

## CANAAN FAIR TRADE AND PFTA (PALESTINIAN FAIR TRADE ASSOCIATION)

### Contextual Background

Canaan Fair Trade is a Palestinian commercial enterprise that provides agricultural goods produced by networks of smallholder groups in Palestine. Sustainability and economic empowerment for rural Palestinian communities through fair trade are their primary business focuses. They sell olive oil, almonds, and other delicacies. (Canaan Fair Trade, 2014)<sup>1</sup>

Set up in 2005 by Nasser Abufarha, a Palestinian-American social entrepreneur, the company has been growing consistently over the past years. Canaan branded items have made it to some of the most lucrative retail outlets around the world, including Whole Foods, Williams-Sonoma, Udea Netherlands, Coop Denmark, and iCoop South Korea. Canaan is also a leader in sourcing global brands seeking sustainable products and materials in both the cosmetics and food industry<sup>2</sup>. The founder witnessed the



increased economic marginalization and cultural isolation of Palestinian communities generally and farmers in particular under Israeli occupation. With olive oil prices plummeting, farmers were abandoning farming and the olive harvest even though this sector has historically been a great source of pride and livelihood for Palestinian communities. Therefore he decided to start up a Fair Trade social business in order to recreate livelihood for farmers. (Canaan Fair Trade & BTC, 2012, p 1)<sup>3</sup>

The business was formed at the same time as and in alignment with the Palestine Fair Trade Association (PFTA). Both organizations form a hybrid partnership together: Canaan Fair Trade, being the for-profit mission driven company, and the Palestine Fair Trade Association (PFTA), being a non-profit organization. Canaan provides product development, finishing, branding and marketing of Palestine as a viable partner with socially responsible communities in Europe, North America, and Asia through Palestinian artisan products. PFTA focuses on education and development on the ground and efforts to increase yield output and quality as well as the organizational capacity at cooperative, village and farmer level. (Canaan Fair Trade & BTC, 2012)



<sup>1</sup> Canaan Fair Trade (2014), <http://bit.ly/1p8MPcR>, accessed on 21 May 2014.

<sup>2</sup> Dr. Bronner's Magic Soaps sources 95% of their olive oil from Canaan, LUSH cosmetics sources almond oil for face creams, Ben & Jerry's Ice Cream sources almonds for toppings, and Intersnack relies on Canaan almonds for premium roasted almonds. (Canaan, 2014)

<sup>3</sup> Canaan Fair Trade & BTC (2012) Canaan Fair Trade Impact Study 2005-11, Canaan Fair Trade, Burqin.



## Experience encountered when accessing Ethical Finance

In 2008, **Shared Interest** provided Canaan with a term loan to build the Canaan building. Shared Interest is a community benefit society which acts co-operatively and the world's only 100% fair trade lender. The key features and benefits for term loans from Shared Interest are as follows:

- *Term loans are for a minimum of 1 year and a maximum of 5 years*
- *Amounts are based on the type of infrastructure and the financial situation of the producer group*
- *Repayments are structured to meet the requirements and abilities of each producer group*
- *Early repayment is possible and no fee is charged providing the loan has been in existence for more than 18 months*



The requirements for a loaner are:

- *Evidence of how the loan will improve the business operation*
- *Proof of ability to repay the loan (for example a cashflow statement and / or sales forecasts)*
- *Cash flow statement for the period of the loan*

Shared Interest also has an export credit facility to finance some of Canaan's trade. For that facility the following key features and benefits are in place:

- *Pre-finance for commodity products is available usually at up to 60% of the order value, while pre-finance for handcraft products is available at up to 80% of the order value*
- *The funds needed to produce a single order can be shared by both the fair trade buyer and the producer. For example a handcraft producer already receiving an advance of 50% from its fair trade buyer can access a further 30% pre-finance for the same order from Shared Interest should they wish to*
- *Repayment is made when the order has been delivered and the buyer sends a final payment instruction to Shared Interest. They deduct the amount borrowed and any interest due and then they transfer the remaining amount of money for that order*
- *Repayments aim to match the commercial cycle which makes the process simple, low-cost and ideally timed*

There is only one requirement to qualify for such a facility: Commodity orders or contracts must be established under Fairtrade International's FT principles in order to be eligible for pre-finance. (Shared Interest, 2014)<sup>4</sup>

Besides this finance facility from Shared Interest, Canaan annually receives an export credit loan from the **Triodos Sustainable Trade Fund** to finance the farmers' purchases and trade. The Triodos Sustainable Trade Fund was launched in January 2008 and aims to improve the economic position of farmers in developing countries. This fund provides trade finance loans to co-operatives and private companies operating in sustainable agricultural value chains and has a specific focus on organic agriculture and Fair Trade. One of the goals of the fund is to show the financial sector that sustainable agriculture can be successfully financed in emerging markets. (Triodos, 2014)<sup>5</sup>

<sup>4</sup> Shared Interest (2014), <http://bit.ly/1i1C1wp>, accessed on 16 June 2014.

<sup>5</sup> Triodos (2014), <http://bit.ly/1Ily6PZ>, accessed on 16 June 2014.



Furthermore they also receive an annual export credit loan by **Alterfin**, a social investor that raises capital in Belgium to invest it in developing countries via microfinance institutions and fair trade producer associations. The export credit loan is a short term trade loan against purchase orders to finance purchases and trade. The interest rate is near the market rate. Alterfin uses the following criteria to assess the eligibility of a finance application:

- *Number of years of operation > 2*
- *Benefits for smallholder farmers should be demonstrated (e.g. by fairtrade label)*
- *Minimum number of farmers benefiting: 75*
- *Minimum yearly sales > USD 300,000*
- *Operational Self Sufficiency > 90% and positive trend*

The political risk of Alterfin's portfolio invested in microfinance partners is insured with the Belgian export credit agency, the ONDD (Office national du Ducroire | Nationale DelcredereDienst). When financing a Fair Trade partner, Alterfin requires export contracts with foreign buyers as collateral which reduce the risk factors inherent to the partner's country. (Alterfin, 2014)<sup>6</sup>

In addition, they also received a loan from **responsAbility**. ResponsAbility extended a pre-finance trade credit to finance olive oil purchases from farmers. ResponsAbility invests through its managed funds in organisations that specialize in production, processing and importing or exporting of agricultural goods and thus contribute to the development of sustainable agriculture. (responsAbility, 2014)<sup>7</sup>



Finally, they also received finance from the Bank of Palestine and Quds Bank. Those are not specifically ethical finance institutions and for that reason we will not elaborate them.

## Outcome

After almost 10 years of existence we can see very positive results arising from this partnership between Canaan and PFTA and from making use of these ethical finance institutions. One of the important achievements of Canaan and PFTA is the creation of sustainable livelihoods for small Palestinian producers. Before joining the union, producers were struggling to make a living through traditional farming activities, and some even had to abandon farming as a result of competing Israeli subsidized products and control of Palestinian imports and exports, leaving Palestinian farmers little time and capacities to market their produce. Farmers who sometimes had 2 or 3 jobs are now able to live well and sustain their families from their own land. Guaranteeing the sale of their products through Canaan Fair Trade also enables farmers to invest in the future of their holdings, by planting new trees or buying new and better tools for instance, as they are guaranteed to be paid for their work in the long run. This insurance also improves their living conditions as it removes the stress they had before from not being sure to sell their products and thus provide for their families. Houses are also being renovated, and children sent to school and universities as producers now have a regular income. The other positive results are all related to the above described achievement of creating sustainable livelihoods: namely

Triodos (2014) <http://bit.ly/1qWgOnS>, 21 May 2014.

<sup>6</sup> Alterfin (2014), <http://bit.ly/1jumSil>, accessed on 16 June 2014.

Alterfin (2014), <http://bit.ly/1sweuA>, accessed on 16 June 2014.

<sup>7</sup> responsAbility (2014), <http://bit.ly/U38Uye>, accessed on 16 June 2014.



job creation and improved working conditions, socio-economic development and women's empowerment.

### Lessons learned

The ILO report sums up some lessons that can be drawn from this case. It points out the importance of having a good vision and strong determination, of focusing on ensuring local relevance, of long-term sustainability and long-term socio-economic development, of promoting members' implication and local leadership and of strong partnership and networks. (ILO, 2014)<sup>8</sup>

As regards the partnership between Fair Trade and ethical finance the lesson learned from this case would be that thanks to the available finance from the various ethical finance institutions the company and the association were able to grow and therefore to create the social impact they envisioned. With the term loan from Shared Interest Canaan was able to set up there building in 2008. The export loan facility from Shared Interest finances some of Canaan's trade. The Triodos Sustainable Trade Funds' annual export credit loan and the annual export credit loan by Alterfin both enable Canaan to finance their farmers' purchases and trade. These loans make it possible to pay the farmers upon delivery of their produce. Finally, the pre-finance trade credit by responsAbility finances olive oil purchases from farmers.



<sup>8</sup> de Luca, L.; Sahy, H.; Joshi, S. & Cortés, M. (2014) Learning from Catalyst of Rural Transformation, Chapter 6: The Palestine Fair Trade Association (PFTA), occupied Palestinian territory. International Labour Organisation, Geneva.



**Further information:**

**Shared Interest, UK.** The ethical lending group extended a long term loan for the Canaan building in 2008 and has an export credit facility to finance some of Canaan's trade. <http://bit.ly/1hvi2BG>

**Triodos Sustainable Trade Fund, the Netherlands,** extends an annual export credit loan to finance Canaan's farmer purchases and trade. <http://bit.ly/1tEw5cG>

**Alterfin, the Belgium alternative financing group,** extends an annual export credit loan to finance Canaan's farmer purchases and trade. <http://bit.ly/1mNPup7>

**ResponsAbility, this leading social investment company,** extended a pre-finance trade credit to finance olive oil purchases from farmers. <http://bit.ly/1kFwaaz>

**Canaan Fair Trade And Palestine Fair Trade Association (PFTA):** <http://bit.ly/1oS68ZB>

Authors of case study: World Fair Trade Organisation (WFTO)

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