



Fair Trade Software

Extending Fair Trade to create Digital Employment opportunities for marginalised urban youth.

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Acknowledgements

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Abstract

Fair Trade Software (FTS) is a new take on the Fair Trade concept. Until now Fair Trade has predominantly focused on agricultural and craft commodities, mostly produced in rural regions of developing countries. However, increasing urbanization and changing age demographics result in growing numbers of disadvantaged youth in large cities. Whilst marginalised, these people are often educated and internet-connected, and aspire to more than low-wage agricultural employment.

The FTS economic model seeks to help this new group of marginalised youth by growing knowledge economies in developing countries while simultaneously delivering high-quality and cost-effective software for corporate customers. By labelling software (such as corporate websites) produced in this manner with a Fair Trade label it is possible to clearly signal to end-users and consumers that societal needs are being addressed, adding value for all parties.

This paper explains the FTS concept, and shows how FTS builds upon and extends existing ideas about Fair Trade.

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1 Introduction

Fair Trade is a well-established concept that has long focused on commodities, particularly on agricultural and craft products that are exported from developing countries to developed countries. According to Fairtrade International (FLO); "Fair Trade products (i.e., from all the alternative Fair Trade bodies) can now be found in 55,000 supermarkets all over Europe and the market share has become significant in some countries: 47% of all bananas, 28% of the flowers and 9% of the sugar sold in Switzerland are Fair Trade labelled. In the UK, a market with eight times the population of Switzerland, Fair Trade labelled products have achieved a 5% market share of tea, a 5.5% share of bananas and a 20% share of ground coffee (International Trade Centre, 2006).

Despite its relative success in commodity markets, Fair Trade has seen little development in service-oriented industries. In part this can be explained by the fact that a key aim of Fair Trade is to protect and secure the rights of marginalized producers and workers in developing countries and it is commonly assumed that these people must be working in commodity industries in predominantly rural areas. However, this is an increasingly outdated view, as increasing urbanization and changing age demographics result in growing numbers of disadvantaged youth in large cities for whom commodity industry employment is not a viable option. Many of these people have achieved varying degrees of educational attainment, but are marginalized due to lack of employment opportunities. The Rockefeller Foundation identifies Digital employment as a key to alleviating poverty:

“The digital economy holds significant potential for creating formal jobs that are accessible to historically marginalized youth. These ‘digital jobs’ – defined as any short-term or permanent positions that use information technology to deliver a product or service – are in the formal sector and therefore provide higher wages and long-term job stability, which are two key mechanisms that enable people to work their way out of poverty” (Rockefeller Foundation, n/d, p. 3).

Various initiatives are underway to grow the number of digital jobs in developing countries. These initiatives fall into a number of different categories and new terms are evolving to describe different economic models, for example “Impact Sourcing”, “Sustainable Outsourcing” or “Shared Value Creation”. A Dutch IT company, Competa IT BV, has been looking at whether existing Fair Trade principles can be still relevant in helping marginalized people find work in the new Digital Economy.

This paper focuses on the application of Fair Trade to the ICT sector. The key players in the FTS project are introduced. The paper then answers the central question “Can existing Fair Trade principles be applied to help the software development industry in developing countries”? Advantages and disadvantages with the use of the Fair Trade label are discussed. A two-year development project with a budget €400,000 to provide IT training in Kenya using the FTS model is described.

This is a work in progress, and the developments are on-going. Feedback from experts in the field is welcome and collaboration is invited.

2 Methodology

Literature survey

Secondary data was reviewed through desk research using a range of information sources including but not limited to academic and commercial abstracts, and Internet search engines such as Google scholar and Metacrawler. The Fairtrade International and World Fair Trade organization websites have provided information on current Fair Trade models.

Field research/data collection

The primary data is derived from on the ground activities by Competa in Kenya and other developing countries, from the birth of the idea to recognition and acknowledgement.

3 The IT market - a development perspective

It may not be immediately obvious how a modern high-tech industry such as software development can be relevant to developing nations until the effects of changing age demographics and urbanisation are considered. The rapid growth of younger population in the social pyramid (“youth bulge”) is recognised as a significant factor behind many economic and social problems in Sub-Saharan Africa (Sommers & Wilson, 2011). Many young people live in, or migrate to, urban areas in search of work. Taking Kenya as an example, around 10% of the country’s total population live in the two major cities, Nairobi and Mombasa. Urbanisation combined with the youth bulge in African age demographics, results in large numbers of young people living in cities, many of whom are Internet connected and have reasonable or good levels of education. Efforts to improve education and overcome the “digital divide” may have succeeded, but many of these educated, internet-connected people can still be categorized as marginalized due to lack of employment opportunities. Furthermore, high rates of youth unemployment across the Middle East and North Africa were a major catalyst for the Arab Spring revolutions of 2010 (Valenzuela, 2011). Clearly, solutions to high unemployment rates amongst urban youth need to be found, and the Rockefeller Foundation identifies Digital Employment as playing a significant role: *“The digital economy holds significant potential for creating formal jobs that are accessible to historically marginalized youth.”* (Rockefeller Foundation, n/d, p. 3).

The potential of digital employment for youth and marginalised groups in Kenya is recognised by many international aid organisations including the World Bank. However, there are a number of challenges that the country’s growing IT sector faces: Low perception of quality and trust plus limited exposure to foreign innovations and markets have been identified as ‘key roadblocks to Kenya’s success’ in IT (Ewing, Chevrolier, Leenderste, Quigless, & Verghese, n/d).

In Kenya and many other developing countries there is a surplus of young people wishing to find employment in software development, many of whom are well educated and with a good theoretical knowledge of IT, but lacking required professional skills such as modern project management techniques. These skills are not taught in academic institutions and can

only be learned by participating in a large development projects. Because local ICT companies are not generally trusted to run large-scale projects, many Kenyan IT professionals do not have the opportunity to gain necessary practical experience and grow their careers. As a result a deadlock situation occurs and small IT companies are unable to grow the capability needed to engage in larger or more complex projects.

Currently most large-scale Kenyan IT projects, for example government projects, are outsourced to international firms (mainly in the US and India), due to limited local capability. Lacking the experience with technologies and project management techniques required for mid-size or large IT projects, local companies focus on smaller IT projects. As a result a significant gap exists between large IT projects resourced internationally, and small locally resourced IT projects. Projects that fall in this middle ground are often unfulfilled due to lack of expertise. Many of these projects are socially important, such as e-health, or relevant to economically important activity such as supply chain and logistics software for agriculture.

Lack of opportunity to learn international best practice severely limits progress in the development of the IT sector in Kenya. The objective of Fair Trade Software is to help resolve this problem in the IT sector in Kenya and other developing economies by providing vocational training and giving software developers the opportunity to participate in international projects.

4 What is Fair Trade Software?

The Internet and Open Source development practises make it possible to develop software collaboratively, regardless of geographical location. Furthermore, modern Agile project management techniques such as Scrum allow distributed teams to work closely with the customer and produce quality products (Appendix III). By actively involving programmers in developing countries (“Partners”) in projects with teams located in OECD countries (“Providers”) employment can be created in the developing country, knowledge and skills transferred, and the sector grown.

Developing software in this way can meet the criteria for Fair Trade, and so products produced (e.g. corporate websites) may bear a “Fair Trade” label - this is Fair Trade Software (FTS). Sustainability and Corporate Social Responsibility (CSR) are increasingly important for large corporations and by using Fair Trade labelled software for customer-facing media, such as corporate websites or web shops, companies are able to demonstrate their sustainability commitment to end customers, enhancing brand reputation and driving sales. There is therefore a commercial reason for companies in Europe to contract FTS accredited software developers, creating a demand for FTS.

Whereas outsourced projects are placed entirely in the hands of an overseas supplier, FTS relies on customers and Providers from developed countries working closely with Partners in developing countries. Both the Provider and the Partner must be significantly involved in the project, so FTS is a form of international collaboration, not offshore outsourcing (Appendix II).

Using this business model is an example of Shared Value Creation as defined by Porter and Kramer (Porter & Kramer, 2011).

- Because the concept of Fair Trade is well-known to consumers, companies deploying FTS are able to demonstrate their commitment to sustainable business in a way that is clear and easily understood by their own customers. In this way, FST provides businesses with a marketing tool as well as software products.

- Companies supplying software developed in this way, the Providers, gain a Unique Selling Point, which helps them to find customers and differentiate themselves from competition. In addition, involvement in projects such as FTS builds reputation, helping recruitment and staff retention in an industry where competition for staff is fierce.
- Partners in developing countries gain access to markets otherwise denied. By building experience on international projects they build a portfolio of case studies and references that enable them to bid for bigger projects in their own market. Involvement in international projects enhances reputation and helps recruitment and retention.

The economic and business model for FTS has been developed by Competa over the last four years. The FTS model does not rely on charity or philanthropy, there is a strong commercial interest for all parties involved. Pilot projects have been successfully run to prove the concept, and a non-profit organisation has been set up (the FTS Foundation) to regulate and audit the process and promote adoption of the model by other companies. The first small-scale commercial deployment of FTS was completed in November 2014. The ultimate aim is for the model to become widely adopted and self-sustaining.

“Businesses acting as businesses, not as charitable donors, are the most powerful force for addressing the pressing issues we face” (Porter & Kramer, 2011).

5 Key stakeholders

Competa IT

Competa IT BV is a Dutch IT services firm employing around 50 staff. The company was founded in 1997 to design build and maintain IT infrastructure for large corporations in the Netherlands, including oil companies, bank and telcos. Since 2006 the company has been involved in software development, with a specialism in Front End web development. Front End development is “the development of those elements of a website that the customer sees and interacts with directly” (Long, 2012). In September 2014 the company split into two separate divisions for IT infrastructure and software development, and Competa Group was formed.

Competa has a track record of business innovation particularly in Oil, Gas, and Financial markets. Competa conceived the concept of Fair Trade Software in 2010 and began actively developing the initiative in 2011 in cooperation with stakeholders in Nairobi Kenya. This is the first time the principles of Fair Trade have been applied to the software industry. To date Competa has completed a number of pilot projects in cooperation with small IT companies in Kenya (BTI Millman and DewCIS). In these projects Competa IT is the principal contractor to clients in the EU, and executes the project with virtual teams involving Kenyan partners. This is a new form of Impact Sourcing that meets Fair Trade criteria. Products produced, such as websites, can bear a Fair Trade label.

BTI Millman

BTI Millman is an IT Solutions Provider specializing in the provision of web and mobile based software solutions. The multi-award winning company is located in Nairobi and employs 10 people. BTI Millman has been actively participating in the FTS since 2011.

Dew CIS Solutions

Dew CIS is a Nairobi based IT services and solutions provider. The company employs around 50 people and offers a wide range of Consulting, Application Development and Systems

Integration services as well as acting as reseller for a number of software products. The company has been involved in the FTS initiative since 2011.

Web Essentials

Web Essentials is a leading provider of websites and web application services based in Cambodia. The company employs 50 people and has been providing services to leading companies in Europe and Asia for the past 5 years. Web Essentials have been involved in the FTS initiative since 2014.

FairSource Ltd

FairSource is a UK start-up firm promoting the FTS model and offering consultancy services to organisations that wish to be involved in FTS, whether as a customer, Provider, Partner or in any other capacity.

The Hague University of Applied Sciences (HHS)

Interns from the HHS in the Netherlands have helped to develop the FTS concept, and since 2014 FTS has been used as an example of Shared Value Creation for the HHS Sustainability minor. Staff from the HHS have actively participated in the project, and FTS is being used to build an online course-booking application for foreign exchange students.

Sequa gGmbH

Sequa is a German non-profit development organisation promoting the development of private sector and business membership organisations as well as vocational qualifications. Programmes and projects are both publicly and privately funded and are oriented at the principles of a social market economy. Sequa's aim is to sustainably improve the living and working conditions of as many individuals as possible.

Sequa is a joint partner with Competa in a project to provide IT training in Nairobi, funded with assistance from the German Federal Ministry for Economic Cooperation and Development "develoPPP.de" programme.

The Fair Trade Software Foundation

Dutch-registered non-profit organisation Fair Trade Software Foundation was formed in 2011 to apply the internationally recognized Fair Trade model to the IT industry. Interns and graduates from the University of Applied Sciences in The Hague translated existing Fair Trade frameworks into a model workable in the software industry.

The FTS Foundation acts as audit and accreditation body for companies wishing to participate in FTS projects. There are two membership grades:

- Providers are IT companies located in OECD countries who hold contracts with customers (businesses and corporations located in OECD countries) and act as project managers. Providers must be committed to partnering to boost the creation of IT employment opportunities in developing countries.
- Partners are small IT companies located in developing countries. Partners get access to new markets and the opportunity to learn global industry best practice by collaborating on projects with more experienced companies - the Providers.

To date, three Partners have registered with the FTSF, two in Kenya (DewCIS and BTI Millman) and one in Cambodia (Web Essentials). Talks are currently being held with further potential Partners in Myanmar, and interest has been shown from other organisations in Ghana, Nepal, Bolivia and Cape Verde. Competa is currently the only active Provider. Another Dutch IT company is in early stage discussions to join as the second Provider. Web Essentials have a number of resellers based in the UK who may join as Providers in the future.

A new membership category of “Associate” is being introduced to cater for organisations, who wish to support FTS but do not fit in the Provider or Partner categories.

6 The Fair Trade Software Foundation Model

Sale of Fair Trade products is almost exclusively a business-to-consumer (B2C) transaction. In contrast, software firms operate in a B2B environment rather than B2C which imposes constraints. In order to be viable it is important that the FTS model does not rely on charity, idealism or philanthropy - there has to be a value proposition that addresses the needs of each stakeholder or the concept will not work. A chain of four key stakeholders were defined, each with one or more perceived requirements which would have to be satisfied by FTS:

- Consumers care about the sustainability credentials of a business and it can be a consideration when making purchasing choices. Ethical issues are entering the mainstream, consumers increasingly wish to shop ethically and require clearer navigation of the ethical categories (Martinez and Poole 2009). They need ways to differentiate between companies and identify those with demonstrably good social responsibility in order to select where they will spend money.
- Customers are mid- and large-sized corporations who need to find innovative ways to demonstrate sustainability credentials in order to build reputation, attract and retain customers. It is important that activities related to sustainability are risk-free and do not add cost or reduce quality, and it is desirable to find ways of adding real value.
- Providers are mid-sized IT companies located in the OECD, with a proven track record supplying software development services to the mid- and large-sized corporations in their own market. They operate in a highly competitive market and are under threat from larger organisations or cheaper offshore competitors. These companies need to find creative new ways to drive sales and open new markets.
- Partners are small IT companies located in developing countries who wish to collaborate in projects to produce software using the FTS model. Lack of opportunity to improve skills means that these companies are frequently disadvantaged. They

often struggle to grow and are barred from participation in larger projects in their own economy due to perceptions that local companies lack capability (Ewing, Chevrolier, Leenderste, Quigless, & Verghese, n/d). These companies need training, knowledge transfer opportunities and a proven track-record of participation in projects at an international quality standard in order to demonstrate capability and win business in their own market.

The FTS model is designed to satisfy the needs of each stakeholder by using the Provider as a bridge between Customer and Partner. Because the Provider is in the same region as the customer, it is possible to work closely with the business and use Agile methods (Appendix II). The Provider handles all customer-facing aspects of the project and is responsible for all management, design, quality and implementation elements. The customer has no need for contact with remote Partners unless they desire to, but is assured that social benefit results from the project. From the customer's perspective the software delivered is identical in price and function to something produced entirely locally but with the added value that the customer is able to advertise their involvement in creating social benefit to their own customers or consumers. There is no additional risk or cost associated with working in this way compared to employing conventional, local software development firms, and over time there may even be some cost benefits.

In order to encourage adoption of the FTS model, low barrier to entry was a key requirement. The FTS framework has been designed in such a way that it is very easy and low cost for companies to become Providers or Partners. In particular the framework does not require any up-front investment by Providers. Providers can be registered for the duration of individual projects, after contracts for software projects with end customers have been agreed.

Fair Trade product rules define how much of the contribution to the final product has to come from partners in developing countries in order to be able call the product Fair Trade. This rule proved difficult to translate into the software industry. The Fair Trade content cannot be measured in terms of lines of code or number of components delivered, and has instead to be about degree of involvement, knowledge transfer and capacity building.

Details can be found on the FTS Foundation website (Fair Trade Software Foundation 2015). The FTS model has also been designed to address the common criticisms of Fair Trade, which are described below.

The FTS Foundation website itself was the first pilot project undertaken with partners in Kenya to test the model. Conditions for accreditation, software process standards, application forms and other documents can be found on the Foundation website (Fair Trade Software Foundation 2015).

7 How do Fair Trade principles apply to FTS?

The most commonly accepted definition of *Fair Trade* is:

“Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South.

Fair Trade organizations have a clear commitment to Fair Trade as the principal core of their mission. They, backed by consumers, are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade.” (WFTO, Definition of Fair Trade, n/d).

The premise of FTS is that this simple concept can also be used to help remove roadblocks and seed or catalyse knowledge economies in developing nations. FTS is able to do this by creatively exploiting consumer awareness of the Fair Trade “brand” to create demand for software produced by people in developing countries.

The World Fair Trade Organisation (WFTO) prescribes 10 Principles that Fair Trade Organizations must follow in their day-to-day work (WFTO, 10 principles of Fair Trade, n/d):

1. Creating Opportunities for Economically Disadvantaged Producers
2. Transparency and Accountability
3. Fair Trading Practices
4. Payment of a Fair Price
5. Ensuring no Child Labour and Forced Labour
6. Commitment to Non Discrimination, Gender Equity and Freedom of Association
7. Ensuring Good Working Conditions
8. Providing Capacity Building
9. Promoting Fair Trade
10. Respect for the Environment

The 10 Fair Trade Principles can be applied to the software industry and digital employment as follows:

1. Creating Opportunities for Economically Disadvantaged Producers

Economically disadvantaged producers in the context of FTS are struggling IT companies who are tied to performing low-grade IT work due to the lack of experience and reputation necessary to engage the market at a higher level, and the people they employ, or unemployed people who would wish to be find employment with such companies. In FTS terminology these companies are “Partners”.

FTS Partners work alongside Providers to deliver software solutions for international clients. FTS Providers must be committed to partnering to boost the creation of IT employment opportunities in developing countries, and are audited to ensure commitment. This:

- Creates career opportunities in disadvantaged communities
- Provides access to new markets
- Increases the Partner’s ability to compete in local markets
- Stimulates development of knowledge economies

2. Transparency and accountability

FTS projects are carried out according to open book accounting principles. By using a completely electronic process we ensure traceability from project proposal through to payment.

3. Fair trading practices

Direct and close working relationships between the Provider and the Partner remove the imbalance of power often created by powerful middlemen. Continuous training and knowledge transfer is built into the FTS process.

4. Payment of a fair price

The shortest possible supply chain maximizes opportunity for profit for Partners without creating unnecessary costs for end-customers. The need for a “Fair Trade Premium” is avoided.

FTS Providers and Partners sign up to openly published Schedules of Rates. Rates are set in the upper-quartile of the normal rates for the market, ensuring a good rate of pay without distorting the market in a way that would harm other local IT companies.

5. Ensuring no child labour or forced labour

The IT industry requires skilled, educated workers. The FTS model does not impose unreasonable working hours on Partners or their staff. Partners commonly implement a flexi-time system and working policy based on employee location and personal time management making employment open and suitable for working parents.

By stimulating growth in a sector which does not rely on forced labour and vulnerable groups we hope to act as a catalyst for change in the countries where our Partners operate.

6. Commitment to non-discrimination, gender equality and women's economic empowerment and freedom of association

As a requirement Partners and Providers commit to treating all employees and stakeholders with respect, regardless of race, gender, religious or political beliefs, disability or age. The FTS Foundation and its members are:

- Open to all
- Open minded
- Open to any developing country

7. Ensuring good working conditions

The software development industry offers clean office environments in safe buildings. Small scale operations eliminate the problems associated with sweatshops and cramming which are common in other industries. The software development process does not involve the use of dangerous equipment or substances.

8. Providing capacity building

Building capacity is a key tenet of FTS. Projects focus on developing the knowledge, skills and performance of Partners by providing:

- Access to international markets
- Mentoring by senior professionals
- Training and experience in the latest technologies
- Training and experience in the latest project management techniques
- The chance to build a demonstrable track record working on large scale projects

9. Promoting Fair Trade

The FTS Foundation and its members promote Fair Trade to customers and their stakeholders through use of the FTS Foundation logo and symbol on software and corporate communication materials. Through partnerships with universities, the FTS Foundation promotes the concept of Fair Trade among the future generation of business professionals. By applying Fair Trade principles to the IT industry, the FTS Foundation demonstrates that every sector has the potential to contribute to this movement, helping to extend Fair Trade into new markets.

10. Respect for the environment

FTS products require no transportation, no raw materials and teams are not required to travel for each project. Compared to other forms of Fair Trade that require transport of goods across large distances, FTS is extremely environmentally friendly (Fair Trade Software Foundation, n/d).

It can be seen from the above that FTS adequately meets the criteria for Fair Trade without requiring any changes or modifications to the existing definitions and Principles.

8 FTS and common criticisms of Fair Trade

Whilst it is clear that Fair Trade achieves many of its intended goals, (although on a modest scale relative to the size of national economies and global trade flows), Fair Trade is still widely criticised on a number of fronts. The FTS model attempts to circumvent or resolve these problems, and avoid the major ethical and political objections with existing Fair Trade initiatives. FTS does this by adhering to the principles of Shared Value Creation (Kramer & Porter, 2011), which promises even greater benefits to society than Fair Trade. To quote Porter:

“A good example of this difference in perspective is the fair trade movement in purchasing. Fair trade aims to increase the proportion of revenue that goes to poor farmers by paying them higher prices for the same crops. Though this may be a noble sentiment, fair trade is mostly about redistribution rather than expanding the overall amount of value created. A shared value perspective, instead, focuses on improving growing techniques and strengthening the local cluster of supporting suppliers and other institutions in order to increase farmers’ efficiency, yields, product quality, and sustainability. Fair trade can increase farmers’ incomes by 10% to 20%, shared value investments can raise their incomes by more than 300%.” (Kramer & Porter, 2011, p. 5, par 4).

For example, some common criticisms of Fair Trade which FTS resolves:

- **Premiums don’t reach producers** (Griffiths, P. 2011, p. 8, par 5)

Existing Fair Trade initiatives rely on the concept of a “Fair Trade Premium”, an additional cost or payment designed to ensure good rates for producers. This requires that end customers pay more for products, essentially a charitable donation or “tax” on purchases, but only a portion of this may actually reach producers raising questions about supply chain efficiency or whether some of the premium is siphoned off. Furthermore, the premium implies that producers are not able to compete on a level playing-field.

Unlike many other Fair Trade products and services, FTS is not necessarily more expensive than locally sourced software services. This is because the management overhead of working in geographically distributed teams is offset by the effects of lower wages costs in developing countries. The model works without the need to charge a “Fair Trade Premium”. FTS can be delivered at exactly the same cost as locally developed software whilst paying producers well and without distorting markets in developing countries.

- **Fair Trade creates dependency** (University of Edinburgh, 2014, p.3, par 2)

Related to Fair Trade Premiums is the issue of dependency, where producers may over time come to rely on the premium paid and become unable to compete without Fair Trade. FTS pays producers upper quartile local market rates, and has a low barrier to access for other producers. This creates a level playing field and prevents some companies becoming dependent on FTS projects. Furthermore, a core concept in the FTS model is that Partners should be trained not only in software development, but most importantly in modern project management techniques. This enables them to grow the capability to undertake larger projects in their own market. FTS actually helps to remove dependency rather than creating it.

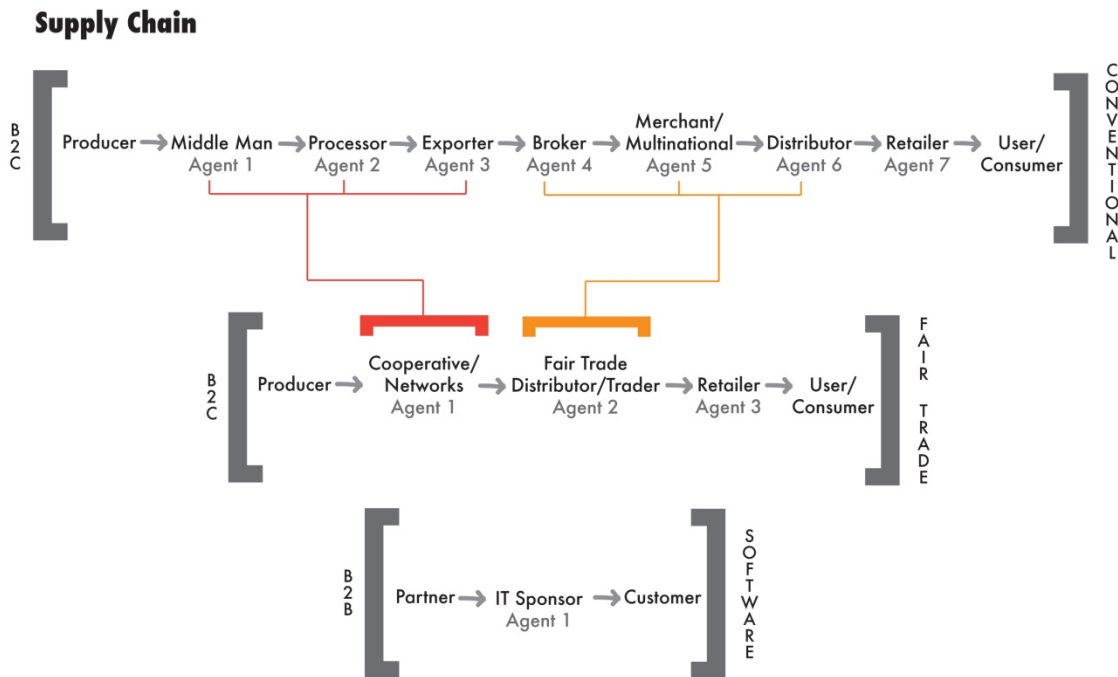
- **Fair Trade harms non-Fair Trade** (University of Edinburgh, 2014, p. 1, par 3)

Also related to the Fair Trade Premium is the criticism that Fair Trade harms non-Fair Trade producers by distorting markets and blocking access to those who do not have the capability to participate in Fair Trade. FTS does not distort local markets because there is no Premium. The barrier to entry to participate in FTS is very low, allowing all to participate if they wish. By contributing to the growth in local capability & reputation, FTS contributes to stimulating an already growing sector further, assisting all regardless of participation in FTS.

- **Price fixing, middlemen and supply chain monopolisation** (Haight, C. 2011, section Imperfect Model, p. 7, par 4).

To quote Dennis Macray, former director of global sustainability at Starbucks Coffee Co: *“For some cooperatives the Fair Trade price became the ceiling, not the floor. ... Many Fair Trade buyers do not see a reason why they should pay any more than the fair trade price for the value that is Fair Trade”*. Again, by paying Partners upper quartile of rates in their local

market FTS avoids this. This is transparent to all parties, including the end customer. The supply chain is as short as possible, far shorter than existing Fair Trade models, and products are delivered electronically removing the possibility for exploitation or corruption. There are no middle-men other than the Provider themselves.



(Competa IT, 2015, Internal documents, Fair Trade Supply Chain)

- **“Buy local” and high carbon footprint objections** (University of Edinburgh, 2014, p. 2, par 3)

Consumers sometimes struggle with the ethical issues of whether to buy local products that have minimal carbon footprint due to the short transportation distances, in preference to Fair Trade products that might have covered thousands of ‘food-miles’. Indeed, the whole concept of Fair Trade seems at odds with carbon footprint reduction.

FTS products are developed and delivered electronically and there is minimal requirement for travel. FTS has almost no carbon footprint and in environmental terms there is no difference compared to locally produced products. Concerns regarding job-losses associated with traditional outsourcing are also mitigated due to the requirement for a significant portion of the work to be done by Providers local to customers.

- **Enforcement of standards, costly and complex certification** (Haight, 2011, p.8, par 2)

Existing Fair Trade schemes may impose certification criteria which are difficult to comply with, whilst at the same time audit and control processes may fall short of standards applied in other industries. The FTS Foundation implements an extremely low-cost and easy to use audit system. With digital products, digital supply chain and limited need to travel, it is very easy to ensure compliance.

- **The Fair Trade movement locks developing countries into low value agriculture** (Collier & Dercon, n/d, p. 1-2)

It is clear that Fair Trade has been successful in providing employment in agriculture for economically disadvantaged people. However, some academics involved in the study of emerging economies argue that for economic development to succeed in, for example, Africa, African agriculture will have to change beyond recognition. Labour productivity will have to increase, requiring a vast reduction in the proportion of the population engaged in agriculture and prompting a large move out of rural areas. Climate change is likely to require an acceleration of this process, with commensurate faster and further migration of large populations.

FTS specifically addresses the need to modernise developing countries. It targets employment creation for those who do migrate to urban areas, whilst digital employment combined with improving rural internet connectivity also creates the possibility of teleworking, reducing the drive for migration and urbanisation. In this way FTS is able to support and aid the economic development of developing countries into the future, and beyond limitations with existing Fair Trade initiatives.

- **Quality** (Haight, 2011, p. 5, par 2 & 3)

Fair Trade products are varied in quality, however the price point at which products sell is set more by the ethical branding than intrinsic product quality. This means that in some cases Fair Trade products offer poor price-performance.

FTS is designed delivered and project managed according to international standards for software development. Control by OECD-based Providers ensures that FTS products and services are identical in quality to conventionally developed software. The absence of a price premium means that FTS products and services are also identical in price to conventionally developed software.

9 Fair Trade Software or Impact Sourcing?

Impact Sourcing is defined as employing socioeconomically disadvantaged people in Business Process Outsourcing (Rockerfeller Foundation, 2013 p. 9 par. 2). Impact Sourcing is increasingly being used in preference to traditional offshore outsourcing due to the social benefit. Whilst FTS is emphatically not offshore outsourcing (Appendix II), it is still a form of Impact Sourcing. Whereas offshored projects are placed entirely in the hands of the overseas supplier, FTS is international collaboration - people located in different countries joined together in virtual teams. In the FTS model, an end customer in the OECD outsources a software development project to an IT company also located in the OECD. Because the IT company collaborates with partners in socioeconomically disadvantaged regions, the criteria for Impact Sourcing is met.

However, the concept of Impact Sourcing is not widely known by the general public, whereas Fair Trade is. By using a Fair Trade label on software products such as corporate websites, companies are able to demonstrate their sustainability commitment to their own customers, in a way that is easily recognised and understood. This adds value and creates an economic driver for businesses to use the FTS model which otherwise would not exist. Whilst FTS is a form of Impact Sourcing, the use of the Fair Trade “brand” is the key to unlocking shared-value for companies purchasing FTS services, and therefore for the other parties involved.

Fair Trade is largely seen to be a positive thing by consumers, and companies whose customers value Fair Trade will want to use the FTS label. The use of the FTS brand is, however, optional. Customers do not have to use the term FTS if they do not wish to, and products created using the FTS model are not obliged to use carry the logo. It is possible to utilise the same business model but derive added value in other ways, such as by building reputation in developing economies, or by finding some other means to capitalise on the social value created.

10 Software Development Training in Kenya

In May 2015 Competa entered into a joint project “Enterprise Software Development Training for Kenyan IT professionals” with German development organization Sequa, funded with assistance from the German Federal Ministry for Economic Cooperation and Development “develoPPP.de” programme. The two-year project has a budget of €400,000.

The aim of the project is to catalyse further development of the Kenyan IT sector by providing training in modern software development techniques for Kenyan IT professionals from local companies and universities. The training, or “BootCamp” is vocational, giving people in Kenya the opportunity to participate in an international large scale software development project using the latest technologies and current best practice in project management. The training will not teach people how to develop software, rather it will teach how to build software to modern European Enterprise standards.

The software development project used on the training course will be an online course selection and registration system for use by foreign exchange students at The Hague University of Applied Sciences, following the principle of an airline model where passengers choose their own seats. The software will be produced using the FTS model and will demonstrate the capabilities of FTS.

The story about the project, including photographs and the personal stories of people who attended the BootCamps, together with the software produced, will be used to build an awareness campaign for FTS. It is envisaged that this will encourage paying customers to use the FTS economic model for software development for larger commercial FTS projects, which will not be part of the develoPPP.de project. Business generated in this way will then fund and create a requirement for local Kenyan companies to invest in continuing BootCamps in order to fill the demand for people capable of working on FTS projects. BootCamps can become self-sustaining, helping to build local capability and credibility in Kenya.

Anticipated Direct and Indirect Impact of the Competa/Sequa project:

- Vocational and on-the-job training, learning best practices in software development.
- Access to the international IT market through joint implementation of large IT projects with Competa.
- Access to midsize and eventually large local projects in Kenya (currently most of these projects are outsourced to foreign IT firms).
- Enhanced employability for IT professionals.
- Broadening of know-how for academic discussion and research for universities.
- Contribution to the further development of the Kenyan IT industry.
- Contribution to the transformation from a low value primary economy to a high value knowledge economy.
- Import substitution as local IT companies will build up the skills to implement large IT projects.
- Access to international markets.
- Job creation.
- Increase of the potential of digital employment for youth and other marginalized groups.
- Ability to service demand for mid-sized IT projects, many of which have substantial benefits for Kenya, e.g. e-health projects.

11 Future projects

The Competa/Sequa training project builds capacity, further proves the FTS concept and paves the way for larger commercial projects. The next stage of growth will be to develop a large commercial web application with an investment in the region of €500,000 - €1,500,000. Examples of suitable projects include:

- Process management & business operation automation
- Logistics and Stock control systems
- Employee HR portals
- E-commerce solutions
- Marketing tools and Product catalogues
- Social engagement tools
- Customer support portals and CRM systems
- Events management
- Ticketing and booking systems

Competa plans to expand sales effort in this area once promotional material from the Competa/Sequa project is available.

12 Conclusion

FTS combines ideas from Fair Trade and Impact Sourcing to implement a model for software development that stimulates growth of knowledge economies in developing countries. The model attempts to resolve common criticisms of Fair Trade, and avoids problems sometimes experienced with offshore outsourcing related to physical and cultural differences. From a customer's perspective the software delivered is identical in price and function to something produced entirely locally but with the added value that the customer is able to advertise their involvement in creating social benefit to their own customers or consumers. There is no additional risk or cost associated with working in this way compared to employing conventional, local software development firms. FTS is an example of the principle of Shared Value Creation, defined by Michael E. Porter and Mark R. Kramer as creating economic value in a way that also creates value for society (M. Porter, 2011, p. 4, par 5). By choosing to resource software projects using FTS, corporate businesses and other large organisations can make a positive societal impact on socially disadvantaged regions.

A number of small pilot projects have successfully demonstrated that companies in developing countries can benefit from training and gain experience in project management techniques by collaborating in FTS projects. This has confirmed the assumption that FTS can provide small and medium sized IT companies in developing countries with access to markets otherwise denied, simultaneously building capabilities that enable them to participate in larger and more complex projects in their own countries.

Interest in the FTS model is growing, with support for further projects to develop the initiative in Kenya and increasing numbers of Partners in countries other than Kenya. The FTS model is nonetheless still at an embryonic stage. To fully prove the model requires adoption by large commercial organisations, and consumer reaction to Fair Trade labelled software is not yet tested. Anecdotal evidence from members of the public and feedback from the software technology community suggests that FTS will gain support from consumers, but further work is required to prove this conclusively.

It can be seen that the principles of Fair Trade can be extended and applied to software development, and by implication other modern service industries. To take this further will require acceptance and recognition by existing Fair Trade proponents and organisations, some of whom may not see the relevance of Fair Trade in technology or be comfortable with the use of Fair Trade brands by multi-national corporations. It is hoped that any bias can be overcome. The possibility to leverage the strong enthusiasm for Fair Trade amongst consumers offers fantastic opportunities to build on the success of the Fair Trade movement and find creative ways to tackle many current social and development issues, including youth unemployment, urbanisation and migration.

This is a work in progress – the authors welcome collaboration and interest in the initiative.

13 Appendices

I. History and evolution of the FTS model

The inspiration for Fair Trade Software came in 2010 after reading about the economics of Fair Trade coffee in *The Undercover Economist* (Harford, 2005). At the time, Competa was involved in a project with students from Hogeschool Zeeland, where Competa designed and lead a project whilst the students did most of the coding. University staff (the customer) worked closely with Competa development staff, but there was no need to meet the students as everything was done electronically. It was not much of a leap of imagination to realise that the students could have been located in a developing country, and if so it could meet the criteria to be called Fair Trade. Working in virtual teams is common in Open Source software development, but by attaching a Fair Trade label a number of interesting economic possibilities open up for various parties involved.

At the time large corporations were increasingly concerned with CSR. It was felt that since Fair Trade products are popular with consumers, companies deploying Fair Trade labelled software would make a favourable sustainability impression on consumers. This would be an easy way for companies to implement CSR solutions, and as a result it would be easier to sell Competa's software development services and avoid price competition. If customers were to buy software services from Competa instead of a competitor, they would get a "free" CSR solution as well as the software. Working in this way would also create a real social benefit, by helping developing, predominantly agricultural, economies grow a modern knowledge economy.

Competa had no experience of conducting business in developing countries and so the idea was not progressed until a chance conversation in December 2010 with a former Shell executive, Neil Carmichael, who had recently retired from Shell after many years of experience growing business in countries such as Bangladesh and Turkmenistan. Neil was keen to assist Competa in developing the FTS initiative.

Kenya was selected as an obvious choice to run a feasibility study as the country is relatively stable, has a good education system and is considered a leader for IT within Africa (World Bank, 2012, p.11). The potential of digital employment for youth and other marginalised groups in Kenya is recognised (Wausi, A., Mgendi, R., and Ngwenyi, 2013, p. 10, par 1). Kenya also benefits from use of English language and a time zone only one hour away from the Netherlands. Assisted by the Kenyan Embassy in The Hague and the British Embassy in Kenya, a number of meetings were arranged with interested parties in Nairobi early in 2011.

From the outset Kenyan government officials were helpful and enthusiastic, and helped make contact with local entrepreneurs. Discussions were held with a number of companies and individuals at the Nairobi iHub. It was clear that many young Kenyan software developers had the right level of education and IT experience to participate in international teams, but would need training with technical best practices and project management. Meeting the Kenyan developers was inspiring - they were motivated, cooperative and keen to be involved in any way possible.

Most local Kenyan companies were unable to spot the opportunity offered by FTS. They did not appreciate the size of potential projects, nor did they understand why customers in the EU would want to develop software in this way (Fair Trade products are produced in Kenya but not usually sold there). Preoccupation with the daily struggle to keep themselves in business prevented them from seeing wider horizons. Fortunately two companies had both the vision and the time to participate, and partnerships were agreed with DewCIS and BTI Millman.

Visiting Kenya made apparent the challenges faced by the country's growing IT sector. Low perception of quality and trust, and limited exposure to foreign innovations and markets have been identified as "key roadblocks to Kenya's success" in IT (World Bank, 2012, p.13, par 3 & 4). It was clear that FTS could help remove these roadblocks.

The project then encountered a major obstacle in the form of interference by ABN AMRO bank. Between January 2011 and November 2012 ABN-AMRO placed Competa in forced financial restructuring, despite financial good health. The reason given was concerns

regarding the capital value of property privately owned by Competa's majority shareholder. The concerns were demonstrably unfounded and this appears to have been an attempt by the bank to achieve their own internal balance sheet restructuring in a similar manner to the widely publicised "Tomlinson Report" (UK). The time in "restructuring" wasted hundreds of thousands of Euro that would have otherwise been used to further the FTS project. Furthermore, Competa was instructed by the bank to cease any further investment in the project in order to "concentrate on core business". A personal appeal was made to the Board of ABN AMRO, including Chairman Gerrit Zalm and Board Member responsible for Sustainability, Caroline Princen, however they did not respond. A formal complaint was raised within ABN AMRO and escalated to the Board again, a process which took the whole of 2013. Once more they did not read it, referring the complaint back to the group that the complaint was about, who unsurprisingly dismissed the matter. At the time of writing (May 2015) the incident is being investigated by the Dutch Financial Ombudsman. The Ombudsman has ruled that compensation is due.

Despite the disruptions caused by ABN AMRO work on FTS continued. A lawyer was hired to translate the framework for existing Fair Trade initiatives into a form that could be used by the FTS Foundation, and a journalist and communications professional were hired to develop the story and write content for a website. The FTS Foundation Website itself was the first pilot project undertaken with our partners in Kenya. This work was completed in the summer of 2012.

Collaborative teams from Competa and BTI Millman worked on a number of small pilot projects. The first challenge was to set quality expectations and acceptance standards. Once this was done, the Kenyan developers learnt new software techniques extremely quickly. The Kenyan developers were not used to working in larger teams, so the experience of how to manage a collaborative project was valuable. The fact that BTI Millman took a lot away from the few small pilot projects is self-evident from the quality of their own website (BTI Millman, 2015).

For the Provider, there is an overhead as a result of working with remote staff and it was uncertain the extent to which this would add costs or be a burden. The inconvenience of

working with staff at different locations was found to be minimal, as the Open Source community have developed tools and working practices which make this possible - indeed many software developers routinely work from home. The most significant overhead has come from ensuring that staff at the Partners are able to deliver code of an acceptable standard and contribute to the project in a meaningful way. This requires considerable investment in on-going training and project management. It was found that the additional overhead costs are mitigated by considerable cost savings as a result of employing staff in lower-cost economies making the net result cost-neutral. It seems likely that as Providers and Partners work together on multiple projects working relationships will be built that overcome initial differences, eventually leading to a cost benefit.

Even though the projects have been small in value, collaborating in international projects with more experienced developers has allowed BTI Millman to develop the skills necessary to engage in their own market at a higher level. Involvement in international projects has improved credibility, helping recruitment and retention, and is leading to stronger sales in the Kenyan market. This has happened much more quickly than was expected. Dunstan Machoka, Director of BTI Millman, has expressed his appreciation of the partnership and credits involvement in FTS for playing a major role in winning the African Business Awards 2012, held in London.

In the FTS model the expectation is that customers will gain a favourable impression of companies or products that use FTS labelled websites, and that this will influence purchasing behaviour. It has not yet been possible to test the impact a website bearing the FTS label has on consumers and end users, however anecdotal evidence from people who have been involved in the FTS pilot projects suggests that both the technical software development community and end consumers will react favourably to the concept.

II. FTS versus traditional outsourcing

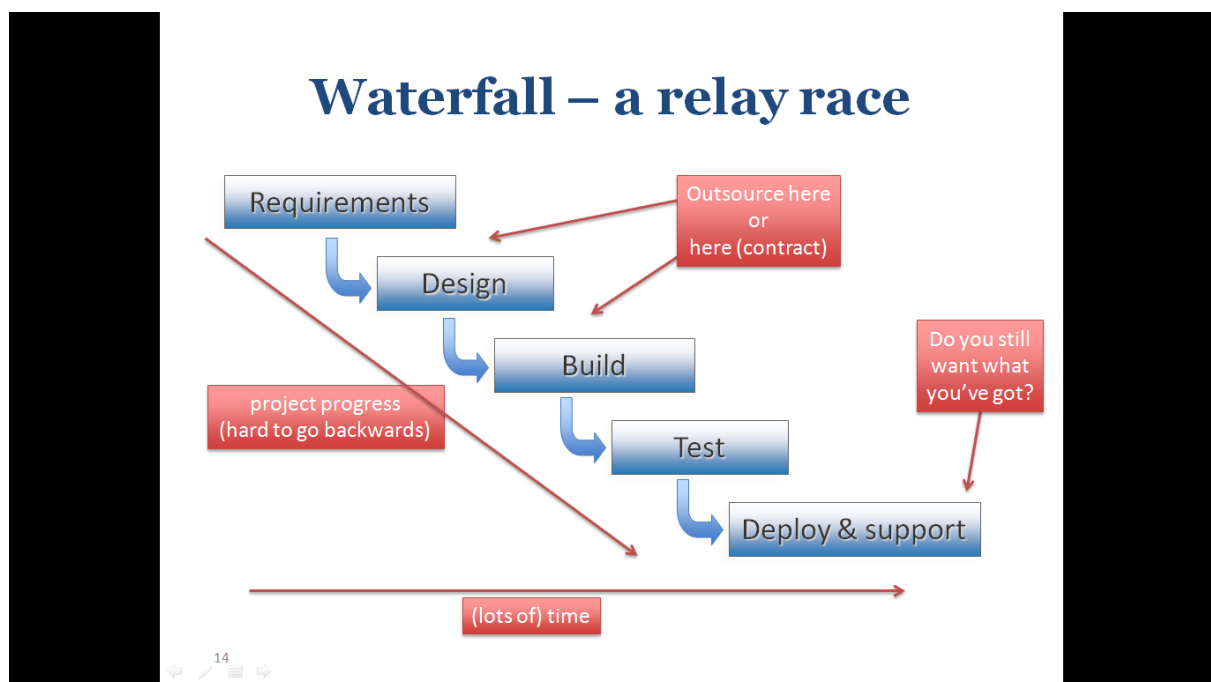
Businesses frequently experience a number of problems with outsourcing of software projects. Most of these are common to all forms of outsourcing since physical distance and cultural differences lead to problematic communication as well as loss of management control and quality control. These problems are exacerbated and other problems are introduced by the nature of software development. Modern Agile methodologies (Appendix III) such as Scrum require extremely close collaboration and short feedback cycles between multidisciplinary teams and the customer's business, increasing the pain of differences in time zone and culture. Trying to manage Agile projects with distributed teams adds a huge overhead, slows the process, and adds substantial costs for communications (e.g. video conferencing facilities, travel etc.). Working in a traditional (non-agile) way that has less emphasis on management control is no longer an option since this requires massive up-front investment in design and specifications, reducing quality control and increasing the risk that software will not be fit for purpose.

The FTS model solves the problems customers experience with outsourcing related to physical and cultural differences because the Provider handles all customer-facing aspects of the project. Some of these challenges still have to be faced by the Provider, but they are able to distribute work and team members in such a way that all design, quality and management elements are based in their home country, thereby lessening the impact of physical distance. Since Providers and Partners work together on multiple projects they are able to build working relationships that overcome cultural differences.

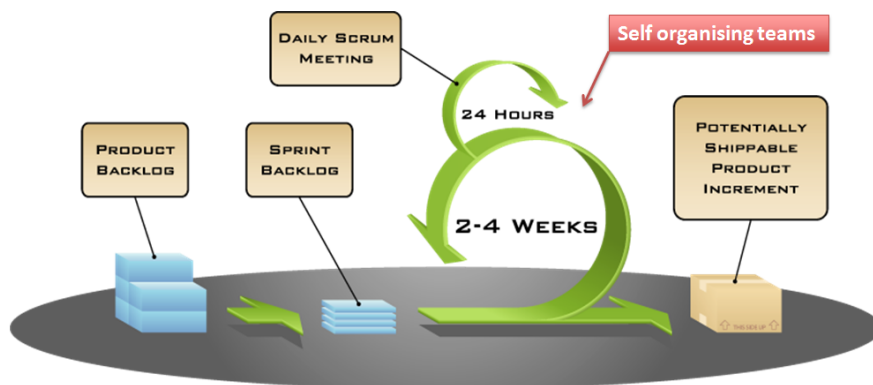
III. Agile and Scrum

Agile project management is characterised by division of tasks into short phases of work and frequent reassessment leading to adaptation of plans.

Scrum is an Agile software development model based on multiple small teams working in an intensive and interdependent manner. Scrum is an alternative to the ‘waterfall’ approach to IT project management. The differences between the two are shown graphically in the figures below (Schwaber & Sutherland, 2013).



Scrum: a guided missile



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Image available at
www.mountaingoatsoftware.com/scrum

Agile/Scrum is now the **de-facto standard for project management of modern software projects**. Global research figures provided by Forrester and Actuation Consulting showed that the number of organisations using Agile increased from 35% in 2009 to 74% in 2013. The same research found that of those agile adopters, 89% claim to have increased profits as a result. Scrum cannot be taught effectively at universities because the technique takes many iterations of practical experience to master and consequently can only really be learned through on-the-job training. If Kenyan companies and developers are to take part in the global IT market, or to compete against international companies in the Kenyan market, it is absolutely vital that they learn the theory of Scrum and gain practical experience working with it.

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