



**Karlstad Business School**  
Handelshögskolan vid Karlstads universitet

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# Fairtrade - Fair for whom?

A field study conducted in the Dominican  
Republic.

Comercio Justo – Justo para quien?

Un estudio de campo realizado en la Republica Dominicana.

Business administration  
C-Thesis 15 ECTS

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## **Preamble**

I would like to extend my gratitude to Karlstad University and SIDA for the extraordinary opportunity that enabled me to conduct a field study in the Dominican Republic. A special thank you to the farming communities that welcomed me into their homes and lives and offered me their firsthand experiences.

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María-Isabel Balbuena	Fedecares
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Heidi Ramos	Interpreter
Joaquín Núñez	Driver
Iván Valdez	Lawyer

## **Abstract**

<b>Title:</b>	Fairtrade – Fair For Whom? A Field Study Conducted In The Dominican Republic
<b>Course:</b>	Business Administration, Bachelor Thesis 15 ECTS
<b>Author:</b>	Alexander Christiansen
<b>Advisor:</b>	Bo Enquist
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The Base of the Pyramid (BoP) highlights the bottom of the global economy, usually in underdeveloped countries, that are considered poor. It can be argued that these markets contain an abundance of untapped potential for profits while also addressing the needs of the poor and satisfying the consumer's demand for ethical products. By joining forces with multinational corporations (MNCs) and non-governmental organizations (NGOs) at the BoP, the quality of life for the poor, as individuals, and our global society as a whole will improve. Businesses that are able to navigate the immaturity of the markets while respecting and supporting the locals will likely experience continuous growth, along with promising profits. This field study has examined the influence that Fairtrade has on the BoP market in the Dominican Republic, as well as the challenges that the farmers face in order to qualify as Fairtrade producers. The study also investigated the barriers for Fairtrade to succeed in the Dominican Republic, which included the extensive Fairtrade criteria, inadequate infrastructure and distribution systems, low purchasing power of the local population, along with high priced equipment, and a dysfunctional government. In order to further develop Fairtrade coffee in the Dominican Republic, the organization needs to alter their education and certification practices, consider offering micro-loans to their small-producers, negotiate with the government to fix the infrastructure, and find a way to improve the purchasing power of the locals in order to alleviate some of their hardship.

## **Preámbulo**

Me gustaría dar mi agradecimiento a la Universidad de Karlstad y a SIDA por la extraordinaria oportunidad la cual que me ha permitido llevar a cabo un estudio de campo en la República Dominicana. Un agradecimiento especial a las comunidades agrícolas que me acogieron en sus casas y sus vidas, y me ofrecieron sus experiencias desde un principio de primera mano.

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Heidi Ramos	Interprete
Joaquín Núñez	Conductor
Iván Valdez	Abogado

## La Abstracción

<b>Título:</b>	Comercio Justo – Justo Para Quien? Un Estudio De Campo Realizado En La Republica Dominicana
<b>Curso:</b>	Administración De Negocios, Tesis De Licenciatura 15 ECTS
<b>Autor:</b>	Alexander Christiansen
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La Base de la Pirámide (BoP) pone de manifiesto la parte inferior de la economía mundial, por lo general en los países subdesarrollados, que son considerados pobres. Se puede argumentar que estos mercados contienen una gran cantidad de potencial sin explotar de la cual podrían generar ganancias considerables. Con dichas ganancias podrían hacerle frente a las necesidades de los pobres y al mismo tiempo satisfacer la demanda del consumidor de productos éticos. Al unir fuerzas con las empresas multinacionales (EMN) y las organizaciones no gubernamentales (ONG) en la balanza de pagos, la calidad de vida de los pobres, como individuos y en nuestra sociedad mundial en su conjunto va a mejorar. Las empresas que son capaces de navegar por la inmadurez de los mercados respetando y apoyando a la gente del lugar, es probable que experimenten un crecimiento continuo, junto con beneficios prometedores. Este estudio de campo ha examinado la influencia que tiene el Comercio Justo en el mercado BdP en la República Dominicana, así como los retos a los que se enfrentan los agricultores con el fin de calificar como productores de comercio justo. El estudio también investigó las barreras enfrentadas por Fairtrade para tener éxito en la República Dominicana, incluyendo los amplios criterios de Comercio Justo, infraestructura y sistemas de distribución inadecuados, el bajo poder adquisitivo de la población local, además de equipos de alto precio y un gobierno disfuncional. Con el fin de desarrollar aún más el café de Comercio Justo en la República Dominicana, la organización necesita mejorar sus métodos de educación y certificación, considerar el ofrecimiento de microcréditos a los pequeños productores, negociar con el gobierno para arreglar la infraestructura, y encontrar una forma de mejorar la capacidad de compra local con el fin de aliviar algunas de sus dificultades.

## Abbreviations

Adomuca	Asociación Dominicana de Mujeres en Café
Bagricola	Banco Agricola
BiD	Banc of Interamericano
BoP	Base of The Pyramid/Bottom of the Pyramid
Codocafe	Consejo Dominicano de Café
COSP	Cost of Sustainable Production
DUA	Declaración Única Aduanera
Fedecares	Federación de Caficultores del Sur
FLO-CERT	Fairtrade Labeling Organization – Certification
FOB	Free On Board Price
Funglode	Fundación Global, Democracia y Desarrollo
ICP	International Coffee Partners
ILO	International Labour Organization
IMF	International Monetary Fund
Induban	Industrias Banilejas
MFS	Minor Field Study
MNC	Multi-National Corporation
NGO	Non Governmental Organization
Oxfam	Oxford Committee for Finance Relief
PML	Fairtrade Prohibited Materials List
SIDA	Swedish International Development Cooperation Agency
SMC	Small Multinational Corporations
UASD	Universidad Autónoma de Santo Domingo
UN	United Nations
USD	United States Dollar
WRI	The World Resource Institute

## Conversions

1 tarea = 628,8 m<sup>2</sup>

1 quintal = 100 kilograms

### Exchange rates

1 USD (\$) = 8,62 SEK      20150327

1 USD (\$) = 8,49 SEK      20150528

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# **1. Introduction**

The modern issue of global poverty is a difficult one to solve, one that primarily affects populations in underdeveloped countries left behind in the economy and largely ignored. The focal point of this field study was to observe and record the daily life and working conditions of humble coffee producers, as well as to witness their stories in the appropriate social and cultural context. The corresponding concept of BoP outlines the characteristics of underdeveloped countries, focusing primarily on the hardships of and potential opportunities that arise while doing business at the BoP. The empirical findings of the field study were analyzed and a conclusion was cultivated and grounded with the concept of the BoP.

## **1.1 A Debut of BoP**

A concept previously only theoretic has emerged called Bottom of the Pyramid (BoP), which utilizes the approximately 4 billion poor, or 65 percent of the world's population, who are underserved by the private sector. Instead of using direct aid from subsidiaries, non-governmental organizations and governmental support, this solution allows the poor to actively participate as consumers as well as producers (Prahalad 2010). While the modern industrialized markets remain stalled, the largely ignored developing countries are available for rapid growth, if handled correctly. However, BoP businesses must respect the environmental, social, and cultural differences of the private sectors, in order to be profitable. By envisioning the almost limitless potential growth, while adjusting to serve the local communities, BoP businesses can effectively push the world to a more sustainable future (Caneque 2015).

The concept focuses on the socio-economic base of the underdeveloped populations as potential profit markets. These 4 billion people include a wide variety of geographical areas, income levels, urban and rural residents, and cultural and religious differences. They also traditionally have limited access to goods and services and live on a minute amount of capital per year. One of the principal realities is that this group's purchase power has been ignored and the opportunity to create value is largely unrealized, with a high potential for profit (Prahalad 2010).

The theory of BoP argues that people at the bottom of the pyramid have a surprisingly substantial amount of purchasing power, estimated to be nearly \$5 trillion. Despite that large number, they pale in comparison to the purchasing power of developed countries, but have yet to be explored. This population, which is located in Latin America, India, Southeast Asia, China, Eastern Europe and sub-Saharan Africa, offers tremendous opportunity for growth in the private sector. Ultimately BoP must become a key element for private sector firms regarding its central mission to inform and involve customers. When creating a market around the needs of the poor, poverty reduction is an attainable goal, while also increasing profits for the firms while creating a positive image in the minds of consumers, which creates a win-win situation (Prahalad 2010).

## **1.2 Fairtrade and the Dominican Republic**

Today, the organization has over 1.5 million farmers and workers in 74 countries, where 80 percent of them are smallholders. Approximately 50 percent of all farmers and workers involved with Fairtrade work with coffee. Latin America and the Caribbean represented only



21 percent of the market for Fairtrade products in 2013 but has maintained the highest number of Fairtrade producer organizations overall. Coffee is the product that generates the largest profit out of the top three products worldwide, while bananas and cacao sell the most quantity (Fairtrade 2014a). In 2013 global shoppers spent 5.5 billion euro on Fairtrade products and in Sweden alone, consumers spent approximately 230 million euro, which makes them the sixth biggest spender on Fairtrade products in the world. The sales are based on both home and retail sales (Fairtrade 2014b).

During the last two decades consumers have purchased products with the Fairtrade label with the belief that they are improving the lives of farmers in developing countries. International organizations like Fairtrade advertise that by buying their products, we as consumers can directly help the farmers and their communities in an economic, social, and environmental way (Fairtrade 2011a). Customers in western developed societies choose to pay a little extra for the distinction of a Fairtrade product, fully believing that a producer in a developing country will benefit (Globescan 2011).

In Los Cacaos, Dominican Republic there are approximately 1300 smallholders of coffee that are members of Fairtrade. Since 2005, these farmers have been in need of financial help due to the coffee price crisis, which affected the agricultural inputs that were more stable in previous years. It has also been affected by the technical know-how of the pruning of trees and the use of proper soil management, as the farmers didn't have the resources to educate themselves or their workers. It was necessary to upgrade and make a renewal of the infrastructure for the washed coffee, unfortunately the Dominican farmers didn't participate in the commercialization of their coffee or in processes that adds value. Also, environmental events such as hurricanes severely affected their already fragile transportation routes. Due to the low standard of living in Los Cacaos it was necessary to support the smallholders. The internationally and domestically recognized organizations such as ICP, Oxfam, Asocaes and Codocafe funded the farmers and gave them the proper knowledge regarding how to produce, process and market their coffee (ICP 2011). However, the life quality for these farmers has still not improved, even in recent years, due to challenging circumstances and events, and exacerbated by the lack of funding and knowledge.

During my field study to the Dominican Republic in the spring of 2015 I visited and interacted with several coffee producers in the southern area of the country. My visits revealed the various real-life challenges that the producers face every day, such as basic access to necessities like water, bathrooms and other basics. My overall impression of the producers is that they are having difficulties with production and the challenge of increasing it in order to grow and make a strong profit. There are also opportunities created by being member of Fairtrade, a large cooperative, making them stronger as a group, as well as the potential for a higher exportation of coffee, which can help to develop their local communities. At the same time, MNCs such as Fairtrade are operating profitably with their successful innovation in BoP markets leading to a globally profitable company with an ethical brand, a win-win-win situation, for the community in Dominican Republic, Fairtrade, and the buyer from the developed world. However, with honest descriptions from producers, consultants, journalists, NGOs, among others, and my personal impressions, it is rather hard to see the upside of being a producer of Fairtrade.

### **1.3 Aim and Purpose**

The primary aim of this thesis is to describe and understand the concept of BoP within the context of coffee farmers associated with the Fairtrade organization in the Dominican Republic. More precisely, we attempt to assess and study the real-life challenges that the smallholders encounter, including certification, and any possible opportunities for improvement. The following research questions have been formulated accordingly:

- *What does Fairtrade mean at the BoP?*
- *What are the challenges for smallholders to become Fairtrade producers?*
- *What are the opportunities for smallholders of Fairtrade at the BoP?*

The purpose of the thesis is to answer these research questions by evaluating actual observations made in the Dominican Republic while considering the theory of BoP. The thesis will also scrutinize whether the Fairtrade organization or the small-scale producers are benefiting the most from the current arrangement.

### **1.4 The Thesis Structure**

In Chapter 1 the theory of BoP and various problems that smallholders of coffee face, as well as the purpose and research questions of this thesis were all presented. Chapter 2 describes the research methodology, including the pre planned approach and methods employed conduct the empirical study, including. In Chapter 3 a literary overview of the BoP concept is presented which offers an augmented perspective of the most relevant and current research. Chapter 4 describes and discusses the contributions of the empirical study. In Chapter 5 the empirical findings will also be assessed in the context of a deeper description of the BoP theory. Conclusions will be drawn and social implications will be discussed in Chapter 6.

## **2. Research Methodology**

*In this chapter we will discuss the research approach, the chosen methods, as well as any possible limitations and a deep analysis of the collected data. The chapter will also explore the trustworthiness of the thesis.*

### **2.1 Research Approach**

The research approach began by first identifying the focus, then gathering the relevant information, and lastly, reaching a deeper understanding of the problem in order to propose a solution. It is defined as “a systematic process that includes defining, designing, doing and describing an investigation into a research problem” (Maylor & Blackmon 2005, p. 5). While having a systematic process and the ambition to find out new information suggest research is based on logical relationships, clarifying the methods used to conduct the data will explain the meaningfulness of the results (Saunders et al. 2009). Research methodology consists of numerous methods in order to achieve the specific goal of the research (Collis & Hussey 2014, p. 55).

When planning any research, an archetype must be chosen which acts as a philosophical framework of how the research should be conducted. It is defined as “a set or system of beliefs [stemming from] the study of the fundamental nature of knowledge, reality, and existence” (Collis & Hussey 2014, p. 43). A paradigm of industrialization and capitalism has led to a focus of social phenomena by researchers, which is labeled as interpretivism. This paradigm “rests on the assumption that social reality is in our minds, and subjective and multiple” (Collis & Hussey 2014, p.44). This research paradigm involves an inductive process in order to understand the social phenomena within a particular context where qualitative research information is the foundation (Collis & Hussey 2014). It will therefore identify a single phenomenon and from there find suitable theories relating to it. An inductive report is based on the empirical evidence that has been obtained from in-depth material collection (Sebhatu 2010).

Qualitative research is designed to attempt to understand various decisions and actions being made, within their respective social and cultural contexts. This type of research is essential and is conducted using methods such as observation, fieldwork, questionnaires, interviews, past documentation, and the researcher's own impressions. While interviews document the perspective of the participant on a specific topic, field notes highlight the experience of the researcher on the same event or topic, as well as their impression of the participant (Myers 2013). One of the principal strengths of a qualitative study is that it provides a broad description of the research as well as a deep understanding of the subject, which is formed through an in-depth understanding of the specific research problem (Sebhatu 2010). In order to produce a comprehensive picture of the current situation of smallholders in the Dominican Republic, varying methods were used.

## **2.2 Research Method**

### **A. Case Study Approach**

The case study approach is used to study a specific case or situation in order to draw conclusions about the phenomena in a scientific manner. It is an empirical evaluation that “investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Myers 2013, p. 77). Case studies are also described as a methodology that can allow you to obtain in-depth knowledge of particular phenomena or case in its natural environment, and can be based on a single case. In this thesis, the *experimental case study* is used to describe the difficulties in implementing new techniques and related procedures in an organization, in addition to evaluating the benefits of the implementation (Collis & Hussey 2014).

Although using the case study technique has many advantages, including the results, the overall research is time-consuming and gaining access to an appropriate case can be difficult to achieve (Collis & Hussey 2014). When employing the case study method it can be difficult to gain access to certain companies due to reluctant participants, and the fear of unflattering publicity from the results (Myers 2013). Another disadvantage when using the case study method is the inability to provide a generalized conclusion of the overall subject due to a lack of quantitative data. It can either be too narrow due to a lack of relevant cases or too broad, while attempting to find a focus within many cases. Nonetheless, a single case can be considered acceptable as long as it meets the requirements and provides tools for analyzing the gathered material (Sebhatu 2010).

## **2.3 Data Collection**

### **A. Primary Data**

The main source of this thesis is the numerous interviews conducted with smallholders, NGOs, and governmental agencies throughout the Dominican Republic. The data was obtained in the smallholders’ natural environment in order to assemble the data in its social and cultural context. Furthermore, the personal experiences of the student conducting the field study were also considered.

### **B. Secondary Data**

I conducted archival and library research gathering local reports, company documents, and academic journals in order to support the thesis. Altogether the material that was gathered laid the foundation for the introduction, research methodology, theoretical framework and the empirical findings.

### **C. Field Study**

Conducting fieldwork requires consistency with a clear purpose, as well as adequate social skills and the ability to engage and participate with the people. Fieldwork consists of three phases (Myers 2013, p. 146):

- Planning
- Collecting
- Analyzing

Planning is necessary to ensure that the researcher has prepared a strategy to follow, including a clear subject, relevant questions, and any required instruments. The second phase centers on watching, listening, and asking the appropriate people relevant questions in order to collect data. Lastly, the analysis of the collected information includes categorizing and summarizing the field material, to allow for easy access in the future (Myers 2013). Fieldwork enables an in-depth understanding of the practices, attitudes, beliefs, and values of the social group or organization by doing it “from the inside” (Myers 2013, p. 148). However, the scope of the study is limited to one small group or organization at a time (Myers 2013).

Before conducting my field study I collected and studied all relevant materials on the concept of BoP, the Fairtrade organization, and agriculture in the Dominican Republic in order to facilitate my field study and eventual thesis. I developed the basic framework of the thesis, such as the method and theory, before leaving Sweden. I also arranged any necessary accommodation, transportation, and other practical matters. Prior to my arrival, I established contact with Omar Pena de Coö, whose network was essential to my initial contact with various organizations, including Fedecares, the only organization in the Dominican coffee industry associated with Fairtrade. In order to make proper use of my time in the Dominican Republic, I organized meetings with Fedecares before leaving Sweden so that they would allow me to schedule visits to various coffee farms on arrival. I also attended a mandatory 4-day course with SIDA, which covered ethical, medical, and security advice prior to the trip. SIDA also discussed their objective of boosting the development of countries in the undeveloped parts of the world.

In order to understand the circumstances of coffee smallholders in the Dominican Republic, I conducted a two-month field trip to several areas within the country during the spring of 2015. The fieldwork offered an authentic archetype of the BoP concept within its own context. While in the country I personally visited numerous coffee farms and initiated contact with the farmers and the main office staff of each area. I conducted prearranged meetings with Fedecares in order to visit the coffee farms. Throughout the field study I stayed in contact with my professors for guidance. Additional meetings at governmental institutions and NGOs were also conducted in order to gather information. Furthermore, I met with knowledgeable people surrounding the coffee industry, such as professors and journalists, in order to broaden the scope of the study. Upon my return to Sweden, I held a phone interview with the coffee company Sackeus, who is a member of Fairtrade and has purchased coffee from the Dominican Republic, in order to get their perspective as buyers.

Following the completion of my field study, my professors and I held meetings in order to ensure the quality of the thesis, and their guidance provided me with valuable input. I spent processed the collected material from the field study continually in order to construct a comprehensive thesis on my experience in the Dominican Republic. An in-depth analysis was made and conclusions were drawn towards the end of the process. Improvements and adjustments were made on the entire thesis throughout the process. Additional interviews were also coordinated with coffee companies in Sweden that do business with the Dominican Republic, and are presented in chapter 4.

## **D. Interviews**

For this thesis I conducted both standardized and nonstandardized interviews to thoroughly gather information that I later analyzed qualitatively. Nonstandardized interviews can be conducted in a variety of ways such as one-on-one or one-to-many through group interviews, face-to-face or email and telephone interviews (Saunders et al. 2009). When performing a nonstandardized interview, there is less structure, which allows the interviewee to explain issues and events from their own experience and perspective. A loosely structured list of questions can be prepared and used in these interviews, which can be conducted several times with the same interviewee in order to produce a comprehensive picture (Bryman & Bell 2011).

All necessary preparations, such as a prior research on the plantation and interviewee's background, were made prior to each visit and the person of interest was always asked if he or she could be recorded. One full day was spent at each individual coffee plantation, and the interviews lasted an average of 60 minutes each. In order to ensure the quality of the thesis material, all dialogues were recorded and later transcribed with the assistance of translator Heidi Ramos.

In total, 25 interviews were completed in both a standardized and nonstandardized manner with a variety of people working within the coffee industry. A few of the in-depth nonstandardized interviews were held one-on-one, while the others were conducted in a group setting. Nonstandardized interviews allowed the interviewee to explain their own experience, in their own words, through free-flowing conversation. While using this method, new questions were formed in response to where the conversation led, which enriched the scope of my research and subsequent data. I did also use a well-structured framework when dealing with a subject that required exploration, in order to cover certain topics consistently. The interview location was given due consideration to ensure that each interviewee felt comfortable. This enabled the interviewee to feel respected, while also providing the information within its proper context. The majority of the meetings were formal, but for the convenience of the interviewee, some were informal, utilizing telephones or email.

## **E. Archival and Library Research**

Theoretical material was gathered using all available resources, including research institutions, books, academic journals, and Internet sources, as well as company documents from Fedecares, annual reports from Fairtrade related to my visits. The academic journals were accessed primarily through the website of the University of Karlstad using the academic search engine Emerald Insight. Unpublished internal documents from organizations such as Fedecares were also used in order to augment the research findings. By making use of the expertise of professors and experienced librarians, only qualified books were used. All information was closely reviewed repeatedly throughout the process to ensure the quality of the thesis.

## **2.4 Data Analysis and Interpretation**

After gathering primary and secondary information, the entirety of the data needed to be analyzed. The first stage in the analysis process is data reduction which is defined as “the process of selecting, focusing, simplifying, abstracting, and transforming the data that appear

in written-up field notes or transcription” (Collis & Hussey 2014, p. 157). The data can be collected in the form of diary recordings, using observations, and interviews (Collis & Hussey 2014). In order to summarize extensive and complex information the use of a data display was helpful, and was accomplished by putting the data in a diagrammatic form with appropriate headlines and columns (Collis & Hussey 2014). By analyzing and reflecting over key concepts from gathered data, patterns appeared, which guided the study (Maylor & Blackmon 2005).

Each interview was recorded and detailed notes were taken in order to ensure all information was chronicled accurately. The translator participated in order to ensure the quality of the translation from Spanish to English. During the time between field trips I transcribed all audio material into a written document, and included my associated field notes and impressions. This process enabled me to have an accurate overview of the entirety of the data and also to categorize the information effectively.

## **2.5 Limitations**

Due to the fact that there is only one coffee organization currently working with Fairtrade in the Dominican Republic, there is the possibility that the interviewees were groomed by their organization and that not all of the information given was truthful or relevant to the case study. However, my personal impression was that the smallholders and other participants gave truthful answers. Additionally, the average production levels and daily life of most Dominican coffee farmers, has recently been altered due to a fungus, *la roya*, which damages the coffee plant in way that it prevents the growth of coffee beans.

The slight language barrier experienced while gathering information from coffee farms, governmental organizations, and NGOs may have also limited this thesis. Despite being fluent in Spanish, there are several types of dialects throughout the country that one cannot accurately translate without extensive experience in the area. Additionally, due to the farmers’ lack of knowledge of the standards of Fairtrade, some questions had to be explained in depth. Fortunately, the spoken Spanish in the capital is easy to understand, so that when I met with governmental organizations, NGOs, professors and journalists, both the interviewee and I were able to fully understand each other. With the help of an interpreter all dialogues were supervised, and the translations were verified.

The essence of this thesis was based on the completed field study and specifically focuses on smallholders in the southern area of the Dominican Republic who are members of the Fairtrade organization and certified by Flocert. A few individual farmers have been studied that are outside of the Fairtrade organization, in order to understand why they are not members. However, smallholders that produce Fairtrade products other than coffee in the Dominican Republic have not been interviewed. Due to the cost and distance of each visit, it was not possible to visit more farms in the given time. Therefore, the final amount of farmers interviewed may not be a large enough sample to ensure a non-biased picture of the small-scale Fairtrade producers.

## **2.6 Trustworthiness**

Validity is the idea that your study or test is measuring what it was intended to measure. In order to be considered a legitimate study, three types of validity tests must be considered: content validity, criterion-related validity, and construct validity (Jasti & Kodali 2014). However, validity is hard to measure in a field study, as your interviewees are not giving right or wrong answers, they are sharing their perspective of events and their personal experiences. These interviews can be crosschecked and supported by using observation of the occurrences as well as public and private records (Psychology 2015). This thesis is based on the interviewees and their knowledge, along with their experience with the functionality of Fairtrade, and the observations that I made. The majorities of the interviewees have worked with coffee their entire lives and have been members of Fairtrade for several years, affirming their firsthand knowledge of Fairtrade. By using several methods of research, varying source materials, and updated theories, the validity of presented data is accomplished.

Reliability is the extent to which an experiment, test, or any measuring procedure is consistent in what it is attempting to measure. There are four methods that are used to measure the reliability of any set of variables: test-retest reliability, alternate forms of reliability, split-half reliability and internal consistency reliability (Jasti & Kodali 2014). In order to produce a reliable field study, I interviewed various actors in the area including farmers, workers from the co-operative office, journalists, as well as the appropriate authorities. This ensured that the situation was understood in a comprehensive manner.



### **3. Theoretical Framework**

*Chapter 3 will introduce the concept of “Base of the Pyramid,” which will be generalized and explained in order to give the reader an overview of its characteristics. The market challenges and possible BoP strategies will be discussed, as well as critiques and opportunities. An explanation of the Fairtrade umbrella organization and its core function will give the reader a comprehensive understanding of the Fairtrade dynamics.*

#### **3.1 BoP**

The Base of the Pyramid, or the Bottom of the Pyramid, consists of approximately four billion people who live on a miniscule amount of capital per day. They are considered very poor and are categorized at the base of the global economic pyramid. When one is considered poor it usually implies a lack of clean water, food, education, health, and a low life expectancy with a high mortality rate. Political, cultural, and emotional aspects are often major elements in the lives of the poor, which can hinder them from earning a stable income, or securing certain goods and services. People living in BoP markets rarely have access to basic services and often lack the means to facilitate any improvement or self-sufficiency (Caneque 2015). Compounding their poverty is a lack of disposable income, which forces them to purchase low-quality products from small and inefficient retailers, aptly named the poverty penalty (Barki 2015).

The theory of BoP concept is based on an underserved consumer community in a developing country where there is potential for growth in trade and profit which can lead to a higher quality of life for the poor (Prahalad 2014). BoP businesses must concentrate on the private sector in order to have a profound effect on the community of the poor, while also considering the environmental, social, and cultural effects that must be embedded in the BoP strategy (Jäger & Sathe 2015). However, in order to be successful, as well as gain sustainability, the isolation of BoP areas needs to be modernized with proper systems of distribution and communication (Hart 2010). Several large firms, such as Starbucks, Fairtrade, and Nespresso, have profitably integrated BoP producers into their supply chain, which is a positive move towards the eradication of poverty (Jäger & Sathe 2015). In order to form a connection with the consumers in the potentially large BoP market, companies must ascertain what products or services are lacking in their lives and offer products or services to fill that void (Hammond et al. 2007).

#### **A. Markets for BoP**

Historically, the World Bank, aid agencies, donor nations, civil society organizations, and national governments have continuously worked to eradicate poverty. Through careful collaboration between the poor populations, their governments, civil society organizations, and large firms, fast growing markets can be formed in order to help reach this goal (Prahalad 2014). The BoP market becomes much more alluring when considered in the context of the accumulation of the poor’s combined purchasing power, which can simultaneously increase profits and satisfy the company’s corporate social responsibility (Pitta et al. 2008).

On the contrary, Karnani believes that despite possible opportunities, the market at the BOP is generally too small to be very profitable for most multinationals (Karnani 2007).

Additionally, it is well known that BoP consumers are brand-conscious and value affordable prices coupled with great quality. Therefore, in order to succeed in BoP markets, one must reduce the price of the product, which may require a reduction of the quality of products and services (Prahalad 2014). It is also clear that the poor populations are far more constrained by lack of income than by lack of variety of goods and services offered in the market, and that issue must be addressed (Karnani 2007).

## **B. Brand Perception**

Contrastingly, at the base of the pyramid there are approximately 4 billion people who are living below the poverty level (Mohr et al. 2012, p. 1). About 3 billion of these people live on \$1-3 a day while 1 billion at the bottom of the pyramid are extremely poor, living on less than \$1,25 a day (Mohr et al. 2012, p. 1). People at the BoP tend to be located in Africa, Asia, Latin America and the Caribbean, concentrated in rural areas (Mohr et al. 2012, p. 1). BoP markets in Latin America and the Caribbean are worth \$500 billion and include 360 million people (WRI 2015a). The people at BoP represent a latent purchasing power and suffer from chronic issues such as illiteracy, illness, and hunger, as well as acute crisis, such as earthquakes, tsunamis, and other disasters, plague people at the BoP (Mohr et al. 2012).

Most people living in BoP markets are involved in informal economies with no bank account or modern financial services, and have no access to methods of communication such as phones or internet. Due to these situations, people in the BoP lack independent access to markets and are found in *poverty traps* where local employers or middlemen exploit them, a cause of informality and subsistence. A widely shared phenomenon for the poor is the high prices for basic products and services, often higher than wealthier consumers pay; regarding the effort they usually have to expend to obtain them, and often receive lower quality (Hammond et al. 2007).

## **C. Serving the BoP Market**

Consumers in BoP markets are often price-sensitive, and the areas they live in are costly to serve due to a geographically dispersed and diversified population, making BoP markets generally unprofitable. It is essential for companies to recognize the various sub-sections within the BoP markets and adjust the business strategy according to whom they are trying to serve. It's also conceivable that the people at the BoP can function as producers for consumers in developed markets, by creating indigenous and authentic goods (Mohr et al. 2012).

In order to serve BoP markets successfully commercial strategies are required to meet the needs of the people involved. There exist three major principles to thrive in low-income markets: affordability, access, and availability (Prahalad 2014, p. 43).

**Affordability:** People at the BoP are characterized as having low disposable incomes, which they receive on a daily, rather than weekly or monthly basis (Anderson & Billou 2007, p. 2). This in turn requires they are confident in the affordability of their purchases; whether it is a product or service it must be affordable, without forfeiting quality or efficacy (Prahalad 2014, p. 43).

**Access:** A crucial factor when enabling access is that the distribution must take into consideration the location and activities of the poor of the BoP markets. This population of people often lack the resources needed to travel great distances in order to access products and services, which highlights the importance of geographical distribution (Prahalad 2014, p. 43).

**Availability:** Prahalad (2014, p. 43) argues that the poor base their purchases on the cash they have available at a specific time, making availability a crucial factor. In order to be successful, managers of MNCs are recommended to use the primary economics of a BoP market: a low margin per unit, small unit packages, high volume, and high return on capital employed (Prahalad 2014, p. 48).

### **3.2 BoP Market Challenges**

*The theoretical framework for the BoP challenges is presented in the following paragraphs, discussing: Low purchasing power and high prices, low accessibility as a result of inadequate infrastructure and distribution channels, and the effectiveness of product promotion.*

#### **A. Low Purchasing Power and High Prices**

The poor at the BoP often survive on meager incomes, relying on unpredictable daily wages and minimal access to credit, which forces them to use cash conservatively and results in low individual purchasing power. In the case of external events or shocks, the already price sensitive people of BoP's income volatility could rapidly increase (Kahle et al. 2013). In general, the people of the BoP have a low disposable income (Pitta et al. 2008), ranging from \$1-3 per day (Mohr et al. 2012, p. 1), which is normally allocated for purchases such as entertainment, communication services, medical services, and tools used to sell products (Pitta et al. 2008). With their modest income they are unable to afford products offered by richer countries and are forced to use underdeveloped distribution outlets and pay monopoly prices for products and services. Furthermore, farmers are usually ignorant of their rights and the market value of their crops, keeping them from earning their proper income for their efforts (Pitta et al. 2008). However, BoP consumers are expecting affordable aspirational products, which is a major challenge for MNCs to achieve. This put pressure on costs of manufacturing, development, and distribution (Prahalad 2014).

Moreover Chikweche (2013) stresses that economic constraints such as high inflation, low gross domestic product, import price shocks, reduced private capital inflows, and foreign currency shortages constantly affect the poor population. Governments in BoP markets also use price controls to ensure the products' affordability and accessibility for their people, which have a potential impact on how firms formulate their pricing strategies (Chikweche & Fletcher 2012).

#### **B. Inadequate Infrastructure and Distribution Channels**

Accessibility to emerging markets has been one of the main difficulties for companies attempting to profit from the BoP market. The challenge lies in the capillarity and extension of BoP markets, high transportation costs, the existence of small and informal retailers, and the lack of a well-functioning infrastructure (Barki 2015). To gain sustainability, better

distribution systems and communication links are needed due to the economical and physical isolation of BoP areas (Hart 2010).

One of the largest challenges at the BoP market is ensuring the availability of products and services, where distributive channels can be fragmented or non-existent (Anderson & Billou 2007). In the Dominican Republic, 78 percent of the population lives in densely populated urban areas, which makes distribution a challenge for the remaining 22 percent of the population in rural areas (World Bank 2015). With differences in income, and even basic infrastructure, a solution for one BoP segment might not satisfy another location nearby, which highlights the need for well thought-out distribution strategies that consider the needs, resources, and conditions for each specific area (Barki 2015). Prahalad (2014) described that occasionally, due to high electricity costs or a lack of the proper chemicals and spare parts, wastewater treatment facilities could not be operated, and as a result they were closed down within a year.

Due to a weak infrastructure at most BoP markets with storage facilities, telecommunications, and transport, the efficiency is lower than desired and creates a longer timeline as well as a higher price throughout the supply chain. Consumers and firms are obligated to utilize formal and informal distribution channels, which in turn develop the informal systems; these informal systems are connected to social circles within the communities and in some cases even controlled by the state. Studies have shown that the local partners in overseas markets have difficulty creating incentives for current distributors to promote the foreign product, because of their insufficient knowledge and the physical inability to reach the BoP market. There is also a fear that by investing in the BoP sector, the foreign companies would profit a great deal off of the product lines for the poor, which would take away earnings from local business owners (Chikweche & Fletcher 2012).

By providing distribution of products and services to rural and isolated areas of the BoP market, an increase in diversity and competition will prevail, introducing lower prices and higher incomes. This will inevitably minimize the gap between urban and rural households of the poor (Kahle et al. 2013).

### **3.3 Successful BoP Market Strategies**

*Strategies for BoP markets include: adapting for the BoP market, localizing value creation, unconventional partnering, and the use of frugal innovation.*

#### **A. Adapting for the BoP Market**

At the moment, new creative market-based solutions are evolving in order to remedy the difficulties that have emerged in the BoP market. Among the proposed solutions is social entrepreneurship, which addresses the capacity building and long term viability, and is preferably used in less developed areas with low or moderate infrastructure. More importantly, the aim is to empower the people at the BoP to establish relationships with local producers and distributors, where new business models may arise with new product innovations (Mohr et al. 2012).

While the modern markets have been stalling, the BoP market presents a unique opportunity; the poor population has needs that are more basic, but still needs nonetheless. For example, drinkable water is a grave need in many developing countries and by offering filters usable in a BoP home, companies are responding to the needs of the people while still making a profit. If companies can determine the missing essentials in the BoP population's lives and respond accurately, they can tap into the potentially large market (Hammond et al. 2007).

The previously mentioned limited financial resources of the people at the BoP markets make cutting prices an obvious necessity. However, making cheaper goods and services is neither innovation nor adaptation. Firstly, by increasing value proposition is to diminish product quantity, which is usually made by changing the packaging, into smaller or single-use units. Companies can therefore scale down their offerings in order to accommodate the market. It is beneficial when prices of raw materials increase and companies therefore don't have to raise the price. Secondly, by tailoring products and services to the needs of the BoP markets, communication improves, and the products become more congruent with the needs of the poor. Lastly, by changing the way people of the BoP purchase products and services and use innovation can bring a higher value. To acquire domestic goods and compensate for the inability to secure a traditional bank loan rent-to-own transactions may be of help (Angot & Ple 2015).

In the interest of allowing the poorest members of the community access to health care, housing, or improved technology, the wealthier consumers can contribute through cross-subsidy strategies, or through financing methods such as microloans, community-based health insurance, or mortgage financing for the BoP (Hammond et al. 2007).

### **B. Localizing Value Creation**

As a way to create jobs while also creating more local value, companies can invest by offering franchising options, preventative health services, and even community water treatment systems to the BoP sector. By allowing the poor to become the producers and/or providers of the goods or services in their community, as well as consumers, the local value will skyrocket and the people will also be personally invested. These small shops can also provide an easy system of distribution of products and services that companies may want to sell to the BoP market (Hammond et al. 2007).

The creation of jobs through distribution systems by using the already established community networks will also profit housewives in rural areas who are commonly unable to assist the family financially. This simultaneously benefits the company, as the consumers will be more likely to purchase products if they are located conveniently in their neighborhood, with people that they know (Chikweche 2013).

A productive distribution system that taps the market, such as franchising, is a probable solution that would empower BoP individuals to become entrepreneurs and form purchasing groups. Distribution systems may also be dependent on existing informal networks in the BoP market. Traditionally, formal channels are used for distributing products to consumers, but more recently the people are purchasing products and services from informal sectors, which are more readily accessible. Existing community networks are frequently used because

women's activity groups and buying clubs have a high degree of popularity in rural areas and can become a natural distribution path for companies (Chikweche & Fletcher 2012).

Additionally, firms can provide basic education and scholarship to the people at the BoP, the potential of the citizens' capabilities leads to empowerment and overall economic development. This enables the poor to develop and acquire the skills and capabilities needed to improve their situation independently, allowing them to access knowledge of the market, their social welfare, and potential opportunities. Offering innovative products, such as broadband or mobile phones have the ability to empower the BoP people as well as strengthen their entrepreneurial skills in order to generate stronger incomes. Frugal innovations can also assist in a political education, which can result in stronger democracy and prosperity in community-building programs (Kahle et al. 2013). A further recommendation would be to organize a way for producers to sell their locally made product to BoP markets in other far away regions or countries. This allows the BoP members to act as producers, as well as consumers, leaving out the developed nations (London 2007).

### **C. Unconventional Partnering**

Firms targeting the BoP market presumably have the resources to design and produce the product but may lack the experience and local knowledge necessary to reach the intended population. Conversely, NGOs usually have extensive local knowledge of the consumer base, of possible competitors, as well as strong connections to local communities and distribution centers (Sanchez & Schmid 2013). While NGOs and private businesses generally don't usually coordinate their efforts, the idea of a progressive partnership is gaining momentum. In order to provide more goods and services, more efficiently, to the BoP sector, NGOs and private businesses are coming together in unique ways; whether it is to build and manage distribution systems for food and other consumer goods, updating urban transportation systems, or connecting micro-financing and community groups, these partnerships can be highly effective (Hammond et al. 2007). These relationships can be regulated using any combination of informal and formal agreements, as well as financial and community-benefiting incentives; it may be best to establish these relationships even before the product is developed, in order to manufacture the best possible product for the targeted market (Sanchez & Schmid 2013).

As previously mentioned, BoP consumers and producers are often lacking resources and require comprehensive local and foreign government aid as well as intervention by non-profit organizations. Governments and NGOs also have limited resources, which may affect the efficiency and promptness of the results that they are able to deliver. On-going funding is necessary when the project is intended to be self-sustaining as well as long lasting (Mohr et al. 2012).

### **D. The Effects of Frugal Innovation of Democracy**

A new creative form of democracy can be derived from the concept of frugal innovation, which is "*led by the people, for the people, and with the people*" (Kahle et al. 2013, p. 3). This notion represents a new form of leadership and government where sustainable, diverse, and interconnected societies can be developed, by using bottom-up processes that connect the state with society and its social capital. States therefore have a significant role at the BoP

market where they can affect incentive systems for the development of the economy and institutions at these types of markets. Examples of frugal innovations related to infrastructure include health and medical care, electricity, and affordable housing. This innovative process creates opportunities for the people of the BoP and increase their quality of life in mainly four areas; distribution, education, income, and infrastructure (Kahle et al. 2013).

Democratic processes are often enhanced when affordable solutions are made available for BoP areas that previously had little-to-no access to them. By expanding the market and creating access for the poor it enables social capital, such as the development of better education and higher productivity, which benefits the communities greatly (Kahle et al. 2013). While innovating at the BoP it requires to educate the people at BoP of the appropriate use and the benefits of each product and service. To achieve a successful strategy more than a single format and approach is required, with the collaboration of governments and MNCs (Prahalad 2014). Social capital also improves the poor population's livelihoods while strengthening the community and bringing social stability. It also creates market liberation and develops the economy of the BoP, ensuring people that the most urgent needs will be satisfied. Empowerment in turn, leads to a higher degree of participation at BoP markets by the poor, and can increase the democratic involvement in economic and political processes. With the assumption that more people will be able to afford products and services such as food and mobile banking, an opportunity to enter the formal economy is created. Which in turn, can increase the interconnection between the poor at these markets and develop their overall economy, leading to democratic consolidation and a higher participation (Kahle et al. 2013).

With democratic involvement a greater participation will occur putting pressure on transparency and accountability. With higher incomes, involvement of banking systems and tax system will rise, giving the people of the BoP a better involvement of the functioning of the state, firms, and cooperatives. More accountable responsibility and participation motivates frugal innovation to a greater transparency, efficient responsiveness, and fiscal responsibility. In order to reach the specific goals of accountability and transparency, audits are crucial to improve the contract between the citizen, and the state, private firms, and cooperatives (Kahle et al. 2013).

### **3.4 BoP Criticisms and Opportunities**

#### **A. Criticisms of BoP**

While many companies are already involved with the BoP market and many more are hoping to try, there are critics of Prahalad's claim that it will alleviate poverty in the underdeveloped world. The first contention is that rather than selling to the poor, we should be employing them and purchasing their products in order to increase their incomes, not only profit from their purchases. Critics argue that there should also be a focus on the actual products that we are selling to them; will laundry soaps help lift them out of poverty or will internet access improve their quality of life? (Smith & Pezeshkan 2013). Contrary to the BOP argument, getting the poor to consume more will not solve their problem. Their problem is that they cannot afford to consume more (Karnani 2007). Also, by surrounding BoP populations with education, along with the resources to succeed, they will eventually be able to create their own innovation for the future. We can empower them to employ their unique perspectives and

experiences, instead of just pushing them to purchase products made outside of their environment (Smith & Pezeshkan 2013).

The second thread of criticism questions the simplicity of penetrating the BoP market, as well as the existence of sufficient profits. They claim that Prahalad's estimate of the BoP's wealth is inaccurate; the poor have been documented as spending 80 percent of their income of clothing, food, and fuel, leaving little for extraneous purchases. Rather than viewing the poor primarily as consumers, an alternative approach is to focus on the poor as producers and to emphasize buying from the poor. Thus, instead of viewing the BoP as consumers, critics suggest that we treat them as producers and support their economic rise, in order to create a healthier market with a higher disposable income in a few decades (Pitta et al. 2008). Karnani (2007) agreed that it would be mutually beneficial for private firms to invest in improving the education and productivity of the poor, which would in turn create more employment opportunities for them, allowing them to spend more money.

### **B. BoP Opportunities**

The BoP market is one of the fastest growing markets in the world representing a large amount of the global population where potential customers exist. With their low income the BoP assets total are more than \$9 trillion and there is an informal economy that is estimated to be worth more than \$2 billion (Chikweche 2013, p. 2). BoP markets are demanding products and services that address their specific needs. The growth of the mobile phone industry in Asia, Latin America, and Sub-Saharan Africa demonstrates that adopting to the market have resulted in a market of more than 4 billion mobile phones (Chikweche 2013, p. 2). The use of mobile phones facilitates doing business, which can result in a higher income and consumption, and opportunities for the firm (Chikweche 2013).

MNCs have an excellent opportunity to enter BoP markets due to their size and ability to grow, which can increase their profitability and market shares. It is also a less competitive market where few companies are interested and relatively few products are competing, compared to existing markets with high competition. Also, BoP markets demand new technology innovation and therefore companies will continue this development, which in turn can influence developed markets (Jun et al. 2013). MNCs also connect with BoP markets, either for raw material or driven by their desire to assist people in need where governments and NGOs are able to distribute aid (Mohr et al. 2012). Due to the BoP market size and its future growth expectations the concept shows remarkable potential. For example, in Africa it grew 5 percent in 2010 and is demonstrating even more rapid growth in other global regions (Jun et al. 2013, p. 2).

With very few companies and products in the BoP market, it is less competitive relative to that of existing markets, which have contain a high number of competitors. Additionally, when entering the markets of the poor, the newer technologies are preferred over existing ones, encouraging the companies to innovate (Jun et al. 2013). Both the private sector and the government have a role to play here. Small and medium sized enterprises provide most of the jobs and generate most of the new employment in the development process. However, in various sectors of the economy, large enterprises are needed to exploit economies of scale (Karnani 2007).



There are four main sources for MNCs to perform their businesses in BoP markets. Firstly, BoP markets are large and considered attractive where new innovations and business models may occur. Secondly, local innovations can be used in other BoP markets creating a global opportunity. Thirdly, innovations made in BoP markets may be suitable in developed markets. Lastly, the management of MNCs can learn and be influenced by these markets (Prahalad 2014, p. 74). However, it must be mentioned that in spite of the BoP's emphasis on MNCs, essentially all the examples cited in Prahalad's (2004) book are not MNCs, but fairly small or local organizations (Karnani 2007).

Historically, it has been argued that MNCs are the most suitable to serve the BoP markets. The retribution for large firms comes in the form of cheap labour and operational costs, as well as short-run profits (Chikweche 2013). In order to alleviate poverty while simultaneously increasing profits and satisfying the company's corporate social responsibility, the accumulation of the poor's combined low-purchasing power creates something much more alluring (Pitta et al. 2008).

### **3.5 Fairtrade International and FloCERT**

#### **A. Fairtrade**

Fairtrade is an international organization that has grown to be one of the largest social-justice based trading organizations, with the principal aims of sustainability and improved trading systems. The producers must meet certain environmental, labour, and development standards in order to qualify, which are overseen by a standard setting body Fairtrade International (FLO) and a certification body, FloCERT, as well as other third party certifiers. Their objective is to alleviate poverty of agricultural commodity producers in underdeveloped continents such as Latin America, Africa, and Asia. Products that can be sold as Fairtrade are bananas, coffee, tea, honey, gold, wine, rice, and many others. Consumers trust the organization's claim that by buying Fairtrade, they are benefiting the producer and their community, ultimately improving their standard of living and financial stability. The economical benefits can be categorized in three parts: minimum price, minimum salary, and the Fairtrade-premium (Fairtrade 2015a).

#### ***Financial***

The principle aim of the *minimum price* is that it should exceed the world market price, including the production cost for the producer. Fairtrade International constantly regulates the minimum price in order to be higher than the world market price. In order to set the minimum price there must be input from the producers, buyers, as well as external reports. A special focus is put on COSP (Fairtrade 2015b). When negotiating with buyer and producer the price is decided by factors such as quality, origin, volume and type of product. However, along with higher quality demands come higher demands, which puts pressure on the producers to change their processes, which usually have a higher cost. This causes the minimum price to become only a higher number, but not actually a higher profit for the producers (Davenport & Low 2012).

The Fairtrade standard for *minimum salary* is one that is equal or above the statutory minimum wage in the country. Fairtrade criteria require that the salaries for employment of labour is continuously raised to a level called "living wage", which gives the producer a

feeling of stability. The minimum wage is required for employment of labour that works on a plantation or in fabrics (Fairtrade 2015b). Conversely, when you consider the hired seasonal workers, it is very hard for the farmers to afford to pay them a “living wage,” as Fairtrade requires. FloCERT also doesn’t schedule any audits during the harvesting season, so as to be convenient for the farmers, and therefore cannot interview the seasonal workers on their salary or any benefits (Davenport & Low 2012).

When selling a Fairtrade product the buyer commits to pay an additional cost above the minimum price, which goes to the producer, called a *Fairtrade premium*. The premium is meant to aid in the development of the community where the producer lives, both socially and economically (Fairtrade 2015b). While the premium is a good idea in theory, it is a bit confusing in practice; Fairtrade requires that the premium should go to improving the business and the community, but some producers feel that it should be used directly in their households to help support them in hard times (Davenport & Low 2012).

### ***Social***

#### ***Labour***

By purchasing a Fairtrade product, the buyer discourages child labour at the plantations by allowing the producers receive a higher income, which in turn allows them to hire the appropriate number of workers that are of-age. This opens the possibility to send children to school instead of working at the farms. Usually, the premium is invested in schools and education. Children under 15 years cannot work, but in reality, the farms cannot function without the help of the entire family. Another situation on many Fairtrade farms is the amount of seasonal workers from outside of the area. Due to their migratory lifestyle, they do not receive any benefits from the farms’ Fairtrade status. It is under the discretion of the farmer employing them to pay them a higher wage, if at all possible (Davenport & Low 2012). Additionally, there is the argument of whether or not their role in Fairtrade is empowering them locally (Gibbon & Sliwa 2012).

#### ***Democracy development***

Fairtrade products contribute to the development of democracy in poor countries. The producers and employees get the opportunity to contribute to the decision-making process regarding meetings, working hours etcetera. Democracy demands that all participants can comfortably express their opinions and participate at all meetings that affect the social and economical development of the participants (Fairtrade 2015c).

#### ***Environmental aspects and organic production***

An organization and its members that are Fairtrade certified must continuously and systematically work towards integrating environmental considerations in the whole organization. This means that producers should decrease their environmental impact in sensitive areas, such as water areas. Farmers must also take into consideration that it is prohibited to use chemicals and pesticides on the Fairtrade International Prohibited Material List. Furthermore, there are economical incentives to motivate the organization to respect the environmental criteria. By sustaining an organic certification the organization receives a higher price for the product that is above the minimum price and the Fairtrade premium. The

guaranteed surcharge is supposed to cover the extra expenses the producer incurs while producing organic products (Fairtrade 2015d).

### ***Consumer Perspective***

The tremendous growth that Fairtrade has experienced in the last three decades is due to the change in consumers' perspectives of their influence in how a company operates. Instead of the classic price-driven requests by customers, it is now a push towards ethical values; consumers are thinking less about themselves and more on the ethics of their purchases, which is likely due to the amount of media coverage now, available worldwide. The push towards "green" has now grown into a broader focus on the entire production process with a highlight on the human element behind the product (Nicholls 2002). Studies also show that the recognizability of the ethical brand also plays a large part in the consumer's choice of purchase. It also shows that women are more likely to place importance on the labeling of organic or Fairtrade, while older consumers are more concerned with the recyclability of the packaging. Overall, the developed market has shown a shift towards ethical attributes and is willing to pay the price (Mai 2014).

### **B. Flocert**

The Fairtrade international criteria has its foundation on the ILO conventions for human rights in working life, encouraging economic development, and increasing concern for the environment. To be able to verify whether the requirements are in compliance, a verification body, Flocert, was set up in 2003. It claims to be an independent organization with the aim to certify and verify organizations that produce Fairtrade products in all over the world. With more than 100 qualified and trained auditors worldwide Flocert assures physical audits in organizations and plantations that want to enter the Fairtrade movement or to carry out annual audits to verify the compliance to the standards of existing members (Flocert 2015a). One of the main principles of Fairtrade is the establishment of closer relationships between the producer and the consumer; Flocert attempts to shape these relationships by increasing capacity while empowering producers, instilling fair trade ideals within the consumer base, securing access to international markets for disparaged producers, while developing sustainable and fair trading partnerships. Certification is essential to elevating small producers from poverty by giving them the power to sell their product Fairtrade internationally, when previously it could only be sold domestically (Jones & Williams 2012).

However there are critics of every system, some have examined the administrative costs that the small farmers must bear when dealing with Flocert audits, which can cripple the farm and its center, as well as the overall costs of being certified through Flocert are substantial and consumes most of their possible profits. Furthermore, the issue of hired labour is thought to be ignored by Flocert due to the difficulty of keeping track of migrant workers. Finally, the actual quality of the products is questioned, as there aren't any real quality controls, which encourages producers to discard their lower quality products through Fairtrade, and sell the highest quality to local monopolies (Gibbon & Sliwa 2012).

### ***ISO 17065***

Its verification system meets the requirements of ISO 17065, which is the most recognized internationally accepted norm of bodies operating a product certification system. It is based

on ISO 65 but emphasizes the impartiality of processes. The accreditation system shows that they issue independent and trusted certificates by well-trained auditors. It enables a transparency for each process and keeps customers and the public informed. It also demonstrates that they have well trained staff and a quality management system to improve their services. Flocert is monitored by an independent third party organization to make sure that they are in compliance with ISO 17065 (Flocert 2015b).

### ***Requirements***

The producers all have *core* requirements that must be fulfilled. Most of the requirements have to be completed initially and a few after the first or the third year in order to be certified as a Fairtrade organization. One of the core requirements is that producers who handle pesticides and chemicals must be given training on the proper use of it. Another core criteria are to plan at least one activity to promote the progress of the organization, in order to encourage growth. Moreover, the producers also have to meet a number of *development* criteria that refer to continuous improvements that they must meet on an average scoring system. The development criteria usually has to be met after three to six years, and includes such things as a gradual increase in salary or providing training to producers on the appropriate use of fertilizers. By meeting these requirements the producer organization and the society develops its social, economical and environmental aspects (Flocert 2015c).

### **3.6 Summary**

Fairtrade is an international social-justice based trading organization, with a focus on sustainability and improved trading. The organization has developed an independent certification body Flocert with the objective to oversee the smallholders and buyers, with a verification system that meets the requirements of ISO 17065. Fairtrade has several benefits derived from financial and social aspects such as premium and labour requirements. Conclusively there are almost unlimited opportunities to be found while doing business at the BoP; it is a fast growing market representing a large amount of the global population where potential customers exist.

The concept of BoP is centered on creating business opportunities for people in developing continents such as Latin America, and the Caribbean where I conducted my field study. Many people in these countries are characterized as poor and this population presents untouched potential for MNCs and large firms like Fairtrade to conduct business. For companies such as Fairtrade, there are various incentives to penetrate the BoP market including low operational costs, short run profits, and satisfying the public's demand for corporate social responsibility, while increasing profitability and market shares. An additional benefit would be stimulated progress towards eradicating poverty and creating a more sustainable world.

Accessibility is a large problem at the BoP markets, the main challenges being the capillarity of BoP markets, high transportation costs, the existence of small and informal retailers, and the lack of a well-functioning infrastructure. A definite issue for firms is the difficulty of reaching potential customers at the BoP through traditional media like newspapers, television and radio, as they often don't exist reliably at BoP. The BoP populations are also unable to afford quality products and are forced to use unofficial distributors and pay monopoly prices for products and services.

Possible successful market strategies at the BoP would be for the companies to tailor their approach for the BoP market, create local value, pursue unconventional partnering, and encourage frugal innovation. Another viable solution is social entrepreneurship, which addresses the capacity building and long-term viability. The aim is to empower the people at the BoP to establish relationships with local producers. By allowing the poor to become the providers of the goods or services in their community, as well as consumers, the local value will rise. Additionally, firms can provide basic education and scholarship to the people at the BoP, which leads to their personal empowerment and overall economic improvement. By using bottom-up processes that connect the state and its social capital, the community may be able to form a new type of leadership and government where sustainable, diverse, and interconnected societies can flourish.

The critics of Prahalad's guide to alleviating poverty in impoverished countries suggest that rather than only selling to the poor, we should focus on employing them and purchasing their products in order to increase their incomes. Another criticism questions how easy it is to penetrate the BoP market and points out that profitability is hard to achieve due to the high costs of serving the people at the BoP, combined with price sensitive consumers. While there is no easy path to the alleviation of poverty in the developing world, the BoP concept does provide a method that can be used alongside other private, non-profit, development, and government sector initiatives. A proposal for businesses to succeed in the BoP market would be to have focused objectives, a full understanding of the people, and the ability to lower the price to keep the product or service affordable and attractive.

## 4. Empirical Findings

### *A day in the life of a field study student in the Dominican Republic*

My alarm clock goes off with a loud sound; I hear birds waking up, dogs, cars passing by, and I can smell the flowers in the garden. It is five o'clock in the morning, and it's already approaching 23 degrees. My grandmother goes out for a walk, as she does every morning "while it's still cold," she says. I take a cold shower, the only available temperature, and then get dressed and pack my bag with water, food, a notebook, and smart-phone which is my recorder and camera throughout the trip. I am relieved to see that my rent car is still outside the house, after hearing concerns of theft from my family the night before. Joaquin, my driver, is a bit late, though and I am not surprised, it is the Dominican culture. We stop at his usual spot to get coffee, a small house wedged between the high apartment buildings where an old lady makes quality coffee in her simple, yet comfortable, house. We pick up our translator Heidi, who is doubly useful with her knowledge of the coffee areas we are visiting. It is now 6.30 AM and we are stuck in traffic in Santo Domingo; we are late.

We drove for few hours on small winding roads, to eventually arrive in Los Cacaos, which is located in the mountains in the southern part of the country. It is green, with small colorful houses, barely any traffic, and kids are playing on the street. As we pass through the town people look at us in our rental car and they begin to whisper amongst themselves. We finally arrive to the main office where center's president Rufino Herrera works, one of the promoters of Fairtrade in the Dominican Republic. We are greeted by a large industrial building, filled with old machines, and a large empty space, where the coffee is usually dried. We enter Rufino's office and start the interview, which is described later in chapter 4.

After an hour of interviewing Herrera, we are invited on a tour of the facility. We begin our journey to the coffee plantations. We had to use four-wheel drive to climb up the informal and scattered roads; we were passing plantation that produced bananas, avocados, oranges, and beans. Our guides also pointed out other producers' houses now and then, and we make causal stops to talk about coffee plantations as Herrera and the producers are demonstrating their daily life.

Again we drove for an additional hour on such narrow roads that at least one person watched each side of the 100-meter cliff for rocks falling from sky. We finally arrive to Amor's plantation, or "finca" as they call it. They explain to me the difficulties they've had since the infestation of la roya; there are no visible reminders that I can see, there are only beautiful green crops. Amor continues to tell me her stories as I ask her more specific questions regarding Fairtrade and it is getting clear that she has experienced difficult times as a coffee farmer. Then they give us a tour of la finca and I try to gather as much information as possible. We come across two coffee farmers, and it is clear that they have put on their best clothing for our meeting, as Amor and Herrera.



*Interpreter Heidi Ramos, student Alexander Christiansen, coffee producer Isabel-Roble Amor, coffee farmer, president of the center in Los Cacaos and coffee farmer Rufino Herrera, and two coffee farmers.*

Later they serve us “La bandera,” which is a Dominican favorite: chicken, rice and beans, with salad and water. It is refreshing and everyone quiets down to enjoy his or her meal. After meeting more producers, and touring more “fincas”, we give our goodbyes and thanks, and begin our journey home to traffic, noise, and disorder in the lively capital, Santo Domingo.

#### **4.1 Dominican Republic**

The Dominican Republic is a nation on the island of Hispaniola, located in the Great Antilles archipelago between the Caribbean region and North Atlantic Ocean. It consists mostly of rugged mountains with fertile valleys and is bordered by Haiti on the east. The beautiful country is occasionally hit by tropical storms and hurricanes, as well as earthquakes, which can all leave buildings vulnerable crops damaged. The Dominican Republic has a mixed economic system in which the economy includes a variety of private freedom, combined with centralized economic planning and government regulation (Britannica 2015).

As of 2014, the Dominican Republic holds a population of approximately 9,863,000 people. However, that number does not take into account the large influx of Haitian immigrants from the eastern side of Hispaniola. As a developing country, Haiti has fared much worse than it's Spanish-speaking neighbor and migrants often cross the border illegally, seeking a better life.

Many migrants work in dangerous and difficult laborious jobs with very miniscule pay and no benefits. They also add to the staggering poverty on the streets of Santo Domingo, the capital of the Dominican Republic (Britannica 2015).

Along with the immigration of Haitians, the people of the Dominican Republic also deal with corruption on a daily basis. Since the Trujillo Regime, the police force has been put under civilian control, but they still experience instances of bribing and unlawful imprisonment. The economy of the Dominican Republic revolves mostly around the service industry, in areas such as tourism, manufacturing, and construction. Unlike the other Caribbean countries, the Dominican Republic relies on their farmers to supply most of the food they eat, while also exporting a large number of crops, like bananas, cocoa, and coffee beans (Britannica 2015).

Nivar <sup>1</sup> explained that approximately 35 percent of the population in the Dominican Republic lives on \$1 per day and nearly 11 percent live on even less. According to Dominican law the minimum salary for an agricultural worker is \$5,5 per day during the harvesting season. In the past ten years the minimum wage hasn't increased at all, according to Nivar. He continues on to describe that due to the amount of corruption, an unfair governmental, and a severe lack of benefits for the needy, the middle class is getting poorer while a small percentage of the upper class is becoming richer. The Dominican Republic is one of the countries in Latin America with the lowest levels of investments in social sector such as health and society, despite the opportunities provided to them through outside organizations purchasing their exports (Oxfam 2015).

#### **A. The Dominican Coffee Industry**

The Dominican coffee industry consists of thousands of individual coffee producers who have banded together to form cooperatives in order to be stronger as a group. I discovered during my field study that larger companies such as Induban, Montebonito and La Esperanza are also competing in the market. Together, independent producers, cooperatives and companies are sparing in an unpredictable market, and all are attempting to export high-quality coffee for a steady price. As a result, I found out that a lot of the low-quality coffee is consumed domestically. Curriel <sup>2</sup> said Induban controls approximately 85 percent of the coffee market in the Dominican Republic. During my meetings with producers I uncovered that Induban is pushing out the small producers and cooperatives from the market by influencing the government to enact stricter regulations on the vulnerable producers, and in other ways as well. Large investments are needed in order to renovate the existing plantations with resistant coffee due to a fungus named la roya, which affected nearly 70 percent of crops in the country. Acosta <sup>3</sup> explained that the Dominican coffee industry was more profitable in the 1980s because of assistance from the government and international banks, and an agricultural focused economy was created. A recent transition to a service and tourism oriented economy, diseases like la roya, and fluctuations in coffee prices, has caused the agribusinesses to lose their importance.

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<sup>1</sup> Amilcar Nivar, journalist in economics at Diario Libre, interview 8<sup>th</sup> of May 2015.

<sup>2</sup> Jorge Curriel, chief of finance at Induban, interview 8<sup>th</sup> of May 2015.

<sup>3</sup> Candida Acosta, journalist in business and economics at Listin Diario, interview 19<sup>th</sup> of May 2015.



During my trip to numerous of coffee plantations the producers displayed and described their passion and strong traditions of cultivating coffee; the majority have produced coffee for their entire lives and have gathered knowledge that has been passed down from previous generations. Unfortunately, Balbuena <sup>4</sup> said that the majority of the farmers have a limited area to cultivate coffee and that, along with the uncertainty associated with the industry, they are unable to improve their situation or attract a younger generation of coffee producers. Despite coffee being highest selling product of Fairtrade the smallholders of coffee are among the poorest in the country according to Balbuena.



*On the left, Alexander Christiansen and Maria-Isabel Balbuena-President of Fedecares and Adomuca, an organization who works for women's rights. On the right, the main office of Fedecares in San Cristobal.*

## **B. Fairtrade in the Dominican Republic**

Trinidad's <sup>5</sup> main tasks are to advise, train, and inform the agricultural cooperatives in their production process, as well as Fairtrade requirements, and to assist them in exporting their products to the international market. Since coffee is only harvested once a year during six months, this product doesn't generate a lot of capital compared to bananas that can be continuously produced and exported, due to their high demand. Throughout my trip I found out that most coffee farmers in the area produce many less sellable crops due to their low-quality land. Due to a lack of proper tools, chemicals, irrigation, and an elderly working group, the plantations are poorly looked after and as a result, the crops are very dry. We were also unable to connect with the Fairtrade representative, Trinidad, throughout the trip, the reason being her work schedule.

Marco Coscione, a consultant for Funglode stated that not many people know of the Fairtrade aim, which is to develop relationships between consumers and the people in developing countries that produce the raw materials for their products. Among his conclusions he points out that many nonmembers in the Dominican Republic have no knowledge of what Fairtrade has to offer. The benefits of Fairtrade include a set floor price, a premium, and a 50-60 percent sales advance to improve production. Many members of Fairtrade aren't even aware

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<sup>4</sup> Maria-Isabel Balbuena, president of Fedecares, interview 30<sup>th</sup> of Mars.

<sup>5</sup> Maria Trinidad, director of Fairtrade in the Dominican Republic, interview 30<sup>th</sup> of March.

of what the organization stands for or its criteria; these members are producers that don't receive any benefits from Fairtrade due to their low quality of coffee and are more concerned about their own livelihood and survival. The administration or the main offices of the organization in the country know of the function and benefits of Fairtrade, but need to improve on educating the producers. Both the members that produce low-quality and high-quality coffee are involved for the potential to improve their production, their lives, and their communities (Nivar 2011).

## **4.2 The Dominican Coffee Market**

*In 4.2 a real-life description of the current coffee market will be presented. Readers will be familiarized with the effects of fluctuations in Coffee Prices, contributions from NGOs, the Dominican Monopoly, and the Local Value Chain.*

### **A. Coffee Prices**

The world market price for coffee is characterized by its high price volatility. This is due to unpredictable weather, various plant diseases and infestations, and the output of other major coffee producing nations like Brazil and Colombia.

#### ***Unpredictable Weather Conditions***

The Dominican Republic is often in the path of destructive hurricanes that hit the country directly before the coffee harvesting season. Franco <sup>6</sup>, a producer in the area of Bani, shares his experience of one of the country's worst hurricanes, Joel in 1998:

When hurricane Joel passed it affected my plantation and house badly. With the massive rain, it dragged down dirt and mud from the mountains, and made it practically impossible to reach town on the roads. It took several years after the hurricane to repair my fields, plant new coffee plants, and fix my house, and there is still minor damage on my house. I didn't receive any help from Fedecares, the Bani center, or any government assistance for the renovation of my crop and house.

Guerrero <sup>7</sup> contributed to the conversation by explaining that occasionally the coffee plantations are damaged or even lost due to erosion or large amounts of water. Assistance from cooperatives, the government, and NGOs are limited in the country and industry, so members are forced to collect capital from their own family and friends, and often pool it together to benefit the ones in need. In my opinion there is indeed a lack of well functioning infrastructures that easily incur severe damage from many different weather events. Personally, I experienced heavy rain that forced us to stop our car and wait for a couple hours, or not even leave the capital for several days. With low quality infrastructure throughout the countryside, along with the steep mountains surrounding the roads and houses, there are definitely struggles, with or without harsh weather. I also experienced incredibly hot and humid days at very high altitudes, which makes finding a spot in the shade essential.

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<sup>6</sup> Eugsibio Franco, coffee producer in Bani, interview 15<sup>th</sup> of April.

<sup>7</sup> Valerio Guerrero, coffee producer in Bani and board member of Fedecares, interview 15<sup>th</sup> of April.

### ***Coffee Diseases***

My study of coffee plantations revealed a constant threat to the farmers' livelihoods, *hypothenemus hampei*, which is one of the most deleterious insects for the coffee plantations, and carries the nickname "la broca" in the Dominican Republic. La broca damages the plant by burrowing into the fruit of the coffee plant, laying its eggs inside and after a few days; the hatchlings eat their way out, essentially destroying the entire usable crop. Farmers informed me that they must work continuously against la broca in order to maintain their plantations in relatively good condition. The majority of the farmers are aware of the various ways to prevent the insect from destroying their coffee, through manual control, biological measures, chemicals or traps. The most efficient and effective ways to destroy the insect are too expensive for a small farmer, and although my visits revealed that the majority of them have it under control, they must remain vigilant.

More recently, the Dominican Republic and many other countries in Central America have suffered from an infestation of the fungus *hemileia vastatrix*, or "la roya", that initially attacks the leaves and then the trunk of the coffee plant. Feliz<sup>8</sup> tells us that la roya is a fungus that spreads very fast and is very expensive to control with pesticides and chemicals. Furthermore, he says that la roya prefers lower temperatures, which is an issue because the highest quality coffee is produced in higher altitudes with low temperatures. In order to revive the damaged coffee plantations, the government has helped by importing a small amount of la roya-resistant coffee seeds from countries such as Costa Rica and Honduras. It will cost approximately \$330 to renovate each tarea and the average farmer has around 10 - 20 tareas. It takes approximately three years until the new plants will produce coffee and many farmers must fund the renovation themselves.



*The photo on the left shows healthy leaves of a coffee plant and the photo on the right are leaves infected with la roya.*

During my visit in Los Cacaos I had the opportunity to meet a senior woman named Amor<sup>9</sup>, who can be described as energetic, strong, and passionate. Amor told me the following:

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<sup>8</sup> Israel Gueva Feliz, coffee producer and the president of the center of Polo, interview 20<sup>th</sup> of May.

<sup>9</sup> Isabel Roble Amor, coffee producer in Los Cacaos, interview 16<sup>th</sup> of April.

Before la roya I produced a lot of coffee, 10 quintales at the most, during my years as a coffee producer. Last year I produced only 1,5 quintales, which isn't enough to live on and support my family. Today, my oldest children send me money every month and sometimes give me an advance in order to manage the harvest season. The center in Los Cacaos has barely helped me with the renovation of the crop because there are so many members.

Hearing Amor's difficulties touched me because she insists on continuing to pursue her passion of producing coffee despite her tough situation. Herrera <sup>10</sup>, the president of the center in Los Cacaos and one of the promoters for Fairtrade in the Dominican Republic says that it is practically impossible for the average farmer to afford to renovate their crops, especially all at once. The coffee producers aren't able to save a lot of money, even when the crop is healthy, due to high production costs and low profits, and as a result many farmers can only afford to update a small portion of their farms. I discovered that due to la roya producers are trying to diversify their production with different kinds of coffee such as Captain More and Caturra, as well as with other crops such as beans and avocados. I think this is a necessity for the producers in order to survive on their meager incomes. It is also fortunate that farmers have family and friends that can support them during difficult times. Herrera continues on to explain that the government hasn't even provided training on how to handle or prevent la roya, which requires the use of certain products and a well functioning system of routines in order to minimize subsequent infestations. In order to work against the disease, the farmer should keep the plantation clean and use fertilizers twice a year, which most farmers can't afford to purchase. If an educated farmer were monitoring the crop, they would be able to apply a product that minimizes the damage of la roya. However, the education is expensive and the communication in the country is limited. The government has recently begun to assist producers by offering lower interest rates on loans, which are currently at 5 percent, spring 2015. On average, the producer is given 10 years to repay the loan before the bank seizes their property.

### ***Minimum Price***

As a Fairtrade member you are guaranteed a minimum price that is correlated with the world-market price as it increases, which is meant to provide a secure income for the coffee producers. Mendez <sup>11</sup> a farmer in the area of Azua tells us that with the minimum price he feels safer and more secure, by knowing that the price he will receive will never be below the world-market price. However, there are a lot of hidden expenses that can lead to unexpectedly high production costs according to Herrera. These expenses vary throughout coffee-producing countries such as Costa Rica, Mexico, Haiti and the Dominican Republic. Herrera <sup>12</sup> says Fairtrade must consider establishing an average price that is related to the country's production costs instead of calculating an average figure for every producer globally. Due to a lack of financial support, the quantity and quality of the coffee being produced is low, Herrera says that if there were more money to invest, the product would be superior. He goes on to explain that from a producer's perspective, there is a large difference between the

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<sup>10</sup> Rufino Herrera, coffee producer and the president of the center in Los Cacaos, interview 16<sup>th</sup> of April.

<sup>11</sup> Vicente Mendez, coffee producer in Azua, interview 23<sup>rd</sup> of April.

<sup>12</sup> Rufino Herrera, coffee producer and president of Los Cacaos, interview 16<sup>th</sup> of April.

international market for coffee and Fairtrade, because Fairtrade calculates a production cost and then establishes the price for coffee, while the world-market follow supply and demand. However, as a result of the premium, Fairtrade coffee can be harder to sell than normal coffee, when consumers consider the higher price at the supermarket, according to Herrera.

## **B. Non-governmental Organizations**

In 2000 under president Leonel Fernandez, the government founded the institution Codocafe in order to create an independent body that can determine the political plan for the country's coffee development. Each player in the coffee industry must be registered through Codocafe, including every person, legal entity and non-governmental organizations involved with the exportation of coffee (Codocafe 2015). Cruz <sup>13</sup> explained that Codocafe offers the producers the free expertise of over 160 technicians on how to handle fertilizers, pesticides, and chemicals, as well as advice on how to renovate the plantation affected by infestations. The aim is to help the farmers increase their production and provide safe working conditions for their laborers, according to Cruz. However, after visiting 5 separate centers I came to the conclusion that there was only one that had actually received assistance from Codocafe, which was explained by Cruz to be due to a lack of company funds. Even though the Agricultural Bank of the Dominican Republic can offer financial support to the producers, it is difficult to accomplish because most producers don't own the title of the land, due to its cost, which was discovered during my stay in the country.

ICP has assisted the agricultural centers by providing their technical know-how and financial support. Their eventual goal is to enhance sustainability for the country and to improve the coffee farmers' circumstances. As a part of an ICP project farmers, in centers like Los Cacaos, were given an education on how to better their production and quality of coffee by constructing better irrigation, using high-quality seeds and were taught the most effective ways to harvest it. By empowering farmers to sustainable production farmers are aware of long-term effects of the production and environmental aspects in general but not necessarily the specific criteria of Fairtrade. By promoting the production of tropical fruits such as passion fruits and avocados, ICP is helping the farmers to earn an additional income, which is essential because the sale of coffee barely covers their cost of living. ICP has also been active in helping the producers acquire land titles, which provides collateral for financing the producers' agro-industrial business, allowing easier credit (ICP 2011).

Oxfam <sup>14</sup> has focused their help for Dominican farmers on financing the renovation of several centers following the infestation of the fungus la roya, including covering the cost of new, la roya-resistant coffee plants. This project has been invaluable to the farmers considering the substantial cost of importing the resistant coffee plants. Unfortunately the financing is limited in scale but still makes a difference, by contributing small amounts of money to Fairtrade members throughout the Dominican Republic, through the main offices of each area. Modern buildings for processing coffee have also been constructed with the help of Oxfam, along with the necessities for processing coffee. Oxfam also supports the empowerment of women as

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<sup>13</sup> Fredi Cruz, responsible for rural development at Codocafe, interview 26<sup>th</sup> of May.

<sup>14</sup> Oxfam, this is a summary of my findings of the contributions from Oxfam.

well as programs that empower women to become more involved in the industry and to gain a fair and equitable standing.

BiD and Bagricola<sup>15</sup> have both given loans to farmers on a limited scale due to the high risks associated with coffee plantations. Oftentimes, the interest rates coupled with the loans are excessively high, limiting the producers to only pay towards the interest and not the principal, which also prevents them from saving for future investments. Guerrero<sup>16</sup> says:

One of the largest problems we have is to get credit. At the moment we don't have credit with the government and therefore it is difficult to fight against different diseases. Today we have a lot of debts that cannot be paid to the bank and we need the bank or the government to subsidize us. We also want to change the type of coffee we grow but since the government can't help us financially, we can't afford it. We haven't received any benefits from the government for the production of coffee.

One intended benefit of associating with Fairtrade is that the producer may receive 50-60 percent of the projected profit ahead of time to facilitate production and to cover major expenses relating to the labour for collecting, washing, drying and selecting coffee, and its overall transportation. Unfortunately, I discovered that the producers aren't always paid the solicited capital and therefore have to find their own solution in order to finance the production. As a result, deals are often made with major companies with the stipulation that the coffee is sold to them, which forces the producer to abandon Fairtrade and forfeit the premium. Balbuena<sup>17</sup> explained:

The middlemen come in when the production is stable and buy the coffee for as little money as possible, often below the world market price. Since coffee is harvested once a year, the profit of agribusiness is so small that it isn't enough to cover expenses such as food, clothes, and medicine. The farmers are forced to get loans from people and companies with high interest rates, which leaves them nothing to invest in their farms and to help them grow.

Usually, the projects aided by *non-governmental organizations (NGOs)* that have been organized to help don't reach all the farmers or affect the farmers in the area directly. Individual producers are usually selected for projects from NGOs, due to a lack of time and money; it would be difficult to involve all producers in need.

### **C. Dominican Monopoly**

Induban is a family owned company and the largest supplier of coffee in the Dominican Republic for 30 years. They purchase low-cost coffee from countries like Vietnam and Haiti, which they mix with low quality coffee that has been grown in the Dominican Republic and they then sell it in the local market. Gomera,<sup>18</sup> a professor in economics at UASD, told us that the production in the country isn't high enough to supply the local market, which is

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<sup>15</sup> BiD and Bagricola, this is a summary of my findings regarding BiD and Bagricola.

<sup>16</sup> Valerio Guerrero, coffee producer in Bani and board member of Fedecares, interview 15<sup>th</sup> of April.

<sup>17</sup> Maria-Isabel Balbuena, President of Fedecares, interview 30<sup>th</sup> of March.

<sup>18</sup> Wagner Gomera, professor at UASD, interview 11<sup>th</sup> of May.

because of the coffee crisis of 2000. Furthermore, he describes the domination that Induban holds over the coffee market in the country and that they are the principal buyers of coffee domestically. One pound of their consumer-ready coffee costs approximately \$5. After speaking with producers that have dealt with Induban, I can think that they are preying on producers, forcing them to make unfair deals just to survive.

Nunez <sup>19</sup>, the chief of finance and certification at Codocafe, stated that Induban is a very powerful company, both politically and economically. With their connections to the Dominican government, high courts, agricultural institutions, distributors and retailers, and international buyers they have a strong hand in the market. I had the impression that Induban is a powerful company with many connections, and I sensed tension in the office regarding this subject during the interview, so no further questions were asked.

Alexis and Perez <sup>20</sup> did elaborate:

The center pays the local market price for coffee, but Fairtrade pays the international price. That affects us, because Induban controls the local market price. Right now, it is preferable to sell the organic and non-organic coffee to Induban. We stay with Fairtrade because we know the local market has fluctuations and Induban changes the prices when they want to. In difficult times, if a producer needs \$12, he can actually be paid in food if the nucleo has some in their storage. We use the Fairtrade premium for that. We want Fairtrade to help us with the price and to protect the margin between the competitors' price and the selling price. Also that they pay the price equivalent to the local price. If Induban has a lower or higher price than Fairtrade, we try to buy more coffee at a lower price and benefit by selling it to Fairtrade at a higher price. We need help from Fairtrade so we can stay in the Fairtrade organization.

#### **D. Local Value Chain**

A farmer may choose to sell directly from their farm to the local market, but this depends on the quality of the coffee and the financial status of the farmer. Products that are being exported must first be processed at their respective centers and then transported to the cooperative group Fedecares, who then package the coffee appropriately and deliver it to the customs officials. It is then exported to the international market for a FOB, leaving the international buyer responsible for it from then on.

The producer is burdened with the entirety of the cost to collect the coffee at the farm, process it, and ensure that it is transported correctly. For each quintal of coffee, it costs around \$70 for washing, drying, and removal of the seed, and another \$140 for transportation and storage. Producers must also pay \$7 for a customs fee called the DUA and a loading fee of \$2 each time they export their product.

In my opinion there are substantial issues with the distribution systems and infrastructure in the urban areas. Producers aren't able to own transportation vehicles and must pay for them in

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<sup>19</sup> Henry Nunez, chief of finance and certification at Codocafe, interview 14<sup>th</sup> of April.

<sup>20</sup> Antonio Alexis, chief of finance & Umberto Perez, coffee producer at the center of Polo, group interview 20<sup>th</sup> of May.

order to process their coffee and later sell it. During my trip, I was amazed that we even made it to some of the more remote coffee plantations with our vehicle, some roads were almost impassable. Coffee plantations with difficult accessibility often use animals in order to traverse the terrible roads in order to reach the larger roads.

### **4.3 Daily Life at Dominican Coffee Plantations**

*The following section is divided in 5 categories: Knowledge of Criteria, Environmental Issues, Labour Laws, Business and Development, and Records.*

Flocert has developed a collection of criteria based on the Fairtrade standards and principles, as well as ILO conventions for labour rights. Farmers are contracted to fulfill the majority of the criteria in order to be certified as Fairtrade sellers. It is essential that core requirements are met initially, and that they reach an average score on their development criterias over time.

#### **A. Knowledge of Criteria**

One of the Fairtrade requirements is that members must be informed about the environmental and labour criteria. All of the farmers that I met have knowledge of the Fairtrade premium and minimum price, but not all knew of the specific standards of Fairtrade and what services they should receive from their center, such as pest management training. Fedecares has explained the environmental and labour requirements to the farmers working at the main office of each center, but not directly to the farmers belonging to the centers. Galume<sup>21</sup> tells us that they don't have the resources to gather all of the farmers for a meeting with the intention of informing farmers about the Fairtrade standards. For the farmers it is essential that their production of coffee develops and improves. Fedecares has only visited the center in Azua two times in the last two years to give information about managing administration, production and environmental criteria, according to Galume. There is a lack of supervision from Fedecares and Fairtrade in order to control whether farmers are actually receiving the help they need. Alcantora<sup>22</sup> stated:

If producers were more aware of the structure of Fairtrade, they might be more receptive to the rules. With my two years working as a delegate I have received information about Fairtrade from meetings, but it has been a while since we had meetings, and the notion of Fairtrade is fading away. At the meetings they informed us that 33 percent of the benefits of Fairtrade would go to the producer. Moreover, the economical benefits for the producers would only be given if the coffee was sold through Fedecares to Fairtrade and would include general training for the producers, a first-aid kit, and improved hygiene at the factory. Farmers know about the notion of Fairtrade but not the standards of it since they never have received such information as meetings or instructions, which was never realized. Fedecares never controlled or enforced that the information was passed on to the farmers; they are missing much-needed follow-ups.

Alcantora continued on to explain that they have never been audited by Flocert to verify if they are fulfilling the criteria, but are still members of Fedecares and therefore Fairtrade. Fedecares only did an audit for a machine that they helped fund, otherwise no inspections

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<sup>21</sup> Angel Galume, coffee producer and president of the center of Azua, interview 23<sup>rd</sup> of April.

<sup>22</sup> Elsa Alcantora, delegate for Fedecares in Azua, interview 23<sup>rd</sup> of April.



have been made at the center of Azua says Alcantora. I came to the conclusion that the concept of Fairtrade isn't well known for actual producers, which was clearly evident when asking questions throughout the southern Dominican Republic. Only the centers of Los Cacaos and Bani had extensive knowledge of Fairtrade and its standards, which is probably due to the short distance to the Fedecares main office. When I spoke with those producers they were able to describe and talk about Fairtrade and their requirements with well-defined answers. Balbuena <sup>23</sup> says that due to the costs to inform producers about environmental and labour criterias, it is more convenient to gather the presidents and delegates of each center and let them pass the information about Fairtrade and present our expectations. Unfortunately, I've seen that the information rarely reaches the producers because of their isolated locations, difficulties with transportation, and a lack of modern communication. Therefore, I suggest that Fedecares rethink their strategy and propose a plan that involves producers that are at the actual BoP.

Balbuena <sup>24</sup> says that as the Fairtrade organization grows it is losing touch with the reality of the farmers' lives and the difficulties that the farmers face in order to adhere to their standards. It is understandable to have high expectations for the farmers, but the majority of the rules are implausible for the small-scale farmers and the problems are only growing as the Fairtrade association expands and demand for their product increases. The most pressing problems for the centers related to Fairtrade are the certification costs and the ability to pass the audits. Balbuena argues that it is essential that a representative of Fairtrade visit and communicate with a wide range of farmers in different locations to get a full picture of what they need in order to comply. They would see the everyday issues that some farmers' face, including limited access to basic services such as water, reliable transportation, and even food. While it appears to be ideal on paper, the producers, centers, and Fedecares have difficulty following and enforcing the standards in real-life.

## **B. Environmental Issues**

Fairtrade requires a great deal of criteria for the environmental segment such as the proper use of pesticides and chemicals, how to minimize the impact on soil and water, how to handle waste, and the correct use of fertilizers. A farmer <sup>25</sup> in Los Cacaos tells us that he has received training from Codocafe on why he should use pesticides and chemicals and how to handle them safely, which I found out is the only center that has received support from Codocafe. However, of all of the interviewees in San Jose de Ocoa, only the president uses protective equipment, which he declared during a group interview that was purchased with his own funds. Many members couldn't explain why certain pesticides should be used on a specific crop. Rather, my overall impression was that their usage of pesticides was based on their experience and knowledge from their years working as coffee producers, using methods of trial and error. If an accident were to occur with pesticides or chemicals, the producers don't have the proper emergency equipment or education to handle the situations safely, according to Gracia <sup>26</sup>.

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<sup>23</sup> Maria-Isabel Balbuena, president of Fedecares, interview 20<sup>th</sup> of April.

<sup>24</sup> Maria-Isabel Balbuena, president of Fedecares, interview 27<sup>th</sup> of April.

<sup>25</sup> Farmer, coffee producer in Los Cacaos, interview 16<sup>th</sup> of April.

<sup>26</sup> Jorge Gracia, coffee producer in the center of Bani, interview 15<sup>th</sup> of April.

Unfortunately, producers routinely store any pesticides or hazardous chemicals they are able to afford in their homes, instead of in a safe facility, due to a lack of space. Additionally, the farmers' homes are close to their farms, as well as the main roads, which are very busy. According to producer Eugsibio Franco, the farming area of Bani is so populated and active, that it is nearly impossible to not use pesticides on the crops while there are people and children nearby. Several Fedecares members that I interviewed had no knowledge of the PML, which includes pesticides and chemicals that producers cannot use. Galume<sup>27</sup> explained:

Fairtrade attempts to be very strict on environmental regulations, but does not enforce them. It is hard for the farmers to even attempt to implement the rules on their plantations because of the severe lack of financial resources. For example, Fairtrade emphasizes that the producers shouldn't contaminate their surroundings, like natural water sources, and local farmer Vicente Mendez asks "How is it possible for a farmer to buy a water treatment system when a farmer barely can afford food?"

Currently Galume doesn't use fertilizers or chemicals on their farms due to the high cost, which is usually \$40 to \$125 for products at the PML list. Therefore, if chemicals and fertilizers are purchased, it might be harmful for the environment, the person, and go against Fairtrade regulations.

My overall impression was that farmers often face difficulties when trying to improve soil fertility, even when they use popular methods, such as crop rotation or mixing with green manures into the soil. Occasionally, wastewater is not disposed of correctly in a central processing facility, and left near the plantation. Despite the fact that Fairtrade requires a designated area for the disposal of general garbage and hazardous waste, many centers don't have one. Dried out rivers were usually full of garbage, such as plastic bottles. My impression following my visits across the countryside is that producers haven't been trained on how to use water efficiently, or how to reuse it safely, and the sources of water used for irrigation and processing the beans are not being documented, as is required. The explanation I got from Balbuena<sup>28</sup> is that most of the environmental criteria aren't fulfilled because they can't afford to educate the farmers, and even if they did, the farmers wouldn't be able to afford to comply.

## **C. Labour Laws**

### ***Child Labour***

By requiring certain labour conditions, Fairtrade intends to regulate democracy within the local centers, freedom of labour, and conditions of employment, among others. One major labour issue among producers in the Dominican Republic is the use of child labour by families. Sergio<sup>29</sup> explains that children under 15 have worked at the members' plantations, but not specifically at his farm. Occasionally children under the age of 15 contribute to the

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<sup>27</sup> Angel Galume, coffee producer and president of the center of Azua, interview 23<sup>rd</sup> of April.

<sup>28</sup> Maria-Isabel Balbuena, president of Fedecares, interview 27<sup>th</sup> of April.

<sup>29</sup> Marco Sergio, coffee producer from the center of San Jose de Ocoa, interview 14<sup>th</sup> of May.

running of the coffee farms and employees under 18 years have performed hazardous work, without protective uniforms. As a result, the children are not attending school for a proper education, are unable to find a stable job in the future, and slide again into the cycle of poverty. I would like to emphasize that these children are not legally employed or working towards a salary. According to the Fairtrade standards children should only be working after a regular school day or during holidays and are forbidden to perform any hazardous work. The staff at the main office of each center claim to be working towards only employing workers according to Fairtrade rules. Feliz<sup>30</sup> explains that nursing women and children under 18 years shouldn't do any hazardous work. The difficulties are to offer safer, alternative work, which is hard because coffee production is mainly about working in difficult conditions in the field as well as the processing plant, according to Feliz. Amor<sup>31</sup> told us the following:

My dad taught me all I know about coffee, and today I have 10 children, some of which are adults now. With the center in Los Cacaos the good thing was that sometimes they gave me and my family rice to eat, which went directly to my children. Since my profit from coffee production isn't enough to maintain only myself, the center has been a salvation. Last year my total profit was approximately \$40. My children have also helped me at the coffee farm with the production and washing of coffee, but I made sure they never did any hazardous work. Today the oldest children help me financially in order to keep the farm; it is a part of whom we are.

In my opinion many farmers use children to tend to the crops and many times they just can't afford to give the children an education. My impression was that children usually don't perform hazardous work but it occasionally occurs for different reasons and is hard to prevent. In general, the Dominicans want to put their children in school in order to receive a bright future, but are often in need of free, extra help.

### ***Migrant Workers***

Due to the high number of Haitians in the Dominican Republic, migrant workers are usually paid less and treated poorly. The president of Nucleo de Caficultores e Agricultores de San José de Ocoa Juan Antonio told us that he doesn't allow Haitians to be members of the center. In the Dominican Republic, Haitians are perceived as thieves and robbers that don't benefit the local society or the country as a whole. However, farmer Marco Sergio believes that they are good people and hard workers, and should be treated as equal to Dominican workers, but unfortunately, he can't afford to pay them what they deserve, due to his financial situation. In Polo it is visibly clear that the Haitian workers are living in very primitive houses, each approximately 5 square meters for 2 to 3 adults. They are often required to walk 1 to 2 hours to get drinking water and the unstable and meager pay they are given isn't enough for proper work clothes or savings. The Haitians explained that even though they work long days in the heat, usually 30 Celsius in the shade, from sunrise to sundown, they still have better conditions and salary in the Dominican Republic than in Haiti.

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<sup>30</sup> Israel Gueva Feliz, coffee producer and the president of the center of Polo, interview 20<sup>th</sup> of May.

<sup>31</sup> Isabel Roble Amor, coffee producer from the center of Los Cacaos, interview 16<sup>th</sup> of April.



*The photo was taken in Barahona, Polo, showing a house where 3-4 Haitian migrant workers usually live. The second photo shows 3 Haitian migrant workers.*

Historically, there has always been tension between Haitians and Dominicans; the Dominicans see themselves as superior mainly due to their skin colour and the comparatively stronger development in their country. The Haitians I met usually lived in more basic houses than the Dominicans, and always asked for water or food.

In the area of Azua Haitians are hired individually by each producer and not as an association. Galume <sup>32</sup> explains that he hires around 30 to 40 Haitians during harvesting season because Dominican labour is more expensive. They are usually hired on a temporary basis, which is related to the production period. Rivera and Beltir <sup>33</sup> contribute to the conversation, saying that they hire approximately 60 Haitians to work on their farms for similar reasons. All three clarify that they want to support the Haitians, as they usually have difficult lives in the Dominican Republic. Usually migrant workers don't have Dominican citizenships or a work permit and therefore have to move from farm to farm creating an unstable situation and tend to be taken advantage of by Dominican producers.

### ***Occupational Health and Safety***

During my field study it was clear to me that there is a lack of health and safety instructions for the coffee producers in the Dominican Republic. The majority of the interviewed producers didn't have any health insurance or pension plans, and there is no governmental safety net for Dominican workers. In the case of a pregnancy, a Dominican woman in the coffee industry must work as long as they physically can, in order to support their family. It is also necessary to start working again promptly after the birth, in order to hold their position and maintain the plantation, according to Alcantara <sup>34</sup>. Work processes are not safe since there is no protective working clothes and dangerous machinery. However, the majority of the producers work with their hands, for actions such as the collection of coffee and the removal of the pulp from the cherry. I was told that most of the producers in the country haven't been given first-aid training, but there are first aid boxes at a few central areas, which can take up

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<sup>32</sup> Angel Galume, coffee producer and president of the center of Azua, interview 23<sup>rd</sup> of April.

<sup>33</sup> Vicente Rivera & Miguel Beltir, coffee producers of the center of Azua, interview 23<sup>rd</sup> of April.

<sup>34</sup> Elsa Alcantora, delegate for Fedecares in Azua, interview 23<sup>rd</sup> of April.

to 2 hours to reach by walking. Alexis<sup>35</sup> explained that it is the producer's responsibility to purchase first-aid boxes and not the center, which actually receives a larger part of the Fairtrade premium than the producer. When I interviewed producers it was explained that because they receive such a small premium, they can't afford to pay for first-aid kits and think of it as the center or Fedecares or Fairtrade responsibility. Amor<sup>36</sup> told me under the shade of a tree at her plantation, that when she cuts herself working she places a leaf on the wound; she can't afford a first aid kit or a medical assistance and therefore has to be resourceful.

The majority of the producers have access to a simple toilet along with a bucket of water to wash their hands and a bucket of water to shower. Many farmers don't have easy access to clean drinking water and must walk long distances to access it. However, a handful of farmers, such as Angel Galume the Azua center's president, have access to clean drinking water by way of pipes from the mountains. Moreover, some farmers' houses are far from the plantation, which limits their access to toilets or showers.



*The photo on the left shows potable water at the plantation of Angel Galume-president of the Azua center. The photo on the right shows a toilet provided for men and women in Los Cacaos, where seven people were working.*

#### **D. Business and Development**

##### ***Women in the Dominican Coffee Industry***

Since 2008 Fedecares has supported the organization Adomuca which advocates for women's equal participation in decision-making at all levels of coffee production. While the price of the title of the land is very expensive, keeping it out of reach of many men, it is due to the macho culture of the country that women are legally barred from owning a title at all. Adomuca's aim is to improve the situation by having women more visibly involved in the

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<sup>35</sup> Antonio Alexis, chief of Finance at the center of Polo, interview 20<sup>th</sup> of May.

<sup>36</sup> Isabel Roble Amor, coffee producer at the center of Los Cacaos, interview 16<sup>th</sup> of April.

coffee organizations and believe that as a result, their contributions will be seen as an essential part of the plantation. Balbuena<sup>37</sup> believes that if women were able to handle the financial side of the farms, the money and resources would be distributed in a more efficient and effective way, as men are usually focused on their own profit.

### ***Transparency***

In past years, Fairtrade trusted the farmers to work within the norms of the organization, but in today's world, the organization requires numerous criteria in order for producers to become certified. Fairtrade also requires documentation of how the premium is allocated, a history of the hiring and treatment of workers, and proof of democracy within the organization. The producers must document and report their activities in great detail, describing the products' path from the farm to exportation, according to Herrera<sup>38</sup>. However, no information is required to show how the coffee is handled after exportation. The transparency of costs and resulting prices should be required for the importer, distributor, retailer, and the consumer, and the information should be available for the producers and their organization to review; this could prevent corruption on many levels.

### **E. Records**

Fairtrade requires that each cooperative, including its centers, keep detailed records of the product from each member with data such as name, date of purchase, and volume detailing the overall path from the producers to the international buyer. Most of the centers that were visited fulfilled all of the criteria for trade and had organized and up-to-date administrative systems, such as computers, which are used only when there is electricity available. Mancebo<sup>39</sup> explained that occasionally the center in San Jose de Ocoa buys a small amount of high quality coffee from non-Fairtrade members in their area and does not separate it from their own coffee and later sells it as Fairtrade coffee. This is against Fairtrade regulations but has been done because they are in a precarious financial situation due to extremely low output and the high cost of production. The center benefits from this by receiving a higher Fairtrade premium, but the non-members don't receive the premium at all and cannot participate in meetings to discuss where the prime should be allocated.

## **4.4 Challenges and Opportunities with the Fairtrade Organization**

*Throughout Chapter 4 challenges and opportunities have been discussed considering BoP with Fairtrade producers in the Dominican Republic. In the following paragraphs a more detailed description of the Fairtrade Challenges, Certification Opportunities and Barriers, and Producers Recommendations will be presented.*

### **A. Fairtrade Challenges**

#### ***Allocation of Fairtrade Premium***

An advantage of associating with Fairtrade is that producers are paid an additional premium for their high quality coffee that is exported. Feliz<sup>40</sup> said that the Fairtrade premium is so

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<sup>37</sup> Maria-Isabel Balbuena, president of Adomuca, interview 20<sup>th</sup> of April.

<sup>38</sup> Rufino Herrera, President of the center of Los Cacaos, interview 16<sup>th</sup> of April.

<sup>39</sup> Juan Antonio Mancebo, president of San Jose de Ocoa, interview 14<sup>th</sup> of May.

<sup>40</sup> Israel Gueva Feliz, president of Polo, interview 20<sup>th</sup> of May.

small that after dividing it between all the members involved they were only able to give a small sum to each member. Feliz continued on to tell us they have agreed as a center that it is more beneficial to the overall community to invest in improving the center, instead of paying each member their \$5 individually. As a result, they will be able to afford new machines to wash coffee and a truck that can collect the coffee at the plantations, which benefits all farms associated with the center. He also added that they have improved the infrastructure in a small part of their town with the help of the premium. However, even though they have been in Fairtrade since 1991 and producing both conventional and organic coffee, the benefits have been minimal, according to Feliz. During my trip I saw that the main offices in different areas of the southern parts of Dominican Republic have been built with the help of the Fairtrade premium and Oxfam.



*At the right it is shown an office, which was built with the Fairtrade premium in San Jose de Ocoa. To the right it is demonstrated a truck in Polo, which was bought with the Fairtrade premium.*

In 2009, before la roya infested the plantations, the center of Polo <sup>41</sup> was among the coffee producers to receive the largest Fairtrade premium in the Dominican Republic, with 311 members contributing. With a total of \$10 661,44 (36 360 kg of coffee) the Polo center received \$3998,04, and \$2665,36 was supposed to be divided among the 311 members of Polo, which leaves \$8,57 to each member. It is important to note is that only the members producing high quality coffee for exportation received the Fairtrade premium. Fedecares received \$3998,04 with the intent to finance certification and marketing costs, as well as the salaries of 5 employees in the main office.

### ***Fairtrade Price Floor***

Fairtrade buyers provide security for the producers by offering a guaranteed price floor that intends to substantially reduce the risk faced by producers. Feliz <sup>42</sup> illustrates the following:

Fairtrade puts a minimum price on coffee to be exported that doesn't depend on the global price of coffee rising or falling. The current price is \$140 for each quintal and is due to rise soon, as it is very low. Since there is a monopoly in the Dominican Republic, Induban pays \$100 more per quintal than the Fairtrade minimum price, which is \$240.

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<sup>41</sup> Information received by Fedecares.

<sup>42</sup> Israel Gueva Feliz, president of Polo, interview 20<sup>th</sup> of May.

They do this in order to control the Dominican coffee market and put their own price on coffee, without considering small-producers. All the coffee that we cannot export is sold to Induban. This year we will only sell to Induban due to a lack of high quality coffee and our need for money.

My impression is that most producers are involved in Fedecares because of the secure price. The promise of stability is very alluring and can also help to motivate them to produce better coffee.

### ***Fairtrade Loans***

Alongside cocoa and cotton producers, small-scale coffee farmers struggle to find financial support due to the related risks such as weather conditions, diseases and other factors. Because of these risks, farmers face extreme barriers to finance leading to loans with high interest rates and difficult terms. The seasonality of coffee means that all input costs are put in before harvesting, where farmers often have to mortgage a major part of their plantation in order to afford production. This is a critical time for farmers and they are in need of short-term financing in order to afford seeds, fertilizers, transport, labour, and machine services. There is a critical lack of access to long term financing for production improvements due to the producers' insufficient equity capital, credit and other financial services, such as insurance. If long term financing were available for the farmers, they would be able to improve both their productivity, and the quality of the coffee (Fairtrade 2015e). Guerrero<sup>43</sup> explained that the farmers that can receive loans are only able to pay the interest and not the principal loan so that they are able to support their families, houses, and coffee farms.

The dilemma for the producer is that they must cover the cost of processing the coffee each month, only receiving their payment after delivering the finished product. A few farmers for the center of Azua told us that they could cover the costs of the first and second month, but have trouble financing the next 4 months of processing. Fairtrade producers have the right to obtain 50 to 60 percent of the projected profits in advance from the Fairtrade buyer, if they can afford to, in order to cover the production costs. However, this amount isn't always enough for the farmer and it can be difficult for the farmers to actually receive the advance when needed. A coffee agricultural, Reyes<sup>44</sup> said that the difficulty lies in the processing period for coffee, which usually is 6 months, and that the collected coffee goes through a process of being transported to the center in order to be washed and dried, which all together is a lengthy amount of time.

Taking advantage of this issue, Induban offers loans with the requirement that the producers sell all of the coffee to them. Unfortunately for the farmers, the price paid by Induban is usually lower than the world market price in these situations. Thus the amount of coffee sold to Fairtrade is dramatically reduced because neither Fedecares nor the government can offer them these loans.

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<sup>43</sup> Valerio Guerrero, coffee producer and board member of Fedecares, Bani, interview 15<sup>th</sup> of April.

<sup>44</sup> Juan Segura Reyes, coffee producer in Azua, interview 23<sup>rd</sup> of April.



## **B. Certification Opportunities**

There are many opportunities created by becoming a certified member of Fairtrade including receiving long-term contracts, a minimum price for the product, and a premium that can provide a higher and more stabilized income. By having long-term contracts more stabilized revenues and production is usually guaranteed. The minimum price gives the producers a secure price, which doesn't follow the market as it falls. The Fairtrade premium gives the producers and their community the opportunity to enhance their livelihoods and construct and/or purchase necessary buildings and products.

By offering the producers the support that they need, Fairtrade membership allows them to adopt more socially and environmentally responsible habits, as they are not concerned about the volatility of the industry. Additionally, as a cooperative, I found that the producers are stronger together in bargaining power and are able to negotiate more favorable contracts, as well as cultivate stronger relationships with their buyer. In the case of a natural disaster, or accident, the cooperatives can come together to assist each other, which is essential for a family farm's survival. Furthermore, as a member of Fairtrade, there are global standards, which require that the main organization and centers are sensitive to the issues, which could lead to sustainability in the long-term, regarding environmental and labour conditions.

All of the benefits combined, however slowly, can help change the society surrounding them. By granting stability to the producers and their families, the children may be able to attend school and better the family's and community's situation. Moreover, by supporting the cooperatives and nearby community with the Fairtrade premium, the producers are able to improve their production and quality of life. Without Fairtrade membership, the producers would be divided and exploited by local monopolies, and only able to survive, not thrive.

## **C. Certification Barriers**

An annual fee of \$6000 must be paid in order for the center to receive a Fairtrade certification, which is paid for by Fedecares by using their share of the premium according to Balbuena <sup>45</sup>. She continues to explain that this is an immense cost for the organization to pay annually, and was equivalent to 25 percent of the total premium that Fedecares received in 2010. They also have to finance the auditors' travel expenses, which include their transportation, food, and accommodation in the country while they are performing audits. Furthermore Balbuena tells us that last year they were forced to use a spare fund from Flocert in order to pay the certification, which can only be used once. There are many uncertainties as to how they are going to be able to pay for their next certification.

If during the audit it is found that producers aren't complying with the Fairtrade standards, they will be declared non confirmative, and it will be reported to Fedecares. The producers along with Fedecares have 30 days to send a plan of action to Flocert on how they will remedy the nonconformity. Within 3 to 6 months they must fix the issue that led to nonconformity or they will lose their Fairtrade certification. The centers must also pay a fee of approximately \$4000 if the auditor is required to return for a second audit. It can be very hard for the centers to rectify the nonconformity due to lack of financial resources and time,

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<sup>45</sup> Maria-Isabel Balbuena, president of Fedecares interview 27<sup>th</sup> of April.

which puts their certification and livelihood at risk according Balbuena. Professor Reynaldo <sup>46</sup> explains that the certification of Flocert has been functioning more as a business than as an incentive for the producers to perform well. The initial aim of the certification process was to advance the producers' situations by being certified with a trustworthy brand that expects a high level of environmental, social, and economical standards. However, with the high cost and frequent nonconformities, the producers are unable to keep up with the expense.

#### **D. Buyers in Sweden**

An interview with the company Sackeus, purchases Fairtrade coffee from the Dominican Republic told me about the difficulties smallholders are currently experiencing. In order to raise this question the company made a trip to the country during my field study to gather more in depth knowledge regarding la roya. Their conclusion is that the Fairtrade premium helps the producers and is stronger in a cooperative, such as Fedecares. However, it came out that Sackeus also pay auditing fees in order to be member of Fairtrade. This implies that members of Fairtrade are making triple payments to Fairtrade, from auditing costs of smallholders and buyers and a second auditing cost for non-conformity. But with more products to sell from various countries they aren't as exploited as a small-scale producer. They also work towards improving the lives of the poor and their society. It is also acknowledged that Dominican coffee has a superb taste that can grow internationally <sup>47</sup>.

#### **4.5 Summary**

During my time in the Dominican Republic, I saw firsthand the poverty of Fairtrade members living in rural areas. While distanced from civilization and any necessary facilities, they cultivated coffee at high altitudes to provide for their families. It was clear that in the Dominican Republic there is a lack of distribution and communication among the small producers and the country's representation of Fairtrade. These circumstances have led to low efficiency of production and affect the income of the producers, making financial stability difficult to achieve.

Due to high production costs and a lack of modern tools, it is often very difficult for the farmers to actually produce high enough quality coffee to sell to Fairtrade. Among the cost of regular production, there are also certification and distribution costs, membership fees, and daily life expenses that the farmers must deal with. The lack of supervision from Fedecares regarding the farmers' compliance of criteria and ensuring that new information is passed along is troubling. My findings also show that Flocert normally audits one or two smallholders in each area out of several hundreds that are members, which makes it rather difficult to have a non-biased view. With a lack of supervision and poorly performed audits there are non-compliances of criteria that require another audit, which needs to be paid by Fedecares, requiring an additional payment from already impoverished smallholders. Additionally, a payment from Fairtrade buyers is required making Fairtrade have a triple revenue.

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<sup>46</sup> Wagner Reynaldo, professor in economics, UASD, interview 11<sup>th</sup> of May.

<sup>47</sup> Telephone interview, with Sackeus, 17<sup>th</sup> of June.

While there are many challenges with any new venture, there are endless rewarding opportunities when serving the poor at the BoP. When I spoke with the producers in the Dominican Republic, they believe that Fairtrade can provide them with a secure income, an additional premium to help them grow their business, and most importantly a community where farmers can interact and support each other through difficult times. Fairtrade is enacting a business idea that addresses the needs of the producers and their families, while also providing financial stability, on the condition that the farmers produce coffee of a certain standard. When the requested production goals are met, basic education and scholarships can be offered to the BoP population involved with Fairtrade, which leads to an empowerment of the people and an overall improvement of the economic situation in the area.

## **5. Analysis**

*In chapter 5 an analysis of the local and international functioning of Fairtrade will be presented. Furthermore, BoP challenges and related strategies will be analyzed, followed by implications for using the aforementioned strategies.*

### **5.1 Players Involved with Fairtrade and Fedecares**

#### **A. Member Analysis**

Fairtrade enables a more transparent trade process, which focuses on the partnerships between producers, their cooperatives, and the consumers. The Dominican producers involved in Fairtrade benefit from a more stable income, due to the minimum price and the premium, which in turn creates a stronger local economy and society. With more stability, the farmers are able to hire proper help, send their children to school, and improve their farm and farming methods. Furthermore, the cooperatives formed by Fairtrade producers unite the small-scale farmers, which allow them to support each other and results in social development and sustainability. They are also working in a democratic manner, deciding where the premium would be most effective, and educating the farmers on many subjects. The recompense for MNCs and smaller firms comes in the form of cheap labour and short-run profits (Chikweche 2013). Finally, the consumers are able to purchase the coffee and feel pleased that they are buying ethical brands with the intention of helping people at BoP markets. The success of the BoP concept is dependent on the nature of all players involved: large firms, governmental agencies, NGOs, and the poor themselves (Prahalad 2014).

#### ***Producers***

Due to the underdeveloped economy of the Dominican Republic, most coffee producers are born into poverty and work continually to support their families. A majority of the producers have grown up around the production of coffee and learned the technical know how from their families. Unfortunately, they are often unable to access any credit and are very price sensitive due to the unpredictable nature of producing coffee. Additionally, they must deal with severe weather events, and infestations such as la roya and other coffee diseases. This means that small-scale producers often have poorly maintained plantations and have difficulties finding the ideal climate and elevation in order to produce high-quality coffee. Producers can also experience difficulties managing the crops due to inefficient laborers, outdated equipment, and low funds. If there is no high-quality coffee available for exportation, the coffee cannot be sold to Fairtrade, and there are no financial benefits for the producer.

Altogether, producers do not have strong relations with governmental agencies and NGOs; even though support has been given in financial, technical and managerial ways, the help seems to be temporary and does not have the lasting effect that it should have. While various buildings for processing the coffee were built with the help of Oxfam contributions, there is still a need for long-term assistance in order to actually produce quality coffee that can be processed. Despite the efforts of the producers, the small amount of coffee they are able to produce is usually characterized as poor-quality, because the crops that haven't been cared for properly. In order to combat this dilemma, producers often join groups of producers like them in order to trade information and techniques, as well as support each other in cooperatives.

### ***Cooperatives***

Producers often develop interest in Fedecares because they see it as a solution to their isolation as a single producer, and the support of the group makes them more effective. The amassed strength from a larger cooperative can increase the output, and quality, of the coffee. As a result, the premium is enhanced and can be effectively invested in the producers' communities, developing the society and increasing the quality of infrastructure and production. While the premium is a good idea in theory, it can be confusing in practice; Fairtrade requires that the premium is invested in the improvement of the business and the community, but some producers feel that it should be used at their discretion to help them in difficult times (Davenport & Low 2012).

There are also no other coffee cooperatives in the Dominican Republic that are associated with Fairtrade which puts less pressure on Fedecares to compete, unlike the industry of Dominican Fairtrade bananas. With more cooperatives, smaller cooperatives can be made dividing the large sum of producers and making it more efficient regarding the spread of information and support benefiting the producer, the community and the cooperative. It is also rare to find competitors against the Fairtrade organization; they are currently the largest organization with the most experience. This is a huge advantage for Fairtrade, because they are able to function without competition, and refining their business strategy to match the market. They also benefit from their well-placed contacts and effective marketing practices to appeal to their unique customers, as well as collaborating with the poor.

However, in order for Fairtrade to be more in touch with the population they claim to helping, they must encourage their certification body, Flocert, to make improvements to their auditing process. Certification is essential in order to lift small producers from poverty by allowing them to expand from only selling their product domestically, to now having access to international buyers as well (Jones & Williams 2012). Currently, producers are only audited in order to see if they are complying or not. Flocert should also educate the producers on what is required to comply. Many of the producers I spoke to in the Dominican Republic had only basic knowledge of the requirements, and usually because they had previously failed an audit. Flocert should also offer clear instructions on how to best correct their non-compliances, which will prevent the need to audit frequently, and reduce the overall cost of auditing. Fedecares is currently paying the certification costs with help from the premium, which takes away from important community needs, and the high cost makes it difficult to allocate enough money during hard times.

### ***Buyers***

Buyers of various Fairtrade products aspire to develop global sustainability and to improve the lives of the poor, while also making a profit. Fairtrade is benefiting twofold from the buyers, who are required to pay annual fees and be certified by Flocert. However, buyers often have a more diversified product portfolio making them less vulnerable compared to coffee producers, who have their only major income during the harvesting period. Buyers in developed countries often have financial stability derived from their extensive assets,

available credit, and stable cash flow. Alternatively, the producers of the product may not even own their own plantation or have enough money to feed their families.

Currently, there are also several buyers competing domestically in the Dominican Republic, where larger companies use their size and power to regulate and influence the government and agriculturally related politics and organizations in order to make profitable deals. In some cases these deals have been even more profitable for the producers than making deals with Fairtrade buyers, where Dominican companies do this to control the market, a so called monopoly. MNCs have a unique opportunity to compete with these monopolies in the BoP markets due to their size and experience. It is also a less competitive market relative to the existing markets in the developed world. Lastly, BoP markets demand creativity and innovation in order to serve their unique areas and populations, which may in turn influence developed markets (Jun et al. 2013).

The tremendous growth that Fairtrade has experienced in the last three decades is due to a change in consumers' perspectives of their influence in how a company operates. Instead of the classic price-driven requests by customers, it is now a push towards ethical values; consumers are thinking less about themselves and more on the ethics of their purchases. The push towards "green" has now grown into a broader focus on the entire production process with a highlight on the humans behind the product (Nicholls 2002). Studies also show that the recognizability of the ethical brand also plays a large part in the consumer's choice of purchase. Overall, the developed market has shown a shift towards ethical attributes and is willing to pay the price (Mai 2014). Fortunately, the thriving demand for this type of product allows Fairtrade to grow and continuously improve their assistance to small producers worldwide.

## **5.2 The Outlook of Fairtrade and Fedecares**

### **A. Weaknesses and Threats**

It is clear to see that a lack of education and supervision from Fedecares and Fairtrade on the Fairtrade benefits for the producers has contributed to confusion and miscommunication over required criteria. In some cases, the criteria is completely unknown, and thus, ignored. Among the myriad of reasons, is the lack of financial power from Fedecares, which limits their ability to educate their producers. Fedecares uses a small amount of the premium in order to fund operations striving to improve the difficult process of growing consistently high quality coffee. Additionally, Fedecares and the centers should have a closer connection in order to properly assist each other, as well as pass on essential information to individual producers. By improving the communication through technology, the farmers are more likely to adhere to the Fairtrade criteria, as well as be involved in the larger, group decisions.

As a large MNC, such as Fairtrade, it is difficult to educate the cooperatives and the producers on how to adhere to these criteria. There are too many regulations on the different aspects within the area of environmental, labour, and occupational health and safety. The cooperative Fedecares has difficulties successfully informing the producers, and the producers themselves have trouble affording the costs required to meet the criteria. More importantly, producers will do what is the most effective for their crops, which in some cases is against Fairtrade

regulations. Many criteria of Fairtrade are very detailed and require structured methods and knowledge of how to perform them.

It became apparent during my field study that the practice of children working at the plantations was common. However, these children often worked at plantations because their parents cannot afford to send them to school, and there aren't many alternative activities for children in rural areas. By having the children work at their farm, they are contributing to running the family business and learning the trade. Additionally, the family can bond and show their children the family heritage. The downside of having children working at the plantation is that they are forfeiting a proper education, and any related opportunities, which usually brings them back to work as coffee producers. In rare cases, children have managed to secure better jobs, allowing them to help their families. However, in order to improve the overall situation of the family, as well as the community, all children should be sent to school in order to gain an education. When purchasing a Fairtrade product, the buyer is essentially helping to reduce child labour at the plantations by allowing the producers receive a higher income. This in turn allows them to hire the appropriate aged workers, and with help from the Fairtrade premium they can potentially send their children to school (Davenport & Low 2012).

An overwhelming amount of immigration from Haiti to the Dominican Republic has contributed to the large number of illegal workers on coffee plantations. It is a fact that Haitians are usually treated differently than Dominicans and therefore lives on very meager incomes, in small living spaces, and work long days. Moreover, they do not receive any benefits from the farms' Fairtrade status due to their migratory lifestyle. If the farm does receive the premium, the farmer employing the migrants can decide to pay them a higher wage, if anything. For the farmers' convenience, Flocert doesn't schedule audits during the harvesting season, which makes it impossible to question the seasonal workers on their salary or status (Davenport & Low 2012).

During my field study, I noticed that the Haitian living quarters and areas were usually very dirty and primitive compared to the houses of Dominican workers and plantation owners. There are exceptions to this phenomenon, Dominicans with the intention to provide the Haitians a better life and treat them with respect, but it is rare. Haitians are mostly used on larger crops owned by presidents of the centers who have the ability to afford extra laborers. Smaller agriculturalists generally don't hire or contract Haitians because their plantation is too small and doesn't produce enough money. Haitians are normally contracted on a temporary basis, and because they don't have Dominican citizenship or proper work permits Haitians must move from farm to farm which creates an unstable situation. My field study also revealed that most Dominicans see Haitians as a population that is lazy and harmful to the local community, and the country as a whole, and therefore was not welcome in certain centers. However, the Haitians I encountered seemed to be honest, hard working people that want to succeed in the Dominican Republic and start to create a new life. Reflecting on the difficult situation in Haiti these workers are most likely safer and more profitable in the Dominican Republic.

The coffee producers are often working in precarious conditions, yet they lack the proper working clothes and protective gear, and there are rarely any posted health and safety instructions on the machines. The laborers themselves must purchase their working clothes, which usually are their every-day clothes. Producers don't have access to emergency supplies, such as first aid kit, and if they do, it is usually located miles away from the fields and machines. Although there are modern machines capable of expediting the process, the majority of producers work with their hands, making the process of coffee time consuming and therefore more expensive. Compounding these challenges is a lack of easy access to potable water and functioning sewer systems. Thus, the available toilets are very primitive and don't offer separate facilities for men and women at larger plantations. Producers with smaller farms usually don't even have toilets, as it is an extra expense, which leaves employees to use the natural environment as their bathroom.

The barrier in receiving the Fairtrade premium depends on the production of high quality coffee beans. Due to a lack of modern machinery, diseases and pests attacking the crops, unpredictable weather, and an overall lack of financial resources, producers find it challenging to produce enough high quality coffee to sell to Fairtrade. Induban preying on vulnerable producers, convincing them to take loans and sell directly to them compounds this. Whether the coffee is sold domestically or is of low quality, the producers forfeit the Fairtrade premium. If they are able to overcome these difficulties and receive the premium, the total sum is very small and is insufficient to be invested back into the plantation. Considering that Fedecares and their producers have been members since 1992, overall there has been very little change generated by the premium, leaving the producer in a similar situation as before. Fortunately Fairtrade also guarantees a price floor, which is very appealing to a small producer. However, as a result of domestic competition, the producers are often offered a higher price from the local industry than Fairtrade can give.

Another piece of the producers' premium is going to Flocert as the certification fee. A large part of the premium pays for the cost of certification, and if a plantation does not meet Fairtrade standards, the premium must also cover the auditors' travel and accommodation for the follow-up audit. This bureaucratic process is unfair for the producers involved because the premium is intended to help the producers develop their farms and their community, not to fund certification costs. Because Fairtrade gains value on their brand name and growing sales, the Flocert certification fee should be free or reduced for producers, who are already severely lacking of funds.

## **B. Opportunities and Strengths**

One of the most appealing elements of Fedecares is that producers are gathered in a cooperative, which makes them stronger as a group. While they support each other in difficult times, such as sickness or severe weather, they also trade information and experience, and help each other with production if they are able. The cooperative method also helps to elevate their Dominican coffee to the quality that Fairtrade requires, which small producers on their own normally can't achieve. Fedecares' aim is also to provide the producers with information relating to production, such as environmental and labour aspects, that if followed correctly, can create a more sustainable production process. The cooperative can also contribute with administrative work the producer must submit to Fairtrade and Flocert. Producers are also



enabled be part of long-term contracts where a minimum of high quality coffee is sold to Fairtrade buyers. It is in the interest of the staff of the main office in Fedecares to assist the producers in having a successful harvesting period, so that all may receive a stable income and the additional Fairtrade premium.

The premium is one of the strongest incentives for producers to join Fairtrade, which is paid in addition to the floor price, but only if the quality of the coffee is high enough. The premium is distributed to the center to which the producer belongs, and is supposed to be invested in the community, while a small part goes directly to the producer. In the Dominican Republic the premium has been invested to build offices for the centers and also contributed to a small part of infrastructure and in order to repair a few damaged vehicles. With the help of Oxfam, the construction of the offices was completed. It was also used for a few scholarships for younger adults to be able to study. The premium can indeed empower the producer and their community to improve their situation, but the premium is so miniscule, that it barely makes a difference for the 8000 Fedecares members. Fairtrade also offers a floor price that protects the producer if the market price of coffee would fall, giving the producer stability and a secure income. Additionally, as the international price raises the Fairtrade price follows, ensuring that producers will benefit from the increase in profits, and remain loyal to the Fairtrade brand. No other buyer would offer such a guarantee to producers, so it is an attractive pull, along with the premium. The majority of the producers that I encountered during my field study acknowledged that the price floor is one of the main motivators for them to be in Fairtrade. While the premium is a good idea in theory, it is a bit confusing in practice; Fairtrade requires that the premium should go to improving the business and the community, but some producers feel that it should be used directly in their households to help support them in hard times (Davenport & Low 2012).

Fairtrade also enables producers' access to loans through the buyers, based on projected profits, with an advance of 50 to 60 percent of the total. This is essential to assist the producers with their production in areas like equipment, transportation, and manpower. Small producers in general are in difficult financial situations, and only receive a large income after the harvesting season; this solution is very effective for many producers, when working correctly.

By tapping into the Fairtrade benefits, the producers can see that in the long term, their membership can change the society surrounding them. The strength of a group also causes other organizations to take notice and be more likely to help, like Oxfam and ICP, than if it was individual producers. With a price floor, a premium, possible advance payments, and sustainable and secure production, children and families can start to improve their lives. This innovative concept creates opportunities for the people of the BoP and can improve their quality of life in four main areas; distribution, education, income, and infrastructure (Kahle et al. 2013). Additionally, without the membership of Fairtrade, and the resulting cooperatives, small producers would be even more exploited by the local industry and governmental agencies, forcing them to only survive, and not thrive.

Due to the detailed and mandatory audits by Flocert, producers and their cooperatives are reminded to follow all the important criteria that allow them to be a part of Fairtrade. It also encourages safer and more efficient working methods, as well as improved environmental methods, like the usage of chemicals and pesticides, which provides protection as well as sustainable production for the producer and the surrounding area. The yearly follow-ups also help to guarantee that the majority of the criteria are followed. They also verify the administrative work done by the main offices of each center and Fedecares. The trustworthiness of the audits is assured by using several different auditors. Since Flocert audits the buyers as well, the credibility of the organization is increased.

### **5.3 Challenges at the BoP for Fairtrade Producers**

#### **A. Inadequate Infrastructure and Distribution Channels**

While the positive aspects of becoming a member of the Fairtrade organization are plentiful, it also comes with challenges. The Dominican Republic is a vastly underdeveloped country, with only basic roads outside of the city. The challenge lies in the isolation and spread of BoP markets, including high transportation costs, the existence of small and informal retailers, and poor-quality infrastructure (Barki 2015). There are often improvised roads, created from footpaths, which are entirely mud, or too littered with potholes to pass. This seemingly basic part of the functioning of a country is inadequate, which makes life even harder for the small coffee producers; they are unable to transport their crop easily or to travel to their center and speak with the other members. It is the responsibility of the government to improve the infrastructure, but due to the corruption and mis-focused leadership, it is doubtful they will solve the problem soon.

Partly due to the lack of infrastructure, the efficiency of the Fairtrade producers is low which creates a longer timeline and a higher total cost (Chikweche & Fletcher 2012). This also highlights the issue for MNCs to distribute their products to the BoP population. MNCs must be creative in order to distribute their products and services to isolated areas of the BoP market, which will in turn increase diversity and competition, leading slowly to lower prices and higher incomes. This will eventually minimize the gap between urban and rural households of the poor (Kahle et al. 2013).

#### **B. Communication**

The issue of communication between members and their center can be solved with sufficient funds to provide technology such as telephones, fax machines, or Internet connections. At the moment, a few farmers have cell phones and access to the Internet in their town centers, which are difficult to reach. However, if the physically and economically isolated areas of BoP are to ever gain sustainability, better distribution systems and communication links are necessary (Hart 2010). Another issue is a lack of reliable electricity; in order to operate any new technology or tools for their farm, they will need electricity. These challenges are possible to overcome with sufficient help from Fairtrade, and if they analyze what is needed and react accordingly, the improvements will be very effective for the small producers.

Along with the difficulty of communication, there is also the challenge of promoting the product. Many families do not have access to newspapers, magazines, radios or the Internet,

so the traditional ways of advertising are eliminated. The MNCs would need to infiltrate and educate the local population on the availability of their product using billboards, flyers, or simply word of mouth. However, it may be difficult for an MNC from outside of the country to connect with a diverse rural population, unless they have contacts that are familiar with the community.

### **C. Financials**

There is no lack of hard work among the Dominican coffee farmers and laborers, but it doesn't seem to lead to any long-lasting improvements. Even with the help of Fairtrade, many coffee producers in the Dominican Republic struggle just to support their families, let alone improve their plantations. The harvesting season of coffee lasts 6 months and the producer must carry the burden of financing the entire process, unless they are able to negotiate for an advance. Because of the lack of continual income, the producers have difficulties budgeting and affording their basic necessities. In order to complete the harvesting process, and receive their pay and potential premium, the producers are sometimes forced to take out loans from the government or banks. Additionally, it can be very hard for a small producer to be approved for a loan, as the banks are aware of the instability of the industry; if they are able to secure a loan, the terms are normally not in their favor, with high interest rates and rigid time limits, and as a result, the farmers can lose their plantation. However, the farmers are thinking short-term in order to survive, and accept the unfavorable terms; often they are only able to pay towards the interest each month, instead of the principal. Subsequently, the farmers are unable to save money to improve their future and must live on any available cash. In the case of an emergency, the producers do not have any extra money and must ask family and friends. As members of Fairtrade, the hope is that this situation would not exist anymore, but the policies need to be adjusted.

### **D. Low Purchasing Power**

As a consequence of their lack of available cash, as well as savings, BoP producers and consumers alike are left with a low purchasing power compared to more developed economies and countries. While this doesn't attract businesses right away, it does mean that there is less competition, and more potential for growth. For the producers, it means that they must purchase their necessities in small increments in order to afford them. They may purchase 100 minutes of cell phone credit at a time, instead of a less expensive monthly plan, because they are unable to pay it all at once. The poor at the BoP often survive on meager incomes, relying on unpredictable daily wages and minimal access to credit, which forces them to use cash conservatively and results in low individual purchasing power. In the case of external events or shocks, the already price sensitive people of BoP's income volatility could rapidly increase (Kahle et al. 2013). The producers are living on meager, unstable salaries and are very careful about what they buy; this should not discourage businesses to compete at the BoP, it should inspire them. By looking at the issue in context and creating a unique strategy for solving it, the business will be able to win the consumer's loyalty and make a profit.

## **5.4 Strategies at the BoP for Fairtrade**

### **A. Adapting for the BoP Market**

In order to successfully compete in the BoP market, MNCs must compose a unique business plan in the context of the area. For the producers at the BoP in the Dominican Republic, they do not have a large amount of savings or available cash and must buy products in smaller quantities. MNCs can appeal to the producers by offering low-cost, single-serve packaging that meets their needs. For example, a producer may need to purchase chemicals or pesticides for their crops, but are unable to afford an entire year's, or month's, worth of product. By scaling down the product to weekly amounts, the producer can manage his crops without worrying about his finances. However, small packages do not increase affordability, the only true way to increase affordability is to reduce the price per use (Karnani 2007).

MNCs must also consider the distribution path of their products, in order to reach the more rural BoP markets. While there aren't many commercial stores pre-established in rural BoP areas, the MNCs can take a look at the social networks throughout the area. By using naturally occurring networks, MNCs will save money and time. They can recruit local families to establish a small shop within their homes, or nearby, and allow them to conveniently sell their products, along with other daily items. This will also create extra income for these families in need, making it a positive solution for all involved.

### **B. Localizing Value Creation**

An additional positive to the strategy to solve the distribution issue is that it will create local value. With new small business owners, selling products that their community wants and needs, the economy will slowly improve. These "mini-shops" create new jobs in extremely remote areas, while also benefiting the supplier. It may also decrease the need for children to work on the plantations; with more cash and more accessible goods, producers may hire appropriate labour and send their children back to school. Additionally, by educating the producers on efficient farming techniques, pest control, or even budgeting strategies, the overall intelligence and productivity of the community will rise. Lastly, by introducing modern products, such as broadband or mobile phones, into the market, the BoP people will be able to generate stronger incomes through innovative methods and education (Kahle et al. 2013).

Another way to increase the local value of these rural communities would be to enable franchising in the area. By making franchising more available to the BoP population, they will be able to take the opportunity to profit as a business owner and enrich their community. MNCs can accomplish this by offering loan programs in order to begin the franchise, with a plan for reimbursement with low interest. If they cannot connect with a franchise, or do not have a business in their portfolio to franchise, MNCs can also approve micro-loans for BoP producers, in order to assist them in improving their efficiency and overall production. As a result, the local producers or franchisees would have more capital available to spend on products.

### **C. Unconventional Partnering**

Non-governmental Organizations, or NGOs, are well known for reaching the BoP market effectively. They are often in the most difficult, rural areas interacting with the disadvantaged people of BoP. However, they are usually lacking in resources and time, and therefore limited in how much they can help. Conversely, the MNCs have plenty of funds and resources in order to assist the BoP, and are attempting to enter the BoP market for its growing potential. Recently, NGOs and MNCs have been working together in order to help the poor at the BoP. NGOs are familiar with local social networks, politics, and conflicts, which can translate into solutions for the MNCs regarding distribution and adaptation. By assisting the NGOs with their aid work by donating funds and other resources, MNCs can gain insights to the local culture in order to effectively revise their business strategies. It is recommended that these relationships are formed well before the product is developed, in order to manufacture the best possible product for the target market (Sanchez & Schmid 2013).

Another possible collaboration is an agreement between Fedecares and the government of the Dominican Republic in order to build and repair the rural infrastructure. Through funding and regulations from the government, and a small part of the Fairtrade premium, Fedecares could formulate a solution to the distribution issue that is so unappealing to MNCs. This would also allow the MNCs to coordinate with Fedecares and the individual centers, which would create clear communication paths and would result in streamlined advancement. By solely focusing on the private sector, the BOP idea distracts from the obvious failure of the government to complete its traditional functions such as public safety, basic education, public health, and infrastructure. If these issues were addressed and solved, it would clearly increase the productivity and employability of the poor, and thus their income and quality of life (Karnani 2007).

## **5.5 Implications of the Suggested Strategies at BoP**

### **A. Adapting for the BoP Market**

While adapting to the BoP market with related strategies there are possible implications, which need consideration. The policy change of offering low cost and single packaging will enable a more convenient and affordable product for the consumer, and is also easier to transport to BoP markets, increasing the availability. However, by scaling down the products to short-term supplies for the consumer, it can cause losses for the supplier because smaller amounts are required to be distributed more frequently. It can also be harder to monitor the demand from BoP consumers due to a lack of technology and established inventory methods. Additionally the usage of pesticides and chemicals are not commonly used weekly.

Considering the lack of readily available Internet access, newspapers, or radios by most rural residents, traditional marketing strategies will not reach the BoP consumers. However, by establishing basic Internet cafes in the local communities, either through donation or for-profit, MNCs can save money by easily promoting their products via the Internet. At the same time this can be beneficial for the producer who can gain discount prices and more easy access to products and information. Access to the Internet and social networks will also increase the competition between suppliers and buyers, which will in turn improve the selection of products. In the long-term perspective, this will be a win-win situation for all actors at the BoP market.

## **B. Localizing Value Creation**

In order to solve the issue of inefficient and sometimes impossible distribution, there needs to be collaboration between the major actors in the country, such as governmental agencies, as well as the involved organizations that will be affected by the change. As a country that is characterized by corruption, an “island-time” mentality, and severe tropical weather, this project may take many years to complete. With the help of NGOs and MNCs, the process of constructing a well-functioning distribution system that is adapted for developed countries can be expedited. With their local and global knowledge and contact networks, these organizations and large firms are truly valuable for developing BoP markets. When the NGOs, MNCs, government agencies, Fairtrade, and Fedecares join forces, a successful distribution system can be created that reaches the majority of the centers and producers.

As previously mentioned, a high-functioning distribution system will lower transportation costs and make the entire process more time efficient. This in turn will create local value because the coffee being produced will take less time, created more of a profit. Therefore, producers can increase their quality of life and invest their profits and time back into their plantation. This can all create a ripple effect; the producer is able to produce higher quality coffee, which leads to a higher return on profit and premium from Fairtrade, which they can then invest in their crops or their community. However, the process will most likely take decades, and even longer for the very isolated rural farmers.

The debate could also extend to the prospects of “mini shops” and whether it would be profitable for people working in remote areas where there are fewer customers, especially due to the cost of distributing the products to them. Although this approach will create jobs, it needs to be economically sustainable in order to create a long-term employment, which will benefit the local community. Additionally, the strategy of allowing franchising at the BoP may prove to be difficult, as many of the poor have not been educated, some are even illiterate. In order to successfully increase the value of the area, the people at BoP must first be educated.

## **C. Unconventional Partnering**

While the support from NGOs and MNCs can be very effective if executed correctly, it would most likely be limited to a short-term collaboration, and may not have the intended long lasting effect it should have. In order to be successful there needs to be continuous contact with the people at the BoP and by doing this, the area can reach its potential and the markets will develop. While NGOs are familiar with the local social networks, politics, and conflicts, MNCs are characterized as large international firms that do not have local knowledge, but do have the financial means and knowledge to develop strategies. It is therefore a necessity to have a partnership between NGOs and MNCs in order to penetrate the BoP markets effectively.

## **5.6 Summary**

While analyzing Fairtrade, there are many sides to consider including an internal and external perspective, the overall benefits of the organization, the challenges that Fairtrade and their members face, possible strategies for overcoming them, and the ultimate implications of enacting those strategies.

As a global organization Fairtrade attempts to create a more transparent trade process by focusing on the partnerships between producers, their cooperatives, and the consumers. Their assistance, made possible by Fedecares, can ultimately increase the output and quality of the coffee, directly affecting the smallholders in a positive way. However, there are no other Fairtrade coffee cooperatives in the Dominican Republic, which removes any competition that may encourage Fedecares to improve their methods. There are also alternative buyers for the smallholders to turn to, and some of these deals may be more profitable or convenient for the producer.

Fairtrade also has its share of difficulties, including educating their members their requirements to retain membership, as well as enforcing these requirements appropriately. Due to the extensive criteria required by Fairtrade, it's very difficult for cooperatives and producers to comply. The communication between producers and their centers could also be improved. Smallholders also endure harsh working conditions, difficult travel, a lack of necessary facilities, and some are still unable to support their plantations and families. There are also mistreated Haitian immigrants and some child labour, due to insufficient capital to hire the correct people at a decent wage. There is also a systematic lack of proper roadways, which causes businesses to have trouble delivering and transporting their products, which then can lead to an overall loss of profit.

While these are hypothetical strategies, one can also propose corresponding solutions. The issue of communication between members and their center can be solved with funding to provide technology such as telephones, fax machines, or Internet connections to the smallholders. In order to successfully compete in the BoP market, MNCs must compose a unique business plan in the context of the area. A smart method would be to connect with NGOs that are familiar with the community in order to understand their target market. Additionally, by increasing the local value of these rural communities through micro-loans, improved infrastructure, franchising, and overall education, the area would subsequently improve. Although the support from NGOs and MNCs can be effective if executed correctly, it would most likely be limited to a short-term collaboration and may not have the intended long lasting effect it should have. As a result of value creation, the local communities would have more capital available to spend on products.

By taking advantage of the benefits that Fairtrade offers, the producers understand that their membership can change the society surrounding them in the long term. The actual buyers and eventual distributors of Fairtrade products aspire to develop global sustainability and to improve the lives of the poor, while also making a profit. Furthermore, the final consumers feel as if they are contributing to the improvement of impoverished people and are willing to pay the extra cost for that perceived good-will.

## **6. Conclusion**

*In the final chapter a conclusion is formed using the BoP theory and the empirical findings as references. A critique of the study will also be presented.*

### **6.1 Statements and Discussion**

#### *A. Fairtrade at the BoP*

From a producer's perspective Fairtrade represents an organization that offers the possibility to gain stability or to improve their current life situation using the offered benefits, including the premium, minimum price, and cooperative options. Despite the fact that the producers in remote areas don't have extensive knowledge of Fairtrade policies, it is still considered a positive opportunity within an undeveloped country with no other alternatives.

#### *B. The challenges for Fairtrade smallholders in the Dominican Republic*

The main challenge for smallholders to become members of Fairtrade is the high amount of criteria across several areas, from administration to production that must be met. Additionally, the high auditing costs that must be paid in order to continue being members are a large obstacle for farmers without many savings or working capital. Compounding the difficult process is the very high standard of coffee that Fairtrade demands in order for the coffee to be exported to buyers. The Fedecares organization also needs to improve their supervision tactics in order to assure the compliance of regulations by the producers and to ensure that new information is passed along. Currently, up-to-date information is rarely communicated to the individual producer, due to a lack of communication and can lead to an expensive and time-consuming non-compliance.

#### *C. The opportunities for Fairtrade smallholders in the Dominican Republic*

The main incentives for smallholders to be a part of the Fairtrade organization include membership in a cooperative that allows them to gain long term contracts with buyers and to receive support from the group. The probability of higher quality coffee will increase, due to the additional support by Fairtrade and other smallholders. As a result the cooperative is more likely to receive the premium, which can then be invested in social projects, such as the reformation of environmental policies and scholarships, as well as provide stability in the form of the minimum price. Smallholders also have the option to receive loans in advance from contracted buyers to finance the production of coffee, including collecting, washing, drying, and transporting the coffee beans.

#### ***Discussion***

In order to understand the social and cultural context of the given information, interviews were conducted in the environment of the interviewee. It was also deemed essential to have a translator review the gathered material and confirm that it was translated correctly. The secondary data was also carefully chosen, and respected authors on the subject of BoP were studied and applied appropriately throughout the thesis. Carefully planning and executing each controllable part of gathering the produced data and subsequent thesis produced in the optimal way.



The concept of BoP is centered on creating business opportunities for people in developing countries. The majorities of the populations in these countries live in poverty, but also represent a potential untouched area for MNCs and large firms like Fairtrade to conduct business. However, due to the underdeveloped nature of these countries, accessibility is a significant issue. In order to overcome this, as well as other issues, the MNCs must tailor their business plan to the specific area. Other strategies include creating local value, partnering with NGOs, and encouraging affordable innovation. Prahalad's critics claim that this concept is greedy and that by profiting from the poor in underdeveloped countries, we will not solve global poverty, but increase it. If applied correctly and adjusted for each area, the concept of BoP can be a viable solution for these untapped markets.

The combination of severe poverty, high product prices, inadequate infrastructure, and corruption characterize BoP markets and make conducting business at the BoP a formidable task. With additional support from various NGOs, MNCs, and governmental agencies, BoP businesses will be able to better understand their target market as well as access sufficient resources in order to flourish. Fairtrade offers the assistance for modernized production, lasting social impact, as well as better financial conditions for smallholders that do not have any alternatives, but it can be improved. Also, for Fairtrade in the Dominican Republic are the effects of their proffered benefits, the ability to commission loans from Fairtrade buyers to smallholders, and enacting appropriate criteria for the region.

The largest challenge that Fairtrade members face is satisfying the immense amount of criteria created by Fairtrade and its certification organ Flocert. The criterion was created in order to protect the environment and laborers, encourage sustainable agricultural practices, and to improve the local community. However, producers are rarely fully educated on the criteria that they must fulfill, and it is only sporadically enforced. The quality of communication between Fedecares and the centers is sufficient, but the connection between the centers and their producers is generally fragmented and unproductive. Individual producers are geographically dispersed, and neither they, nor the centers, have enough capital to keep up consistent communication. As a result, the centers don't distribute necessary information to the producers that they have received from Fedecares, which leads to accidental non-compliance on the part of the producers.

A lack of compliance leads to multiple audits of non-complying plantations, the costs of which are covered by Fedecares using the producers' premiums from Fairtrade. This additional cost takes away from the improvement of struggling farmers and their communities, leading to a vicious circle of the producers being unable to meet the criteria, which then causes costly non-compliances that drain their finances. Additionally, Fairtrade requires a yearly membership fee from Fedecares, which leaves less money for the Fedecares staff, the functioning of the centers, as well as the actual producer, who Fairtrade claims to benefit. A corresponding financial issue is brokering advanced payments from the Fairtrade buyers to the individual producer in order for them to fund the harvesting process. Fairtrade could also fund the harvest themselves, and claim reimbursement after the profits have been made. Fairtrade should also require Flocert have to adapt broader auditing procedures, such as educational and productive projects, instead of solely punishing the producers; by visiting

producers in remote areas, they will be able to see the real-life challenges that producers face in order to comply to the criteria.

By becoming a member of the Fairtrade organization, smallholders have access to several opportunities and benefits that they otherwise would not have. The cooperative allows the smallholders to gain long-term contracts with buyers, and the possibility to receive advance payments from buyers in order to finance their production of coffee during its seasonality. This makes high quality coffee more possible to produce and export, and therefore financial and social benefits will be received and improved. With the Fairtrade concept, sustainability and improved trading systems will prevail, with the aim of improving the lives of the smallholders in a practical way. A supplementary benefit of membership is the use of democracy within the cooperatives and among the smallholders to solve any arising issues, thusly promoting social-justice in their daily lives.

## **6.2 Social Implications**

A more extensive field study in the Dominican Republic would create a more comprehensive view of the situation, preferably one conducted during the coffee-harvesting season. Such a study would not only record the experiences of smallholders, but also reveal the extensive challenges of producing and selling coffee. Another interesting perspective would be that of the Fairtrade organization itself, and by organizing an independent case study with Fairtrade's approval and support, the interviews may be more extensive. We attempted to work with Fairtrade during this study, but due to scheduling issues, the representative for Fairtrade in the Dominican Republic was unable to speak with us in depth. Additionally, the study wasn't able to compare between cooperatives, such as bananas because there is only one cooperative in the country associated with Fairtrade coffee. Thusly the results from this study cannot be generalized to apply to all Fairtrade coffee producers, it is limited to the Dominican Republic, and the cooperative Fedecares in the southern region.

Due to a strong field study accompanying data from various interviews with smallholders, NGOs, governmental agencies and MNCs this thesis and its contributions can further develop other studies. With the accompanying data that supports this thesis a study at a deeper level can be achieved and action can be encouraged in order to remedy the situation.

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## **Interviews**

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- Alexis, Antonio, Chief of Finance, Polo, 150520.
- Balbuena, Maria-Isabel, President of Fedecares and President of Adomuca, San Cristobal, 150330, 150420, 150427, 150508, 150521.
- Beltir, Miguel, Coffee Producer, Azua, 150423.
- Curriel, Jorge, Chief of Finance, Induban, Santo Domingo, 150508.
- Cruz, Fredi, Responsible for Rural Development, Codocafe, Santo Domingo, 150526.
- Farmer, coffee producer in Los Cacaos, 150416.
- Franco, Eugsibio, Coffee Producer, Bani, 150415.
- Francisca, Gladia, Coffee Producer, Bani, 150415.
- Feliz, Israel Gueva, Coffee Producer and President, Polo, 150520.
- Galume, Angel, Coffee Producer and President, Azua, 150423.
- Gracia, Jorge, Coffee Producer, Bani, 150415.
- Guerrero, Valerio, Coffee Producer and Board Member of Fedecares, Bani, 150415.
- Herrera, Rufino, President of the Center Los Cacaos and Head Secretary of Fedecares 150416.
- Mancebo, Juan Antonio, President of San Jose de Ocoa, 150514.
- Mendez, Vicente, Coffee Producer, Azua, 150423.
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- Nunez, Henry, Chief of Finance and Certification at Codocafe, Santo Domingo, 150414.
- Perez, Umberto, Coffee Producer, Polo, 150520.

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