Fair-trade and Cooperatives–The Uganda experience

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Fair-trade –Benefits and Challenges for Farmers' Cooperatives– the Coffee Farmer's experience - Uganda

Overview

Uganda is a landlocked country positioned right across the equator and is found in Eastern Africa region. It has about 25 million people and 90% of whom depends directly on peasantry subsistence farming. Uganda is known as the cradle of robusta coffee. Uganda grows both robusta and arabica in the proportion of 9:1 respectively. Uganda has coffee available throughout the year and the country is characterized with two seasons depending on the position of the Equator. Coffee is grown by 3 million small scale farmers cultivating on average far less than 1 hectare. Uganda's coffee is organic by default and this will remain so for so many years. Coffee has been contributing about 70% to the incomes of the rural smallholder farmers since 1950s. It is the main cash crop of Uganda and has been the main foreign exchange earner until recently when money generated from tourism and people living in the Diaspora surpassed it. 38% of the people are below the poverty line and this has been worsened by the world low coffee prices for mainly those farmers who hitherto heavily depended of coffee. This put coffee farmers who were even better-off at a high risk considering the ever plummeting coffee prices in conventional market trade and the small fair-trade market.

Since the Uganda coffee sector was liberalized in 1991, farmers were exposed to the vagaries of the international trade which created both advantages and disadvantages. However, the advantages seem to have been short lived. As a result, prices declined leading to the coffee crisis globally and other internal challenges in producing countries. For example lack of affordable inputs, scattered farmers, lack of extension services, deteriorating quality leading to mycotoxin and particularly Ochratoxin A (OTA). All these have resulted into increased poverty in the rural areas incapacitating smallholder farmers from being able to take children to school and preventing them from getting access to social services. This has led farmers to begin cutting down trees for charcoal fuel and timber. In addition, Coffee Wilt disease and old aged trees have reduced quantities tremendously.

In addition, cooperative movement in Uganda also collapsed as a result of political interference and mismanagement. In Uganda, only a handful of cooperative societies and the Uganda Cooperative Alliance (UCA) refused to die. However, over 90% of the coffee farmers were organized until NUCAFE as the Uganda Coffee Farmers' Association (UCFA) formed.

NUCAFE was formed in 1995 to try and find solutions to the above problems as an organization of small scale coffee farmers in Uganda. So far, NUCAFE has organized coffee farmers into small manageable democratically governed associations called coffee farmers' associations which are currently 80 in number. Of course the task has not been easy but a lot of progress has been made due to policy and advocacy pursued by NUCAFE. This influenced Government of Uganda and World Bank to initiate the restructuring of the Uganda coffee sector. This meant officially recognizing the private sector such as NUCAFE and giving it more roles and responsibility to manage affairs of coffee farmers. This in itself was seen a step towards coffee farmer empowerment and ownership of his commodity. In order to enable farmers get fair prices, NUCAFE is already applying for fair-trade certification and farmers are getting ready. However, there are still challenges related to capacity building of these associations so that they can be effective partners in fair-trade.

On the other hand, there are a handful of cooperative societies managed by one exporting company who have benefited already from fair-trade. These contribute a very small percentage of about less then 1% of Uganda's total coffee exports. This is why NUCAFE as the umbrella organization of coffee farmers in Uganda is struggling to ensure that it acquires a fair-trade certificate so that growth in this sector can make appreciable impact.

Fair-trade - the Uganda Experience

Fair-trade is an initiative designed by the concerned people in developed countries for organized smallholder farmers and wage workers in the south, who have been restrained in their economical and /or social development by the conditions of trade.

Fair-trade is a niche or specialty market for those agricultural commodities managed under certain conditions that meet the requirements of the fair-trade code of conduct. Different commodities have different standards. This presentation will use the experience of the coffee commodity to discuss the fair-trade and the cooperatives. The broad term as used by the Fair-trade labeling Organizations International (FLOI) is farmers' organizations to encompass cooperatives and other forms of farmers' organizations.

Since fair-trade is a niche market, not every small farmer would join. As seen above, FLO has strict code that must be followed in order to have market access to the fair-trade market. It involves pre-assessments, inspection, verification and certification to assure that the commodity conforms to the code. Certification has been one of the hindrances to farmers joining fair-trade as it is quite expensive especially at the start. Why farmers would wish to join fair-trade is because of the Minimum Price Guarantee (MPG) and Premium well above the conventional market. However, the bureaucracy to join is rather encambersome.

Fairtrade is a market-driven service but demand must come from the farmers. The market for fair-trade normally small and currently is being threatened by other almost similar codes but claim to be mainstream codes. In addition, other initiatives such as the World Bank Commodity Price Risk Management are being piloted. This uses options to hedge for a Minimum price a pre-determined period between the farmer and the broker of the options. If these initiatives were to be fully implemented, what would be the future of the fair-trade?

Advantages of Fair-trade

To the farmer, fair-trade is seen as a way to getting better prices guaranteed with a Minimum Price and Fair-trade premium. Any form of trade that improves on the income

of the farmer is a catalyst to quality improvement, food safety, environment conservation and social security in the community. This is so because it is possible for farmers to cover their production costs, make profits and be access the necessary tools, inputs and implements for re-investment and then be able to pay school fees, medical fees and meet also the household basic needs.
Traceability is quite feasible under the fair-trade arrangement.

Farmers are always interested in preserving and protecting the environment. This is partly done by planting and replanting with shade trees, mulching for soil and water conservation knowing that under fair-trade, the extra effort put in will be complemented or compensated with a fair-trade premium which is not the issue with the mainstream conventional coffee trade.

We also believe that fair-trade is the answer to bringing sanity in the coffee sector because every actor in the supply chain must be transparent. The farmers know that they have always been cheated because millers and exporters have not always been transparent in the conventional trade.

Farmers believe that by joining fair-trade, they are assured of organizational building to which they have a sense of belonging for social and economic gains.

Smallholder coffee farmers also believe that high prices do not necessarily mean farmer-empowerment. Therefore, by getting organized as small scale farmers under fair-trade is an assured way to empowerment and poverty alleviation.

Fair-trade is also seen as a movement that is socially influencing the behaviour of the mainstream market players for the betterment of the farmer within the conventional trade.

Disadvantages of Fair-trade

It is perceived that as fair-trade is a niche market, it will always remain small and therefore it would not serve the majority smallholder coffee farmers who are mainly involved in its cultivation. Globally, the market share of fair-trade is about 2%.

For considerable smallholder farmers from the south to be involved in fair-trade, deliberate efforts should be made to support the organization of the small scale farmers into strong organizations (whether as cooperatives or associations) capable of exporting and managing organizations and honouring contracts. Where to obtain such support still remains a big challenge to the vast majority of farmers from the south. In the situation where the farmer's cooperative cannot export, a private company is normally selected but psychologically farmers will always doubt the credibility of that company even when it is transparent. This is because farmers have always been cheated.

The certification costs and the process of acquiring registration is another bother to the young and not well empowered cooperatives. For example, normally an association will not have money to pay upfront for initial registration. This is another hindrance to becoming fair-trade certified. To make matters worse, the process takes a long time. For example, NUCAFE submitted an Expression of interest to the FLO labeling organization but it took almost a year to be attended to and when it is responded to, the bureaucracy is too much. It therefore, calls for patience of the highest order.

Fair-trade labeling does not trade in finished products from producing countries but prefers to deal in raw material like green coffee bean. This deprives cooperatives the opportunity to add value. Here fair-trade does not seem to be fair.

Is fair trade is perceived as a curtail of some sort?

Impact Analysis of fair-trade
Market level

Fair-trade takes a small percentage of the market share. For example fair-trade coffee market takes about 30% Mexico, 20% Guatemala, 13% Peru, 9% Costa Rica and 6% Nicaragua. Out of Africa's 9.5%, Tanzania accounts for 4%, Ethiopia and DR Congo 2% and Uganda only 1%. Globally it accounts for about 2% of the total coffee market share, although it is growing.

Farmer's Cooperative level
Those farmers who are involved in fair-trade have benefited from the Minimum Price Guarantee and premium price of green beans and it is under fair-trade that such farmers have received the highest price and premium. However, farmers still remain raw material suppliers with only primary processing.
In addition, the prices offered by the fair-trade depend on conventional trade and will always move in tandem. This means that if prices are too low like it was a case in 2001, there would not be a very big margin between conventional and fair-trade given prices something that may not cater very well for production costs of a particular region. The following fair-trade minimum prices, including quality differentials apply and all prices and premium in US-cents per pound F.O.B. port of origin) table below.

Fair-trade Minimum Price and Premium Information (US-Cents/lb F.O.B port of origin)					
	Fair-trade Minimum Price				Fair-trade Premium
	Conventional	**Organic**			**Conventional and Organic**
Type of Coffee	**Central America, Mexico, Africa, Asia**	**South America, Caribbean Area**	**Central America, Mexico, Africa, Asia**	**South America, Caribbean Area**	**All regions**
Washed* Arabica	121	119	136	134	5
Non-ashed Arabica	115	115	130	130	5
Washed* Robusta	105	105	120	120	5
Non-washed Robusta	101	101	116	116	5

*Semi-washed or pulped natural coffee is regarded as washed coffee.
Source: FLO Germany

Furthermore, fair-trade was designed in such a way that southern farmers would always depend only on the willingness of Northern consumers to pay a fair price something that may not be sustainable.

Considering the criteria set by the FLO, special attention is given to the way a cooperative is organized and the quality of coffee rather than the prevailing poverty levels of the farmers. Consequently, the very poor farmers would unlikely be able to meet the association membership requirements of buying shares to capitalize the cooperative. It is also difficult to obtain support for organizing farmers to get ready for fair-trade. FLO expects farmers to be found organized into an association/cooperative with all the necessary internal management control systems something uncommon with peasant or poverty-stricken communities. In a nutshell this means that the unorganized poor farmers would always fail to meet the required criteria and therefore, the cooperative may be dominated with the averagely well-off farmers.

Fair-trade also has quotas and specific tonnages from a particular cooperative. It becomes detrimental when the tonnage required by the buyer is far less than what the cooperative has. This creates a problem of which coffee from which member to sell and hence friction within the association.

However, fair-trade has sent signals to many farmers to get organized and strengthen their cooperative and to reflect on the quality of the coffee beans. These are very good aspects for joint advocacy and development.

Fair-trade has influenced the behaviour of multinational companies somehow for the betterment of farmers although this seems to be working against itself instead new initiatives about sustainability within the mainstream coffees and other commodities are being developed e.g. the Common Code for Coffee Communities (CCCC), Sustainable Agriculture Initiative (SAI), Utz Kapeh, Rainforest Alliance.

Local Community

Communities with fair-trade associations stand a high chance of benefiting from fair-trade. However, it might be difficult to assess poverty reduction due fair-trade at household level but social, environmental and economic benefits would be easily visible. For example in one subcounty called Busamaga, Fairtrade has supported development projects in construction of roads, building a secondary school and a health center and all these are very important aspects of community development that form part of poverty reduction indicators.

Conclusion

Fair-trade is a niche market and it is still small though said to be growing. It has been a very important tool used by civil society to check on the trade imbalance between multinational companies and producing countries.

It improves marketing skills and enhances capacity of producer organizations. Fair-trade is also a good system for rural community development.

It is also a system that improves coffee quality and protects the environment and this has an in-built premium for organic production. However, all these benefits are of semi-processed green beans and not fully processed products phenomena to which partly abject poverty is attributed to in the developing countries.

Way forward

If policy changes are to be made and implemented, coffee is still the most reliable income generating commodity for the smallholder farmers especially in Uganda. This can be made meaningful farmers are supported to get organized and strengthened within their own cooperatives/associations. From this point therefore, the following are the specific recommendations at the various levels:

Household level:

Smallholder Coffee farmers need to be sensitized and educated on the current situation of world coffee market, liberalization and the knowledge of fair-trade to assess their livelihood sources and try to respond accordingly.

Cooperative/Association level:

There is need to build strong farmers' cooperatives/associations by FLO adjusting the criteria for organizational support to include support for the weak farmers' associations even where they do not exist but provided there is demand from farmers to be supported.

Buyers of fair-trade coffee and FLO should allow cooperatives once strengthened to add value beyond the green beans as much as possible.

National level:

Streamlining and recognizing the role of cooperatives by Government coffee Boards and authorities must be gazetted and supported to implement their programs. There should be efforts to promote domestic consumption of both fair-trade and conventional commodities to avoid over dependency on the consumers in the North.

International Level:

More consumer awareness-raising to capture more fair-trade market share is needed and Oxfam is commended for that. Otherwise, companies outside FLO may assess the situation and adjust their trading practices if they receive a political and civil society threat to their market share and margins.

Proposed Researchable Areas

There is need to actually carry out a cost-benefit analysis among the fair-trade farmers of green beans visa vis conventional farmers. Fair-trade end product prices in the retail market should be assessed and compared with those given to the farmers. Carrying out a feasibility study of the cost-benefit analysis of the proposed fair-trade value-added products supplied by the cooperatives.