
What Tanzania's Coffee Farmers Can Teach the World: A Performance-Based Look at the Fair Trade–Free Trade Debate

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ABSTRACT

Questions remain about the effectiveness of fair trade, especially in comparison with free trade approaches to development. Both strategies seek to benefit smallholder farmers in lower-income countries, who are vulnerable to declining and fluctuating commodity prices and rising production costs. This study examines two prominent market-based interventions, Fairtrade certification and TechnoServe business development, as they are implemented at two coffee producer organizations in Tanzania. Qualitative and secondary quantitative data were collected using rapid appraisal methodology during three months of field research. The data were analyzed using the sustainable livelihood framework. This study concludes that both intervention strategies yield potentially valuable results for smallholders in multiple domains, but each is distinctly suited to specific market conditions. Implications of the study's findings are discussed in terms of an emerging consensus on intervention strategies. Copyright © 2005 John Wiley & Sons, Ltd and ERP Environment.

Received 5 August 2004; revised 17 November 2004; accepted 11 March 2005

Keywords: Tanzania; East Africa; coffee; fair trade; TechnoServe; sustainable livelihoods; smallholder development

Introduction

SMALLHOLDER FARMERS IN LOWER-INCOME COUNTRIES ARE VULNERABLE TO WIDE COMMODITY PRICE fluctuations and declining relative prices. In response, various market interventions have been designed to reduce smallholder vulnerability. Fair trade is a market-based approach to smallholder development that attempts to use consumer demand as incentive to restructure global trading relationships. By contrast, free trade approaches to development emphasize liberalizing markets and increasing competition and smallholder efficiency as the route to improved smallholder well-being. To date, analyses of the fair trade approach have not reached a consensus on its effectiveness and appropriateness, especially in comparison with free trade approaches to development.

Studies of the fair trade model that use a broad definition of farmer benefits (Dankers, 2003; Ronchi, 2002a, 2002b; Hopkins, 2000) find fair trade approaches beneficial to smallholder development. Other

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studies, which focus on the income effects of higher prices to farmers (Zehner, 2003, 2002; Lindsey, 2003; LeClair, 2002; Maseland and de Vaal, 2002), tend to conclude in favor of free trade approaches. Mayoux (2001) reviews a number of existing fair trade studies and recommends improving the usefulness of future research by moving beyond simply 'proving impact'. She notes the lack of comparative studies, and 'insufficient attention' paid to context. Mayoux stresses that to 'generate credible practical recommendations' a study must include 'a range of economic, social, political, and environmental criteria', and suggests the sustainable livelihood framework as one way to accomplish this (pp. 19–20). Though some have critiqued the sustainable livelihood framework (e.g. Cahn, 2002; Carney, 1999), others have shown it to be effective in generating useful results. In particular, the Natural Resources Institute (NRI, 1999) used the framework in several case studies of ethical trading schemes, demonstrating its ability to generate useful insights on matters of trade. Existing literature also highlights the need for more *in situ* fieldwork, either by calling for it directly or by critiquing other studies for their lack thereof (e.g. Rice, 2003; Maseland and de Vaal, 2002).

This study addresses these issues by investigating market interventions on the ground, utilizing a performance-based, comparative analysis of intervention strategies to (1) determine the strengths and weaknesses of each intervention strategy on smallholder well-being and (2) determine whether one intervention strategy outperforms the other. Tanzania provided an opportunity to compare the two strategies. Two major market interventions have been employed in the Tanzanian coffee industry with mutually exclusive groups of smallholder farmers. The Kilimanjaro Native Cooperative Union (KNCU) has been participating in the certification program run by Fairtrade Labelling Organizations International (FLO), a large-scale institutionalization of the fair trade movement. The Association of Kilimanjaro Specialty Coffee Growers (AKSCG) has been assisted by TechnoServe, a non-profit business development organization guided by free market philosophies.

The interventions use different strategies in pursuit of the same goal: to reduce the vulnerability of smallholders supplying the coffee market. Both were introduced in Tanzania in the 1990s in response to a growing crisis experienced by the country's coffee producers. Coffee is a major contributor to the economy, and Tanzania's experience is representative of other countries heavily dependent on supplying commodities to the world market.

Analytical Framework and Research Methods

The sustainable livelihood framework is a widely used means of understanding and analyzing livelihood strategies of the poor. Scoones (1998, p. 5) offers the following accepted definition: 'A livelihood comprises the capabilities, assets (including both material and social) and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base'.

Sustainable livelihood is a useful tool because it helps 'order complexity' by organizing the multidimensional factors that constrain choice or expand opportunity. This framework bridges the gap between micro and macro levels by drawing attention to both the forms of capital available to individual actors, and the structural and institutional context in which actors must operate (DFID, 1999). From this framework we have drawn seven dimensions of analysis with which to evaluate the interventions. They are five forms of capital, financial, human, physical, social and natural, and two institutional dimensions, processes and structures (see Table 1 for descriptions).

Research for this study was conducted in 2003 over a three-month period in the northern and southern coffee growing zones of Tanzania. Qualitative and secondary quantitative data were collected using

Financial capital	Financial resources used to support livelihood objectives
Human capital	Skills, knowledge, ability, labor, good health
Physical capital	Basic infrastructure and producer goods (e.g. tools and equipment)
Social capital	Networks, relationships, group membership, social safety nets
Natural capital	Natural resource stock from which flows and services are derived
Processes	Policies and institutions influencing structures and individuals
Structures	Organizations of all levels with functions affecting livelihoods

Table 1. Sustainable livelihood dimensions

Source: DFID, 1999.

rapid appraisal methods (see USAID, 1996), which included household and group interviews with over 100 smallholders, key informant interviews with 34 other industry actors, direct observations during field visits, primary documents from Fairtrade and TechnoServe and financial and production figures from the Tanzania Coffee Board (TCB), cooperative unions and farmer business groups.

Tanzanian Coffee Industry Overview

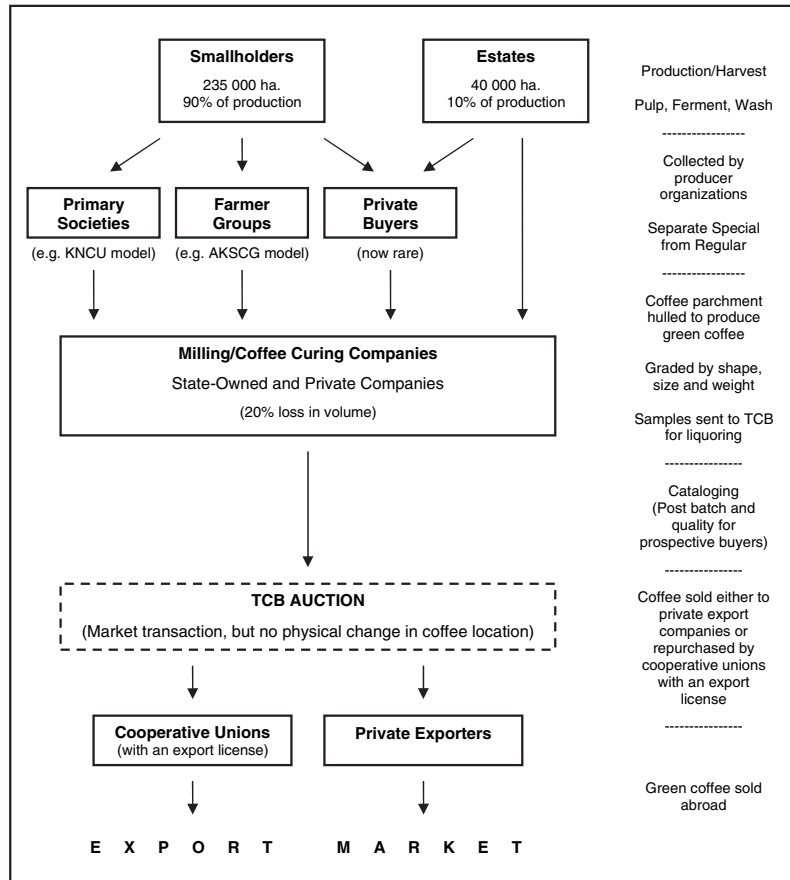
In Tanzania, 275 000 hectares are under coffee cultivation, supporting some 500 000 households. Smallholders, with an average area of 0.5 hectare, are responsible for over 90% of the country's production. Kuzilwa (1997, p. 46) defines smallholders as 'farmers (households) owning relatively small farms and [producing] a variety of crops both for subsistence and cash. They depend on family labour to produce their output and use relatively labour intensive techniques of production'. TCB estimates large private estates can yield up to 2500 kg/ha with irrigation and fertilizers, while smallholders average 300 kg/ha.

Tanzanian farmers who grow coffee face a number of vulnerabilities in the world and domestic markets. The global coffee market is characterized by volatile prices that are in long-term relative decline. This is exacerbated at present by a real decline in price due to world supply growing faster than demand.¹ Domestically, diminishing coffee quality is a major concern. The initial process of harvesting, pulping, washing, drying and sorting cherries is a key determinant of the coffee's final quality. Differences in the materials used, the cleanliness of the water and tanks and the timing of each step all significantly impact quality (Forder, 1970). Smallholders are responsible for this stage of production and, as such, the quality of coffee produced is highly variable.

Tanzania's coffee industry is dominated by a two-tier cooperative system. Each village contains a *primary society* run by officers elected from the community. Primary societies are organized regionally under umbrella *cooperative unions*. Unions are responsible for financing, transporting, marketing and supervising the sale of coffee supplied by their primary societies. All coffee had to be sold through the national coffee auction. Unions wishing to export directly had first to sell, then repurchase their coffee. Figure 1 illustrates Tanzania's domestic coffee marketing chain.

Cooperative unions pay farmers an advance when their coffee is collected but the unions do not receive revenue until the coffee is sold at auction. Historically, farmers accepted credit and inputs from the cooperatives, but sold much of their crops through informal channels. This, coupled with mismanagement of funds, left many cooperatives severely in debt. By 1994/95, market liberalization brought significant industry changes. Although grossly ill prepared and already in dire financial straits, cooperatives were expected to operate like conventional businesses in increasingly competitive markets.

¹The Prebisch–Singer thesis holds that as global income increases, demand for manufactured goods increases substantially while demand for primary products increases only slightly. Hence, the relative price of primary products tends to decrease over time. Also, supply has been growing at an average rate of 2% annually, compared with 1–1.5% growth in demand (Gresser and Tickell, 2002).



Developed during conversations with Primus Kimaryo of the Tanzania Coffee Board.

Figure 1. Tanzanian coffee marketing chain

Faced with the interrelated pressures of rapid market liberalization, volatile and declining world prices, higher input costs, financially and organizationally tenuous cooperative unions and unreliable coffee quality, Tanzanian farmers are disadvantaged participants in today's economy. Furthermore, they must operate in a regulatory environment that is also coping with these pressures, and is therefore in continual flux. The vulnerability context of Tanzanian farmers extends far beyond the tribulations of the coffee industry; however, the market interventions under examination, and therefore the scope of this study, are limited to the vulnerability that results from supplying the coffee market.

Intervention Strategies

FLO's strategy is to build consumer demand for Fairtrade based on values of high quality and improved benefits to farmers. The mechanism for providing these benefits is to alter the relationship among farmers (via cooperatives), and between farmers and others in the commodity chain. To accomplish this, FLO establishes trade standards, maintains the integrity of those standards and promotes a symbol of those standards – the Fairtrade mark.² Participating producer cooperatives must meet two types of

² Fair trade (two words) refers to the movement, while Fairtrade (one word) refers to FLO.

requirements: *minimum* requirements that are fixed for all certified organizations, and *progress* requirements that certified organizations must demonstrate improvement in over time. Minimum requirements mandate that producer organizations be democratic and non-discriminatory, regulate the use of the Fairtrade premium, prohibit certain toxic chemicals and set basic standards for being a competitive trading partner. To meet progress requirements, producer organizations must submit an annual report indicating progress toward issues such as organizational planning, information flows, member participation and increased efficiencies (FLO, 2003).

Coffee sold under the Fairtrade mark is guaranteed four conditions. (1) A *minimum price* will be received that covers the cost of sustainable production and living, as determined by FLO. The Fairtrade minimum price for African Arabica was set at US\$1.21 per pound (\$2.80 per kg) of green coffee. However, buyers must pay the market price if it is above the set minimum. (2) A *price premium* will also be received, set at US\$0.05 per pound (\$0.11 per kg) above the minimum price. This premium is to be invested in development at the organizational and community level. (3) Buyers must provide *partial advance payments* of up to 60% of the contract value when requested by cooperatives. (4) Buyers must sign *long-term contracts*, which extend beyond one harvest cycle, direct with cooperatives.

To participate, farmers must belong to a cooperative union that is certified by FLO. At the time of this study certification was handled directly by FLO. However, in December 2003 responsibility for certification was turned over to FLO-Cert Ltd, a newly established for-profit company (FLO, 2004). Although the cooperatives are run independently from FLO, to continue participating they must operate according to FLO's standards. At the time of this study, Tanzania had five certified cooperative unions and one certified primary society. KNCU has been Fairtrade certified since 1993. The union is based in Moshi and serves 92 primary societies and approximately 65 000 members located on Mount Kilimanjaro in the northern region of Tanzania. KNCU farmers produced 1837 Mt of coffee in 2002/03.

TechnoServe is a US-based development organization founded in 1968 to improve the productivity of developing-country agriculture. TechnoServe expanded its scope in the 1990s to national-level sectoral development. Their updated mission is 'To help entrepreneurial men and women in poor rural areas of the developing world to build businesses that create income, opportunity and economic growth for their families, their communities and their countries' (TechnoServe, 2004). In Tanzania, TechnoServe works with producers in the industries of coffee, pigeon peas, cashew nuts and tea. TechnoServe's coffee strategy is to move Tanzania out of the lower-quality blended market and into niche specialty markets that pay significant premiums for high-quality coffee. To accomplish this, TechnoServe assists farmers in producing and bulking consistent, high-quality coffee and then identifying new, better-paying markets.

In 1998, TechnoServe began working with smallholder coffee farmers. These farmers organized into *business groups* of 50–100 farmers and bulked their coffee to sell at auction, thereby bypassing the cooperative system. After a number of these farmer business groups were successfully created, a unifying umbrella organization was established. This new organization, AKSCG, began offering financial and marketing services to its member groups in 2002. AKSCG was composed of 20 business groups from the northern region and 22 from the southern region, totaling 4500 members and marketing 870 Mt of coffee in 2002/03.

Each business group has an elected governing committee. At the next level up, AKSCG had two district level organizations: AKSCG North Chapter representing the northern groups, and AKSCG Mbinga Chapter representing the southern groups. The national component of AKSCG will consist of chapter committee representatives who convene as the AKSCG Board to address issues of national policy. TechnoServe assisted at the national level with many of the managerial responsibilities until a professionally staffed office could be formed. AKSCG is essentially a marketing organization with a role and structure mirroring that of cooperatives, with 'business groups' replacing primary societies and the 'association' replacing cooperative unions. However, a key difference is that while membership in cooperatives is

open to any farmer in their jurisdiction, AKSCG's farmer business groups are self-selected, exclusive entities. Although business groups do grow over time, acceptance into the group is conditional, giving AKSCG a distinct advantage in managing member behavior.

Despite the differences between Fairtrade and TechnoServe, the interventions do share some commonalities. Both interventions were conceived of and are directed from higher-income countries; both are considered market-based approaches to development because producers, consumers and trading companies participate by choice based on perceived market conditions, and benefits to participants are dependent on market demand; and at the time of this study there were no farmer participation fees attached to either intervention. Since the study was completed, FLO has begun charging participating farmers initial and annual certification fees (FLO, 2004). However, the analysis in this study is based on FLO's original policy of no direct cost burden on farmers for participating.

Comparative Analysis of Results

Financial Capital

Fairtrade

In 2002/03, KNCU auctioned 1 456 000 kg of green coffee at an average price of US\$1.09/kg, grossing US\$1 587 000 at the domestic auction. KNCU repurchased and exported 333 780 kg of this coffee through Fairtrade channels at a minimum price of US\$2.91/kg. Thus, a quarter of KNCU's total sales realized an additional US\$1.82/kg above auction price. Fairtrade was therefore able to bring in at least an additional US\$607 480 for the season. This represents a value added of 38% directly attributable to Fairtrade.

Fairtrade accounts for one-third of KNCU's total exports. The remaining two-thirds went to conventional market channels. Prior to participating in Fairtrade KNCU did not export, and KNCU officials specifically attributed their ability to export to conventional markets to participation in Fairtrade. In 2002/03, conventional exports totaled 605 200 kg. This volume produced an estimated US\$97 000 of additional revenue beyond auction and Fairtrade sales. This represents a value added of 6% over sales at auction. Taken together, exports through both conventional and Fairtrade channels resulted in 44% value added.

At the farmer level in 2002/03, KNCU's premium payout structure allocated an additional 100 Tanzanian Shillings (TSh) per kg for Special grade coffee.³ The goal was to create an incentive for farmers to produce higher-quality coffee. In that season, 14% of KNCU coffee was Special grade. This means approximately US\$25 255 was added directly to the total income of KNCU farmers, although not all farmers received this income bonus. From the portion of premium remaining after the Special payout, approximately 25% was kept at KNCU to finance an organic initiative, while 75% went to those primary societies whose coffee was sold as Fairtrade. In 2002/03, 18 primary societies received Fairtrade premiums in this form, and their members decided directly how to use these funds. Some chose to distribute the money as an income supplement while others invested in community projects. Together, the Special coffee bonus and the portion allocated directly to primary societies totaled an estimated US\$461 924. This represents 42% value added at the farmer level. However, these financial benefits were not distributed systematically. Premium benefits went to whichever farmers were ready to sell at the time Fairtrade contracts had to be filled. With individual farmers unable to predict whether their coffee would be sold as Fairtrade, any incentive to modify behavior based on expected higher income is diminished.

³An exchange rate of 1000 TSh to US\$1 was used.

TechnoServe

Part of TechnoServe's strategy to increase sales revenue is to improve coffee quality. An analysis of average auction prices in 2002/03 indicated AKSCG was successful in achieving above average results. AKSCG North had an average auction price of US\$1.17/kg compared with KNCU's US\$1.09/kg.⁴ This suggests that AKSCG North's above-average quality is adding 7% to the value of their coffee.

A comparison of farm-gate prices paid out by AKSCG, cooperative unions and private buyers in the northern zone revealed an across-the-board income effect for AKSCG farmers. In 2002/03, AKSCG North farmers received an average price of 847 TSh/kg compared with the 600 TSh from both cooperatives and private buyers.⁵ This represents 41% value added to AKSCG farmers. To encourage high quality, AKSCG paid its farmers according to the quality of coffee produced, with some farmers receiving as little as 668 TSh/kg, and others receiving as much as 1027 TSh/kg. Special coffee accounted for approximately one-quarter of AKSCG North's production in 2002/03, and every business group supplied some, indicating the higher prices were widely dispersed and systematic.

Comparison

Fairtrade's significant 44% value added at the organizational level was not internally leveraged to maximize benefits to farmers. Rather, benefits remained static, with an estimated 42% value added moving down to farmers. Benefits were disbursed unevenly, as a combination of good husbandry and good luck brought some farmers multiple benefits while others received none. TechnoServe's modest impact on financial capital at the organizational level was leveraged into significant impact at the farmer level, as AKSCG's efficient operational and financial management magnified 7% organizational value added into 41% value added at the farmer level.

Human Capital

Fairtrade

The impact of Fairtrade on human capital at KNCU is evidenced most clearly by its export department. KNCU marketed coffee through the domestic auction until hiring an export manager in 1993. This individual had prior experience with fair trade in the handicraft sector and was thus able to establish trade links through the fair trade system. By 1994 the union was exporting to its first Fairtrade partner. Over time, the union extended its program to include conventional trading partners. Direct exports, especially to Fairtrade partners, represent KNCU's only growth sector. This growth is possible because of the knowledge, skills and experience management has gained through Fairtrade participation.

Capacity building at the farmer level was less effective. The Fairtrade premium was initially used to fund husbandry training programs. However, farmers indicated coffee husbandry had become a rare practice because it did not provide a financial return. Prior to the last two seasons, KNCU paid farmers the same price for both high- and low-quality coffee. Poor husbandry habits resulted more from a lack of incentives than from a lack of farmer knowledge. Only when farmers are rewarded for the substantial investments required to produce high-quality coffee will farmer education programs lead to capacity building.

TechnoServe

AKSCG's farmer business groups are self-selected groups with a common goal, making them highly motivated and committed participants. Their relatively high level of awareness and involvement, com-

⁴ KNCU is characteristic of coffee production in northern Tanzania. Fairtrade does not alter the results because sales to Fairtrade occur only after coffee has passed through the auction.

⁵ KNCU farm-gate prices were obtained from KNCU, and AKSCG and private buyer farm-gate prices were obtained from AKSCG. Some of AKSCG's payout to its members was in the form of TCB-mandated vouchers that were only redeemable for chemical inputs. In 2002/03, vouchers accounted for between 6 and 8% of AKSCG's farm-gate price. KNCU had previously been exempted from the voucher scheme.

bined with the comparatively small membership size, creates an environment conducive to building human capital. TechnoServe took advantage of this by developing production skills and marketing savvy at the farmer level through regular training and coaching. Business groups were also given feedback on production quality and quantity and corresponding auction prices. This type of feedback is important to building a clear relationship between the production process and market. TechnoServe developed managerial capacity at the association level by training committee members and what will become a salaried managerial staff. While still directly involved with many of the business functions on the association's behalf, TechnoServe worked through these processes with association leaders, who were ultimately responsible.

Comparison

At the organizational level, both Fairtrade and TechnoServe demonstrated a significant impact on human capital. Fairtrade facilitated the advancement of exporting knowledge, skills and expertise, enabling KNCU to take advantage of a growth sector in an otherwise stagnant market. Similarly, TechnoServe is working with committee members who will become managerial staff. At the farmer level, Fairtrade had a negligible impact on human capital. The skills programs were limited in scope and failed to address the true constraints. TechnoServe had a significant impact at the farmer level, as detailed training coupled with institutional mechanisms allowed farmers to capitalize on new skills.

Physical Capital

Fairtrade

KNCU requires premium funds provided to primary societies be used to benefit all members of that society. Some societies distributed the premium as income bonuses while others reinvested in coffee or other community infrastructure. For example, a society in Rombo distributed their premium to farmers on a volume basis. A society in Moshi Rural one year used their premium to put electricity in a government-run dispensary to refrigerate medicines. Another society in Moshi Rural repaired their cooperative's scale and bought sprayers for applying chemicals to crops. Utilizing the funds for disjointed, ad hoc projects may not have optimized the potential benefit of such funds, but accountability to producers was maintained, as the use of this portion of the premium was determined democratically at meetings in which all members have voting rights.

TechnoServe

TechnoServe focused physical capital improvement on improving coffee production; specifically, facilitating the establishment of village-level central pulperies (CPUs). Because post-harvest processing is a crucial determinant of coffee quality, moving the initial steps out of individual homes and into specially constructed, organized facilities leads to higher, more consistent quality coffee. CPUs are owned and operated by local farmer business groups, and members were trained in best practices. As of 2003, nine of the 22 northern groups and three of the 22 newer southern groups were operating CPUs.

Comparison

Some impact on physical capital was attributable to Fairtrade. Projects were aimed at both coffee production and community infrastructure. However, projects were not implemented systematically, or, in the case of coffee production, in a manner that would provide a strategic return on investment. TechnoServe had a significant impact on local coffee industry infrastructure but no impact on community infrastructure. Physical capital improvements were centered on projects offering a strategic return on investment to farmers.

Social Capital

Fairtrade

KNCU highly valued its long-term relationship with trading partners, who provided access to resources and capacity, such as information on market trends, forecasts and news. Fairtrade also built solidarity among producers and between producers and consumers. KNCU officials participated in FLO's biannual producer meeting, and partners and consumer groups invited KNCU officials to their countries or requested to visit the union. Branding has made Kilimanjaro coffee recognizable in some markets abroad. Initially combined with Peruvian coffee, KNCU's coffee was later branded separately as 'Kilimanjaro Mountain Special'. The brand launch garnered strong publicity in overseas markets, resulting in an increase in KNCU's annual Fairtrade sales from one or two containers to five or six. KNCU emphasized that establishing its own brand would have been infeasible without Fairtrade, and cited increased connectedness as the most important benefit of Fairtrade.

TechnoServe

TechnoServe worked to facilitate AKSCG's smooth entry into the domestic finance network by supporting the association with loan guarantees while they established relationships with local banks. TechnoServe also helped the association to strengthen relations with domestic exporters. Progress in creating international market links has been slower. In 2002, a leading industry executive visited AKSCG resulting in the establishment of its first direct overseas contract in 2004 for 176 bags (TechnoServe, 2004).⁶

Comparison

Fairtrade made a significant impact on social capital by increasing KNCU's connectedness to the global coffee industry. The union benefited from name recognition in consumer countries, producer solidarity, long-term relationships with partners and access to market information. TechnoServe assisted AKSCG in increasing connections to some domestic market actors, such as banks and domestic buyers, and stimulated some initial connections to global market actors.

Natural Capital

Fairtrade

KNCU allocated a portion of the Fairtrade premium to support organic trial plots. However, the low price of coffee did more to maintain the integrity of Kilimanjaro's natural capital than can be attributed to Fairtrade. Although Fairtrade prohibits the most toxic chemicals, most Kilimanjaro farmers did not use any chemicals because it did not provide a meaningful financial return. If used at all, inputs were limited to manure and homemade pesticides. Local chemical suppliers have been forced to sell alternative products in other markets, such as mosquito sprays for the homes of affluent urban residents.

TechnoServe

TechnoServe does not discourage the use of chemical inputs because they feel such inputs are 'the only effective means of controlling potentially devastating diseases' (Paul Stewart, TechnoServe Business Advisor, personal communication). However, in the past TechnoServe has distributed information on integrated pest management to some groups to help with pest control. In 2002/03 AKSCG farmers had not yet received an exemption from TCB's mandatory input voucher scheme and therefore were still using chemical inputs.

⁶ One bag equals 60 kg. One container equals 18 000 kg or 18 Mt.

Comparison

Although Fairtrade discourages the use of high-input production methods while TechnoServe does not, the real impetus for change in chemical use lies in the duality of low coffee prices and high input prices. Both interventions demonstrated a negligible direct impact on natural capital. Indirectly, by providing a higher value per area of coffee cultivated through organizational and market development, both interventions reduced the environmental impact per dollar value produced.

Processes

Fairtrade

The success of Tanzania's cooperative unions in exporting, first to Fairtrade partners, then to conventional importers, has created pressure (as have other stakeholders) on TCB to modify some rules. New regulations have allowed contracts for direct export to bypass the domestic auction. Thus, there is evidence that the importance of the Fairtrade model to some cooperatives is indirectly impacting governing institutions.

TechnoServe

TechnoServe staff have obtained audiences with important government ministers. TechnoServe used its position to suggest changes to government policy that would benefit smallholders. One example is that TechnoServe commissioned an independent consultant to assist TCB in reworking the new direct export rules into a clearer, more effective regulation. AKSCG's 2004 direct export was the first in Tanzania to take advantage of these new rules (TechnoServe, 2004). TechnoServe also coauthored a report with TCB and the Tanzania Coffee Association showing that Tanzania had the highest-taxed coffee industry with the lowest reinvestment rates of five peer producer countries. In 2003, the government dispensed with a number of local taxes on agricultural products, including coffee (TechnoServe, 2003). In this way, TechnoServe leveraged its resources and international network to impact national-level institutional policy in the interest of smallholders.

Comparison

Fairtrade demonstrated some impact on institutional processes by indirectly influencing industry regulations through the success of Fairtrade cooperative unions in selling direct. TechnoServe demonstrated considerable ability in influencing industry regulations by gaining access to key institutions and leveraging the work of skilled policy analysts to the benefit of smallholders.

Structures

Fairtrade

No substantial changes in structure were necessary for certification other than forming an export department. Nonetheless, influences from Fairtrade did result in some modification of the information flow between union officials and members. One example is the recent inclusion of a separate Fairtrade premium account in the ledgers of primary societies. Establishing a separate Fairtrade account that is visible to members is an important step in improving the union's accountability to members and Fairtrade partners.

New in 2002/03 was the practice of posting account information on primary society doors. Postings included such information as total collections and deliveries, sales from each auction and coffee grades collected. This type of feedback information was not previously provided to farmers. Members were delighted with these postings and indicated they had unsuccessfully sought such information in the past. When questioned about this increased transparency, KNCU officials cited pressure from Fairtrade partners and market competition.

TechnoServe

TechnoServe was instrumental in developing AKSCG's management and operational structure. Although AKSCG appears a replica of cooperative unions, in reality some fundamental problems beleaguering traditional cooperatives were addressed. AKSCG's committee emphasized the political independence they could enjoy under the association's structure. They explained that, unlike cooperative unions, the association is politically 'de-linked' from the government. Efforts were also made to keep AKSCG's governance independent from TechnoServe by signing a contract for services rendered.

The mechanism for information flow through the organization was institutionalized in AKSCG's structure. Business groups informed the chapter level about local operations, who then forwarded minutes up to the national board. Equally important is that information at upper levels was communicated to farmers in the villages. To accomplish this, chapter level committees called meetings to pass information to business group chairmen, who then called meetings at each of their business groups. This mechanism helped to maintain the integrity of the governing committee and keep all levels of operation accountable to the others. The system appeared to work in practice as well as theory, with farmers interviewed able to recount important information about their business groups and the status of higher-level activities. It is important to note that AKSCG is still a new organization and not yet fully self-functioning. It remains to be seen whether these successes can be sustained over time.

Comparison

Fairtrade demonstrated some gradual impact on the organization's accountability, transparency and information flow mechanisms. TechnoServe had a significant impact on the organizational structure of AKSCG, which is notable for its political independence, effective information flow mechanisms, strong member participation and organizational governance that is accountable to members.

Conclusions

Fairtrade produced sizeable value added at the organizational level, though this value remained static as it moved down to farmers. TechnoServe produced a modest value added at auction, but this was organizationally leveraged into considerable value added at the farmer level. Although the two provided near equivalent improvement to financial capital at the farmer level (42% and 41% value added respectively), the results of this study suggest financial flows provide a telling but incomplete picture of the impact of market interventions on smallholder well-being. A multidimensional analysis reveals more finely the capabilities and limitations of particular intervention strategies. Table 2 displays a performance summary.

Fairtrade's strengths are its ability to channel global market forces to increase financial flows to producer organizations and to see those financial resources reinvested in multiple forms at the local level. It effectively connects smallholder organizations to global market actors and is distinguished by its ability to influence the institutionalization of these relationships. Fairtrade proved to be less effective in leveraging organizational benefits at the farmer level. While structural transformations to benefit farmer interests are discernible, such changes have been slow in coming.

TechnoServe excels at reworking domestic institutions to the benefit of smallholders, particularly in ensuring financial benefits flow into the pockets of farmers. It is adept at structuring strong organizations that motivate members to contribute meaningfully while ensuring organizational leaders work for the best interest of members. It also showed consistent ability to influence national-level policies. TechnoServe has yet to demonstrate the degree to which it can meaningfully extend market opportunities beyond established relationships and broaden smallholder benefits beyond the confines of the coffee industry.

Fair trade and free trade intervention strategies are often portrayed as contradictory, leading to questions about which is the 'better' approach to smallholder development. This study suggests that each

<i>Vulnerability context</i>		
Global coffee market: supply growing faster than demand, volatile and relatively declining world prices Tanzania coffee market: market liberalization, declining quality, increasing input prices, regulatory uncertainty		
	Fairtrade	TechnoServe
<i>Livelihood assets</i>		
Financial capital	Organizational level: 44% value added Farmer level: 42% value added, uneven distribution	Organizational level: 7% value added Farmer level: 41% value added, even distribution
Human capital	Organizational level: significant impact Farmer level: negligible impact	Organizational level: significant impact Farmer level: significant impact
Physical capital	Coffee infrastructure: some, no strategic ROI Community infrastructure: some, not systematic	Coffee infrastructure: significant with strategic ROI Community infrastructure: none
Social capital	Significant increased industry connectedness, especially globally	Some increased industry connectedness, mostly domestically
Natural capital	Negligible impact directly, some indirectly	Negligible impact directly, some indirectly
<i>Institutions</i>		
Processes	Some indirect influence on industry regulations	Considerable influence on industry regulations
Structures	Some gradual impact on farmer organization	Significant impact on farmer organization

Table 2. Intervention performance summary

intervention is distinctly suited to specific market conditions, and that the approaches are in fact complementary. Conditions requiring increased supply-side production efficiency would be well served by TechnoServe's approach, while conditions requiring demand-side market creation are well suited to a Fairtrade-styled approach. Of course, as in Tanzania's case, smallholders can often benefit from both approaches.

Realizing a synergy of development impacts from these strategies is an option yet to be attempted on the ground, although there is some indication that the need for such an approach is starting to be recognized. For example, in 2002 FLO included as one of its core operational functions a 'producer support network' intended to assist producer organizations with organizational and business development, strategic planning and quality management. However, FLO's recent decision to modify their intervention model by charging farmers a fee for participation is likely to have a detrimental impact, both in the benefits accrued to farmers and in the marketability of the Fairtrade mark. By charging Fairtrade producer organizations an annual fee based on volume sold under the Fairtrade label, FLO is in effect charging already-disadvantaged producers to access a market FLO has developed in their name.

In light of this, perhaps the best way forward is for business development organizations to utilize those elements of the Fairtrade strategy that have proven beneficial, namely, developing markets with meaningful brands in support of producer groups and influencing the codification of relationships between producers and other industry actors. Perhaps when these complementary approaches to smallholder development are rightly viewed as valid and useful tools for particular market conditions, a consensus on effective strategies to reduce smallholder vulnerability will emerge.

Acknowledgements

We wish to thank Job Urusa and Alphonse Temu for their assistance; individuals at TechnoServe/Tanzania, Tanzania Coffee Board, AKSCG, KNCU and participating smallholders for sharing their time and information; A. H. Peter Castro, John McPeak and two anonymous reviewers for their comments; and participants at the Eighth Biennial Conference of the International Society for Ecological Economics in Montreal who provided feedback on a presentation of preliminary results. The views expressed here and any faults are our own.

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