



Swedish University of Agricultural Sciences  
Faculty of Natural Resources and Agricultural Sciences  
Department of Economics

# **Cost Benefit and Risk Analysis of Fairtrade**

## **- A Minor Field Study of Coffee Producers in Tanzania**

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## **Abstract**

Family farms that are producing coffee are heavily dependent on the export of coffee in Tanzania. Fairtrade labeled products are increasing on the world market. Consumers in several industrialised countries are willing to pay extra money for Fairtrade products to support the farmers in the third world. By investigate the existing economic benefits and risks that Fairtrade certified coffee producers receive, compared to conventional coffee producers, this study is a base for a discussion on how much the Fairtrade certification actually match the statements they claim in the northern coffee district of Kilimanjaro in Tanzania. The project is based on a survey and personal interviews with producers, managers and farmers during a SIDA-financed scholarship, Minor Field Study (MFS) in Tanzania that was taking place in the spring of 2010. The survey has been made with 10 respondents from each of the producing categories. Coffee farmers of the Kilimanjaro Native Cooperative Union (KNCU) are making little profits in producing coffee with small margins and are the most risk-averse people with no access to safety nets. A small loss of income can have large consequences when living on the margin and this is a big risk the farmers might face. The impact of Fairtrade is clear when the world market price is low, when the cooperative operates at loss and when Fairtrade successfully is protecting the farmers from being bankrupt. There is no guarantee the farmers are covering the cost of the production of coffee beans today. Far from everyone gets the possibility to produce Fairtrade coffee and becomes a member because their economic situation. Some farmers in the study are not even aware they are producing Fairtrade coffee, which is a big problem today. In order to have a better influence on their own situation, the farmers need better knowledge about Fairtrade. Once the Fairtrade trend has stabilised, the possibilities of becoming a member as a poor farmer should be an option. This will put the farmers in better positions when it comes to bargaining on the local market, and this might also allow access to other markets that could increase the export. The criteria of the Fairtrade labelling consumers in the developed countries are facing are no guarantee of a certain percentage reaching the farmer, but all in all the premium and the guarantee price helps the farmers to plan their production ahead and the ability to make conclusions about the future.

## **Abbreviations**

AFN	African Fairtrade Network
CBA	Cost Benefit Analysis
FLO	Fairtrade Labelling Organisation
FT	Fairtrade
GDP	Gross Domestic Product
ICA	International Coffee Agreements
ICO	The International Coffee Organisation
KNCU	Kilimanjaro Native Cooperative Union
KCU	Kagera Coffee Union
PS	Primary Society
TSH	Tanzanian Shilling

## **Conversion**

1000 TSH ~ 5 SEK

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# 1 Introduction

Every day nearly 2.5 billion cups of coffee are consumed in the world. Coffee is the fifth most widely traded commodity in the world. Millions of people are dependent directly or indirectly on the production and trading of coffee for living. The global coffee market is characterised by production levels and volatile prices which impact directly on the prices that consumers are facing and the incomes of producers. (Internet, Tutor2u, 2010)

Coffee is one of the first products that were founded by the principles of Fairtrade certification. The Fairtrade trademark was created in the 1980s with the intention to improve the possibilities for producers in developing countries facing the international competition. The Fairtrade certification gives guarantee that the product has been purchased directly from a producer in a developing country, and also that farmers and workers at the plantations get a reasonable salary for the work done. A stable trade relation, a fair price and the opportunity of advanced funding is to be guaranteed the certified farms. Furthermore the producers are working under the international agreement regarding the rights as workers in the production and ensure there is no child labor at the farms. (Internet, Fairtrade, 2010)

Fairtrade products often sell at higher prices than conventional products in the supermarkets. This study has been made to examine the risks a farmer is facing by not being certified by Fairtrade and also to compare the benefits of being a conventional farmer compared to a Fairtrade certified farmer. The results of the study will show differences in production, opinions of the farmers and the actual economic significance of Fairtrade.

## **1.1 Problem background**

Fairtrade-labeled products are increasing on the world market (Internet, Fairtrade, 2010). Consumers in several industrialised countries are willing to pay extra for Fairtrade products in order to support the farmers in the third world. Family farms that are producing coffee are heavily dependent on the export of coffee in Tanzania. But what are the economic benefits of being a Fairtrade certified farmer compared to a conventional coffee farmer? What are the risks you might face as a small-scale coffee farmer in northern Tanzania today? Does the Fairtrade certification actually match the statements that are claimed in real life?

## **1.2 Aim of the Thesis**

The purpose of the thesis is to investigate the existing economic benefits and risks that Fairtrade certified coffee producers have, compared to conventional coffee producers. Further the study will be a base for a discussion of how much the Fairtrade certification actually matches the statements they claim in the coffee district of Kilimanjaro in northern Tanzania.

This study will hopefully provide guidance for cooperatives in Tanzania and show economic differences and benefits that Fairtrade coffee production brings to farmers.



## 2 Method

To investigate the Fairtrade certification of cooperatives, these kinds of questions can be answered by doing a proper cost benefit and risk analysis of the farmers. Attitudes, expectations and beliefs of the farmers regarding the Fairtrade will be analysed as well.

The main objective of the project was working with qualitative methods in the field to conduct a statistical cost benefit analysis with the survey data from the field. The major part of the Minor Field Study (MFS) consists of the qualitative interviews with selected respondents (farmers and managers) of the cooperative KNCU, which covers the main information of the cost benefit analysis.

A proper cost benefit analysis can be used to answer such question whether a coffee farm or cooperative should be certified by Fairtrade organisation or not. In order to help firms compare the expected costs against the total expected benefits of an action taken into account (such as Fairtrade certification), the cost benefit analysis can be used as an instrument. This will be a key element to monitor costs and see where costs can be reduced in the coffee farms. This means the price tells how much a good environment and good health costs. The undertaken aspects are expressed in monetary terms. A cost benefit analysis finds, adds, and quantifies all the positive factors, in which the benefits are. Furthermore the quantities are being identified and subtracted as all the negatives, the costs. The difference between these two (positives and negatives) indicates whether the planned action is advisable or not. To make this analysis possible it is necessary to make sure all data on the costs and all benefits are counted to properly quantify them.

A risk analysis of the farms will also be implemented of the certified and conventional coffee farmers, from collected information in the interviews with respondents. The risk analysis can tell if it is safer to be Fairtrade certified or not. This is a technique that identifies and assesses factors that may jeopardise the success of a project, such as Fairtrade certification. It helps to define preventive measures and to reduce the possibility of these factors from occurring on the farm.

Once the value of the risk that the farm might face is obtained, I will represent different ways of managing them if they occur. It is important to choose cost effective approaches - in most cases, there is no point in spending more money to eliminating a risk than the cost of the risk if it occurs. Sometimes, it may be better to accept the risk than to use excessive resources to eliminate it.

These two methodologies complement each other in the sense that the results from the risk analysis show what risks farmers might face. The results from the cost-benefit analysis shows advantages that the farm gets by being certified.

## **2.1 Selection of the Coffee Farmers**

The project is based on a survey and personal interviews with producers, managers and farmers in the area during the MFS in Tanzania. The survey has been made with 10 respondents from both the conventional and Fairtrade certified coffee producers.

From the beginning this study was supposed to take place in Bukoba, Kagera, which is situated in the North Western part of Tanzania. Because of difficulties with transportation and contact with my supervisor in the field, the study has been made for another cooperative in Tanzania, in the Kilimanjaro region. The in-depth interviews have been done by visiting two different Primary Societies of Kilimanjaro Native Cooperative Union, KNCU.

## **2.2 Limitations of the Study**

The study is focused on smallholders such as family farmers in the rural areas and not big farmers who can take competitive advantage in producing coffee. Since there is a huge difference between the English and Swahili languages, and using an occasional translator, there is a risk that the meaning of the information being slightly altered. The results of my study cannot be used to cooperatives all over Tanzania, since the study has only been made within a small area by investigating only one cooperative.

## **2.3 Outline of the Thesis**

The study begins with a presentation of the methodology that has been used for the field study. This is followed by a presentation of the Cooperative, the coffee farmers that have been selected for the research, and the Coffee Board of Tanzania.

The analysis will be conducted in context of the results from the interviews and reflections from the literature. Then there is a discussion of the risks and benefits that coffee farmers are facing and how much the Fairtrade certification actually matches the statements they claim in the northern coffee district of Tanzania. Finally there is a conclusion with comments on the differences in production and the future of the coffee farmers in northern Tanzania.

### **3 Coffee in Tanzania**

Chapter 3 provides information about coffee production in Tanzania and the rest of the world. This chapter also provides information about the cooperative structure, Tanzania Coffee Board and the auction system. Furthermore a short presentation of the primary societies, the farmers and how the payment of the coffee is organised is represented.

Even though Tanzania is a very poor country there has been stable economic growth over the last few years. This growth has not improved the poor part of the population very much, and more than half of the population is living with less than one dollar per day. The main economic activity of Tanzania is agriculture, and this is occupying about 80 percent of the population. (Internet, UN, 2010)

Coffee producers are living in the rural areas of Tanzania, where coffee and bananas are the most cultivated crops. There are two kinds of coffee produced in the world: Robusta and Arabica. In Tanzania the Arabica is being produced, mostly because this type is best grown in the highlands of the tropical zones. The farmers are picking the red cherries from the coffee tree, pulp them and separate them from the green beans. The dried beans are being sold to the primary societies who transport big lots to the Cooperatives where the beans are being processed and then sold through the auction for either export or further on to the local market. Companies in the coffee consuming countries buy coffee from established coffee exporters to roast the beans, pack them and sell it in retailed stores, ready for consumption. (P.M.Shrima, KNCU, 2010)

Coffee is one of the most produced agricultural goods in Tanzania, with more than 50 million kilos of produced coffee beans every year. Over 90 percent of the coffee that is grown in Tanzania is produced on farms of smallholders, and there are about 400 000 families who have an income partly based on coffee (TecnoServe, 2006). These are forming the backbone of the coffee industry in the country. The remainder comes from private and cooperative-owned estates that go for sale to authorised exporters in the coffee auction held in Moshi, home of both Tanzanian Coffee Traders Association and Tanzanian Coffee Board (see more in chapter 3.1.1). After the coffee has been sold through the auctions it is well prepared for export according to the buyer's requirements and shipped from Dar-es-Salaam or Tanga ports, to countries all over the world. The cooperatives are certifying the farmer receives a minimum price although the world price of the coffee is decreasing. (P. O. Kimaryo, Tanzania Coffee Board, 2010)

### 3.1 Cooperative Structure of KNCU

Kilimanjaro Native Cooperative Union (KNCU) has several primary societies in a certain area of northern Tanzania. It has 67 primary societies and 16 000 farmers as members in total. KNCU finances the primary societies to collect the coffee from the farmers. KNCU was certified by Fairtrade in 1983. Seven of the KNCU societies are organic and Fairtrade producing. An organic farm is automatically Fairtrade producing. (P.M.Shirima, KNCU, 2010)

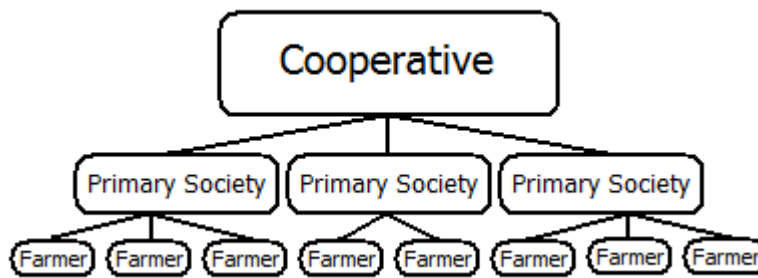


Figure 1. Overview of the cooperative structure. (own illustration, 2010)

Being a member of the primary society the farmers have to follow the cooperative regulations that consist of a few main points. There is an entrance fee for each farmer of 10 000 TSH, and shares can be bought within the union. As a member of the society the farmer has to buy at least one share for 5 000 TSH each. A farmer can own five shares at the most. When a farmer decides to end the membership of the society he or she can sell the share/shares, and will then get the money back. The society also has to pay a fee to the cooperative to be a member of a society, plus being owner of shares in the union. One society has to buy at least ten shares each for a cost of 50 000 TSH each. (P.M.Shirima, KNCU, 2010)

KNCU collects the coffee in the period it is known there is enough stock to send to the coffee curing plant. The coffee curing plant is a subsidiary company to KNCU. After curing the coffee, it goes to the auction where it is sold to different parts of the world. KNCU gives advanced payment to the producers through the primary society before harvesting time. After the season, KNCU checks the revenues compared to the costs, and how much it have realised per kilo. If the margin is big enough, there will be a second payment to the producers through the primary society. After this second payment, KNCU accounts for the revenues themselves. Lastly they deduct all costs involved. This includes transport, insurance, levy, primary society levy, coffee curing fees, and export to other countries. KNCU also pays for all the coffee bags that the farmers need. The remaining balance goes to the producers. All producers who bring coffee to the society are not

members, but anyone can deliver coffee beans to the primary society. KNCU teaches the Societies about Fairtrade, and the Societies teach the farmers. (P.M.Shirima, KNCU, 2010)

KNCU negotiates with the customers before the season starts. This is how they know how much coffee they are supposed to sell. Then they know how many containers they need. (P.M.Shirima, KNCU, 2010)

There are also private buyers who go directly to the farmers and negotiate a price for the coffee. There are no agencies that can control this and the farmer can sell the beans to the buyer who pays the highest price. Private buyers sometimes give a higher price but there is no guarantee they come back or give the farmers a Fairtrade in the end. Farmers are interested in money, and KNCU cannot prevent the farmers from selling the coffee to private buyers. To be safe they remain with their low prices. (J.A.Minja, Marangu East Cooperative Society, 2010)

At the end of the season KNCU does the realisation of the sales, to see how much that has been received from the auction. The realisation shows how big the spenders are for transport in total, insurance, advice to the producers/farmers and calculate all variable costs. The profit is being paid to the producers as a final and second payment. KNCU is not allowed to use the money for anything else, outside the approved costs of the annual result. In 2009 there was an economic loss for KNCU because of the economic crises. Because of the guarantee price, the farmers didn't notice the crises that year. The result of the crises will be a fact for the farmers next year when the cooperative does the budget of 2011. After the financial crises, the KNCU came down with the price of the coffee to 1200 from 2000 TSH. (P.M.Shirima, KNCU, 2010)

### **3.1.1 Tanzania Coffee Board**

Tanzania Coffee Board was established by the of Parliament of Tanzania in 1993. The coffee board regulates activities of the Coffee Industry in Tanzania and focus on regulatory, supervisory, advisory, monitoring, co-ordination and representation. The coffee board gives license to all operators in the coffee business and also conducts the coffee auctions of Tanzania. (P.O.Kimaryo, Tanzania Coffee Board, 2010)

### **3.1.2 The Auction**

To give the coffee producers a fair price, all coffee that is produced in Tanzania, has to go through the auctions which are managed by the Tanzania Coffee Board. Only licensed coffee exporters participate in auctions that are held at the head office of the Tanzanian Coffee Bards in Moshi every other Thursday. The auctions are operated by the fall of hammer and coffee is being sold to licensed clean coffee warehouses. This has been proved as the best marketing system of Tanzania coffee where both the farmers and coffee buyers get reward adequately. (P.O.Kimaryo, Tanzania Coffee Board, 2010)

### **3.1.3 The Farmers and the Primary Societies**

Coffee producers in this study are small scale family farmers. All of the interviewed persons are producing at least one supporting crop than coffee beans on the farm. The most common supporting crop is banana trees. The land has been owned through many generations, and none of the farmers have to pay for the land they use. Chemical fertilisers are rarely used in this area. Instead the farmers use biological fertilisers, such as dung from the cows in the neighbourhood.

Members of the primary society can produce and deliver both organic and non organic coffee beans. Farmers that are non members, who deliver coffee beans to the primary society, only produce non organic coffee. (K.Mapunda, KNCU, 2010)

For this study, there have been twenty farmers interviewed from two different primary societies: Marangu East Cooperative Society and Kibosho Central Rural Cooperative Society.

## **3.2 Payment to the Farmers**

In 2010, the payment of non organic produced coffee beans is 2000 TSH per kilogram, and 2200 TSH per kilogram to the farmers for the organically grown coffee beans. This is the only income of the farmers producing coffee, apart from the premium that Fairtrade guarantees if he or she is a member of the primary society.

Coffee delivered from Marangu East Society is paid in advance from the KNCU headquarter. The society gets paid per kilogram coffee they deliver. So the more coffee they collect from the farmers and deliver to the KNCU headquarter, the more money they will receive. The price cannot be set in advance because the coffee is sold at the auction and counting for the other costs in advance is impossible. In the year of 2010, the primary societies of KNCU received 100 TSH per kilo they

managed to deliver. In the end the costs are counted to see how much of the premium the farmers will receive. (H.Climo, Marangu East Cooperative Society, 2010)

## 4 World Market Price of Coffee

The importance of coffee cannot be overstated in the world economy. Coffee is one of the most valuable primary products in the world trade. Coffee through cultivation, trading, processing and transport provides employment for hundreds of millions of people all over the world. It is crucial to the economies and politics of many developing countries. (Fernando E. Vega et. Al. 2003)

The International Coffee Organisation (ICO) sets a target price every year and it allocates quotas to the member countries in order to control the supply of the coffee on the world market through the International Coffee Agreements (ICA) signed by both the consumer and producer countries. This agreement is supposed to lead to a higher market price and to stabilise international market prices. Imperfect markets in producing countries made it possible for some companies to gain large market shares and keep low coffee prices. The coffee market is today dominated by four multinational companies, namely Nestlé, Sara Lee, Proctor & Gamble and Kraft. (ICO Report, 2002)

As the quotas have vanished, the production has rapidly expanded, and resulted in a great oversupply of coffee all over the world. The coffee prices are more volatile and lower, and a higher share of profit is retained in the consuming countries (Wickström. D,2003). If there is a case of an increased demand of coffee, the production will not respond very quickly. This makes the price elasticity of demand for coffee relatively inelastic, furthermore the demand of Fairtrade coffee will not create more coffee consumption over all. The Fairtrade portion of the coffee market can be separately observed from the general constant pool of coffee consumers, because the market is segmented when the consumers make difference between conventional and Fairtrade coffee. The quantity produced tends to be stable while coffee prices fluctuate. Also the price elasticity of demand is low, because the demand of coffee is relatively stable and does not covariate much with the price. One reason of this could be because the commodity cost represents a small portion of the end retail price to the consumers. When the quantity of supplied coffee varies, the effect of the demand is little or none at all, and the price mechanism takes the economy back to the equilibrium. Price fluctuations are therefore big of the raw material in the world.

When the supply rapidly decreases because of a change in price, the demanded quantity is less. Prices can also change without any significant change in the demanded quantity because prices changes more quickly than the trees are growing.



When the economies crises in 2009 that surrounded the whole world, reached Tanzania, KNCU found their budget was not big enough to pay to the producers. This was because there was a loss to the producers in the general account.

## 5 Fairtrade

Fairtrade foundation is a labelling initiative that is responsible for their promotion of licensing of products. The initiatives were first taken in the fifties in the third world countries. The certification assurance the products are being met by the international Fairtrade criteria. The criteria are based on the fundamental International Fairtrade Organisation (ILO) convention on human rights in the workplace and aims in economic development and increased environmental concerns. (Internet, Fairtrade, 2010)

The African Fairtrade Network (AFN) is a producer network in Africa. The vision of the network is to increase the market access for producers in Africa. According to AFN which supports the producer network, Fairtrade is one of the biggest markets. 34 countries produce fairtrade products in Africa. There are 250 cooperatives/LTD companies (8 of them in eastern Africa), and one of these are KNCU in Moshi, Tanzania. (Anna, AFN. 2010)

By getting Fairtrade certified, producers and workers in developing countries get access to the international market, which enables increased sale. The criterion requires a certain level of wage for employers and puts a guarantee as a minimum price of the product. Also, the criteria adjust the working conditions for hired labour, with respect to employee health and safety. (Internet, Fairtrade, 2010)

Fairtrade certified farms get some economic benefits. The organic price differential for coffee is 10 US dollar/ 100 pounds because of the price floor (see figure 2). For the organic producing coffee farmer, this is the extra amount of money the producer gets as a guarantee by the Fairtrade criteria. A premium of 10 US dollar /100 pounds sold coffee is being given to the members of the organisation with the intention to stimulate the development of the community. (Internet, Fairtrade, 2010)

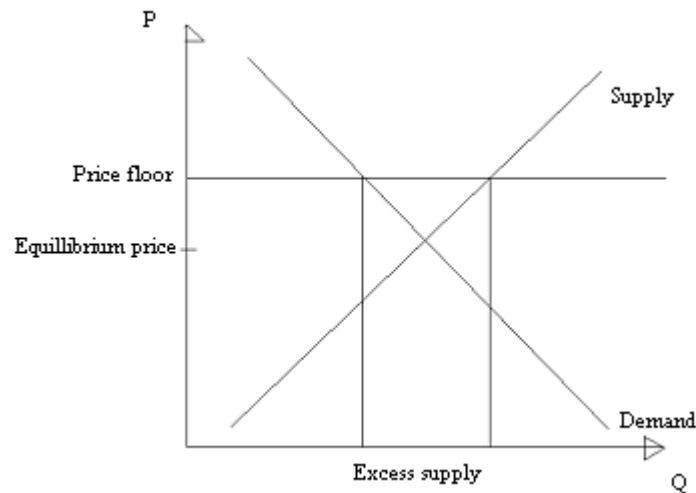


Figure 2. Price floor and effects of supply and demand.

A market has its equilibrium where the supply equals the demand. The lowest legal price a commodity can be sold at, is called the price floor. In order to have an effective price floor, it must be set above the equilibrium price, otherwise it would be irrelevant since the market would not sell below the equilibrium price. The guarantee price (price floor) prevents the prices from being too low, and farmers from changing crops in the field when the world market prices are fluctuating. Paying the guarantee price leads to a rising in the average price for coffee, and might encourage more producers to enter the coffee market.

Fairtrade is a trading partnership, based on a dialogue, respect and transparency that seek better equity in international trade. It contributes to sustainable development by offering better trading conditions and rights for producers. Fairtrade organisations are supporting producers with campaigning for changes in rules and practice of conventional international trade. Fairtrade Coffee is often being produced under poorer and tighter conditions, than regular coffee. Social benefit can then be argued as being generated when Fairtrade goods are being produced.

The criteria for Fairtrade certification can be summarised as followed:

- Producers and employees improved economic conditions
- Child labour and discrimination are being tackled
- Democracy and the right to organise are promoted
- Local communities are developing socially and economically
- Environmental considerations and ecological production are being promoted

(Internet, Fairtrade, 2010)

Choosing Fairtrade laboured products will help workers and farmers to get improved economic conditions, a reasonable income that allows a better standard of living and greater economic safety. A Fairtrade product is often being price-marked higher than a similar product that has not been certified. This is mainly due to the criteria relating to minimum price, bonus and minimum wage, which affects the pricing of raw materials and payment to the producer:

- The minimum price is a minimum price for the producer being paid for the raw material (see figure 3). The minimum price will exceed the world price and production cost and varies between different product groups. The negotiation between the buyer and the farmer of a Fairtrade commodity price is above or well above the minimum price. The price is based on factors such as variety, quality, origin and volume. If the world price for raw material / product at any time would exceed the minimum price, so the latter is raised up above the world price. The minimum price is calculated by the Fairtrade Labelling Organisation (FLO), based on information gathered from producers, traders and external reports focusing on the cost of sustainable production (COSPAS). (Internet, FLO, 2010)

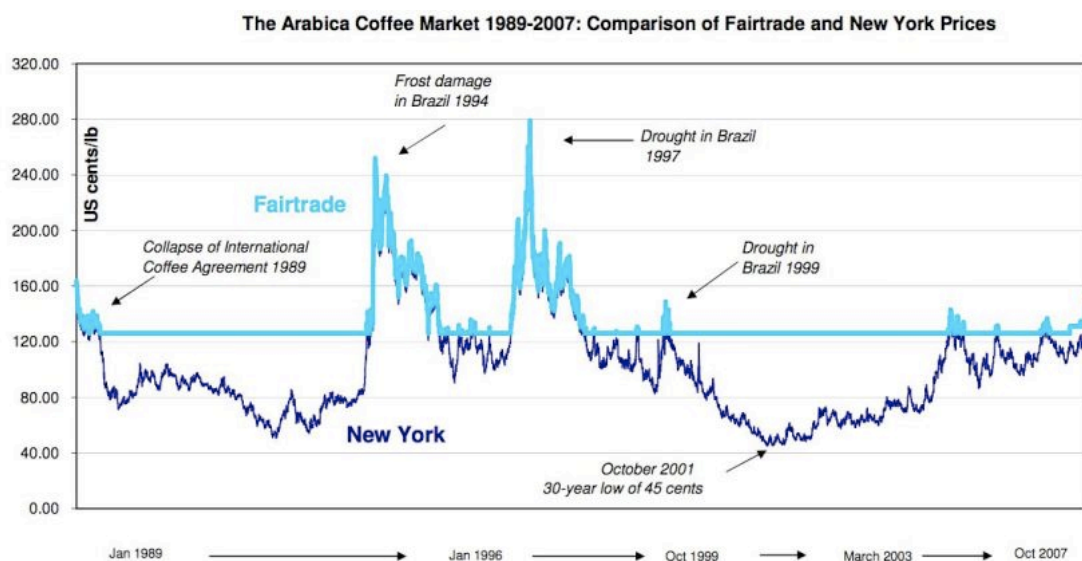


Figure 3. Comparison of Fairtrade and world market prices (Internet, Flatwhite, 2010)

- The minimum wage for wages on a par with or exceeds the statutory minimum wage in each country, or from a regional average. By developing the criteria for minimum wage ensures also that the salaries steadily increased, to levels equivalent to living wage.

The buyer undertakes to pay a premium - a financial contribution - to the producer, in addition to the minimum price. The premium is used to develop the local community socially and economically, for example a new school, education, new homes, child care and health care, or for investment in production. Sometimes the premium is paid towards a conversion to organic farming / certification, which gives an additional premium for the product by the "ecological price differential." According to the Fairtrade, the decision of how the premium should be used is taken jointly by farmers. (Nicholls. A, et. Al. 2004)

The criteria on economic development are not just about the financial transaction. The basics of Fairtrade are also requiring long-term trade relations and agreements between the producer and buyer, providing economic stability and opportunity for continuous quality and operational development.

## 6 Analysis

This chapter aims to address the research questions stated in chapter one, based on the theoretical framework and the empirical data. The research questions are presented in the following parts:

- Cost Benefit Analysis of Coffee Farmers in Kilimanjaro
  - Fairtrade certified farmers
  - Conventionally farmers
  - Comparing conventional and Fairtrade
  
- Risk Analysis of Coffee Farmers in Kilimanjaro
  - Threats the farmers are facing
  - Structure and cooperative risks
  - People surrounding

### 6.1 Cost Benefit Analysis of Coffee Farmers in Kilimanjaro

The cost benefit analysis (CBA) shows if the purchase of the certification is justified. The analysis determines the advisability of a course of action (European Commission, 2008) and then supports it if the farmers propose an action in getting certified by Fairtrade. If the certification result in savings for the farmer this analysis can tell where the differences are.

This cost benefit analysis will be made in three parts. The first part is based on costs and benefits facing a Fairtrade certified farmer in the trade and production of coffee, who is a member of a primary society. The second part is based on costs and benefits facing a farmer who is not certified by Fairtrade and non members of a primary society. In the third and last part, the result from the first two parts will be compared and analysed. Data that is being used in the calculations are based on information from interviews with the farmers.

One kilo dried coffee beans gives the farmer 2200 TSH if the farmer is a member of the Primary Society, and 2000 TSH if the farmer is a non member. The premium in the year of 2009 was 300 TSH per kilo for organic, and 250 TSH for non organic coffee beans (note, Fairtrade is not always organically grown). There are no other incomes noted in the data from the interviews with the farmers of KNCU. (D.I.Mboro. Kibosho Central Rural Cooperative Society, 2010)

### 6.1.1 Fairtrade Certified Farmers, Members

There is a large variation in scale of production even though all of the interviewed persons are family farmers. The production varies between 30 to 200 kilos of produced dried coffee beans, with an average of 93 kilos produced per year. The size of the productive land is, on average 2 acres, but the land is being used not only for coffee plants (see table 1 below).

Most farmers are growing bananas, avocados, maize, beans and other seasonal crops to supply the family with food and to maintain the selling of products from the farm. The most common crop to mix together with coffee is banana trees. Costs vary from case to case. Some farmers employ people during the harvest, and others do all the work them self. (Members of Marangu and Kibosho Cooperative Society, 2010)

*Table 1. Data of production economy of members of the primary society.*

#### Members

	Minimum	Average	Maximum
Size of the Family	5	7	10
Produced kg/year	30	93	200
Field Acre	0,5	2	7
Costs	0	65 000	250 000
Income	75 000	233 000	500 000
Gross margin	30 000	168 000	500 000

(Costs, income and result are in TSH)

*The estimated data under "Minimum" and "Maximum" are costs, income and gross margin. They do not match between each other.*

Results from the cost benefit analysis of the members of Primary Societies shows there are profits in most cases for coffee producers. The largest yearly cost in this study is 250 000 TSH, for a family farm that delivers 200 kg per year (organic and member). This farm made a profit of 250 000 TSH last year. Some farmers in the field study have no costs at all for producing the coffee beans, i.e. farms with old plants which have no production costs. Even in some cases the costs were higher than the revenue, and growing coffee is not profitable at all. In these cases, the farmer was supported with other crops that resulted in a better income for the farm.

### 6.1.2 Conventional Coffee Farmers, Non Members

Similarly to the group of members, the non member group has a large variation in scale of production even though all of the interviewed persons are family farmers (see table 2 below). The production in this group varies between 20 to 300 kilos produced dried coffee beans, with an average of 136 kilos per year. The size of the productive land is on average one acre and the land is being used not only for coffee plants. Most farmers are growing bananas, avocados, maize, beans and other seasonal crops just as the farmers who are members. The average yearly cost for a farmer in this group is 97 000 TSH, counted for manpower, rent of machines and tools. (D.I.Mboro. Kibosho Central Rural Cooperative Society, 2010)

*Table 2. Data of production economy of non members of the primary society.*

	<b>Non members</b>		
	<b>Minimum</b>	<b>Average</b>	<b>Maximum</b>
<b>Size of the Family</b>	6	8	9
<b>Produced kg/year</b>	20	136	300
<b>Field Acre</b>	0,5	1	3
<b>Costs</b>	80 000	97 000	112 000
<b>Income</b>	40 000	272 000	600 000
<b>Gross margin</b>	8 000	213 000	520 000

(Costs, income and result are in TSH)

*The estimated data under "Minimum" and "Maximum" are costs, income and gross margin. They do not match between each other.*

Since farmers in this group are non members, they do not receive any of the premiums that Fairtrade guarantees. The only revenue they get is the unit price of the coffee they deliver to the buyer, whom it may be. (H.Climo, Marangu East Cooperative Society, 2010)

Results from the CBA of the non members shows there is profit in most cases. But they are much smaller than in the case of members. The largest yearly cost in this study is 112 000 TSH, on a family farm that deliver 60 kg coffee per year (member and organic producer). This farm made a profit of 8 000 TSH in 2009. Even in this group some cases show the costs were higher than the revenue, and growing coffee is not profitable at all. Especially when the farmer is a non-member and do not even receive the premium. The largest profit in this group is a family farm with 300 trees, delivering 300 kilos of coffee beans, with costs of 80 000 TSH for harvesting once every



year. The profit of this farm last year reached 600 000 TSH. (Non members of Kibosho Central Rural Cooperative Society, 2010)

Six out of ten farmers think the economy has changed in a positive direction since the Primary Society got certified by Fairtrade. The others have no opinion or cannot see any difference other than the Fairtrade premium makes it possible for orphan children to go to school.

### **6.1.3 Comparing Conventional and Fairtrade**

Farmers in the area of this study are all owners of the land they are cultivating. There have not been big investments in land or in new plants in any of the cases. The coffee plant that has been built many years ago is still there, and sometimes it makes no difference if the plant is there or not, because the profit, if there is one, is not making any big sense. But as long as there are no other possibilities to invest in other crops, the production will go on. (Farmers of Marangu East and Kibosho Cooperative Society, 2010)

Being a member of the Primary Society makes it not compulsory to deliver the coffee beans to them every time. Or at least, there are no regulations or controls saying this. But in most cases the Primary Society gives the best unit price, or at least the most stable price. Also, the members own shares in the Union, and because of this there is an interest in supporting the Union. The price is set in a yearly interval, and cannot change during this period. Selling the coffee to the Primary Society as a non member is not as good deal for the members. As a member economic advantages and other benefits such as information about coffee farming and new free plants are offered. (P.M.Shirima. KNCU, 2010)

The costs are relatively low, since most farmers in this study do most of the work themselves. There are only local fertilisers used, and no pesticides, which is common to be the large cost for coffee farmers in other cases. Producing coffee in the rural area is not about making a big profit. Focus is rather on getting food for the day to the household. Saving money for a venture of other better crops to the farm is not appropriate. (Farmers of Marangu East and Kibosho Cooperative Society. 2010)

On average the profit is 1806 TSH/kg for a member and 1566 TSH/kg for a non member. The profit in producing coffee as a family farmer exists in the most cases. But the revenues are not good enough to survive on only coffee beans and coffee production does not always compensate the costs.

Every interviewed farmer is growing other crops on the farm. The farmers could not survive on only producing coffee. The Fairtrade premium helps in a good way, both in motivation, information about coffee farming and economically. All of the farmers are hoping the world market price will increase in the future, and wishes the unit price would be at least 3000 TSH. This is to make coffee a profitable and meaningful crop for the farmers.

The impact of Fairtrade that is claimed seems extensive not only as the individual farmer who is the only one who gets benefits, but also the community that is surrounding the farmers. In the article *Half a Cheer for Fair Trade* the author's opinion is that Fairtrade is profitable in a small scale system, but it is not sustainable in the long run. The Fairtrade only encompasses a minority of producers and a regulated system with the price guarantee cannot be sustainable in the long run. Countries need to trade, but they also need to have an institutional framework which facilitates business and growth. Since coffee is an inelastic product, the poverty cannot come from only the coffee production. (Booth and Whetstone, 2007)

So why do not all farmers become members of a Primary Society? The prices are stable, they are not on any contract on how much they should deliver, and they get a better compensation. The fee of being a member and the shares that has to be bought as a member is relatively high compared to the minimal profit the farmers are making. This is what interferes with the farmers from becoming a member.

## **6.2 Risk Analysis of Coffee Farmers in Kilimanjaro**

Risk can be defined as "the perceived extent of possible loss" (Internet, Mind Tools, 2010). There are different views of the impact of a particular risk – what may be a small risk for one person may destroy the livelihood of someone else. Risk analysis allows examining the risks that the farm is facing. It is based on a structured approach to thinking through threats, followed by an evaluation of the probability and cost of events occurring.

The analysis will be made in three steps. First, the threats that are facing the farm will be identified. The analysis of threat is important because it is easy to get an overlook of important threats. The second step is to think through the systems, organisations or structures of the farm, Societies and Cooperative and analyse risks to any part of them. In the last step vulnerabilities within these

systems or structures will be identified by asking other people, who might have different perspectives of the production.

### **6.2.1 Threats the Farmers are Facing**

Being a small scale coffee farmer in the rural areas of Kilimanjaro life is not about making big money or make success in a career. Life is about making food for the day and takes care of the family. The farmers are surviving on small margins and there are thousands of things that could be defined as a threat to the farm.

A reduction of the price is constantly a very big and important threat the farmers might face. The small margins make every single bean important. Since none of the farmers in this study are dependent on only coffee production, a negative difference in price would not be a disaster as long as the costs are lower than the revenue in the coffee production.

It is difficult to identify threats for members of the Primary Society (threats in the meaning of being a member). It is not compulsory to continue a yearly delivery of coffee beans to the society which means that the farmer can break the membership at any time, without any problems. The market of coffee could change in any case, i.e. the world market price would fall. Not being a member means that there is no guaranteed price when the farmer delivers coffee beans to the primary society. This means that being a member is more secure as the prices are more stable.

Nature disasters and climate change are always a threat nobody can have any influence on. But this is a huge threat that can cause total collapse of the agriculture in the rural areas. Since the profit is already as small as it can get, a change in the climate could influence the farmers. This is already a topic the farmers mentioned as a problem. The plants do not grow the way they were used to do, and there are new kinds of fungus and diseases that attack the plants like never before.

When a Fairtrade marked bag of processed and roasted coffee is being bought in the supermarket in a developed country, there are many middleman's hands the money should pass before the premium reaches the farmer in the other end. The premium is one of the most important topics the commercials are pointing at in promoting the Fairtrade produced coffee. Within the trading system of coffee, there is a risk taken in every movement between partners.

## 6.2.2 Structure and Cooperative risks

The structure of the AFN is big and complex, and the Primary Societies or even the cooperatives are not aware of how it is built up or connected to the Fairtrade system. There are farmers in the study who do not even know what Fairtrade is, even though they are members of a society that belongs to a Fairtrade certified cooperative. Making farmers aware of what Fairtrade is could prevent the risk of letting the opportunities of producing Fairtrade get lost.

If something unexpected should happen to the Primary Society, the farmers would be in an exposed position. A production without a place to deliver the coffee beans, the production of the year would get lost. The shares the farmers have invested in the society would also be lost, and this money is important savings for the family farmers. Fairtrade gives no guarantee the farmers can fall back to if something unexpected will happen to them.

Since none of the farmers have any employees, there are no organisational threats within reputation of the business on the farm. Threats on this question would in this case be if something would happen to an important family member that would affect the production on the farm, such as illness or death.

The project of becoming Fairtrade Certified itself can be a threat, such as risks of cost over-runs, jobs taking too long, of insufficient product or service quality. Financial threats from business failure can occur, stock market, interest rates, unemployment, etc. There is no risk there are any technical threats from advances in technology or technical failure, because there are almost no machines in use on the farms. Political threats from changes in tax regimes, public opinion, government policy or foreign influence can also affect, but since the members of the Societies are on contract with a stable price and taxes are being paid by the cooperative it would take long before the farmers would be affected.

### **6.2.3 Surrounding People**

By working out the likelihood of the threats, they can be assessed. This is to see the chances of the threats being realised and to assess its impact. It is possible to count a value for the risks. The probability of the threats occurring are estimated, and multiplied by the amount it will cost the farm to set things right if it happens.

Poor people in developing countries are the most risk-averse people, because they have no access to safety nets. A small loss of income can have large consequences when living on the margin. None of the farmers in this study have thoughts about any future threat or any preventing methods to save the farm in that case. The fighting spirit of the business is not there, and the willingness to change the situation is not to think of. This makes it impossible to count a value of the risk the farmers are facing. The farm is all they have so in brief any risk put the farmers in an immoderate situation, where the question is how to survive rather than how much money they lose.

## **7 The Impacts of Fairtrade on Farmers of KNCU**

This chapter is a discussion about impacts of Fairtrade on the farmers of the Primary Societies and how they are affected by the circumstances of being a coffee farmer today. Fairtrade is affecting the society in the Kilimanjaro region through two ways: the producer organisations with social effects, and the monetary way through the premiums and higher prices.

At the time of this study in Tanzania, coffee prices were relatively low. The effects of the financial crises have not reached the farmers or the primary societies. The budget of 2011 was being set during the study was taken place, and procurement manager Patrick M Shrima shared his information that says the economy is going down. Some consequences of the crises will be noticeable in a short future for the farmers. Fairtrade is not known in general among people in Tanzania. Being a member of a Primary Society in this situation still gives the farmers the guarantee price and this is a great impact of the certification. An economic loss will then be on the cooperatives shoulders, which are more economically sustainable than the single farmers.

The premium is extra payment to the producer from the buyer that supports the improvement of business, environment and community. All members of the primary Society have the right to take part to the decisions of what the money should be used for. The premium at KNCU has been used as funding for projects and training to the farmers. Training is provided yearly and include sessions on how to handle the picked cherries, reasons for mulching and how to prune the trees. Farmers take little responsibility for their own knowledge and development of their personal development. The training then must be continuous to maintain the knowledge of the used practices. Also the premium has been given as extra payment direct to the farmers. Ever since the certification was put to practical use, money from KNCU has been invested in the improvement of:

- Education for 200 orphan children
- Free coffee plants to farmers
- Monetary premium direct to the farmers
- Projects and training of coffee farming

There are no other plans on any other investments at the moment. According to Mr. Sanga at AFN, KNCU will be focusing on not reducing the unit price of the coffee in the first place facing the effects of the financial crises. But this is no guarantee, and the farmers will be the losers again if this will happen.

The probability of these investments without the Fairtrade money is low. The financial status of the cooperative and the Primary Societies are low as it is. The structure of Fairtrade excludes the non members from the financial benefits of Fairtrade, although farmers surrounding in the area of the Primary Societies are all taking part of the social benefits, such as education for the orphan children. The education of orphan children will increase the ability to write and read in the community. Education is important to facilitate the development, since the social returns are much higher than the social costs at the secondary and primary educational level. Taking care of orphan children concerns a social policy and is not an economic matter directly, but when people get basic education such as reading, writing and mathematics, the productivity increases markedly. Education is a necessity for a society to use modern technology efficiently and to increase the capacity and productivity of the country.

Fairtrade guarantees the minimum price to the farmers for the coffee delivered. This means the farmers get a stable income and have the opportunity to plan ahead. If the farmers can plan ahead they can make better decisions in the production of the farm. The majority of the members think the prices have stabilised since the cooperative unions became certified. The reasons why revenues and prices are higher are not quite understood for many of the farmers.

There are confusions within the system of AFN and the Cooperatives since the organisation structure is quite complex (see appendix). Some farmers know they are certified by FLO, but not by Fairtrade. The word Fairtrade is a single common denominator, and leads to some language questions also. The farmers might be aware they are part of Fairtrade. But the fact that they consistently have been able to sell their crops is an indirect benefit of Fairtrade they are not aware of. The benefits of Fairtrade are quite hard to define. The question is about awareness of Fairtrade. The main reason to this is that KNCU does not give enough information about Fairtrade to the farmers. The only information that is provided is the membership of the primary society. What happens higher up in the organisation flow is out of their hands and no interest is to be found. Some farmers are not aware of the fact they are certified by Fairtrade. All farmers in this study are uneducated, and it is difficult for them to understand the standards that have been set up in whole as well. Another issue is when farmers do not care if they are producing Fairtrade products or not. The request for organic, environmental friendly production that the industrialised countries are dealing with in the promotion of Fairtrade, it not the most priority issue for farmers belonging to KNCU.

The lack of infrastructure in the farmer's society is one of the reasons to the exposed situation the farmers are in. The availability of the information of prices and buyers is scarce. Opportunities in transportation of the coffee beans are limited because of the roads are in bad shape or no access to transportation at all. This causes a supply constraint and makes opportunities for private buyers to individually collect the beans. Tanzanian cooperatives give farmers an alternative market and even the members have the possibility to choose buyers on their own. Their presence to private buyers is a counter balance that stabilise the market, which lead to a price competition and further a higher price of the coffee.

Private buyers are creating a challenge for the cooperative when the the Fairtrade minimum price is below the world market price. When this occurs, the middlemen can pay the same price as the cooperatives do. The farmers are tempted for fast cash and the retention of members can be a problem. The cooperative cannot commit the members to the Primary Society; this creates a view of the membership as temporary and unconditional.



## 8 Conclusion

The conclusion of this study is intending to address the research question in chapter one, which is to investigate the existing economic benefits and risks that Fairtrade certified coffee producers get, compared to conventional coffee producers.

Small scale farmers engaged in coffee production live in rural areas of Tanzania where poverty is widespread. The farmers are put into a vulnerable position since the coffee prices are extremely volatile. Fairtrade certified farmers get the opportunity to have a stable income that often is higher than the income received as a conventional coffee farmer.

Coffee farmers of the Kilimanjaro Native Cooperative Union are people with very little margins and are the most risk-averse people with no access to safety nets. The different risks the farmers might face in their production, between being a member and not is, a small loss of income can have large consequences when living on the margin. Any risk these farmers might face would result in big consequences with the matter of their existence.

Economic development is a process that can change the society in an economic, political and social way. The impact of Fairtrade is clear when the world market prices are low, when the cooperatives operate at loss and Fairtrade successfully is protecting the farmers from going bankrupt and poor. The criteria of the Fairtrade labelling that the consumers in the developed countries are facing are no guarantee that a certain percentage reaches the farmer, but all in all the premium and guarantee price helps the farmers to plan their production ahead and the ability to make conclusions about the future. Other risks the farmers are facing are plenty. The most realistic and most likely to analyse would be if the cooperative get lack of finances. Margins are already small as they are, and one other reduction of the payment would put the farmers down.

The KNCU's presence in the coffee district of Kilimanjaro can increase the competition between the farmers and enables them to get higher prices for their coffee beans. There are visible economic benefits of being Fairtrade certified. However there are several weak parts of the certification that should be taken into account and prevent success. There is no guarantee the farmers are covering the cost of the production. A membership of a Primary Society is a big investment for the farmers. Far from everyone get the possibility to produce Fairtrade coffee and become a member because of the lack of money.

Consumption of Fairtrade goods are increasing rapidly in many countries, which gives the brand a bright future. Hopefully the farmers will get better access to the world market through the education that Fairtrade offers. The fact that some farmers are not aware they are producing Fairtrade coffee is a big problem today, and will be in the future if things are not changing. If all farmers would have the knowledge of Fairtrade, they could have better influence on their own situation, and the premium that consumers are paying extra money for, would be known and expected in the end of the chain. Once the Fairtrade trend has stabilised, the possibilities of becoming a member as a poor farmer should be an option.

The quality of life is expected to increased when the money from the premium come in the right hands. The cooperative give training to raise the knowledge about Fairtrade and coffee farming so they get better knowledge about quality and prices. This will put the farmers in better positions when it comes to bargaining on the local market, and this might also allow access to other markets that could increase the export.

This study will hopefully be guidance for cooperatives in Tanzania and show the economic differences and benefits that Fairtrade coffee production brings to farmers.

## **9 Future studies**

Fairtrade products are price market higher than conventional products. The chain is long and the money has to pass plenty of middlemen before it reaches the farmer in the end of the chain. In every joint the money is passing there is a risk, and tempting situations can occur in corrupted countries. To measure the actual premium the coffee farmers receive compared to how much the consumers pay extra, could be an interesting topic to study further in the future.

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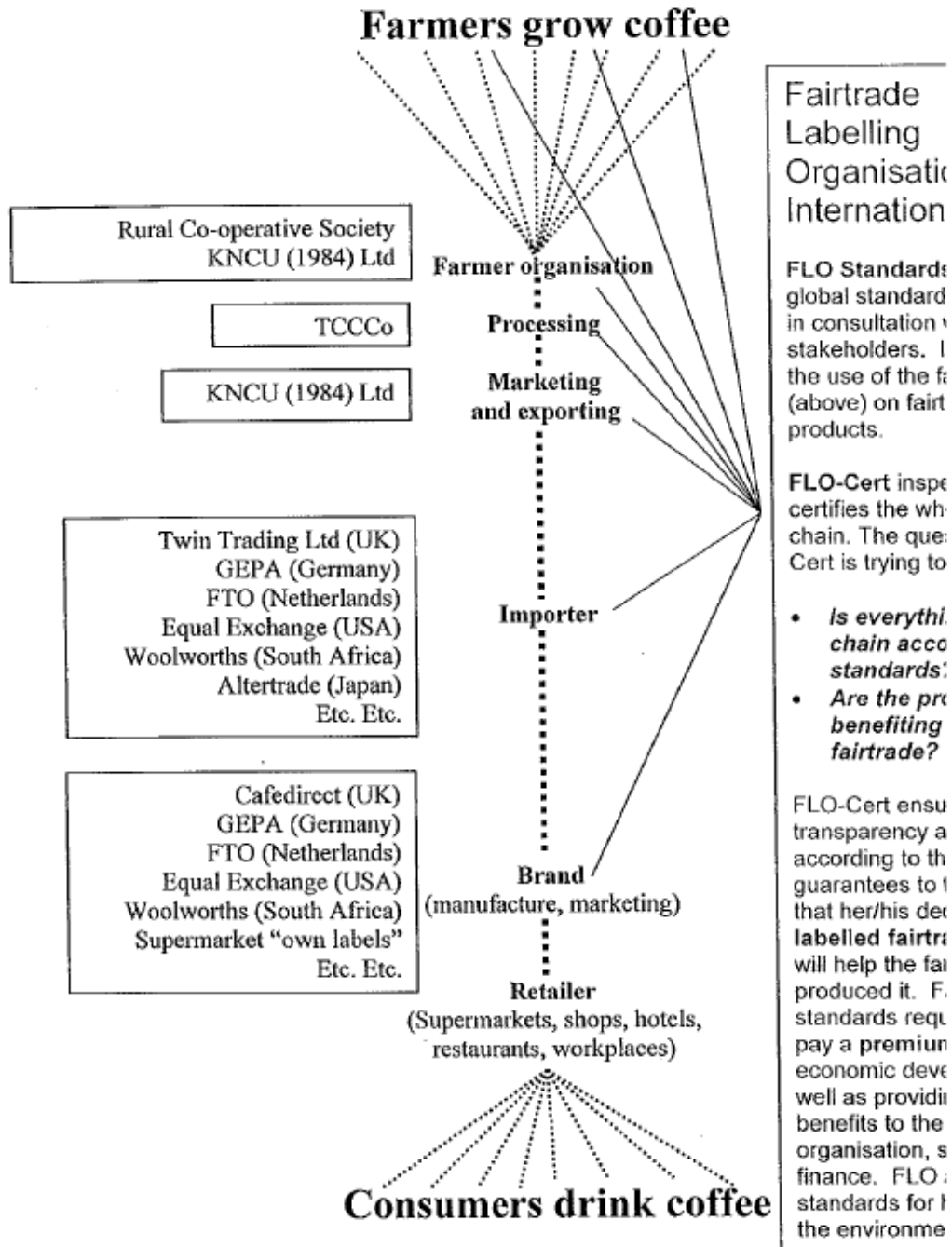
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# Appendix 1



## The FAIRTRADE Trading Chain



Poster by:

