking sector was made in 2012 thanks to the initiative of the European Federation of Ethical and Alternative Banks (FEBEA), through the analysis of distinctive features of its associates and the definition of the core values of an “Ethical” bank. Common factors to all Ethical Finance experiences in Europe were identified, starting from the concept of banking activity as an instrument for the “common good” of the territory and the awareness raising about the political role of money and the dysfunctions represented by an economy based on short term activities and on profits as the sole final goal.

The main points defined by FEBEA concern the origin of money, that represent the collection and the social capital collected by customers’ savings achieved through sustainable and responsible activities in the real economy; the destination of money, underlining that the purpose of the credit activity is to have a social, environmental and economic positive impact, especially for the weakest sectors of the population and for the most disadvantaged areas, fostering social inclusion and employment.

The relationship between a bank and its customers plays a central role in terms of mutuality, through which it is possible to promote projects. As with microcredit, these projects have to look with due attention at supporting the self-employment and entrepreneurship of women and young people; the transparency in the management of investments; the attention to personal or social guarantees provided by local and community networks; the preference for medium/long terms investments and on sustainable management. Profit is seen as a mean to achieve social goals, so it must originate from activities oriented to the common good and be equally distributed among all stakeholders that contribute to its realization.

Other aspects taken into consideration are the attention to disadvantaged people; the savers’ participation in the decision making process, and awareness raising intended as educational objectives for the saver (who is invited to become aware of the destination and of the mode of use of his money) and the borrower (who is invited to develop its entrepreneurial ability with responsibility). Finally, Corporate Social Responsibility is considered not as a means to certify banking commitment, but as a tool to promote the continuous improvement of the Ethical Finance institutions’ work.77

2.1 Ethical finance in Europe in support of Fair Trade

Access to credit is one of the main financial needs for Fair Trade. This aspect applies first off to the producers, as shown for example in the Fairtrade 2011-2012 Report, which states that 91% of them have financial needs, more than half of which are long terms.78

But it is the whole value chain of Fair Trade that experiences this need, especially as a result of an economic crisis which, as we’ve seen, has accelerated the need for rethinking the role of World Shops and calls for an important reflection on behalf of the Importers. The latter have raised the financial issue during the recent WFTO World Conference in Rio de Janeiro (May 2013), through a motion filed by the importers EZA and GEPA, based on the high financial costs necessary to meet current WFTO criteria, which always includes pre-financing at zero interest. After much discussion, the motion was passed and provided for the continuity of the zero interest rate for purchases of crafts and the application (but not obligation) of a rate no higher than that paid by the importer to have access to the credit necessary to carry out the pre-financing purchases of food products.79

The Fair Trade movement has throughout time created its own financial operations, through structures that collect money from shareholders and employ it for their own institutional purposes, as in the case of the organisations of the Consortium Altromercato circuit in Italy.80 Some World Shops, incorporated as cooperatives, have activated deposit accounts that collect and remunerate the money invested by their members. These additions allow consistent delivery of the pre-financing, i.e. advance payments to small producers of the capital necessary for the purchase of raw materials and equipment for the production, solving the problem of being “non-bankable” in the ordinary credit market.81 However, these interventions are not sufficient.82 Franceschini (AGICES) noted the importance of distinguishing between cooperatives that realise their activity thanks to a members’ fund (generally structured and adequately capitalised), which generally have fewer problems, and many Fair Trade organisations that are under-capitalised and, therefore, more susceptible to the effects of the economic crunches due to the Crisis. Franceschini pointed out the need of capitalisation policies (an aspect emphasised also by Assobotteghe), despite the difficulty in realising such operations in a period marked by a lack of long-term economic perspectives.

80. Marco Gallicani, Atlas of european ethical finance, op. cit. p. 36
81. World Shops which are members of CTM Altromercato (the main Italian importer of Fair Trade products), if too small to raise capital independently can become custodian of the booklets activated by CTM Altromercato. In this way, the workshops finances their activities and pay the excess liquidity in the consortium that will finance its operations and thus will support the consolidation and equity investments for Fair trade organisations. (Marco Gallicani, The Saver Ethics and Solidarity, Altraeconomia 2012, pag. 35 -36).
82. Monica Di Sisto, interviewed for the PRICE Project, has recalled that the initial model of pre-financing was eventually replaced in many countries by a model of subsidised rate (allowing the coverage of exposures), now more difficult to practice precisely because of the credit crunch. However, in Italy, the zero rate model of pre-financing is today a reality as for example is the case of importers like “Ravinaldo” or “Libero Mondo”. AGICES stresses the peculiarity of the Italian pre-financing model, recalling how it allows the sharing of risk in the supply chain and it encourages the launch of start-ups in Fair Trade sector (the producer, reassured on the financial point of view, can focus its attention on productive activity). Massimo Renno (Assobotteghe) believes that pre-financing can maintain a specific function for small groups, through micro-financing, without prejudice to the need of updating it to the changes taking place in Fair Trade.
The lack of long-term financing is emphasised also by Assobotteghe, who is looking at these financing instruments to implement a management oriented on research, fundraising and the realisation of a sustainability project. Renno affirmed that the credit system itself should understand that the main variable for Fair Trade is the distributive one. According to AGICES, Fair Trade cooperatives also need to rethink capitalisation channels, since less capital is coming from shareholders, making it necessary to create new partnerships based on planning common activities.

The ordinary credit system does not appear to offer an adequate response to the particular needs of these Fair Trade producers, due to some characteristics that make it incapable of taking into account human and economic needs: the large disparity between the costs of the banking system and the level of funding (often small compared to the initial cost and preparation of the paperwork); the lack of trained staff to understand the needs of self-development organisations and to provide them with adequate support. The inadequacies of the financial system also add up with those of public institutions, given the presence of a discouraging legal and fiscal environment. These conditions compel those who are considered “non-bankable” to turn to shark moneylenders, thus entering into a debt spiral that affects in particular the weaker, such as family businesses and small producers.

Ethical Finance is promoted in the producers’ countries through financial institutions such as Credit Consortia (like ETIMOS83), while several other institutions caring for social and environmental issues help the construction, the capital adjustment and the management of these new institutions. They facilitate the financing of micro-credit and, more generally, of Fair Trade.84

Microcredit tends to give quick and efficient responses, addressing more direct relationships to both the person and their everyday needs.85 Credit needs are related to all entities involved in the Fair Trade value-chain, including importers and World Shops. To date, as shown by the survey carried out for this research, many of them actually do business with traditional commercial banks because of operational benefits that certainly need to be reflected on by the alternative finance institutions. However, even in Western countries, Fair Trade Organisations are making use of Microcredit, which has different characteristics than the original phenomenon, in terms of the amounts loaned and other technical aspects (interest rates, modalities, etc...).86

83. Etimos is an international financial consortium with Headquarters in Padua, Italy, and three regional offices in Sri Lanka, Argentina and Senegal. It collects savings in Europe and invests in developing and emerging countries financing microfinance institutions, producers cooperatives linked to Fair trade markets and social enterprises. See: www.etimos.it
84. “The most famous Microcredit institution example is the Grameen Bank in Bangladesh, the first in the world to have been formed for the specific purpose (defined by its Statute) to lend money to those who have no means of livelihood, giving priority to women, applying normal interest rates and ordinary credit conditions. Another relevant example is that of the Credit Populaire Zairois, which operates in former Zaire and has engaged in funding projects directly related to the poor and rural populations by promoting a better distribution of funds. It also maintains the dialogue between civil authorities, financial and governmental, in order to facilitate access to credit for organisations that have difficulties in doing so, encouraging each operation designed to promote the social economy“.
The PRICE Project interviewed some of these alternative finance institutions, such as the Spanish Asociación Banca Alternativa (ABA)\(^{87}\) and Economia Solidaria Riojana (ESOR)\(^{88}\), organisations that cater to socially excluded people, with projects that have an ethical objective. The Grupo de Apoyo a Proyectos (GAP), an organisation funded by members’ contributions, provides services in favour of sustainable projects that cannot be supported today by the larger institutions of Ethical Finance, due to the limitation of the amount required to cover the paperwork for the proceedings or because of the high level of risk involved.\(^{89}\)

In Italy there are many micro-finance initiatives which can make a significant contribution to Fair Trade. One of these is Cresud,\(^{90}\) a financial brokerage company that provides funds for microcredit organisations, cooperatives, associations, NGOs and Fair Trade organisations. Cresud makes loans in the form of bonds over three years, as well as offering financial services and technical assistance. An important grassroots initiative is represented by the financial cooperatives called MAG (literally Mutual Self Management), who also play a significant role in support of Fair Trade. They are financed in a responsible way\(^{91}\) and invest in social, cultural, environmental initiatives or in the promotion of organic farming. These MAG cooperatives can also offer consulting services\(^{92}\), as well as financial ones, addressing the whole nonprofit sector (cooperatives, associations, local cultural initiatives and World Shops), as recounted by the experience of MAG 4,\(^{93}\) building relationships with a preliminary investigation aimed to detect not only the economic / financial viability, but also consistent with the

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87. The organisation raises money from the savings of the ABA members, which may also contribute to a hedge fund, activated in case of emergency. ABA activates its microcredit also employing interest on the funds deposited in Triodos Bank while others are employed in FIARE.

88. ESOR provides credit only to people who are excluded from society who would like to start a business, by providing credit in an indirect manner. It is funded through members’ contributions.

89. In ABA the coherence of an applicant’s initiative with the principles of Ethical Finance is assessed by evaluating adherence to 6 criteria (equity, employment, sustainability, cooperation, non profit and community commitment). Once the project has been approved, the proponent should seek the “moral support”, generally expressed by an ABA member, who deposits 20% of the total of the loan as a collateral. ABA members or supporters work also to cover the plus for loan exceeding 3.500 euros. In ESOR the credit is paid directly by members (it has around 60 members and 200 collaborators) intending to finance the initiative. They share amongst them the total amount of the loan (each one can contribute for a maximum of 10% of the total requested). Also in ESOR there is a direct involvement of members, who must know the applicant or the persons who recommend the applicant, and become their “guardians”. A similar operative model can be found in GAP, where loans can be provided also by non-members.

90. Cresud is a member of WFTO and has among its shareholders CTM / World Shops; CTM / Chico Mendez / Mandacarû / New Solidarity / Microcredit Cooperative.

91. Each MAG has its specific method: with members’ shares in the shared capital (MAG 2); by differences between lending and deposit rates (MAG 4); supporting the costs using revenues on borrowed capital (interest rate) and on the provision of services (for counseling and information activities, as indicated also by MAG Venezia) and providing funding from the members’ shared capital (MAG 6).

92. MAG 4 refers to services for the management of legal issues (formal / business start-up, accounting, budgets, mortgages, trusts, treasury management, restructuring / corporate restructuring, mergers, etc.). MAG 6, on the other hand, claims to provide advice and training particularly to companies and cooperatives associated with solidarity economy (including Fair Trade entities). It also works with partners / individuals in the area (to which it makes loans in case of need). Among the services provided to members, there is the support in the preparation of the budget, business plan, organisational analysis and preparation of a CSR reports. MAG Venice is interested in education for the responsible use of money as well as in projects aimed at environmental sustainability.

93. A similar answer came from the interview to MAG 6, which added a reference to Fair Trade organisations. MAG Venice realises its services also towards local development agencies (directly or to cooperatives shareholder) and to public administrations.
values embraced by these organisations.94

Microcredit is aimed at creating conditions for development that necessarily need to be part of a systemic process in order to achieve substantial and lasting results. In particular, there’s a need for initiatives which are able to give more importance to the ties of solidarity than microcredit does.95 Where microcredit reaches its limits, Ethical Banks, the number of which is growing in the world, can take over.

The example of the Italian Banca Popolare Etica goes in this direction: in 2009 it signed an agreement with CTM Altromercato for the provision of ad hoc banking services.96 In 2012, it established a Solidarity Fund for the benefit of those investors who had deposited part of their savings in Fair Trade cooperatives which were put into liquidation, and had therefore suffered the loss of their money. This intervention, which covers (within the limits of the funds provided) a maximum of 30% of the savings lost by the shareholder at the time of liquidation of the cooperative, is also a recognition of the ethical savings culture that has spread in Italy thanks to the role played by World Shops.97 Another important initiative is the inclusion of CTM Altromercato among the social and solidarity economy organisations that benefit of the bank’s “affinity” cards agreement, according to which the bank waives a portion of the credit card commissions by providing a contribution to the associations with which it has established a partnership.98

Other Ethical Finance organisations in the Mediterranean area are present in Portugal, where the work of some NGOs, in collaboration with several European partners has promoted Fair Trade and Social Solidarity Economy and the establishment of a few World Shops in collaboration with CTM - Altromercato, some responsible tourism associations and ANDC (Associacion to Crédo Nacional por el Derecho) 99, as well as ANIMAR, a local development network working on the construction of a national Ethical finance institution.

In Spain, the best known examples of Ethical Finance from the point of view of the strategic role they have played with Fair Trade are the Spanish branch of Triodos Bank and FIAKE. This last case is interesting also for the relations it has with Microcredit initiatives, both receiving some of their banking interests (ABA), and reports from them on enterprises whose demands cannot be

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94. MAG 4 invests only on collective subjects oriented to non-profit, sourcing information on the organisation and its internal structure, democracy, transparency of decision making and payment system, together with information about financial and economic solvency in a different manner than the traditional banking system and request a guarantee. MAG 6 finances non profit activities that are finalised to the improvement of the quality of life in the community. They also take into consideration horizontal self-management and request the presence of a MAG 6 shareholder, the membership in MAG 6 and the intention of establishing a cooperation. Finally they check the economic feasibility and some economic guarantees.

95. This evaluation was made by Marco Piccolo, responsible for Banca Popolare Etica’s cultural and membership area.

96. The Italian Ethical Bank and CTM-Altromercato (the largest Fair Trade organisation in Italy) have signed an agreement to ensure favorable conditions for certain operations, providing commercial services, guarantees on loans, pre-financing and streamlining the timing for disbursement. Banca Etica and CTM have created a dedicated Certificate of Deposit. Source: Banca Etica, Ethical banking and Fair Trade together to renovate the economy. November 19, 2009 [http://www.bancaetica.it/blog/finanza-etica-commercio-equo-insieme-per-rinnovare-leconomia-si-rafforzano-le-sinergie-tra-0](http://www.bancaetica.it/blog/finanza-etica-commercio-equo-insieme-per-rinnovare-leconomia-si-rafforzano-le-sinergie-tra-0)


98. See Banca Popolare Etica’s website: [http://www.bancaetica.it/per-privati-famiglie/carte/carte-credito](http://www.bancaetica.it/per-privati-famiglie/carte/carte-credito)

99. Marco Gallicani, Atlante ragionato della finanza etica europea, op. cit. pag. 38
met through a micro-financing intervention (ESOR). Another more complex example is the case of COOP57, a cooperative which offers credit on the short and medium / long term, providing special services such as advances on public subsidies or inter-cooperation initiatives aimed at encouraging the consumption of products and services among its members, by charging lowered interest rates.100

In France and francophone countries, the attention towards fairer relations with the developing world is favoured by initiatives such as Finansol, an association that promotes sustainable investment, by giving banks and financial organisations that meet given requirements (such as labor inclusion, social, environmental and housing needs and international solidarity) the use of a label for the financial products they market.101 Among those recognised there is Garrigue, which funds the activities of the Fair Trade Importers who sell at wholesale and retail levels, contributing to the spreading of such food and craft products.102

In 1983 the Comité Catholique contre la Faim et pour le Développement (CCFD) was created, with the purpose of financing, through part of its mutual funds, entrepreneurial projects of citizens in emerging countries,103 including Fair Trade. In relation to fair trade, CCFD is committed to the creation of tools to support partners in the South through better marketing opportunities, development education and advocacy for a fairer international trading system, an area in which CCFD has always contributed, as demonstrated by its support for the creation of Solidar’ Monde and its participation in the Board of Directors of Max Havelaar France and in the French Fair Trade Platform, where it is among the founding members.104

Also in Northern Europe, where Ethical Finance is strongly linked to environmental demands, over time a stronger tie to international cooperation has developed. In some instances, the ecological tradition has mixed with the social and religious ones, as is the case of Oikos, a financial cooperative founded along the lines of Oikocredit in 1993 and based in Denmark: despite its small size, it has a high level of members’ participation which allows it to devote interests not requested by customers to development projects in the Global South. Another Danish financial institution is Merkur Cooperative Bank, a cooperative bank which includes, among its various activities (since 2009), the Merkur Development Loans Ltd, which operates in collaboration with the Danish State Investment Fund (IFU). It is specialised in supporting national companies who want to invest in emerging markets and was created to provide loans to SMEs and cooperatives that operate in one or more of the dedicated areas (organic and biodynamic agriculture, sustainable forestry and Fair Trade). These are areas where access to credit is particularly problematic and expensive - and for those entrepreneurial activities whose dimensions exceed the possibilities for Microcredit loans.105

100. COOP57 is financed by the savings of depositors and the collaboration of its members, uses the funds that it doesn’t invest allocating them in other cooperative banks.
101. Marco Gallicani, Atlante ragionato della finanza etica europea, op. cit. pag. 42
103. Marco Gallicani, Atlante ragionato, op. cit.
104. Comité Catholique contre la Faim et pour le Développement – Terre Solidaire, Commerce équitable - http://ccfd-terresolidaire.org/infos/economie-solidaire/commerce-equitable/manifeste-commerce
The cultural influence of Rudolf Steiner in finance has helped Fair Trade, as the case in the Netherlands of Triodos Bank demonstrates.\(^\text{106}\) In 2012, one of the main activities which they financed was indeed Fair Trade. Another relevant case is that of Oikocredit: this Dutch cooperative, which is present also in Spain since the year 2000, is among the world’s largest, and it offers loans and equity to micro-finance institutions, especially in the South of the world.\(^\text{107}\) Oikocredit and its investors have been involved for over 30 years in financing Fair Trade - both the producers and the importers. To date, the number of partners with Fairtrade certificate continues to increase. At the end of 2012, the Oikocredit Fair Trade portfolio had 58 partners, with a total investment of 35.6 million Euros, represented by interventions in support of the partners in terms of loans (used, for example, in order to increase the carrying capacity and storage or build new production facilities), lines of credit, equity investments, advisory services and training.\(^\text{108}\)

Another example is Cordaid, an NGO founded in 1999 and inspired by the Catholic social doctrine. It invests heavily in projects in developing countries, with funds from government, community and private donors, and works through Microcredit, on distance training of professional organisations and with micro-finance, using a network of almost a thousand local partners in 36 countries around the world.\(^\text{109}\)

The Anglo-Saxon world has been creating and consolidating some trust funds, out of which associations such as UKSIF (UK Sustainable Investment and Finance Association) or the Building Societies Association for the promotion of responsible investment and sustainable development have grown. By creating the conditions for the development of regional hubs of economic solidarity they have become, among other things, retailers of Fair Trade products and host organisations that promote sustainable tourism.

A very important step was taken in the Nineties of the last century, when the UK Cooperative Bank developed its own ethical policy, finding out in the process that almost 97% of its customers wanted the bank to finance Fair trade, and that they had a critical approach to finance that has become even more pronounced during the financial crisis (2011). The match between environmental demands of small local banks and the protection of human rights promoted by the trust funds has thus strongly increased. Unfortunately, the Cooperative Bank has recently fallen into deep crisis because of apparent mismanagement.\(^\text{110}\) One of the most innovative financial enterprises in the UK is Shared Interest, founded in 1990 by the banker Mark Hayes, to provide financial credit and services to Fair Trade manufacturers, retailers and importers and exporters, working closely with FLO and WFTO and with a structure of more than 9,000 members, which recalls the tradition of credit unions and building societies.\(^\text{111}\)

In Eastern Europe there are a number of initiatives interested in investing also in disadvantaged areas, as is the case of the Slovak cooperative Integra, which supports micro enterprises and

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\(^{106}\) Triodos is present in other countries as well: there’s the aforementioned Spanish branch, while other offices are located in Belgium, in the UK and in Germany. See: www.triodos.org

\(^{107}\) Marco Gallicani, Atlante ragionato della finanza etica europea, op. cit. pagg. 37-40

\(^{108}\) Oikocredit, Commercio Equo e Solidale, http://www.oikocredit.it/it/commercio-equosolidale

\(^{109}\) Marco Gallicani, Atlante ragionato della finanza etica europea, op. cit. pag. 45


\(^{111}\) Marco Gallicani, Atlante Europeo della finanza etica, op. cit. pag. 45-49
employment opportunities for people who are at risk of social exclusion\textsuperscript{112} (especially women), as well as social enterprises working in Kenya, Sudan and Ethiopia. It has also done tutoring on microcredit operations and for the Slovak network of Fair Trade shops. \textsuperscript{113}

Among alternative finance organisations \textbf{at the European level}, SEFEA (European Society of Ethical and Alternative Finance) is worth mentioning. It was created in 2002 by ten European financial institutions (now 29), in order to contribute to the development of Ethical Finance in Europe, by providing financial and non-financial support. As pointed out in an interview for the Project PRICE, its work is based on the peculiar assessment of credit worthiness, which takes into account economic / financial, social and environmental sustainability. Alongside these elements, it adds the verification of collaterals, the presence of an established network of reference and of the adherence to SEFEA’s mission. Even in SEFEA different forms of collaterals are required and vary according to the type of request and of beneficiary, including personal or bank guarantees or other instruments. The work is funded by its members. \textsuperscript{114}

\textsuperscript{112} See reference in the SEFEA brochure presentation, \url{http://www.financoop.org/ponencias/SEFEA_tot%20FABIO%20SALVIATO.pdf} pag. 16

\textsuperscript{113} Marco Gallicani, Atlante ragionato della finanza etica europea, op. cit. pagg. 51-52

\textsuperscript{114} For basic information on SEFEA, please refer to the website of Banca Popolare Etica, \url{http://www.bancaetica.it/sefea}. See also Irene Palmisano, Introduction to Ethical Finance and Responsible Investments, PRICE Project Publication, 2014
BOX 2 - The case of Shared Interest

Shared Interest offers a range of facilities for export credit and financial products for loans in favour of Fair Trade manufacturers and distributors, operating through its satellite offices in Kenya, Ghana and Peru, as well as in Costa Rica. This organisation carries out its activities by supporting the activities of producers, farmers and artisans in manufacturing enterprises (in September 2012 it provided loans to 79 producers, with an 83% increase in the last 5 years), as well as assisting the buyers in industrialised countries. Its loans are aimed at trade facilitation, at building capacity and helping the healthy growth of organisations. It makes loans for production as well as for the procurement of raw materials and manufactured goods, evaluating each request based on the specificity of the organisation concerned, assisting each client with an account manager who manages the operations between the client and the bank.

The funded activities range from pre-financing of orders, the purchase of needed machinery and infrastructure, facilitating advance payments to producers and craftsmen, consultancy for the establishment of new Fair Trade shops. Its vocation for the promotion of Fair Trade has led Shared interest in 2012 to fund 120 Fair Trade Organisations working with producers and buyers in 64 countries.

However, a significant percentage of loans are made to buyers in North America and Europe: through them it is possible to reach those producers who cannot apply directly to Shared Interest. The dedicated financial instruments provided in this case are Pre-financing Credit Facilities (which give pre-financing to producers and also the possibility to make sales from the stock received, before repaying the loan to Shared Interest); Shop loans (an instrument specifically provided for the opening of a new store, with an agreement which fixes the terms both of the amount of the loan as well as of the refund deadlines) or Term loans (used with custom terms for the purchase of goods, for the development of websites or the acquisition of capital assets).

The manufacturers, instead, can benefit from the Pre-financing agreements (under which the capital necessary to complete the order, for a value between 60 and 80% of the order itself, which is repaid when the final customer pays through Shared Interest, by deducting the due amount, including interests); Term loans (similar to those provided for distributors and given for the acquisition of the assets necessary for the production activity) and Stock facility (short term loans for the purchase of stock).

115. See the Shared Interest website - http://en.shared-interest.com
117. Shared Interest Website, Borrow from Shared Interest Society, op. cit.
118. Kate Pristley, Review of the Year, in Shared Interest Annual Review 2012, op. cit. p. 2
119. Shared Interest, Annual Review 2012, op. cit. p.16
2.2 New instruments for the financing of Fair Trade

The commitment of Ethical Finance in favour of Fair Trade is undergoing major developments, as demonstrated by the experience of the **Fairtrade Access Fund**. This is the first fund that offers long term loans to small farmers’ organisations (allowing beneficiaries to renew their company’s assets, upgrade the equipment or adopt new technologies), accompanied by technical support - including updating procedures of the Fairtrade certification, as well as information on crops management and markets via mobile phone. The project has been realized by Fairtrade, in collaboration with the social investment firm Incofin Investment Management and Grameen Foundation. It started in 2013 with an initial budget of 8-12 million US dollars and is expected to reach the 25 million dollar amount by the end of its second year. The program was launched in Latin America and it is planned to expand to Africa and Asia.\(^{121}\)

In recent years some additional forms of financing for the activities of Fair Trade have been experimented, such as **Social Lending**. An example is the partnership created by Fairtrade USA with the nonprofit organisation KIVA\(^{122}\), in order to help small-scale coffee producers gain access to credit and improve crop quality, investing in the future of their families and communities. This partnership is the result of a successful collaboration started in 2012, with the assistance of Green Mountain Coffee Roaster, which aims to manage the first KIVA program dedicated to agricultural loans with a Mexican cooperative for the promotion of Fair Trade coffee. The agricultural micro-loans can actually be a useful means to support small producers to invest in more sustainable practices and to promote the relationship between consumers and the producing communities. Thanks to the results achieved with the pilot program, KIVA and Fairtrade USA are preparing the expansion of this program by applying it to other cooperatives to improve the operation of the producer, so as to pursue the general improvement of the conditions of the borrowers in terms of equal pay, promotion of organic farming and the development of opportunities for families.\(^{123}\)

Another innovative channel is **crowdfunding**. This is the case of INDIGENOUS, a Fair Trade organisation working with the textile industry, which has launched a fundraising campaign on the portal **indiegogo.com**, in order to increase the accessibility of the Fair Trace Tool project and finance a research on its social impact. Fair Trace Tool is a project developed with Worldways Social Marketing, aiming at bringing together producers and consumers, thanks to a barcode with a link to a video history of the producer, to view the supply chain and assess the social impact of the Fair Trade activity

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120. Small scale farmers in this area have received about $ 4 million; among these, there are also cases of financing working capital and commercial loans for the purchase and sale of Fairtrade products. International Co-operative Alliance, Fairtrade co-operatives receive access to long-term funds, 29 July 2013 [http://ica.coop/en/media/news/fairtrade-co-operatives-receive-access-long-term-funds](http://ica.coop/en/media/news/fairtrade-co-operatives-receive-access-long-term-funds)


122. Kiva works with microfinance institutions worldwide to provide loans to people without access to traditional banking systems. “One hundred percent of your loan is sent to these microfinance institutions, which we call Field Partners, who administer the loans in the field”. See: [www.kiva.org](http://www.kiva.org)

that the consumers will choose to support, through data collected directly from the manufacturer.124

A financing channel that could eventually take on an important role in the promotion of Fair Trade is **Impact Investing**, a new category recently introduced within the context of Responsible investment, aimed at achieving economic, social and environmental results through mid- and long-term investments. These investments target new business ideas and are a growing reality (the last Eurosif Report on Socially responsible investing estimates the value of this market to be € 8.75 billion). However, there are a number of limitations, starting from the absence of a widely accepted definition as well as the problem of how to effectively measure the social and environmental impacts of the investment, and finally the absence of a defined system for the transfer of assets.125

In Italy, this tool was first introduced by the social investment firm **OltreVenture**, and is now being promoted through an *ad hoc* fund by **Opes Foundation**.126 It finances social enterprises, which can have different legal status and therefore be profit or non-profit organisations, but must be within the selected sectors, one of which is Fair Trade. The funding takes place either directly or by means of specific financing vehicles in the destination countries, accompanying social enterprises with long-term investments that progressively achieve economic and social sustainability. It does so also by reinvesting the capital that is freed by other social enterprises, creating a virtuous circle of development127 which distinguishes the Italian experience from the Anglo-Saxon model (where the funds come from investors seeking market return)128 and also inviting donors to participate in the Foundation **Opes’** activities.129 **Opes Foundation** manages resources with loans and investments, operating first in Asia and East Africa, but aiming at financing initiative also in Italy. It has allocated some resources with operation in enterprise capital interested by investments or through equity loans.130

The tools briefly mentioned here can certainly facilitate access to credit for Fair Trade organisations. However, they do not solve the underlying problem of the crisis of trust that, to date, blocks access to credit, especially for start-up producers enterprises or rural micro-finance institutions in emerging countries, which are considered high risk even by social investors. In this context, the work of the Dutch Development NGO ICCO becomes particularly important: convinced of the fact that the perception of risk on these subjects was unrealistically high, it created in 1999 (through its business unit, ICCO Investment) a guarantee fund which aims to reduce the credit risk on these enterprises. Each intervention serves as a partial guarantee for a loan, allowing the definition of a relationship between lender and loan beneficiary, therefore building trust and achieving mutually beneficial goals. The fund works with local banks and social investors (such as Triodos Sustainable Trade Fund and Oikocredit) providing partial guarantees for sharing losses on loans.131

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126. The fund was created by four civil society and one micro-finance organisations (ACRA , Fem S3, Altromercato, Microventures, Foundation Maria Enrica ), with the contribution of some private foundations as Fondazione Cariplo.  
129. Andrea Di Turi, Opes presents impact investment the Italian way, op. cit.  
130. Silvano Rubino, Opes, A good finance is possible, op. cit.  
CHAPTER 3

Ethical Finance and Fair Trade: how they relate to each other

In order to understand the opportunities for interaction between Ethical Finance and Fair Trade, we need to analyse their relationship with the financial world. The PRICE Project has collected information through an online survey, aimed primarily at Fair Trade Organisations, but extended to other organisations involved in various capacities in the Social Solidarity Economy (therefore we will use, for simplicity, the term “organisations”). Over 300 organisations (from all over the world but, mainly, from the EU) have answered.

3.1 The limits of Ethical Finance in relation to Fair Trade

The answers to the questionnaire show how organisations are aware of the existence of Ethical Finance (almost 82% indicated institutions they knew about in their own country), even though most of them still use traditional commercial banks for their main financial transactions (54%), while only 13.3% work with Ethical Finance institutions and 27.3% with both.

The reasons for using commercial institutions (mainly banks) is, first, their stronger local presence and in particular the services offered by local branches to facilitate the execution of transactions (57.75%) and the speed of response (21.13%), as well as the easier access to credit (19.72%), lower costs (18.31%) and the ability to provide solutions to their needs (14%).

When analysing the motivations for choosing Ethical Finance institutions, the values aspect appears to be fundamental. The answers have underlined the coherence with the mission of the organisation (47.18%) and transparency in operations (28.17%), while the ability to offer custom solutions to the specific needs is considered less important (11.97%); so is the ease of access to credit (9.15%), the low interest rates (4.93%), the speed of response (4.23%).

It is evident that today, on the practical side, the relationship between Ethical Finance and Fair Trade - as well as with the nonprofit sector in general - is inadequate, given how the basic needs of these enterprises rely on the rapid response and implementation of transactions (57.34%), the ease of access to credit (55.94%), low interest rates (55.94%) and a presence in more countries (14.69%). The main difficulties encountered by organisations in dealing with Ethical Finance are due to the lack of accessibility (because of the limited number of branches, motivation given in 43.36% of cases) and to the higher costs involved in the use of alternative finance (reason given in 25.87% of cases). But it is also a matter of what are perceived as more complicated procedures to access credit (17.48%) and the complexity of the bureaucratic paperwork (11.19%) or the inadequacy of online banking services (4.20%).

The organisations that have answered the survey believe that Ethical Finance institutions should, first of all, improve the level of accessibility (developing online banking services as well as the presence of local branches - an opinion shared in 65.03% of cases). Next, they should better communicate how they are different from the commercial banks system (47.55%) and streamline processes and
services (39.16 %), but also lower the request of collateral requirements (in 24.48% of cases).

The interest in deepening relations with the world of Ethical Finance, in any case, appears to be strongly present, if we consider that organisations claim they can make concessions in terms of cost of services (in 32.87% of cases), in terms of ease in the execution of operations (30.77%), in response time (29.37%). A fifth of the respondents (21.68%) consider possible concessions from all points of view while dealing with financial institutions they consider ethical and responsible (whereas only 9.79% is unavailable to any waiver). From the point of view of the aspects which are considered essential, 62.94% indicate the facility to carry out banking operations, 50.35% an acceptable cost of services; 33.57% considers essential a good administration and management and an equal proportion asks for a feasible feedback time.

3.2 Ethical Finance operations and relationship with Fair Trade

The results of this survey clearly indicate that there are several operational problems which make the relationship between Ethical Finance and Fair Trade objectively complex. Above all, there is the lack of a structured dialogue between these two economic realities, which could enable to understand what Ethical Finance can concretely offer Fair Trade networks and vice-versa. In 22.38% of cases, in fact, the problems with Ethical Finance are determined by the lack of adequate knowledge of what it is exactly and what it offers.

To operate an alternative finance institution is certainly a complex operation, as it is to build relationships of trust: it is therefore important to understand from the Ethical Finance organisations themselves what is their perception of the relationships they are developing with Fair Trade. The PRICE Project has made a series of interviews with some of these organisations.

Ethical Finance institutions observed in general how the crisis is directing many people towards a more conscious use of their money (MAG Venice) and to move to alternative finance (ABA; COOP57; Triodos Bank, which notes that there is more interest in where banks invest rather than in directly joining an alternative finance institution). At the same time, the evolution of credit requests by a growing number of people who are in a weak economic condition or by companies who are in need, even though they don’t share a vision of solidarity economy (as reported by GAP and Triodos Bank). According to the Italian MAG 4, the crisis has concentrated the capability of saving into subjects who are generally less interested in alternative finance, thereby placing limits for the MAG on the ability to collect savings and having a larger financial dimension.

In this context, there is a clearly growing interest of Ethical Finance institutions to establish relations for the promotion of their values, particularly with entities such as NGOs, cooperatives, social enterprises, associations and nonprofit organisations, Fair Trade and micro-finance organisations, small unions, migrant organisations, neighbourhood / community associations. Some also include

132. SEFEA also shows a renewed interest for this theme; however, it considers the need to learn how to better communicate the message to the public and to institutions. A totally different opinion on the approach to Ethical Finance is expressed by MAG 2, which does not perceive (if not minimally) the relevance of the impact of the crisis on people’s orientation.

133. A similar evaluation was done by MAG 6, whereby there aren’t significant changes for loans and savings collection.
universities. Others consider the relationship with the Public Administrations important, especially in a time of crisis, when they can create the conditions to enact those changes in the economic paradigm promoted by Ethical Finance.\(^{134}\)

There are other entities, on the contrary, that believe it is better to have a viable autonomous initiative. ESOR, for instance, affirms that Ethical Finance organisations should develop their own internal networks (linked to Solidarity Economy networks), whereas Triodos Bank comments on the work it carries out with universities, enterprises and its relationship with the media. The Ethical Finance organisations themselves understand how the process of compliance with their criteria is complex for the enterprises or projects who want to apply. Therefore, considering that the ultimate goal of these organisations is to use the financial system as a tool for promoting an alternative economy,\(^{135}\) they formulate ways to accompany the applicant in adapting to the required criteria\(^{136}\) and (consistent with the objectives that it sets out, especially in this period of crisis of solvency) they establish interventions to reschedule loan repayments or terms.\(^{137}\) This approach is usually successful, considering that the insolvency rates in these institutions are low or practically nil. The reasons for this important result can be explained by Triodos Bank evaluation, which states that the absence of speculative investments or focused on short-term performance, enable enterprises not to suffer the effects of the financial crisis.

Some examples from credit cooperatives show how different kinds of relationships have been established in the relationship with Fair Trade. Generally, there are no particular problems in the management of requests, although dedicated products or services to Fair Trade have not yet been developed. In the case of MAG6, they are advising a Fair Trade organisation on the analysis of their financial and estate situation and on the procedures for their budget construction. MAG Venice, instead, participates directly to the membership savings / funding of Fair Trade consortia, while Cresud specifies that the real problem for Fair Trade enterprises requesting credit is to find a sufficiently large market for its products, since only if there’s a healthy economy the credit mechanism works; otherwise, it transforms itself in debt again.\(^{138}\)

According to MAG 2, there has been a dramatic decline in financial operations, following the end of the first large-scale development of the Fair Trade market. While they continued to have relations with some World Shops, within Fair Trade today there are entities which are actually too big to finance with a MAG, which cannot offer the same services of a bank. This is also due to the fact that they cannot meet the pre-financing demands of producers abroad, because of missing local corresponding entities, which do not allow them to operate internationally.

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134. MAG Venezia, while considering the dialogue with all territorial stakeholders necessary, specifies that each party will need to have different languages and operating modes, but always marked by fairness and transparency in financial, environmental and social processes.

135. In the case of GAP, one of the criteria for assessment of credit worthiness, from the point of view of the promotion of solidarity economy, is the implementation of Fair Trade at the national / international level.

136. In an interview with ABA, in addition to the role of “moral support” to be played in the credit process by a party relating to it, in case the applicant the does not comply with all six of criteria for credit worthiness identified, it can alternatively have the amount of credit reduced or may be accompanied in developing capabilities to fulfil all the criteria.

137. Cresud tries to avoid this step monitoring carefully and with a strong credentials network. With more structured entities such as Triodos, there is a continuous monitoring, even if the fact of publishing the loans online already induces the subject who has contracted the debt to do more to pay it off. In both cases there is the option to renegotiate the debt.

138. In this regard, Cresud believes it is important to focus more on large-scale retail channels and the legal recognition of Fair Trade, as well as on more collaboration from the Public Administrations.
CHAPTER 4

Conclusions: building the synergy

Beyond the common values and the similarities in the activity between Fair Trade and Ethical Finance, it is necessary to develop an adequate discourse on how Ethical Finance can operationally support Fair Trade. This reasoning, however, must not only be adaptable to the different needs of Fair Trade organisations (from World Shops and Importers to Producers), but it should also take into account the peculiar needs that the world of Ethical Finance is experiencing in this period, creating solutions that are also differentiated according to the specific dimensions of the communities involved.

At the European level, the empowerment of the World Shops system is of primary importance. It is necessary to invest in professionalisation of employees and volunteers and in particular to develop the use of instruments like social networks (even for cultural and advocacy activities); to pay more attention to financial instruments like crowdfunding (useful also to strengthening the relationship with producers) or co-purchasing. In this process the contribution of Ethical Finance institutions could be very important, firstly through consultancy activities and the development of ad hoc tools. This approach could be very useful for the reciprocal recognition and strengthening of relationships, starting from the financial point of view (including financial services).

When it comes to small entities (World Shops, small producers especially in the start-up phase), for which a limited action is needed, it might be more appropriate to promote initiatives that are financially restricted, related to micro-credit and / or to the activity of small Ethical Finance entities such as the Italian MAGs 139 or the French Club Cigales – solidarity finance associations, while Ethical Finance credit institutions should be involved in more structured operations. This requires the development of a network action by Ethical Finance organisations on a national scale, such as the aforementioned relationships promoted by FIARE with some micro-credit entities in Spain.

The more structured Ethical banks should also assess ways to strengthen relations with the world of Fair Trade, starting in their own country, and including emerging needs and opportunities on which to set up trade relations with a high social dimension. Such an activity would help many institutions in the long term to evolve to a level of stronger collaboration with the Fair Trade movement and permit the establishment of ad hoc tools, as the case of Shared Interest in the UK demonstrates.

The Fair Trade movement, conversely, should encourage producers, who are now so developed that they can insert themselves autonomously into the mainstream market, to reflect in order to understand whether they should cut ties with them or whether there could be an opportunity to renew the partnership on another basis. For instance, directing the partnership towards innovative perspectives for each Fair Trade Organisation (including World Shops), such as those proposed by

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139. About the issue related to co-purchasing and financing small Fair Trade activities, Monica di Sisto (Fairwatch) has done an indepth analysis.
Assobotteghe, the Italian federation of World Shops, when it addresses the necessity to relaunch the development of synergies with Social and Solidarity economy activities.

At the operational level it would be useful to study the opportunities that may arise thanks to Impact investing, first clarifying some aspects which are still poorly defined, especially regarding the criteria that the social impact must follow. It is also possible to deploy more guarantee instruments, following ICCO’s model and promoting trust relations between social investors / institutions of Ethical Finance and Fair Trade entities. The development of trust relationships on the operational level must be carried out in conjunction with the resumption of dialogue on a “political” level, inspired by what recently happened in Spain (see Box on FIARE and Coordinadora Estatal del Comercio Justo).

A closer synergy between Fair Trade and Ethical Finance in advocacy activities would certainly be helpful to promote those economic and financial reforms at the European level, which are able not only to encourage the presence of Fair Trade in the market (for instance by promoting a full implementation of the recent EU Public Procurement Directive reform, which has created the condition for strengthening Fair Trade Public Procurement), but also to generate a real change in the EU’s trade policies, directing them concretely to the pursuit of those objectives such as the protection and promotion of human rights to which the EU is bound by the Lisbon Treaty (Article 3:21), and which cannot be achieved by continuing to support policies mainly focused on the openness of markets, without the necessary protections and limitations.

The achievement of these objectives requires, of course, a profound change in the logic of finance, which needs to eliminate those tools that today favour speculative and short-term investments. Finance should reorient its operations in favour of productive and long-term investments, capable of generating economic, social and environmental value. In this way, financial stability could be achieved, allowing democratic control and governance that respond to the current geopolitical, economic and financial situation. This system of rules should be enforced by supranational democratic institutions under the United Nations, and not by those bodies that could have been involved in the current financial crisis (as the International Monetary Fund and the World Bank).

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140. An example is the creation of consortium relations between larger producers, importers and World Shops to realize better organised distribution systems. Notwithstanding that the support of the weaker producers, which have a vulnerability risk, must remain Fair Trade’s mission, the possibility of launching new partnerships involving the entire supply chain, starting from the contribution of Fair Trade producers, could in fact bring positive effects in cascade also on those World Shops which need to be revitalised.

141. This aspect has been also expressed by AGICES in its latest 2014 Annual Report, cfr op. cit. p. 4

142. The implementation of this process requires, first, the removal of all forms of shadow banking, the provision of a Financial Transaction Tax (or other international taxation) against the proliferation of speculative activity, which would also allow for a redistribution of income on a global scale, providing also instruments of economic policy for the control of finance and promoting the protection of the global commons. Moreover, it needs to promote the restriction of the use of financial derivative products, the contrast of the system of tax havens and the creation of tools for the supervision, control and regulation of financial markets that operate at the global level. Andrea Baranes – Riccardo Milano, Guida per i Risparmiatori, op. cit. pp. 40-41

143. Andrea Baranes – Riccardo Milano, Guida per i Risparmiatori, op. cit.
To date, in a number of national legal systems (in Spain, France, Belgium, United Kingdom, Italy), there are measures that offer some form of legal recognition of Ethical Finance. The path to legal recognition of Fair Trade may instead take as reference what is stated in article 23.3 of the Universal Declaration of Human Rights, and has been fulfilled only in some institutional case. The Fair Trade organisations themselves, in 1999 drew up the European Charter of Fair Trade Criteria (amended in 2009). Shared values and basic requirements for the qualification of a Fair Trade organisation were thereby sanctioned, allowing its entry into the appropriate registers. In the absence of a legally binding definition, the EU, through the Commission’s Communication of 2009 on the role of Fair Trade and non-governmental trade programs such as contributions to Sustainable Development, has adopted the one already elaborated by FINE in 2001 (and renewed by the Fair Trade Criteria Charter of January 2009).

Fair Trade, at the same time, could represent a significant necessary condition for the radical change of the external dimension of EU policies as well, within a greater program of work that includes, for example, the strengthening of the “human rights and democracy clause” and, more generally, induce the EU institutions to make Europe’s international action in favour of “sustainable development” more concrete and holistic, committing itself to promote the social aspects attentively (starting with the right to work) and cultural factors that define it, and not limiting its focus on the economic and environmental dimensions.

144. In the Spanish case, reference is made to the success of agricultural credit banks, operating under a form of micro-credit based on personal guarantees, with a recognition by the Spanish Constitution, which in 1978 recognized them a prominent role in giving workers’ access to the possession of the means of production, and made concrete with the law on credit unions in 1989.
145. It refers, in this case, to the benefits enjoyed by solidarity savings products or socially responsible mutual funds.
146. The Belgian Ministry of Social Affairs, since 2001, recognises ethical investment funds as essential to the development and support of social economy.
147. It refers, in this case, to the interventions of the United Kingdom legislature in favour of credit unions. All of the examples cited here are taken from Marco Gallicani, Analytical Atlas of Ethical finance in the European Union, op. cit.
148. In Italy a first legal description of the subject of Ethical finance has been made with the approval of the “rating of legality”, even if such instrument has been designed primarily as a means of combating mafia infiltration in the market.
149. “Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection”.
150. France and Belgium have approved national laws. In Italy, eleven regions have adopted specific laws (Umbria, Liguria, Tuscany, Friuli Venezia Giulia, Marche, Lazio, Piedmont, Emilia, Veneto, Puglia), while national proposals are still waiting to be discussed in Parliament.
151. In the same year, the Italian Charter of Fair Trade Criteria (developed by AGICIES and amended in 2005) was created. Gioia Maccioni, Fair Trade, op. cit. pag. 73
152. AGICIES’s certified guarantee model is being integrated in the new international WFTO system to give guarantees to consumers about the control over the fair supply chain, from producers to World Shops. AGICIES Annual Report 2014, op.cit. p.3
153. The reference is to Annex I of the Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee, entitled “Contributing to Sustainable Development: The role of Fair Trade and non-governmental trade-related warranty guarantee of sustainability”. The text is recalled by Gioia Maccioni, Fair Trade, op. cit.
154. Coordination formed by FLO; IFAT (today WFTO); NEWS and EFTA
156. The “right to development” theme is largely debated today, and more in general the so-called “new generation” of rights, some of which may be even affecting the future of Fair Trade (as in the case of the right of self-determination or the access to the Commons), considering the numerous measures of soft law (the UN Declaration of 1986) and hard law, as well as regional ones (African Charter on Human and Peoples’ rights, Inter-American Convention of Human Rights, Arab Charter on Human Rights, art. 3 of the EU Treaty).
BOX – Agreement between FIARE and the Coordinadora Estatal De Comercio Justo

On October 23, 2013, FIARE Banca Ética and the Spanish Fair Trade national platform Coordinadora Estatal de Comercio Justo signed an agreement to intensify cooperation and consolidate the idea of an alternative economic model based on the centrality of the person. The agreement covers the development of political and social actions and their diffusion, offering mutual support for each other’s initiatives (thus formalising a partnership that, in fact, already dated a few years earlier). It also provides for planning joint activities, enhancing the collaboration between these entities that essentially share their political projects aimed at the transformation of society, making economics an instrument of justice, through the participation of people and organisations. This action of mutual support and collaboration will cover both the political activities and the awareness raising and mobilisation ones (with the prediction of partnerships for the realization of documents and the possibility of jointly presenting the Fair Trade report in many places), the mutual cooperation in the promotion of events relevant to both parties (with a specific commitment to the dissemination of all relevant information on the Fair Trade market, for all the partners of FIARE, also through the use of social networks). The agreement also includes the commitment of the Coordinadora, through a first basic agreement that has to be ratified by the FIARE Steering committee, to collaborate in the process of integration between FIARE and Banca Popolare Etica, contributing to the definition of new dedicated banking services.157


The original text of the agreement can be found here: Convenio de Colaboración, http://comerciojusto.org/wp-content/uploads/2013/10/Convenio-CECJ-y-Fiare.pdf. The integration between FIARE and Banca Etica has been realized with the opening of the banking branch in Bilbao, October 2014.

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