DIRECT COFFEE EXPORT BUSINESS AND IMPROVEMENT OF AMCOS MEMBERS LIVELIHOOD IN TANZANIA

EVIDENCE FROM PRIMARY CO-OPERATIVE SOCIETIES PULLED AWAY FROM KILIMANJARO NATIVE CO-OPERATIVE UNION

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Abstract

The current market reform has brought changes through which coffee business is undertaken in Tanzania, in a traditional marketing system Kilimanjaro Native Co-operative Union (KNCU) could collect and market coffee on behalf of the primary co-operative societies dealing with coffee production in Kilimanjaro region, today some primary co-operative societies which pulled themselves away from KNCU are selling their coffee direct to the market for the purpose of generating income and improving their livelihood. Findings shows that Direct Export Coffee Business contribute positively towards AMCOS members livelihood in Tanzania including maintaining higher levels of income, making small farmers able to construct decent houses and send their children to school, and provision of health insurance to sustain rural livelihoods. The study recommended that, there is a need for government to intervene and provide enough support to these AMCOS including providing co-operative education and training to members, putting in place attractive trade policies and conditionality to foster coffee business, presence of governance and good leadership within the primary co-operative societies, access to financial services, adoption of new production technology and employing Competitive Marketing Strategy to resist market competition.

Keywords: Direct Export Coffee Business, Members Livelihood improvement, AMCOS, KNCU, Primary Co-operative Societies
INTRODUCTION

Co-operatives were formed by peasant farmers in Tanganyika around 1925 with the purpose of enabling indigenous peasants to capture at least part of the trade profit from some of the then known as ‘cash-crops’, such as coffee, cotton, tobacco, cashew nuts, tea, etc. These co-operatives have continued to grow and by 1966, there were 1616 registered co-operatives. Out of these, 1,339 were engaged in marketing of agricultural products. One of the ways in which the co-operatives enable indigenous peasants to capture profit is through marketing crops on behalf of the individual co-operative members. Due to complaints of mismanagement and corruption being common, the Government issued a decree abolishing the co-operative unions in May1976 (Tiruhungwa and Kalindi, 2012).

Sizya (2001) points out that agricultural marketing co-operative have emerged as a critical rural development institution in Tanzania. They have been the kingpins of development interventions aiming to alleviate poverty of the small holder farmers spread out in the rural areas of Tanzania. The colonial governments promoted the formation of agricultural marketing co-operatives particularly for cash crops mainly coffee, cotton and tobacco. The Nationalist post-colonial government saw co-operatives as an important vehicle which could be harnessed to spread the benefits of development to a wide section of the Tanzanian population. This was to be done by combining the energies of the farming community and the workers to feed, clothe house, and educate themselves and their children and generally better their economic and social lives. In order to achieve economic independence co-operatives were expected to play a more dominant role in business as a means of reducing foreign domination.

In Kilimanjaro region, most Agricultural Marketing Co-operative Societies (AMCOS) were primarily engaged in coffee marketing. The practice was that every AMCOS would obtain a loan from Kilimanjaro Native Co-operative Union (KNCU) for buying coffee from the farmers and KNCU was responsible for coffee curing and the later stages of the marketing process by transacting, on behalf of the primary co-operative society, with Tanzania Coffee Board (Sizya and Tiruhungwa, 2006).

Regardless of the role it has been played KNCU faced a number of problems and therefore it has not been able to pay the farmers on time or failing to pay the societies levy on time because of sales of immovable assets, this situation has caused some of primary co-operatives societies to withdraw from KNCU and forms their own independent AMCOS known as G 32 which is a combination of 32 primary co-operative societies withdrawn from KNCU and the other independent Agricultural Marketing Co-operative Society known as Mamsera. The main purpose of forming their own independent AMCOS or union is to sell their coffee direct to the market and benefit from the economics of scale offered by the international market. Some of
the independent primary co-operative societies include Mruwia under G 32, while the independent AMCOS includes North Mwika, Mengwe and Mamsera in Rombo District.

THEORETICAL FRAMEWORK
The Direct Export Coffee Business: An Overview
Leeson (2013) states that there is no formal definition of direct trade because there is no unifying organization that regulates the direct trade practices of all the companies practicing it. Currently, “direct trade coffee” is an umbrella term that refers to companies who work directly with coffee producers and/or producer groups. Most often, prices are negotiated between the two parties and both sides will also discuss their specific needs and requests with the purpose of developing and maintaining long-term relationships. Brown (2012) adds that terms such as Direct Trade or Relationship Coffee can refer to the type of relationship that roasters form with either a co-operative, a mill, or a single farm. A co-operative is a union of smallholder farmers who grow coffee separately but process and market the coffee collectively.

Kharazi (2010) identify that direct exporting is a less passive way to export a firm’s products, however more active and more profit potential goes hand in hand with more risk for the firm, thinking of investments in time and goods. Direct exporting can take place using one of the four export strategies; Domestic-based export department or division, Overseas sales branch or subsidiary, Travelling export sales representatives, and Foreign-based distributor or agents. In line to this, Milford (2004) he was of a view that direct access means that many links between producers and consumers are cut. The co-operative will sell directly to (usually small sized) roasting companies based in Europe or the US, instead of going through several intermediaries, both national and foreign. Fair Trade coffee gives a much larger percentage of the final consumption price back to the producer than is the case with conventional coffee.

The direct trade model potentially entails the ability to address this cultural and ideational challenge within ethical trade. “Direct trade” is a term most often used by coffee roasters, who buy straight from the farmer, removing the traditional middlemen and some of the above mentioned certification schemes. Originally, the model was made public by Geoff Watts and Intelligentsia Coffee in 2003 as an improvement to certifications like Fair Trade (Meehan, NY Times, 2007, September 12).

The Coffee Business and its Importance to the Developing Economies
The agricultural sector is not only the most important for rural poverty reduction; it is also of critical importance to the economies of many developing countries, which depend above all on agricultural commodities as the main source of export earnings. According to the World Bank,
indeed, agricultural and other labour-intensive products represent more than half of low-income countries’ exports and about 70% of the least-developed countries’ export revenues (International Fund for Agricultural Development (IFAD, 2003).

Chambo (2009) justify that as the term goes, agricultural marketing co-operatives have been the most popular traditional mode of co-operative development that has linked developing countries with the rest of the world, through export commodity trading. It must also be recognized that the incidence of agricultural co-operatives in Africa, is not accidental. Most developing countries including those in Africa depend on agricultural production for their livelihoods. The statistics indicate that 84 per cent of the population in African countries depends on agriculture as source of food, income and employment.

International Coffee Organization (2013) identifies that coffee is the second most traded commodity in the world after oil, produced in more than 70 developing countries and consumed mainly in developed countries with over US$21.6 billion of total export value. Over 60% of the world coffee is produced by just four countries: Brazil (34%), Vietnam (14%), Indonesia (8%) and Colombia (7%). At least 14 countries depend on coffee for 10% or more of their export earnings. It is also important for rural livelihoods, since more than 70% of the production worldwide is on farms less than 10ha in size. Commercial coffee presents two main varieties, arabica and robusta, with the latter being more expensive, both in terms of cost production and price, and presenting more taste variety compared to the former (Consumer International, 2005).

Reyes (2014) revealed that coffee is one of the most significant exported commodities by Brazil Colombia, Guatemala and Honduras; these are among the top exporting countries of Arabica coffee. Naturally, coffee plays a significant role in the composition of the Gross Domestic Product and Agricultural Gross Domestic Product of these countries. Coffee makes up the highest percentage of both GDP and AGDP for Honduras with 7.37% and 48.17%, respectively. Honduras is similarly followed by Guatemala with 2.49% and 21.08%; Colombia with 0.86% and 12.53%; and finally Brazil with 0.35% and 6.41%. It is important to emphasize, however, that the dollar value of coffee’s contribution to GDP and AGDP is the highest in Brazil, followed by Colombia, Honduras and lastly Guatemala.

Direct Export Coffee Business and AMCOS Members Livelihood.
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, without undermining the natural resource base (Carney, 1998).
Chambo et al, (2007) declare that Agricultural co-operatives maintain higher levels of income, making small farmers able to construct decent houses, send their children to school and provide health insurance to sustain rural livelihoods. They also, have the advantage of accessing co-operative education and business development capacity building. Co-operative education enables them to participate in democratic debates and exercising democratic principles and leadership training. This gives them the ability to become enlightened citizens able to debate more effectively different political issues of concern to the community. But through co-operative education and practice, they also gain the skills of running business. That is why; rural development would greatly be enhanced, if people became members of agricultural co-operatives in general.

In 2004, KILICAFE sold over 1,500 metric tonnes with total gross sales of US $ 3 million. Over 10% was sold directly to international buyers in USA and Europe and Japan with the remaining sold through the national coffee auction in Tanzania. The prices realized from the sale of the KILICAFE in the local auction are 1.3 times those realized by private sellers or Kilimanjaro Native Co-operative Society normal coffee. The premium quality sold directly outside the country realizes 2.8 times the price realized by other sellers in the local market (Olomi, 2006).

The last ten years have seen the rapid development of niche markets for the highest quality coffees on consumers markets (United States, Japan, Europe, Emerging countries). Tanzania can capitalize on this excellent coffee quality potential to place an increased share of its production on the specialty niche markets. Historically coffee prices have had significant volatility, due to the overdependence on Brazil as a supplier (frosts, droughts, currency exchange rates etc.), as well as the destabilizing effect of financial speculation. Recent studies have demonstrated that specialty coffee markets for the highest quality coffees are less prone to price volatility. Although certainly not a total solution, the specialty coffee segment therefore presents Tanzanian coffee farmers with an exciting opportunity (Tanzania Coffee Board (TCB, 2012).

A study done by Sumelius et al (2013) found that as a result of involving in direct export coffee business G32 pays a higher price to farmers and has a lighter cost structure. The G32 exports fair trade directly to Japan to three different buyers of fair trade coffee. Each primary society obtains a social premium, which the Japanese buyers pay. Because of this, the price is better. Of the final price the primary producers are paid approximately 75-85% (USD/kg 1.75) and in addition a USD/kg 0.15 social premium, or together USD/kg 1.90. G32 sometimes also sells to other buyers in Tanzania. In addition to receiving a better price the overall cost structure
of G32 is minimal because of low administrative costs, including a low number of employees. The staff of G32 comprises only the general manager, an officer and an accountant. Another study conducted by Ainebyona and Tiruhungwa (2011) revealed that by withdrawing from selling coffee through KNCU, a coffee farmer in Kilimanjaro region generally reduced on transaction for each kg of coffee marketed/sold by TShs 54.96/kg in 2009/2010 growing season. This was because a farmer selling coffee through KNCU incurred a higher cost of transaction (TShs 937.39/kg) per kg sold compared to TShs 882.43/kg incurred by a farmer who was a member from a primary co-operative society that had declined from selling through the co-operative union and was selling coffee through a different arrangement. The economic implication of this is that a farmer lost TShs 5,496/kg for every 100 kg of coffee sold through KNCU.

**AMCOS as an Instrument for Poverty Reduction and Community Development**

Different scholars have delved on how direct coffee business may enable Agricultural Marketing Co-operatives (AMCOS) to generate profit and ensure the improvement of its members livelihood, for example there is a widely held consensus among many actors, including the United Nations (UN), the International Labour Organization (ILO), and the International Co-operative Alliance (ICA), that the co-operative enterprise is the type of organization that is most suited to addressing all dimensions of reducing poverty and exclusion. United Nation (2009) hold a view that Co-operatives provide opportunities for social inclusion, in the informal economy, workers have formed shared service co-operatives and associations to assist in their self-employment. IFAD (2012) supports that Co-operatives offer small agricultural producers opportunities and a wide range of services, including improved access to markets, natural resources, information, communications, technologies, credit, training and warehouses. They also facilitate smallholder producers’ participation in decision-making at all levels, support them in securing land-use rights, and negotiate better terms for engagement in contract farming and lower prices for agricultural inputs such as seeds, fertilizer and equipment.

In line to this, a study conducted by Majurin (2012) found that in Kenya, it is estimated that 300,000 people were employed in co-operatives, movement institutions such as the apex and the co-operative department in 2010, and in Tanzania, 115,000 people were estimated to be employed as co-operative permanent and seasonal workers in the same year. Available data for Uganda indicates that Ugandan co-operatives employ 1,634 women, accounting for 31 per cent of all cooperative employees. This indicates that the co-operative has been playing very important role in poverty reduction and community development subsequently.
Kyazze (2010) revealed that in Uganda Cooperative Food Security Project (CFSP) targeted women with the objective of increasing food production and storage. The Youth Economic Empowerment through Co-operatives project was also managed by Uganda Co-operative Alliance (UCA), and sought to develop youth and to contribute to improving living standards through sustainable community-based co-operatives. Through this project, over 8000 youth in 10 districts increased their income and created several other business ventures.

A study conducted by Dondo (2012) shows that in 2008, Kenya had 8,507,000 co-operative members while Tanzania had 1,600,000. Primary co-operatives alone had created 300,000 jobs in Kenya and only 34,524 in Tanzania. Indirect employments were 303,455 in Kenya while Tanzania had no figures for indirect employment nor for the total jobs created in the same year. Co-operatives created 3,445 jobs within Kenya’s government offices and their affiliated institutions versus Tanzania’s 425.

Maghimbi (2010) said that the quality of employment in co-operatives may be low. However, the standard of living of co-operative members in villages (peasants) is low, but better when compared to those who are not members of co-operatives. The standard of living of co-operative members was measured by observing their housing, dressing, schooling of their children, freedom from debts and ownership of bicycles, radios and mobile phones. It was also measured by looking at the socio-economic activities in which they engaged. In some areas, such as Uru North, the co-operative provides services to the community that increase the community’s quality of life, for example, building of schools, water development, a dispensary and caring of orphans.

Tesfay and Tadele (2013) believes that co-operatives have a role to play in alleviating different shocks, and paving the way towards recovery that is socially and economically sound and sustainable. Ultimately, cooperatives can create a safe environment where women increase their self-confidence, identify their own challenges, make decisions and manage risks. As a result, women are empowered and become active agents of change, entrepreneurs and promoters of social transformation who can improve their own lives and those of the community. Majurin (2012) revealed that co-operatives are also effective points of entry for addressing a broad range of gender equality issues such as unpaid work, shared responsibilities and gender-based violence.

**Challenges facing AMCOS dealing with Direct Coffee Business in Tanzania**

Despite the crucial role that AMCOS has been playing in Tanzania, still there are challenges that affect the achievements of their goals including poverty reduction among its members. Tanzania’s stagnated coffee production is largely the result of declining yields. One of the main
causes for this problem is the age of the coffee trees as well as deficient husbandry practices. It is usually considered that a coffee tree becomes economically unprofitable when it passes the age of 20-25 years. In Tanzania, most of the 240 million coffee trees around the country have exceeded this age URT (2012).

Gabagambi (2013) pointed out that most of Tanzanian smallholder farmers relying solely on rain in their farming activities during drought season, most of them fail to produce. The absence of adequate irrigation schemes aggravates the situation. It is estimated that, Tanzania mainland has a total of 29.4million hectares suitable for irrigation with various potential levels but only about 0.33million hectares are under irrigation. While in Zanzibar, potential area for irrigation is 8,500 hectares, but only 700 hectares are practically under irrigation, not a comfortable situation.

Mmari (2012) identified three factors account for the instability and decline in coffee prices: first, changes in the regulatory framework of coffee trade, including the collapse of the International Coffee Agreements (ICA) quota system in 1989; second, technological innovations in coffee roasting and blending, which have enabled coffee roasters to adjust their blending so that more of the lower-cost coffee can be used, whose supply has increased dramatically; and third, the increase in supply of coffee and the changing structure of production, particularly the production boost in Brazil and the entrance of Vietnam as a leading coffee producer. While Vietnam produced only 73,000 bags of coffee in 1980, at a time when Tanzania produced just over one million bags, by 2009 Vietnam produced 18 million bags compared with 709,000 bags in Tanzania.

Panhuysen and Pierrot (2014) identify that in all coffee producing countries small-scale farmers, men and women, face particular challenges in building their livelihoods from agriculture and in overcoming poverty. Generally, these coffee growers are not well organized; as a consequence they lack market information and bargaining power. Low and volatile prices for their green beans and increasing production costs, due to rising prices of key inputs, such as fertilizers, transportation and labour, discourage entrepreneurial activity and necessary long-term investments in their farms. Since, coffee producers receive only a small share of the final market value, this poor deal may limit their incentives to farm sustainably and adopt good agricultural practices. Despite some impressive macro-economic achievements resulting from the reform programs, agricultural growth and rural poverty reduction continue to present daunting challenges. Few smallholder producers understand how markets work, and even if they do, they do not have the information they need to participate effectively Kawa and Kaitira (2007).
CONCLUSIVE REMARKS
The Agricultural Marketing Co-operative Societies in Tanzania have been playing and will continue to play very important role in development of the national economy since the country economy depend much in agriculture sector, the discussion above indicate that direct export coffee business offers much opportunity to AMCOS involved and therefore it is the role of the involved AMCOS and Government to ensure these AMCOS are strengthened to ensure its sustainability in the current competitive market economy. If these AMCOS are given support they will be a very powerful vehicle of improving its member's livelihood and will ensure the achievement of sustainable community development in Tanzania.

RECOMMENDATIONS AND THE WAY FORWARD
Sustainable AMCOS, member’s livelihood improvement and community development in Tanzania may be achieved by doing the following:

Government Intervention
Independent AMCOS in Tanzania have been experiencing a number of challenges in their direct export coffee business, since the government has realized the roles played by these AMCOS there is a need for government to intervene and give enough support to these AMCOS including allocating extension agriculture officers to offer advice to the farmers on the right way of producing quality coffee that will attract the international market, the government should also provide farm inputs to farmers to ease coffee production. In doing so the AMCOS will generate enough income as a result gaining better coffee price at the international market that may enable its members to reduce their poverty level and hence attaining the Tanzania Development Vision 2025.

Co-operative Education and Training
Education and training is a key factor for capacity building among the co-operative members, so in order to achieve sustainability in AMCOS and improve its member’s livelihood, there should be a provision of education and training among the members for the purpose of capacity building. Training will empower AMCOS member’s skills on how best they can undertake international coffee business. Apart from coffee production the education provided will enable AMCOS member’s to undertake other economic activities for the purpose of income generation such as running shops, poultry, and other forms of business which may in turn improve their economic well-being.
Attractive Trade Policies and Conditionality
The government has a role to play in creating good atmosphere for the AMCOS to undertake the international coffee business, this can be achieved by putting in place a Attractive Trade Policies and Conditionality simplified coffee business taxes, including simple and clear procedures of acquiring license for the AMCOS which needs to export their coffee direct to the market. Attractive trade policies and conditionality will enable AMCOS to benefit from the international coffee trade and regain the AMCOS member’s confidence on coffee production compared to the current situation whereby many coffee farmers have lost hope in dealing with coffee production as a result of volatility nature of coffee price at the international markets.

Governance and Good Leadership
Governance and good leadership is a key to success in any co-operatives, KNCU suffered from this problem that is why some of the primary co-operatives societies decided to withdraw and form their own AMCOS, more important here is that the co-operatives which pulled away from KNCU has to ensure their leaders are ethical and transparent because the benefits offered by international market including foreign currency, and other information relating to coffee business has to be communicated to the AMCOS member’s to prevent un ethical co-operative leaders to misuse the money for their personal interest.

Access to Financial Services
In order to enable AMCOS to operate effectively there should be effective policy relating to access to microfinance services including access to loans, such loan may enable AMCOS to cover its operation costs relating to direct export coffee business such as cost of exporting the coffee to the market, payment of taxes, insurance and so on. Financial stability of the AMCOS may determine its ability to compete effectively in the international coffee business.

Adoption of new Technology
Science and Technology brought so many advantages to the coffee farmers which may help the value addition to their products. One can agree with me that in the world we are living today the role that are played by application of science and technology cannot be under estimated and therefore AMCOS are required to ensure they adopt these technologies in their coffee production process which will in turn add value to their product and secure better price at the market place. Technology adopted my help in roasting, blending and packing the coffee in a highly standard to ensure its quality does not deteriorate before the coffee reaches the international market.
Competitive Marketing Strategy
For the co-operatives to survive in the current competitive market economy there must be an effective competitive marketing strategy that aims at increasing sales and achieving a sustainable competitive advantage. Marketing strategy includes all basic and long-term activities in the field of marketing that deal with the analysis of the strategic initial situation of enterprise and the formulation, evaluation and selection of market-oriented strategies and therefore contribute to the goals of the enterprise and its marketing objectives. Since the competitors of coffee business are known globally it is good idea for the concerned AMCOS to assess the market situation using the Strength Weaknesses Opportunity and Challenges (SWOC) analysis and ensure they formulate effective competitive strategies to win the market and become more sustainable in international coffee business.

Use of Effective Export Channel
Among the challenges which face AMCOS in the international trade is its inability to deliver the coffee to the market at the right time and this is caused by ineffective channels that are used by most of co-operatives while exporting their coffee to the international market, the use of ships has been delaying the delivery of coffee which also causes the coffee to lose its quality hence lowering its price at the market. The government may support the farmers by lowering the charges relating to transportation of coffee to the international market so as to ensure quality coffee reach the market at the right time and secure better price.

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