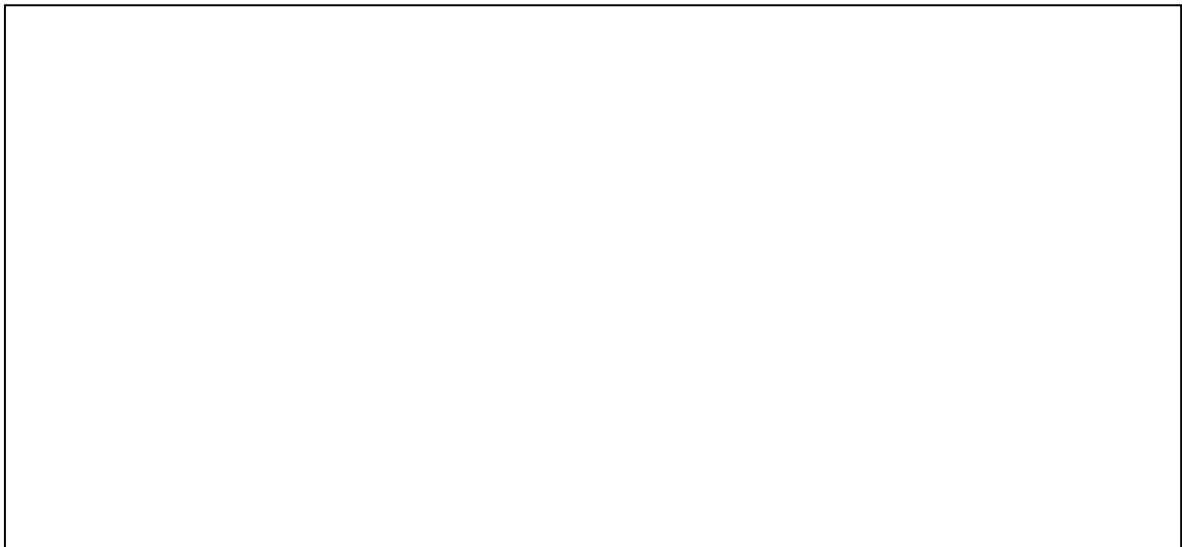




**ALTER ECO INTERNAL AUDIT REPORT**

**1<sup>st</sup> FOLLOW-UP VISIT-Partial Report**

**Rooibos tea Supply Chain**  
**Heiveld & Wupperthal Cooperatives**



## PARTIAL REPORT

### HEIVELD & WUPPERTHAL COOPERATIVES

#### TABLE OF CONTENTS

<b>I. Introduction .....</b>	<b>3</b>
1. Visitors .....	3
2. Duration.....	3
3. Context of the visit .....	3
4. Key Fair Trade Figures update.....	3
5. Alter Eco Meter update .....	4
6. The Context .....	4
7. Producer Organization short presentation .....	5
8. Producer Organization update .....	6
9. Product update.....	7
10. Sales activity update.....	9
11. Premium use and Development Impact update.....	9
<b>II. FTA200 and FTVR Results and Evolution .....</b>	<b>11</b>
1. FTA200 .....	11
2. FTVR.....	13
<b>III. SWOT Analysis .....</b>	<b>15</b>
1. Weaknesses and Threats.....	15
2. Strength and Opportunities.....	16
<b>IV. Non-compliance report .....</b>	<b>19</b>
1. Major non-compliance and corrective actions .....	19
2. Minor non-compliance and axis for improvements .....	20
<b>V. Conclusions and follow-up.....</b>	<b>22</b>
<b>VI. Feedback from the producer organization : .....</b>	<b>23</b>
<b>VII. Appendix .....</b>	<b>24</b>

## I. Introduction

### 1. Visitors

Lead Visitor: Tristan LECOMTE (Alter Eco CEO)

Second Visitor: Nicolas MOUNARD (Producer Support Manager)

### 2. Duration

From March, 13<sup>th</sup> to March, 16<sup>th</sup>, 2006.

### 3. Context of the visit

The objectives of this visit were different in the 2 cooperatives:

- As far as Wupperthal cooperative was concerned, we wanted to check the evolution of the 2 non-conformities noted during our first visit in 2004. At this period, the producer group was too closely linked to the local religious community and this relationship prevented the cooperative from giving the guaranty of non-discrimination in the face of non-members of this religious movement. Moreover, the former sales manager had empowered the cooperative and was running the group as his personal business.
- As far as Heiveld cooperative was concerned, the objective was mainly to develop new references with 2 flavoured roiboos teas (lemongrass & Chai) and a wild roiboos in bulk. Moreover, the objective was to study the impact in terms of development of our new packaging made by women local communities.

Generally speaking, our visit also aimed at visiting Fair Packers Company, the new packaging unit in Captown owned by Heiveld, Wupperthal & Charles Starling. This company represents the last stage in the total integration of the supply chain in South Africa and in the benefit of the small producers.

The shareholder's equity is divided as follow:

- 33,33% for Heiveld Cooperative
- 33,33% for Wupperthal Cooperative
- 33,33% for Charles Starling

### 4. Key Fair Trade Figures update

#### HEIVELD Cooperative:

- Cooperative Creation: **2001**
- Start of sales activity with Alter Eco: **2004**, with FRANCE ALTER ECO
- Other clients to export: Top Qualities (Benedikt Kaukler), GUEPA, FTO
- Level 1: Heiveld Cooperative
- Level 2 (if applicable): Gold Scarab in 2005, Fair Packers in 2006
- First order: **2MT** in 2004

**WUPPERTHAL cooperative:**

- Cooperative Creation: **1998**
- Start of sales activity with Alter Eco: **2005**, with ALTER ECO AMERICAS
- Other clients to export: Top Qualities (Benedikt Kaukler), GUEPA, FTO
- Level 1: Wupperthal cooperative
- Level 2 (if applicable): Gold Scarab in 2005, Fair Packers in 2006
- First order: 2005, **1000 kg**

**5. Alter Eco Meter update****HEIVELD Cooperative:**

% of added value on the price paid to producers: **81,72%**

Added value on the FOB Price: **130,75%**

% manufactured in the country of origin / consumer price: **46,82%**

Number of members: **43**

FOB price in Euros:

- **Supergrade** Roiboos (basic export quality): FOB price = **6,15€ + 0,5€** of premium
- **Superfine** Roiboos (higher export quality): FOB price = **7,50€ + 0,5€** of premium
- **Coarse** grade Roiboos (Stokkies): FOB price = **3€ + 0,50€** of premium
- **Wild Supergrade** Roiboos: FOB price = **9€ + 0,50€** of premium

**WUPPERTHAL cooperative:**

% of added value on the price paid to producers: **157.72%**

Added value on the FOB Price: **76.58%**

% manufactured in the country of origin / consumer price: **45.59%**

Number of members: **150**

FOB price in Euros:

- **Supergrade** Roiboos (basic export quality): FOB price = **6,15€ + 0,5€** of premium

**6. The Context**

At the national level, the development of Heiveld & Wupperthal activities is part of a whole process of black empowerment to lead the black communities to a stronger responsibility in the South African economy. This is especially true in the agricultural sector where most of the lands were owned by white farmers with an average cultivated area between 15,000 & 20,000 hectares. After the end of the Apartheid regime, black producers had the possibility to benefit from a subsidy of 15,000 Rands per households to get their own land. This amount was way not enough to get a substantial piece of land that would have made it possible to get a fair salary. The cooperative system was often the best solution to gather their lands to better defend their interests.

In the Fair Trade market, these 2 cooperatives are also suffering the unfair competition of certified plantations. The Fair Trade certified plantations have much lower costs of production and, taking into account the absence of minimum price in the FLO Tea Standard, they can sell their Roiboos at lower prices with the guaranty that the price is covering the costs of production.

This threat is especially important right now with the application of the first Roiboos plantation able to provide the market with organic red tea. This situation underlines the importance of a detailed FLO Tea Standard, with a clear difference between small producer organizations & plantations.

## **7. Producer Organization short presentation**

### **HEIVELD cooperative:**

The cooperative started off with hardly anything to work with, except the consultancy of two NGOs (Indigo and EMG) and the dedication of its members. Great changes have been done since the cooperative started off – inofficially – in 2000. Big economic benefits for the members up to the present are beyond doubt, future plans are ambitious.

The cooperative has got 99 year lease for its own land. It has been supplied, under privileged conditions by its only white member. A cooperative building with storage and communication facilities is being built currently. The Fair Trade premium has made it possible to build a tea court. This has enabled the Heiveld Coop to become independent since the former tea court was rented from a neighbouring white farm for processing of the Coop's tea.

The cooperative was organic certified in 2001 and FLO certified in 2003. The 2 NGOs are a great help for the cooperative helping their members on capacity building, marketing issues and biodiversity management.

Heiveld is now gathering 43 members with an average of less than 2 hectares per producer

### **WUPPERTHAL cooperative:**

The Wupperthal religious community was founded in 1830 by a Christian missionary. This religious background is still very important in the everyday life of the community but the cooperative is now able to give us the guaranty of non discrimination in the face of atheist member.

The cooperative of Wupperthal gathers 15 different up stations (between 20 & 50 households) spread around the village. The group is benefiting from its own tea court thanks to a subsidy granted by the government in 1998.

Today, the group represents 150 members with an average cultivated area by producer of 1,5 hectares. The tea court employs 19 permanent workers.

Production capacity:

- 2005: 67MT
- 2006: 120MT

The cooperative was FLO certified in 2005.

**WOMEN COMMUNITY & WORKERS**

Alter Eco tea box is now made by the women community of Heiveld and Wupperthal. Women are paid 0,75 Rand/box which represents a daily salary between 70 & 75 Rands. The legal South African minimum wage accounts for 33 Rands per day.

Permanent workers in Heiveld & Wupperthal get a daily salary of 65 Rands per day, that is to say 2 minimum wages.

Average harvest productivity: between 250 & 320kg per day.

**FAIR PACKERS PROJECT**

Fair Packers Company represents the last step of a fully integrated supply chain on the roiboos tea. Heiveld & Wupperthal have now the majority of the shareholder’s equity with more than 66%.

The packaging unit will be operational in April 2006 and should ensure the following operations:

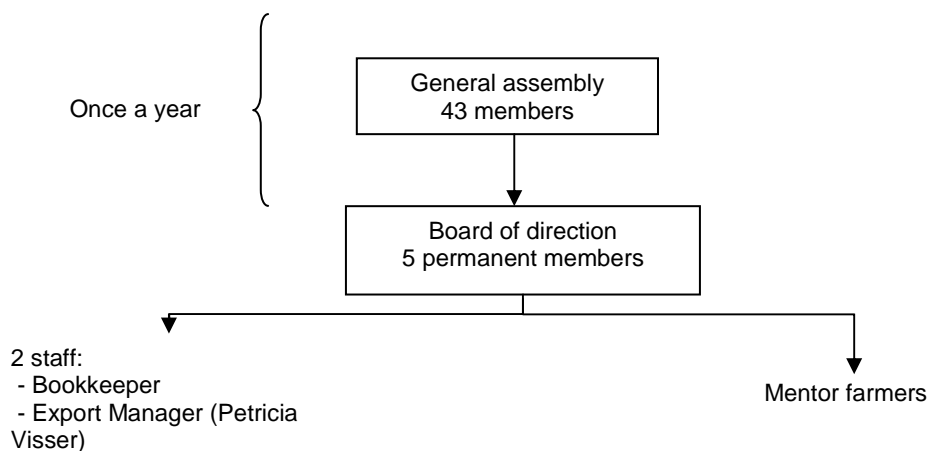
- Blending
- Quality process
- Packaging

**8. Producer Organization update**

**HEIVELD cooperative:**

President: Hendrick Hesselman  
 Vice-president: Lionel Louw  
 Treasurer: Barry Koopman  
 General Secretary: Koos Koopman

The cooperative is organized on the following structure:



The cooperative structure enables a clear difference between the elected representatives in the Board of Direction in charge of determining the strategy and the management, in charge of the operational activity.

All the permanent members of the Board of Direction cannot be elected more than twice.

Financially speaking, Heiveld have presented a net profit for the last 3 years (2003: 157KRands, 2004: 310KRands, 2005: not finalized). The general assembly has usually decided to divide this positive net income into dividends (50%) and reserves (50%). This strategy enables an investment capacity for the cooperative on the long term with the objective to extend the current tea court.

### **WUPPERTHAL cooperative:**

The Board of Direction has been newly elected in January 2006, with a new chairman.

- Barend SALOMO

The structure of the cooperative is quite close to the one described for Heiveld. There is also a clear difference between the management and the board of direction.

## **9. Product update**

### **HEIVELD Cooperative:**

Price paid to producers: **22 Rands/kg**

Price paid to the cooperative (FOB):

- Superfine: 58,50 Rands/kg + 4 Rands of Fair Trade Premium = **62,50 Rands/kg FOB**
- Supergrade: 45,20 Rands/kg + 4 Rands of Fair Trade Premium = **49,20 Rds/kg FOB**

Yield between the different stages of the production process: **3kg of wet tea to make 1kg of dried tea**

Comparison between FT market & conventional market:

- Price paid to producer on the conventional market: average of **13 Rands/kg**

Volumes available in 2006:

- Supergrade: **29MT**
- Superfine: **7MT**
- Coarse: **5MT** (+ 2,7MT of remaining stock of 2005)
- Wild: **1,5MT** (+0,7MT of remaining stock of 2005)

### **WUPPERTHAL cooperative:**

Price paid to producers: **24 Rands/kg**

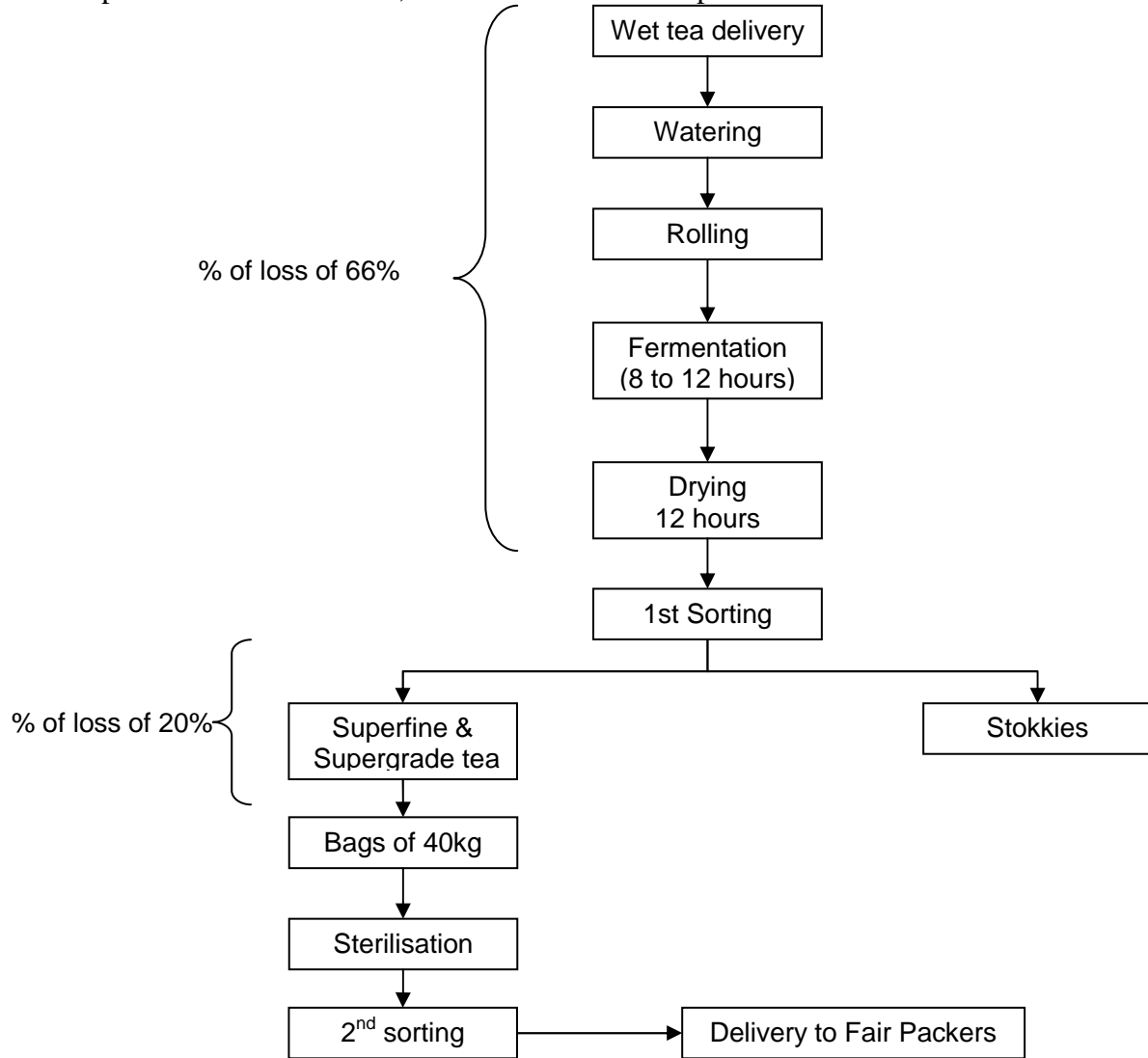
Price paid to the cooperative (FOB): 44 rands/kg + 4 rands of Fair Trade premium = **48 rands/kg FOB**

Yield between the different stages of the production process : **3kg of wet tea to make 1 kg of dried tea**

Comparison between FT market & conventional market:

- Price paid to producer on the conventional market: average of **13 Rands/kg**

As far as production is concerned, we can summarize the process as follow:



**Yield information:**

- Low density field = **800kg/hect**
- Medium density field = **1,000kg/hect**
- High density field = **1,300kg/hect**

**Harvesting time:**

For a new bush, seeds are planted in July or August. The first prune takes place in February and the first roiboos can be harvested in next February.

Roiboos tea is harvested once a year, from February to April.

One bush can produce during an average of 7 years.

**COST OF PRODUCTION:**

Hypothesis : average yield = 1,000kg/hect

- Total costs of production per hectare for Wupperthal = **8,855 Rands** (= 1.188€/hect)
- Total costs of production per hectare for Heiveld = **15,449 Rands** (= 2.074€/hect)
- Costs of production per kg per Wupperthal = **8.85 Rands/kg** (1,2€/kg)
- Costs of production per kg per Heiveld = **15.45 Rands/kg** (2,1€/kg)

As a consequence, we can conclude to the following average figures:

- Costs of production per hectare = **12,202 Rands/Hect**
- Costs of production per kg = **12.2 Rands/Hect**

**Average income for a Heiveld producer:**

- Average area cultivated = 1,5hect
- Average production of tea = 1,500 kg
- Average price framgate price for dried tea = 22 Rands
- Costs of production for Heiveld = 15,45 Rands
- Income per kg = 6.55 Rands
- Producer income = **9,825 Rands**

If we take the hypothesis of 5 working days on 52 weeks (=260 working days), it represents a daily salary of 38 Rands against a minimum wage of 33 Rands. On a monthly basis, it represents 760 Rands (20 working days), = 102€/month.

## **10. Sales activity update**

### **HEIVELD cooperative:**

The commercial relationship between Heiveld and France Alter Eco began in 2004 and has represented the following volumes

- 2004: 1 container & 2MT
- 2005: 1 container & 11MT (end of 2005, we still have 9,5MT of roiboos in stock)
  - 8MT of Supergrade
  - 3MT of Superfine

### **WUPPERTHAL Cooperative:**

Wupperthal is working with Alter Eco Americas. Their relationship began in 2005:

- 2005: 1,000Kg

## **11. Premium use and Development Impact update**

**HEIVELD Cooperative:**

Alter Eco imports have represented on the last 3 years around 13,000kg of roiboos, that is to say a Fair Trade premium of 6,500€. We also have to take into account the Alter Eco extra premium which accounts for 2,75€/kg on the Superfine and 1,25€/kg on the Supergrade, that is to say a total extra-premium of about 18,000€.

The premium has mainly been invested in the following projects:

- Construction of the tea court
- Social projects: supporting schools
- Re-establishing scheme: re-plantation plan

The re-plantation plan was the consequence of the 2003 drought. A roiboos nursery has been created to make the Heiveld members benefit from new plants. This program is managed by 2 farmers ("Mentor farmers") who give technical assistance to the other members and make sure that plants are not sold by farmers to get an immediate income.

**WUPPERTHAL Cooperative:**

At the time of our visit, no Fair Trade premium was paid to Wupperthal. The management did not have a clear understanding of the price structure and did not know if the premium of 4 Rands was included or not in the FOB price of 44 Rands.

As far as Alter Eco Americas is concerned, Fair Trade premium was immediately paid following our visit.

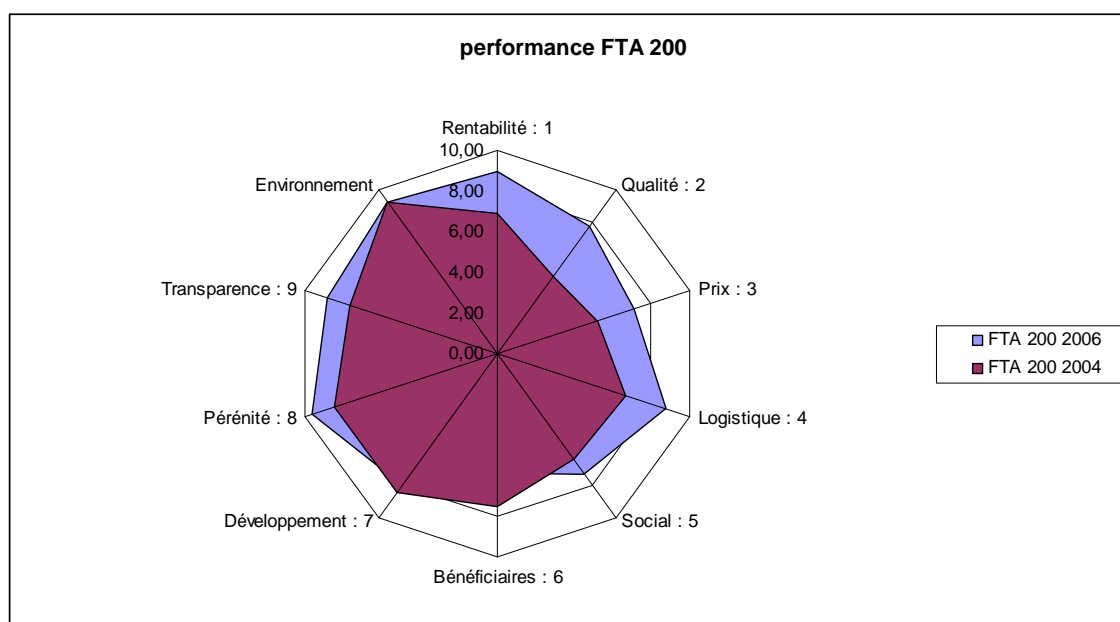
**Next visit to be scheduled before : End 2007**

## II. FTA200 and FTVR Results and Evolution

### 1. FTA200

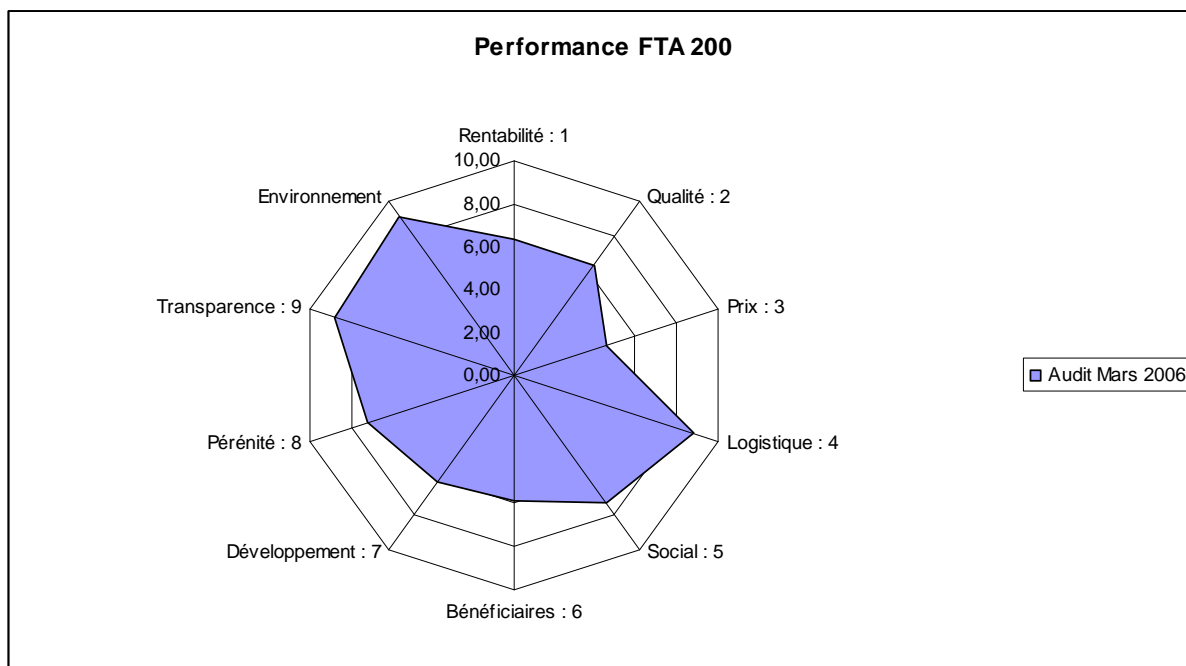
#### HEIVELD Cooperative:

Critères :	March 2006	February 2004
Rentabilité : 1	8,94	6,88
Qualité : 2	7,69	4,71
Prix : 3	7,08	5,23
Logistique : 4	8,75	6,72
Social : 5	7,31	6,41
Bénéficiaires : 6	5,83	7,50
Développement : 7	8,02	8,39
Pérénité : 8	9,69	8,50
Transparence : 9	8,82	7,66
Environnement	9,25	9,25
<b>Total FTA 200</b>	<b>162,76</b>	<b>142,47</b>




**WUPPERTHAL Cooperative:**

<b>Critères :</b>	<b>March 2006</b>
<b>Rentabilité : 1</b>	<b>6,35</b>
<b>Qualité : 2</b>	<b>6,35</b>
<b>Prix : 3</b>	<b>4,58</b>
<b>Logistique : 4</b>	<b>8,75</b>
<b>Social : 5</b>	<b>7,31</b>
<b>Bénéficiaires : 6</b>	<b>5,83</b>
<b>Développement : 7</b>	<b>6,12</b>
<b>Pérénnité : 8</b>	<b>7,19</b>
<b>Transparence : 9</b>	<b>8,82</b>
<b>Environnement</b>	<b>9,125</b>
<b>Total FTA 200</b>	<b>140,83</b>



## 2. FTVR

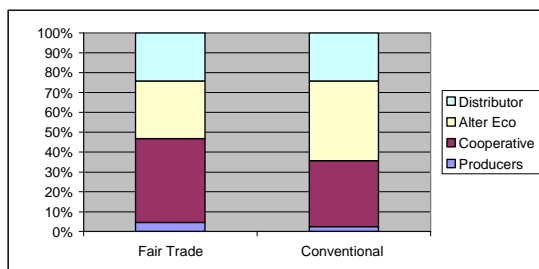
### HEIVELD Cooperative :

FTVR Thé Rouge Roiboos (Superfine) mars-06 N.Mounard				
	Fair Trade Channel	% of final price	Conventional Channel	% of final price
Field preparation costs	0,02	0,61%	0,02	0,61%
Field operation costs	0,02	0,78%	0,02	0,78%
Harvesting	0,01	0,28%	0,01	0,29%
<b>Total production costs</b>	<b>0,04</b>	<b>1,68%</b>	<b>0,04</b>	<b>1,68%</b>
<b>Producer income</b>	<b>0,07</b>	<b>2,81%</b>	<b>0,02</b>	<b>0,79%</b>
<b>Price paid to producers for Tea</b>	<b>0,12</b>	<b>4,49%</b>	<b>0,07</b>	<b>2,47%</b>
22 Rand/kg of dried tea				
Drying costs	0,02	0,60%	0,02	0,60%
Sterilisation & palettisation	0,02	0,95%	0,02	0,95%
Tea court amortization	0,004	0,15%	0,00	0,16%
Administrative & operational costs of Heiveld	0,03	1,22%	0,03	1,22%
<b>FLO Premium</b>	<b>0,02</b>	<b>0,76%</b>	<b>0,00</b>	<b>0,00%</b>
<b>Alter Eco Extra premium</b>	<b>0,11</b>	<b>4,28%</b>	<b>0,00</b>	<b>0,00%</b>
<b>Price paid by Alter Eco to Heiveld for bulk tea</b>	<b>0,33</b>	<b>12,46%</b>	<b>0,14</b>	<b>5,40%</b>
58,50 Rds/kg + 4Rds of FT premium				
Paper box	0,22	8,31%	0,11	4,18%
Envelopes	0,05	1,76%	0,05	1,76%
Tags	0,01	0,19%	0,01	0,19%
Wrap around label	0,04	1,47%	0,04	1,47%
Outer Carton contribution	0,02	0,81%	0,02	0,81%
Processing & Packing costs	0,23	8,73%	0,23	8,74%
Freight & insurance	0,35	13,10%	0,35	13,11%
<b>CIF Price paid to Gold Scarab</b>	<b>1,23</b>	<b>46,82%</b>	<b>0,94</b>	<b>35,67%</b>
Frais d'approche	0,02	0,76%	0,02	0,76%
Max Havelaar fees	0,02	0,76%	0,00	0,00%
Ecoemballage	0,01	0,19%	0,01	0,19%
Miscellaneous & others	0,03	1,14%	0,03	1,14%
<b>Sub-total</b>	<b>1,31</b>	<b>49,67%</b>	<b>0,99</b>	<b>37,76%</b>
Distributor Selling price	<b>2,00</b>	<b>75,83%</b>	<b>1,99</b>	<b>75,83%</b>
End Consumer selling price before VAT	2,50	94,79%	2,49	94,79%
VAT	0,14	5,21%	0,14	5,21%
<b>End-consumer selling price</b>	<b>2,63</b>	<b>100,00%</b>	<b>2,63</b>	<b>100,00%</b>


Key FTVR Figures :	
% Given to producer (income+dividend) / final price :	17,83%
% of total revenue for the Coop / final price	46,82%
% of Fair Trade premium/conventional price paid to producer	204,23%
% of added value on the price paid to producers	81,72%
% for the producing country	46,82%
Number of producers in the coop	43

FOB Price paid for the Raw material by FAE	0,33	8,2	€/kg
FOB Price paid for the Raw material on conventiionnal market	0,14	3,6	€/kg
Added value on the FOB Price	130,75%		

	Fair Trade	Conventional
Producers	4,49%	2,47%
Cooperative	42,34%	33,20%
Alter Eco	29,01%	40,16%
Distributor	24,17%	24,17%



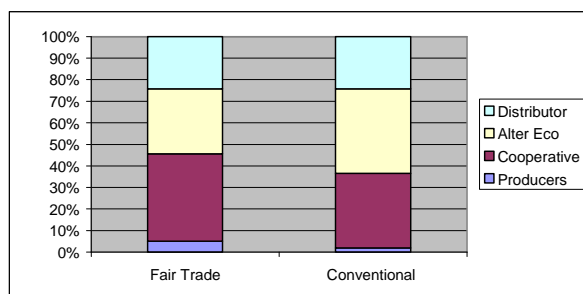
**WUPPERTHAL Cooperative :**

FTVR Thé Rouge Roiboos mars-06 N.Mounard				
	Fair Trade Channel	% of final price	Conventional Channel	% of final price
Field preparation costs	0,02	0,63%	0,02	0,62%
Field operation costs	0,02	0,81%	0,02	0,80%
Harvesting	0,01	0,29%	0,01	0,29%
<b>Total production costs</b>	<b>0,04</b>	<b>1,73%</b>	<b>0,04</b>	<b>1,71%</b>
<b>Producer income</b>	<b>0,08</b>	<b>3,32%</b>	<b>0,01</b>	<b>0,23%</b>
<b>Price paid to producers for Tea</b> <i>24 Rand/kg of dried tea</i>	<b>0,13</b>	<b>5,05%</b>	<b>0,05</b>	<b>1,94%</b>
<b>FLO Premium</b>	<b>0,02</b>	<b>0,78%</b>	<b>0,00</b>	<b>0,00%</b>
<b>Alter Eco Extra premium</b>	<b>0,02</b>	<b>0,78%</b>	<b>0,00</b>	<b>0,00%</b>
Tea court + administrative costs	0,06	2,52%	0,06	2,49%
Transport costs	0,03	1,25%	0,03	1,23%
<b>Price paid by GoldScarab to Wupperthal</b> <i>48 rands/kg</i>	<b>0,26</b>	<b>10,11%</b>	<b>0,15</b>	<b>5,66%</b>
Paper box	0,22	8,58%	0,11	4,27%
Envelopes	0,05	1,81%	0,05	1,79%
Tags	0,01	0,20%	0,01	0,19%
Wrap around label	0,04	1,52%	0,04	1,50%
Outer Carton contribution	0,02	0,83%	0,02	0,82%
Processing & Packing costs	0,23	9,02%	0,23	8,92%
Freight & insurance	0,35	13,53%	0,35	13,38%
<b>CFR Price paid to Gold Scarab</b>	<b>1,16</b>	<b>45,59%</b>	<b>0,94</b>	<b>36,54%</b>
Frais d'approche	0,02	0,78%	0,02	0,78%
Max Havelaar fees	0,02	0,78%	0,00	0,00%
Ecoemballage	0,01	0,20%	0,01	0,19%
Miscellaneous & others	0,03	1,18%	0,03	1,16%
<b>Sub-total</b>	<b>1,24</b>	<b>48,53%</b>	<b>1,00</b>	<b>38,67%</b>
Distributor Selling price	<b>1,93</b>	<b>75,83%</b>	<b>1,96</b>	<b>75,83%</b>
End Consumer selling price before VAT	2,42	94,79%	2,44	94,79%
VAT	0,13	5,21%	0,13	5,21%
<b>End-consumer selling price</b>	<b>2,55</b>	<b>100,00%</b>	<b>2,58</b>	<b>100,00%</b>

Key FTVR Figures :	
% Given to producer (income+dividend) / final price :	15,20%
% of total revenue for the Coop / final price	45,59%
% of Fair Trade premium/conventional price paid to producer	80,00%
% of added value on the price paid to producers	157,72%
% for the producing country	45,59%
Number of producers in the coop	307

FOB Price paid for the Raw material by FAE	0,26	6,4	€/kg
FOB Price paid for the Raw material on conventionnal market	0,15	3,6	€/kg
Added value on the FOB Price	76,58%		

	Fair Trade	Conventional
Producers	5,05%	1,94%
Cooperative	40,54%	34,60%
Alter Eco	30,24%	39,29%
Distributor	24,17%	24,17%



### III. SWOT Analysis

#### 1. Weaknesses and Threats

##### HEIVELD Cooperative:

###### - PRICE (7,08)

Concerning the price, Heiveld has quite a good knowledge and understanding of their costs of production and of the price structure. The support of EMG might be the main reason of this good control of the price aspect. Nevertheless, the cooperative is threatened by the unfair competition of the plantations. With no minimum price included in the FLO tea standard, plantations only have the obligation to sell to a price which covers the costs of production. These costs are much lower than those of a small producer cooperative. Roiboos plantation prices are much more competitive. We have been told that some Fair Trade roiboos tea was sold around 35 Rands/kg FOB against an average between 48-50 Rands for Heiveld & Wupperthal.

###### - SOCIAL (7,31)

The social performance of the Heiveld supply chain mainly depends on the capacity of Fair Packers to set up good quality & traceability procedures. The packaging unit should be operational in April 2006 and will have to work on an HACCP manual.

###### - BENEFICIARIES (5,83)

Even if the beneficiaries fit to our commitment to work with the most disadvantaged producers, most of the members have quite a good level of education. We have not noted any child labour case.

##### WUPPERTHAL Cooperative:

###### - RENTABILITY (6,35)

The performance of Wupperthal is quite weak on this aspect with a decrease of the turnover of about 12% between 2003 & 2004. In 2004 the turnover accounts for 1,787KRands and the net income is negative with a loss of 89KRands.

The level of debt is quite worrying with short-term & long-term debts representing about 84% of the total balance sheet. This situation creates important difficulties regarding the cash flow situation and an inability to pre-finance order to the producers.

###### - QUALITY (6,35)

Wupperthal is about to become a cooperative, legally speaking, but the structure was not formalized yet during our visit. Financial statements are not audited by an external expert and all the quality formalization will have to be done at the Fair packers level.

- **PRICE (4,58)**

That is the most important weakness of Wupperthal: the price structure is not yet well understood which is particularly dangerous for a cooperative involved in the tea business. The absence of minimum price in the FLO tea standard forces the cooperative to get a real knowledge of their price structure to be able to set a price which covers the costs of production and enables a positive net income. This is not the case for the moment in Wupperthal.

- **SOCIAL (7,31)**

The performance can be improved with Fair Packers with the development of quality & security procedures at the level of the packaging unit. For the moment, no HACCP is formalized, but the integration of the packaging step in the cooperative perimeter will help improving this aspect.

- **BENEFICIARIES (5,83)**

Same as Heiveld. Producer profile is very close

- **DEVELOPMENT (6,12)**

The grade is mainly impacted by the weakness in terms of cash flow & net income. Indeed, the current situation prevents the cooperative from pre-financing systematically. Wupperthal is dependent on the pre-financing of its customers who do not always comply with this fair trade criterion. The negative net income does enable the distribution of dividends which could largely improve the development impact.

- **PERENITY (7,19)**

One more time, the improvement of its financial situation will help Wupperthal to ensure the sustainability on the long term of the development project.

## ***2. Strength and Opportunities***

### **HEIVELD Cooperative:**

- **RENTABILITY (8,94)**

Heiveld has a very healthy financial situation with quite an important level of turnover (1,249KRands) and a positive net income in 2003 (157KRands), 2004 (310KRands) and 2005 (Not finalized). The level of debt is very low with only trade payable and no long term debt. The financial formalization is quite impressive and the customer structure is secured with France Alter Eco, Guepa, FTO, Top Qualities & now, CTM Altermercato in 2006. Heiveld benefits from an investment capacity with 50% of the net income affected to reserves every year.

### - QUALITY (7,69)

Heiveld has a great level of formalization in terms of financial documentation and administrative documentation. Financial statements are audited by an external expert, by-law is updated and minutes are clear and complete.

Roiboos products have a great potential of development and, generally speaking, Heiveld could develop a whole range of herb tea with wild roiboos, flavoured roiboos or other local herbs. This potential has to be developed.

### - LOGISTICS (8,75)

Communication with Heiveld is very easy in terms of mail, fax or road access. The creation of Fair Packers is the last step for a fully integrated supply chain which will enable a lot of flexibility and reactivity. Heiveld members are very involved in the Fair Packers project and the management of the new packaging unit will include some relatives of producers.

### - DEVELOPMENT (8,02)

The performance on the development criteria is mainly due to the price structure. With a farmgate price of 22 Rands and a FOB price of 49 Rands for the supergrade & 62,5 Rands for the superfine, the added value of Fair Trade is very important.

Key FTVR Figures :	
% Given to producer (income+dividend) / final price :	17,83%
% of total revenue for the Coop / final price	46,82%
% of Fair Trade premium/conventional price paid to producer	204,23%
% of added value on the price paid to producers	81,72%
% for the producing country	46,82%
Number of producers in the coop	43

FOB Price paid for the Raw material by FAE	0,33	8,2	€/kg
FOB Price paid for the Raw material on conventionnal market	0,14	3,6	€/kg
Added value on the FOB Price	130,75%		

### - PERENITY (9,69)

The viability of the long term development of Heiveld is guaranted by different aspects:

- A healthy financial situation that helps the cooperative getting an investment capacity
- The creation of Fair Packers which enables Heiveld to integrate most of the added-value of the supply chain and to develop new management skills
- The efficiency of the collaboration between Heiveld, EMG & Indigo

### - TRANSPARENCY (8,82)

Heiveld has been completely transparent during our audit & we have had access to the whole documentation. The structure of the cooperative enables a democratic system.

### - ENVIRONMENT (9,25)

Heiveld is organic certified and benefit from a great support of the NGO Indigo in its environmental strategy and the development of the activity within the biodiversity of the

Bokkeveld Platteau. All the documentation relative to traceability issue is well updated and detailed.

**WUPPERTHAL Cooperative:**

- **LOGISTICS (8,75)**

Same comments as Heiveld.

- **TRANSPARENCY (8,82)**

Same comments as Heiveld.

- **ENVIRONMENT (9,125)**

Same as Heiveld. Organic certified by Ecocert.

## IV. Non-compliance report

### HEIVELD Cooperative:

Rapport de non-conformité		
Résumé:	Major	Minor
Economique	2	0
Social	2	3
Environnementale		0

### WUPPERTHAL Cooperative:

Rapport de non-conformité		
Résumé:	Major	Minor
Economique	3	7
Social	2	7
Environnementale		0

### 1. Major non-compliance and corrective actions

#### HEIVELD Cooperative:

Criteria	Explanation / Grading	Grade	At. Points	Comment
55. Rapport qualité/prix par rapport aux autres acteurs locaux de Commerce Equitable	Plus de 20 % à qualité et disponibilité égale par rapport à autre produit équivalent de Commerce Equitable sur le marché local : 0 / Plus de 10 % : 0,25, prix équivalent : 0,5, moins 10 % : 0,75, moins 20 % : 1. N/A (seul acteur de CE pour ce produit sur le marché local) : 1 / Prix élevé en raison de non optimisation du niveau 2 : 0	0,25	0,50	That is themain problem for small producer roiboos cooperative. The suffer the unfair competition of certified plantation. Since there is no minimum price in the tea standard, plantations are able to sell the same product as Heiveld with a much lower price
56. Niveau de prix et compétitivité par rapport au marché mondial du Commerce Equitable	Plus de 20 % à qualité et disponibilité égale par rapport à autre produit équivalent de Commerce Equitable sur le marché international : 0 / Plus de 10 % : 0,25, prix équivalent : 0,5, moins 10 % : 0,75, moins 20 % : 1. N/A (non disponibilité sur autre marché) : 1 / Prix élevé en raison de non optimisation du niveau 2 : 0	0,25	0,50	That is themain problem for small producer roiboos cooperative. The suffer the unfair competition of certified plantation. Since there is no minimum price in the tea standard, plantations are able to sell the same product as Heiveld with a much lower price
<b>Social</b>				
74. Recours fréquent à la main d'œuvre d'enfants (- de 15 ans) dans le secteur ou la région d'origine des produits (avant intervention CE).	Recours généralisé à la main d'œuvre d'enfants y compris pendant périodes scolaires : 1 / Assez fréquent : 0,75 / Peu fréquent : 0,5 / Très rare : 0,25 / Jamais ou uniquement en dehors des périodes scolaires : 0	0	0	No child labour
131. Existence d'un comité de contrôle interne, audit interne (fiscalizador) indépendant. Contrôle formalisé	oui : 1, non : 0	0	0	No

**WUPPERTHAL Cooperative:**

**Economique**

Criteria	Explanation / Grading	Grade	Points	Comment
12. Fixation des prix. Les membres de la filière (en particulier ceux du niveau 1) ont ils une idée du coût de revient réel du produit et de leur marge	La connaissance du prix de revient d'un produit et du mode de fixation du prix est un impératif pour les niveaux 1 et 2 ainsi que l'ensemble des membres du niveau 1 qui doivent être formés.( intégration de l'ensemble des coûts de production, financiers et des amortissements). Ignorance de la structure de coûts et du mode de fixation des prix : 0 / En cours d'apprentissage : 0,25 / A améliorer ou à étendre à l'ensemble des membres : 0,5 / Quelques lacunes ou certains membres non formés : 0,75 / Connaissance et maîtrise des enjeux par tous les membres : 1	0	0	The members of Wupperthal do not have a good knowledge of the price structure and good understanding of the Fair Trade minimum price & premium rules. They have to set their own price structure & decide at which price they want to sell. The premium is then added to the FOB Price
55. Rapport qualité/prix par rapport aux autres acteurs locaux de Commerce Equitable	Plus de 20 % à qualité et disponibilité égale par rapport à autre produit équivalent de Commerce Equitable sur le marché local : 0 / Plus de 10 % : 0,25, prix équivalent : 0,5, moins 10 % : 0,75, moins 20 % : 1. N/A (seul acteur de CE pour ce produit sur le marché local) : 1 / Prix élevé en raison de non optimisation du niveau 2 : 0	0,25	0,25	That is themain problem for small producer roiboos cooperative. The suffer the unfair competition of certified plantation. Since there is no minimum price in the tea standard, plantations are able to sell the same product as Heiveld with a much lower price
56. Niveau de prix et compétitivité par rapport au marché mondial du Commerce Equitable	Plus de 20 % à qualité et disponibilité égale par rapport à autre produit équivalent de Commerce Equitable sur le marché international : 0 / Plus de 10 % : 0,25, prix équivalent : 0,5, moins 10 % : 0,75, moins 20 % : 1. N/A (non disponibilité sur autre marché) : 1 / Prix élevé en raison de non optimisation du niveau 2 : 0	0,25	0,25	That is themain problem for small producer roiboos cooperative. The suffer the unfair competition of certified plantation. Since there is no minimum price in the tea standard, plantations are able to sell the same product as Heiveld with a much lower price

**Social**

Criteria	Explanation / Grading	Grade	Points	Comment
74. Recours fréquent à la main d'œuvre d'enfants (- de 15 ans) dans le secteur ou la région d'origine des produits (avant intervention CE).	Recours généralisé à la main d'œuvre d'enfants y compris pendant périodes scolaires : 1 / Assez fréquent : 0,75 / Peu fréquent : 0,5 / Très rare : 0,25 / Jamais ou uniquement en dehors des périodes scolaires : 0	0	0	No child labour
95. Préfinancement systématique des commandes aux producteurs de niveau 1 (cas des coopératives et association de producteurs)	Capacité de préfinancement du niveau 1 suffisante pour les producteurs (par rapport à évaluation totale des besoins de préfinancement avant récolte, voire dès la plantation pour les produits de culture). Capacité suffisante : 1 / insuffisante ( 50 % des besoins couverts) : 0,5 / Très insuffisante (- de 50 % couverts) : 0	0	0	quite worrying cash flow situation. Currently Wupperthal is not able to prefinance the orders

**2. Minor non-compliance and axis for improvements**

**HEIVELD Cooperative:**

**Social**

Criteria	Explanation / Grading	Grade	Points	Comment
85. Cotisation a un regime de retraite et de prévoyance pour les salariés des niveau 1 et 2.	oui : 1, non :0	0	0,00	No
88. Services complémentaires offerts aux producteurs et/ou salariés du niveau 1 : crèche, cantine, soins, micro-crédit,...	oui : 1, non :0	0,25	0,25	Quite few for the moment, the priority is for production capacity
93. Les fournisseurs de fournitures sont ils liés au secteur du commerce équitable (CAT, entreprises d'insertion,...) ou de l'éthique (certifiés SA8000 par exemple) d'une manière ou d'une autre	oui : 1, non : 0	0	0,00	No

**WUPPERTHAL Cooperative:**

**Economique / Economic**

Criteria	Explanation / Grading	Grade A/Points		Comment
18. Stabilité de la croissance du résultat net ou du revenu net disponible de la coopérative (report à nouveau pour les associations).	<b>S'applique uniquement au niveau 1.</b> Résultat net avant impôts (ou équivalent pour les coopératives : dividende net distribuable aux membres ou réinvesti dans les activités de la coopérative). Depuis les 3 dernières années d'existence (ou la création si le niveau 1 a moins de 3 ans d'existence). Aucune baisse du résultat net : 1 / baisses de - de 5 % : 0,75 / de 6 % à 10 % : 0,5 / de 11 % à 20 % : 0,25 / Supérieure à 21 % : 0	0	0	Positive net income in 2003 (88KRands) & loss of 89KRands in 2004.
26. Résultat net de la coopérative disponible pour les membres / rentabilité pour les travailleurs actionnaires (cas des plantations).	<b>S'applique uniquement au niveau 1</b> , sauf si rentabilité du niveau 1 est grévée par le niveau 2 (0 dans ce cas, non conformité grave). Coopératives ou associations de producteurs composées à 100 % de petits producteurs : 1. Pour les plantations dont les travailleurs sont actionnaires : taux de rendement interne inférieur à 1 % annuel sur les cinq dernières années : 0, de 2 à 3 % : 0,25 / de 4 à 5 % : 0,5, de 5 à 10 % : 0,75, supérieur à 10 % : 1 . Dans tous les cas des plantations où les travailleurs ne sont pas actionnaires : 0	0	0	Negative net income in 2004. Loss of 89 KRands
22. Niveau d'endettement de l'organisation	<b>S'applique uniquement au niveau 1.</b> Endettement (court, moyen et long terme) nul ou inférieur à 10 % des capitaux propres : 1 / de 11 % à 20 % : 0,75 / de 21 % à 30 % : 0,5 / de 31 % à 40 % : 0,25 / supérieur à 40 % : 0.	0	0	High level of indebtedness, 84% of the total balance sheet, short term & long term indebtedness
19. Capacité d'auto financement du niveau 1 pour une commande d'un container.	<b>S'applique uniquement au niveau 1, sauf si la capacité d'auto financement du niveau 1 est insuffisante du fait du manque d'auto-financement du niveau 2</b> (note filière = 0 dans ce cas). Capacité à financer toute commande d'un container : 1 / Besoin d'avance de - de 25 % du montant total d'une commande d'un container : 0,75 / - de 50 % : 0,5 / - de 75 % : 0,25 / + de 75 % : 0	0	0	Weak cash flow structure. Wupperthal is not able to prefinance a container by itself
24. Capacité de préfinancement du niveau 1 aux producteurs membres.	<b>S'applique uniquement au niveau 1, sauf si l'incapacité de préfinancement du niveau 1 est liée au niveau 2, note filière = 0 dans ce cas.</b> Capacité de préfinancement aux petits producteurs (ou de commande pour une plantation) Capacité de préfinancement d'une commande équivalente à plus de 4 mois d'achat aux producteurs de l'année fiscale précédente: 1, d'une commande de 2 à 3 mois : 0,75, d'une commande de 1 mois : 0,5, d'une commande inférieure à 1 mois : 0,25, incapacité : 0	0	0	Weak cash flow structure. Wupperthal is not able to prefinance a container by itself
7 Audit certifié des comptes annuels	L'audit certifié (par un commissaire aux comptes, le bureau local d'administration des coopératives, ..., ou toute autorité légale) des comptes annuels donne des garanties supplémentaires sur la véracité et l'exactitude des comptes tenus par les deux niveaux. Le critère doit être considéré uniquement si la loi locale le requiert. Comptes non certifiés pour les deux niveaux ou le niveau 2 uniquement (quel que soit le niveau 1) : 0 / Comptes certifiés pour les deux niveaux : 1 / Non applicabilité : 1	0	0	No
11. Existence de comptes d'exploitation par produit / circuit	L'existence de comptes d'exploitation par produit et par circuit démontre un stade avancé de maîtrise et de contrôle des coûts ainsi qu'une meilleure capacité à prendre des choix stratégiques pour le niveau 1. Existence : 1 / Inexistence : 0. Critère d'exigence pour le niveau 2.	0,25	0,25	Not as well formalized as at Heiveld. Consequence of quite bad understanding of the price structure

**Social**

Criteria	Explanation / Grading	Grade A/Points		Comment
85. Cotisation a un regime de retraite et de prévoyance pour les salariés des niveau 1 et 2.	oui : 1, non : 0	0	0	No
118. Quelle est la part des fonds disponibles du niveau 1 alloués à l'amélioration du niveau de vie (primes uniquement) des bénéficiaires ?	Coopérative, association de producteurs ou entreprise détenue à 100 % par les producteurs : 1 . Plantations : + de 50 % des bénéfices net avant impôt : 1, 49 % à 40 % : 0,75, 39 % à 30 % : 0,5, 29 % à 20 % : 0,25, Moins de 20% : 0	0	0	No net income available for the moment. Fair Trade premium has not been invoiced & paid yet.
81. Nombre de personnes bénéficiant de l'activité de niveau 1 (producteurs ou salariés de plantations certifiées).	Plus de 1000 producteurs : 1, de 500 à 1000 producteurs : 0,75, de 250 à 500 : 0,5, de 100 à 250 : 0,25, moins de 100 : 0	0,25	0,25	120 members
117. Améliorations déjà visibles du niveau de vie des bénéficiaires du niveau 1 ?	Augmentation significative de leurs revenus, amélioration de l'habitat, meilleur accès à l'école, à l'eau, ... oui : 1 / en cours : 0,5 / non : 0	0,25	0,25	Wupperthal has only been FLO certified in 2005 but the FG is about to make a real difference
88. Services complémentaires offerts aux producteurs et/ou salariés du niveau 1 : crèche, cantine, soins, micro-crédit, ...	oui : 1, non : 0	0,25	0,25	Quite few for the moment, the priority is for production capacity
110. L'organisation de niveau 1 coopère t'elle avec une autre structure pour la mise en place ou le suivi du projet de développement (Etat, associations, ONG, membre du commerce équitable, entreprise nationale ou internationale) : 0,5	Pour les coopératives et associations de producteurs, le suivi est-il assurée par un comité indépendant ou une association indépendante . oui : 1, non : 0	0	0	Not anymore. Wupperthal was supported by an NGO but he result was quite weak
93. Les fournisseurs de fournitures sont ils liés au secteur du commerce équitable (CAT, entreprises d'insertion, ...) ou de l'éthique (certifiés SA8000 par exemple) d'une manière ou d'une autre	oui : 1, non : 0	0	0	No

## V. Conclusions and follow-up

Generally speaking, the tea box made by women communities & Fair Packers project are the conclusion of a fully integrated supply chain. It represents a perfect example of our objective to transfer a maximum of added-value to the producers.

Women communities create new beneficiaries & help the integration of women in the local economic life. Fair Packers will help producers to develop management skills and will help the development of new products.

Wupperthal is now mainly threatened by its financial structure with cash flow problems and a worrying level of debt. A better understanding of the price structure & the costs of production should help them improve their profitability.

Heiveld is a great example of cooperative. The challenge is now to widen its impact to new members. Beneficiaries are still quite limited with only 43 members. The integration of new members should be the consequence of increasing volumes with new products & a better marketing on the roiboos great value.

## **VI. Feedback from the producer organization :**

## VII. Appendix

- Analysis of costing & pricing of small-scale production (Study commissioned by Fair Trade assistance)
- Heiveld 2004 Financial statements
- Heiveld General assembly minute
- Heiveld Organic certificates
- Heiveld FLO certificate
- Heiveld List of producers
- Heiveld List of parcels
- Heiveld Field history documents
- Heiveld Member application
- Heiveld price list
- FAE invoices
- Marketing documentation
- Minute of a meeting in Biofach
- Agreement between Wupperthal & Heiveld on price policy
- Wupperthal bank ID
- Wupperthal list of producers
- Wupperthal internal control system
- Wupperthal General Assembly minute
- Wupperthal application form
- Wupperthal internal inspection form
- Wupperthal organisation chart