

If Fair Trade is a way of doing business, how can you be nonprofit?

Background: The Third World Shoppe of Fort Wayne: Our 36th Year!

In 1970, after a successful fundraiser to alleviate hunger, Karen, an early member, was excited to share news about the “World Shop Movement” that had been started by a couple of Dutch reporters. They were shocked that, after a UN conference, the rich governments refused to lower tariffs in order to provide fairer trading opportunities for poorer countries. Their idea was to mobilize public opinion to put pressure on the Dutch government. They created a “people’s marketplace” in which items were marketed at “fair prices” in partnership with the producers. Customers were then given information on the issue of trade inequity using products as examples.

We decided to start our own “World Shop” and to incorporate as a nonprofit organization in order to

- 1) Take voluntary citizen action to address the “root causes of hunger and poverty” and
- 2) To utilize formal and informal public education to promote cooperative economics through partnerships with like-minded organizations.

After buying and renovating a historical mansion in downtown Fort Wayne, IN, the Third World Shoppe of Fort Wayne opened in November 1973. Today, we remain committed to Fair Trade principles as an alternative to the unfair way much business is conducted and support the World Fair Trade Organization (WFTO) when it seeks to offer the positive “change that is needed by any and all organizations and businesses to correct the inequities that are inherent in our current system of trade and exchange of goods and services.”

In the end, we are reminded that the ultimate goal of the Fair Trade movement is to influence the way all business is conducted, aiming for a more equitable marketplace

Models of Incorporation

There are advantages to organizing a Fair Trade shop in the traditional for-profit way. For example:

- Capital may be easier to raise for growth
- Management of a small privately owned business may be able to respond more quickly to opportunities
- Small business often provides the opportunity for meaningful paid employment to people
- Small business tax documents can be relatively simple

At the same time, for-profit models have disadvantages, such as not being exempt from state sales, property, and income tax and the ferocity of competition, even in the fair trade sector.

Today, many new fair trade groups are choosing the nonprofit legal status while promoting business according to accepted Fair Trade principles. We at the Third World Shoppe of Ft. Wayne are proud of our nonprofit heritage and have learned to take full advantage of the benefits of our tax-exempt status while accepting the legal restrictions and responsibilities placed on us as a “registered charity.” For example, customers can donate “in-kind” services and needed items (furniture, computers, supplies), which are then deductible as contributions from their personal or corporate income taxes.

Being a non-profit organization also allows us to

- Receive services and clients through various human service or government programs,
- Take advantage of free or discounted public service announcements on radio, television, and in papers
- Have access to other public membership organizations such as service clubs, schools, religious congregations, labor unions, and neighborhood associations.
- Be eligible for certain government and foundation grants to provide assistance to producer partners and our store

- Utilize the shop as a site of employment training/work experience, university work-study students, AmeriCorps VISTA fellows, or professional volunteers.

Qualifying as a Non-Profit

Non-profit status is “a state law concept.” It may make an organization eligible for certain benefits, such as state sales, property, and income tax exemptions. Although most federal tax-exempt organizations are non-profit organizations, organizing as a non-profit organization at the state level does not automatically grant the organization exemption from federal income tax. To qualify as exempt from federal income taxes, an organization must meet requirements set forth in the Internal Revenue Code.¹ To find information on your state requirements, contact your state’s Secretary of State, Corporation Commission, or equivalent body. For a list of state offices, [click here](#).

To be tax-exempt under section 501(c)(3) of the Internal Revenue Code, an organization must be [organized](#) and [operated](#) exclusively for [exempt purposes](#), so you must document that activities benefit a charitable class (the young, sick, elderly, disadvantaged, poor, etc.). None of your earnings may go to any private shareholder or individual. In addition, you cannot attempt to influence legislation as a substantial part of your activities or participate in any campaign activity for or against political candidates (be an “action organization” as the IRS calls it).

The IRS will tax or even remove tax-deductible status should a non-profit simply buy and sell without documenting an acceptable social purpose and show adequate public support.

Restrictions placed on non-profits include the

- (Lengthy) annual IRS report for tax-exempt organizations - [Form 990](#)
- Inability to motivate by offering commissions to sales reps, and
- Complexity of the shared/democratic process in decision-making

However, once we found the rhythm of the non-profit cycle, we have found that - by taking these duties seriously - we are able to keep our focus on our mission of utilizing the Fair Trade model to work toward a more equitable marketplace and to [utilize](#) the reporting process as a means of low-cost public relations and marketing.

Are You are Ready to Write Your Own Chapter in the Annals of Fair Trade?

A Fair Trade project is unlike a political campaign or a typical charity, which execute may a short, intense campaign with a clear deadline. Rather, to be successful, a Fair Trade Shop demands an ongoing commitment that will hopefully extend indefinitely. Fortunately, the Fair Trade community is an open book which welcomes new writers. Experienced members are more than willing to share experiences and stand beside “fresh starts.”

Here is how we did it...

- *Rally Supporters*: Introduce the concept to potential charter members of a board/planning committee to help you get the work done (recommended: 3-9 members). Organize a gathering or a social event; collect contact information; brainstorm ideas. Try to include a variety of local cultures, professions, and communities across your area. A large cadre of volunteers is also a great way to expand the customer base, as one tells a friend, who tells a friend, etc. This group of supporters is also a great way to show that public support mentioned above.

¹ Officially, “the exempt purposes set forth in section 501(c)(3) are charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and preventing cruelty to children or animals. The term *charitable* is used in its generally accepted legal sense and includes relief of the poor, the distressed, or the underprivileged; advancement of religion; advancement of education or science; erecting or maintaining public buildings, monuments, or works; lessening the burdens of government; lessening neighborhood tensions; eliminating prejudice and discrimination; defending human and civil rights secured by law; and combating community deterioration and juvenile delinquency.

- *Follow up with a Planning Meeting:* Outline a business plan and divide up tasks; research which Fair Traders are already active locally; define who potential customers are; check out various locations; consider what marketing strategies will work best in your area; create a mission statement; choose a name (make sure it is available legally in your state by asking your state's Secretary of State and/or the IRS!); consider and list barriers to success; define your special niche; collect information on suppliers and producer partners; create a time line between planning and opening the store.
- *Create a legal and administrative structure:* Once you have a mission statement and other plans in place, you can get federal/state identification numbers from the IRS/secretary of state;. Incorporate and file for tax exemption.² Register to collect sales tax. Be aware and prepared that there are large IRS and state filing fees. Consider your banking needs and what types of cash flow you expect to have. Inquire about whether an attorney with experience in nonprofits or a local group such as the United Way can provide technical help. Sometimes local law schools have support programs, as well. Gather as much information as you can up front; a project that sells stuff, but is nonprofit, may have to endure complex legal questioning.
- *Raise Capital:* Hold fundraising events. Identify local allies who may be able to contribute small or large amounts of money. (i.e. a group with a sister project in another country, etc.). These are also great marketing tools to generate interest in and buy-in for the store.
- *Test the idea:* Perhaps hold a weekend "Fair Trade" fair or participate in some else's event (such as a farmer's market). Connect with faith communities. Evaluate. Learn from the experience.
- *Find a location* (or determine the nature of your virtual presence)
- *Divide the Work:* Write job descriptions for volunteers and staff. Determine who will handle the finances, purchasing, marketing, outreach/education, etc.
- *Order samples:* Select wholesale suppliers or order directly (if so, research customs and importing requirements!) Make sure you have adequate liability, inventory, shipping, auto insurance, and other protections.
- *Determine the Budget/Open to Buy:* Evaluate how much product you want to have on hand when the store opens. Seek advice from other Fair Traders and other stores to gauge your needs. Then, order stock of goods.
- *Implement an Outreach Plan:* Announce your grant opening and host a big event. Contact community groups to tell them about your opening. Engage friends, family, and other contacts of your steering group. Invite local press and tell them about your mission and the connection you have established.
- *Develop and Evaluate Ongoing Budgets and Plans.* Acknowledge and creatively show appreciation for everyone: key people, supporters, customers. Keep in contact with the community. Set up a web site, newsletter, and other communication tools.
- *Tap into the Wider Fair Trade Movement:* Join the Fair Trade Federation and receive the benefits and services they offer.
- Keep going!

² This process usually takes 6 - 12 months, so plan ahead!

Can Fair Trade Foster Social Change?

On a trip to Europe I tried to visit as many fair trade groups as I could. I was surprised on a visit to the “Dritte Welt Laden” (Third World Shop) in Munich, Germany. When I walked in I didn’t see any goods for sale - no coffee, tea, chocolate, hand carved masks from Kenya, flutes from Bangladesh... I saw nothing but handouts, videos and library books. They explained “We are not a shop but an action center. We provide information and training so that folks can “take action to encourage a fairer trade system.” Yes, but I wondered, what about putting ideas into action which serve as a model for others to replicate?

Without education, democracy cannot thrive. Fair trade offers a sustainable economic model where the consumer is able to make decisions based not only on price and external features, but also on the basis of earth care, safety, cultural authenticity, human dignity, and more. While a for-profit fair trader can and should educate the customer, a non-profit can lean much farther in that direction, because a group of unpaid volunteers can undertake a variety of activities that are not financially profitable and, by definition, the organization has an educational mission. A nonprofit can offer workshops, training for individuals who are unemployed or have physical or mental challenges, or even reality tours to visit producing groups.

In 1983, encouraged by a Dutch Fair Trader, we agreed to import Nicaraguan coffee even though the U.S. government had imposed a politically-motivated trade embargo. By shipping the coffee from Central America to Europe, to Canada and back to the United States, we could legally import it, but at a financial loss. Yet, because of this truly nonprofit effort, there were multiple good effects for the fair trade movement here in North America. Within two months, over 600 groups purchased “fair trade” coffee for the first time in the United States.

On the producer side, all fair traders (both non and for profit) have been able to take advantage of a variety of nonprofits and NGO’s (nongovernmental organizations) who can provide links and technical partnerships with producers: Oxfam, National Cooperative Business Association, Crafts Center, Aid to Artisans, Volunteers in Technical Assistance, and various programs involved in “micro-lending and credit.” As the WFTO states: “Fair Trade has been the product of 60 years of worldwide experience, and is now being reengineered to meet the extraordinary needs of people, communities organizations, business and even the entire planet today.” As Fair Trade principles’ influence grows, it is reaching all sectors of society:

How can Fair Trade offer such high hopes?

How can Fair Trade do what governments and multinational corporations have not? In the book “Marketing, Society and Conflict” (Sidney Levy & Gerald Zaltman) marketing is defined as the “dynamic core of any society.” It explains that all social interactions, including those of families, businesses, schools, government agencies and religious institutions are “market driven.” Therefore, the way the marketplace operates changes as society’s needs change. This change, if truly meeting the needs of the public, happens “from the bottom up.” Thus, Fair Trade as a movement has the potential to create wide-spread change in the way business operates by encouraging a balance among all players from production to consumption. Thus far, democracy has been used in a very limited way in society ... through voting that takes place every year or two. Fair Trade democracy offers a ballot to every consumer each time s/he enters our global marketplace. One of the roles a non-profit fair trade group can play is an open forum for public discussion and continuing education, as well as an incubator for testing new or adaptive ideas. We have been digging at the roots of poverty for 36 years ~ join us!

Author Jim Goetsch first became involved in working for economic justice and marketplace democracy by organizing fellow students in the 1970s as part of the UN’s World Development initiatives inspired by President John F. Kennedy at the first World Food Congress. Since 1972, he has helped manage the non-profit fair trade Third World Shoppe of Fort Wayne, Indiana and has encouraged a variety of non-profit and cooperative enterprises in the U.S. and internationally. Jim can be reached at fotw@igc.org.