

The Economic Impacts
Of Fair Trade In
Emerging Oil Economies
In Africa: Empirical
Study Of Kuapa Kokoo
Cooperative, Ghana

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ABSTRACT

The study examines the economic impact of Fair Trade on Kuapa Kokoo cooperatives in the Ashanti Region of Ghana. The study therefore reports outcomes from analysis using data set covering 200 cocoa farmers made up of 100 members and 100 non-members of Kuapa Kokoo cooperative. The study employed quantitative and qualitative research approaches and compared the sample means between the farmers who were affiliated with Fair Trade and those that were not affiliated with Fair Trade. The empirical evidence revealed that Fair Trade has achieved majority of its intended purposes, although on a comparatively modest scale relative to the contribution of cocoa to Ghana which is now an oil growing economy. The evidence showed that Fair Trade cocoa farmers do on the average receive higher productivity/yield, income and credit facilities.

Key Words: Fair Trade, Cocoa Farmers, Cooperatives, Ghana, Productivity, Oil

1. INTRODUCTION

According to Veronika et al (2015), Fair Trade through the sale of Fair Trade certified products is supported by Altruistic. Therefore Fair Trade initiatives offer the farmers more returns for their farm products, and also help in sustaining their farms as well as increasing their yields. Hartman, Paris and Blanche-Cohen (2014) contend that fluctuating poor prices for their products affect farmers in developing countries in their area of production. Fair Trade thus promotes better trading conditions and sustainability, Dammert and Mohan (2014).

It is envisaged that Fair Trade can contribute to the economic welfare of farmers, especially those in developing countries. Majority of studies on Fair Trade however concentrated on practices are among coffee farmers. This study therefore focused on Fair Trade practices in Ghana, where there is limited literature on Fair Trade activities, particularly among cocoa farmers and the cocoa growing communities.

The critical questions that demand answers are: Do the empirical realities support the noble aims of Fair Trade scheme in Ghana? Particularly, what is the economic impact of Fair Trade to the cocoa cooperative members? It is in this regard that the researcher conducted this study to examine the economic gains of Fair Trade to cocoa cooperatives in the Ashanti region of Ghana.

2. LITERATURE REVIEW

Fair Trade as a concept addresses trade inequities in the global marketplace. Trade inequities include lack of access to: markets, market information, and technology, knowledge of best business and environmental practices, and credit resources Bamford et al, (2017). The authors maintained that Fair Trade empowers the marginalized producers by investing in them, their communities and their environment through sustainable development so that they can lift themselves out of poverty. Fair Trade is thus an innovative supply chain model

which distributes its economic benefits more fairly among all stakeholders. Jens et al. (2015) also explained that Fair Trade offers an alternative trade model that, while still young, has already demonstrated success in improving the lives of disadvantaged producers. The emphasis on education, higher incomes, better business skills, community investments, democratic organizations, and empowering women are all components of Fair Trade's success.

2.1 EMPIRICAL REVIEW ON THE IMPACTS OF FAIR TRADE

There is overwhelming evidence to support the assertion that Fair Trade has contributed significantly to the economic activities of members. Bacon (2005) tried to obtain a clearer understanding of the causal mechanisms that resulted to these disparities in the prices of coffee by examining the same set of Fair Trade certified farmers. He found out that all the coffee farmers felt that cooperatives helped them obtain higher prices, Bacon (2005).

Mendez et al. (2010) also conducted a survey on 469 households for eighteen different cooperatives that cultivated coffee in Guatemala, El Salvador, Nicaragua and Mexico. The evidence showed that, in all the four countries, Fair Trade had impacted positively on prices and productivity. Indeed, Dammert et al. (2014) found that Fair Trade producers consistently dedicate higher share of expenditure to long-term investment in education, household durables and home improvement.

3. RESEARCH METHODOLOGY

The study examines the economic gains of fair-trade to cocoa cooperatives in the Ashanti Region of Ghana. Both descriptive and qualitative research approaches were adopted for the study. The quantitative approach was also used because numerical values were assigned to some of the data collected and were therefore analysed using mathematical and statistical models. Primary data were obtained from the use of questionnaires and interviews. The secondary data were obtained from the records of the farmers, especially their 'passbooks'.

The quantitative aspect of the data were analyzed using descriptive statistics through the SPSS software version 21.0, whilst the qualitative data presentation and analysis were done manually through thematic analysis. As stated, the qualitative data collected were analyzed in themes as they emerged from literature and matched with the responses. The researcher generated these themes from the literature reviewed and look for data that matched or agreed with these pre-determined themes. The study separately observed the results of the farmers who were affiliated with Fair Trade and those that were not affiliated with Fair Trade. The study compared the sample means between the farmers who were affiliated with Fair Trade and those that were not affiliated with Fair Trade. After a simple estimation of the mean difference of the results of these two group of farmers, the study used ANOVA to estimate the significance of the mean difference. The level of significance of the economic impact of Fair Trade was tested using a t-test at a confidence interval of 95%. Consequently, the following hypothesis are provided:

H0: Fair Trade has no economic impact on members of Kuapa Kokoo Cooperative

H0: Fair Trade has economic impact on members of Kuapa Kokoo Cooperative

4. DATA ANALYSIS AND INTERPRETATION

The data collected was analysed with respect to the economic impact of Fair Trade to Kuapa Kokoo members. This section considers the various benefits members obtain for being part of Kuapa Kokoo. This analysis was done to determine whether there is a link between Fair Trade and economic gains and to examine some of the benefits members receive from Kuapa Kokoo. Table 1 presents the comparable mean results of the level of impact of Fair Trade with respect to five economic measure variables: price of cocoa, income of farmers, productivity of farmers and access to credit.

Table 4.1: Paired Mean analysis of the level of Economic Impact of Fair Trade

Variables	Kuapa Kokoo Members	Non-members of Kuapa Kokoo	Mean Difference
Price	4.0	4.0	0.00
Productivity	3.32	3.15	0.17
Income	3.35	3.01	0.34
Access to Credit Facilities	2.88	2.72	0.16
Total	9.55	8.88	0.67

KEY: 5 = Very High; 4 = High; 3 = Average; 2 = Low; and 1 = Very Low

Table one presents the paired mean results of the economic impact of Fair Trade. The analysis are done based on the variables (Price; Productivity: Income and Access to Credit) presented in Table 1.

4.1 IMPACT OF FAIR TRADE ON PRICE OF COCOA

It is widely argued that the main features of Fair Trade movement are linked with the Fair Trade premium and price floors for the products of the Fair Trade members. However, it was realised from the study that both Fair Trade members and non-members of Fair Trade received the same amount of money with respect to the price of a bag of cocoa. The study ascertained that the price per bag of cocoa, weighted at 64 kilograms was GHS 475.00 for the 2016/2017 cocoa season. This price was same for all farmers, irrespective of whether they were members of Fair Trade or not. This is evidenced from Table 1 where the mean rating for each category of respondents with regards to price of cocoa was high (4). This is not surprising because the prices of cocoa is regulated by the government of Ghana. The cocoa purchasing clerks revealed that, prior to the beginning of every cocoa season, the government of Ghana fixes the prices that must be paid per bag of cocoa of 64 kg. It is therefore a crime to buy a bag of cocoa above or below the set price by the central government. This result suggests that Fair Trade is impotent with regards to influencing the price of cocoa of members.

This is particularly surprising since the price of cocoa at the international market was more than twice of what was offered to the local farmers. It was thus anticipated that Fair Trade could have influenced the price set for the cocoa farmers. It was realised that cocoa farmers generally were not happy with the price offered by the

government for a bag of cocoa, however, their unhappiness and agitations were limited to their communities. What is clear is that the farmers felt cheated by the central government. However, Fair Trade (Kuapa Kokoo) has not been able to push for an acceptable price per bag of cocoa for the farmers. Consequently, the insignificant number of Fair Trade (Kuapa Kokoo) was not adequate to put pressure on the government of Ghana to increase the prices of cocoa.

It must be stated that this result is completely at variance with similar studies conducted in other jurisdictions. More particularly, these studies were mainly on coffee farmers where the price were largely unregulated by the central government. This findings also disagreed with that of Bacon (2005) who reported that Fair Trade certified farmers obtained significantly higher prices for their coffee. Bacon showed that, on average, Fair Trade farmers received 12 cents more per pound of coffee sold than non-members of Fair Trade. Comparison of these findings must be done with caution because these studies were done mainly on coffee farmers where the prices are largely unregulated, unlike cocoa.

4.2 IMPACT OF FAIR TRADE ON THE PRODUCTIVITY OF COCOA FARMERS

It is generally acknowledged that Fair Trade certification are associated with the establishment of cooperatives and other certification systems which may eventually affect productivity which indicates an average level of productivity. On the other hand, the mean rating of the level of productivity of non-members of Kuapa Kokoo was 3.15. This also suggests an average level of productivity. However, the mean rating of the level of productivity of the Kuapa Kokoo members is 0.17 more than the mean rating of the level of productivity of the non-members Kuapa Kokoo. Based on this result it appears the level of productivity of the members of Kuapa Kokoo was marginally higher than that of the non-members of Kuapa Kokoo.

Additionally, the study found through an interview with the farmers that Kuapa Kokoo Cooperative helped its members to innovate more, including capacity building in farming techniques that helped its members to try and implement new methods to improve productivity, quality and cost reduction. Verily, this is least surprising since this is the main way that members benefit from Fair Trade Dragusanu et al., (2014). This result is consistent with the theory of information economics, which postulates that since cooperative may help farmers to obtain the necessary information on the downstream demand, learn technologies of production, and through certification, eliminate the problem of moral hazard linked with excess chemical use and poor quality of cocoa beans. Indeed, about 80% of the members of Kuapa Kokoo reported using good farming practices. Here, there was a continuum of farming practices, ranging from those that are low-input and low-yield to those that are high-input and high yield.

Mostly, the members of Kuapa Kokoo increased their productivity level, perhaps through the adoption of modern farming practices like the use of pesticides, fertilizers, pruning and weedicides. Similarly, the study revealed that members of Kuapa Kokoo had more access to market information, comparable to non-members.

In this way, the members of Kuapa Kokoo were regularly updated on the developments relating to prices and other matters relating to their farming inputs. Similarly, the members of Kuapa Kokoo regularly invited competent resource persons to educate them on the modern farming practices and ways to increase their yields. This helped the members of Kuapa Kokoo to make well informed decisions concerning their farming activities and daily transactions. Dragusanu et al. (2014) reported that Fair Trade certified members had access to good farming practices and inputs that consequently increased their level of productivity and yield.

4.3 IMPACT OF FAIR TRADE ON INCOME OF COCOA FARMERS

The study reveals that the mean rating of the level of income of the members of Kuapa Kokoo is 3.35. (See Table 1). This means an average level of income for the members of Kuapa Kokoo. On the other hand, the mean rating of the level of income of non-members of Kuapa Kokoo was 3.01, indicating an average level of income for the non-members of Kuapa Kokoo. However, the mean difference of the income levels of the members and non-members of Kuapa Kokoo is 0.34. This shows that the income levels of the members of Kuapa Kokoo was relatively higher than the level of income of the non-members of Kuapa Kokoo.

Similarly, the study realised that the system of weighing the cocoa was not same for the two groups of respondents. It is a normal practice that the weighing scales used to weigh the cocoa beans are adjusted by the cocoa purchasing clerks. Normally, the weighing scales are adjusted such that a bag of cocoa is weighed at 68kg instead of the normal weight of 64kg. It was however realised that the members of Kuapa Kokoo had ample education regarding the weighing system of their cocoa beans and thus it was difficult for them to be cheated by the cocoa purchasing clerks. The evidence with regards to disparity of the weighing system was clear since majority of the respondents that complained of weighing scale adjustments were not members of Kuapa Kokoo Cooperative. More surprisingly, it was revealed that some of the non-members of Kuapa Kokoo did not know the number of kilograms that make one bag of cocoa. In addition, some of the non-members did not know the price of a kilogram of cocoa.

This situation was not present among the members of Kuapa Kokoo Cooperative since they were consistently educated on the weighing system of the cocoa and the prices of a kilogram of cocoa. In addition, some of the communities had weighing scales and thus weighed their cocoa beans before they were sent to the purchasing clerks, which eventually eliminates exploitation through weighing scale adjustments.

One practice that could have some effects on the income of the members of Kuapa Kokoo was the cocoa beans contributions from the farmers to the cooperative which was referred to as 'kilo kilo'. Under this practice, members contributed 1 kilogram of cocoa per every 64 kilograms of cocoa beans sold towards the administration of the cooperatives. This means that the members only received money in respect of 63kg instead of 64kg. However, it came to light that the increased productivity and income saved from fairer scale or weighing of cocoa beans was more than enough to compensate for the contribution made to the cooperative.

4.4 IMPACT OF FAIR TRADE ON FRAMERS' ACCESS TO CREDIT

The cross-sectional means difference in Table 1 indicates that Fair Trade farmers had more access to credit facilities than non-Fair Trade farmers. As can be ascertained from Table 1, the mean rating of the level of access to credit facilities of members of Kuapa Kokoo is 2.88, whilst the non-members had a mean rating of 2.72. This gives a mean difference of 0.16, in favour of the Fair Trade farmers. The study further realised that these funds were very useful to the farmers since financial institutions mostly refused to provide credit to these farmers, despite the need for access to working capital to maintain their farms. One novelty of the Kuapa Kokoo Cooperative's credit scheme was that farming inputs like fertilizers, spraying machines, pesticides and seedlings were also provided to their members on credit, which is payable in cocoa seasons. However, the non-members lacked these facilities which adversely affected their farming activities. For instance, in Nicaragua, Bacon et al. (2008) confirmed in a study of a sample of 177 coffee farmers that Fair Trade certified farmers obtained a pre-harvest credit from their cooperatives whilst farmers who were not Fair Trade certified lacked such facilities.

In addition, the study revealed that the few financial institutions that granted credit to the farmers preferred giving credit to the Fair Trade farmers. This is because, the Fair Trade farmers had a form of collateral called 'group collateralization'. In this case, the members obtained loans from the financial institutions and serve as guarantors to each other, pledging that should any member default on payment, the others will pay. This offered the banks some sort of assurance with regards to the loan repayment. On the contrary, the non-Fair Trade farmers often found it difficult to obtain loans from the financial institutions. In instances where loans were offered, the sums were smaller compared to Fair Trade farmers because of lack of collateral. In addition, it was ascertained that the Fair Trade farmers had bank accounts where they made continuous savings. Earlier empirical studies produced similar results.

4.5 ANALYSIS OF VARIANCE (ANOVA)

Table 4.2: Paired Sample Test: Analysis of Variance (ANOVA)

Variables	Paired Mean Difference	Standard Deviation	Standard Error	t-value	Sig. (2-tailed)
Members: Non-Members	0.67	1.6352	0.618	3.427	0.039

The Table 2 above shows that the paired mean difference of the level of economic impact of Fair Trade on members and non-members of Kuapa Kokoo is 0.67. Table 2 further shows that at a significance level of 5%, the t-value is 3.427 and p = 0.039. It can therefore be put that Fair Trade has economic impact on members of Kuapa Kokoo Cooperative.

The study showed that with the additional income from Fair Trade premiums, Kuapa Kokoo has improved the livelihoods of its members. Some of the social benefits offered by Kuapa Kokoo to its members include dozens of social projects including the provision of drinking water, and construction of public toilets for the farming

communities. From the analysis above it could be observed that Fair trade plays an important role economically and socially in the development and enrichment of life of members of our farming communities.

5. CONCLUSION

The evidence showed that Fair Trade cocoa farmers do on the average received higher productivity/yield, income and credit facilities. What was found is that by implementing Fair Trade in the cocoa production, the impacts are mostly positive and beneficial. Using profits reinvested into it by the cooperative, there was significant improvement in the quality of life of famers. This was achieved through the provision of good drinking water, heath care services and provision of schools.

The cocoa farmers who were members of the cooperative received yearly bonuses and higher profit margins from the cocoa they sell. It is thus concluded that the economic impact of Fair Trade is positive and beneficial to cocoa farmers. It is recommended that the gains obtained from Fair Trade must be shared fairly so that the farmers reap the benefit of their sweat. It is further recommended that future research must be directed at the economic benefits of fair Trade to the marketers of Fair Trade products.

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