



Small Producer Organization (SPO) Development, Strengthening and Resilience

KENYA COUNTRY REPORT

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Cover photo credit: Marcelo Tyszler, Kiegoi Tea Factory, Maua, Kenya.

1. Executive summary

Research on Small Producer Organization (SPO) development, strengthening and resilience was commissioned by Fairtrade International to the Royal Tropical Institute (KIT) in the Netherlands. The study is a qualitative-led mixed-method six country study (Côte d'Ivoire, India, Indonesia, Kenya, Mexico and Peru). This country report presents the findings from the research in Kenya.

Ten SPOs were visited in Kenya: four 1st Grade tea SPOs, four 1st Grade coffee SPOs, one 2nd Grade coffee union and one SPO which was neither coffee nor tea-related. The visits took place between July 19th and July 31st 2016. During focus group discussions (FGDs) with leaders and male and female members separately, 226 people were interviewed: 64 leaders and professionals (54 men and 10 women), and 160 members (96 men and 64 women). Additionally, two Fairtrade staff members were also interviewed.

The visits in Kenya revealed that SPOs are stronger in internal than in external relations and seem particularly strong in governance. Services to members are usually satisfactory, and within the budget limitations or financial possibilities of each organization, which is understood by its members.

In Kenya, it was clear that tea organizations had more financial power than coffee organizations, allowing them to offer more and better services to their members. Tea SPOs had seven times the average number of members and 12 times the average revenue compared to coffee SPOs.

A striking weakness of all SPOs concerns their share of Fairtrade sales and marketing. They have very little control over and understanding of how much of their sales will be contracted under Fairtrade terms.

Managing expectations of members is a challenge for these SPOs: they believe that the longer an SPO is certified, the greater the decline in their Fairtrade Premiums and sales will be. They blame lower prices in general and, for the tea cooperatives in particular, an oversupply of certified products. In fact, most members, and at times even the leaders, have the false expectation that from day one following certification, all SPO sales will be on Fairtrade terms, and that they will start receiving Fairtrade Premiums immediately.

Finally, SPOs are particularly weak in external relations and partnerships. With few exceptions, there are no structured conversations with government and no pro-active engagements with government or any other partner. The exceptions are often via non-governmental organizations (NGOs) or members of the Fairtrade system (such as Fairtrade UK), which seem ad hoc and uncoordinated.

Based on the findings of the study in Kenya, we recommend the following areas where Fairtrade can better support the strengthening of SPOs:

- Support SPOs in market development and increase transparency across the value chain;
- Partner with the (local) government directly;
- Promote and facilitate the use of information and communication technologies;
- Facilitate exchange among SPOs;
- Stimulate and strengthen 2nd Grade SPOs;
- Manage expectations of newly certified SPOs.

2. Introduction

Research on Small Producer Organization (SPO) development, strengthening and resilience was commissioned by Fairtrade International to the Royal Tropical Institute (KIT) in the Netherlands. The objective of the research was to provide insights into processes of development and strengthening of SPOs that are certified by Fairtrade. The research aimed at identifying the conditions, internal and external, that are necessary for SPO development to be successful, and how Fairtrade can best support and influence those conditions. The study focused on:

1. Collecting baseline data on present organizational strengths and weaknesses;

2. Providing insights into processes for strengthening SPOs within the Fairtrade system;

3. Making recommendations for how Fairtrade can best support the strengthening of SPOs; and

4. Exploring how the development of SPOs can benefit individual members.

This study is a mixed-method six country study carried out in Côte d'Ivoire, India, Indonesia, Kenya, Mexico and Peru (Figure 1). This country report presents the analytical framework and research methodology. The findings from the research in Kenya are then summarized, followed by recommendations for Fairtrade.

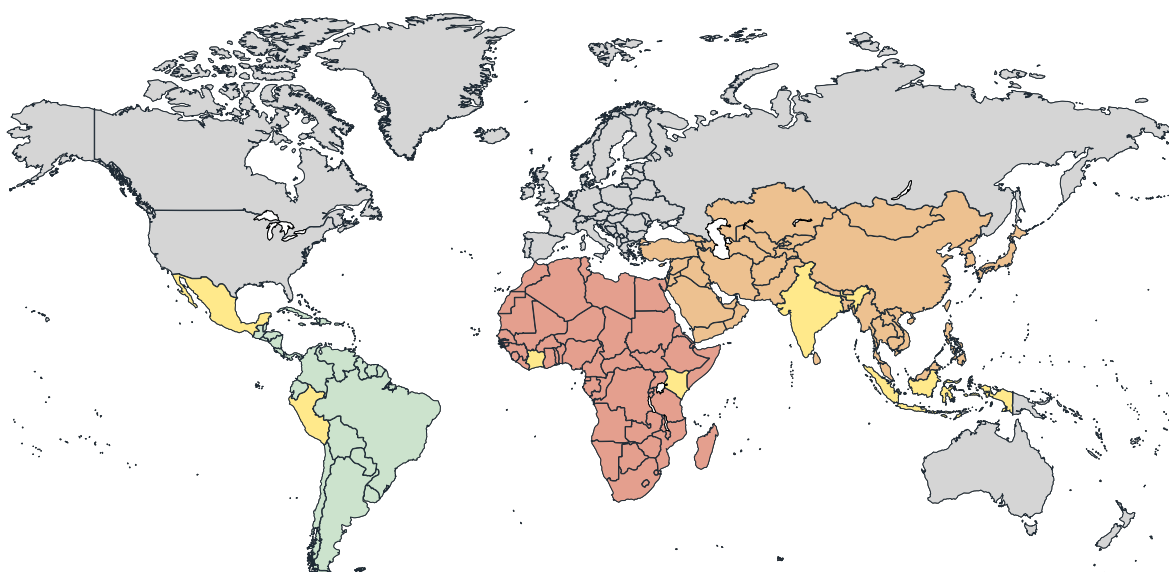


Figure 1. Countries in the study (highlighted in yellow)

3. Analytical framework

Fairtrade articulates a strong SPO as “a sustainable organization with a balanced governance structure, in which democratic principles are practiced and the business is effectively managed based on the collective needs of the members. The above requires for an SPO to have good governance and

business management capacities in place, serving a common purpose that is owned and internalized by its members.”¹

¹ Fairtrade International (2013). *Fairtrade Theory of Change*, December 2013

Successful SPOs, therefore, must be imbued with the following characteristics:

- Democratic structures to ensure participation and communication;
- Good governance, inclusive leadership and transparent management;
- Skill sets and capacities for managing businesses; and
- Strong economic and financial foundations.

SPOs' access to relevant information, resources and services, and infrastructure is essential. Moreover, organizations must be resilient, i.e. have the ability to anticipate, prepare for, and respond and adapt to incremental change and sudden disruptions to survive and prosper.

Baser and Morgan (2008)² developed a 'five core capabilities framework' to assess an organization's capacity and resilience. The five interrelated capabilities (5Cs) are:

1. The capability to adapt and self-renew;
2. The capability to act and commit;
3. The capability to relate to external stakeholders;
4. The capability to achieve coherence; and
5. The capability to deliver on development objectives.

1. The **capability to adapt and self-renew** is key to the resilience of an SPO. It requires reflexivity, i.e. the capacity to affect and interact with the environment in which the organization and its members operate. This, in turn, needs a certain level of flexibility, which can be a challenge for SPOs. The capability to adapt and self-renew requires good leadership and strong adaptive management capacities with a clear mandate and the autonomy to take and implement decisions if necessary. Democratic structures, inherent to SPOs, can sometimes hamper flexibility. At the same time, ownership by, and accountability to members, and consequent communication and information provision, are seen as key qualities of an SPO. In addition, many SPOs are bound by arrangements with their donor organizations or traders, or at least perceive their relationship with donors as restricting.

2. The **capability to act and commit** is related to the individual capacities of an SPO's leaders, staff and members to fulfil their roles and perform these according to agreed standards. At the same time, this capability refers to the degree of management and leadership autonomy required to take and implement decisions if needed (see the capability to adapt and self-renew). The capability to act and commit also depends on the systems and structures in place, which determine the space that leadership and management have to operate freely. Again, this requires balancing democratic principles, accountability and transparency on the one hand and the ability and flexibility to respond adequately and in a timely manner to emerging challenges on the other.

3. The **capability to relate to external stakeholders** is embedded in the nature of SPOs as they develop and maintain linkages with external actors (which may include private sector value chain actors, service providers or public sector and government agencies) on behalf of their members. These roles include policy influencing, lobbying and advocacy, mobilizing support, and negotiating better services and a better position in the value chain. The interactions can result in improved access to services, improved policies, rules and regulations, access to markets and more power through improved value chain linkages, among others. However, there seems to be a general tendency among SPOs to switch between actors rather than to maintain and enhance relationships. SPOs are also prone to taking up certain value chain functions that can sometimes be more effectively carried out by other actors. For example, rather than negotiating better arrangements with traders, SPOs engage in trading themselves. It is important that SPOs are truly representative of their members in order to be considered credible partners by stakeholders, and to ensure that the benefits of improved external relations serve the majority of their members.

4. The **capability to achieve coherence**: SPOs represent a multitude of farmers: large, small, marginal, men and women, young and old, subsistence and/or market oriented. The needs, interests and ambitions of these farmers vary greatly. Many organizations struggle to truly represent this diversity. Who are the members? Whose agendas dominate? Is the organization inclusive? Can it be really inclusive? Are women's interests sufficiently addressed? And what structures and systems are in place to allow this?

2 Baser, H. & P. Morgan (2008). *Capacity, Change and Performance Study Report*. European Centre for Development Policy Management, Discussion Paper No. 59B, April 2008

Setting objectives and translating these into services that meet the needs of all members is a significant challenge for most SPOs. SPOs are supposed to be guided by democratic principles, but these may not always avoid bias and exclusion. If members do not feel represented they might lose interest in and loyalty to their organization. Business-oriented organizations face risks particularly if members' loyalty is at stake. For example, agreed deals or contracts need to be respected, but if members decide to supply other markets the organization

will fail to meet its contractual obligations, affecting other members and the organization itself.

5. The **capability to deliver on development objectives** is partly related to resources, both human and financial. The organization can mobilize and commit to its activities, but its capacity is also influenced by the systems and procedures in place such as: administration, finance, information management, monitoring and evaluation (M&E), communication, and the facilities available (hardware).

4. Research methodology

The study used a qualitative-led mixed-method approach to research in order to ensure research validity, reliability and rigour. The analytical framework previously described, in combination with a grounded-theory approach, provided guidance to researchers during the fieldwork in the six countries. These tools allowed the primary qualitative data to be analysed, and the main conclusions and recommendations to be drawn.

4.1 ANALYTICAL LENS FOR THIS STUDY

In order to understand the underlying factors and conditions that contribute to making a strong SPO, and how Fairtrade can better support these organizations, an analytical lens has been used. Based on the 5Cs framework and Fairtrade definitions presented above, a desk review and further discussions with Fairtrade were conducted to analyse the strengths and weaknesses of SPOs for this study:

- Services to members:

An essential function of a strong SPO is to provide services to its members, and how this provision evolves over time is a key factor in its success. We investigated which kinds of services are provided, such as training, provision of inputs and equipment, financing, transport, storage, processing and marketing of produce, and advocacy and lobbying, as well as the level of member satisfaction with these services. Where possible, we provide evidence of members' satisfaction and commitment towards their organization.

- Governance and management:

A strong SPO requires a balanced governance structure and good management. We investigated leadership structures and elections, decision-making processes and communication flows within the SPOs.

- Sustainability and resilience:

A strong SPO needs to be economically and environmentally sustainable and ready to adapt, react and renew. We investigated the levels of (and variation in) production and sales, shares of Fairtrade sales, and how vulnerable the SPO is to local and system shocks (e.g. climate change) and trends (including risk mitigation measures).

- Business practices:

A strong SPO has effective and transparent internal business management and is in control of its business relations, including negotiating power, access to markets and finance, and strategic and business planning capacity. Additionally, it is capable of controlling quality during production practices. We also investigated how business is carried out with partners in the supply chain.

- External relations and partnerships:

A strong SPO also engages with local and/or national government and other organizations for the benefit of its members. We investigated if such relations exist, how other stakeholders are involved, what these relations are for, as well as how they evolve and develop over time.

Within each aspect listed above, we analysed the following issues:

- Overall findings: what are the overall findings and are there any particularly informative deviations?
- Crop specific particularities: are there any particularities which apply to one commodity but not others?
- Contrast leaders vs members: are member views in line with the leadership?
- Contrast men vs women members: do men smallholder farmers have similar views to women smallholder farmers?
- Variation according to membership size: does membership size influence the function and strategy of the SPO?
- Variation according to age of SPO: are there any relevant variations according to the age of the SPO?
- Variation according to time of certification: how does the length of time an SPO has been certified influence organizational strengthening?

4.2 TECHNIQUES FOR DATA COLLECTION

Primary data collection relied on qualitative interviews generated from:

1. Semi-structured focus group discussions (FGDs) with SPO leadership and management;
2. Semi-structured FGDs with men members;
3. Semi-structured FGDs with women members; and
4. Key informant interviews with local representatives from Producer Networks and local Fairtrade staff.

Primary data was complemented with secondary data about the SPOs, and was made available by Fairtrade in the form of audit and closing reports, FLOCERT³ checklists and non-conformities files.

4.3 COUNTRY SELECTION

The research aimed at capturing a diverse geographical range, based on the countries with most Fairtrade certified SPOs. KIT, in collaboration with Fairtrade, chose six countries covering three

geographical areas: Latin America (Mexico and Peru), Africa (Côte d'Ivoire and Kenya), and Asia (India and Indonesia).

4.4 SELECTION OF SMALL PRODUCER ORGANIZATIONS (SPOS) IN EACH COUNTRY

In each country, ten SPOs were selected for visits. The majority were 1st Grade SPOs (members are individuals, often smallholder farmers) and at least one SPO was 2nd Grade (an association of farmer organizations). Pre-selection was proposed by the local Fairtrade Producer Network and a final selection was made maximizing variability in indicators such as the age of the SPO, years of certification, crops, men/women in leadership roles, number of members, and presence of professional staff.

The sample of ten SPOs per country was found to be enough to reach an acceptable level of saturation, i.e. a point in qualitative grounded-theory research in which additional sampling will not lead to significant expansion of the analytical categories, but is sufficient to provide enough confidence to the researchers that the main issues are being captured.

4.5 SELECTION OF FOCUS GROUP DISCUSSIONS (FGD) PARTICIPANTS

Research participants needed to be SPO members, or a member of a household where one person is a member or employee of an SPO.

Elected board members and professional staff were invited to the FGDs with the leaders and managers. The selection of participants in the qualitative interviews was as random as possible, with a maximum number of participants to allow for quality discussions.

As a qualitative data collection tool, focus group size does not require power calculations, since statistical significance is not its main goal. Yet, for reference, we can show that for incidence questions (yes/no, binary questions), 43 observations were enough to estimate percentages with a 15 percent error margin and a 95 percent confidence interval. In each SPO, we aimed to consult 40 people in total from the three different types of FGDs (leadership and management, male members, female members).

³ FLOCERT is a global certification and verification body. Its main role is to independently certify Fairtrade products. Accessed 04-01-2017 <http://www.flocert.net/>

4.6 VISITS IN KENYA

Ten SPOs were visited in Kenya: four 1st Grade tea SPOs, four 1st Grade coffee SPOs, one 2nd Grade coffee union and one vegetable (snow pea) SPO. Geographically, the SPOs were spread from the West Rift Valley to east of Nairobi, i.e., from Eldoret to Mount Kenya. Additionally, interviews were held with staff of Fairtrade Africa and the Fairtrade East and Central Africa Network. In most 1st Grade SPOs, three focus group discussions (FGDs) took place; in the other two instances, a combined focus group with male and female farmers and a male-only FGD were carried out. The vegetable SPO had

been dismantled so just one interview with a former leader was held. One of the SPOs was a member of the 2nd grade coffee union.

The visits took place between July 19th and July 31st 2016. Across all FGD a total of 226 people were interviewed: 64 leaders and professionals (54 men and 10 women), 160 members (96 men and 64 women), and two Fairtrade staff members.

Due to confidentiality requirements, the SPOs that participated in the research are not named in this report, and findings are aggregated.

5. Analysis of SPOs strengths and weaknesses

5.1 INTRODUCTION AND CONTEXT

In Kenya, tea and coffee SPOs were visited primarily. There were three striking differences between these two groups: the reason for creation, the size and the value chain position of their final product.

Tea SPOs were created because of growth. Typically, tea SPOs were created because a tea factory could no longer handle the total volume of produce coming from a region, leading to the creation of a new tea factory linked to a new tea SPO. Conversely, coffee SPOs were created as a result of a dispute. Coffee SPOs typically began as a larger SPO in which some farmers accused another group of underperforming in production and sales, but of benefitting from the good performance of others. This led to splits and the creation of a number of smaller SPOs. These opposing motives (growth and mistrust) have directly led to the differences observed between these two groups.

Tea SPOs were also typically larger than coffee SPOs in terms of members, sales and Fairtrade Premiums received. The tea SPOs had, on average, 15,000 members while the coffee SPOs had an average of 2,300 members. In both groups, around one-third of the members were women. Tea SPOs sold on average 4.8 million kg of tea per year, with an average value of €10.1 million. Coffee SPOs, in contrast, sold an average of 182,000 kg of parchment (dried coffee beans in the hull), with an average value of €878,000. For tea SPOs, a low proportion of their sales were Fairtrade – around one percent – but that still meant an average of €25,000 in Fairtrade Premiums per SPO. Coffee SPOs had virtually zero percent Fairtrade sales.

Of the SPOs visited, one was expecting to have its first Fairtrade sale this year and two had their first Fairtrade sales, amounting to on average only €164 each. The remaining SPO had a high level of Fairtrade sales in the past, and had amassed about €9,000 in their Fairtrade Premium account. The pattern of relatively low coffee sales on Fairtrade terms seems consistent with coffee SPOs across Kenya.

The 2nd Grade coffee union that was visited had 25 affiliates, with a total of 41,000 (individual) members. The audit report made available by Fairtrade, indicates that from five audited 1st Grade SPOs, four had never had Fairtrade sales and only one had received high Premiums, resulting in Premium expenditure of €28,000.

Another difference between the two groups was that tea SPOs produce products further up the value chain by converting tea leaves into 'made tea', while coffee SPOs only produce parchment. This position allows tea SPOs to have more financial power and, even with low shares of Fairtrade sales, meaningful Fairtrade Premium receipts.

A particular aspect of Kenyan tea SPOs is the organizing role played by the Kenya Tea Development Agency (KTDA), which most tea SPOs in Kenya operate under. Potential disadvantages include a lack of autonomy for an SPO regarding management, but the structure does bring many advantages. KTDA used to be a government institute called the Kenya Tea Development Authority but in 2000 it was privatized and renamed. During privatization, ownership of KTDA was transferred to farmers in each location by the creation of a

cooperative owning one or more factories. All of the factories own (are shareholders of) KTDA, and hire KTDA for management services. Therefore, farmers own the factories, who own KTDA. All paid management staff are KTDA employees and rotate among SPOs. KTDA also provides marketing services, risk analysis, financial control and management software. There are 65 independent companies and 12 are Fairtrade certified. This brings a level of professionalization not seen in coffee SPOs.

Operationally, there are similarities between KTDA and a 'good' 2nd Grade SPO, and many benefits. Benefits include using their market power to buy fertilizer in bulk (for all tea SPOs), the organization of sales, staff rotation and professional administration.

Only one 2nd Grade coffee SPO was visited. The dynamics mimic the issues with the 1st Grade coffee SPO i.e., disputes, splits and mistrust. It was mentioned in several of the interviews that coffee is considered a much more 'political' crop than tea, i.e., a commodity that attracts much more attention and interest from government officials. Therefore, tensions with the government and regulating bodies are more likely to emerge within the coffee sector than within the tea sector.

5.2 CAPABILITY TO ADAPT AND SELF-RENEW

All SPOs are vulnerable to price and climate shocks. One SPO even mentioned losing almost a whole year's worth of coffee cherries due to one hail storm. However, SPOs are attempting to mitigate the risks they face. New seed varieties are being tested to avoid disease and drought, and increase productivity. Tea SPOs have more cash available to them so are slightly better at coping with price oscillations than coffee SPOs, which can rarely endure price drops. Moreover, price drops tend to discourage production which affects sales in the next season. The visits revealed that SPOs are weak in terms of sustainability and resilience, although tea SPOs are relatively stronger in this aspect, and run risk assessment analyses for projects and investments. For coffee SPOs, this is clearly a brand new area.

Very young and small organizations suffer from price and climate shocks the most. One example is the case of a former SPO which has been dismantled. This very small SPO (about 60 members) was formed with the promise of gains through economies of scale and higher revenues for its members. Apparently, the marketing agents that suggested and assisted with the formation of

the organization abused their position and did not pay the farmers, leaving individuals out of pocket by as much as €5,500.

Continuity of Fairtrade Premium income is a key issue with regard to planning for investments in the community. While SPOs can make a reasonably good estimation about production volumes, they cannot predict or control the amount of Premium they will receive. This impacts plans for use of Premium funds, which typically involve multi-year investments.

One particular case that triggered a leadership renewal is worth describing in more detail. In one of the counties, the county government decided to pass new regulations to centrally control the sale of coffee cherries. The board at the time did not agree with the decision, but the farmers did, apparently attracted by promises of higher profits. Therefore, the board was forced out and a newly elected board took power. The policy turned out to be a complete failure. According to the new board and the farmers, the county government policy – which allowed for the mixing of cherries from different cooperatives, which had different grades and qualities – caused the average prices to go down. The new regulations were eventually reversed, removing the county intervention, but the new board was maintained. The farmers revealed they were happier with the new board compared to the previous long-running, dominating board, even though they ended up agreeing with the old board's initial reluctance about the county regulation.

5.3 CAPABILITY TO ACT AND COMMIT

In general, tea SPOs perform well regarding sales. Since they process the raw product (tea leaves) into a product that is ready to sell/export ('made tea'), they have much more control over sales, margins and corresponding cash flow than coffee SPOs. This allows tea SPOs, for example, to pay farmers monthly for the delivery of tea leaves.

Coffee SPOs, however, produce up to parchment which is then passed to millers and traders, who pay coffee SPOs annually. They in turn pay the smallholder farmers what they are owed. The latter are, therefore, totally dependent on traders. Due to mistrust and a lack of transparency between SPOs and traders, coffee SPOs avoid engaging in long-term relationships, which discourages traders from investing in the SPOs they are involved with.

For both commodities, however, understanding and acquiring Fairtrade sales is a big issue. There

is very little control and understanding over how much of their sales will be traded on Fairtrade terms, even when they understand the process and Fairtrade requirements on this. For SPOs, therefore, it seems like a random process. This is because of the auction system and retro-certification in tea and that fact that Fairtrade coffee prices are set at Free On Board (FOB) level, as explained below.

Tea companies sell at least 80 percent of their product via auctions. They claim to have no control over whether the buyer is Fairtrade certified, and even if they are, whether or not they will declare the sales as Fairtrade. According to them, the product goes to auction, the highest bidder wins and after this process, if the buyer is Fairtrade certified, they decide if the sale will be declared as Fairtrade or not. For these societies, Fairtrade sales happen primarily (if not only) through direct sales. SPOs report that a buyer will send out an order for direct sales on Fairtrade terms and later go to auction for larger amounts under regular terms. Fairtrade sales for SPOs were usually low, at around one percent of total sales. However, due to the large volumes sold, Fairtrade Premium payments were still substantial. The tea SPOs visited claimed that the amount of Fairtrade certified tea in Kenya being produced has been growing over the years, while the demand for Fairtrade tea has not. As a consequence, they claim that each SPO gets a smaller share of the total demand and, therefore, smaller Premium receipts.

Coffee cooperatives primarily use millers and traders or local exporters. These are the agents that sell coffee on behalf of the SPOs. According to the SPOs, these actors often do not disclose details about the sales. Therefore, SPOs are unaware of whether Fairtrade sales are happening or not, or if the millers/traders are simply being dishonest. They are informed only once annually about the value of their sales and if any of it was Fairtrade, and apparently are unable to verify the information. Three of the four coffee cooperatives visited had never had a single Fairtrade sale or were in the process of getting their very first direct Fairtrade sale. The remaining SPO had had their Premium account frozen due to a change in leadership, but had previously experienced Fairtrade sales of 18 percent (although that was not recently).

Coffee SPOs claim that buyers are able to find alternative non-certified cooperatives selling coffee of the same standard as Fairtrade certified cooperatives, creating opportunities for buyers to avoid paying Fairtrade Premiums. Interviews with Fairtrade staff revealed that Kenyan coffee suffers from strong competition from Ethiopian coffee, which is organic as well as Fairtrade certified. This

competition was never mentioned by the coffee SPOs that were visited.

Of all the SPOs visited, only one revealed issues with side selling. One of the tea SPOs was located in a region surrounded by commercial tea plantations. They revealed that they would often sell about 20 percent of their produce to international companies for cash up front. However, even in this SPO, smallholder farmers claimed that if the factory could handle all their produce (with comparable pay-outs to the plantations), they would opt to sell more, if not all, of their tea to the SPO factory.

Tea SPOs pay farmers monthly because their harvest is continuous, reducing members' needs for loans throughout the year. However, tea farmers are still able to benefit from KTDA's new microcredit subsidiary, which uses mobile banking technology. On the other hand, in some cases, coffee SPOs can only afford to pay members yearly, meaning their need for loans is higher. A particularly critical time is at the beginning of the year for school fees (the Kenyan school year starts in January). Coffee SPOs would be able to facilitate or arrange loans (with interest) to their members using their number of trees and/or production from this year/last year as a guarantee. Coffee SPOs also typically provide a 'picking advance' during harvest with the aim of supporting farmers to hire workers for harvest.

5.4 CAPABILITY TO RELATE TO EXTERNAL STAKEHOLDERS

The visited SPOs were particularly weak at any sort of lobbying or developing lasting relationships with other SPOs, NGOs or the government. SPOs would typically focus on their business and not on establishing or building on relationships with local and/or national governments. A very negative experience with the county government, for example, was noted during interviews.

A few specific positive cases, however, involved negotiating the reduction of levies. One tea SPO also indicated that legislation was being passed to increase the number of farmer organizations holding recognizable certification such as Fairtrade and UTZ. This could be an opportunity for Fairtrade to work with the government on the implications of this new law.

Other positive experiences of partnerships have been with NGOs (non-Fairtrade related) or with members of the Fairtrade system outside of the African Network (such as Fairtrade UK). However, these seemed *ad hoc* and uncoordinated.

5.5 CAPABILITY TO ACHIEVE COHERENCE

The visited SPOs were perceived by KIT's researchers to be transparent and democratic. Members have a voice and can express their concerns, and systems are in place for constant and effective communication. Information and communication technology (ICT) systems for buying or collection centres are a simple but powerful tool that can be used to increase transparency and trust and improve financial administration of SPOs.

All coffee SPOs are registered under a cooperative act while tea SPOs are registered as companies. This means that the two are impacted by different legal bodies in Kenya with different requirements. The cooperative act requires each SPO to have a board of directors and a supervisory board with the possibility of a delegate system. Such delegates may be smallholder farmers, elected to represent members and to voice their concerns when it is not possible for members to participate themselves in meetings and/or general assemblies. The company act has different requirements, for example, there is no formal requirement for a supervisory board and a delegate system. However, in practice, tea SPOs did have structures with equivalent functions. For example, tea SPOs had an elected committee with similar functions to a delegate system in each buying centre.

Tea SPOs have a board composed of one member per electoral zone (corresponding to a catchment area, typically eight or nine in total), one appointed 'gender' director (i.e. a director that exists to (to some extent) balance the male dominance of the board), and one additional director who represents the SPO on the board of KTDA. The KTDA board, in turn, functions as the supervisory board. The 'gender' directors received mixed reviews from farmers. Some were uncomfortable with an appointed director (instead of an elected one), while others appreciated it and were pleased with their work.

Coffee SPOs also have a board of directors with a similar structure, i.e., directors elected according to catchment areas (but no 'gender' director), supervisory boards and a delegate system. SPO boards are formed by members, each with a three-year term and a one-third rotation system, where re-election is possible.

Fairtrade Premium Committees are also in place as a result of Fairtrade regulations, unless an SPO has not yet received any Fairtrade Premium. These committees ensure that the Fairtrade Premium is managed for the benefit of smallholder farmers.

In tea SPOs the Fairtrade Premium Committee combines representatives of the electoral zones, the board, the management team and field workers. One tea SPO also had a gender rule in the election of the Fairtrade Premium Committee: the Fairtrade Premium Committee representative had to be of the opposite sex to the board member from the same area. Contrary to the lack of awareness regarding the general aspects of the Fairtrade Standards, SPO members were very aware of the functioning of the Fairtrade Premium Committee, but the mechanism behind obtaining the Premium was still unclear to many.

In one particular case, the Fairtrade Premium Committee was seen as a political space. Board members had accused the elected Fairtrade Premium Committee representative of using it as a space from which to attack the board and seek a position there. However, no similar conflicts were reported from other SPOs.

The interviews with SPO farmer members revealed that tea farmers (women farmers primarily) were not particularly concerned with the factory and how it was managed and had little understanding of marketing. Instead, the farmers were primarily focused on their own production. Leaders reported that the Annual General Assembly would only have a high turnout if there had been a serious sales or marketing issue. On the other hand, coffee farmers (particularly men) were highly engaged in marketing discussions and any disputes would relate to how sales were being handled by management, i.e. which miller and trader had been chosen.

5.6 CAPABILITY TO DELIVER ON DEVELOPMENT OBJECTIVES

Members are usually pleased with the services they are provided with, which are within the budget limitations or financial possibilities of each organization – an aspect understood by their members.

In Kenya, tea organizations had more financial power than coffee SPOs, due to higher volumes of sales and higher Fairtrade Premium receipts. This allowed them to offer more and better services to their members than coffee cooperatives. For example, tea SPOs had their own extension staff, ordered fertilizer for farmers on credit without charging interest and provided monthly pay-outs to farmers. Coffee cooperatives could only afford to give one pay-out yearly and could rarely afford to provide loans unless they charged interest to cover their own funding costs.

Services for smallholders typically focused on the collection of raw produce and transport to the factory for processing, training on agricultural practices such as when/how to prune, and farm bookkeeping and management. Often the content of the training was informed by the Fairtrade Standards. This was very clear to leaders and professional staff, but not so to members. Particularly for coffee farmers, training focused on diversification – such as growing other crops and/or dairy (for their own consumption) in order to reduce sole dependency on coffee.

SPOs also provided financial services to their members. KTDA has a new microcredit subsidiary that uses mobile banking technology. Coffee SPOs facilitate or arrange loans (with interest) to their members using local Savings and Credit Cooperative Organizations (SACCOs). The loan application can be supported with their trees and/or production from the previous season.

All tea SPOs made use of buying or collection centres and would (partially) use an electronic scale connected to a computer system and printer. Farmers would then be handed a voucher on the spot with current and cumulative delivery volumes. This system was highly appreciated by farmers and improved trust between the farmer and the SPO.

The software for the scales had been developed and was maintained by KTDA.

Coffee SPOs provided less assistance to farmers regarding transportation of produce to the factory. In most cases, farmers were expected to take the coffee cherries to the factory directly. One SPO had two collection centres and another had a truck to assist with transport, but it only picked up ten percent of the total production. The electronic scale technology used by tea SPOs was less readily available to coffee SPOs. Three of the four visited coffee SPOs had one electronic scale each, but all were affected by power outages and inadequate skills to fix computer problems. Coffee SPOs also claimed that the costs of the equipment and software were relatively high. One SPO reported that the license alone costs €6,500, plus €1,400 annually for maintenance and support fees, while a full upgrade costs €7,500. Moreover, the 2nd Grade coffee union indicated that its affiliates were still using manual registration and were looking for guidance on how to implement ICT tools.

Coffee SPOs did not provide services concerning purchase of equipment. Tea SPOs would organize a one-off bulk buy for a specific purpose, such as for protective clothing. Labour was typically arranged by the farmers themselves for both tea and coffee.

6. Experience with the Fairtrade Standards

The overall experience with the Fairtrade Standards and certification process reported by farmers and SPO leaders was positive, with a few caveats.

On the positive side, all SPOs reported that the Fairtrade Standards helped them to improve the quality of their production and promote improvements in their community. The SPOs which received significant Premium funds (primarily the tea SPOs) were particularly grateful for the community improvements made possible because of Fairtrade certification. Fairtrade Premium funds are typically used to improve/construct schools, dispensaries, and improve roads and factories. Fairtrade managers (particularly tea SPO managers – who rotate every few years and so also have experience of working in non-Fairtrade certified tea SPOs), indicated that the level of social cohesion in Fairtrade certified tea SPOs is higher than in non-certified SPOs, and they would rather work in a Fairtrade certified SPO. In other words, building schools and nurseries

with the Fairtrade Premium – very likely in addition to other factors – brings the community together.

Certified SPO members also appreciated the opportunity to exchange experiences with other SPOs and the broader Fairtrade network. A group of coffee SPO representatives had the opportunity to attend a promotion trip to Scandinavian countries which resulted in a direct sales contract.

Negative experiences with Fairtrade were primarily related to a decline in Fairtrade Premium receipts and percentages of Fairtrade sales. Tea SPOs in particular repeatedly pointed out this decline. One example, supported by Fairtrade audit report data, indicates that in 2009-2010 the Fairtrade share of sales for one SPO was about 18 percent, resulting in a Premium of €59,000; this dropped to three percent in 2013-2014, resulting in a Premium of €11,500. In the same period, the total sales volume increased. According to tea SPOs, this is due to an increase in the number of certified SPOs, increasing the amount of certified tea supplied. However, this

has not been matched by an increase in demand. As a result, each certified SPO receives a smaller portion of the total demand.

Another caveat is the expectation of newly certified SPOs. The initial expectation was for an immediate flow of Fairtrade Premium funds, which did not happen. The process of Fairtrade sales and earning Fairtrade Premiums had to be explained several times to SPO members until there was an understanding which matched reality.

There is also a general perception from farmers and SPOs that Fairtrade and its related bodies are more stringent with SPOs than other members of the value chain. Coffee SPOs in particular complained that although millers and traders are Fairtrade certified, they do not act in a 'Fairtrade manner'. Both tea and coffee SPOs complain that buyers, even though they are Fairtrade certified, are free to decide if, when and where to pay Premiums. This lack of transparency is one of the main barriers to strengthening SPOs.

SPOs also typically find the costs of certification (audit and costs to main certification) too high. An audit costs about €3,000 annually, which is more than coffee SPOs receive in Premium funds. Requests from buyers for multiple certification is also a burden. SPOs would prefer a combined audit, or any effort to simplify the certification process.

There was very little consciousness about the New Standards Framework (NSF). Most of the SPOs visited were already certified under NSF, but those which had undergone the transition did not know its specificity. The SPOs said that the Standards changed from time to time and they would adapt accordingly, but there was only one instance in which a manager was able to name the NSF and even then, they were unable to be specific about the difference between the NSF and the old Fairtrade framework.

7. Conclusions

The visits in Kenya revealed that SPOs are stronger in internal than external relations and that SPOs seem particularly strong in governance, i.e., organizations are perceived as transparent and democratic, members have a voice and can express their concerns and systems are in place for constant and effective communication. ICT systems in buying or collection centres are a simple but powerful tool to increase transparency and trust, and improve the financial administration of SPOs.

Services to members are usually satisfactory, and within the budget limitations or financial possibilities of each organization, which is understood by its members. In Kenya, it was clear that tea organizations had more financial power than coffee SPOs, allowing them to offer more and better services to their members. For example, tea SPOs had their own extension staff, could order fertilizer for farmers on credit without interest and provided monthly pay-outs to farmers (for tea leaf purchases). In comparison, coffee cooperatives could only afford to provide one pay-out yearly (reflecting that coffee is a seasonal crop as opposed to tea, which can be harvested year-round) and could rarely afford to provide loans. Even if they could they would need to charge interest to cover their own funding costs.

There was only one issue of side selling, but even in this SPO, farmers claimed that if the SPO factory could handle all of their produce (with comparable pay-outs to plantations to which they can side sell), they would opt to sell more to the SPO factory.

A striking weakness of all SPOs concerned the share of Fairtrade sales and marketing. There is very little control and understanding over how much of their sales will be negotiated on Fairtrade terms, and to the SPOs it seems like a random process. However, the different marketing channels of tea and coffee SPOs impact their Fairtrade sales. Tea companies, for example, sell at least 80 percent of their product via auctions, but they claim to have no control over whether the buyer will be Fairtrade certified, and even if they are, whether or not they will declare the sale as Fairtrade. For these SPOs, Fairtrade sales happen primarily (if not only) in direct sales. Fairtrade sales were usually low, at about one percent of total sales, yet due to the large volumes sold, Fairtrade Premium payments were still meaningful. Coffee cooperatives use traders who often do not disclose any sales details. Therefore, they are unaware of whether Fairtrade sales are happening or not, or if the trader is simply being dishonest. Three of the four coffee SPOs visited, certified around 2012, had either never had a single Fairtrade sale or were in the process of getting their

very first. The remaining SPO, certified around 2006, had experienced Fairtrade sales of 18 percent in the past but had since had their Fairtrade Premium account frozen due to a change in leadership.

SPOs that have been certified for a considerable length of time experienced a decline in Fairtrade Premium receipts and Fairtrade sales. Tea cooperatives blame the lower prices on an oversupply of certified products in particular. Managing expectations of members is also a challenge for SPOs with most members, and at times even SPO leaders, expecting that all SPO sales will be under Fairtrade terms, and that Fairtrade Premiums will start being received immediately following certification.

Finally, SPOs are particularly weak in external relations and partnerships. There are no structured conversations with the government and no pro-

active engagements with the government or any other partner. The few exceptions are often with NGOs or members of the Fairtrade system (such as Fairtrade UK), but these seem *ad hoc* and uncoordinated.

In Kenya, KTDA is owned by the SPO tea factories, provides management services to them and has a strong influence on how the SPOs are run. A potential disadvantage of this system is the lack of autonomy regarding SPO management, but the structure does bring many advantages. KTDA virtually functions as a 2nd Grade SPO and benefits include economies of scale and purchasing power for fertilizer. However, it is important to highlight that while KTDA is a source of strength for tea SPOs, as it is not formally a 2nd Grade SPO, KTDA is ignored by the Fairtrade information system – even in the audit reports – because it does not hold Fairtrade certification.

8. Recommendations on how Fairtrade can help SPOs become stronger

Based on the findings of the study in Kenya, we recommend the following areas where Fairtrade can better support strengthening of SPOs.

8.1 SUPPORT SPOs IN MARKET DEVELOPMENT AND INCREASE TRANSPARENCY ACROSS THE VALUE CHAIN

Fairtrade can clearly support SPOs by strengthening their commercial management capacity towards market development. SPOs are often dependent on traders and buyers to define or decide whether sales will be under Fairtrade terms. They do not see how they can gain any control over the share of Fairtrade sales. This lack of transparency creates mistrust affecting long-term business relations.

The possible actions Fairtrade could undertake include:

- Provide a list of Fairtrade buyers to SPOs;
- Increase transparency requirements in the relationships between buyers, traders and SPOs;
- Increase traceability requirements of Fairtrade Premium flows in order to reduce mistrust between SPOs and other players in the value chain;

- Promote actions that stimulate or facilitate direct sales.

8.2 PARTNER WITH THE (LOCAL AND/OR NATIONAL) GOVERNMENT DIRECTLY

SPOs are particularly weak in lobbying and partnering with the (local) government. It has been pointed out that the national government is willing to increase support for certification, which presents an opportunity for standard and certification bodies to work with the government to the benefit of farmers and workers.

8.3 PROMOTE AND FACILITATE THE USE OF INFORMATION AND COMMUNICATION TECHNOLOGIES (ICTS)

This study revealed that ICT systems in buying or collection centres are a simple but powerful tool to increase transparency and trust, and to improve the financial administration of SPOs. However, while all of the tea SPOs had such a system, only two coffee SPOs had an electronic scale and the 2nd Grade coffee union did not even know where to look for relevant service providers.

The possible actions Fairtrade could undertake include:

- Facilitate contact between SPOs and system providers;
- Include (more prominently) the aspect of ICT use in the Fairtrade Standards; and
- Consider partnering with ICT system providers for gains of scale and cost reductions for SPOs.

8.4 FACILITATE EXCHANGE AMONG SPOS

Both tea and coffee SPOs greatly appreciated exchange opportunities. During the interview period, one travel mission took place among coffee SPOs. Given the high appreciation and benefits gained from these exchanges, such as direct sales contracts signed, we recommend increasing efforts along these lines.

8.5 STIMULATE AND STRENGTHEN 2ND GRADE SPOS

KTDA is not seen as a 2nd Grade SPO and it does not hold Fairtrade certification, but it does have functions which are similar to what a 2nd Grade SPO would have: it is formed and managed by its members and provides services to its members. Tea SPOs benefit from KTDA, especially in terms of economies of scale and knowledge exchange. Even though KTDA's influence over SPOs could be criticised, the benefits seem to outweigh the disadvantages.

During this study, one 2nd Grade coffee union was visited and one of the benefits it gave to its members was the reduction of certification costs. Based on the benefits of KTDA, we recommend that Fairtrade works with 2nd Grade SPOs to reap similar benefits for the coffee SPOs. This is especially strong in the case of coffee SPOs, which are smaller in terms of membership than tea SPOs.

8.6 MANAGE EXPECTATIONS OF NEWLY CERTIFIED SPOS

This study also revealed that the expectations of newly certified SPOs towards Fairtrade, and more specifically, members' perceptions of the Fairtrade Premium system, do not match reality. Several members were under the impression that, immediately following a positive audit, all sales would be accompanied by Premium receipts.

Therefore, in any training and introduction provided, more clarity is required to properly manage the expectations of farmers.

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