

# THE MAINSTREAMING OF FAIR TRADE



An Analysis of Market Opportunities  
for Cambodian Fair Trade Handicraft  
Producer Organizations

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### **Abstract**

The Fair Trade Movement has evolved from small organizations directly importing handicraft products from economically marginalized producers in developing countries, to an alternative economic system operating in both alternative and mainstream market channels. This thesis analyses the process of going mainstream, i.e. the increased operating of Fair Trade organizations in conventional market channels, using results from a research carried out in the Cambodian Fair Trade handicraft sector. A sample of 24 handicraft producer organizations has been taken, of which only one organization is Fair Trade certified. In order to determine whether the other organizations comply to Fair Trade standards, each organization has been rated according to the 10 WFTO standards. On the basis of these ratings, all organizations were found to comply to Fair Trade standards. With regard to current mainstreaming, organizations are still unable to enter and compete in the mainstream market. The cause for such economic underperformance can be found in the high socio-economic impact, in the positive sense, of the organizations. It is argued that in order to be able to compete in the mainstream markets, organizational structure should be changed in such a way that organizations will lose their current defining characteristics. If entering the mainstream market comes as such a cost, it is doubtful whether organizations are willing to do so. It is also argued that, as is already happening in the Cambodian Fair Trade handicraft sector, dedicated Fair Trade producer organizations can take on the fairwashing problem by entering a niche market, given that they find a way to inform potential consumer about the high socio-economic impact of the organization.

**Keywords:** Fair, Trade, Mainstreaming, Cambodia, Producer, Organizations, Standards, WFTO

<b>Executive Summary</b> .....	5
<b>Introduction</b> .....	8
<b>1. Theoretical Framework: Fair Trade</b> .....	12
1.1 Definition and Objectives of Fair Trade .....	12
1.2 Justification of Fair Trade .....	14
1.3 Two Alternative Trade Systems: The WFTO and FLO .....	19
1.4 Achievements .....	23
1.5 Obstacles .....	24
1.6 Going Mainstream .....	25
1.7 Social Objectives in an Economic Environment .....	28
1.8 Conclusion .....	29
<b>2. Research Methodology</b> .....	30
2.1 Research Questions .....	30
2.2 The CFIF and Cambodian Social Producer Organizations.....	31
2.3 The Research Phases .....	33
2.4 Biases .....	35
<b>3. National Context: Cambodia</b> .....	36
3.1 History of Cambodia .....	37
3.2 Economy of Cambodia .....	37
<b>4. The Producer Organizations</b> .....	39
4.1 AAC and Craftnetwork Membership Criteria .....	39
4.2 General Profile Social Producer Organizations .....	40
<b>5. Official Fair Trade Certification</b> .....	45
5.1 WFTO Membership .....	45
5.3 Current WFTO Members in Cambodia.....	46
5.4 Advantages and Obstacles of WFTO Certification .....	48
<b>6. Social Standards of Cambodian Producer Organizations</b> .....	50
6.1 The WFTO Fair Trade standards .....	50
6.2 Standard 1: Creating Opportunities for Economically Disadvantaged Producers ...	51
6.3 Standard 2: Transparency and Accountability .....	57
6.4 Standard 3: Trading Practices .....	60
6.5 Standard 4: Payment of a Fair Price .....	60
6.6 Standard 5: Child Labor and Forced Labor .....	65
6.7 Standard 6: Non Discrimination, Gender Equity and Freedom of Association .....	69
6.8 Standard 7: Working Conditions .....	73
6.9 Standard 8: Capacity Building .....	77

6.10 Standard 9: Promotion of Fair Trade .....81

6.11 Standard 10: Environment .....83

6.12 Conclusion .....87

**7. Mainstreaming Opportunities .....89**

7.1 Current Channels of Sales .....89

7.2 International Buyer Characteristics .....90

7.3 Sector Opportunities and Sector Obstacles .....92

7.4 Overcoming Sector Obstacles .....97

7.5 Implications for Cambodian Fair Trade Handicraft Producer Organizations .....101

7.6 Theoretical Implications .....102

**8. Conclusion .....105**

**References .....107**

**Appendix 1: Overview Fair Trade Standard Ratings Per Organization .....110**

**Appendix 2: Interviews Conducted in the Research .....111**

**Appendix 3: Conceptual Model .....113**

## Executive Summary

Fair Trade emerged as a response to observed discrepancies in the modern global trade system based on the model of Free Trade. It has evolved from small organizations directly buying products from producers in developing countries, and selling them to acquaintances, into a global movement which campaigns for trade benefitting the economically marginalized and has created entire value chains with socio-economic standards as an alternative to the conventional trade system.

A key event in the history of Fair Trade has been the introduction of Fair Trade certification. Certification has made it possible to enter mainstream markets and therefore to reach more consumers. It also started spillover effects from trading with mainstream enterprises. In this master thesis, the process of mainstreaming, i.e. Fair Trade economic actors increasingly trading in conventional market value chains, is analyzed. This analysis is based on a research carried out in the Cambodian Fair Trade handicraft sector. The following research questions have been used to structure the thesis:

- 1) *To what extent do Cambodian handicraft producer organizations comply to Fair Trade standards?*
- 2) *To what extent can Cambodian Fair Trade handicraft producer organizations enter and compete in the mainstream market?*

The Cambodian Fair Trade handicraft producer organizations have several defining characteristics. First, the products produced are made by hand and the lion's share is made of silk. Secondly, the producer organizations operate in a high-market segment: the products are relatively expensive, of high quality and most sales are exports to Western countries. Thirdly, organizations have a social mission. For these organizations, profit is not the main goal of operations.

From the definition of mainstreaming it is clear that all organizations in the process of mainstreaming comply to Fair Trade criteria. To determine mainstreaming possibilities in any sector, it is therefore of importance to first determine whether the involved organizations comply to Fair Trade standards. Because the sector under research is characterized by non-food products, the WFTO 10 standards can be used for operationalizing Fair Trade.

Only 1 organization in the sample was a member of the WFTO, and can therefore safely be said to comply to Fair Trade criteria. However, of the 24 producer organizations under research, 16 did want to become a member of the WFTO. The main reasons for managers not to apply for WFTO membership were the membership fee and the time consuming application process.

Because hardly any official Fair Trade certification can be found in Cambodia, Fair Trade compliance should be determined by means other than WFTO membership. After rating each organization in the sample for compliance with each of the 10 WFTO standards, it became clear all organizations could be considered Fair Trade. General findings for each standards were:

*Creating Opportunities for Economically Disadvantaged Producers:* Organizations usually have a mission statement in which they mention a specific target group. These target groups are not only marginalized in the sector they work, but can be considered economically marginalized in the

context of Cambodia in general. In cases of disabled, former prostitutes and ethnic minorities, the employees are also socially marginalized.

*Transparency and Accountability:* Although organizations keep relatively few records of their operations, they do not only share the information they do have with umbrella organizations AAC and Craftnetwork, but also with most of their buyers.

*Trading Practices:* This standard has not been discussed because all aspects can also be found in the combination of the other standards.

*Payment of A Fair Price:* Organizations pay their producers more than the minimum stated in the ILO Cambodian Labour Law. Additionally, many organizations also provide free housing, food and medical insurance.

*Child Labour and Forced Labour:* No forced labour has been found. With the exception of 1, all organizations have minimum age of 18. The one exception is an organization with a focus on vocational training of children between the age of 16-18. Organizations have little or no systems in place to monitor and control child labour. However, work in the silk handicraft sector is light and cannot create the possibility of children doing heavy and dangerous work.

*Non Discrimination, Gender Equity and Freedom of Association:* More than half of all producers in each organization is women. The share of women in management positions is also above the national average.

*Working Conditions:* Production of silk handicraft products is light work, doesn't require any dangerous tools and can be done in almost any place. Therefore, the sector is "naturally" safe with respect to production. Overtime is only in exceptional cases and producers generally can determine the number of working hours themselves.

*Capacity Building:* Most organizations hire unskilled producers and train them in-house. Because of the difficult designs and high quality requirements of the products, producer skills are improved significantly.

*Promotion of Fair Trade:* Although no organization promotes Fair Trade by itself, due to their involvement in the umbrella organizations AAC and CTF, they do indirectly promote Fair Trade.

*Environment:* Silk handicraft production has a relatively low impact on the environment. Several organizations also produce recycled products.

Organizations sell their products mainly through 3 channels: shops, consignment and export. Export accounts for more than 50% of all sales. However, only a few percent of exports is sold to mainstream buyers, indicating that there is hardly any mainstreaming present in the Cambodian Fair Trade handicraft sector. Almost every international buyer is itself Fair Trade or simply has its own high socio-economic criteria for its trading partners.

Mainstreaming creates opportunities for organizations to increase sales, spread risks and learn additional entrepreneurial skills from mainstream enterprises. It is therefore that organizations

do not deliberately refrain from participating in mainstream market channels. They lack certain mainstream market requirements, such as a competitive price, good quality and good designs. In order to overcome these obstacles, the Cambodian Fair Trade producer organizations should change their organizational structure in favour of economic performance. The number of home based producers should be minimized, a production line should be created and (only) high skilled producers should be employed. However, these changes not only reduce the socio-economic impact, some of them also contradict the social objectives of the organizations.

At this point, organizations face a tradeoff. If they want to enter and compete on the mainstream market, several defining characteristics of the organizations need to be given up. In order to increase economic efficiency, the high socio-economic impact has to be reduced significantly. Although organizations do not have to give up their socio-economic impact to such an extent that they can no longer be considered Fair Trade, their defining social mission and target groups have to be altered. It is, however, for their high socio-economic impact, that most Cambodian Fair Trade producer organizations have been established in the first place. Therefore, one can wonder whether the benefits of mainstreaming are worth the sacrifice in terms of socio-economic impact.

Academic literature on Fair Trade identifies “fairwashing” as a problem of mainstreaming. Fairwashing is the process of mainstream enterprises, which have moved into the Fair Trade Movement, but barely comply to Fair Trade standards, competing out the more dedicated Fair Trade organizations in their own niche market. The research findings show a possible way out of this problem for these dedicated organizations. The additional value of their products is the higher socio-economic impact. Dedicated organizations should inform consumers of this additional impact. A Fair Trade logo cannot distinguish between these two different levels of impact. In the Cambodian case, organizations distinguish themselves by adding brochures and other information about the product, the organization and the producers. Not only does this inform consumers about the high impact, for the consumer, it also creates an emotional attachment to product.

## Introduction

In 1988, thousands of smallholder coffee farmers in Costa Rica were united in the co-operative *Coocafé*, a federation of smaller cooperatives. At this time, competition in the global coffee market was fierce and especially smallholder farmers (having less than 1.5 hectare land) had difficulties obtaining a sufficient income to sustain their lives. Even though eventually more than 4600 farmers were a member of *Coocafé*, access to markets remained a major obstacle for the co-operative.

However, at the time of the founding of *Coocafé*, the Fair Trade Certification of Max Havelaar was initiated in the Netherlands. *Coocafé* was able to comply to Max Havelaar Fair Trade criteria, entered Fair Trade market channels and began selling an average of 50% of its total products on Fair Trade markets. The support Fair Trade offered, in terms of minimum prices and business development support, has made it possible for the co-operation to provide its farmers with a decent income as well as improve economic empowerment and economic security of the co-operative itself. The co-operative was able to initiate projects related to education, gender and the environment, as well as business development assistance to the farmers itself. It's economic empowerment increased due to increasing market knowledge, additional buyers networks, increased product quality. With Fair Trade support, the co-operative was able to create a relative well-experienced and independent organization. This, in turn, allowed *Coocafé* to vertically integrate their operations as well as to create their own brand with which they had significant successes in Fair Trade and mainstream market channels (Max Havelaar, 2003).

The above example shows two interesting aspects related to Fair Trade. First, Fair Trade offers economically marginalized producers in the global South a higher income in order to create a sustainable and decent livelihood, and support activities in order to create economic empowerment. Secondly, Next to introducing trade criteria which guarantee a minimum livelihood for all involved in the trading process, Fair Trade also aims to create further economic empowerment of producers in the global South by business development support. Such goals are achieved by stimulating co-operatives and providing them with the necessary skills to operate in the market. Another method of reducing dependency and improving entrepreneurial skills is by assisting a cooperation in entering mainstream markets. In the case of *Coocafé* this was done by creating its own brand.

This process of mainstreaming, i.e. entering non-Fair Trade market channels, has become a central issue in modern day Fair Trade activities. It has allowed a significant growth of total Fair Trade sales and arguably opens up methods of developing entrepreneurial skills for producers in developing countries, and as such reducing economic dependence. However, the process of creating an organization ready to compete in mainstream markets is a long and difficult one.

This thesis is based on results from a research carried out in the handicraft sector in Cambodia, as part of a research internship of the masters programme International Development Studies at Utrecht University. This research considered the mainstreaming opportunities of Cambodian handicraft producer organizations claiming to be



Figure 1: Two Producers at work at VCAO, Phnom Penh

Fair Trade, or at least strive to comply to Fair Trade standards. 24 producer organizations have been reviewed extensively, and interviews were carried out with consultants, project coordinators of donor organizations and other experts working in the Cambodian handicraft sector. The goal of the research was to determine whether these producer organizations indeed complied to Fair Trade criteria and if so, whether mainstreaming is possible and/or wanted. As a result of these goals, the following research questions have been formulated:

- 1) *To what extent do Cambodian handicraft producer organizations comply to Fair Trade standards?*
- 2) *To what extent can Cambodian Fair Trade handicraft producer organizations enter and compete in the mainstream market?*

In answering these research questions, the objective of this thesis is two-folded. First, it provides an insight in the mainstreaming of Fair Trade which is hardly discussed in Fair Trade literature. Namely, the possibilities for small handicraft producer organizations to go mainstream. The process of mainstreaming is identified by several authors as the key to expanding the Fair Trade Movement, and is considered to drastically increase the economic performance of the producers involved (Renard, 2003; Reynolds et al., 2008). The high annual growth rates of the Fair Trade Labelling Organization (FLO) indeed indicate that more producers can participate in the Fair Trade Movement. The inclusion of mainstream actors in Fair Trade value chains has led several producers to improve economic performance in terms of product quality, product development, prices and delivery. However, when it comes to the process of mainstreaming, academic literature tends to focus on large mainstream players (e.g. Starbucks) entering the Movement (Nicholls and Opal, 2005; Reynolds et al., 2008). Next to a focus on the effect of the inclusion of large economic actors in the Movement, academic literature also tends to focus on Fair Trade labelling related to commodities. Popular topics are Fair Trade coffee and Cacao value chains.

As a result of the abovementioned focus, the overall benefits and problems of mainstreaming on a macro-level is given the most attention to. One could think of expansion of Fair Trade in general or higher awareness raising. An analysis on the micro-level which considers benefits and disadvantages for handicraft producers is generally lacking. This thesis attempts to re-focus the debate with which Fair Trade the Movement originally started: small scale handicraft producers. The concept of mainstreaming, which originates from commodity Fair Trade labeling, is analyzed and applied to the handicraft sector. With the Cambodian a case study, it will be determined whether this process of mainstreaming is already existing in the Cambodian handicraft sector and whether, following academic literature, such process should be stimulated.

Next to an analysis of mainstreaming, this thesis also provides an overview of the Cambodian Fair Trade handicraft sector in general. Although several donor organizations are active in this sector, hardly any documentation is available. In order to actually analyze the possibilities of mainstreaming, it is important to determine compliance with Fair Trade standards of the organizations within the scope of this research. Therefore, this thesis also aims at providing an overview of the general characteristics of the Fair Trade handicraft sector in Cambodia, and will identify common organizational characteristics which make these organizations “Fair”.

## **Overview of the Thesis**

As with any thesis, I would like to believe that the results are embedded in, as well as contribute to, existing academic literature, in this case recent developments in Fair Trade, as discussed by academics. For this reason, the first chapter discusses the notion of Fair Trade, as well as recent

developments. It identifies mainstreaming of the Fair Trade Movement as the central recent process. Next to defining mainstreaming, the first chapter will also discuss advantages and problems related to this process, especially for producer organizations in developing countries.

After providing a theoretical context of Fair Trade, and the process of mainstreaming, chapter two provides the research questions and methodology related to the research carried out in the Cambodian handicraft sector. It provides an overview of the research goals as well as an overview of the organizations involved in hosting the research internship. In this chapter, it will become clear that, in order to understand possibilities of going mainstream in a sector with little information available, it is first necessary to determine whether producer organizations comply to Fair Trade standards. If producer organizations do indeed comply to Fair Trade criteria, then it can be determined whether mainstreaming is possible.

Before going into the compliance to Fair Trade criteria by the organizations, chapters 3 and 4 provide a general overview of the geographical and organizational context in which the research took place. Chapter 3 provides the geographical context. It discusses general characteristics of Cambodia and provides a short overview of the national economy. Chapter 4 provides an overview of the type of producer organizations included in the research, characterized by their social mission, the type of products they produce and the market segments they operate in.

After having provided this context, compliance to Fair Trade standards by the organizations is discussed in chapters 5 and 6. If producer organizations comply to Fair Trade criteria, two options are possible: (1) producer organizations are Fair Trade certified or (2) producer organizations comply to Fair Trade criteria but are not certified in any way related to Fair Trade. If option (2) is the case, it can be asked why producer organizations have not applied for official Fair Trade membership. Chapter 5 discusses current Fair Trade certifications in Cambodia as well as reasons for joining or not joining the Fair Trade Movement. Chapter 6 considers the ten WFTO social standards and discusses each extensively. Also, it discusses the level of compliance to these standards by each of the organizations.

Chapter 6 concludes that it is safe to state that most, if not all, producer organizations included in this research do indeed comply to Fair Trade standards. Therefore, the process of mainstreaming can be considered to be relevant. Chapter 7 discusses mainstreaming opportunities in the Cambodian Fair Trade handicraft sector. It first describes existing channels of trade which are already present in the sector. Then, the focus will be on one of such channels, namely export, differentiating between mainstream and Fair Trade export. Because of the low level of mainstreaming, the question arises whether clear advantages for a strategy focusing on mainstreaming can be found. Therefore, the second part of chapter 7 discusses sector opportunities and obstacles. The final part of the chapter considers organizational changes necessary to be able to enter and compete in mainstream markets<sup>1</sup>. The chapter ends by situating the findings in the academic theoretical discussion.

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<sup>1</sup> In specific: the change of social impact related with an change in organizational structure benefiting mainstreaming possibilities.

advise in practical issues and research related matters, this research would not have been possible. Secondly, I would like to thank Prof. Dr. Annelies Zoomers for the many hours she invested in supervising this thesis, as well as her endless patience. Lastly, I would like to thank Lars Arthur Tump for his remarks on an earlier draft.

## 1 Theoretical Framework: Fair Trade

This chapter aims to provide an extensive overview of Fair Trade. Several aspects such as Fair Trade definitions, history, theoretical justification, accomplishments and problems are discussed. The chapter ends with a description of mainstreaming, its advantages and the obstacles for producers to enter the mainstream market.

There is an increasing concern about the consequences of neo-liberalism and Free Trade for the weakest participants in international trade, namely the producers in the developing countries. The Fair Trade Movement is an initiative which challenges some aspects of this dominant economic system and aims to accomplish improvements in terms of social, environmental and economic conditions of those at the bottom of the value chain in the global South.

It are the conventional terms of trade against primary product exports which the Fair Trade Movements opposes and even calls unjustified (Max Havelaar, 2003). Alternative trade organizations, Fair Trade in specific, emerged to counteract these “structural disproportions” in trade (Steinrucken and Jaenichen. 2007). As Reynolds (2000) puts it, “[t]hese [Fair Trade] initiatives originate in the North and are fuelled by mounting concern that our modern state and corporate institutions are *unable* to guarantee the socially and environmentally sound production of consumer goods” (p. 299, my emphasis).

### 1.2 Definition and Objectives of Fair Trade

Opposing of the conventional market system by claiming it not to be socially and economically sound, or simply unfair, requires an alternative view which can be called Fair. Such an alternative trade system should differ from the conventional market system in that the needs of people involved in that trade is the central aspect:

Alternative [or: Fair] trade operates under a different set of values and objectives than traditional trade, putting people and their well-being and preservation of the natural environment before the pursuit of profit. (IFAT, 2009)

A fairer system of trade is characterized by taking a basic social and environmental standard for those involved, which enables sustainable livelihoods and a sustainable use of the environment (Harmsen, 2008). To what extent one can speak of a sustainable livelihood and a sustainable use of the environment can, and is, determined differently. Some aspects of these differences will be given below, but the concrete indicators vary between Fair Trade organizations, geographical places and economic sectors (Moore, 2004; Humphrey, 2000).

The essential aspect of a fairer economic system is the improved position of the disadvantaged producers. Thus, a fairer trade system is one which provides “sustainable development for excluded and disadvantaged producers in developing countries, [ ... and which] is done by improving the livelihoods and wellbeing of producers by ensuring a better wage, aiding in product development, capacity building and helping to facilitate export to western markets” (Randall, 2005).

This concept of a Fairer system of trade relies on an assumption concerning the causes of underdevelopment in many developing countries: It directly relates underdevelopment to an unequal economic system. As Renard (2003) puts it, originally the Fair Trade movement “located the fundamental cause of underdevelopment in world trade practices and the alleged

deterioration in the terms of trade against primary product exports” ( p. 89). Unequal exchange in north-south economic relations is seen as an important cause for some aspects of underdevelopment. Thus, by improving the terms of trade as it is, producers in developing countries can benefit more from global trade (Ibid.), as following goals of Fair Trade make apparent:

1. To improve the livelihoods and well-being of producers by improving market access, strengthening producer organizations, paying better price and providing continuity in the trading relationship.
2. To promote development opportunities for disadvantaged producers, especially women and indigenous people, and to protect children from exploitation in the production process.
3. To raise awareness among consumers of the negative effects on producers of international trade so that they exercise their purchasing power positively.
4. To set an example of partnership in trade through dialogue, transparency and respect.
5. To campaign for changes in the rules and practice of conventional international trade
6. To protect human rights by promoting social justice, sound environmental practices and economic security (Redfern and Snedker, 2002, p. 11).

Following the above, the following definition of Fair Trade can be given:

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, marginalised producers and workers – especially in the South. Fair Trade organisations (backed by consumers) are actively engaged in supporting producers, awareness raising and in campaigning for changes in the rules and practices of conventional international trade. (IFAT, 2007)

From the definition and goals two dimensions in operations of the Fair Trade movement can be distinguished. The first is the modification of the conventional economic system (Renard, 2003; Moore, 2004). Through campaigning, awareness raising, lobbying and the offering of an alternative, the Fair Trade Movement aims at changing the conventional economic system in favour of fairness. In this ultimate trade system, the complete implementation of Fair Trade standards is the highest goal. This involves the insertion of moral standards in everyday business practices. Wempe (2005) shows that such ethical entrepreneurship and corporate social responsibility is growing rapidly. While he is “under the impression that many people, at least subconsciously, have doubts about the combination of ethics and entrepreneurship” (p. 211) and claims that “by definition, making a profit, or entrepreneurship, is morally questionable” (p. 214), he acknowledges the growing ethical awareness of northern consumers and growing media attention to possible exploitation or child labour in the value chain. Though efforts of businesses in engaging in ethical entrepreneurship have many times been criticized for being no more than PR stunts (Renard, 2003), there is no doubt that morality is becoming increasingly important in the conventional economic system (Wempe, 2005). Such changes in business practices in the conventional economic system, with a shift towards a positive developmental impact of trade, is usually given as the most wide reaching impact of Fair Trade (Redfern and Snedker, 2002).

The second dimension which can be distinguished is the existence of an alternative trade system that “makes a difference to the producers and consumers that engage in it” (Moore, 2004, p. 74). This implies the creation of a value chain from producer to consumer in which no unequal

exchange takes place and all are equally rewarded for the amount of value they add. The basic principles of such a system are the following:

- Direct purchase from producers.
- Transparent and long-term trading partnerships
- Agreed minimum prices
- Focus on development and technical assistance via the payment to suppliers of agreed social premium. (Nicholls and Opal, 2005, p. 33)

### 1.3 Justification of Fair Trade

So far, it has become clear that the Fair Trade Movement offers a practical approach to combat poverty and campaigns for a structural change of the current unjustified trade relations. As Dine puts it,

Fair Trade is also a popular way for consumers to express solidarity with those who work in poor countries and who are particularly badly served by the system of "free trade" which has been constructed by the powerful among the international community. The fair trade movement operates on a number of principles with a general aim of relieving poverty. (Dine, 2008, p. 177-178)

Dine argues that Fair Trade has several dimensions: for one, it is a practical system which improves livelihoods of those at the shortest end of the stick. At the same time, Fair Trade embodies a clear statement against Free Trade, or at least the global trade system as it currently is. Assuming the current trade system is based on a theory of economic actions, Fair Trade therefore not only opposes a practical process, but is forced to take an alternative theoretical position which is able to underpin the conventional trade theory and simultaneously provide an alternative which cannot be touched by its own arguments. Unfortunately, not unlikely due to the interdisciplinary nature of the Fair Trade Movement, "a more general theory of Fair Trade seems to be absent" (Moore, 2004, p. 77). While "clearly, the concept of justice underlies many of the principles on which Fair Trade is established and the assertion of injustice in conventional international trade is never far from the surface" (Ibid.). After analyzing attempts to build such a theory, Moore has to conclude that "in general Fair Trade has remained a practical and campaigning response to the perceived and observed injustices of the capitalist system" (Ibid.). However, it would be unsatisfying not to at least go into attempts to justify Fair Trade claims.

One type of counter arguments on the current trade system have been given by Dine (2008). She argues that "De-democratization and institutional corruption threaten equality among the expanding global market community. International treaties have been largely unsuccessful because they are designed to favour the more politically and economically advantaged players." (Dine, 2008, p. 177) Dine does not touch upon the theory of Free Trade, but aims her arrows at the institutionalization of the current trade system and the foundations of these principles. While elsewhere Dine argues that the international trade system is unethical<sup>2</sup>, in "Democratization: the contribution of Fair Trade and Ethical Trading Movements" she argues that the design of the international trading regime amounts to institutional corruption:

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<sup>2</sup> See Dine: Companies, International Trade and Human Rights. Here she argues that the "[international trade] system has been designed by governments who are in "willing capture" to the interests of the big corporations whose interests they see as aligned with those of the home state of the giant corporations." (Dine, 2008, p. 192)

[I]t is indeed arguable that the way in which the international trade system has been constructed is racist. However, the point made here is that it is also institutionally corrupt. That is, the prejudices of the powerful have caused them to craft laws which systematically discriminate against the poorest people on earth". (Ibid, p. 194)

According to Dine almost any statistic can be used to show the effects of such discrimination: 50.000 humans die of poverty related causes every day, 799 millions are undernourished, etc. The first step to institutional corruption which can cause such inequalities is the move from controlled economies to a market led economy. This "changes the role of commercial law by introducing the factor of individual risk" (Ibid, p. 197). The risk of commercial transactions is transferred from the whole community to individuals, creating possibilities for exploitation. Now, if international institutions were indeed to be instated in such a way that they would systematically favour the more powerful, one could indeed speak of institutional corruption. Dine holds the assumption that not all countries have equal bargaining power in the international market system, which seems to be a more than plausible assumption. Under this assumption, Dine argues that developing countries with little bargaining power are discriminated through institutions such as the WTO:

An agreement between states with equal bargaining power may be considered to be politically neutral, but when they are of disparate power the "contract" is of profound political importance. In this respect, it is significant that the first quasi-judicial enforcement mechanisms at the international level have been designed and operate to enforce international commercial law and clearly favor richer nations with more diverse economies. It is noteworthy that none of the least developed nations have brought actions under the World Trade Organization Dispute Settlement Understanding [...]. It would be impossible for developing nations to use the eventual sanction of trade retaliation against a powerful and diverse economy even if they were able to ignore political threats and prosecute the action in the first place. (Ibid)

To further strengthen her argument, Dine compares the design of the international law with the colonization of America and the Indians getting poorer. The Americans could not be held accountable, for they had bought the land on the open market transactions called treaties. Each transaction and treaty was a mixture of law, elements of power and some voluntarily transaction, but each time the Americans became more powerful, the law was shaped more in favour of the Americans, creating lower prices than had power relations been equal. Dine argues that similar processes are in play in the current international trade system. Even though the WTO is democratic and each member has equal rights and equal voting power, it is not uncommon for the more powerful nations to instate treaties to their advantage by (economically) threatening those who might vote against the treaty. In a similar way, as mentioned above, developing countries have difficulties to start procedures or treaties which are to their advantage.

Dine also gives a related and well-known argument for an unequal trading system:

Perhaps worse than the pretence of content [of less powerful countries], the commitment of free trade across the world is fundamentally violated by rich country protectionism of which a small example is U.S./EU protectionism which in agriculture alone subsidizes its own farmers to the tune of more than \$20 billion per annum and the system systematically works against impoverished countries. (Ibid, p. 200)

The above leads Dine to conclude that the current trade system is unjustified. Other methods of arguing for calling the current trade system (institutionalization) can also be given, as Dine

shows by noting “[i]nternational commercial law fails in a fair attribution of risk among peoples and would clearly fail the Rawlsian test of a policy designed from behind the veil” (Ibid, p. 202).

Nicholls and Opel (2005)<sup>3</sup> take a different path in justifying Fair Trade. They start out by leaving no room for misunderstanding their (extreme) position in the debates concerning free markets: “Poverty, environmental degradation, and rural-urban migration in developing countries are manifestations of problems with the global trade system” (Nicholls and Opel, 2005, p. 32). They believe that the market is functioning improperly (due to what they call “market failures”), issues which Fair Trade addresses directly. According to them, “Fair Trade corrects market failures by improving market access as well as information and credit flows” (Ibid).

With the establishment of GATT (General Agreement on Tariffs and Trade), a new era of increasing effort to reduce tariffs and eliminate other measures preventing Free Trade was engaged (Gwynne, 2008). Considering this goal and the advantages made in the direction of this goal, it can therefore be stated that most of the current international trade system is at least based upon the ideal of free market theories. After analyzing wealth inequalities, Nicholls (2008) finds that “the benefits of increased Free Trade have not been evenly spread” (p. 2). Indeed, most developing countries have not benefitted from their supposed comparative advantage as expected. While some of the causes for such inequality are macroeconomic<sup>4</sup>, many are also microeconomic. There are conditions under which a market driven economy should work. According to Nicholls and Opel, some of these conditions are absent in rural agricultural societies, reversing the gains from trade for producers in these societies. It is therefore that to enter international trade does not lift producers in developing countries out of poverty (Nicholls (2008). Table 1.1 lists some market failures and some issues for producers in developing countries, as well as how, according to Nicholls and Opel, fair trade corrects these problems.

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<sup>3</sup> Also see Nicholls, 2008

<sup>4</sup> Causes could be the effects of colonialism, the growing power of (Western) TNC's and the dependency on (low value) primary goods for export. See Cypher and Dietz (2009).

Issue / market failure <sup>5</sup>	Fair Trade solution
Small Farmers lack information about prices.	Farmers must be organized into co-operatives; can pool resources to access information.
Smallholder farmers lack information about market requirements.	Farmers must be organized into co-operatives; can pool resources to send co-operative leaders to visit trade shows and clients to learn about quality requirements. Direct long-term relationships are required: clients more likely to share information.
Smallholder farmers lack access to (financial) markets.	Farmers must be organized into co-operatives; can pool production to access future markets.
Smallholder farmers lack access to credit.	Importers must pre-finance up to 60 per cent of seasonal crops.
Weak enforcement of labour law in producing countries.	Standards require that producers adhere to ILO standards regarding minimum wages, child labour, working conditions, freedom to join unions.
World prices not covering costs of production.	Fair Trade floor price covers costs of sustainable production.
Smallholder farmers are risk-averse and do not diversify.	No direct solution - raising incomes through Fair Trade may decrease risk-aversion.
In effort to low costs, less sustainable production methods are used in the developing world, harming workers and the environment.	Fair Trade floor price covers costs of sustainable production. Environmental standards prohibit certain chemicals and land over-use.
Farmers and farm workers in the developing world are poor	Fair Trade guarantees minimum or regional wages for workers and price floors for smallholders. Social premium guaranteed.

Table 1.1: Global Market failures and Fair Trade solutions to these market failures (Source: Nicholls and Opal, 2005).

The above mentioned market failures indicate that "several basic requirements for the operation of a free market are not met in rural areas of developing countries" (Nicholls and Opal, 2005, p. 32). Fair Trade insert, so to speak, extra mechanisms into the market system to correct the negative effect of the market failures. However, it is still somewhat confusing what position Fair Trade therefore takes in the Free Trade debate. Fair Trade aims to correct market failures of the Free Trade system, thus might be considered as supporting Free Trade thinking. However, because Fair Trade opposes the current conventional economic system, and this system is based upon Free Trade thinking, some also consider Fair Trade as opposing Free Trade. Such a confusion can also be found by Dine (2008) when summarizing Nicholls and Opal's position:

<sup>5</sup> In Nicholls (2008), the main market imperfection given are Lack of market access, imperfect information, lack of access to financial markets, lack of access to credit, inability to switch to other sources of income generation and a weak legal systems and enforcement of laws.

Alex Nicholls and Charlotte Opal discuss the reasons why the economic theories on which the push to openness of markets has been based are flawed. The theory of benefits flowing from free markets engenders market failure when applied to poorer countries" (Ibid, p. 200).

Nicholls and Opal's believe that poverty is mainly a manifestation of the current trade system and the assumption that the current trade system is based on a theory of Free Trade, Dine's recap of the conclusion of Nicholls and Opal seems intuitively plausible. However, Nicholls and Opal position themselves against the theory (and possibly its consequences) of Free Trade, but is provide a more nuanced stance.

To understand how Fair Trade is positioned by Nicholls and Opal, it is of importance to understand the exact steps and assumptions in their reasoning. The obvious problem that needs attention is poverty in developing countries. As mentioned above, Nicholls and Opal believe that most of these problems can be linked to the current trade system. They claim that importers in developed countries have become the price makers, while the exporters and producers in developing countries have become the price-takers (Cypher and Dietz, 2009), pushing them in a position vulnerable to exploitation. In a system which strives to efficiency, exploitation is therefore an expected process. According to Nicholls and Opal, the cause of this problem can be found in a not fully functioning Free Trade system. This is due to the lack of necessary conditions<sup>6</sup>. These market imperfections cause the Free Trade system not to function properly. According to Nicholls and Opal, this "improper functioning of the free market" (2005, p. 32) is what has created an unbalanced international trade system at the expense of developing countries. Thus, it are the non-free trade aspects of the global trade system which is the main cause of economic underdevelopment. Fair Trade is a trade system which corrects these market failures:

Many of the benefits associated with free market economics are best achieved in a free market environment. But [...] agricultural producers in developing countries rarely find themselves in a functioning free market. Several basic requirements for the operation of a free market are not met in rural areas of developing countries. Two of the basic principles of fair trade, direct trade with producers and the fair trade floor price, address these market failures very effectively. (Ibid.)

Following Nicholls and Opal, it is theoretically impossible to understand Fair Trade as the opposite of Free Trade. In fact, it corrects Free Trade market failures. This does create a problem as to how to position fair trade. Can it be understood as an economic system, which is socially better justifiable compared to the conventional system, or should it be understood as a development tool only? If Fair Trade is indeed a system which works inside and outside the market system, i.e. using free market mechanisms as well as non-free market mechanisms, Fair Trade cannot be seen as anything other than a development tool. If the main problems of economic underdevelopment are identified, and of which the identified negative effects are countered by introducing new (non-free trade market) mechanisms, then there are few theoretical reasons to favour a Fair Trade based approach over other development tools.

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<sup>6</sup> These market imperfections are given in table 1.1.

## 1.4 Two Alternative Trade Systems: The WFTO and FLO

While at present it is possible to find dozens of significantly different trade systems all striving for the goals formulated in paragraph 1.2, there are several different ways divide the Fair Trade according to their operations. The most common ways of dividing the whole Movements all distinguish Fair Trade in two approaches. This can be done on the basis of products (commodities and non-commodities), organizations (WFTO and FLO) or on labelling (Labelled and non-labelled products). In practice however, as will be shown subsequently, each of these categorizations is related to the other. For example, if a Fair Trade product is a commodity, it is likely to be related to FLO activities and to be labelled as a fair trade product. These dualities will briefly be discussed starting with an historical overview of fair trade.

The origins of the Fair Trade Movement can be traced back to the 1960s, where a number of (usually Christian based) charitable organizations in Europe initiated programs which directly bought handicraft products from developing countries and sold those to people directly related to their organization, this way circumventing the formal market. In the late 1960s, larger NGOs such as Oxfam also engaged in such direct purchases in order to enhance the income of producers in developing countries. Due to the success of these initiatives, organizations dedicated to such practices were formed, of which the first was the “Dutch Fair Trade Organisatie”. However, such an increase in imported handicraft products required a larger consumer market than those directly related to the churches or organizations importing the products. As a result, the first Fair Trade shop, later known as World Shop, opened in 1969. Purchases made in these shops ensured consumers that the producers of these products received a “fair deal”. In the 1970s, the organizations which were involved started to expand and professionalize the trade channels they used and became known as Alternative Trade Organizations (ATOs). Other products such as coffee, chocolate and bananas were also introduced into these alternative trade networks (Redfern and Snedker, 2002).

Perhaps one of the most significant developments in Fair Trade has been the establishment of the Max Havelaar Foundation in the Netherlands (Renard, 2003). Instead of creating entirely different supply chains, this initiative introduced Fair Trade labels in order to sell fair trade products through existing supply chains. This labelling had several advantages. First, only a small percentage of consumers is willing to visit special shops to buy socially responsible products. With the introduction of fair trade labelling, Fair Trade products could be sold in supermarkets and other mainstream retail shops while still allowing for consumers to distinguish fair trade products from non-fair trade products. This has resulted in increased sales and improved awareness. Secondly, the two dimensions of Fair Trade discussed earlier could now be integrated. As Renard puts it:

With the insertion into the large distribution channels, using the conventional circuits and appealing to their actors [...], fair trade left the marginality of the special shops and alternative networks behind. The intention of the Fair Trade labeling organizations was to create a reality within the market, instead of constructing an alternative outside the market. (2003, p. 90)

The introduction of certified Fair Trade products became a great success, especially in the coffee and banana industry. A key moment occurred in 1997, when 20 Fair Trade Labelling Organizations created one central Fair Trade Labelling Organization, known as FLO (Ibid.). From that moment, the Fair Trade Movement could be divided into the old, mostly handicraft-product based, ATOs joined in the International Federation of Alternative Trade (IFAT, which

later became WFTO) and the FLO which operates in market channels which are, at least, mainstream and certifies commodities (IFAT, 2007). Both types will be discussed below.

The Fair Trade Movement		
Type	Alternative Trade (ATO)	Product Certification
Involved organizations	WFTO, NEWS, EFTA	FLO
Channels	Alternative, newly constructed	Usually partly mainstream
Main products	Coffee, Tea, Bananas, Chocolate, Rice, Nuts and Oil Seeds, Juices	Household Textiles, Home Decoration and accessories, Fashion accessories, clothing, baskets

Table 1.2: A division of the Fair Trade Movement between Alternative Trade and product certification.

**FLO**

The success of certifying Fair Trade products is greater than most advocates of fair trade would have dared to predict in the beginning of the 1990s. Where Fair Trade started with handicraft products, now the majority of all Fair Trade sales are certified commodity products. FLO reports total sales of FLO products to be 3.4 billion, a 15% increase compared to 2009. The expectation is that more than 7 million families have benefitted from FLO activities (FLO, 2010).

Although Fair Trade originally was created to ensure higher benefits for producers in developing countries, its goal is rather to implement a value chain which is fair in all respects. Therefore, a Fair Trade certified product should imply that all parts of the value chain are fair. This implies that the FLO has to create criteria for all actors in the value chain and frequently check compliance with these criteria. Setting standards, testing compliance and expanding the fair trade labelling network have all become part of FLO's operations. The national initiatives, such as Max Havelaar in the Netherlands, have reduced their activities to promoting Fair Trade (Renard, 2003).

As can be seen in figure 1.1, several actors of the mainstream value chain, e.g. the middleman, do not participate in the Fair Trade value chain. Although this is not a necessary requirement, for there are cases in which these factors are still involved. The figure also shows that producers and traders are required to comply to criteria. FLO has introduced Generic and Product Standards for this goal. Generic standards cover, social development, economic development, environmental development and standards on labour conditions. Product standards have been developed for 17 different product types and entail the minimum price, price premium and other product specific requirements (WFTO, 2007). Inspection of compliance of these standards is carried out with intervals of one to three years. Following up on the coffee example, figure 1.2 shows graphically how the shares of value creation of a fair trade coffee value chain are different from a traditional one.

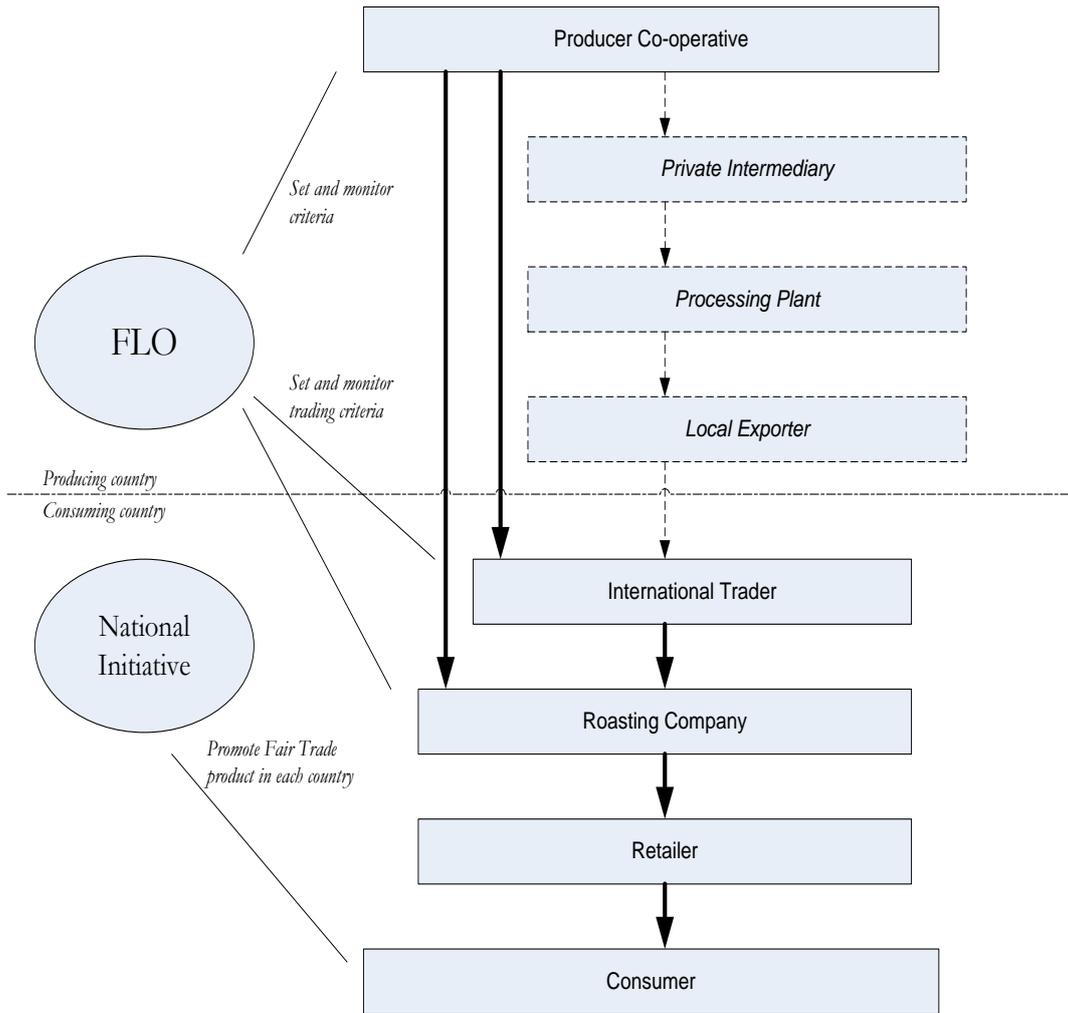


Figure 1.1: An example of a Fair Trade Coffee value chain. Source: Develtere and Pollet, 2005

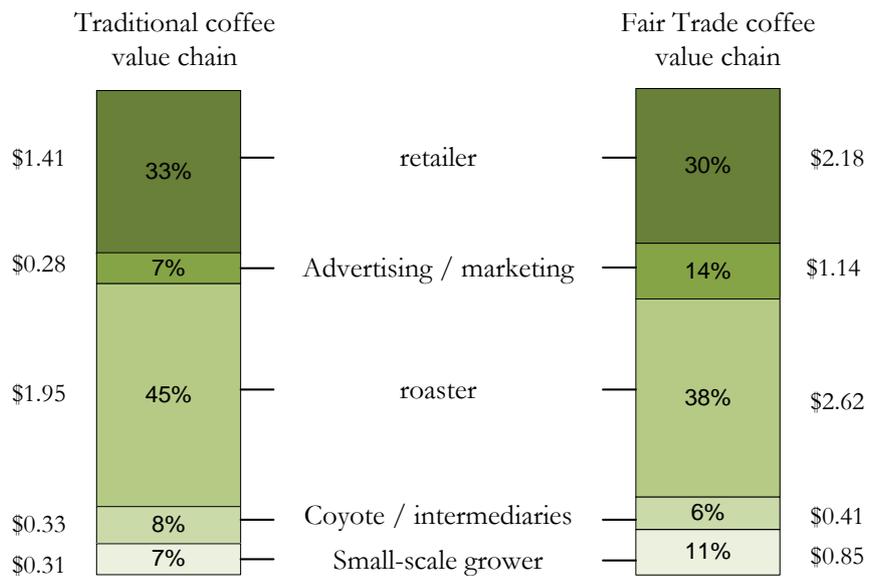


Figure 1.2: Shares of value adding in a traditional and a Fair Trade coffee value chain. Source: Nicholls and Opal, 2005.

## WFTO

Considering the success of fair trade certification, one could question why not all existing Fair Trade channels have changed to certification processes. Beside practical issues such as a lack of available information, or a lack of available capital to be able to become a member in a supply chain of a certified product, the nature of the product market determines whether product certification is possible. Three problems arise when certifying handicraft products:

*No market prices.* An important aspect of FLO fair trade is the floor price. Such a floor price only makes sense if a global market price is present, which in turn implies that the products are relatively homogeneous. Many commodity markets indeed show this characteristics. In contrast with food products. Most non-food products do not have a market price. Therefore, setting a floor price for most handicraft products would be absurd.

*Value chains are too complex.* If a product is labelled Fair Trade, the entire value chain can be considered fair. While for coffee such a product certification is relatively easy, certifying a bag is more difficult. Even if the production of a bag and all activities downstream may be considered fair, a bag generally also consists of zippers, buttons and other supportive materials. For the entire value chain to be fair, and thus to be able to certify the product, these part also have to be produced and sold in a way that complies to fair trade criteria. Creating such a fair value chain for non-food goods is usually practically impossible or highly expensive.

*Constant changing business environment.* Where a cacao producer can continue his production in similar ways year after year, most handicraft products are subject to fast changing consumer preferences as well as changing production processes. This would require new reviews of Fair Trade compliance every season, making it difficult to ensure compliance with Fair Trade standards over time.

An obvious solution to these problems of product certification is to certify the organizations which are involved in the value chain, instead of certifying the products. Organizations which comply to certain criteria are certified Fair Trade organizations, ensuring trading partners and consumers that the process of value creation of the organization involved is done according to Fair Trade principles. However, because not all FLO criteria can be applied to the abovementioned non-food markets, other Fair Trade criteria have to be formulated. Consider the remarks made about the floor price: if no market price is present, the a new system for determining a minimum price needs to be applied.

The WFTO has become the World's largest Fair Trade certifier of organizations. To become a Fair Trade organization, organization have to apply for membership. Part of the application process is checking compliance with the WFTO criteria. If an organization is accepted, it is to pay a annual contribution in order to be registered in the WFTO database, and to be allowed to use the WFTO Fair Trade logo. Compliance with Fair Trade standards is checked annually by peer reviews and visits (with no time period specified) by WFTO personnel. WFTO activities will be discussed in more detail in chapter 5. The ten standards to which a WFTO member should comply are:

1. Creating Opportunities for Economically Disadvantaged Producers.
2. Transparency and Accountability
3. Trading Practices
4. Payment of A Fair Price
5. Child Labour and Forced Labour
6. Non Discrimination, Gender Equity and Freedom of Association
7. Working Conditions
8. Capacity Building
9. Promotion of Fair Trade
10. Environment (WFTO, 2009a)

### 1.5 Achievements

After 50 years of growth, Fair Trade has brought about several achievements in line with their goals:

*Awareness raising.* Part of the objective of the fair trade movement has always been creating awareness regarding the unequal benefits of trade for those in developing countries. According to Develtere and Pollet, the successes in this area have been the most valuable:

It could be argued that the real significance of the fair-trade movement relates to its indirect effects. First of all the fair-trade movement is an important engine and promoter of changes in the regular trade because it creates growing consumer awareness and pushes for corporate responsibility and better conditions for producers in the third world. (2005, p. 9)

*Direct effect.* FLO reports working with more than 500 producer organizations and more than 7 million agrarian families benefiting from fair trade certification (FLO, 2010). Over the last 50 years, several studies have been carried out what those benefits entail. Nelson and Pound (2009) have reviewed over 80 impact studies of fair trade in the last ten years. Mayoux (2006) has also summarized several findings of impact studies.

Mayoux found that "in general terms there has been a positive impact on incomes of entrepreneurs and levels of employment and wages" (2006, p. 15). Nelson and Pound also found increased income for smallholder farming families as well as improved economic stability. Additionally, producers in developing countries have improved access to credit and pre-financing.

The social premiums paid with certified Fair Trade products are used for investments in community projects. Both review papers describe examples where such investments have led to improved education and health systems, although causality with the price premium remains difficult to determine.

Both reviewing papers stress the importance of the fact that Fair Trade unites smallholder farmers into cooperatives. Such cooperatives strengthen the farmers' economic (and even political) empowerment, but also provides security, access to capital as well as access to information about markets. Some even argue that building a strong cooperative is by far the greatest benefit for a sustainable future with increased economical benefits for smallholder farmers (Raynolds et al., 2008; Develtere and Pollet, 2005). Their arguments are strengthened by case studies provided by the FLO. The success stories the FLO describes, are concerned with

farmer cooperatives who have grown in size and strength, eventually being able to create their own brand (Max Havelaar, 2003).

Not only are producers empowered economically, Fair Trade also tends to improve producer self-confidence. Fair trade has played an important role in "strengthening indigenous identities, organizations and farmers' political position through greater self-sufficiency" (Goodman, 2004).

*Sustaining traditional handicraft.* Many handicraft products represent a large cultural tradition. The handicraft division of fair trade has been able to market many of these "cultural products", resulting in a revival of a sometimes dying local craft (LeClair, 2002).

Thus, as Humphrey (2000) puts it, "Has Fair Trade really made a difference to the lives of the producers who have received support and/or orders over the last 20 years? The answer is an intuitive yes based on the personal reports of those involved, along with separate evaluations of individual projects" (p. 36). Such positive impacts have led to the intention of the Fair Trade Movement to reach as many producers as possible. At the same time, more producers, attracted by the access to a new market and a minimum price, are willing to enter the Fair Trade movement.

## 1.6 Obstacles

Although the growth of the Fair Trade Movement has led to impressive achievements in poverty reduction, this success has, especially in the last 10 years, not gone without criticisms, both from outside as well as inside the Movement. Consider the following examples:

*Fair trade ceiling.* While Fair Trade sales are still growing, some argue that this is only due to growth in new geographical markets as well as new product markets (Randall, 2005). Only a very small amount of consumers is expected to be willing to pay that much more for a product which is socially responsible according to Fair Trade standards. Therefore, while a supply-led approach of "if the producers make it we'll try to sell it" (Redfern and Snedker, 2002, p. 22) worked out fine in the past with a growing demand for Fair Trade products, it is now considered to be a problem: it is argued that Fair Trade has reached its ceiling. If no more consumers are willing to pay the price necessary to ensure all Fair Trade standards are met in the value chain, further growth is impossible.

*Fair Trade focuses on markets with oversupply.* LeClair (2002) has provided economic arguments against assisting producers in developing countries through reconfiguring the value chain. First, it has become clear that it is practically impossible to include all producers in a given country. Fair Trade tends to create an advantage for those particular groups which are being assisted. Combining this with the widespread accepted assumption that both the handicraft and the commodity markets are highly competitive, producers outside the Fair Trade Network "are potentially harmed by the resulting shift in demand, with the exact outcome depending on the supply and demand elasticities." (Ibid., p. 955). Unfortunately, both commodity and handicraft markets are generally characterized by oversupply and poor economic prospects in the long-term. Thus, Fair Trade tends to stimulate producers to further invest in markets with relatively poor prospects.

*Producer dependency.* Fair Trade strives to enable producers to become sustainable businesses. However, these goals of producer independence are only met in exceptionally successful cases (Max Havelaar, 2003). By entering a Fair Trade value chain, producers are provided a high

income with long term trade relations. Especially for handicraft products, this can result in specialization by producers, thus reducing the degree of income diversification, resulting in an increase in relative vulnerability and resilience (Nelson and Pound, 2009). Producers are confronted with a whatever-you-produce-we'll-try-to-sell-it mentality, increasing dependence on single buyers and a decrease in necessity to innovate and incentive to keep informed about market developments.

*Other ethical standards.* A significant problem Fair Trade nowadays faces are the possible consequences which a growing consumer awareness has, and can have, on Third World countries. Because consumers have taken a more ethical stance in their economic behaviour, businesses have been trying to become more morally responsible (Wempe, 2005). As a result, these businesses have adopted attitudes towards more environmental and social responsibility, thereby resembling some important aspects of Fair Trade. As Reynolds (2000) puts it:

There is [...] a risk that the space that exists for alternative trade will be subverted by profit seeking corporations. Research suggests that many corporations are trying to bolster their legitimacy by adopting the rhetoric of environmental and/or social responsibility, though typically this proves to be little more than a corporate face lift (p. 299).

Demand for a cheap company image of socially responsible business practices has led to the introduction of several new types of ethical certifications. Such new initiatives differ in “fairness” as defined by the Fair Trade movement. In practice, consumers are not always aware of this difference in social-economic impact. There are initiatives which are described as a corporate face lift (Reynolds, 2000). For example, in the Netherlands, the leading coffee roaster, Douwe Egberts has launched several initiatives such as “boerenkoffie” (peasant coffee) and “coffee for everyone” in which it focuses on charity campaigns or changing trade relationships. However, in both contexts, Max Havelaar felt obliged to start a counter-campaign in order to show that this was indeed no more than a face lift. In the middle of the “Fairness spectrum” are certifications such as UTZ. This label originally started out as a monitoring system which aimed at ensuring that the Dutch company Ahold did not purchase coffee which was produced with child labour (Fox, 2007). Over time, it developed into a more independent labelling organization including different types of products<sup>7</sup>. It is important to notice the fundamental different approaches to social and environmental responsibility between Max Havelaar and UTZ. For Max Havelaar, it is the sustainability of the farmer and its environment which determines the price of a product (Max Havelaar, 2003). For UTZ this is what the market can handle (Harmsen, 2008). This latter aspect results in lower criteria, such as no general minimum price<sup>8</sup>, no social premium and less strict criteria when it comes to social and environmental conditions (UTZ, 2006).

### 1.7 Going Mainstream

Under the wings of the FLO, Fair Trade has made an attempt to overcome some of the obstacles discussed in the previous paragraph by going mainstream. Mainstreaming can be defined as the process of Fair Trade economic actors moving from fully operating in Fair Trade value chains to increasingly operating in conventional market value chains. Where the

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<sup>8</sup> A minimum price is sometimes accepted, but only after negotiations between producers and buyers. This makes one wonder why it is called a minimum price (Coffee Coalition, 2006).

introduction of product certification has opened up possibilities of value chains with mainstream actors participating as well, the focus now seems to have become a mainstream market with some additional rules. More and more mainstream economic actors, some dedicated while others just in it for a facelift are dominating the value chains. As a result, demands for quality and on time delivery have gone up (Raynolds et al., 2008; Nicholls and Opal 2008). Going mainstream has several advantages: it opens up more distribution channels, resulting in more demand, which in turn lifts up the Fair Trade ceiling a little more. But perhaps more importantly, from an impact perspective, producers are introduced to new markets. According to Moore, "access to markets is clearly the key element for southern producers" (Moore, 2004, p. 78). By being exposed to mainstream markets, producers can learn necessary entrepreneurial skills. With the security and support of Fair Trade, producers will learn about market developments, product development, how to fulfil buyer demands, understand consumer preferences and obtain other entrepreneurial skills. All of these skills are necessary to compete in mainstream markets. If such skills are acquired, producers can achieve relative independence and even diversify (Raynolds et al., 2008; Nicholls and Opal 2008; Leclair 2002; Redfern and Snedker, 2002).

Be that as it may, With such a focus of the Fair Trade Movement on mainstream markets, the original goals of Fair Trade might be lost. As Renard (2003) puts it:

The interest of these [producer] organizations in gaining access to the fair trade market niche is correspondingly great, and the problem lies in expanding the demand for fair products so that the supply can be absorbed. This is the real, urgent context of the debate over the insertion of Fair Trade into the large distribution circuits and the risk that it will be absorbed and undermined by these same circuits. The challenge is to achieve, simultaneously, the economic expansion of Fair Trade and its political consolidation. (p. 92)

A growing voice of criticism from inside the fair trade movement regards, the rapid inclusion of strong mainstream brands which have little visible commitment to social standards. Because it has become clear that selling Fair Trade products can result in substantial profits, joining the Movement has become a goal in itself. Such profit maximizing behaviour, i.e. firms looking for a corporate facelift, is referred to as "Fairwashing" (Nicholls and Opal, 2005) or "Clean Washing" (Raynolds, 2008). The objection from the ATO's and "100%" (dedicated) organizations within the Fair Trade Movement is that these mainstream brands dilute the Fair Trade principles. Besides, they are able to underprice and underpin more socially oriented Fair Trade firms, therefore competing out dedicated fair trade firms in their own market niche (Nicholls and Opal, 2005).

Another related problem of going mainstream is that many producers are simply not able to comply to mainstream market standards. Moore (2004) adequately describes the difference between the Fair Trade markets and mainstream markets:

A cursory glance at Fair Trade from an experienced business person who knew little about it, might lead that person to question how it manages to exist at all. Products that, certainly in the past if no longer, were substandard compared to others on the market, marketed in a rather amateurish manner and priced above comparable products, would not look to be a sound business practice. (Moore, p. 80)

This quote shows that the problems pertaining to the Fair Trade Movement, such as inefficiency, lack of knowledge and a lack of skills. This, however, is not surprising. It are exactly

the (economically marginalized) producers who lack the necessary knowledge to compete in the market, and who face exploitation which Fair Trade targets. Because the mainstream market is the most important place for expansion of the Fair Trade Movement, improving the knowledge and skills of the producers, in order to be able to participate in conventional value chains and anticipate on consumer demands, is a natural way to leap forward. However, this is not easy, as Redfern and Snedker (2002) state:

While greater penetration into mainstream markets is arguably the only way forward for the Fair Trade movement, it must be recognized that mainstream businesses demand a different approach to the ATO niche. In most companies, buyers will not tolerate late delivery and poor communication of changes to an arrangement, for whatever reason this might occur. Therefore, there is a risk that the gain of a broader distribution of benefits gained through the supply of greater volumes will be countered by the lessening of the quality of those benefits. This gap can be filled through business support services such as those offered by Traidcraft Exchange, but business development is a slow, long-term process and export readiness cannot be achieved immediately. (p. 12)

Humphrey (2000) lists some aspects which are important for a producer in order to participate in a mainstream market (p. 22-29):

1. *Export Readiness.* In order to export to northern countries, usually a producer already has to be active in the domestic market. Furthermore, information and understanding of the destination market needs to be established. Traidcraft has developed a set of guidelines to determine whether a producer is export ready:
  - Consistent quality to the original sample or specification
  - The ability to compete at market price subject to research prior to market experience
  - The provision of reliable information – production capacity, lead times and prices provided in advance.
  - A willingness to provide samples
  - A minimum sales target, and calculations of direct costs
  - Logistics competency i.e. packing, freight, legal requirements, export licences
  - Appropriate product development capacity
  - A maximum lead time of 3 months for non food products
  - Ability to purchase raw material without advance payment
  - Ability to provide good customer services and communication
2. *Achieving international product standards.* For buyers, the quality and consistency of a product are an important, Therefore, it is desirable for a producer to satisfy these demands. Furthermore, there is legislation, often accompanied by guidelines, concerning the safety of products in order for them to be allowed to be exported to northern countries.
3. *Market linkages.* To export their products, producers need to find appropriate buyers and create trade relations with these buyers.

Humphrey (2000) concludes that the most important criteria for producers willing to export are:

- Products should be made to satisfy the needs of costumers
- Delivery must be on time
- The price must be competitive
- Good quality is essential
- The right packaging has to be used
- Products should be properly labelled with all the required information
- Good communication is needed with the buyer to build in trust and confidence
- Investigate the best means of transport
- Ensure continuity in developing new products
- Be willing to share and learn
- Be flexible to keep pace and ready to make a change if necessary

However, most producers in the south lack the possibilities to fulfil all these criteria. An evaluation of producers focusing on such capacity building in September 2001 concluded that,

In practice the data suggests that producers were unable to develop to the standard of mainstream western markets in the time available. This is probably because the capacity building requirements from the outset were too great for the selected producers to become proficient enough to export in one or two years. (Redfern and Snedker, 2002, p. 37)

Considering the importance of capacity building, an important part of Fair Trade services have become the business supporting services provided for Fair Trade Organizations to support producer organizations. An example of an organization with such a focus is Traidcraft Exchange, one of the umbrella organizations in our Host organization during the research in Cambodia.

### **1.8 Social Objectives in an Economic Environment**

Though capacity building is important to enable a producer to export its products, these economic goals always serve as a means for social (Fair Trade) goals. At the same time, “however benevolent its intentions, a business has to at least break even in order to maintain the benefits it brings to producers” (Humphrey, 2000, p. 20). Thus, a Fair Trade producer organization should still try to improve its economic functioning, which usually implies more income to achieve its social goals. But improvement in economic functioning does not always coincide with the social goals of a Fair Trade producer organization. In many cases, social and economic functioning are opposites in the same spectrum. An obvious example is the payment of a minimum wage by Fair Trade organizations, as opposed to paying lower wages as a way to decrease production costs. Thus, “a delicate balance between producer objectives and commercial realities” (Humphrey, 2000, p. 21) has to be found.

For many producer organizations, trying to economically “break even” is not always as necessary as it might seem. For many producer organizations were established as social projects

with available donor funds. Such extra income makes the necessity of being economically viable through a good economic functioning less important. However, due to increasing pressure from donors to become less donor-dependent and therefore more sustainability, the importance for producer organizations of being economically viable has grown in the last ten years (Redfern and Snedker, 2002).

### **1.9 Conclusion**

This chapter has provided an overview of Fair Trade as a theoretical context in which the research results have to be interpreted. The chapter started with a definition. The main difference with the conventional trade system is the implementation of minimum standards based on conventions of what actors in the value chain require for a decent life, in contrast to what the market can afford. Paragraph 1.2 has shown that several ways of justification of such minimum criteria are possible. Two of the possibilities were presented. The first was related to a rejection of the conventional trade institutions for reasons of institutional corruption, while the second argued for the insertion of mechanisms to counter the unequal benefits resulting from a not fully implemented free trade system.

Two modern day types of Fair Trade were identified. The first are the Alternative Trade networks mostly trading in handicraft products. Organizations can become Fair Trade certified by applying for WFTO membership. The second type of Fair Trade is product certification by the FLO in commodity markets. This latter type has been responsible for the high growth rates in sales in the recent years.

Several obstacles and achievements have been identified in paragraphs 1.5 and 1.6. Moving towards more mainstream trade channels offers growth possibilities as well as opportunities for building entrepreneurial skills. However, this process of mainstreaming is not easily implemented. Many producers in developing countries lack the skills and efficiency to compete in mainstream markets. Mainstream markets differ significantly in terms of changing business environments, fast changing consumer preferences and higher buyer demands.

## 2 Research Methodology

Chapter 1 has shown the importance of mainstreaming in contemporary Fair Trade. Because not all Fair Trade organizations are equally suitable for mainstreaming processes, it should be determined on individual basis whether such changes of operations needed for mainstreaming will benefit economic and social performance. This report considers such a decision for organizations in the Cambodian Fair Trade handicraft market. It is based on a research carried out as part of the Master International Development Studies at University Utrecht.

This chapter will provide an overview of the research questions and methodology used in the research carried out in 2009 in Cambodia. It will consider the goal of the research as well as the research questions necessary to achieve this goal. It will then briefly discuss how the research has been carried out. The chapter ends with a discussion of the most likely biases in the research.

### 2.1 Research Questions

In order to examine Fair Trade mainstreaming in a certain set of social organizations, it is of importance to determine whether the necessary conditions of Fair Trade are indeed present. If the organizations in the research group turn out not to be Fair Trade, it would be impossible to speak of relevant mainstreaming in any way, for the definition of mainstream includes moving away from a Fair Trade market into a regular market. It is therefore that this condition of Fair Trade compliance is one of the research question. The main research questions therefore are:

- 3) **To what extent do Cambodian handicraft producer organizations comply to Fair Trade standards?**
- 4) **To what extent can Cambodian Fair Trade handicraft producer organizations enter and compete in the mainstream market?**

There are roughly three possible outcomes of the first question. First, companies can easily be said to comply to Fair Trade criteria and therefore categorized as Fair Trade if they are WFTO certified companies. In such case the companies should comply to WFTO social standards and have been audited by the WFTO. The second possible outcome is that companies are, either by choice or out of necessity, not Fair Trade certified<sup>9</sup>, but do comply to Fair Trade criteria<sup>10</sup>. The third possibility is that hardly any of the producer organizations can or intend to live up the social standards of Fair Trade. In such case, the second research question would not apply to the context of the Cambodian sample.

The second research question concerns the possibility organizations have to operate in markets with very different market requirements than they are used to. Before they solely traded with Fair Trade importers. Important factors with high mainstream market requirements are:

<sup>9</sup> Either with the WFTO or another certification body.

<sup>10</sup> In such cases, it is of interest why companies are not WFTO Fair Trade certified. This is discussed in chapter 5.

- **Price.** Prices in non-fair trade are generally lower than in fair trade channels
- **Quality.** quality has to be sufficient and consistent.
- **Design.** Designs have to follow new trends in order to convince new buyers the abilities of the producer<sup>11</sup>.
- **Transport and packing.**

Based on these criteria, it can be decided to what extent the organizations researched can operate in mainstream markets. How these questions have been operationalized will be discussed in paragraph 2.3. Appendix 3 contains a conceptual model which can be used to interpret the research questions.

## 2.2 The CFTF and Cambodian Social Producer Organizations

The four months research has been carried out in cooperation with the Cambodia Fair Trade Forum (CFTF), an organization not yet officially registered and run by volunteers working in project related to social organizations. CFTF Activities are organized by the working group, which consists of project managers of 4 NGO's. People or organizations interested in Fair Trade can subscribe to a mailing list which was used to keep them informed about the latest developments and activities related to Fair Trade in Cambodia. The NGO's which run the CFTF working group are:

- **Traidcraft (Traidcraft Exchange Cambodia).** An international NGO (home based in England) which has a project in Cambodia which supports social organizations.
- **Mennonite Central Committee (MCC).** An international NGO with a small program to support two Cambodian social organizations. Also has other projects in Cambodia.
- **Artisans Association Cambodia (AAC).** An Cambodian NGO with 45 members. Provides business support to its members.
- **Craftnetwork Cambodia.** A local NGO run by a Dutch women who also was the supervisor during the research. This NGO facilitates in exports between importers and Cambodian social organizations.

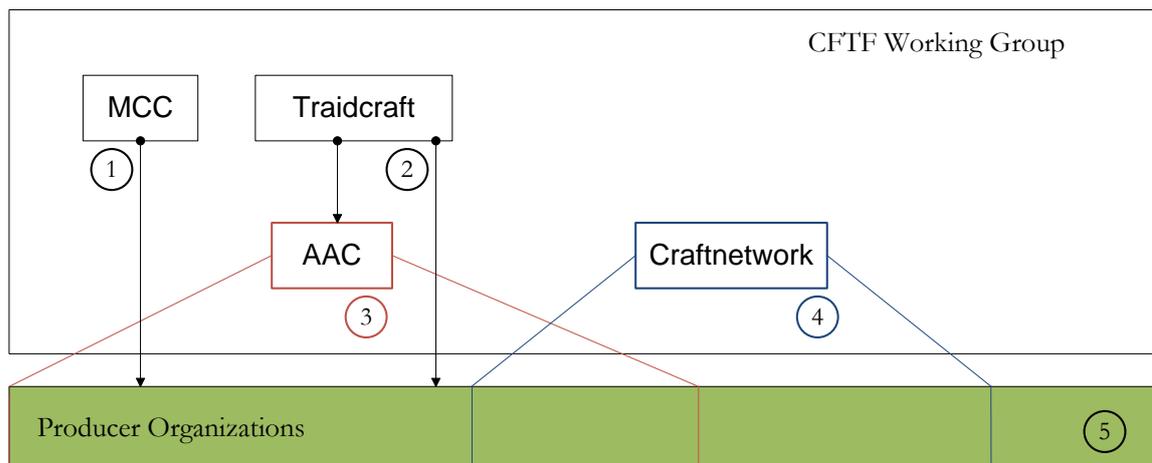
This working group organizes activities such as the annual World Fair Trade Day, Fair Trade meetings and was developing a website which was supposed to serve as a Fair Trade portal to Cambodia. During the research, the working group held meetings about one time a month. Through the CFTF it became possible to identify most of the producing organizations in Cambodia which could qualify for Fair Trade standards. It became clear that most social organizations operate in the Home accessories and fashion accessories sector. In-depth information of this sector and the companies operating in it, will be given in chapter 4.

From the 55-60 social organizations in this sector, about 50 are either a member of AAC, or work with Craftnetwork, or both. This estimate of 55-60 social organizations is based on the 42 AAC members, 19 members of Craftnetwork (of which 10 are also an AAC member) and an

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<sup>11</sup> It should be noted that once an importer structurally places orders, new designs are generally provided by importers. This requires less effort for the producing enterprise.

estimation<sup>12</sup> concerning social organizations in the home accessories and fashion accessories sectors which are not affiliated with AAC or Craftnetwork. It should be noted that it is doubtful whether all 42 listed members are truly producer organizations. Some are only shops buying from producer organizations and some seemed non-existent during the research. How the social organizations are divided into AAC members, Craftnetwork partners and other organizations, as well as the relation each CFTF working group member has with the organizations is schematically shown in figure 2.1.



- (1) MCC provides intensive support to two AAC member producer organizations (Rajana and Rehab Craft) in management, production processes, design, market analysis, etc.
- (2) Traidcraft is the main donor of AAC through Traidcraft's project "Sustainable trade for social enterprises, Cambodia". It funds AAC employees and activities. The project also entails educating 10 Local Business Consultants and 10 Local Product Developers who work with AAC members.
- (3) AAC can be considered an umbrella organization with individual social enterprises as members. It provides training, assistance with sales and market information. Companies have to comply to several (social) criteria before being accepted as a member. Around 42 members were registered during the research period.
- (4) Craftnetwork operates as a facilitator between western importers and Cambodian Social enterprises. Importers can place orders at Craftnetwork, after which Craftnetwork provides assistance to the producer organizations in order to deliver the order in time and with the expected quality. Craftnetwork has around 20 organizations listed to which it can pass their orders. Some are also a member of AAC, while others only work with Craftnetwork. All have to comply to several social criteria.
- (5) Several producer organizations do not work with any of the CFTF working group members. An important organization in this category is Artisans d'Angkor. Other organizations are Baskets of Cambodia (which has launched an offensive against many Fair Trade activities in Cambodia), Kravan House (boutique in Phnom Penh) and Santuk Village (a small project run by an American focusing on creating income for the local village by selling to tourists travelling between Siem Reap and Phnom Penh).

*Figure 2.1: Overview of the relation between the CFTF working group members and the Cambodian Fair Trade producer organizations.*

<sup>12</sup> This estimation is based on information gathered from interviews with consultants, project managers, internet searches and the presence of handicraft shops in Phnom Penh and Siem Reap.

## 2.3 The Research Phases

### **Phase 1: Orientation**

After arrival, contact was made with all working group members of the CFTF. Next, introductory interviews with all project managers active in the host organization were carried out, in order to establish a general image of the sector, of the activities of the CFTF working group donor organizations, and of the presence of compliance to Fair Trade standards within the producer organizations. These interviews showed that official Fair Trade presence as in WFTO certification or FLO certification was almost absent. However, most producer organizations which were a member of AAC or Craftnetwork were striving to comply to Fair Trade standards<sup>13</sup>. All interviews in this research phase were unstructured interviews and lasted around 30-60 minutes. Also, AAC and Craftnetwork provided their members list with the contact information of each enterprise. To introduce the upcoming research to their members, the CFTF send an email to all that were on the CFTF mailing list. In this email, information about the researchers was given, and the research method was explained. Next to interviews, available documentation about projects and organizations were also processed to get a clear understanding of project activities related to possible Fair Trade producer organizations.

No sample of producer organizations was taken. Due to the few Fair Trade producer organizations in Cambodia, all organizations situated in Phnom Penh with which contact could be made<sup>14</sup>, and which were willing to cooperate in the research, were included in the research. In a later stage, four organizations outside Phnom Penh were also included in the research.

### **Phase 2: Contacting Organizations and Orientating Interviews**

Based on the lists provided by AAC and Craftnetwork, organizations were approached through email, telephone and visits. However, not all organizations are stationed in Phnom Penh, and although Cambodia is a relative small country, roads and transportation is still of low quality, making it difficult to visit organizations outside Phnom Penh. Therefore, not all organizations could be reached. Furthermore, we were advised to start with some organizations of which was known that they were willing to cooperate and we were warned for many refusals of cooperation. During the first weeks of the research, introductory interviews with those organizations which we could reach, and which were willing to cooperate were carried out. These semi-structured interviews of around 20-30 minutes served to introduce ourselves, gain trust from the managers, understand the general characteristics of the organizations and make appointments for further in-depth interviews<sup>15</sup>. With only 8 of the 25 researched producer organizations such interviews have been carried out. In other cases, at the request of managers<sup>16</sup> or due to very limited time, the introduction was done during the first in-depth interview.

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<sup>13</sup> One criteria for AAC membership is that the "organization must provide evidence that you are working towards implementing Fair Trade principles within your workplace (in accordance with the 10 principles outlined by IFAT)" (AAC, 2009).

<sup>14</sup> For some organizations, contact information was not correct. In some other cases, organizations did not return or calls or emails.

<sup>15</sup> My research partner used these interviews to make a follow-up appointment to interview the producers at work, while I made a follow-up appointment with the managers.

<sup>16</sup> Managers sometimes requested not to undertake an introductory interview because they felt too busy for three interviews or simply felt no need.

### **Phase 3: gaining in-depth information**

After conducting introductory interviews with managers from producer organizations, the next phase of the research consisted of gaining more in-depth information regarding social standards and market opportunities. Due to the many issues to be discussed, as well as the language barrier<sup>17</sup>, the interview was divided into two. The first interview consisted of questions concerning fair trade in general, fair trade certification and compliance to Fair Trade standards. This last aspect was divided into the 10 Fair Trade standards as given by the WFTO. Compliance of each standard by the organization was discussed with the manager. The second interview consisted of questions relating to product design, quality control, sales channels and market buyer behaviour. The division of these two topics into two interviews are reflected in the two research questions given in paragraph 2.1. Each of these interviews was semi-structured and lasted approximately 30-70 minutes. Next to the interviews, several workshops were visited. Here, answers of managers could be validated with the actual practice at the workshop and a more complete picture of the producer organization could be formed. The visited workshops were those which were close to the place where the interviews with the managers were carried out.

Next to these more structured method of research, several other activities have been carried out. Two focus groups were organized. One was carried out with home based producers in Ratanakiri province and one was carried out with managers of several producer organizations. The first focus group served as to gain more insight in the role producing plays for producers working at home<sup>18</sup>, how much time they spend on producing their products and why they won't become full time. After the focus group, a field trip to several villages of these producers was undertaken. The second focus group was carried out to understand how managers define fair trade and how their organizations can comply to fair trade standards.



*Figure 2.2: Conducting a focus group during a fair trade workshop organized by the researchers.*

To get a better grip on the possibilities of going mainstream for producer organizations, it did not suffice to just hold interviews with managers, for on the whole they have little knowledge about mainstream markets. Even more, they cannot explain their level of product quality, designs, and to what extent their price is competitive. All due to a lack of sector knowledge. Therefore, interviews with international consultants, local business consultants, local product developers, project managers working with the producer organizations and an Australian importer of products of the investigated companies were carried out. These interviews were semi-structured as well, and each lasted for 60 minutes. Traidcraft helped to find local business consultants and local product developers. Part of the Traidcraft project in the sector was the training of 10 consultants for product developments and 10 consultants for business development. A contact list of these local consultants was provided by Traidcraft. Three consultants from each group, living in Phnom Penh, were approached. A response was received from one business consultant and two product developers. The importer and the international

<sup>17</sup> Interviews were conducted in English, while locals spoke Khmer as first language.

<sup>18</sup> During interviews, it became clear that home producers are usually subcontractors and have different rights and loans than producers in workshops.

consultants were found through Craftnetwork or were mentioned by managers during interviews.

## 2.4 Biases<sup>19</sup>

The research was carried out in a relatively short time, and several factors may have influenced the correctness of the data, both in terms of data provided by the managers, as well as in the generalization. The most likely possible biases are:

**Politically correct answers.** For reasons unknown to us<sup>20</sup>, producer organizations were hesitant, or sometimes even reluctant, to cooperate in this research. During interviews, managers sometimes acted as if they were audited by the WFTO itself. Even after explaining that this was for research purposes only, many managers answered questions in a defensive way and kept insisting on confidentiality. The fear of releasing sensitive information also became clear after turning of the voice recorder when the interview was officially finished. During the minutes of conversation after the interview, and with the voice recorder turned off, valuable information was given which most probably would not have been given with the voice recorder still recording. It is for these reasons that managers might have been giving incorrect answers, or different answers than they would have given under normal circumstances.

**The international economic crisis.** Research was carried out in times of economic crisis. Tourism in Cambodia was more than 20% lower than the year before and demand of international buyers dropped drastically. Traidcraft reported that sales of many AAC members had dropped with 30% compared to the year before. Such a difficult economic environment changes sales methods, investments and sometimes even affect social standards<sup>21</sup>. As a result, there is a significant change that some data does not represent the companies' situation from the years before the economic crisis<sup>22</sup>.

**non-respondents.** A significant amount of the managers who were contacted did not agree to cooperate in the research, or simply did not respond to our calls and emails at all. When reasons were given, it usually came down to being too busy in difficult economic times. However, for some companies it is also possible that they prefer to restrain from providing any information about social standards in their organization. It is therefore likely that the companies included in the research were those companies having little to hide (i.e. high social standards), while those with low standards declined cooperation.

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<sup>19</sup> Part of this paragraph is taken from a report of our the research findings in Cambodia. This report was written by me and Martien van Dijk. It is therefore possible Martien van Dijk and me have some paragraphs in our theses which are the same.

<sup>20</sup> Some consultants believed that issues under research were factors which could determine the income of producer companies. The issues are of sensitive when it comes to donor funds and the decision of fair trade buyers to buy.

<sup>21</sup> If the economic environment becomes as problematic as sales are not enough to sustain current company activities, producer organizations might find it necessary to cut back on social standards.

<sup>22</sup> It should however be noted that most producer organizations have fair trade buyers with a strong social focus or churches importing products. These type of buyers will put large efforts to be able to continue placing orders.

### 3 National Context: Cambodia

Chapter 2 reviewed the research questions and methodologies used in the research in Cambodia. This chapter will provide a geographical context. It will provide an overview of the general characteristics of Cambodia, a short historical overview and some characteristics of the Cambodian Economy.

Most producer organizations are based in the capital, Phnom Penh, and have subcontractors in rural areas. Cambodia is known for its violent history in the 1970's related to the rise and fall of the Khmer Rouge. That this still has its impact can for example be seen by the large amount of mines (and therefore mine victims) in Cambodia, as well as the low educational level.



Figure 3.1: Cambodia's political-geographical position. (Source: CIA, 2009)

#### General Characteristics

<b>Size</b>	181.000 km <sup>2</sup>
<b>Population</b>	14,7 million
<b>Ethnicity Population</b>	Khmer (90%), Chinese, Vietnamese, Hill tribes
<b>Main Religion(s)</b>	Buddhist (Theravada)
<b>Language</b>	Khmer

#### Development Characteristics

<b>HDI Rank</b>	137
<b>Life Expectancy</b>	62,52 years
<b>Literacy</b>	73,6%
<b>HIV/AIDS prevalence rate</b>	0,8%
<b>Risk major infectious diseases</b>	Very High
<b>Urbanization</b>	22%
<b>Urbanization rate</b>	4,6%

#### Economic Characteristics

<b>GDP per capita</b>	\$ 1.900
<b>GDP per capita world rank</b>	187
<b>GDP real growth rate</b>	-0,9%
<b>GDP per sector</b>	Agriculture: 29% Industry: 30% Services: 41%
<b>Unemployment rate</b>	3,5%
<b>Population below poverty line</b>	31%
<b>Main export partners</b>	US (54,5%), Germany (7,7%), Canada (5,9%), UK (5,5%), Vietnam (4,5%)

Table 3.3: Several Characteristics of Cambodia (CIA, 2009).

### 3.1 History of Cambodia<sup>23</sup>

Cambodia remained a French colony for 90 years until its independence in 1953. By that time, communist guerrillas resisted the return of the French authority after the Japanese occupation during the second world war. This was the beginning of a communist orientated regime ruled by king Sihanouk. His reign lasted until 1970, when a coup was conducted by prime minister Lon Nol. Sihanouk became exiled in China, and the army was sent to fight the northern Vietnamese troops which he allowed to enter Cambodia. Lon Nol stayed in charge for five years. When Sihanouk returned, he returned with the support of the communist Khmer Rouge, a guerilla organization led by Pol Pot. In 1975 the Lon Nol regime was overthrown by the Khmer Rouge guerrillas. This coup marked the beginning of a major setback for the country (BBC, 2009).

The Khmer Rouge forced all urban dwellers to the rural areas in order to become agricultural workers. Under their rule, basic freedoms were no longer guaranteed and religion was banned. This radical communist rule cost at least 1.7 million people their lives in the 4 years that it lasted. The Pol Pot regime came to an end when the Vietnamese troops conquered Phnom Penh in 1979. However, no peace-agreement was signed until 1992 and even though there were elections and there was some progress, fights continued to break out in the country. By 1992 the Vietnamese troops had withdrawn and many regulations which the Khmer Rouge regime had imposed were retracted. A UN transitional authority was placed in charge of the country and shared its power with Cambodian parties (BBC, 2009).

In 1993 general elections were held. The royalist Funcinpec party received most votes during this election, followed by the Cambodian People's party, led by Hun Sen. A coalition was formed with Funcinpec's Norodom Ranariddh as prime minister and Hun Sen as the deputy prime minister and Sihanouk was reinstated as the King of Cambodia. In 1997 Hun Sen staged a coup and Ranariddh was removed from his function. However, after the elections in 1998, when Hun Sen's Cambodian People's Party won most seats, Ranariddh returned to the political arena as president of the National Assembly, while Hun Sen became the prime minister. After a period of few assistance due to the political unrest and the socialist attitude of the country, international donors pledged to donate \$560 million in aid in 2001. By now, Hun Sen is one of the longest serving prime ministers in the world. He still fulfills this function up to today. Ever since 2004 Sihanouk's son Norodom Sihamoni is the reigning king of Cambodia, but this function is now mainly ceremonial (BBC, 2009).

### 3.2 Economy of Cambodia

Cambodia is one of the poorer countries in the world. It is ranked 137<sup>th</sup> on the Human Development index. On top of this, it is ranked 166<sup>th</sup> on the corruption perception index, ranking it one of the most corrupt countries in the world (Transparency International, 2009). It has a GDA of \$480,-, but over the last years, a annual growth rate of the GDP is maintained of approximately 6% (Unicef, 2009). There are 8 phones available per 100 people (Ibid). However, today 31% of the people still live below the poverty line of 1 dollar a day (CIA, 2010).

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<sup>23</sup> <sup>23</sup> Part of this paragraph and part of paragraph 3.2 is taken from a report of our the research findings in Cambodia. This report was written by me and Martien van Dijk. It is therefore possible Martien van Dijk and me have some paragraphs in our theses which are the same.

The country is industrializing, with the garment industry as the engine of growth, responsible for 85% of the national export (UN, 2009). Other export products are rubber and timber (BBC, 2009). The tourism sector is also becoming a strong economic force in Cambodia (UN, 2009). Nearly 100% of the private sector consists of small and medium sized organizations (Craftnetwork, 2009). Agricultural growth is lagging behind, especially when the population growth is taken into account (Ibid). This means that Cambodia might need to import food in the future to feed the people, which lead to the demand for an increase in the national export rate.

Rubber used to be the most important export product, but the Khmer Rouge regime destroyed this industry almost entirely. In 1995, the total production capacity of Cambodia was 40% to 50% of what it was before the Khmer Rouge regime came to power (Cambodia e-gov, 2009). Infrastructure was also heavily damaged after the conflict. Since the peace-agreement was signed, the country has been working to rebuild its former capacity, with the government loosening its grip on agricultural production so people can return to subsistence farming. Due to foreign assistance, infrastructure has been improved since then as well.

The country also suffers from a lack of educated people, which makes it difficult to overcome corruption. Cambodia has implemented several decentralization regulations, but simply does not have enough people to adequately manage local areas (Sokha, 2005). This puts the country in a difficult position if it wants to maintain its growth. It is a country highly dependent on donor funds and donors demand decentralization.

Summarizing, Cambodia is rapidly urbanizing and has a growing working population, a booming manufacturing industry and a profitable tourism sector. It cannot depend on its own natural resources since it does not have enough of those. On top of that, industries of the past have been destroyed by the Khmer Rouge regime. The country has potential for growth, but this potential lies with newly developing industries, such as the manufacturing sector and the service sector.

## 4 The Producer Organizations

Having discussed the research questions in chapter 2 and the national context in chapter 3, this chapter provides an overview of the type of actors the research in Cambodia has focused upon: Fair Trade Handicraft Producer Organizations<sup>24</sup>. It first provides general characteristics by considering AAC and Craftnetwork membership criteria<sup>25</sup>. Next, some general indicators such as size, sales of channels, year of establishment and nationality of the owner are considered. Lastly, common characteristics are found by considering the product market these organizations operate in. After having considered these factors which characterize the organizations, the next chapters will analyze whether the investigated companies can be considered Fair Trade<sup>26</sup>.

A total of 26 Cambodian companies has been interviewed. 24 of those have been researched in-depth. As mentioned before, most have been identified through AAC or Craftnetwork. However, except for their membership with one of these organizations and being a social organizations, more overlapping properties can be found.

### 4.1 AAC and Craftnetwork Membership Criteria

Because most organizations have been found through AAC and Craftnetwork, to understand what type of organizations have been researched, it is of importance to understand the goals of both AAC and Craftnetwork. Interestingly, their membership criteria is only slightly different. Concerning their target groups, in order to become a member of AAC, a producer organization "must be a social enterprise that provides employment or income generation opportunities to disadvantaged groups in Cambodia, such as disabled people, vulnerable women, those living with HIV/AIDS or other the economically marginalized people" (AAC, 2009). In a similar way, Craftnetwork works with "grassroots business organizations" that "are committed to helping people with disabilities and other disadvantage" (Craftnetwork, 2008). While these criteria already hint to social organizations, both organizations have criteria that ought to guarantee that members have a clear social objective next to their commercial one. AAC demands their members to "provide evidence that you are working towards implementing Fair Trade principles within your workplace (in accordance with the 10 principles outlined by IFAT)", and Craftnetwork has ethical standards to which each member should commit. These standards are less strict compared to Fair Trade criteria, but where AAC only demands members to work towards compliance, Craftnetwork demands already attained social standards. Both umbrella organizations aim to create sustainable livelihoods and revitalize traditional Cambodian crafts by providing business support.

Next to being social organizations, members of AAC and Craftnetwork show similarities in type of products produced and production methods. However, there is a strong correlation in the Cambodian case. More specific: the production method determines the type of products. Both AAC and Craftnetwork refer to their members as producing Cambodian hand-crafted or handicraft products. Therefore, all investigated companies produce their products mostly by hand, in some cases using light tools.

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<sup>24</sup> Sometimes simply referred to as "Social Enterprises".

<sup>25</sup> 22 Organizations included in the research are a member of at least one of these umbrella organizations.

<sup>26</sup> See research question 1.

## 4.2 General Profile Social Producer Organizations

All 26 researched organizations can be identified as producer organizations because they either employ producers directly or buy from a producer group directly and frequently. To further understand these characteristics, this paragraph will give a general description of these organizations. Table 4.1 gives an overview of several indicators per enterprise<sup>27</sup>. Characteristics related to products, the sector and the organizational structure will be given below the table.

Org	NGO <sup>28</sup>	Part of larger org/NGO	Nat. Owner	Year of Est.	Producers	Main Products	Main Materials Products	Shops <sup>29</sup>	Other Chan. of Sale
#1	Yes	Yes	Khmer	2003	20	Clothes, Garments	Silk, wood	0	Export
#2	No	No	Khmer	1997	200	Scarfs, Baskets, Jewelry	Silk, Rattan, Bamboo, Ceramic	1 (PP)	Export, Consign.
#3	Yes	No	Khmer	2000	34	Scarfs, Toys, cards, clothes, Purses	Silk, Paper	2 (PP, SR)	Export
#4	Yes	Yes	Foreign	2004	50	Scarfs, Bags, woodcarvings, Home accessories	Silk, Wood, Cotton, Recycled	1 (PP)	Export, Consign.
#5	No	No	Khmer	2002	25	Scarfs, Bags, Gifts, Home accessories	Silk, Rush, Reed	1 (PP)	Export
#6	No	No	Thai	1995	40	Scarfs, Cushion covers, Home accessories	Silk, Wood	1 (PP)	Export
#7	No	Yes	Khmer	2004	80	Scarfs, Bags, Cushion covers, bed spreads, fashion access.	Silk	1 (PP)	Export
#8	Yes	Yes	American	1994	300	Scarfs, Bags, Christmas Art. Home and fashion accessories	Silk, Cotton, Reed, Wood, Silver	1 (PP)	Export
#9	No	No	Khmer	2002	70	Bags, Mats, Home Storage	Rush, Reed	1 (PP)	Export
#10	Yes	Yes	Khmer	2002	55	Scarfs, Bags, Clothes, Bed Spreads, fashion accessories	Silk	2 (PP, Other)	Export
#11	Yes	Yes	Khmer	1995	190	Scarfs, Bags, Toys, Gifts, Cards, Paintings	Silk, Wood, Horn, Recycled	1 (PP)	Export
#12	Yes	Yes	Khmer	1998	65	Toys, Bags, Cushion covers, Christmas Articles	Silk, Cotton	1 (PP)	Export
#13	No	No	French	2004	20	Clothes, Bags	Silk	1 (SR)	Export, Consign.
#14	No	No	French	2004	5	Scarfs, Bags, Fashion	Silk, Leather	1 (PP)	Export, Consign.

<sup>27</sup> For reasons of confidentiality, company names have been replaced by numbers.

<sup>28</sup> Enterprises are categorized as NGO if they are registered as such. Except of two, all NGO's also received and/or still receive donor funds.

<sup>29</sup> PP = Phnom Penh, SR = Siem Reap. Phnom Penh and Siem Reap are the most visited cities by tourists.

Accessories									
#15	No	No	Khmer	2003	25	Scarfs, Bags, Gifts, Cushion Covers	Silk, Recycled	1 (PP)	Export
#16	No	No	French	2005	27	Clothes, Mats, Bed Spreads, Home Accessories	Silk, Rush, Reed	1 (PP)	Export, Consign.
#17	No	Yes	Khmer	1998	880	Home Furniture	Water Hyacinth	0	Export
#18	Yes	Yes	Khmer	2001	55	Scarfs, Bags, Woodcarving, Christmas Articles, Fashion Accessories	Silk, Cotton, Wood, Recycled	1 (PP)	Export
#19	No	No	French	2002	5	Bags, Necklaces	Stones, Recycled	1 (PP)	Export
#20	No	No	Khmer	2004	80	Scarves, Bags, Wood Carving, Home accessories	Silk, Wood, Horns, Recycled	1 (PP)	Export
#21	Yes	Yes	Khmer	2008	10	Scarfs, Bags, Woodcarving, Faishion Accessories	Silk, Wood	1 (PP)	Export
#22	Yes	No	Khmer	1996	40	Scarves, Bags, Gifts, Woodcarving Christmas Articles, Toys	Silk, Wood, Cotton, Silver	2 (PP, SR)	Export
#23	No	No	Khmer	1995	160	Scarves, Bags, Toys, Woodcarving Christmas Articles, Fashion Accessories	Silk, Wood, Cotton, Silver	5 (PP, SR, Other)	Export
#24	Yes	Yes	Khmer	2006	80	Scarfs, Baskets, Musical Instruments	Indigenous Textiles, Cotton, Bamboo	1 (Other)	Export
#25	No	No	American	1996	100	Baskets, Mats, Bags	Bamboo, Rush, Local Plants	2 (PP, SR)	Export
#26	Yes	No	American	2006	15	Scarves	Silk	1	None

Table 4.1: Several characteristics of each producer organization in the research

**Products:** As mentioned before, all organizations<sup>30</sup> produce handicraft products. Cambodia has a long traditional heritage in weaving, woodcarving and pottery by hand. Due to this tradition, and the potential of this sector for creating income for local (rural) Khmer, these traditions have received large amounts of donor support over the last 15 years (ITC, 2006). The above listed organizations can be understood as part of such donor focus.

As can be seen in Table 4.2, based on product type, most organizations indeed operate in the home accessories and fashion accessories markets. Especially scarves and bags are sold by most organizations and are the bulk of sales for most organizations. Table 4.3 summarizes the amount the most popular products were encountered.

Product Type	Amount
Scarves	18
Bags	18
Woodcarving	6
Other Fashion Accessories	6
Other Home Accessories	5
Baskets	5
Christmas Articles	5
(Small) Gifts	4

*Table 4.2: The Amount of organizations in the research producing a certain type of product.*

Materials used for production vary, but an expected 85% of the sold products is made of Silk (Interview AAC). 21 out of the 26 investigated companies use Silk as the main material for production. Therefore the social organizations operate mostly in the Cambodian silk sector. To be able to further situate the organizations within this sector, a short overview of the sector should be given.

**The sector.** The Cambodian government, in cooperation with the International Trade Centre (ITC) has made the silk sector a priority sector by integrating it in the country's National Export Strategy as one of the five focus sectors for the period of 2007-2010. Both economic and developmental reasons can be given for this integration in the NES:

*"Several international market surveys and pilot projects have identified the Cambodian silk sector as one [!] the potential for exports to generate income and contribute to poverty alleviation. It is the sector where Cambodian (artisans) has positive added- and retained value. The hand-woven silk industry is characterized by a strong skills base and a long traditional culture and heritage." (MOC 2006, p. 49)*



*Figure 4.1: A common product in the handicraft sector in Cambodia: silk scarf (in the Mekong Blue shop)*

<sup>30</sup> The research also includes enterprises which are not a member of AAC or Craftnetwork. However, these enterprises do focus on handicraft products and comply to membership criteria. For convenience, this thesis calls all enterprises and NGO's included in the research "organizations".

Around 21.500 Cambodian households are expected to be active in the silk sector, of which most hand-woven. The chosen distribution markets determine the type, price, quality and colors of the product to be produced. The demand side of the sector can be divided into four different markets:

**1) National: local Khmer market.** While the other type of markets tend to get more donor attention, 70%<sup>31</sup> of all fabrics is used to satisfy local demand. Products are generally of traditional design.

**2) Low-end tourist market.** Markets in Phnom Penh and Siem Reap offer cheap low quality products for tourists.

**3) High-end tourist market.** Specialized shops and boutiques in Phnom Penh and Siem Reap sell (relative) expensive high quality products.

**4) Sophisticated export market.** Although its share is very low, there is some exports of finished silk products.

All researched organizations operate within 3) and 4). As can be seen in figure 4.2, 24 out of 26 have a shop. Almost all of these shops (27 out of 32 shops) are located at tourist staying areas such as Siem Reap (City next to Angkor Wat), The Russian Market in Phnom Penh and Riverside in Phnom Penh (area with foreign bars, restaurants and hotels). It is therefore not surprising that the target group of these shops are tourists (Market 3). This target group also explains the main type of products mentioned before: items such as scarves, bags, toys, small gifts, woodcarving, fashion accessories are all relative small in size<sup>32</sup>. Due to the limited luggage weight and space of tourists, such light and small items are excellent products for tourists to carry during their travels and easy to take home. 22 out of 26 organizations explained this as the main reason for producing this type of small products. Next to selling to tourist through shops, 25 out of 26 organizations also export (Market 4). Exports destinations are varied, but the lion's share goes to the USA and the EU.

All researched social organizations operate within 3) and 4), but the implication also works the other way: almost all producer organizations active in 3) and 4) have a strong social focus and are part of activities of at least one of the four members of the working group of the Cambodian Fair Trade Forum (AAC, Traidcraft, MCC and Craftnetwork). The largest exporter in terms of sales by far is *Artisans d'Ankor*<sup>33</sup>, which has a strong social focus. *Artisans d'Ankor* is however not linked to the activities of the CFTF. The ITC estimated the total silk exports by Cambodian organizations (3 and 4) by adding exports of AAC and CSF (which did not exist anymore during the time of research, but most members are affiliated with *Craftnetwork*) members and that of *Artisans d'Ankor*. Total exports in 2006 was estimated \$4 million (ITC, 2006).

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<sup>31</sup> This data refers to 2006, just after an significant rise in tourism in Cambodia. However, during the global economic crisis, tourism has decreased drastically. NGO workers active in tourism stated that tourism had decreased with 20% in 2009 compared to the year before. Also, it was not uncommon for Producer organizations in 2-4 to report 30% less sales in 2009. Therefore it is to be expected that 1) constitutes for more than 70% of all fabrics.

<sup>32</sup> Although pieces of woodcarving can be large in size, the enterprises included in the research sell small statues and such.

<sup>33</sup> This organization is not included in the research.

**Organizational structure:** Organizations can be registered either as NGO or commercial enterprise. Figure 4.2 shows that producer organizations are divided in this respect: 12 organizations are registered as NGO, 14 as commercial enterprise. It should be noted that with the exception of two, all NGO's received and in some cases still receive donor funds. As expected, no commercial enterprise has received any financial support from donors. Also, 10 out of 12 organizations registered as an NGO are part of a bigger organization. Usually this means that the enterprise is (part of) a program of a larger NGO. For example, Yodicraft is a producer organization which is founded by Yodifee, a Cambodian NGO (funded by international NGOs). Next to the producer organization ("Yodicraft"), Yodifee also has programs in schooling, farming and has a hotel. In most cases, being part of a larger organization also means the producer organization receives donor funds.

17 organizations are owned by Khmer. Of the remaining organizations, one is owned by Thai, three by Americans and four by French<sup>34</sup>. The high amount of French owners is most likely related to Cambodia's colonial history and the large amount of French expats still living in Cambodia. All of the French owners who were interviewed indicated that they were already living in Cambodia when they founded the producer organization they are currently running. For all of these French owners, the main reason for founding the enterprise was an interest in the sector and the desire to start a business, and only in second place the positive social impact an enterprise can have. One of the French owners explained this nuance as follows: "I like fashion and wanted to start my own business. [...] I hire people with disabilities because they can really use the money. If I start a business, why not hire very disadvantaged people?". This attitude might also explain the relative low average of 14 producers in French owned producer organizations: their goal is not to reduce poverty through an enterprise, reducing the need to expand.

The amount of producers per enterprise varies between 5 and 880. However, 880 producers is an exception: the second and third largest organizations have 300 and 200 producers. 22 organizations fall between 10 and 250 employees, and can therefore be classified as Small and Medium organizations. The total amount of producers in the producer organizations included in the researched amounted to 2631. Each organizations thus has an average of 101 producers. However, this average is pushed up by the exceptional large enterprise with 880 producers. If this enterprise is taken out of the calculation, the average of producers per enterprise becomes 70.

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<sup>34</sup> During the research it was not possible to retrieve the nationality of the owner of one organization.

## 5 Official Fair Trade Certification

After having considered the theoretical, geographical and organizational context in the previous chapters, this chapter intends to answer the first research question: *To what extent do Cambodian handicraft producer organizations comply to Fair Trade standards?*

In this thesis a difference has been made between compliance to Fair Trade criteria, and being Fair Trade certified. In paragraph 1.4 of the first chapter, compliance to Fair Trade standards for handicraft organizations has been defined as compliance to the 10 Fair Trade standards of the WFTO. However, an organization can comply to those standards without actually being a member of the WFTO, i.e. to be certified.

To be able to speak of mainstreaming at all, it is of importance to determine whether a producer organization complies to Fair Trade standards, for if it is not clear whether some producer organization is Fair Trade, one cannot sensibly speak of mainstreaming with regard to it.

The most natural starting point is in determining whether a producer organizations complies to Fair Trade standards, is to determine whether they are WFTO Fair Trade certified. If they are, organizations have passed WFTO auditing and can safely be assumed to comply to Fair Trade standards. This chapter will investigate into the number of organizations which are currently WFTO certified in Cambodia. Further, a discussion concerning the advantages, obstacles and reasons for becoming a WFTO member, as mentioned by the managers interviewed in this research, will provide some insight into these numbers.

### 5.1 WFTO Membership

Being a member of the WFTO implies that an organization complies<sup>35</sup> to Fair Trade criteria. In order to become a member of the WFTO, an organization needs to fill in an application form and provide the WFTO with three referees. At least one of these referees has to be a current WFTO member. If accepted, the organization can call itself a member, use the WFTO logo and is registered in the membership database. To remain a member over years, an organization must:

1. Pay its membership fees. The membership fee is based on the type of organization (trading member, Fair Trade network, Fair Trade support organization or association) and on the turnover of the organization. Besides the membership fee, all members have to pay a monitoring fee. For trading members, which producer organizations are, the total fee is calculated as follows (WFTO, 2009a):

Turnover (EUR)	Membership fee (EUR)
< 100.000	€250
From € 100.000 to 1.000.000	€0,0022 x turnover
> 1.000.000	€2.500 + €200 for every extra million turnover

<sup>35</sup> It is practically possibly that organizations do not comply to fair trade standards but slip through the application phase nevertheless.

Turnover (EUR)	Monitoring fee (EUR)
< 100.000	€25
100.001 - 500.000	€50
500.001 - 1.000.000	€100
1.000.001 - 4.000.000	€350
4.000.001 - 8.000.000	€600
8.000.001 – 16.000.000	€800
> 16.000.000	€1.000

2. Follow and comply to the prescribed assessments/monitoring. As mentioned in chapter 1, there are three types of assessments. First, there is a bi-annual self-assessment. Secondly, peer reviews are held by trading partners or other organizations which are involved in the organization's economic activities. Thirdly, an organization is prone to external verification by a WFTO representative (WFTO claims to do this with 5-10% of their members every year) (WFTO, 2009a).
3. Provide the WFTO with a copy of the annual report.

## 5.2 Current WFTO Members in Cambodia

In 2009, the WFTO reported only three members in Cambodia (WFTO, 2009), which are all operating in the handicraft home and fashion accessories sector:

1. *Artisans Association of Cambodia (AAC)*: Umbrella organization of handicraft producer organizations which at least work towards being Fair Trade. AAC does not produce products. As of 2010, the WFTO website does not show AAC as a member anymore<sup>36</sup>.
2. *Rehab Craft Cambodia (member of AAC)*: Producer organization with a focus on people with disabilities. Member of AAC and Craftnetwork.
3. *Hagar on Time*: Producer organization with a focus on vulnerable women. This enterprise has set up his production process in a more factory like setting, moving away from handicrafts. Has been a member of Craftnetwork.

Furthermore, of all Cambodian producer organizations, only two are a member of the WFTO<sup>37</sup>. In order to get a better understanding of the low number of WFTO members, managers of the producer organizations I interviewed were asked whether they would prefer their organization to become WFTO certified. Table 5.1 shows that 16 out of 25 companies would like to become a member of the WFTO, 7 do not want to become a member, and 2 were unfamiliar with the term Fair Trade and therefore also unfamiliar with the WFTO.

<sup>36</sup> Although it is not clear why this is the case, it is possible AAC is no longer able to pay its membership fee or doesn't exist anymore. Their main funding, provided by Traidcraft, ended in 2009.

<sup>37</sup> AAC is not a producer organization.

Org <sup>38</sup>	Want to be WFTO certified	Advantages WFTO Membership	Obstacles WFTO Membership
#1	Yes	Attracts Buyers, present buyers requested	Expensive
#2	Yes	Attracts Buyers, Credibility, Label Recognition	Expensive, Application is time consuming
#3*	NA	NA	NA
#4	No	NA	NA
#5	No	Attracts Buyers, Label Recognition	Application is time consuming, not enough knowledge WFTO
#6	Yes	Attracts Buyers	Application is time consuming
#7	No	Label recognition	Expensive
#8	No	NA	"Fair Trade not really fair"
#9	Yes	NA	NA
#10	Yes	Attracts Buyers	Expensive
#11	Yes	Label Recognition	Expensive
#12	Yes	Attracts Buyers	Expensive, Afraid org. doesn't comply to FT criteria
#13	Yes	Attracts Buyers, Credibility, present buyers requested	Application is time consuming
#14	No	Label recognition	"Fair Trade" gives a soft image to enterprise
#15	Yes	Attracts buyers	Expensive, Application is time consuming
#16	Yes	Credibility	Afraid org. doesn't comply to FT criteria
#17*	NA	NA	NA
#18	Yes	Attracts buyers, Label recognition	Expensive, Application is time consuming
#19	No	NA	NA
#20	Yes	Attracts buyers, fair trade buyers give more assistance	Expensive
#21	Yes	Attracts buyers, Label recognition	Expensive, Afraid org. doesn't comply to FT criteria, not enough knowledge WFTO
#22	Yes	Attracts buyers	Expensive, Application is time consuming, difficult to keep standards up
#23	Yes	Attracts buyers, Label Recognition, Credibility	Expensive
#24	Yes	Credibility, Label recognition	Expensive
#25	No	Label Recognition	"Fair Trade not really fair"

Table 5.1: Considered advantages and disadvantages of WFTO membership by managers of producer organizations.

<sup>38</sup> Answers with a \* is Not Applicable because it does not apply to this enterprise. Managers of these organizations were unfamiliar with the concept of fair trade.

Table 5.1 shows 7 organizations which intentionally refrain from Fair Trade membership. The managers of these organizations provided the following reasoning for this strategic choice:

- 2 Organizations focus mostly on design and fashion. They fear a “Fair Trade mark” will create a soft company image, pushing away potential buyers. For their sales, these organizations rely on the design, quality and price of their products instead of their social mission.
- 2 organizations have clear theoretical objections to Fair Trade. They believe the Fair Trade Movement not to be fair (enough) at all.
- 3 organizations find Fair Trade important, but believe WFTO membership not to be necessary because they are a member of AAC, which already is a WFTO member.

### 5.3 Advantages and obstacles of WFTO certification

Although 16 organizations would like to become a member of the WFTO, only 1 has done so up until now. Two managers were considering applying for membership during the research. This still leaves many organizations wanting to become a WFTO member but are currently not applying for membership. One of the reasons for not doing so, is that the obstacles and disadvantages of membership are considered to outweigh the advantages.

When asked what managers considered these advantages and obstacles of WFTO membership to be, similar answers were given. Table 5.2 gives a summary of the answers most frequently given by the managers<sup>39</sup>.

<i>Expected Advantages</i>	<i>Expected Disadvantages</i>	<i>Extra reasons <u>not</u> to apply</i>
Attracts buyers (13)	Yearly (high) membership fee (13)	Afraid the organizations does not comply to Fair Trade criteria (3)
Creates credibility (5)	Application is time consuming (6)	No information about WFTO or application process (2)
Recognition of costumers (10)		

*Table 5.2: Summary of considered advantages and disadvantages of WFTO membership by the managers of producer organizations (between brackets the number of times this aspects was mentioned).*

With regard to the expected advantages, the main reason to become Fair Trade is the expectation of more with international buyers contacts, something which was mentioned by 13 out of the 19 managers. They expect that more (Fair Trade) buyers will approach the producer organization when it is mentioned in the WFTO database. A second perceived advantage is also related to buyers: being a WFTO member creates a certain credibility. Also, it saves a potential buyer the effort to determine whether such an organization lives up to certain social standards. The third mentioned expected advantage is the fact that that tourists and expats are aware of

<sup>39</sup> Six managers did not provide answers with regard to advantages and disadvantages of WFTO membership. Therefore, 19 respondents were taken into account in this table.

Fair Trade and are familiar with the Fair Trade logo. Managers therefore expect tourists and expats to be favourable towards the producer organization, possibly leading to an increase in sales.

Regarding the expected disadvantages, the most important reason for 13 managers not to become a member is the membership fee. Although it is not always clear how high the membership fee is, and although most managers believe membership is likely to attract new buyers, the membership fee is considered to be too high. One manager explained that costs are a problem especially “when one considers that most members operate on very fine margins and in most cases are only sustainable with donor funds”. However, both Cambodian producer organization, which are a member of the WFTO, have reported to have engaged in new trade relations, most likely to be the result of WFTO membership. The profits from the resulting extra turnover are reported to cover WFTO membership costs.

Secondly, Although the WFTO states that “applying is easy” (WFTO, 2009), filling in an application form (which is available in English, French and Spanish, but not in Khmer) is considered to be too time-consuming. Some application forms can, when filled in, even become more than 30 pages. One of the current WFTO members indeed experienced the application process as “long and bureaucratic”. This doesn't seem to be an exception: during interviews with managers from producer organizations in the same sector, but based in other developing countries, similar complaints were made, some managers even calling it “long and ridiculous”.

Extra reasons not to apply for WFTO membership for producer organizations are the following: three managers believe they do not comply to the Fair Trade standards yet and therefore cannot become a member of the WFTO. Also, two managers don't know how and where to apply for membership.

In conclusion, while most organizations consider WFTO membership to yield important benefits, application time is considered to be long and membership fee too high. These are the main causes for producer organizations not to apply for WFTO Fair Trade membership.

## 6 Social Standards of Cambodian Producer Organizations

In chapter 5 it became clear that WFTO certification is hardly present in Cambodia. Only two producer organizations are Fair Trade certified. To be able to speak of mainstreaming at all (see research question 2), it is first necessary to provide an indication that the organizations indeed comply to Fair Trade standards. Due to the low number of certified WFTO organizations in Cambodia, this cannot be done by considering WFTO membership.

In order to be able to understand to what extent the researched organizations can be considered Fair Trade, a different way of determining the level of social standards for each organization is required. It would be impossible to fully duplicate WFTO auditing. However, the WFTO has developed 10 standards which each Fair Trade organization must comply to. This chapter will discuss each of these standards and will rate each organization with regard these.

### 6.1 The WFTO Fair Trade Standards

The WFTO has operationalized the concept of Fair Trade by introducing 10 standards which each deal with a dimension of morally responsible business practices. Again, the ten standards are:

1. Creating Opportunities for Economically Disadvantaged Producers.
2. Transparency and Accountability
3. Trading Practices
4. Payment of A Fair Price
5. Child Labour and Forced Labour
6. Non Discrimination, Gender Equity and Freedom of Association
7. Working Conditions
8. Capacity Building
9. Promotion of Fair Trade
10. Environment (WFTO, 2009a)

Although these standards are more specific than the WFTO definition of Fair Trade<sup>40</sup>, it is difficult to use this list as a checklist for potential members. Furthermore, operationalization of the standards would be very difficult to impossible due to the necessity of implementing these standard in different countries in different situations, the standards have to be very general. It is not stated when one can be considered to be an economically disadvantaged producer or how much income per month can be considered a fair price. There are guidelines and restrictions (such as the minimum wage should not be less than the national minimum and that ILO norms should be followed), and it is clear that a fair price should cover the expenses to live a decent live and therefore should be socially acceptable, but what can be called socially acceptable depends on the national context. What could be acceptable in a developing country, might not be acceptable in a developed country. A fair price for Cambodian standards might be different for Thai or French standards. Whether one can be considered an economically disadvantaged producer differs significantly between Cambodia and France.

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<sup>40</sup> See paragraph 1.2.

The WFTO thus has kept standards general. But to implement standards, local organizations need further operationalization. In Cambodia, such national standards are non-existent. In the remainder of this chapter, Fair Trade standards will be analyzed. By using several indicators per standards, all researched organizations will be rated according to their compliance with these Fair Trade standards. It should however be noted that operationalization of standards is done according to the researcher's own interpretation of standards in the national context. Also, by no means are the indicators used all the available indicators the WFTO demands when performing an audit.

Keeping standards general, the WFTO does hint towards possible further operationalization by stating that the "WFTO standards that relate to basic labour rights [...] all follow key ILO Conventions and Recommendations" (WFTO, 2009a, p. 23). Elsewhere, the WFTO states that the implementation of standards ought to be at least according to ILO (International Labour Organization) standards. The ILO has been monitoring working conditions in Cambodia<sup>41</sup> for the last ten years, and has played an important role in creating the current labour law. This labour law is one of the few documents that offers concrete standards for labour conditions in Cambodia. Although officially, the document only applies to the garment sector, practically it is used in other sectors. For the handicraft sector, this document is an interesting tool for the operationalization of social standards, because this sector is very alike the garment sector. However, following the above citation, the labour law only provides indicators of a social-economic level to which organization should comply to. However, if organizations comply to these standards, this does not imply that they comply to Fair Trade standards. Furthermore, there are several Fair Trade standards to which the labour law does not have application to. Consider for example standard 9: the promotion of Fair Trade. The labour law does not mention "Fair Trade" at all.

In each of the subsequent paragraphs one Fair Trade standard will be discussed. Each paragraph mentions the standard and the explanation the WFTO gives accordingly. Then, each of these standards will be translated to the situation in Cambodia. Several indicators, relevant for the standard, will be identified in order to be able to measure compliance to the Fair Trade standard. In a table, the results for each organization per indicator will be given. These results will be interpreted and a rating will be provided for every organization with regard to it.

## 6.2 Standard 1: Creating Employment Opportunities for Economically Disadvantaged Producers

**WFTO:** The WFTO explains this standard as follows:

The organization supports marginalized small producers, whether these are independent family businesses, or grouped in associations or co-operatives. It seeks to enable them to move from income insecurity and poverty to economic self-sufficiency and ownership (WFTO, 2009a, p. 25).

From this, it becomes clear that Fair Trade organizations should focus on producers who are disadvantaged because they are marginalized "by the conventional trading system" (WFTO,

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<sup>41</sup> See ILO's "Better Factories Programme" (ILO, 2010)

2009b). Consequently, a disadvantaged producer is a producer who cannot compete or participate normally with equal possibilities in the (labour) market. A Fair Trade organization should work with these disadvantaged producers (either through offering employment or through subcontracting) in such a way that they are able to account for their own income.

**Cambodian context:** Perhaps the most important aspect pertaining this standard is the difficult socio-economic position of individual producers in developing countries. Factors such as the current state of the market, buyer behaviour, producer skills, availability of capital and even social and health related problems can be the cause of an economically disadvantaged position of producers.

In order to determine whether the producer organizations we are concerned with are economically disadvantaged, four indicators will be used. These are the number of employees (both workshop producers and home based producers); the producer organization's workforce target group (including the availability of a mission statement focusing on social or cultural impact); average amount of working hours; and the availability of contracts.

The number of employees is a difficult indicator to determine compliance. Creating employment is directly related to offering jobs. However, there is nothing mentioned about the quantity of jobs provided by a Fair Trade organizations. An organization employing 5 economically marginalized producers and an organizations employing 500 marginalized producers both create employment opportunities for economically disadvantaged producers. This preference for the inclusion of as many producers as possible can however be found in the second Fair Trade goal. If an organization therefore employs many economically disadvantaged producers, this positively affects the organization's rating of this standard.

The second indicator, the target group, is of particular interest for this standard. If an organization employs a particular target group, and this target group can be considered economically disadvantaged, this will benefit compliance to this standard. If supporting this target group is mentioned in the mission statement, this will benefit compliance even further.

Thirdly, the working hours of an average producer are considered. If average weekly working hours are more than 48 hours a week<sup>42</sup>, despite creating employment opportunities, the score of organizations for this standard is affected negatively.

Last, to secure employment security and stability, contracts are of high importance. Therefore, having written contracts affects the rating for this standard positively.

Table 6.1 shows these indicators for this standard:

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<sup>42</sup> According to the Cambodian Labour Law, a fulltime working week consists of 48 hours a week.

Org	Workshop Producers	Home Based producers	Mission statement	Target group	Average Working hours per week	Written Contracts
#1	20	0	Yes	Victims of trafficking	45	Yes
#2	0	200	N/A	Rural poor	40	No
#3	34	0	Yes	Disabled (Landmine and polio)	48	Yes
#4	25	25	Yes	Disabled, Rural poor	48	Yes
#5	0	25	Yes	Rural poor, landmine and polio disabled	Piece, full time	No
#6	0	40	No	Rural poor	40	No
#7	10	70	Yes	Disadvantaged young people	48	Yes
#8	150	150	Yes	(rural) poor, Victims of trafficking, AIDS/HIV	40	No
#9	0	70	Yes	(rural) poor	Piece, not fulltime	No
#10	55	0	Yes	Vulnerable women (rural areas)	48	No
#11	100	90	Yes	People with disabilities	45	No
#12	15	50	Yes	Vulnerable women (domestic violence, HIV/AIDS, etc.)	48	Yes
#13	20	40	Yes	Vulnerable Women	48	Yes
#14	5	0	Yes	none (but has disabled employees)	40	No
#15	12	13	Yes	People with disabilities and vulnerable women	48	No
#16	7	20	No	Disabled (some)	48	No
#17	80	800	No	Rural poor	Piece, fulltime	Yes
#18	35	20	Yes	Rural women, people with disabilities	40	No
#19	5	0	No	None	45	No
#20	50	30	Yes	People with disabilities	48	No
#21	10	0	Yes	Youth with disabilities	40	Yes
#22	20	20	Yes	People with Disabilities	40	No
#23	30	130	Yes	Rural and Urban poor	48	No
#24	0	80	Yes	Indiginious hill population	20	Yes

Table 6.1: Overview of the indicators used for standard 1 for each producer organization

**Number of employees:** Regarding the number of employees and the type of employment (home based or in a workshop), differences between organizations are significant. The number of employees ranges from 5 to 880. The use of home based producers and workshop producers varies significantly. Figure 6.1 shows the amount of organizations employing home based producers, workshop producers and those who employ both type of employees.

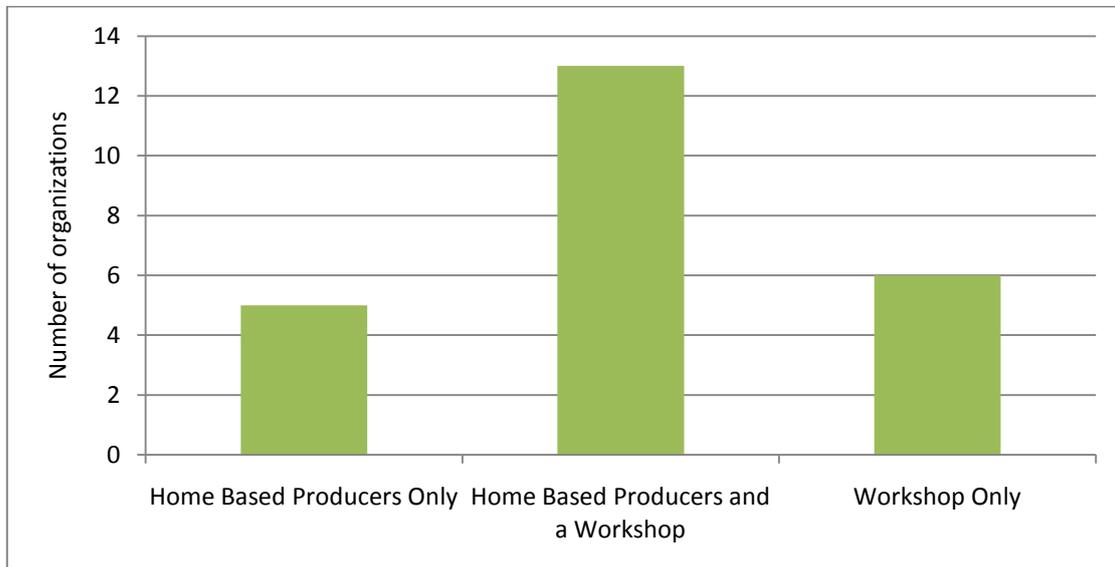


Figure 6.1: Bar chart showing the number of producer organizations with a workshop, home based producers or both.

While most organizations employ home based producers and have a workshop, 5 organizations only have home based producers, and 6 make use of workshops only.

**Target group:** 22 out of 24 organizations employ people from a specific target group. Most organizations have overlapping target groups. The most frequently found target groups are:<sup>43</sup>

1. (Rural) Poor (9)
2. Disabled (8)
3. Victims of trafficking (4)
4. Vulnerable Women (2)
5. HIV/AIDS or Polio victims (2)
6. Poor Youth (2)
7. Ethnic Minorities (1)

Of all producer organizations participating in this research, all but one have a target group they believe to be economically disadvantaged. Managers mention the fact that people within the organization's target group have difficulties finding a job and/or need extra support. The rating for this Fair Trade standard rises when the organization offers an employment contract for an unfixed term, meaning that producers can choose how long to stay employed.

One may have noticed that the Fair Trade handicraft sector in Cambodia maintains a different notion of what a disadvantaged producer is. In Cambodia, factors which determine whether one is economically disadvantaged are mostly issues pertaining to the personal circumstances (such as being disabled or being a women) and socio-historical influences (such as being a victim of

<sup>43</sup> Between brackets the number of organizations which mention this target group. Also, as can be seen in table 6.1, it is common for one organization to have several target groups.

trafficking or having had no education). The focus is thus on individual aspects, independent of the person's current economic activity. However, most people would agree with the fact that the abovementioned target groups are also economically disadvantaged in Cambodia.

Of the 23 organizations with a target group, 19 mention this target group in their mission statement. Having such a mission statement shows that the target group is central in the organization's objectives. Examples of such mission statements can be found in figure 6.2.

- To improve the living standard of people with disabilities in Cambodia through training and employment (*Watthan Artisans Cambodia*).
- To help women victims [of trafficking] achieve better life with social and economic empowerment, through ethical employment and job training (*AFESIP Fair Fashion*).
- To provide income and employment to the indigenous and rural women and men producers through crafts production and marketing (*CANDO Craft*).

Figure 6.2: Examples of Fair Trade producer organizations' mission statements.

**Working Hours:** No excessive number of working hours have been found in any organization. Interestingly, managers tend to complain about piece rate (home based) producers who want to work overtime: they are unable to sell the additional products.

**Written contracts:** Organizations tend to not have contracts with their producers. Only 9 out of 24 organizations have written contracts. Reasons for the absence of written contracts are practical: most producers can't read or write, or care little about a contract. Employment agreements are therefore made orally. This is not in violation with the labour law in which is stated that contracts can either be provided in writing or orally, providing less certainty for producers.

Based on the above indicators, table 6.3 provides a rating of this Fair Trade standard for each organization:

Org	Standard 1 Rating	Main factors
#1	++	Target group unskilled and economically and socially very disadvantaged. Contracts present. No long working hours. Mission statement present.
#2	+	Target group unskilled and usually economically disadvantaged. Over 100 producers. 40 hour working week. No contracts. Mission statement present.
#3	++	Target group unskilled and economically and socially very disadvantaged. Contracts present. No long working hours. Mission statement present.
#4	+	Employs people with disabilities. Employs unskilled producers. Contracts present. No long working hours. Mission statement present.
#5	++	Two target groups economically and socially very disadvantaged. No contracts. Working hours depend on choice producers. Mission statement present.
#6	+/-	Target group usually economically disadvantaged. Producers already have to have sufficient skills. No contracts. 40 working hours per week. No mission statement.
#7	+	Target group unskilled and economically disadvantaged. Contracts present. No long working hours. Mission statement present.
#8	++	Target groups unskilled and economically and socially very disadvantaged. Over 100 producers. No contracts. No long working hours. Missions statement present.
#9	+/-	Target group usually economically disadvantaged. Producers require skills before employment. No contracts. Producers determine own working hours. Mission statement present. Mission statement present.
#10	++	Target group unskilled and economically and socially very disadvantaged. No contracts. No long working hours. Mission Statement present.
#11	++	Target group unskilled and economically and socially very disadvantaged. No written contracts. No long working hours. Mission statement present.
#12	++	Target group unskilled and economically and socially very disadvantaged. Contracts present. No long working hours. Mission statement present.
#13	++	Target group unskilled and potential producers selected upon their problematic economic or social situation. No written contracts. No long working hours. Mission statement present.
#14	+/-	No target group, but some disabled producers. Only skilled producers are hired. No written contracts. Mission statement present.
#15	++	Target group unskilled and economically and socially very disadvantaged. No written contracts. No long working hours. Mission statement present.
#16	+	No target group, but some disabled. Producers are unskilled when hired. No long working hours. No written contracts.
#17	+	Target group is a geographical poor area. More than 100 producers. Producers are unskilled when hired. Contracts present. Mission statement present. No long working hours.
#18	++	Target groups unskilled and economically and socially very disadvantaged. No written contracts. No long working hours. Mission statement present.
#19	-	No target group or disadvantaged producers. No written contracts. No long working hours. No mission statement.
#20	++	Target group unskilled and economically and socially very disadvantaged. No written contracts. No long working hours. Mission statement present.
#21	++	Target group unskilled and economically and socially very disadvantaged. Contracts present. No long working hours. Mission statement present.
#22	++	Target group unskilled and economically and socially very disadvantaged. No written contracts. No long working hours. Mission statement present.
#23	+	Target groups sometimes economically disadvantaged. No written contracts. More than 100 producers. No long working hours. Mission statement present.
#24	++	Target group unskilled and economically and socially very disadvantaged. Contracts present. No long working hours. Mission statement present.

Table 6.3: The rating of compliance to standard 1 for each organization.

### 6.3 Standard 2: Transparency and Accountability

**WFTO**. The WFTO explains this standard as follows:

The Organization is transparent in its management and commercial relations. It is accountable to all its stakeholders and respects the sensitivity and confidentiality of commercial information supplied. The organization finds appropriate, participatory ways to involve employees, members and producers in its decision-making processes. It ensures that relevant information is provided to all its trading partners. The communication channels are good and open at all levels of the supply chain (WFTO, 2009a, p. 25).

In order to comply to Fair Trade standards, it is of importance that an organization is open about its economic activities, management decisions and involve producers in the decision making process. The organization should keep records of producers, production and sales. To its buyers and donors, a producer organization should provide information about its production, pricing, expectations and sometimes its financial records.

**Cambodian context:** Regarding the Cambodian context, three relevant indicators have been used to rate compliance to this second standard. Firstly, organizations are rated for having a financial report. Without a financial report it becomes difficult to hold organizations accountable for possible financial misbehaviour. Secondly, if the management holds meetings with producers in which company issues are addressed, on a fairly regular basis, this will positively affect the rating. Thirdly, being a member of AAC or Craftnetwork (CN) also affects the rating positively: both AAC and Craftnetwork demand updated company information annually, including spending, profits, wages and the number of employees.

Table 6.4 shows these indicators for each organization:

Org	Financial Report	Meetings With Producers	AAC / Craftnetwork (CN) Member		Financial Report	Meetings With Producers	AAC / Craftnetwork Member
#1	Yes	Yes,	AAC	#13	Yes	Yes	AAC / CN
#2	Yes	Yes	AAC / CN	#14	Yes	No, very small business	CN
#3	Yes	Yes	No	#15	No	Yes	AAC / CN
#4	No	Yes	AAC	#16	Yes	Yes	CN
#5	Yes	Yes	AAC / CN	#17	Yes	No	CN
#6	Yes	Yes	CN	#18	Yes	Yes	AAC
#7	Yes	Yes	AAC / CN	#19	Yes	No, very small business	CN
#8	Yes	Yes	No	#20	Yes	Yes	AAC
#9	No	Yes	AAC	#21	Yes	Yes	AAC
#10	Yes	Yes	AAC	#22	Yes	Yes	AAC / CN
#11	Yes	Yes	AAC / CN	#23	Yes	Yes	AAC / CN
#12	Yes	Yes	AAC / CN	#24	Yes	Yes	AAC

*Table 6.4: Overview of the indicators used for standard 2 for each producer organization*

**Financial report:** There being three exceptions, all organization have financial reports. Of the three organizations which didn't have a financial report, two are relative small family-run organizations which claim to have little time to also manage such reports. Interestingly, all three do have to submit similar financial information to AAC.

Furthermore, sector experts and managers report that most buyers are Fair Trade oriented,<sup>44</sup> and demand information ranging from child labour to financial information. Considering the low number of non-Fair Trade buyers, and the high numbers of AAC/CN membership, organizations are forced to be open and accountable in their decision making and economic activities.

**Meetings with producers:** With the exception of three organizations, all have meetings with their producers on a regular basis. While producers are explained important organizational changes and are given the possibility to speak their mind, managers generally do not share financial information with producers. According to one managers, if this would be the case, "producers would get angry and ask why they get so little money when we earn so much from selling the products. They don't understand my other costs".

<sup>44</sup> Fair Trade oriented buyers can be understood as buyers having similar goals as fair trade certified buyers, but who are not necessarily fair trade certified.

**AAC / Craftnetwork Membership:** In this research, only two organizations which are not a member of either AAC or Craftnetwork were included. This implies that at least 22 of the organizations have to keep track of their spending, profits and wages and report to AAC or Craftnetwork. Also, eight organizations are part of a larger enterprise or NGO and report to them. Based on the above, table 6.5 provides a rating of this standard for each organization:

Org	Standard 2 Rating	Main factors
#1	+	Financial report present. Regular meetings with producers. Shares company information with AAC. Part of larger international NGO.
#2	+	Financial report present. Regular meetings with producers. Shares company information with AAC and CN.
#3	+/-	Financial report present. Regular meetings with producers. Does not share company information with other organizations.
#4	+/-	No financial report. Regular meetings with producers. Shares company information with AAC.
#5	+	Financial report present. Regular meetings with producers. Shares company information with AAC and CN.
#6	+	Financial report present. Regular meetings with producers. Shares company information with CN.
#7	+	Financial report present. Regular meetings with producers. Shares company information with AAC and CN.
#8	+/-	Financial report present. Regular meetings with producers. Does not share company information with other organizations.
#9	+/-	No financial report. Regular meetings with producers. Shares company information with AAC.
#10	+	Financial report present. Regular meetings with producers. Shares company information with AAC. Part of larger international NGO.
#11	+	Financial report present. Regular meetings with producers. Shares company information with AAC and CN. Part of larger international NGO.
#12	+	Financial report present. Regular meetings with producers. Shares company information with AAC and CN. Part of larger international NGO.
#13	+	Financial report present. Regular meetings with producers. Shares company information with AAC and CN.
#14	+/-	Financial report present. No regular meetings with producers (but small company). Shares company information with CN.
#15	+/-	No financial report. Regular meetings with producers. Shares company information with AAC and CN.
#16	+	Financial report present. Regular meetings with producers. Shares company information with CN.
#17	+/-	Financial report present. No regular meetings with producers. Shares company information with CN.
#18	+	Financial report present. Regular meetings with producers. Shares company information with AAC.
#19	+/-	Financial report present. No regular meetings with producers (but small company). Shares company information with CN.
#20	+	Financial report present. Regular meetings with producers. Shares company information with AAC.
#21	+	Financial report present. Regular meetings with producers. Shares company information with AAC.
#22	+	Financial report present. Regular meetings with producers. Shares company information with AAC and CN.
#23	+	Financial report present. Regular meetings with producers. Shares company information with AAC and CN.
#24	+	Financial report present. Regular meetings with producers. Shares company information with AAC.

Table 6.5: The rating of compliance to standard 2 for each organization.

## 6.4 Standard 3: Trading Practices

**WFTO:** The WFTO explains this criteria as follows:

The organization trades with concern for the social, economic and environmental wellbeing of marginalized small producers and does not maximize profit at their expense. [...] The organization maintains long term relationships based on solidarity, trust and mutual respect that contribute to the promotion and growth of Fair Trade (WFTO, 2009a, p. 26).

It is clear that the wellbeing of producers comes first. If a handicraft producer organization operates according to all other Fair Trade standards, and commits its trade activities in a decent way, all aspects of this standard are included. In other words, this standard seems to be a summary of all other Fair Trade standards. It is for this reasons that this standard is not discussed here, but is integrated in the discussion of the other nine standards.

## 6.5 Standard 4: Payment of a Fair Price

**WFTO:** The WFTO explains this standard as follows:

A fair price is one that has been mutually agreed by all through dialogue and participation, which provides fair pay to the producers and can also be sustained by the market. Where Fair Trade pricing structures exist, these are used as a minimum. Fair pay means provision of socially acceptable remuneration (in the local context considered by producers themselves to be fair and which takes into account the principle of equal pay for equal work by women and men (WFTO, 2009a, p. 27).

At least three things can be concluded from this citation. First, all stakeholders are to be involved in the decision making process of the (amount of) payment. Thus, participation of producers in determining the wages is important. Secondly, existing fair systems of pricing should be taken into account and obeyed to. Thirdly, a fair price should cover enough to ensure that it includes “not only the costs of production but enables production which is socially just and environmentally sound” (WFTO, 2009b). It should be socially acceptable, meaning that those who receive the income should be able to live a decent life in the area they live.

**Cambodian context:** Paying a fair price is what is understood as one of the most important aspects of Fair Trade. However, not only is it considered to be one of the most important aspects, it is also the most difficult one to determine: what is a fair price? This is subject to ongoing debates within both the academic and non-academic world. With regard to Cambodia, there are some difficulties with defining what a fair price is.

First, a fair price would be a price which guarantees a decent living for the producer. What a decent live is, is a matter of debate. Should it include having enough money for a motorcycle? Should it include having a health insurance? These are questions relating to individuals. However, in Cambodia, households usually pool their income and expenditures, making it difficult to separate an individual’s expenditures from the household expenditures. Should a fair wage therefore include enough money for an entire household? And should a fair price include the possibility to also take care of some other household members, or only of the individual? Should a fair price include the possibility of sending two children to school? Such questions make it difficult to determine what a fair price is.

Secondly, in contrast with the commodity sector, the handicraft sector has no global market price. This makes it difficult to sell and buy products at a fair price for the simple reason that one cannot compare it to the market price.

Thirdly, In Cambodia, there is a clear contrast between the rural and urban areas (with the most important urban areas being Phnom Penh, Battambang, Siem Reap). The costs of living differ between these two areas. Especially housing and food is relatively expensive in urban areas. In order to ensure a similar living standard in rural and urban areas, such differences should be taken into account when defining what a fair price is in a certain area.

Fourthly, payment of producers can be done by means of a monthly salary or by piece rate. Therefore, for a monthly salary, a fair price can be related to the number of hours worked. For piece rate, however, this is more difficult: different producers produce the same product at different speed. Therefore, a fair price for piece rate has to be related to payment per product.

Fifthly, some organizations pay for several of the producer's living expenses. Of the 24 organizations, 11 organizations provided their producers with free housing. Several also provide food and medical costs such as medicines, treatments or health insurance. For example, two organizations paid more than \$1000 for hospital treatments of their producers. Such expenses are officially not taken into account when discussing what a fair price entails. However, it is common knowledge that housing is relatively expensive in Phnom Penh, and it is difficult for producers from rural areas to find housing in Phnom Penh. The rent for a house in Phnom Penh can easily go up to \$20-\$30 per month. The provision of food, paid for by the organization, can also save a producer \$10 a month. Therefore, an organization providing housing and food for its producer, but only pays a salary of \$40 per month, should be considered to be an organization which actually pays \$70 a month (\$40 + \$20 + \$10).

Returning to the question of what a fair price is, the Cambodian labour law could serve as a reference point. The Labour Law states a minimum monthly wage. This is however set "only for the garment, textile and footwear industries" (ILO, 2005, p.11). Though it is questionable whether the handicraft sector is included in these sectors, the "Arbitration Council has also found that similar minimum wages should be paid in other manufacturing industries" (Ibid.). The minimum wage set for full time job (48 hours per week) is set at \$50 per month<sup>45</sup> (ART: 104, 105, 108). This minimum wage is both for employees working on an hourly basis, as well as full time (48 hours) piece rate employees.

Besides the minimum wage, several bonuses are mentioned in the Labour Law. First, a seniority bonus should be paid to employees who have been working for more than 1 year for the same employer. This bonus starts at \$2 a month for employees with one year of working experience and goes up to \$5 a month for employees with more than four years of working experience. Secondly, employees who work regularly are to receive an attendance bonus. This bonus is set at \$5 a month (ART: 10).

As mentioned before, there are two ways for employees to receive their monthly payments: based on an hourly wage or on a piece rate. A monthly income based on an hourly wage is determined by the hourly wage multiplied by the number of hours an employee has worked in that specific month. A monthly income based on a payment per piece consists of a predetermined value of the produced product multiplied by the number of products produced in that month. Managers calculate what to pay per piece by predetermining what they believe an

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<sup>45</sup> For employers during probation this is set on \$45 per month.

average skilled producer should earn per day if they work for 8 hours a day. By calculating how many token products of one particular product type can be made in 8 hours, it can be determined what a producer can get paid for one product.

Regarding the Cambodian context, one relevant indicator has been used to rate compliance to this third standard: the total monthly income. This consists of the average monthly income plus the extra living expenses paid for by the organization (Extra's). Following the above, table 6.6 discriminates between hourly wage and piece rate.

Org	Piece rate or hourly wage	Average income per month hourly wage	Average income per day piece rate	Extra's
#1	Hour	\$70-100	N/A	Payment in advance if requested
#2	Piece	N/A	\$4	None
#3	Hour	\$30-40	N/A	Housing + Food + Health insurance payment in advance if requested
#4	Hour and Piece	\$50	\$3	Housing + Food for hour rate workshop producers
#5	Piece	N/A	\$4	None
#6	Piece	N/A	\$3	Payment in advance if requested
#7	Piece	N/A	\$3	None
#8	Piece	N/A	\$5	None
#9	Piece	N/A	\$3	None
#10	Piece	N/A	\$3,5	Housing
#11	Piece	N/A	\$3	None
#12	Hour and Piece	\$80	N/A	None
#13	Hour	\$70-100	N/A	Housing + Health insurance + Payment in advance if requested
#14	Hour	\$80-200	N/A	Housing + Food + Health insurance + Payment in advance if necessary
#15	Hour and Piece	\$50-60	\$3	Housing + Food + Health insurance + Payment in advance if necessary
#16	Hour and Piece	\$90-150	\$4	Health insurance + Payment in advance if necessary
#17	Hour and Piece	\$50	\$2,5	None
#18	Piece	N/A	\$3,5	None
#19	Hour	\$55-180	N/A	Payment in advanc eif necessary
#20	Hour and Piece	\$60-80	\$3	Housing
#21	Hour	\$55-150	N/A	None
#22	Piece	N/A	\$3	None
#23	Hour and Piece	\$70-120	\$3	Payment in advanc eif necessary
#24	Piece	N/A	\$3	None

Table 6.6: Overview of the indicators used for standard 4 for each producer organization

From table 6.6 it becomes clear that the actual income of producers based on an hourly wage varies significantly between the different organizations. The lowest monthly income is \$30, the highest up to \$200. However, the most frequently reported hourly wage lies somewhere between \$50-80 per month.

The monthly income of piece rate producers differs less between organizations than the monthly income based on an hourly wage. From the 17 organization which (also) pay piece rate, 9 organizations pay their producers \$3 a day on average, supposing that the producers would have worked an 8 hour day<sup>46</sup>. Supposing a producer works 48 hours a week, a monthly income of \$57 per month is earned. Other reported payments are \$2,5, \$3,5, \$4 and \$5 a day. These amounts, however, do not serve as a minimum. Beginning (unskilled) producers will receive less.

As mentioned before, a possible method of measuring the fairness of these wages is to compare them to the minimum wages as stated in the Cambodian Labour Law. This document states that the minimum income should be at least \$50 per month for both piece rate and hourly wage. Only organization #3 pays wages less than the minimum. However, as noted before, other expenses paid for by the organization should also be taken into account when determining the fairness of a producer's income. In the case of enterprise #3, housing, food and health insurance is also paid for. If these expenses were to be translated into direct payment, average income per month would be \$70-80.

Based on the above, table 6.7 provides a rating of this standard for each organization:

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<sup>46</sup> It should be noted that most piece rate producers don't work 8 hours a days, because a large group produces at home next to other domestic obligations.

Org	Standard 4 Rating	Main factors
#1	++	Very High monthly income
#2	+	High monthly income
#3	+	Low income. Housing, food and health insurance included
#4	++	High monthly income for piece rate. Average monthly income for workshop producers, but housing included.
#5	+	High monthly income
#6	+	High monthly income
#7	+	High Monthly income
#8	++	Very High monthly income
#9	+	High monthly income
#10	++	High monthly income. Housing included
#11	+	High monthly income
#12	++	Very high monthly income
#13	++	Very high monthly income. Housing, food and health insurance included
#14	++	Very high monthly income. Housing, food and health insurance included
#15	+	High monthly income. Housing, food and health insurance included for workshop producers.
#16	++	Very high monthly income. Health insurance included.
#17	+/-	Minimal monthly income for both workshop and piece rate producers.
#18	+	High monthly income
#19	+/-	Minimal to high monthly income
#20	+	Minimal to high monthly income for hourly wage producers. Housing included for hourly wage producers. High income for piece rate producers.
#21	+/-	Minimal to high monthly income
#22	+	High monthly income
#23	+	High monthly income
#24	+	High monthly income

Table 6.7: The rating of compliance to standard 4 for each organization.

## 6.6 Standard 5: Child Labour and Forced Labour

**WFTO:** The WFTO explains this standard as follows:

Organization adheres to the UN Convention on the Rights of the Child, and national / local law on the employment of children. The organization ensures that there is no forced labour in its workforce and / or members or homeworkers. [...] Any involvement of children in the production of Fair Trade products (including learning a traditional art of craft) is always disclosed and monitored and does not adversely affect the children's wellbeing, security, educational requirements and need for play. (WFTO, 2009a. p. 27)

From the above citation it can be concluded that compliance to Fair Trade standard does not allow for forced labour. Concerning child labour, the WFTO is less strict. A Fair Trade organization should comply to UN conventions and national laws. Children are allowed to work, however, the work may not be heavy, nor should the work come at the expense of their security and daily activities.

The ILO and the Cambodian government acknowledge that a ban on child labour is difficult to enforce. Furthermore, it would come at the expense of many Cambodian households, losing an important part of their income. Instead, child labour should be controlled: "Poverty is a big problem for many families in Cambodia. This puts pressure on parents to have their children work. Cambodia has laws regulating child labour." (ILO, 2005, p. 6). The minimum age for employment in Cambodia is set at 15 (ART: 177). Children aged 12-15 are allowed to do light work as long as it doesn't harm their physical and mental health and doesn't come at the expense of their general development, including school attendance. Children in the age of 15-17 can only work with the consent of their parents. They are not allowed to work at night and are supposed to do work that, according to a doctor, is appropriate for their age.

**Cambodian context:** To rate this Fair Trade standard, four indicators are used. The first indicator is the minimum age organizations officially require their producers to have. The second indicator is the likeliness of children actually participating in the production process. Even with a minimum age policy, organizations employing home based producers might still have children being involved in the producing process. Home based piece rate producers often use children to produce more, thereby increasing their income. The third indicator is the type of work children, when involved in the production process, do. As mentioned above, when the work is light in the sense described by the WFTO and the ILO labour law, the involvement of children of a certain age need not be problematic. The fourth indicator is the monitoring system put in place by the producer organization in order to keep track of possible child labour.

Table 6.8 shows these indicators for each organization.

Org	Minimum Age Employees	Children in production process? <sup>47</sup>	Work of children	Monitoring system child labour
#1	18	No	N/A	Only Workshop
#2	18	Yes	Assisting	No
#3	18	No	N/A	Only workshop
#4	18	Yes	N/A	No
#5	18	Yes	Assisting	No
#6	18	Yes	Weaving, sewing etc.	No
#7	18	Yes	Unknown	No
#8	18	No	N/A	No, believe children go to school because parents earn enough
#9	18	Yes	Assisting	No
#10	16	Yes	All	N/A
#11	18	Yes	Unknown	No
#12	18	Yes	Unknown	Yes, many visits of enterprise management
#13	18	No	N/A	Only workshop
#14	18	No	N/A	Only workshop
#15	18	Yes	Assisting	Always someone in workshop and regular visits producers, ask proof of school attendance
#16	18	Yes	Unknown	No
#17	18	Yes	Assisting	Team leaders which are always at production locations, ask proof of school attendance
#18	18	Yes	Assisting	No
#19	18	No	N/A	Only workshop
#20	18	Yes	Assisting	Ask for proof of school attendance and school results
#21	18	No	N/A	Only workshop
#22	18	Yes	Assisting	No
#23	18	Yes	Assisting	Ask for proof of school attendance and school results
#24	18	Yes	Assisting	No

*Table 6.8: Overview of the indicators used for standard 5 for each producer organization*

<sup>47</sup> This indicator refers to the likeliness of children involved in the production process.

**Minimum age employees:** As table 6.8 shows, only one organisations allows employees to be younger than 18. In this organization, persons under 18 can do light work as part of a vocational training project. All other organizations only employ producers of 18 year old and above. The main reason for doing so, is the fact that international buyers consider the presence of child labour a sensitive issue. Another reason is that the organizations usually have as a goal in their social mission to provide employment for the economically marginalized people. There still are many adult marginalized people in Cambodia, as one manager states: “Why would I hire children if there are still many adults looking for a job?”. With regard to the minimum age of employees, the investigated organizations have a stricter policy than is stated in the labour law. While the labour law allows children to be employed under certain restrictions, the researched organizations have chosen not to allow children.

**Children in production process:** Although all but one organization have 18 as the minimum age for employees, 17 managers believe it is likely, or even have proof, that children participate in the production process by helping home based producers. In most cases it is children helping out their parents. Several argument for allowing this type of child labour have been given by managers. First, many Cambodian households have difficulties generating sufficient income for a decent life. The additional income generated by the household’s children often is a necessary part of the household income. Secondly, many jobs in Cambodia require a practical skill. Because there is a fierce competition within the Cambodian labour market, it is important that people learn skills as early on as possible. Especially children of home based producers can learn production skills from their parents. On top of this, many children in Cambodia, either because of geographical factors or socio-economic factors, lack the possibility to go to school. In such cases, it is argued, it is better for children to work.

**Work of children:** While these are reasons not to oppose child labour *per se*, managers acknowledge possible dangers of employing children. They consider it to be a problem when children reduce school attendance because of their work. Two things should therefore be taken into account: the type of work done by children and the monitoring of the child labour. Regarding the type of work done by children, 12 Managers argued that children in their organization only assist their parents in production, 4 managers were not informed about possible work done by children, and 2 managers were aware that children carried out all parts of the production process. However, all work done by children is light, not least due to the absence of heavy work in the handicraft sector.

**Monitoring systems:** Regarding the monitoring of child labour, 12 organizations have no policy or system in place. 5 Organizations allow child labour but request proof of school attendance when visiting home based producers. Considering the difficulty of obtaining information of the work that children of home based producers do, and the low amount of monitoring systems in place, improvements can still be made by many organizations: a system of monitoring, as demanded by the WFTO, is in many cases still absent. Under normal circumstances, producers are visited by the organization’s staff at most twice a month. Most organizations do not have any other system of monitoring except questioning the home based producers about their children during these visits. This means that it is possible for producers to use children as fulltime producers, without the producer organization having knowledge of this.

In defence of the absence of a proper monitoring system, managers tend to argue that the type of production in this sector can do little harm to children. Handicraft is not heavy work, doesn't make use of heavy machinery or dangerous tools and home based producers are able to choose

their own working place. These factors almost guarantee that children are unable to do unhealthy or dangerous work. While light labour is indeed a hallmark of the handicraft sector, this is no safeguard against possibilities of endangering the children's educational needs.

Table 6.9 shows the rating of each enterprise for this fair trade standard, according to the abovementioned indicators:

Org	Standard 5 Rating	Main factors
#1	++	Minimum age 18. No possibilities of child labour.
#2	-	Minimum age 18. Child labour likely but no monitoring system present.
#3	++	Minimum age 18. No possibilities of child labour.
#4	-	Minimum age 18. Child labour likely but no monitoring system present.
#5	-	Minimum age 18. Child labour likely but no monitoring system present.
#6	-	Minimum age 18. Child labour likely but no monitoring system present.
#7	-	Minimum age 18. Child labour likely but no monitoring system present.
#8	-	Minimum age 18. Manager believes no child labour exists but doesn't check. No monitoring system present.
#9	-	Minimum age 18. Child labour likely but no monitoring system present.
#10	-	Minimum age 16. Child labour likely but no monitoring system present.
#11	-	Minimum age 18. Child labour likely but no monitoring system present.
#12	+	Minimum age 18. Child labour likely but monitoring system in place.
#13	++	Minimum age 18. No possibilities of child labour.
#14	++	Minimum age 18. No possibilities of child labour.
#15	+	Minimum age 18. Child labour likely but monitoring system in place.
#16	-	Minimum age 18. Child labour likely but no monitoring system present.
#17	+	Minimum age 18. Child labour likely but monitoring system in place.
#18	-	Minimum age 18. Child labour likely but no monitoring system present.
#19	++	Minimum age 18. No possibilities of child labour.
#20	+	Minimum age 18. Child labour likely but monitoring system in place.
#21	++	Minimum age 18. No possibilities of child labour.
#22	-	Minimum age 18. Child labour likely but no monitoring system present.
#23	+	Minimum age 18. Child labour likely but monitoring system in place.
#24	-	Minimum age 18. Child labour likely but no monitoring system present.

Table 6.9: The rating of compliance to standard 5 for each organization.

## 6.7 Standard 6: Non Discrimination, Gender Equity and Freedom of Association

**WFTO:** The WFTO explains this standard as follows:

The organization does not discriminate in hiring, remuneration, access to training, promotion, termination or retirement based on race, caste, national origin, religion, disability, gender, sexual orientation, union membership, political affiliation, HIV/Aids status or age. The organization provides opportunities for women and men to develop their skills and actively promotes applications from women for job vacancies and for leadership positions in the organization. (WFTO, 2009a, p. 27)

It is clear that employees are not to be discriminated against by employers. Women should also be stimulated to take positions inside the organizations.<sup>48</sup>

**Cambodian Context:** An important aspect of this standard in a male dominated society such as Cambodia is to guarantee that women are not discriminated against. The first indicator of this standard is therefore concerned with the question whether an organization has a positive policy towards the employment of women. The second indicator measures the actual percentage of women producers working in the organization. Furthermore, if a paid pregnancy leave is offered, opportunities for women in an organization increase, hence the third indicator: do organizations offer a paid pregnancy leave. The fourth indicator states whether a workers committee is present in an organization. If so, the rights of the employers are better guaranteed.

Table 6.10 shows these indicators for each organization:

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<sup>48</sup> One could however question whether the WFTO is not in fact discriminative itself. Clearly, it is not allowed to be discriminated on the basis of gender. At the same time, the WFTO actively promotes applications for women.

Org	Policy on Women?	Percentage women producers	Paid pregnancy leave?	Workers Committee
#1	Target group is women	100%	Yes, 3 months full payment	No
#2	No policy	95%	No payment	No
#3	Only women Allowed	100%	Not happened: no boys allowed	No
#4	No policy	60%	Piece rate no payment, workshop no payment	No
#5	No policy	80%	Piece rate no payment, only small presents	No
#6	No policy	90%	Piece rate no payment	No
#7	No policy	60%	Piece rate no payment	No
#8	No policy	70%	N/A	No
#9	No policy	80%	No policy, but provide some money	No, small business
#10	Target group is women	100%	No payment	No
#11	Women are encouraged to apply	75%	Yes, 3 months full payment for workshop people	No
#12	Target group is women	100%	Yes, 3 months full payment for workshop people, some payment piece rate producers	No
#13	Target group is women	100%	Yes, 3 months full payment	No, small business
#14	No policy	50%	Small business: will pay at least 3 months	No, very small business
#15	One target group is vulnerable women	80%	Not for piece rate producers, no policy for workshop producers	No, small business
#16	No policy	80%	At least 3 months (not happened yet)	No, very small business
#17	No policy	N/A	N/A	N/A
#18	Women are encouraged to apply	70%	3 months for workshop, not for piece rate producers	No
#19	No policy	100%	3 months	No, very small business
#20	No policy	70%	N/A	N/A
#21	No policy	80%	3 months	No, small business
#22	No policy	95%	No, piece rate	No
#23	Special focus on women	75%	Yes 3 months, 1 week for man, \$50 gift	No
#24	No policy	80%	No	No

Table 6.10: Overview of the indicators used for standard 6 for each producer organization

**Percentage women producers:** Table 6.10 shows that the Cambodian Fair Trade handicraft sector has a high percentage of women producers. The percentage of women in organizations varies between 50% to 100%, with an average of 80%. Furthermore, the percentage of women in management positions is also far higher than the national average: more than 50% of the AAC member organizations are managed by women.

**Policy on women:** From the 24 investigated organizations, 9 have a policy on women. Some organizations, such as *Stung Treng Women's Development Center*, even focus on women only. The other organizations do not focus directly on women, but simply have a high percentage of women producers: 50%-80%. The organizations which have a larger number of men working for them trade mostly in woodcarving and silver products. This is typically considered to be work for men. However, as shown in paragraph 4.2, organizations in which more women work, are mostly those which focus on sewing and weaving. This is typically the kind of work women apply for in Cambodia. It appears that the kind of work “naturally” influence the number of women in an organization.

Based on the above, it can be concluded that Fair Trade handicraft producer organizations in Cambodia tend to have a high employment of women. While this positively affects compliance with this Fair Trade standard, it is mostly the result of cultural tendency, namely the fact that Cambodian women tend to apply for such jobs.

**Pregnancy leave:** 9 Organizations do not have paid pregnancy leave. Pregnant women producers will therefore not receive any income for the two months they are not able to work.

**Workers Committee:** Table 6.9 shows that at least 22 out of the 24 organizations do not have a workers committee. However, for 8 of these organizations, this is not surprising because they are relative small businesses with no more than 20 producers. In these organizations, contact with management is relatively unofficial and on a regular basis. For this reason, managers believe a worker committee to be unnecessary.

Based on the above indicators, table 6.11 shows the rating of each enterprise for this Fair Trade standard:



*Figure 6.3: While sewing and weaving generally attracts women producers, some organizations also produce products of which the production attracts mainly men. Such is the case with woodcarving. Picture taken in a Rajana workshop.*

Org	Standard 6 Rating	Main factors
#1	+	Target group is women. Only women employees. Paid pregnancy leave present. No workers Committee.
#2	-	Mostly women employees. No pregnancy leave. No workers committee.
#3	+	Target group is women. Only women employees. No workers Committee.
#4	-	More than half women employees. No pregnancy leave. No workers committee.
#5	-	Mostly women employees. No pregnancy leave. No workers committee.
#6	-	Mostly women employees. No pregnancy leave. No workers committee.
#7	-	More than half women employees. No pregnancy leave. No workers committee.
#8	+/-	More than half women employees. No workers committee.
#9	+/-	Mostly women employees. No pregnancy leave, but money provided. No workers committee.
#10	+/-	Target group is women. Only women employees. No paid pregnancy leave present. No workers committee.
#11	+/-	Mostly women employees. Pregnancy leave present for workshop producers but not for home based producers. No workers committee.
#12	+	Target group is women. Only women employees. Paid pregnancy leave present. No workers Committee.
#13	+	Target group is women. Only women employees. Paid pregnancy leave present. No workers Committee.
#14	+	Half of employees is women. Paid pregnancy leave present. No workers Committee.
#15	-	Mostly women employees. No pregnancy leave. No workers committee.
#16	+	Mostly women employees. Paid pregnancy leave present. No workers Committee.
#17	N/A	N/A
#18	-	Policy on women. More than half of the employees is women. Paid pregnancy leave only for workshop producers. No workers committee.
#19	+	Only women employees. Paid pregnancy leave present. No workers Committee.
#20	+/-	More than half of the employees is women.
#21	+	Mostly women employees. Pregnancy leave present. No workers committee.
#22	-	Mostly women employees. No pregnancy leave. No workers committee.
#23	+	Target group is women. Mostly women employees. Pregnancy leave present. No workers committee.
#24	-	Mostly women employees. No pregnancy leave. No workers committee.

Table 6.11: The rating of compliance to standard 6 for each organization.

## 6.8 Standard 7: Working Conditions

**WFTO:** The WFTO explains this standard as follows:

The organization provides a safe and healthy working environment for employees and/or members. It complies, at a minimum, with national and local laws and ILO conventions on health and safety. [...] Working hours and conditions for employees and/or members (and any homeworkers) comply with conditions established by national and local laws and ILO conventions. (WFTO, 2009a, p. 28)

This standard consists of two aspects. First, it consists of regulations for working conditions, such as working hours, sickness leave, overtime and maternity leave. Secondly, it consists of regulations for safety and health conditions, including: fire extinguishers, fresh air, an open working space, safe electricity, emergency exits, safe production tools, supply of sufficient water and the availability of sufficient toilets. For both aspects, national and ILO rules are to be followed.

**Cambodian context:** The circumstances under which producers have to carry out their work can greatly affect their health as well as their security. One such circumstances which can be of influence is the overtime a producer makes. Therefore, overtime is used as one of the indicators in rating compliance to this standard. Other indicators which are being used are the presence of health and safety regulations as well as the availability of drinking water, a first aid kit and a fire extinguisher. Also, the use of dangerous tools in the production process is taken into account.

Table 6.12 shows these indicators for each organization:

Org	Overtime?	Max overtime	Health/safety regulations?	Availability drinking water workshop	Availability first aid kit workshop	Availability fire extinguisher workshop	Dangerous tools used in production
#1	If big order	No limit	Meetings and rules in workshop	Yes	Yes	Yes, also training	No
#2	Up to Producers	producers determine own time	No regulations	Home based producers	Home based producers	Home based producers	No
#3	Up to producers	NVT	Meetings and rules in workshop	Yes	Yes	Yes	No
#4	If big order	No limit	No regulations Home based. Meetings at workshop	Yes	Yes	Yes	No
#5	Up to producers	Up to producers	No regulations	Home based producers	Home based producers	Home based producers	No
#6	Up to producers	Up to producers	No regulations	Home based producers	Home based producers	Home based producers	No
#7	If big order	No limit	Meetings with workshop and home producers	Yes	Yes	Yes	No
#8	No	N/A	Regulations for workshop	Yes	Yes	Yes	Silversmith tools
#9	Up to producers	Up to producers	No regulations	Home based producers	Home based producers	Home based producers	No
#10	If big order	No limit	Meetings and rules in workshop	Yes	Yes	Yes	No
#11	If big order	No limit	N/A	Yes	Yes	Yes	No
#12	If big order	No Limit	Meetings and rules in workshop	Yes	Yes	Yes	No
#13	No	N/A	Meetings and rules in workshop	Yes	Yes	Yes	No
#14	If big order	No limit	No regulations	Yes	No	No	No
#15	If big order	No limit	No regulations	No	No	No	No
#16	If big order	No limit	N/A	N/A	N/A	Yes	No
#17	Up to producers	Up to producers	In workshop very strict regulations	Yes	Yes	Yes	Welding machines
#18	No	N/A	N/A	Yes	Yes	Yes	No
#19	No	N/A	Meetings with producers	N/A	N/A	N/A	No
#20	If big order	No limit	Talk to producers in workshop daily	Yes	Yes	Yes	No
#21	Up to producers	N/A	Meetings and rules in workshop	Yes	Yes	Yes	No
#22	If big order	No limit	Meetings and rules in workshop	Yes	Yes	Yes	Silversmith tools
#23	If big order	No limit	Meetings and rules in workshop, Talk to Home based	Yes	Yes	Yes	Silversmith tools
#24	Up to producers	No limit	Workshops to explain dangers	Home based producers	Home based producers	Home based producers	No

Table 6.10: Overview of the indicators used for standard 7 for each producer organization

**Overtime:** As shown in paragraph 6.2, working hours for the producers of almost all organizations consist of 8 hours a day, 6 days a week (48 hours a week). Some organizations have a standard working week of 40 hours. The labour law is explicit about working hours: they are to be no more than 8 hours per day, nor should they be more than 48 hours per week (ART: 137). Employees should get one day a week off and overtime is only allowed in exceptional cases and on a voluntary basis (ART: 137 – 140, 146-148). Both full-time and piece rate employees should be paid a higher fee for overtime. Regarding working hours, no clear violations of the labour law were observed. 20 out of 24 organizations have producers working overtime every now and then. Nightshifts, however, never occur. Of these organizations, 12 only allow overtime in cases of emergency, which is only the case when large export orders have been placed. The other 8 organizations leave the decision to work overtime to the producers. With the exception of one, all of these organizations pay per piece. Piece rate payment makes it difficult to determine working hours. As a result, many full time piece rate producers work more than 48 hours per week. Managers speak of piece rate producers wanting to work 10 hours a day, and do not want to take a day off. This is in line with the observation that producers prefer to work piece rate in order to be able to work more and consequently make more money (van Dijk, 2009). Some managers even complain about piece rate producers producing more than the organization can sell, but being unable to stop them from producing. Although overtime is voluntary, no organization pays higher fee for this. No organization was found which forces their employees to work overtime or has structural overtimes of more than 10 hours a day.

**Health and Safety Regulations:** Of the 24 organizations, 13 have health and safety regulations and organize meetings related to health and safety issues. Of the resulting 11 organizations, 2 do not have regulations, but do hold meetings to explain dangers. 6 Organizations have no regulations and do not discuss safety issues with their producers. It should be noted that 4 of these organizations do not have workshops. They do not feel the need to discuss safety and health issues with home based producers because they believe the risks for home based producers are minimal. With an exception of two managers, all of the interviewed managers share this opinion and therefore have no policy on health and safety in the case of home based producers. Considering the minimal amount of health and safety dangers in the light-work handicraft production process and the possibility for home based producers to adjust their working environment as it suits them, the sector as a whole rates high with regard to health and safety standards.

**Availability drinking water, aid kit and fire extinguisher:** According to the labour law, first aid kits, fire extinguishers and drinking water should be present in workshops. Only one organization has been encountered which did not have fresh drinking water. Two organizations did not have a first aid kit or a fire extinguisher. Although other organizations did have those, they did not always have them present as they should have. One organization, for example, had a first aid kit, but it did not contain any first aid material, as can be seen in figure 6.4. Another organization did have a fire extinguisher, but it took 5 minutes to find it.



Figure 6.4: An empty first aid kit in a workshop

**Dangerous tools:** The production of handicraft products is generally considered to be safe:

most of the production is done by hand and can be carried out at almost any place. As a result, 20 out of 24 organizations do not use dangerous tools in their production process. Of the resulting 4 organizations, 3 use tools which can be considered dangers. This is due to the fact that they either have silversmiths employed, who use welding machines, or use machines in order to produce metal products.

Table 6.13 shows the rating of each organization for this Fair Trade standard.

Org	Standard 7 Rating	Main factors
#1	++	No excessive overtime. Proper workshop conditions. No dangerous tools used in production.
#2	+/-	No excessive overtime. Only home based producers.
#3	++	No excessive overtime. Proper workshop conditions. No dangerous tools used in production.
#4	++	No excessive overtime. Proper workshop conditions. No dangerous tools used in production.
#5	+/-	No excessive overtime. Only home based producers.
#6	+/-	No excessive overtime. Only home based producers.
#7	++	No excessive overtime. Proper workshop conditions. No dangerous tools used in production.
#8	+	No overtime. Proper workshop conditions. Silversmith use dangerous tools in dangerous environment.
#9	+/-	No excessive overtime. Only home based producers.
#10	++	No excessive overtime. Proper workshop conditions. No dangerous tools used in production.
#11	++	No excessive overtime. Proper workshop conditions. No dangerous tools used in production.
#12	++	No excessive overtime. Proper workshop conditions. No dangerous tools used in production.
#13	++	No overtime. Proper workshop conditions. No dangerous tools used in production.
#14	-	No excessive overtime. No health or safety regulations. First aid kit and fire extinguisher not present in workshop.
#15	--	No excessive overtime. No health or safety regulations. Drinking water, first aid kit and fire extinguisher not present in workshop.
#16	+/-	No excessive overtime.
#17	++	No excessive overtime. Proper workshop conditions. Welders use dangerous tools in safe workshop environment.
#18	++	No overtime. Proper workshop conditions. No dangerous tools used in production.
#19	+	No overtime. Regular meetings with producers.
#20	++	No overtime. Proper workshop conditions. No dangerous tools used in production.
#21	++	No overtime. Proper workshop conditions. No dangerous tools used in production.
#22	+	No overtime. Proper workshop conditions. Silversmith use dangerous tools in dangerous environment.
#23	+	No overtime. Proper workshop conditions. Silversmith use dangerous tools in dangerous environment.
#24	++	No excessive overtime. Enterprise organizes workshops related to safety and health. Only home based producers.

Table 6.13: The rating of compliance to standard 7 for each organization.

## 6.9 Standard 8: Capacity Building

**WFTO:** The WFTO explains this standard as follows:

The organization develops the skills and capabilities of its own employees or members. Organizations working directly with small producers develop specific activities to help these producers improve their management skills, production capabilities and access to markets – local / regional / international / Fair Trade and mainstream as appropriate (WFTO, 2009a, p. 28).

According to the WFTO, it is important for handicraft producer organizations that the skills and capabilities of the producers are improved. In chapter 1, we already saw that this benefits the degree of socio-economic independence of the producers.

**Cambodian context:** Not all aspects of the WFTO description of this standard are equally suitable for the handicraft sector. ‘Improving management skills’ and ‘improving access to markets’ is not something which has application to many of the employees working in the production process of an organization in the handicraft sector. However, improving ones production skills can be very valuable: the investigated organizations are operating in a high-end market segment, therefore demanding high production skills. By learning such skills, new doors to labour markets are opened, as well as the ability to start one’s own business is provided for. Organizations can choose two strategies. First, the organization can demand sufficient skills at the start of employment. Another option is to employ unskilled or low skilled producers and teach them the necessary skills. The latter strategy surely is more in line with the above mentioned capacity building and greatly broadens employment opportunities for the prospective producers.

The first indicator in order to determine the compliance to this standard is therefore to look whether an organization employs producers with sufficient skills or producers with limited skills. Secondly, what kind of training producers receive to obtain the necessary skills is also taken into account. Lastly, any additional trainings offered to producers positively affects the rating of this standard.

Table 6.14 shows each of these indicators for this standard

Org	Sufficient skills producers at start employment	Sufficient skills home based producers (if also workshop)	Training new employees	Additional trainings
#1	No	N/A	3 months probation and training in each of three teams	Additional production (designing, other production techniques), language,
#2	No (most)	N/A	Training by master producer (based on present skills). All parts of production covered	Environment, design
#3	No	N/A	1 trainer. Learn by doing.	English & Khmer classes, sales methods
#4	No (workshop)	Yes	Designer trains new producers. 2 months training.	Design
#5	No (most)	N/A	If skill is insufficient, training on the spot. No special trainer. Have to learn to produce difficult products by doing.	None
#6	Yes	N/A	If skills is low, team leader trains during production, and help from NGO's	None
#7	No (most)	No	3 months training in workshop	None
#8	Yes (for simple products)	Yes	No, work first day, start with simple products	None
#9	Yes	N/A	No	None
#10	No	N/A	6 months training by production leader in workshop	Design training for the best producers
#11	No	Yes (old workshop producers etc)	3 months training by trainer	None
#12	No (most)	Yes (old workshop producers etc)	6 months training by trainer	What needed by producer in partner org. program
#13	No	Yes	6 months in workshop	Sometimes if requested
#14	Yes	Yes	N/A	None
#15	No (most)	Yes	Learn by doing	Language classes
#16	No (though some experienced)	Yes	By other producers in the workshop	None
#17	No (though some experienced)	N/A	by group leaders, on the spot	None
#18	No	No	6 months training.	None
#19	No	N/A	6 months learn by doing, small organization thus manager can oversee	None
#20	No	Yes	2 trainers. 3 months training for new producers (extent in necessary)	Design
#21	Some (who come from other NGO's)	N/A	3 months by trainer in workshop	None
#22	No	Yes	3 months training	None
#23	No	Yes	3 months training	Every month 3 people can go to extra trainings
#24	Yes	N/A	-	Marketing, quality control, etc.

Table 6.14: Overview of the indicators used for standard 8 for each producer organization

**Sufficient production skills required at the start of employment:** Table 6.14 shows that it is common in the Cambodian Fair Trade handicraft sector not only to employ people from a certain target group (see paragraph 6.2), but also from a wider

also relatively unskilled producers: only 4 out of 24 organizations only employ producers who have the skills needed for the production. All other organizations have some type of training programme, either in the form of active training or a learn by doing policy<sup>49</sup>. It should however be noticed that it is common to hire unskilled producers for workshops, but at the same time hire skilled producers for home based production. Several reasons can be given: First, most organizations stimulate producers to start their own business when having obtained a high production skill and experience. This opens possibilities for new potential producers to be employed and trained. To still support those producers who left, organizations tend to order from their old workshop producers who then work as home based subcontractors. In this case, the producers have benefitted from training some years before. Secondly, it is expensive and difficult to train home based producers due to their geographical distance and irregular schedule. Training on a one-to-one basis is too expensive.

**Training new employees:** Regarding training programs, 21 organizations have some system in place to train producers in production skills. A policy of employing unskilled producers and stimulating them to start their own business when experienced and skilled is very in line with social objectives, but can be highly expensive of economic objectives<sup>50</sup>. It is expensive and can come at the expense of production quality. Such a strong commitment to capacity building should therefore be considered as benefitting compliance to this Fair Trade standard.

**Additional trainings:** Next to this production training, 11 organizations also provide additional trainings for their producers. For example, organization #23 allows every month three producers to go to trainings which they can choose by themselves. Such possibility positively affect compliance with this fair trade standard.

Table 6.15 shows the rating of this Fair Trade standard for each enterprise based on the above discussed indicators.

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<sup>49</sup> A learn by doing policy can still be considered different from employing skilled producers only, because it includes a certain amount of tolerance for mistakes or below quality standards production.

<sup>50</sup> See chapter 7 for a further discussion on tradeoffs between economic and social objectives.

Org	Standard 8 Rating	Main factors
#1	++	Employs relatively unskilled producers. 3 Months training. Several additional trainings for producers present.
#2	++	Employs relatively unskilled producers. New producers receive training. Several additional trainings for producers present.
#3	++	Employs unskilled producers. New producers receive training. Several additional trainings for producers present.
#4	++	Employs unskilled producers. New producers receive training. Some additional trainings for producers present.
#5	++	Employs relatively unskilled producers. No real training; learn by doing. No additional training.
#6	+/-	Most Producers already skilled. Some on-the-spot guidance. No additional training.
#7	+	Employs relatively unskilled producers. 3 months training. No additional training present.
#8	-	Producers already have to be skilled. No other training.
#9	-	Producers already have to be skilled. No other training.
#10	++	Employs unskilled producers. 6 Months training. Several additional trainings for producers present.
#11	++	Employs unskilled producers. 3 months training. No additional training present.
#12	++	Employs relatively unskilled producers. 6 Months training. Several additional trainings for producers present.
#13	++	Employs unskilled producers. 6 Months training. Several additional trainings for producers present.
#14	-	Producers already have to be skilled. No other training.
#15	++	Employs relatively unskilled producers. No real training; learn by doing. Additional language training.
#16	+/-	Employs relatively unskilled producers. No real training; learn by doing. No additional training present.
#17	+	Employs relatively unskilled producers. Training by group leader. No additional training present.
#18	++	Employs unskilled producers. 6 Months training. No additional training present.
#19	++	Employs unskilled producers. Training by group leader. No additional training present.
#20	++	Employs unskilled producers. 3 Months training. Additional design training present.
#21	++	Employs relatively unskilled producers. 3 months training. No additional training present.
#22	++	Employs relatively unskilled producers. 3 months training. No additional training present.
#23	++	Employs relatively unskilled producers. 3 Months training. Several additional trainings for producers present.
#24	+	Employs experienced producers. Many additional trainings (marketing, quality control, etc.)

Table 6.15: The rating of compliance to standard 8 for each organization.

## 6.10 Standard 9: Promotion of Fair Trade

WFTO: The WFTO explains this standard as follows:

The organization raises awareness of the aim of Fair Trade and of the need for greater justice in world trade through Fair Trade. It advocates for the objectives and activities of Fair Trade according to the scope of the organization. The organization provides its customers with information about itself, the products it markets, and the producer organizations or members that make or harvest the products. Honest advertising and marketing are always used (WFTO, 2009a, p. 28).

This standard requires organizations to “spread the word” about Fair Trade. Organizations should also actively inform people about the organizational activities related to corporate social responsibility.

***Cambodian Context:*** This standard is important for organizations already being Fair Trade. These organizations are supposed to increase awareness regarding Fair Trade. As discussed in chapter 5, only 3 official Fair Trade organizations can be found in Cambodia, and only a few other organizations call themselves Fair Trade.



*Figure 6.5: Information with regard to the organization and its products displayed in the Rajana shop (left) and in the Yodicraft shop (right).*

This standard requires organizations to advertise Fair Trade to their costumers and trading partners, as well as inform costumers about their activities. Organizations generally start with such activities after becoming a WFTO member themselves. In Cambodia, explicit attention to Fair Trade is generally given by the CFTF. This organization serves to facilitate the growth of Fair Trade in Cambodia. The CFTF requests help from producer organizations in its activities. Therefore, one indicator of this standard is to what extent a producer organization is actively involved in CFTF activities. One CFTF working group member, AAC, is also noteworthy due to their direct focus on Fair Trade. Next to direct Fair Trade campaigning, AAC informs its members about Fair Trade and stimulates them to campaign for Fair Trade too. Companies which are a member of AAC are therefore likely to contribute to Fair Trade promotion and information sharing. They are also stimulated to provide potential buyers with information regarding the organization’s socio-economic goals. This, then, is used as a second indicator for this standard. The last indicator regards the way information about the social-economic impact of the organization is given, for example, via brochures, websites, labels attached to products, etc. The availability of such information positively affects the rating of this standard.

Table 6.16 combines the indicators and rating for this standard for each organization:

Org	Rating	AAC Member?	Active CFTF member?	Provision of organizational information regarding socio-economic impact
#1	++	Yes	Yes	Website, Brochures, product label, uses term "Fair Trade"
#2	+	Yes	No	Website, Brochure, product label
#3	+/-	No	No	Website, Brochure, product label, shop information board
#4	+	Yes	No	Website, Brochure, product label, shop information board
#5	+	Yes	No	Website, Brochure, product label, shop information board
#6	+	No	Yes	Brochure, product label, shop information board
#7	+	Yes	No	Website, Brochure, product label, shop information board
#8	+/-	No	No	Website, Brochure, product label, shop information board
#9	-	Yes	No	None
#10	++	Yes	Yes	Website, Brochure, product label, shop information board, uses term "Fair Trade"
#11	++	Yes	Yes	Website, Brochure, product label, shop information board
#12	++	Yes	Yes	Website, Brochure, product label, shop information board
#13	++	Yes	Yes	Website, Brochure, product label
#14	--	No	No	None
#15	+	Yes	No	Website, Brochure, product label, shop information board, uses term "Fair Trade"
#16	-	No	No	None
#17	-	No	No	None
#18	+	Yes	No	Website, Brochure, product label, shop information board
#19	-	No	No	None
#20	++	Yes	Yes	Website, Brochure, product label, shop information board
#21	++	Yes	Yes	Website, Brochure, product label, shop information board
#22	++	Yes	Yes	Website, Brochure, product label, shop information board, uses term "Fair Trade"
#23	++	Yes	Yes	Website, Brochure, product label, shop information board, uses term "Fair Trade"
#24	++	Yes	Yes	Website, Brochure, product label, shop information board, uses term "Fair Trade"

**AAC membership:** Not being a member of AAC doesn't necessary affect compliance to this standard negatively: one can still actively promote Fair Trade principles. However, 17 organizations are a member of AAC and are therefore directly involved in promoting Fair Trade and providing information regarding the activities of the organization. Of the 24 organizations, 19 use at least three of these methods of providing information. Interestingly, only 6 of these organizations use the term "Fair Trade" in their communication of information.

**Active FTF members:** During the research it was found that 11 out of the 24 organizations are active in CFTF activities. Examples of such activities are organization's contributions to the development of the Cambodian Fair Trade website and taking part in organizing the annual World Fair Trade Day in Cambodia.

**Provision of information regarding socio-economic impact:** Popular ways of providing information are websites, brochures, labels attached to the product, and an information board in the workshop.

### 6.11 Standard 10: Environment

WFTO: The WFTO explains this standard as follows:

Organizations which produce Fair Trade products maximize the use of raw materials from sustainably managed sources in their ranges, buying locally when possible. They use production technologies that seek to reduce energy consumption and where possible use renewable energy technologies that minimize greenhouse gas emissions. They seek to minimize the impact of their waste stream on the environment (WFTO, 2009a, p. 29).

From the citation, it is clear that organizations should try to become as environmentally sustainable as practically possible. Organizations should therefore try to recycle, decrease their gas emissions to a minimum, and try to buy raw materials which are extracted/created with a focus on sustainability.

**Cambodian context:** Before determining compliance to this standard, it should be noted that the Fair Trade handicraft sector is fortunate to not affect the environment too much in a negative way. Agricultural Fair Trade should be sustainable and minimize its damage to the environment by keeping the land fertile and using organic or low pesticide methods. For silk, which is clearly the main type of product in the sector, mulberry tree plantation is the first phase of production. These are however not damaging to the environment and do not require a lot of pesticides. If natural or German dye is used, the silk is relatively chemical free. The production is done by hand and small tools, implying practically no emissions or other related damage to the environment.

Several indicators have been determined to measure compliance with this standard. First, due to the high amount of silk products, it is determined where the silk used in production originates from, and under which circumstances this silk is created. Secondly, the same is done for the other products used in production. Thirdly, policies and activities by the organizations, either positively or negatively affecting the environment, are considered. Lastly, an estimation is given of the impact on the environment during the production process in terms of energy consumption, emission and waste. Table 6.17 shows these indicators for each organization:

Org	Origin Silk	Origin other materials	Other Activities	Energy Consumption/ Emissions / Waste
#1	Imported (no information) and Cambodian silk plantation	Abroad, Local markets	Training of producers	Very Low
#2	Imported (no information)	Cambodian villages, abroad, local markets	None	Low (silversmiths present)
#3	Imported (no information)	Abroad, Local markets	Monthly meetings with producers	Very Low
#4	Imported (no information)	Abroad, Local markets	Replacement of trees cut, recycled products (rice bags)	Very Low
#5	Cambodian silk plantation	Abroad, Cambodian villages, Local reed, local markets	None	Very Low
#6	Imported (no information)	Abroad, Local markets	None	Very Low
#7	Imported (no information)	Abroad, Local markets	Production method aimed to minimize waste	Very Low
#8	Imported (no information)	Abroad, Local markets	None	Low (silversmiths present)
#9	Imported (no information)	Cambodia, Local markets	None	Very Low
#10	Imported (no information) and Cambodian silk plantation	Abroad, Local markets	None	Very Low
#11	Imported (no information)	Abroad, Local markets	None	Very Low
#12	Imported (no information)	Abroad, Local markets	None	Very Low
#13	Imported (no information) and Cambodian silk plantation	Abroad, Local markets	None	Very Low
#14	Imported (no information)	Abroad, Local markets	None	Very Low
#15	Imported (no information)	Abroad, Local markets	Recycled products (rice bags)	Very Low
#16	Imported (no information)	Abroad, Local markets	None	Very Low
#17	Imported (no information)	Cambodia (rivers), Abroad, local markets	None	Very Low
#18	Imported (no information)	Abroad, Local markets	Recycled products (rice bags)	Very Low
#19	Imported (no information)	Abroad, Local markets	None	Very Low
#20	Imported (no information)	Abroad, Local markets	Recycled products (rice bags)	Very Low
#21	Imported (no information)	Abroad, Local markets	None	Very Low
#22	Imported (no information)	Abroad, Local markets	Recycled products (rice bags)	Low (silversmiths present)
#23	Imported (no information)	Abroad, Local markets	Recycled products (rice bags)	Low (silversmiths present)
#24	Imported (no information)	Mostly local products	Working to become organic producer	Very Low

Table 6.17: Overview of the indicators used for standard 10 for each producer organization

**Origin materials:** As becomes clear from table 6.17, organizations import most of the materials they use for production. Since there are very few domestic products available for most sectors, even products bought at the local market are mostly imported.

At the time of research, only two significant silk plantations were present in Cambodia. Both are known to be environmentally friendly, not least due to the extensive donor support over the last years<sup>51</sup>. Four organizations place regular orders in one of these plantations, but only one has been able to receive sufficient silk for the entire organization's production. As a result, silk is usually directly or indirectly imported from Thailand, China or Vietnam, with little information about production methods. Yet, it should again be noted that silk plantations are relatively sustainable.

As to wooden products, due to government restrictions on cutting wood, organizations have already been forced to buy their wood from forests characterized by reinforcement planting. Other ways of attaining wood is by buying up small "waste" parts, which large manufacturers can't use, but are nonetheless suitable for small woodcarving.

**Other activities:** Other activities that explicitly focus on environmental sustainability are monthly meetings with producers to discuss sustainability issues (2 organizations), production methods to minimize waste (1 organization), the possibility of changing to organic cotton production (1 organization) and producing products out of recycled rice bags (6 organizations). These last kind of products are becoming more popular in Cambodia. The most common use of recycled rice bags is in creating bags, as shown in figure 6.6.



*Figure 6.6: Recycled rice bags displayed in the Rajana shop.*

**Energy consumption:** Regarding environmental impact during the production process, 20 out of 24 organizations have a very low impact. As mentioned before, this is a result of the production by hand and the use of a natural product (Silk). Even in workshops, very little electricity is needed for production. 4 Organizations can be considered somewhat less sustainable due to the presence of silversmiths.

Table 6.18 shows the rating of this standard for each organization:

<sup>51</sup> See for example ITC's Golden silk trait project in Cambodia.

Org	Standard 10 Rating	Main factors
#1	++	Cambodian silk plantation. producer training about environmental impact, very low environmental impact.
#2	+	Makes some use of Cambodian materials, low environmental impact
#3	+	Monthly meetings with producers about environment, very low environmental impact
#4	++	Replaced trees which have been cut down for products, created recycled products, very low environmental impact.
#5	++	Makes use of many easily re-grown local products, very low environmental impact.
#6	+	low environmental impact
#7	++	Production method aimed to minimize waste, very low environmental impact.
#8	+	low environmental impact
#9	++	Makes some use of Cambodian materials, very low environmental impact
#10	++	Cambodian Silk plantation, very low environmental impact
#11	+	Very low environmental impact
#12	+	Very low environmental impact
#13	++	Cambodian silk plantation, very low environmental impact
#14	+	Very low environmental impact
#15	++	Produces recycled products, very low environmental impact
#16	+	Very low environmental impact
#17	++	Makes use of many easily re-grown local products, very low environmental impact.
#18	++	Produces recycled products, very low environmental impact
#19	+	Very low environmental impact
#20	++	Produces recycled products, very low environmental impact
#21	+	Very low environmental impact
#22	++	Produces recycled products, low environmental impact
#23	++	Produces recycled products, low environmental impact
#24	++	Working to become organic producer, very low environmental impact

Table 6.18: The rating of compliance to standard 10 for each organization.

## 6.12 Conclusion

In chapter 5 it became clear that, with one exception, the producer organizations are not Fair Trade certified. This was mostly for reasons to do with time and financial costs, instead of non-compliance with Fair Trade Standard. However, to analyze the process of mainstreaming, indications of Fair Trade compliance should be given first. This chapter used the 10 WFTO criteria as indicators in order to determine compliance. Each standard has thus been operationalized by these indicators. Based on this, all producer organizations have been rated for each WFTO Standard.

We have seen that the Cambodian handicraft producer organizations can generally be characterized by their highly marginalized target groups, hiring relatively unskilled labour, a relative high price, environmental friendly production and the fact that no harsh measures are taken when mistakes are made in the production process.

To create a general Fair Trade assessment method for each organization, the rating for each standard has been converted into a score. All 9 scores, related to the standards, have been added, and subsequently divided by the number of standards. The result is an average score for each organization between -2 and 2. It is expected that a positive value implies acceptance by the WFTO for Fair Trade membership. Table 6.19 shows the score results for each producer organization

Org	Minimum	Maximum	Average score <sup>52</sup>	Org	Minimum	Maximum	Average score
#1	+	++	1.2	#13	+	++	1.8
#2	-	++	1.8	#14	--	++	0.1
#3	+/-	++	0.6	#15	--	++	0.7
#4	-	++	0.9	#16	-	++	0.4
#5	-	++	0.8	#17	-	++	0.7
#6	-	+	0.2	#18	-	++	1
#7	-	++	0.8	#19	-	++	0.6
#8	-	++	0.7	#20	-	++	1.4
#9	-	+	0	#21	+	++	1.4
#10	-	++	1.3	#22	-	++	0.9
#11	-	++	1.1	#23	+	++	1.2
#12	+	++	1.6	#24	-	++	1

*Table 6.19: Overview of the average rating of standards for each producer organization and the minimum and maximum rating given to that organization in any standard.*

<sup>52</sup> This number has been calculated by adding up the scores of each of the standards discussed, dividing this number by 9 (standards). The scores for each standard have been calculated as: "--" = -2, "-" = -1, "+/-" = 0, "+" = 1, "++" = 2

As table 6.19 shows, the lowest found average score belongs to organization #9, with a score of 0. No organizations with a negative score were found. Furthermore, only two organizations have a minimum individual standard rating of "--", corresponding to a score of "-2". It should also be noted that almost all organizations score well on standards related to target groups, income and skills building. These are generally considered to be the most important standards by the WFTO. In all, the producer organizations can be considered complying to Fair Trade criteria<sup>53</sup>.

Because of compliance with Fair Trade criteria, exploring the possibilities of going mainstream becomes relevant. The next chapter will therefore review mainstreaming opportunities for the producer organizations.

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<sup>53</sup> Although a high average would signify compliance to Fair Trade standards, it does not exclude excesses per se. If, for example, an organization would have high ratings on each stand except for the standard related to child labour, this does not necessarily mean the organization would pass WFTO Fair Trade auditing. If young children regularly do heavy work in the production process, this organization would never be accepted as Fair Trade. However, none of such extreme cases for one standard have been found. This is also unlikely, because all producer organizations trade with importers which demand a certain minimum of social standards (which is considered socially acceptable in the consumer country).

## 7 Mainstreaming Opportunities

In chapter 6, the social level of Fair Trade handicraft in Cambodia, relating to the first research question, was examined. Because of the clear indication that producer organizations can be considered to comply to Fair Trade criteria, it is now of importance to examine market opportunities within the market in general, and the mainstream market in specific. The intention is to provide an answer to research question 2: to what extent can Cambodian Fair Trade handicraft producer organizations enter and compete in the mainstream market?

Before discussing the export opportunities for handicraft producers themselves, current channels of sales and their share of total sales will be addressed. A distinction between Fair Trade exports and mainstream exports will be made explicitly. The share of mainstream exports will be determined, as well as advantages and obstacles operating in this type of market. Lastly, it will be discussed at what cost organizational structure can be changed to benefit when entering and competing in mainstream markets.

### 7.1 Current Channels of Sales

Channels of sales can vary between organization. Because of a relatively high product price, most organizations have difficulties entering the mainstream market. The following channels of sales can be identified:

1. *Shops*. On average, producer organizations sell about 40% of their products through shops. Depending on the product and the setup of the organization, the actual percentage of sales through shops varies between 0% and 95%. It should be noted that this information was obtained during a time in which the tourism industry faced dwindling numbers of tourists. Managers noted that, in previous years, sales through shops had been higher.

Two organizations did not have a shop. One of these didn't have one because their target group didn't consist of tourist at all, and the other was originally set up as an exporting organization only. Those organizations which have shops are usually located in *Phnom Penh*<sup>54</sup>. Popular places to have a shop are tourist sites such as Riverside, around *Toul Sleng* and streets 240 and 178. It is uncommon to have more than one shop: three organizations had a second or third shop in *Siem Reap* and/or *Sihanoukville*, two other major tourist destinations.

It is surprising that *Siem Reap* and *Sihanoukville*, which both are popular tourist destinations, have so few handicraft Fair Trade shops. One part of the reason for this can be explained by the fact that most organizations are relatively young and still unable to open other shops<sup>55</sup>, another part can be explained by logistical problems the organizations face<sup>56</sup>.

The main buyers from shops are tourists. They can find the organizations via maps and guide books, or by visiting the areas in which the shops are located. Of specific interest are

<sup>54</sup> Only two organization have a shop in Siem Reap only and some others had a small shop at their workshop in the rural areas.

<sup>55</sup> Especially during the present economic recession, organizations are not comfortable with opening new shops.

<sup>56</sup> The Cambodian infrastructure is still of relative low quality. Asphalt or concrete roads are generally lacking. Where they are present, they usually constructed by neighboring countries. Not least because of this reason, transportation in Cambodia is relative expensive.

large tour groups. Several organizations have arrangements with tourist operators to stop at their workshop and/or shop, giving the tourists time to buy products. If these groups are informed, preferably by showing, how these products are made and by whom, the tourists are likely to buy some products due to an emotional attachment. Those organizations involved in such activities report high incomes, sometimes up to \$1000 per group.

2. *Consignment.* Consignments are a relative cheap way of increasing the places where one's product is sold. It account for an average of 10% of the total sales, in some cases up to 25%. Managers report many cases of consignment which hardly have made any profit. They complain that consignees don't seem to care about their products and that shops sometimes copy their products and sell their own made copies instead of the organization's products.
3. *The internet.* The internet has become an important tool for information sharing and advertisement. More than 90% of the organizations have a website. This usually contains examples of the products they sell. However, sales through websites are difficult. Buyers with large orders have to contact the organizations directly, and individual buyers are faced with high transportation costs due the small amounts of products ordered. Although a website can be an important marketing tool, it is unlikely to serve as a significant channel of sales, as is reflected in an average of 0-1% of sales though this trade channel.
4. *Export.* With an average of 50% of total sales, export is the largest channel of sales. Managers are interested in increasing their export, because large orders secure work, are profitable and export orders are not subject to tourist seasons. Buyers can be classified as retailers, wholesalers and more unofficial trading partners, such as churches which sell the products in the church community. While these are not official trading businesses, orders have been reported to go up to thousands of dollars. Furthermore, this channel is experienced to be the most secure channel of sales. One manager explained this in the following way: "even if the economic crisis will hit us very hard and we will lose all of our other buyers, they will keep placing orders. There is no better buyer". However, this type of importer is also the least demanding in terms of price, quality and consistency.

## 7.2 International Buyer Characteristics

Most buyers are either Fair Trade certified, or demand their own level of implementation of social standards. Managers generally acknowledge that most buyers would not buy from them if the producer organization did not have their focus on their social mission. In this respect, the Cambodian handicraft Fair Trade sector is clearly still operating within a niche market where the social benefits of the product are considered to be one of the most important product properties.

Most organizations tend to wait for international buyers to come to them. In the majority of the existing trading relationships, first contact was initiated by the international buyers. These either read the website, visited a shop,<sup>57</sup> or heard about the organization through family or acquaintances. In other cases, foreigner managers and/or board members contacted possible buyers in their home country. Some buyers came into contact with organizations through larger

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<sup>57</sup> During interviews with importers, consultants and managers, it became clear than importers are looking for unique products and time in visiting developing countries to find such products on the spot. It is therefore not uncommon that first contact was made by the importer simply walking into the shop.

NGO's of which the producer organization is part. The last encountered possibility is trade-facilitating organizations such as *Craftnetwork* and *AAC*.

A majority of the members acknowledge that their current buyers contacted them and intend to wait for future buyers to come to them as well. It is surprising that, considering the importance of export orders, the management does not put more effort in looking actively for new buyers. During interviews with consultants who have been given workshops in finding buyers, it became clear that in these workshops, as well as through *AAC*, producer organizations have been informed about the importance of additional buyers as well as methods to attract them.

An important way to attract new buyers is attending (international) trade fairs and exhibitions. During interviews with sector experts/consultants, it became clear that, although other trade channels, such as internet and business to business, are becoming increasingly important, trade fairs remain the most important channels, especially for inexperienced exporters (CBI, 2009). However, Trade Fairs are expensive for small producer organizations, although the results in terms of (long term) orders could still outweigh the (short term) costs of trade fair participation<sup>58</sup>. Those few organizations which did attend international trade fairs, are planning to attend others in the future. This is due to the new buyers which these organizations were able to obtain during the trade fair. Therefore, again, although there are methods to acquire more buyers and which managers have been informed about, the general strategy of attracting buyers tends to remain a passive one.

The type of buyers trading with the producer organizations can almost all be found in niche markets. First, it was already mentioned that organizations make use of unofficial trade channels. Especially Christian NGO producer organizations have strong links with private institutions (especially churches) in developed countries which supply steady orders. One organization, *Tabitha*, has found itself in an extreme position in this respect. The *Tabitha* founder explained that they "are no supporter of fair trade because a lot of the money still goes to middleman and other traders. We sell directly to people who support our cause and who sell it to costumers in Australia and Singapore. In this way, producers get the highest benefits". *Tabitha* also has other programs in which they involve volunteers from developed countries, such as house building programs. These people are brought to the *Tabitha* shop before leaving, providing high amounts of sales due to the involvement they have build during the days before. Furthermore, some of these people are willing to sell products back at home, voluntarily, for the *Tabitha* cause, thereby creating one of the cheapest forms of exports imaginable. Because this type of trade is operating almost solely on a moral basis, the pressure on pricing and quality of products is very low.

Secondly, organizations founded by foreigners have linkages to the motherland of that founder. His or her contacts can help to find boutiques and shops which are willing to sell their products. This type of exports is more formal than that mentioned above. Due to the fact that shops in developed countries are held accountable for the products they sell, they will require a higher level of product quality and consistency.

Thirdly, the lion's share of all exports goes to fair trade buyers or NGO importers with a strong social mission. Encountered, and well known, examples are *Oxfam*, *10000 Villagers*, *World of Good*, *World Shops* and *UNICEF*. Contact with these buyers is initiated either by partner NGOs or by the importers themselves. In exceptional cases, sending emails and/or calling a potential buyer has been fruitful too. Such buyers are attracted to the social standards of the Cambodian

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<sup>58</sup> Costs for a trade fair participation in Europe can easily go up to €15.000.

fair trade handicraft sector, as well as "the story behind the producer"<sup>59</sup>. Also, the organizations are attracted by the label of hand-made products, of which a large demand exists in developed countries (CBI, 2009).

In some cases, buyers are mainstream. Examples can be found in organizations owned by foreigners with a clear understanding of the market in their mother country, as well as strong business contacts. Furthermore, with the support of Business Support from Craftnetwork, *Marks and Spencer* has placed repeating orders at producer organization *Lotus Pond*. Other examples with smaller retailers can also be found, but the case of the producer organization *United Holding* is the most prominent. The company is the Cambodian partner of *Scansia Group*, a leader in indoor and outdoor furniture. They export containers full of small furniture made of water hyacinth for buyers such as *Ikea*. Although they rely heavily on their partner for business contacts and contracts, they have been able to become a continuous supplier of several mainstream well known retailers.

### 7.3 Sector Opportunities and Sector Obstacles

Cambodian Fair trade products are generally considered to be too expensive by local Khmer. Organizations therefore have penetrated the tourist market using shops at tourist hotspots. When share has been secured on this market, organizations tend to move on to the export market. It is not uncommon for export to become the most important channel of sales. However, as the previous paragraphs showed, penetration of the mainstream market is in most cases still absent. The Nation Export Strategy has reached the same conclusion:

The silk sector does not meet the international market demands and requirements, today, in terms of quality, volume, and time to market. Further, the production cycle – from sericulture to marketing and distribution – has major critical areas that need to be addressed, e.g., dyeing and weaving centre, yarn standardization/quality assurance, design centre for “best practice”, entrepreneurialism culture, etc... (ITC, 2006, p. 50)

This lack of market standards is somewhat surprising, especially considering the large amount of export support provided for by several donors. According to the ITC "*The Sector has received a not substantial level of support over the past 5-10 years, often via NGO programmes*" (ITC, 2006, p. 5). Support is given by organizations such as the UNDP, ITC, ILO, Traidcraft, MCC and the IFC. Through on-the-spot assistance, workshops and information provision these donors have, at least partly, supported export promotion in the fair trade sector. This has certainly had an effect on the total amount of export partners attained thus far, but has had little effect on attracting mainstream buyers. An example: during interviews, managers tend to point out that making progress in the area of product design is difficult for the organizations. However, they do consider it to be of high priority. Their target markets are far away from their living world, making it difficult for them to keep up with trends and to change their designs accordingly. After presenting such replies to consultants, they responded somewhat indignant. As one consultant put it, "We have organized several workshops in fashion trends and designing. We have provided them [the managers] with a list of interesting magazines and links for the internet to follow the latest [fashion] development. On top of that, we also organized workshops how to

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<sup>59</sup> A term commonly known for the information attached to a product explaining what kind of people have produced the product and under which circumstances.

create your own designs based on what they find in magazines. All of that is published, of which they all received a copy<sup>60</sup>. What more could they want?"

In order to explain the lack of mainstream market shares, this chapter will subsequently address the current obstacles organizations face in order for them to enter the mainstream market. For completeness, several opportunities for the sector will be given first.

### **Opportunities**

*Growing demand* - the sales for certified Fair Trade products around the world is growing. FLO reports fair trade certified sales in 2009 to amount to €3.4 billion, with a 22% year-to-year increase in the five years before (FLO, 2010). The growth of the niche market shows an interest of Western consumers in socially and environmentally responsible products. The Dutch Centre for the Promotion of Imports from Developing Countries (CBI) explores EU market opportunities for companies in developing countries. Two of their focus sectors are Home Textiles and Home Decoration, under which the products of the Cambodian fair trade sector can be categorized. In market surveys investigating European market possibilities of these products, the CBI finds that

An increasing market trend is the idea that consumption should lead to spiritual and emotional fulfilment rather than simply sampling, hoarding or prestige. This is a form of 'buying better', built on four buying motives: value over price, intellectual stimulation, experience over matter and conscience. Consumers want to be able to trust producers, to see that they are transparent, and speak the truth about the ethical, social and environmental impact of their products. To show integrity, to be authentic and genuine. On product level, this trend translates into a use of natural, renewable and recyclable materials, the use of traditional techniques, hand-manufacture and fair-trade. (CBI 2009, p. 12)

In another document, the CBI explains the importance of Fair Trade for mainstream markets and vice versa as follows:

Fair trade products used to be a niche market, but nowadays more and more mainstream consumers are concerned about fair trade as well. European consumers and buyers are increasingly interested in the background of products. They want to know the social background of the company and are interested in environmentally friendly production. European buyers are selecting their suppliers on these criteria as well. Actually, fair trade products are becoming more and more mainstream, while mainstream products are becoming more and more fair trade. As a result, mainstream stores have started to sell fair trade products alongside their normal product range. Furthermore, their normal products are preferably being produced by socially responsible producers. (CBI, 2008, p. 3)

From the above, two opportunities for the Cambodian fair trade sector can be derived. First, consumers are interested in unique products which stimulate them emotionally. The CBI believes that especially handmade products with a clear story (of production) and cultural background will fulfil such needs. Second, due to pressure from consumers, mainstream importers are becoming more interested in fair trade products. Based on these developments in demand and the characteristics of the present Cambodian fair trade handicraft sector, it can be

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<sup>60</sup> Bronwyn Blue, *Handicraft Sector Design and Business Development Manual: A Step by Step Guide*, 2006. (ILO publication)

concluded that there is a sufficient demand for Cambodian fair trade producers to go mainstream<sup>61</sup>. The Cambodian government and the ITC have reached a similar conclusion:

[The Sector should] focus on further penetrating existing markets with particular emphasis on the US, EU, Japan since these represent an immediate- and long-term prospects and export opportunity. (ITC, 2006, p. 50)

*High-end market segment is most promising* – The fair trade handicraft sector in Cambodia is already operating in a relative high market segment. The National Export Strategy pinpoints this segment as the most promising for exports.

*“Cambodia” sells good* – Products with the label “made in Cambodia” sell generally well. Experts mention that probably due to the violent history of Cambodia, consumers tend to prefer to buy Cambodian products out of sympathy.

### **Obstacles**

*External – Doing business in Cambodia is relative expensive* – Several national characteristics affect economic performance of Cambodian enterprises. First, corruption in Cambodia is high. This opens some opportunities and can save money due to low taxes, but generally comes at the expense of organizations. Furthermore, money paid to corruption is not invested in further economic development, but in individuals. Secondly, roads in Cambodia are of low quality, making transportation expensive. Trade hubs for export are hardly present, making transportation to other countries also expensive. Thirdly, electricity is expensive, which is of importance for production. These and other factors create a difficult context to compete with other exporters from other countries.

*External – Lack of financial means* – As is common in developing countries in general, companies have difficulties obtaining credit for further investment.

*External - Lack of locally available materials* – Most products in the Cambodian fair trade sector are made from silk. There are only two places of reasonable size in Cambodia which grow silk worms, and both are still relatively small compared to foreign plantations. The amount of silk which is produced in Cambodia is not enough to supply the total national demand. Consequently, most silk is imported. The process of growing silk worms and extracting silk from the cocoon is carried out in other countries (mostly Vietnam, Thailand and China) after which it is imported to Cambodia. Although this system has been able to supply the total demand of silk, it creates a difficult position for Cambodian exports to compete with exporters which can obtain their silk from local suppliers. Similar stories can be told for most products needed for production in Cambodia.

*Consistency in handicrafts is difficult to achieve* – Handicraft products are, as the name reveals, characterized by production process (mostly) done by hand. Mainstream orders are characterized by large quantities<sup>62</sup>. It is not surprising that the consistency in quality and looks

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<sup>61</sup> Although the CBI market surveys discuss EU markets only, CBI experts believe similar trends, with some minor differences, can be observed in other Western countries like the USA and Japan.

<sup>62</sup> The very high market segment can also be characterized by small quantities, but these go hand in hand with very high quality and very unique products. Such a market segment still seems to be very far from the present state of the fair trade handicraft sector in Cambodia.

for such an amount of products is difficult to achieve if production is mostly handwork, especially because large quantities require a large amount of producers.

*Market knowledge for strategic choices is missing* – Part of the criticism of fair trade on the current trade system, revolves around the lack of information and possibilities for producers at the bottom end of the value chain (Nicholls and Opal, 2008). Due to the producers' limited recourses as well as limited familiarity and contact with their target market, keeping up with changing prices, and changing trade channels, changing demand in terms of designs and colours is a large obstacle. In an ever changing sector as this, such obstacles can be disastrous for an enterprise.

*Design skills are still lacking* – A significant difference between organizations in terms of introducing new product lines or even changing the colours of existing products can be observed, although all organizations interviewed claim to introduce at least one new product line every year. Next to the abovementioned problem of lacking market knowledge, organizations tend to be faced with a lack of necessary skills to design such a new product line. Most organizations do not have anyone trained in design in-house and lack the money to hire an expert. As a result, managers, together with some producers, design the new products. Although success stories of such an approach can be found, this usually does not lead to the desired results. Next to the lack of skills, managers and producers already have their own tasks in the organization, making design a secondary task for which extra time needs to be planned in. As a manager noted, "We do not have a designer. I create new product together with the best producers. We design new products once a year, but we have been too busy, so we haven't created any new products yet." Some organizations do have designers<sup>63</sup>. These organizations are usually run by foreigners which have design skills from previous working experience.

Even if new designs are introduced, it is no guarantee that the designs will be successful. For one, as concluded above, designers in Cambodia have difficulties adapting their products to the materials, shapes and colours as demanded by western consumers. This difficulty can also be found with producers. Handicraft producers generally feel close to the product, not least because they have more influence on the end-product than producers working in factories. However, most producers involved in exports are not familiar with new non-Cambodian designs and swift changes in product properties, requiring swift changes in production. Consequently, producers have more difficulties producing and feel less a bond with their product if they produce for export. A well illustrating example of the impact such a shift in products and design can have was encountered in one organization where the manager complained about the difficulty to compete on the international market. She stressed the need for integrating traditional Cambodian looks with modern Western aspects. She showed one of such efforts: a basket with 4 different colours and a complex design. Producers were asked to create a similar product with their usual (Cambodian) materials. The result was a basket with the form the Cambodian producers were used to: half a circle. The only aspect of the product they had integrated into the new product were the 4 new colours.

*Product quality is not sufficient* – Operating in a high market segment, product quality is one of the most important factors for success in exports. However, quality is, in many cases, still below the required levels. A *Craftnetwork* employee noted that "it happens a lot that producers miss out on orders because the buyer rejects on low quality". In such cases, the buyers are interested in the product and design, but back down because of insufficient production skills.

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<sup>63</sup> While not being paid full time for designer, these people have designing as part of their job.

Several causes for this lack of product quality can be given. First, the set-up of the production leaves room for mistakes during production. Many producers work at home which creates a difficulty for quality control on the spot. Especially with large orders, companies are faced with the necessity to hire more subcontractors working at home. Time and materials have already been used if quality control is carried out after production, creating a loss when the product has to be taken out of production and export. If there would be more quality control on the spot, mistakes can be handled with reduced costs and loss of time. Furthermore, many organizations do not have personnel assigned to quality control at workshops during production.

Secondly, producers are not used to high quality standards necessary for exports. A manager explained that her producers have difficulties producing the expected quality because they are used to produce a product in such a way that it looks sufficient when a Cambodian would look at the product. When the products for export were not accepted by the exporter due to insufficient quality the producers asked the manager how come the blue eyes of foreigners can see quality deficiencies which they can't see. While they thought quality is sufficient if the product looks good, importers used special machinery to examine the quality in detail. Also, Craftnetwork had a similar problem with a rejected order. The importer rejected the order because products showed round spots only appearing after holding them before special lamps. After going through the whole production process to determine how and what could have caused this, the consultant found that the weaving women, who were under pressure to produce large quantities for large orders, had found that they could produce faster if they, when about to finish one arm length of weaving, leaned over in order to produce a longer bit so that the setup for a new length could be postponed<sup>64</sup>.

*lack of production capacity.* Mainstream trade differs significantly from fair trade channels in terms of order sizes and deadlines of orders. Although mainstream buyers can also be small retailers, e.g. boutiques, in average, orders in mainstream markets are larger in volume compared to fair trade markets. The time between the placement of the order and the deadline for delivery also tends to be shorter. These deadlines as well as packaging requirements are stricter.

As became clear in chapter 6, the producer organizations usually work with small and fast changing labour forces. Those who are experienced are encouraged to leave the organization so new unskilled producers can enter and learn. Several target groups of Cambodian Fair Trade producer organizations also increase the change of these producers to have a physical or mental breakdown. Despite the large benefits of social impact of these producer organization characteristics, organizations find difficulties complying to the more strict mainstream expectations. In interviews with consultants it became clear that some mainstream buyers have left the Cambodian fair trade sector because of this problem.

*Prices are too high to compete* - Due to the focus on social missions and the above obstacles, prices of Cambodian handicraft products are still somewhat high to effectively compete on the international market.

The above mentioned obstacles lead, despite the potential of the market, to the conclusion that key aspects for mainstreaming are insufficiently present in the Cambodian handicraft sector, even after times of significant donor support.

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<sup>64</sup> Changing the setup is a time consuming business.



*Figure 7.1: While some organizations try to have a professional looking shop, others seem to put less effort in such a corporate image. The above pictures, taken in different shops, show this very clearly.*

### 7.4 Overcoming Sector Obstacles

While the current state of the Cambodian handicraft sector is not sufficient for mainstreaming, this, with support of donors, might change in the future. As discussed in paragraph 7.2, two organizations are already operating in the mainstream sector. It is possible more will follow. However, before targeting the mainstream market, as much of the donor support has done so far, it is of importance to consider the costs such a change will bring (if any), as well as (though related) whether such change is wanted. This paragraph will not go into the costs for donors for the necessary support<sup>65</sup>, but will examine whether the changes required to enter the mainstream market for producer organizations can be considered an acceptable means. After all, in chapter 1 it became clear that entering the mainstream market creates several advantages: it will provide more security due to diversifying trade channels, there are possibilities of growth, as well as improved skills of entrepreneurship.



*Figure 7.2: A production line or other forms of efficient production are still absent in many organizations. This picture is taken in a workshop of one of the organizations.*

Concerning prices, fair trade handicrafts have always had problems competing with mainstream products. Some consider the high price as the main cause for the small market share fair trade as a whole still has. As discussed before, in the case of Fair Trade, the consumer pays for the social impact, implying a higher product price. In the Cambodian case, external factors such as high transportation costs and high electricity costs, create an even stronger effect on the high price. With a strong focus on social effects, Cambodian companies therefore have difficulties entering the already competitive mainstream home decoration market. Although paragraph 7.3 already

<sup>65</sup> Consultants have stated that without donor support, most Cambodian run enterprises will not be able to commercialize much further due to the lack of entrepreneurial experience.

showed that there is room for social products with high prices in the high market segments, this market segment requires standards which are almost impossible to achieve for global market newcomers. Significant changes should therefore be made to be able to achieve such standards. Several of these changes and their impact on organizational structure will be discussed below.

In order to improve quality and consistency for large orders, production for export should be done in workshops with a production line system. A sector consultant remarked that "export is almost impossible without a well organized workshop". If managed adequately, a workshop can have several advantages in the context of exports. For one, a production line can drastically reduce the time to produce a product, implying higher efficiency. A workshop also creates the possibility of quality control on the spot: producers can be trained and corrected on the spot, resulting in less production costs (of finished products with insufficient quality) and higher average quality. Lastly, transportation costs as a result from travelling between producer and enterprise are reduced, as well as the risk of producers not having produced the amount of products requested by the (production) manager. Yet, the amount of producers working in a workshop is still low, as shown in paragraph 6.2. This high amount of home producers is related to the developmental impact of such a system.

Working at a workshop requires producers to be present at predetermined times, opposite to the freedom of working hours which home producers have. Handicraft home production is generally carried out in so-called "free" time - time that is not spent working in the fields or in domestic work such as child-care, cooking, collecting water or firewood, looking after animals" (Pakulat, 2001, p. 148-149). The producers, mostly women, usually also have other (domestic) obligations and can produce because they have the freedom to determine their own working hours, and in many cases the amount of working hours. They can therefore still commit themselves to their already existing obligations and in some cases combine production with these obligations. This creates an extra income for rural families without many concessions<sup>66</sup> needed. Due to the fixed production times and the distance to the producer's (rural) homes, producing in a workshop does not create this possibility to also carry out other obligations. Furthermore, workshops are best located on infrastructure hubs, close to the available supplies of materials and on those places electricity is available. Such places are almost always cities where living costs are more expensive. Working in a workshop will require women to live nearby, forcing them to move away from their rural homes and generating more (living) expenses.

Beside these effects on the producer's livelihood, other reasons can be given why production lines are not always favourable. As one manager explained: "some of our girls have a very low self-esteem. When they leave us, they feel much more confident. That is because we teach them to take care of themselves." Recall that most producer organizations have target groups who are not only economically, but also socially marginalized. At organizations, producers learn to create products from raw materials. This is a great merit for producers and helps to build self-esteem. Managers believe that a production line will make it difficult for producers to learn to create the

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<sup>66</sup> During a field trip to rural producers combined with a focus group, it became clear that home production besides the already existing obligations does not always bring benefits to everyone. Although the household incomes go up, the women sometimes become overburdened and in some cases their husbands feel threatened by the extra income created by their wives.

entire products<sup>67</sup> and will build less self esteem, because producers feel less connected to their product.

If organizations were to follow the advice of consultants to work with more workshop space, some of the social impact of their work will go lost. This is not a matter of gradations, but clear opposites between which a choice has to be made. Therefore, a trade-off between the social impact and entering the market is present.

The same type of trade-off can be found when considering the payment of producers. As explained in paragraph 6.5, payment can be done either through piece rate or hour rate. Producers tend to prefer piece rate which enables them to produce more and therefore earn more (van Dijk, 2010). Again, it gives them some freedom in production. At first glance, this type of payment would seem to provide a more effective system of production because producers are stimulated to produce faster, creating a win-win situation: producer get the type of payment they prefer and production is more efficient. Unfortunately, reality is not always that simple. The experience with paying producers per piece is that the already existing difficulty pertaining to the quality standards become more explicit. Producers tend to put less effort in quality to produce more products in order to get paid more. An obvious response to this problem would be to pay producers less or nothing if they produce insufficient. However, as one manager put it, “What can I do? They need the money. If I don’t pay them, they can’t eat.” Organizations work with relative inexperienced producers but demand high quality production with which producers are unfamiliar. Paying less or nothing for low quality products would go at the expense of the producers. As a result, many managers pay their producers even if the products are below export standards, which is a serious obstacle for entering and maintaining a share in the mainstream market. And again, if managers decide to change production in favour of going mainstream, producers would be pushed in a situation most managers would consider to contradict their social mission to much<sup>68</sup>.

Another trade-off concerns the experience of employers. As discussed in paragraph 6.2 and 6.8 , the Cambodian Fair Trade handicraft sector is particularly strong in creating employment opportunities and improving skills because of the target groups of organizations and the relative little production experience producers starting their work. The result is a group of producer with very little experience at the start of employment, requiring significant amount of training, and few producers who stay for more than two years. With such a relative inexperienced producer base, quality and efficiency are again in danger. On top of that, training and guidance of new producers requires a significant investment as well.

To comply to mainstream market demands, organizations could therefore hire more experienced labour and encourage producers to remain employed within the organization for a longer period of time. Obstacles related to production capacity, product consistency and product quality would be reduced. The implications of such a change in organizational structure would not be in line with the social missions of the organizations to create opportunities for the marginalized. Considering the period of employment, if producers have gained sufficient skills

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<sup>67</sup> A manager explained that they tried to solve this problem by forcing producers to work at all of the steps in the production line, but argued that this is still not the same for producers as creating an entire product by themselves. Such a policy would also cost the organization because producers would have to build up skills three times.

<sup>68</sup> It should be remarked that those organizations which do maintain a policy of less payment if a product is of low quality mostly have positive experiences with this method. As one manager puts it, “if you don’t make them feel, they will never learn. Producers which just started sometimes make low quality products, but that only happens a few times.”

to be able to obtain orders from other organizations, they can hardly be called marginalized. Furthermore, the objective of the organizations to create (economically) independent producers would be harmed if producers are not stimulated and helped to start their own business. It would therefore be in line with the social mission to stimulate these producers to start for themselves, creating the possibility to hire new inexperienced producers. As with the above issues, a balance between the two choices can't be found; the one excludes the other.

In a similar way, it is not uncommon for managers and other supporting staff to have started as a producer, receiving the necessary training for their current tasks. While this is very much in line with fair trade objectives, as a result, organizations are ran by inexperienced managers unfamiliar with foreign markets. Again, a trade-off between mainstream possibilities and social objectives is apparent in this situation.

Last, several organizations are still supported through donor funds. While this doesn't create a trade-off with successfully obtaining a mainstream market share per se, consultants and donor support have found that extra funding tend to decrease successful entrepreneurship, while being more directly affected by strategic choices and performance will create the necessity to perform. Consultants believe that without donor support companies will be more viable, especially inside the mainstream market, then they are with extra funding.

Changes in favour of mainstreaming possibilities	Effect on socio-economic impact
Large workshops	No more possibilities of working next to domestic issues.  Rural living people forced to live in expensive city: less increase in relative spending power.  The rural poor are excluded.
Production line	Less capacity building of producers. Decreasing independence producers.  Drop in self-esteem.
Low quality production effects payment producers	Possible producer income below decent live requirements (especially for starting producers).
Long term employment	Less people supported in target group.
No skills training program: Hiring skilled producers	Reduced independence producers.  Target group is not supported.
No donor funds	Development impact drastically reduced: the real marginalized producers are not supported .
No social programs (no hospital payment, no social guidance, etc.)	Possibility of not surviving in economic environment.  Producers remain socially marginalized.
	Insecurity producers increases.

Table 7.1: Examples of trade-offs between organizational characteristics which enable mainstreaming and the socio-economic impact of an organization.

The above examples show that, in order to change organizations in such a way that entering the mainstream market is possible, radical change in organizational set-up and production processes is needed. Yet, such changes come to the expense of activities which define the organizations as a social (or fair trade) enterprise. Even if, considering the advantages and opportunities of going mainstream, it is, with the proper donor support, possible to obtain a larger mainstream market share, it should be considered to what expense this change comes, and therefore whether such change should be wanted at all. The above mentioned possibilities in changing the organizational structure in favour of mainstreaming possibilities result in a significant reduction in social impact. In many occasions, there even is a trade-off between the improved economic functioning and the social impact, sometimes directly opposing the social mission of the organization. Because most organizations have been established with a successful social functioning of the organization as main goal, it can be argued that entering the mainstream market will reduce the social impact in such a way that the original social mission has to be abandoned.

This is not to say that the above mentioned ways to overcome obstacles are all necessary as well as sufficient to enter the mainstream market. They are not all necessary, for one can easily imagine an organization undergoing all those changes but still receiving donor support. Also, United Holding does supply mainstream buyers and indeed undergone some of these changes, but still works with more than 1000 home producers. It has been able to set up an impressive system of teams, quality control checkers and special payment system to undermine most of the efficiency problems related to employing home producers. This hints at the possibility of not having to change all encountered problematic organizational aspects in order to become ready for exports to mainstream markets. Be that as it may, it is unlikely that the change of a few of the encountered aspects is enough.

The above mentioned ways to overcome obstacles are not necessarily sufficient because some obstacles discussed in paragraph 7.2 are not solved by the discussed changes in organizational structure. To operate in the mainstream markets, actively attracting buyers and keeping up with fashion cycles is imperative. However, these obstacles are not in any solved by the above discussed changes in organizational structure. Thus it is possible that the above mentioned ways are not sufficient for mainstreaming.

### **7.5 Implications for Cambodian Fair Trade Handicraft Organizations**

After having identified several trade-offs between mainstreaming possibilities and social impact, the question that subsequently arises is which option is preferable for producer organizations. The two options available are:

(1) Change the organizational structure to the advantage of mainstreaming possibilities and lose some of its social impact and change the social mission. This means entering the mainstream market, aggressively competing and try to achieve benefit leadership characterized by cost proximity by introducing a product with a higher benefit with a cost which is only slightly higher than competitors (Besanko et al., 2010). This first option would entail supplying both fair trade as well as mainstream buyers, necessitating compliance with market standards as well as rapid changing consumer preferences. It does provide more security in terms of buyer diversification,

a larger industry segment to focus on, most likely economies of scale and an increase in entrepreneurial skills for management as well as an increase of production skills of producers. It however also entails moving away from the producer organization's mission statement related to a drastically reduced social impact.

(2) Keep the organizational structure in such a way that the social mission can be maintained. This means remaining to operate in Alternative Trade Networks where competition is relative low, where a mentality of buying whatever is produced and products are bought mainly because of their social implications instead of other product characteristics. Organizational dependence on a few buyers with low demands will result in limited entrepreneurial and production skills in-house, high economic dependence as well as limited scale opportunities. However, organizations are able to maintain their target groups and their high developmental impact of assisting highly marginalized producers in creating economic independence and building self-esteem.

It should be noted that option (1) does not exclude remaining a fair trade organization: producer organizations operating in this market segment can still be certified fair trade. Where fair trade implies a minimum level of socio-economic impact for producers, most producer organizations included in the research are operating far beyond minimum requirements. In chapter 1 it became clear that different types of organizations can nowadays be distinguished operating in the Fair Trade Movement: "very dedicated"/100% Fair Trade organizations and those coming from mainstream channels and not uncommonly are subject to fairwashing. Obviously, the Fair Trade producer organizations in Cambodia can be categorized as belonging to the first group.

## 7.6 Theoretical Implications

The abovementioned trade-off is related to what is discussed in paragraph 1.8, namely the social objectives in an economic environment. This thesis showed that the Cambodian Fair Trade producer organizations are not organizations which reduce their potential socio-economic harm, but go one step further: the social objectives are at the core of the organizations' activities and in their mission statements. So far, this chapter has showed that such an organizational structure determines the market opportunities. One can distinguish between organizations which primarily focus on Fair Trade in almost all their operations, and competitive organizations which enter the Fair Trade Movement by complying to Fair Trade standards. The organizational structure of the first group is characterized by enabling maximum socio-economic impact on its producers, as well as low environmental impact, while the latter is characterized by enabling profit maximizing behaviour up to level in which the social and environmental impact is still "acceptable" (i.e. complies to Fair Trade standards<sup>69</sup>). Several reasons for making a clear distinction between these two groups of Fair Trade organizations can be given, of which two will be discussed here.

First, sustainability has become increasingly important in donor support. If, through donor support, an organization's dependence on Fair Trade orders can be reduced, sustainability is increased. Donor support therefore tends to focus on providing business support which is aimed at enabling organizations to compete in the mainstream market. However, such donor support is mostly useful for the second group mentioned above. Although economic efficiency also benefits the first group, this is only so to a certain extent. Many of the changes which need to be made in the organizational structure in order to benefit a higher level of economic efficiency,

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<sup>69</sup> This stance can be seen as not wanting to be unethical. According to Auger et al. (2003), "companies can potentially lose from having their products identified as being made under bad conditions" (p. 284).

will come at the expense of the organization's mission. The impact of business development donor support can therefore be increased if the abovementioned distinction between Fair Trade producer organizations is made.

Secondly, a distinction between both types of Fair Trade producer organizations can, to a certain level, solve the problem of fairwashing. Chapter 1 discussed the advantages of mainstreaming for producer organizations in developing countries: increased local entrepreneurship skills; increased market knowledge; increased market access; risk diversification and possibilities of growth. However, two problems related to mainstreaming were identified. First, many organizations are unable to enter the mainstream market at all. Secondly, mainstream actors which enter the Fair Trade movement are less dedicated, and therefore compete the more dedicated producer organization out of the market. Nicholls and Opal (2008) hint at the importance of the distinction between Fair Trade producer organizations:

Those companies that align themselves as models for different ways of doing business, or as 100 per cent Fair Trade, must consider what it means to be part of what is becoming a mainstream movement. Rob Everts, Co-Director of Equal Exchange USA, finds distinguishing Equal Exchange as an ATO to be particularly important as mainstream companies doing small amounts of Fair Trade enter the market. (p. 103)

The citation describes the problem of dedicated Fair Trade organizations having to compete with several mainstream actors, which have become Fair Trade as well, in their own market: the Fair Trade market. There is an increasing need for dedicated Fair Trade Organizations to distinguish themselves from the companies mentioned in the quote, which can be characterized as "doing small amounts of Fair Trade". Reynolds (2000) also believes that there is a risk "that the space that exists for alternative trade will be subverted by profit seeking corporations" (p. 299) and that: "Where progressive movements have created viable niche markets for alternative products, large corporations may capture the most lucrative share, threatening the sector's progressive social and environmental foundations" (ibid.). It is clear that mainstreaming has made it possible for profit seeking enterprises to outperform the type of organizations for which Fair Trade originally was founded: the economically marginalized (smallholder) producers. Moore (2004) concludes that dedicated Fair Trade producers therefore have to choose between 'remaining "pure" but probably marginal, or aligning with the mainstream and "losing their soul" ' (p. 83). This citation is in line with the research results regarding to the trade-off between social goals and mainstreaming opportunities, as presented earlier in this chapter.

In order to find their niche market (share), the more dedicated Fair Trade producers need to find a way to distinguish themselves from the profit seeking Fair Trade enterprises. Nicholls and Opal (2008) and Moore (2004) report several cooperatives, previously Fair Trade, which have declared independence and started their own branding. Sometimes, this branding has eventually resulted in their own certification. Providing consumers with organization-specific information regarding the social impact of the producer organization is exactly what the profit seeking Fair Trade enterprises are unable to "copy". This is where dedicated organizations can find their niche. Even more, this does not require an organization to be Fair Trade certified, and therefore does not involve the risk of consumers being unable to distinguish between them and profit seeking Fair Trade enterprises.

The Cambodian Fair Trade handicraft sector clearly illustrates the possible success of this strategy. The level of implementation of social standards is in many cases far higher than the minimum WFTO Fair Trade requirements. As discussed in this chapter, this makes it almost impossible for those organizations to enter and compete in the mainstream market without

losing their "soul". Almost all of these organizations have more than 5 international importers placing regular orders. These buyers have started trading with these producer organizations because of the producer organization's socio-economic impact. Although the organizations comply to Fair Trade standards, they have been able to acquire a share in this niche-market without being Fair Trade certified. The ingredients for their success, i.e. having been able to acquire a share in a niche-market to which profit seeking Fair Trade firms have no access, are at least twofold:

(1) The organizations have been able to attract buyers interested in social producing enterprises. By being transparent, producer organizations have won the trust of these socio-economic impact oriented importers.

(2) The organizations have been able to reach a group of consumers who are willing to pay more than a similar product produced by a profit seeking Fair Trade enterprise. There is a relative small group of consumers which is willing to pay this much if they are explained the story behind the product (Auger et al. (2003)).<sup>70</sup> When information is provided about the kind of producer who has made the product, together with information about the way the product was made, for example by hand, then, for a significant group of consumers, the additional (sentimental) value of the product outweighs the additional costs (Ibid.; CBI, 2009).

The last aspect is thus made possible because the Cambodian organizations provide extensive information about their organization, the socio-economic impact they have, and provide life stories of their producers. This information is essential in selling the products to consumers who intend to buy from an ethical perspective, although no Fair Trade certification is present. By encompassing a small brochure<sup>71</sup>, producer organizations are able to operate in a (niche) market without having to change their organizational structure at the expense of their social mission. It should however be noted that this niche market is very small, and that there is a strong economic dependence on a few importers. Also, there are no spillovers with regard to entrepreneurship.

It can be concluded that the benefits of mainstreaming are, in general, substantial. Although this has resulted in fairwashing at the expense of the dedicated Fair Trade producer organizations, reversing the process of mainstreaming would be disastrous for millions of small scale producers. The findings of this thesis have been in line with existing literature, in which the difficulties for many small producer organizations to join the process of mainstreaming, and the harm this would bring to the defining aspects of these organizations, are discussed. As a result, dedicated Fair Trade producer organizations all over the World need to distinguish themselves from, what might be called, "mainstream Fair Trade". This thesis has shown they are exactly those organizational characteristics, which make competition in the mainstream market impossible, that can contribute in the creation of the beforementioned niche market. Organizations can use their specific socio-economic impact to distinguish themselves from other enterprises which (also) comply to Fair Trade standards. But this is only so, if they are able to directly communicate the information regarding their socio-economic impact to the consumer. The Cambodian case has shown that this is possible: Cambodian Fair Trade producer organizations sometimes rely for more than 80% on exports. These organizations are not Fair Trade certified. By including a story-behind-the-product, these organizations have been able to sell to consumers who buy on a moral basis.

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<sup>70</sup> Regarding the socio-economic impact on producers.

<sup>71</sup> It is common for organizations to include a picture of a producer and a description of how the organization has positively benefitted the producer's socio-economic situation.

## 8 Conclusion

This thesis dealt with Fair Trade and the process of mainstreaming. It discussed the research results from an internship carried out in 2009 in the Fair Trade Cambodian handicraft sector in Cambodia. It first started with defining Fair Trade as an alternative trade system operating with minimum requirements to guarantee the wellbeing of producers. It became clear that additional growth and an increase of entrepreneurial skills related to economic empowerment of producer organizations can be achieved by a process of mainstreaming, i.e. trading increasingly in non-fair trade market channels. While these advantages are generally acknowledged, problems as a result of this focus on mainstreaming can be found on both the micro and macro level. On the macro level, the process of fairwashing has increased significantly, reducing the accountability of the movement and resulted in an unfair competition in which dedicated small producers are no match for the larger companies which have entered the Fair Trade movement. On the micro-level, many small producer organizations are not well suited to actively compete on the mainstream market. In many cases, extensive business development support is required to attain such required economic efficiency.

The research in the Cambodian Fair Trade handicraft sector was aimed at determining whether mainstreaming possibilities can be identified, as well as whether mainstreaming is wanted in itself for producers in this sector. However, the answer to such a question requires the answer of several sub-questions. First, mainstreaming opportunities only apply if the related organizations comply to Fair Trade criteria. Therefore, the first research question is: *To what extent do Cambodian handicraft producer organizations comply to Fair Trade standards?* With the exception of one, all producer organizations in this research were not Fair Trade certified. To still be able to have some indication of compliance to Fair Trade criteria, each organization was rated for all WFTO Fair Trade standards. An average level of compliance to these standards was calculated for each organization. These average scores provide a rough indication that all organizations are likely to be accepted as WFTO members, if they would apply. Thus, all organizations are considered to comply to Fair Trade standards.

Before considering mainstream opportunities, it was also determined to what extent organizations do already operate in mainstream markets, and whether they are well adapted to these markets. The available data showed that, with the exception of one organization, all producer organizations have few to none active mainstream buyers. However, this does not imply that mainstreaming isn't a strategy without benefits. Therefore, the second research question is: *To what extent can Cambodian Fair Trade handicraft producer organizations enter and compete in the mainstream market?* Market studies focussing on the demand side of the market<sup>72</sup> suggest that the demand for hand-made ethical products "with a story" is rapidly increasing. This suggests that mainstreaming, for Cambodian handicraft producer organizations already operating in a relative high market segment, can be considered to be an economic opportunity. However, several obstacles, such as the difficult economic situation in Cambodia, the relative low product quality and product inconsistencies, the lack of design skills and the higher buyer demands in terms of delivery, suggest that radical organization change is necessary in order to be able to compete in the mainstream market.

Such a change in organizational structure is likely to increase efficiency and therefore the organizational strength in the mainstream market. However, a trade-offs can be found between

<sup>72</sup> This specifically refers to Western consumers.

this adaptive behaviour towards entering the mainstream market, and the organizational social impact related to the social mission. Several defining characteristics of the organizations would have to be changed, reducing the social impact drastically. Organizations are therefore faced with a choice: They can either enter the mainstream market and benefit from its potential, in doing so losing some of its defining social impact, or they can choose to remain in Alternative Trade Networks with a high dependency, limited entrepreneurial skills and product being sold mostly due to their social story, but keeping the social impact in line with their social mission.

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Appendix 1: Overview Fair Trade Standards Rating per Organization

Org	1	2	4	5	6	7	8	9	10
#1	++	+	++	++	+	++	++	++	++
#2	+	+	+	-	-	+/-	++	+	+
#3	++	+/-	+	++	+	++	++	+/-	+
#4	+	+/-	++	-	-	++	++	+	++
#5	++	+	+	-	-	+/-	++	+	++
#6	+/-	+	+	-	-	+/-	+/-	+	+
#7	+	+	+	-	-	++	+	+	++
#8	++	+/-	++	-	+/-	+	-	+/-	+
#9	+/-	+/-	+	-	+/-	+/-	-	-	++
#10	++	+	++	-	+/-	++	++	++	++
#11	++	+	+	-	+/-	++	++	++	+
#12	++	+	++	+	+	++	++	++	+
#13	++	+	++	++	+	++	++	++	++
#14	+/-	+/-	++	++	+	-	-	--	+
#15	++	+/-	+	+	-	--	++	+	++
#16	+	+	++	-	+	+/-	+/-	-	+
#17	+	+/-	+/-	+	N/A	++	+	-	++
#18	++	+	+	-	-	++	++	+	++
#19	-	+/-	+/-	++	+	+	++	-	+
#20	++	+	+	+	+/-	++	++	++	++
#21	++	+	+/-	++	+	++	++	++	+
#22	++	+	+	-	-	+	++	++	+
#23	+	+	+	+	+	+	++	++	+
#24	++	+	+	-	-	++	+	++	++

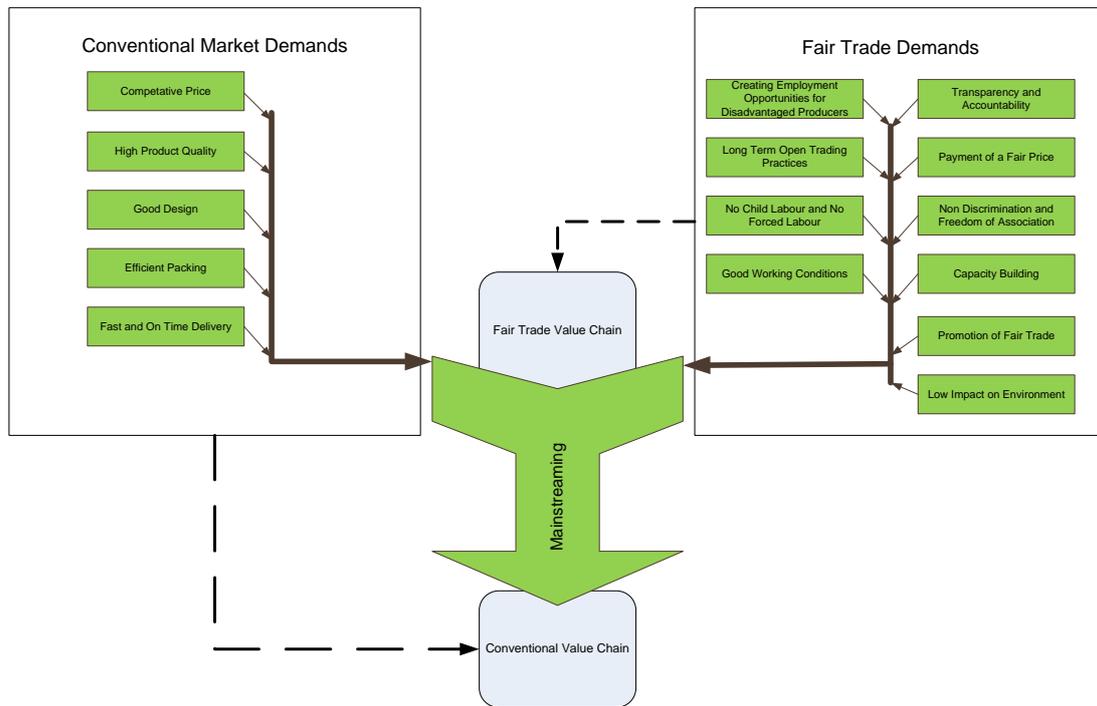
## Appendix 2: Interviews Conducted in the Research

Name <sup>73</sup>	Organization	Job Discription
<b>Rotha Tep</b>	Afesip Fair Fashion	Manager
<b>Tom Yesberger</b>	Baskets of Cambodia	Director
<b>Heand Sarim</b>	CAN-DO Crafts	Director
<b>Seung Kimyonn</b>	CCC	Director
<b>Hay Kin Tha</b>	CHA	Director
<b>Bart Edwards</b>	Hager (On time)	Manager
<b>Cheak Kearun</b>	Khmer Life	Manager
<b>Kanady</b>	KNN	Manager
<b>Sompen Kuiranon</b>	Lotus Pond	Director
<b>Suchivi</b>	Mat Shop	Manager
<b>Nguon Chantha</b>	Mekong Blue	Director
<b>Teng Heng</b>	NCDP Retail Outlet	Project Manager
<b>Chanthy Sopheak</b>	Nyemo	Manager
<b>Kieng Sabay</b>	Rajana	Manager
<b>Rout Thuam Nunh</b>	Rehab Craft	Manager
<b>Awan Delaval</b>	Samatoa	Director
<b>Bud Gibbons</b>	Santuk Silk Farm	Director
<b>Seng Takakneary</b>	Sentosa Silk	Manager
<b>Julie Thai</b>	Silk and Pepper	Director
<b>Sandrine Bury</b>	Subtyle	Director
<b>Sam Oeurn Ouk</b>	Ta Phrom	Manager
<b>Janne Ritskes</b>	Tabitha cottage	Director
<b>Kea Makera</b>	United Holdings	Manager

<sup>73</sup> As discussed in Chapter 2, almost all directors, managers, consultants and NGO staff have been interviewed at least twice.

Name	Organization	Job Discription
<b>Norm Annak</b>	Villageworks	Manager
<b>Chea Pyden</b>	VCAO	Project Manager
<b>Christine Gauthier</b>	Water Lily	Director
<b>Try Sophearak</b>	Watthan	Manager
<b>Nimul Ouch</b>	Yodicraft	Manager
<b>Katrina Peach</b>	Traidcraft	Country coordinator
<b>Nina Howard</b>	Traidcraft	Project Manager
<b>Antonia Marison</b>	Traidcraft	Project Manager
<b>Jose Vahl</b>	Craftnetwork	Director / Independent Consultant
<b>Oni</b>	Craftnetwork	Business consultant
<b>Romeo Dacles</b>	Craftnetwork	Product Developer
<b>Men Sinoeun</b>	AAC	Director
<b>Yeng Lun</b>	AAC	Manager
<b>Carrie Martin</b>	MCC	Project manager
<b>Bronwyn Blue</b>	-	Business consultant / Designer
<b>Tourt Chamroen</b>	Cordaid	Cordaid staff
<b>Marry Reed</b>	Combodia House	Director
<b>Naisang Lang</b>	ITC	ITC staff / Local business consultant
<b>Seng Kuysromn</b>	-	Local business consultant
<b>Men Srey Mom</b>	-	Local Product Developer
<b>Lundy Chou</b>	-	Local Product Developer
<b>Kees Bronk</b>	CBI	CBI external expert
<b>Marcel Oosterveer</b>	CBI	CBI external expert

### Appendix 3: Conceptual Model



The main relation under research in this thesis is mainstreaming, represented by the large green vertical arrow. Mainstreaming is the process of Fair Trade organizations, which trade in Fair Trade value chains, increasingly operating in conventional value chains. This process of moving from one value chain to a significantly different one is considered to be long and difficult. Both value chains have their own market demands. If these market demands are met, organizations have a high change of long-term successful trading in such a value chain.

For Fair Trade value chains, market demands are Fair Trade standards. An organization should comply to these standards if it wants to trade in a Fair Trade value chain. In the case of handicraft products, such standards could be the WFTO 10 Fair Trade standards. These 10 standards are given in the right square, and are used in this thesis to determine Fair Trade compliance of organizations. The dotted line between this square and the Fair Trade value chain represents the necessity to comply to these standards in order to operate in a Fair Trade value chain. In most Fair Trade value chains, the WFTO or FLO certify and check organizations for compliance with these standards.

For conventional value chains, market demands are not determined and compliance is not checked by large organizations such as the WFTO and the FLO. Instead, competition has created a trading system in which an economic actor should comply to high market standards in order to be able to sell its products. Some of these standards are given in the left square. If organizations which want to operate in a conventional value chain do not comply to these standards, they are most likely unable to obtain some market share. The dotted line between this square and the conventional value chain represents the necessity to comply to these standards in order to operate in such a value chain.

The process of mainstreaming can be understood as Fair Trade economic actors moving from Fair Trade value chains to conventional value chains. In order to operate in conventional value chains, these Fair Trade organizations should comply to conventional market demands. However, the process of mainstreaming also involves Fair Trade organizations not losing their Fair Trade compliance. Therefore, organizations in the process of mainstreaming should comply to Fair Trade standards at the end of the process as well.

In conclusion, the process of mainstreaming implies complying to conventional market demands, and at the same time compliance to Fair Trade standards (which they complied to at the start of the process). It is thus a mixture of demands from different markets. This necessity of compliance to the 2 different market demands is given by the two straight lines from the squares to the large arrow of mainstreaming.