



IN SEARCH OF FAIR TRADE

ABOUT CTA

The Technical Centre for Agricultural and Rural Cooperation (CTA) is a joint international institution of the African, Caribbean and Pacific (ACP) Group of States and the European Union (EU). Its mission is to advance food and nutritional security, increase prosperity and encourage sound natural resource management in ACP countries. It provides access to information and knowledge, facilitates policy dialogue and strengthens the capacity of agricultural and rural development institutions and communities.

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IN SEARCH OF FAIR TRADE STORIES FROM THE FIELD

How structured trade could benefit Eastern Africa's grain farmers and traders

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STRUCTURED TRADE BRINGING BENEFITS TO SMALLHOLDERS IN EASTERN AFRICA

The narratives of people in this booklet tell the story of how structured trade has changed lives of smallholders in Eastern Africa. It is a story of hope for millions of disadvantaged farmers and for consumers, but it is also a cautionary tale – when a trader in Nakuru lost his access to the local warehouse, the trading system collapsed, to the detriment of farmers, traders and financiers alike.

Talk to farmers like those featured in this booklet and you are unlikely to hear the term ‘structured trade’ – this is the language of experts – but there is little doubt that they see how the approach brings many benefits.

Structured trade is all about establishing orderly, coordinated systems of trade, from the farm through to the retail market. As part of its effort to link smallholder producers to profitable value chains, CTA has been working for many years with the Eastern Africa Grain Council to bring the benefits of structured trade to all actors in the grain value chain, from smallholder farmers to consumers, and the benefits are now clear. From increased livelihoods to improved food safety, structured grain trade is changing lives in Eastern Africa.

It is my hope that this booklet will help raise awareness of the benefits of structured trade, focus attention on the challenges that remain and help build the commitment of the many stakeholders to addressing these challenges and improving the lives of all those involved.

Michael Hailu
Director, CTA

TOWARDS A FAIRER GRAIN TRADE

IN SUB-SAHARAN AFRICA, 80% OF THE FOOD IS PRODUCED BY SMALLHOLDER FARMERS, YET MANY REMAIN TRAPPED IN POVERTY. THIS IS ONE OF THE GREAT PARADOXES OF MODERN AFRICA: THE FAMILIES WHO ARE FEEDING THE CONTINENT OFTEN GO HUNGRY AND LACK THE RESOURCES TO GIVE THEIR CHILDREN THE BEST START IN LIFE.

There are a number of reasons why smallholder farmers are failing to fulfil their potential. Most obviously, poor farming practices and declining soil fertility mean that many struggle to produce decent yields. Poor post-harvest management, pressure on farmers to sell crops immediately after harvest and their exploitation by middlemen simply make matters worse.

Fortunately, there is a tried and tested solution. It is known as structured trade. “We believe that structured trading of grains, similar to the arrangements which already exist in this part of Africa for tea and coffee, could significantly improve the way grain crops are marketed, with benefits for both producers and buyers,” says Gerald Masila, executive director of the Eastern Africa Grain Council (EAGC), a membership organisation representing farmers, traders and processors.

Key elements of structured trade include good post-harvest management, the storage of grain in certified warehouses, the use of grain and cereal standards, taking advantage of economies of scale – for example, by aggregating the production of large numbers of smallholder farmers – and transparent pricing systems.

Structured trade also seeks to link farmers to finance by issuing warehouse receipts. It works like this. Farmers lodge their grain in a certified warehouse and use the receipts as collateral to borrow money from banks. They can then sell their grain at a later date, hopefully when prices are higher, and repay their bank loans. Warehouse receipt systems help to protect smallholder farmers from exploitation by middlemen and provide them with money when they need it most, around harvest time and immediately afterwards.

This booklet, the second in CTA’s ‘Stories from the Field’ series, focuses on Kenya, Uganda and Tanzania. It explores the benefits of structured trade, drawing on the experiences of farmers, traders, warehouse owners, bankers and government officials. There is much to celebrate: structured trade is enabling increasing numbers of farmers to raise their incomes and it is creating a fairer and more efficient trading system.

However, many challenges remain. A lack of good infrastructure, poor handling practices, high interest rates, ignorance about grain and cereal standards, protectionist policies – these are among the factors which explain why just a tiny fraction of grain in East Africa currently goes through structured trading systems. Nevertheless, the stories presented here provide compelling evidence that structured trading systems can do much to improve farmers’ incomes, tackle rural poverty and improve food safety. That is why they are receiving such strong support from organisations like EAGC and CTA.

CHAPTER 1

MAKING TRADE WORK FOR SMALLHOLDER FARMERS IN KENYA



It is late September and Winfred Kareithi and her husband Norman have just finished the harvest on their two-hectare farm. Instead of selling to the brokers who are scouring the countryside for maize in Kenya's Rift Valley, they will store their crop in a warehouse owned by the Ng'arua Cereals and Produce Cooperative. When they need some maize for their own consumption, they will withdraw it from the warehouse. The remainder will be sold by the cooperative some months later, when there is less maize on the market and prices have risen.

This is a great improvement on how it used to be. "In the old days, we kept the maize we were going to eat here on the farm, and we'd lose a lot to rats and weevils," recalls Winfred. "We'd sell the rest to brokers, but we had to accept whatever they offered, because we always needed money to pay school fees, or buy medicines or food. The brokers exploited us, and there was nothing we could do about it."

The Ng'arua cooperative was established as a self-help group in 1992. "At the time, everyone round here was being exploited

by the brokers, and a few months after the harvest we would be asking government for food aid," recalls the chairman, Martin Kigano. "We decided to do something about it by setting up a cereal bank, so we could store grain safely, reduce post-harvest losses and sell in bulk."

Immediately after last year's harvest, maize was selling at around 1,800 Kenyan shillings (KSh) (€15) per 90 kg bag. Six months later, when the cooperative sold 83 tonnes of its members' maize, the price had risen to KSh2,600 (€22) per bag. This meant that after deducting storage costs farmers made KSh600 (€5) more for each bag of maize than they would have received if they had sold their crop immediately after harvest. "There is no way they could have done that if they'd acted alone," says Martin. "Everything depends on working together and aggregating our crops."

Besides getting more for their produce, around a third of the cooperative's members have used their stored maize as collateral for small loans. To give just one example, Winfred's neighbour, John Ngatia Mathai,

bought a dairy cow with a loan of KSh35,000 (€295). Over the years, the cow provided him with seven calves and enough milk to satisfy the needs of his family. "Without the loan, I could never have bought that cow," he reflects.

During recent years, the cooperative has benefited from the advice and services provided by the Eastern Africa Grain Council (EAGC). "They've introduced us to all the different aspects of structured trade – from better post-harvest management to running the warehouse efficiently and getting market information," says Michael Wanyeki, the cooperative's assistant secretary. "No one can exploit our ignorance now."

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Structured trade is all about establishing orderly, coordinated systems of trade, from the farm through to the retail market



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Martin Kigano and Michael Wanyeki, chairman and assistant secretary of Ng'arua Cereals and Produce Cooperative, with the manager, Sophy Materu, at one of their stores.

An idea whose time has come

Structured trade is all about establishing orderly, coordinated systems of trade, from the farm through to the retail market. It involves good post-harvest management, storage in certified warehouses, the use of quality assurance schemes, taking advantage of economies of scale, and transparent pricing systems. Ideally, structured trade also involves a warehouse receipt system which connects farmers to finance. Farmers lodge their grain with an independently managed warehouse, certified by EAGC in the case of eastern Africa, and use the paper receipt as collateral to borrow money.

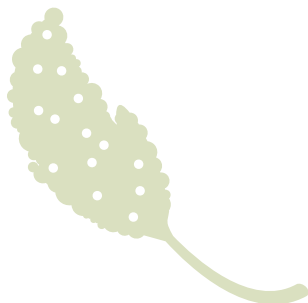
“You can't have structured trade without agreed grades and standards, and this is important not just for food quality but food safety,” says Gerald Masila of EAGC. He cites the problems caused by aflatoxin, produced by a fungus which infects

grain stored with high moisture content. One outbreak of maize-related aflatoxin poisoning killed 125 people in Kenya in 2004, and levels of carcinogenic aflatoxin are dangerously high in much informally traded maize.

One of EAGC's greatest achievements has been devising 22 grain and cereal standards that are now recognised by the five member countries of the East African Community. In the case of maize, grains are graded according to maximum limits for 13 different characteristics, such as pest damage, discolouration, broken kernels and aflatoxin. If millers or processors buy Grade 1 maize, they know exactly what they're getting, sight unseen, regardless of where it comes from.



A handful of maize from Uganda. Kenya is a significant importer.



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Getting a good crop is one thing; looking after it properly, and selling for a profit, is quite another

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A sign of the times. Certified warehouses are an essential part of a structured trading system.



Winfred Kareithi is a member of the Ng'arua Cereals and Produce Cooperative and one of many farmers to benefit from its warehousing arrangements.

Banking on change

Talk to any of the members of the Ng'arua cooperative and they will tell you how life has improved over the past two decades. “Most people now use certified seeds and mineral fertilisers, and they hire machinery to plough their land,” says Martin Kigano. They have also benefited from training in good agricultural practices. When the cereal bank was set up in 1992, average yields were around 3.35 tonnes per hectare for maize. Now, most farmers get nearly 10 tonnes per hectare.

Getting a good crop is one thing; looking after it properly, and selling for a profit, is quite another. “Storage is absolutely critical, not just in a physical sense, but in terms of the way the grain is treated and looked after,” explains EAGC programme officer Kipyegon Kipkemei, who runs training courses on topics ranging from post-harvest management to warehouse receipt systems. Good warehousing involves drying and grading cereals, controlling pests and diseases, keeping detailed written accounts and issuing warehouse receipts.

So far, none of the farmers who store maize with Ng'arua cooperative have used warehouse receipts to raise loans from banks, although they hope to do so in the future. However, the system is working well, and reaching more and more farmers in other parts of the country, such as Eldoret, a major grain-producing area north-west of Nakuru.

Warehouse receipts are also designed to benefit traders like John Minua, who operates in the fertile country around Nakuru. “The system worked really well for me in the past,” he says, brandishing a 2013 receipt that he used to raise a loan from Equity Bank. It shows that he had just put 10.4 tonnes of maize in storage. On the basis of the receipt, the bank provided him with a loan for 80% of the value of the stored grain. “With the loan, I was able to buy more maize from more farmers,” he explains. “If I hadn't been issued with a warehouse receipt and received the loan, I couldn't have done that.”

He bought the maize at harvest time for KSh2,400 (€20) a bag, held onto it for several months, then sold it for KSh3,500 (€29) a bag. Although he was the main beneficiary of the warehouse receipt system, Kipyegon Kipkemei is quick to point out that Mr Minua is an unusual trader, in that he is very sympathetic to farmers. “He buys directly from farmers, and never uses brokers,” he says. “He’s also happy to advance credit and he gives farmers the top price for the best-quality Grade 1 maize.” Many brokers use dodgy scales when weighing farmers’ grain; Mr Minua, in contrast, allows the farmers to specify which public weighbridge they want him to use.

Unfortunately, this year, Minua Commercial Agency will not be able to take advantage of the warehouse receipt system for the simple reason that he no longer has access to a certified warehouse. In 2014, the multinational agribusiness company Cargill bought Lesiolo Grain Handlers Ltd and told Mr Minua that he could no longer use its Nakuru warehouses. He continues to buy grain from local farmers – he has some 5,000 on his books – but, lacking access to storage facilities, he is now obliged to sell the grain straight on to millers and processors.

He is not the only one who is unhappy about the state of affairs. “The lack of certified warehouses in Nakuru is affecting us, as it means that people like Mr Minua are no longer in a position to raise loans on the back of warehouse receipts,” explains Ascar Juma of Chase Bank. “We like the warehouse receipt system, as we see it as very low risk.” At any one time, Chase has warehouse receipt loans amounting to around KSh0.5 billion (€4.2 million). The bank has done particularly good business in Eldoret, where there are three certified private warehouses and four farmer-owned warehouses.

George Kabura of Equity Bank in Nakuru points out that it has never been easy for banks to lend money to smallholder farmers, although Equity has always been keen to do so. George and his colleagues frequently provide modest loans to farmers, using household goods, or perhaps a cow or a few goats, as collateral. However, this is a time-consuming and risky business, in contrast to loans involving warehouse receipts. “The great thing about the warehouse receipt system is that we are not exposed, as crops are kept safely in certified storage and we know we won’t lose money,” he says.

Of course, borrowing can be expensive – with interest rates up to 22% in Kenya – and it is never risk-free. Ascar Juma of Chase Bank describes how one group of farmers in Nakuru recently took out a loan using a warehouse receipt as collateral. Instead of selling when advised to by EAGC, the farmers held on to their grain, hoping to get a higher price at a later date. This never happened and they were eventually forced to sell their grain to pay off their loan when prices were low.

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The great thing about the warehouse receipt system is that we are not exposed, as crops are kept safely in certified storage and we know we won’t lose money

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Room for growth

At present, a tiny fraction of grain in East Africa goes through structured trading systems. In Kenya, there are just 10 certified warehouses with a capacity of around 60,000 tonnes. To put this in context, the national maize harvest in 2014 was 2.65 million tonnes. However, EAGC is aiming to increase the number of certified warehouses to 60 within three years, and the number of smallholder farmers who benefit from structured trade from 10,000 to over 50,000.

Spend time with farmers like Winfred and Norman Kareithi and you’re unlikely to hear the expression ‘structured trade.’ This, after all, is the language of policy-makers. However, they will talk persuasively about the various factors that are helping to make the grain trade more efficient and transparent.

“We now use the best-quality certified seeds, our grain is stored in the warehouse, we can wait till we get a good price, and we can get loans using our crops as collateral,” says Norman. “Because of this, and the benefits we’ve received as members of the Ng’arua cooperative, we now have a much better quality of life.” This, in practical terms, is what structured trade is all about.



The warehouse receipt system has enabled trader John Minua to expand his business near Nakuru.

CHAPTER 2

REFORMING THE GRAIN TRADE IN UGANDA



Maize growing in the foothills of Mt Elgon.

“We are trying to change the farmers’ mindset by transforming them from subsistence producers to commercial farmers, so they get higher yields and more income,” says David Kisa, chief executive officer of the Kapchorwa Commercial Farmers Association (KACOFA), whose members cultivate the fertile soils on the flanks of Mount Elgon in eastern Uganda.

It all began in 1994, when a project supported by the United States Agency for International Development (USAID) introduced small-scale farmers in

Kapchorwa District to better agricultural practices, such as the use of certified seeds, timely planting and good post-harvest management. “We could see this was going to improve yields, and one day 21 of us – 15 men and 6 women – got together under a tree and set up a farmers’ group to adopt these practices,” recalls David. Such has been the success of the organisation that it now has over 6,300 members.

In 1994, average yields in Kapchorwa were around 1.0–1.5 tonnes a hectare; today, most farmers get three times as much. They are

also getting a better deal in the marketplace. “In the past, we had little information about prices and the middlemen who came here used to take advantage of us,” says David. “After harvest, we needed to buy paraffin, salt, food, medicines – so we sold our maize for whatever we could get.” Today, in contrast, KACOFA’s members are benefiting from a well-organised trading system.

Ten years ago, the World Food Programme (WFP), a major buyer of grain in East Africa, offered to purchase maize from KACOFA, on condition that the association established proper storage facilities and introduced a quality assurance system for grading cereals. KACOFA’s new warehouse, part funded by WFP, was one of eight certified by the Ugandan Commodity Exchange for the purpose of promoting and practising structured trade.

Soon after its warehouse was certified, KACOFA secured two loans worth 850 million Ugandan shillings (US\$) (€205,000) from Stanbic Bank. The loans enabled KACOFA to buy more grain from farmers and build its stocks. By holding on to the grain, and waiting until prices were higher, KACOFA increased its profits. This is precisely how structured trade should work, although ideally banks should accept warehouse receipts as collateral rather than demand proof of contracts, as happened in this case.

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Most farmers, and for that matter most traders, are absolutely clueless when it comes to matters related to standards and quality



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Godfrey Muhingo, warehouse manager for Masindi Seed and Grain Growers Ltd, believes structured trade will become increasingly important for small farmers.

Easier said than done

A regulated public warehousing system was introduced in Uganda under the 2006 Warehouse Receipt System Act. This was supported by the European Union (EU) from 2006 to 2010. The implementing authority was the Uganda Commodity Exchange (UCE), whose staff were trained to conduct regular inspections and certify warehouses and ensured that the companies running certified warehouses complied with all aspects of structured trade, including grain quality. A South African software company installed an electronic warehouse receipt system, linked to an existing system in South Africa.

Unfortunately, the government failed to provide sufficient support for the commodity exchange when EU funding came to an end in 2010, and before long it was barely operational. A major study of warehouse receipting in nine African countries, commissioned by CTA and two of its partners, described the performance of the warehouse receipt system in Uganda as “very disappointing”. By the time UCE ceased to operate, in 2014, a mere €1.75 million of loans had been secured using warehouse receipts, and grain deposits in five licensed warehouses amounted to a little over 22,000 tonnes – out of a national harvest of around 2.7 million tonnes a year.

A number of factors accounted for this dismal performance. Some of them were institutional, others were related to market conditions. The fact that there was – and still is – a thriving market in ungraded grain and two harvests a year, which encourages farmers to sell

crops quickly, acted as a disincentive for structured trade. Interest rates were high and commercial banks were reluctant to accept warehouse receipts as collateral for loans.

Nevertheless, the Eastern Africa Grain Council (EAGC) remains an enthusiastic advocate of structured trade and warehouse receipt systems. “It is a brilliant idea, but to work effectively it needs plenty of support, both at the policy level and in practical terms,” says Lillian Bazaale, EAGC country programme manager in Uganda. She believes that the Warehouse Receipt System Authority (WRSA), established in 2015 by the Ministry of Trade, Industry and Cooperatives, will help to revive and strengthen the warehouse receipt system. The authority is responsible for developing standardised and certified storage facilities for grain and other commodities and for promoting warehouse receipt systems.

WRSA managing director Deborah Kyarasima has identified the lack of good infrastructure, poor handling practices and ignorance about the importance of grain standards as key impediments to establishing structured trading systems. “Most farmers, and for that matter most traders, are absolutely clueless when it comes to matters related to standards and quality,” she says. To counter this, her organisation is now working closely with the Bureau of Standards, EAGC and other organisations to provide training programmes to warehouse employees, traders, cooperatives and smallholder farmers on a wide range of subjects related to structured trade.

¹ AFD, CTA and IFAD. 2015. *Study on appropriate warehousing and collateral management systems in sub-Saharan Africa - Volume 2 - Technical country reports*. Agence Française de Développement (AFD), Paris, Technical Centre for Agricultural and Rural Cooperation (CTA), Wageningen, Netherlands, and International Fund for Agricultural Development (IFAD), Rome. 552 pp.



Many farmers dry their maize in the sun beside the road.

Why standards matter

Lillian Bazaale sees the safety issue as a key reason to expand the market for certified and graded grain. “You can only guarantee the health and safety of grain if it is graded,” she says. “If you’re buying grain in the informal market, you simply don’t know whether it’s tainted with aflatoxins or other impurities. The only place where you’re going to find graded grain is in certified warehouses.”

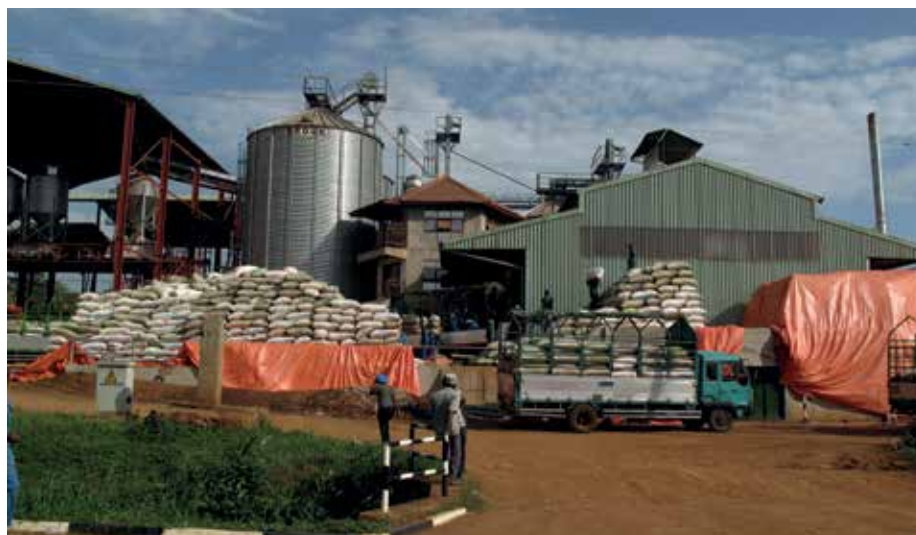
Spend a little time with Richard Ibengo, business development manager of Agroways Ltd, a major grain storage facility in Jinja, a town on the shores of Lake Victoria, and you get an insight into the complexities – and advantages – of structured trade. “Before a lorry even gets through our gates, we take random samples for testing and look for discolouration, pest damage, signs of rotting, peculiar smells, excessive foreign matter and aflatoxins,”

explains Richard. “If we don’t like what we find, we reject the load straight away.”

Once a lorry passes through the gate, the load is weighed and the grain offloaded. It is then sampled again, this time bag by bag. If it passes the inspection, the grain is then dried to 13.5% moisture, cleaned and graded. At the end of the process, it is issued with a weight and grade certificate. When the Ugandan Commodity Exchange was operational, this was then translated into an electronic warehouse receipt.

Agroways acts as a processing and storage facility for farmers’ organisations and traders, and as a dealer in its own right, buying and selling maize. The company is enthusiastic about the recently launched WRSA, not least because it means Agroways will once again be able to issue electronic warehouse receipts. He accepts that relatively few organisations are likely to use these as collateral to get loans, largely because bank rates are so high. “The demand for maize is also high at the moment, so the prices are good – and that means you’re better off selling your maize, rather than holding onto it and paying high interest rates on a loan.”

However, he points out that one of the great advantages of electronic warehouse receipts is that they can be bought and sold without grain ever leaving the store or needing further inspection. “It’s an easy way to show potential buyers how much grain you have in storage and what grade it is,” he says.



Agroways Ltd was one of the first major grain storage facilities to be certified for structured trade by the Ugandan Commodity Exchange.



David Kisa, chief executive officer of the Kapchorwa Commercial Farmers Association, which now has over 6000 members.

Making the most of markets

Structured trading systems can help smallholder farmers avoid exploitation by brokers and middlemen. Just as importantly, they provide an opportunity for farmers to aggregate their harvests, store their grain in certified warehouses and sell in bulk when the market is at its most buoyant.

Take for example the experience of Masindi Seed and Grain Growers Ltd (MSGGL), whose members produce maize and other crops in the countryside to the east of Lake Albert. The company first made use of the warehouse receipt system to get a bank loan in 2009. "This meant that instead of selling maize immediately after harvest – normal practice for farmers here – for 600 shillings a kilo, we were able to keep it in store and sell it later, once prices had risen, for 795 shillings a kilo," explains warehouse manager Godfrey Muhingo.

Put another way, on a consignment of 100 tonnes of grain MSGGL made US\$19 million (€4,625) more than it would have done if it had sold at harvest time, when the market was flooded with maize. In 2012,

it repeated the exercise, this time with 452 tonnes of maize, increasing the value of the crop by around 18% by selling three months after the harvest.

However, there is a degree of risk in playing the market, as KACOFA found out to its cost. In the 2011/12 season, the organisation decided to repeat its strategy of the previous two years, which involved waiting for the market to rise before selling the maize in its stores. On this occasion, prices went in the other direction, and KACOFA lost US\$500 million (€120,000), which it still owes the bank. It had hoped to recoup its losses and make a profit through a contract to provide sorghum from 400 hectares on its recently acquired model farm. But a vast flock of seed-eating quelea birds descended on the fields and destroyed the entire crop.

"We're now thinking of selling the land we bought to pay off our debts," says chief executive officer David Kisa wistfully. However, he adds that neither of these experiences – losing out in the market

and the crop loss to quelea – diminishes the importance of getting more farmers involved in structured trade in Uganda.

This brings us back to the issue of policy. In Uganda, there is no equivalent to Kenya's National Cereal and Produce Board, whose warehouses have a storage capacity of 1.8 million tonnes of graded maize. Food security is not such a concern in Uganda, where the supply of maize far exceeds domestic demand. Consequently, there are no government-sponsored agencies tasked with stockpiling graded cereals, and the only large buyer of graded maize is the WFP.

Lillian Bazaale of EAGC believes there are compelling reasons why the government should create a bigger market for certified grain. "We would like to see government institutions, such as the army and schools, buy graded grain from certified warehouses," she says. This would be a major boost for both structured trade and food safety.

She says there is a strong case for introducing a law which stipulates that dealing in graded grain should be compulsory. If that were to happen, the warehouse receipt system would flourish, hundreds of thousands of smallholder farmers would benefit, and everyone along the value chain would know exactly what they were buying and consuming.



Maize stored in a warehouse belonging to Masindi Seed and Grain Growers Ltd.

CHAPTER 3



A TALE OF TWO VILLAGES: PROMOTING STRUCTURED TRADE IN TANZANIA

Evarist Silayo, the managing director of Union Service Stores Ltd, understands the workings of the grain trade as well as anybody in northern Tanzania. Based in the dusty suburbs of Moshi, his family business buys and sells maize, mills flour, manufactures animal feed and acts as a one-stop shop for farmers buying fertilisers, veterinary drugs and other farm inputs.

He is particularly concerned about the raw deal smallholder farmers are getting. “Most of them are exploited by brokers,” he explains. “They sell their crops immediately after the harvest because they need money, and they’re forced to take whatever price the brokers offer.” The solution, says Evarist, is structured trade. “Warehouse receipt systems should be an important part of structured trading arrangements. They give farmers access to finance and provide them with the opportunity to get a better price for their crops.”



Mohamed Mshana, who recently took over the management of CHAWAMPU, believes the cooperative's fortunes will improve now that they are taking advice from the Eastern Africa Grain Council.

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Smallholder farmers sell their crops immediately after the harvest because they need money, and they're forced to take whatever price the brokers offer

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Learning from failure

The theory is simple enough, but making warehouse receipt systems work in practice can be a tricky business, as members of CHAWAMPU discovered. An association of rice farmers, CHAWAMPU was formed in 1993 to take advantage of the Lower Moshi Irrigation Scheme, which had been established by the Tanzanian government in the mid-1980s. The main beneficiaries of the scheme, which created 1,100 hectares of rice paddy, were some 2,170 families living in four villages in Lower Moshi.

“CHAWAMPU used to manage the irrigation scheme, but in 2006 responsibility for that was given to the Lower Moshi Irrigation Association, and we decided to focus on marketing,” explains the manager, Mohamed Mshana. He stresses that although he has belonged to the CHAWAMPU for many years, he was not associated with its previous management team, which was strongly criticised in a recent study by the University of Helsinki for their “failed leadership”.

The failure manifested itself in various ways, not least in the decision to introduce a warehouse receipt system in 2007/2008 without fully understanding how the system should work. They got off to a good start, as rice prices were high. However, the banks then raised interest rates and the government imposed export restrictions, which reduced rice prices. Worse still, a significant quantity of stored grain – 46 tonnes of rice and 123 tonnes of maize – was destroyed by weevils in a warehouse in Moshi.

As a result, CHAWAMPU was unable to pay off the loan which it had secured with warehouse receipts and it still owes the bank 322 million Tanzanian shillings (TSh) (€133,000). “The whole process

had been run very haphazardly, and neither the management nor members had been given proper training about how warehouse receipt systems should work,” says Mohamed. “After that, everybody lost faith in the system, and members reverted to the old ways of trading.” They went back to the old system of exploitation, exchanging crops for cash with the brokers who came to their shambas at harvest time.

In 2014, the members of the cooperative elected a new board of management. They are hoping to revive its fortunes, and they have been taking advice from the Eastern Africa Grain Council (EAGC), a membership organisation representing farmers, traders and processors, and an enthusiastic advocate of structured trade.



CHAWAMPU cooperative has been struggling to make the most of structured trade.

“Acting on EAGC’s advice, we’ve set up farmers’ groups within the cooperative and members are receiving training in good agricultural practices, such as the use of fertilisers and land preparation, and post-harvest management,” says Mohamed. EAGC is also advising Mohamed and his colleagues on marketing, and it has made recommendations about the improvements that need to be made to transform its old warehouse in Chekereni village into a certified ‘aggregation centre’.

According to Mohamed, CHAWAMPU’s members now have a much better understanding about how warehouse receipt systems work. “We are much more confident since we began working with EAGC, and once the aggregation centre has been certified, we will approach the bank again to negotiate a loan using the rice we store as collateral.” This time round, they hope that the warehouse receipt system will work to their advantage.



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Farmers’ groups have been set up within the cooperative and members are receiving training in good agricultural practices, such as the use of fertilisers and land preparation, and post-harvest management

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The virtues of self-help



Emiti Munisi, with her sacks of grain stored by the Kware Savings and Credit Cooperative Organisation.

When you talk to farmers in Kware, a scattered village below Mount Kilimanjaro, you probably will not hear the expression ‘structured trade’, yet that is precisely what they’ve been developing since the Kware Savings and Credit Cooperative Organisation (KSACCO) was set up some 10 years ago. This was a response to the age-old problem of exploitation by middlemen and brokers. “They didn’t even bother coming with weighing scales,” explains board member Emiti Munisi.

“They used polythene bags as a measure, and we just had to trust their weighing system. They used to give us the lowest price they could.”

Shortly after KSACCO was established in 2006, the World Food Programme, a major buyer of grain in East Africa, provided training on post-harvest handling and storage. In 2011/2012, KSACCO began storing maize as a business, rather than just a service to its 700 or so members.

Farmers pay a small fee to keep their maize in storage. If they need to withdraw some for home consumption, they can do so. They can also leave maize to be sold by KSACCO as part of a collective deal, ideally when prices are at their highest.

Take, for example, the experience in 2014. Farmers who sold their maize immediately after the harvest received TSh35,000 (€14) per 100 kg bag. Instead of selling then, many farmers stored their maize in KSACCO's warehouses. The following March, KSACCO sold just under 300 tonnes of maize to the National Food Reserve Agency for TSh45,000 (€18) a bag. Consequently, farmers received far more for their maize than they would have done had they sold at harvest time to local brokers.

Although farmers here are not taking advantage of an official warehouse receipt system, they have access to something similar, albeit on a more modest scale, managed by KSACCO. "Many of the families here need money at harvest time or soon afterwards, and they can get small loans from KSACCO," explains Emiti. When they lodge their maize in the warehouse they are given a paper receipt, and this is used as collateral to raise loans up to 50% of the current value of the stored maize.

Many other savings and credit cooperative organisations in the region are operating a similar system. This does not provide access to large-scale finance from commercial banks in the way that warehouse receipt systems can, but it is helping farmers to use their crops as collateral and avoid selling when the market is flooded with maize and prices are at their lowest.

"I can't quantify how much better off we are," says Emiti, "but more and more people are now engaged in collective marketing and they can afford to buy more things. Just look at the houses." Dotted around the maize fields are many new one-storey concrete bungalows with tin roofs, some even embellished with little classical porticos.

EAGC programme officer Juma Ngomua provides advice and training for organisations like KSACCO. He is encouraged by their recent development. "We need young people to stay in farming, and one way of doing that is by establishing successful structured trading systems," he says. "If you see your parents struggling to make a living from their crops, you won't want to do the same yourself. But if you see that farming can be profitable, then you'll think differently."

At its best, structured trade creates far more winners than losers, suggests Evarist Silayo, who recently joined EAGC's Board of Directors. "The only losers are going to be the brokers, the people who have been exploiting the farmers," he says. "Everybody else, from farmers through to the consumers, will gain from structured trading systems."



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The World Food Programme (WFP) is a major buyer of quality maize in East Africa. It installed this temporary warehouse for the Kware Savings and Credit Cooperative Organisation.

BUILDING TRUST THROUGH TRANSPARENCY

The guiding principle for many traders dealing in agricultural commodities is buy low, sell high. All too often, smallholder farmers are in desperate need of money – to buy medicines, pay school fees or service debts – and are forced to accept whatever price they are offered for their crops.

However, life is not necessarily easy for small traders either, says Kevin Kinyangi, the East Africa director of techfortrade, a UK-based charity which is developing a new approach to agricultural trade. “Traders and middlemen often have a bad reputation, but they also face difficulties,” he says. “They might find that the company they are expecting to buy their produce rejects it on the grounds of poor quality or moisture content or disease. Traders also find it very hard to get credit from banks – just like smallholder farmers.” There is, he suggests, a solution. ‘Open book trading’ is all about creating greater transparency along the value chain, so that everybody – farmers, traders, processors and buyers – can see exactly who makes what and where.

In 2013, techfortrade and the International Fund for Agricultural Development (IFAD) funded an initiative to roll out the open book trading service in East Africa, using transaction security services developed by Rural African Ventures Investments. This is an online platform which captures details of all the transactions made by traders, including the costs of transport, storage, packaging and warehousing. The platform is accessible from a mobile phone, tablet or computer and the team is working to make it as inclusive as possible, from farmers through to buyers.

By mid-2015, 25 traders in Kenya, Tanzania and Uganda were using the open book trading service. This has helped many to expand their businesses, and in the case of one vegetable trader from Meru, Kenya, to gain access to European markets. “Open book trading enables traders to build a track record and demonstrate their cash flow to banks,” says Kevin. “This helps them to access credit.” Buyers such as tourist hotels

also like the system as it provides evidence to their customers that smallholder farmers are being fairly treated.

techfortrade has set up a revolving fund which provides traders with cash so they can pay farmers as soon as they collect their produce. This means farmers do not have to wait until the traders are paid by the buyers. Once the traders have been paid, they pay back the loan to the revolving fund. During the first 18 months of the scheme (February 2014 to mid-2015), the techfortrade project provided traders with about US\$300,000 (€273,000) in working capital.

Farmers are also benefiting, not least because open book trading gives them a much better understanding of the costs of doing business, so they can see if they are getting a fair deal. Just as importantly, techfortrade has established a system which is providing them with a share of any savings made during a transaction.

“When a deal is first registered on the website, the trader estimates what his middle costs will be, for example for transport, packaging and storage,” explains Kevin. “If he ends up paying less than expected for these services, any additional cash made or saved becomes visible on the online platform – and almost half of this goes to the farmers as a bonus.”

Farmers have been astonished to receive these unexpected windfalls. But then this is a new way of doing business and it is helping both farmers and traders join the formal economy.

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Stories
from the field

IN SEARCH OF **FAIR TRADE**



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