

SDM: ECOM Tanzania

Case owner: Tutunze Kahawa Ltd./ Mawenzi Coffee Exporters

Location: **Tanzania**

Commodity: **Coffee**

Services:



Farmer training



Planting material



Certification management



Finance



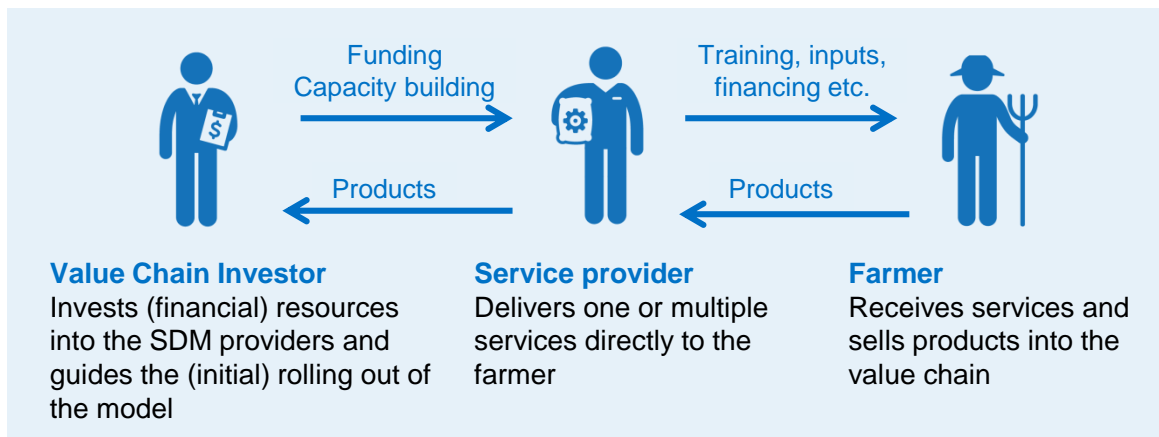
Added value services



Introducing Service Delivery Models

Service Delivery Models (SDMs) are supply chain structures which provide services such as training, access to inputs and information to farmers required to increase their performance and sustainability.

SDMs aim to achieve or further either economic, social or environmental sustainability in a supply chain.



Focus of this study

- 1 **Map variety of SDMs** by different companies in different sectors and geographies; on their objectives, structure and organization, types of services, and delivery approach.
- 2 **Aggregate data** from the individual case studies collected into the database
- 3 **Analyze the economic sustainability** of the SDMs at the level of the farmer, service provider and VCI
- 4 **Extract lessons learned** on topics such as key success factors, risks, scalability, and cost-effectiveness

Purpose of the study and benefits to supply chain



- Design more cost-effective SDMs, through better insights into what works in which cases



- Gain insights into how to design and implement more cost-effective SDMs



- More efficient services delivery and impact generation (better livelihoods, higher productivity, etc.)
- More transparency on whom to work with



- Benefit from strategic learning trajectory within and across sectors, based on a unifying methodology
- Opportunity to join learning platform

The ECOM Tanzania SDM objectives and structure

ECOM is the world's second largest coffee trader, and has two branches in Tanzania: Tutunze Kahawa Ltd, and Mawenzi Coffee Exporters.

Objectives of ECOM Tanzania's SDM:

1. Increased coffee productivity & quality
2. Improved income for coffee farmers
3. Improved trust and loyalty relations with SDM farmers

Sub-objectives of the SDM include certification, diversification, climate change adaptation/mitigation and the inclusion of gender and youth in coffee farming

General SDM information:

Location: Mbinga region, Southern Highlands, Tanzania

Start of the program: 2008, reaching current form/scale in 2012

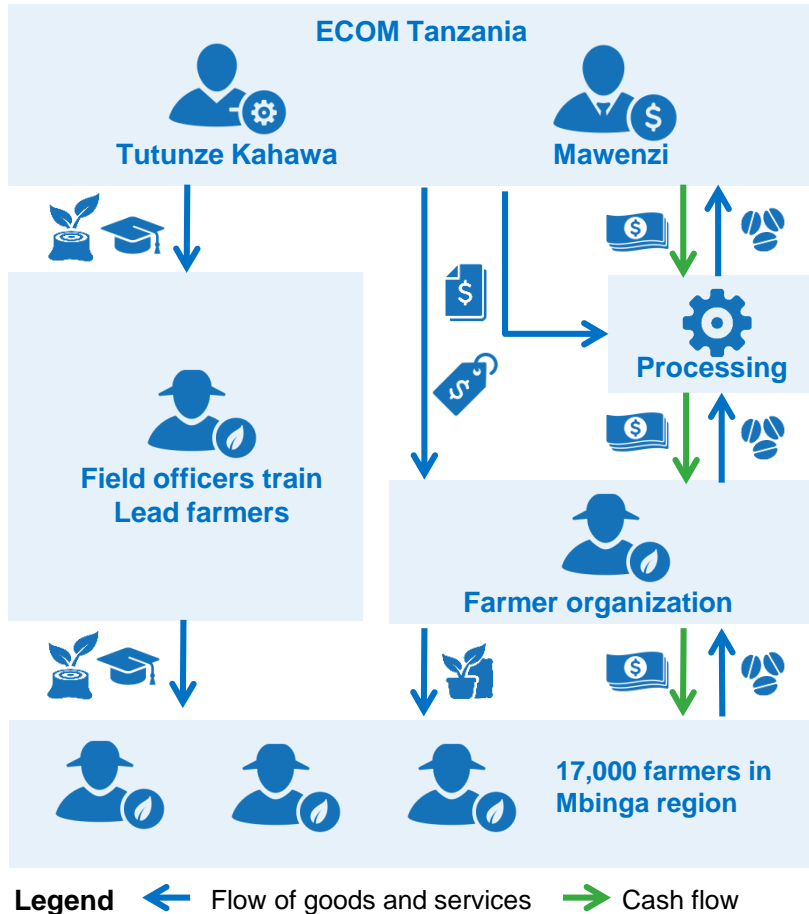
Scale: ~17,000 farmers, ~43 wet mills (2015)

Funding: Costs of this SDM are borne by Ecom/Tutunze Kahawa, donors (DEG), and buyers









SDM operator: Tutunze Kahawa, which was founded by Ecom to achieve a well-integrated and sustainable supply chain.

Services provided to the farmers:

- Training of (lead) farmers on good agricultural practices;
- Oversee & support wet mills (CPUs) to improve coffee quality and prices;
- Provision of trade and long-term finance to farmer organizations operating own CPU (marketing groups);
- Assessment and management of certification;
- Distribution of coffee seedlings and shade trees to farmers

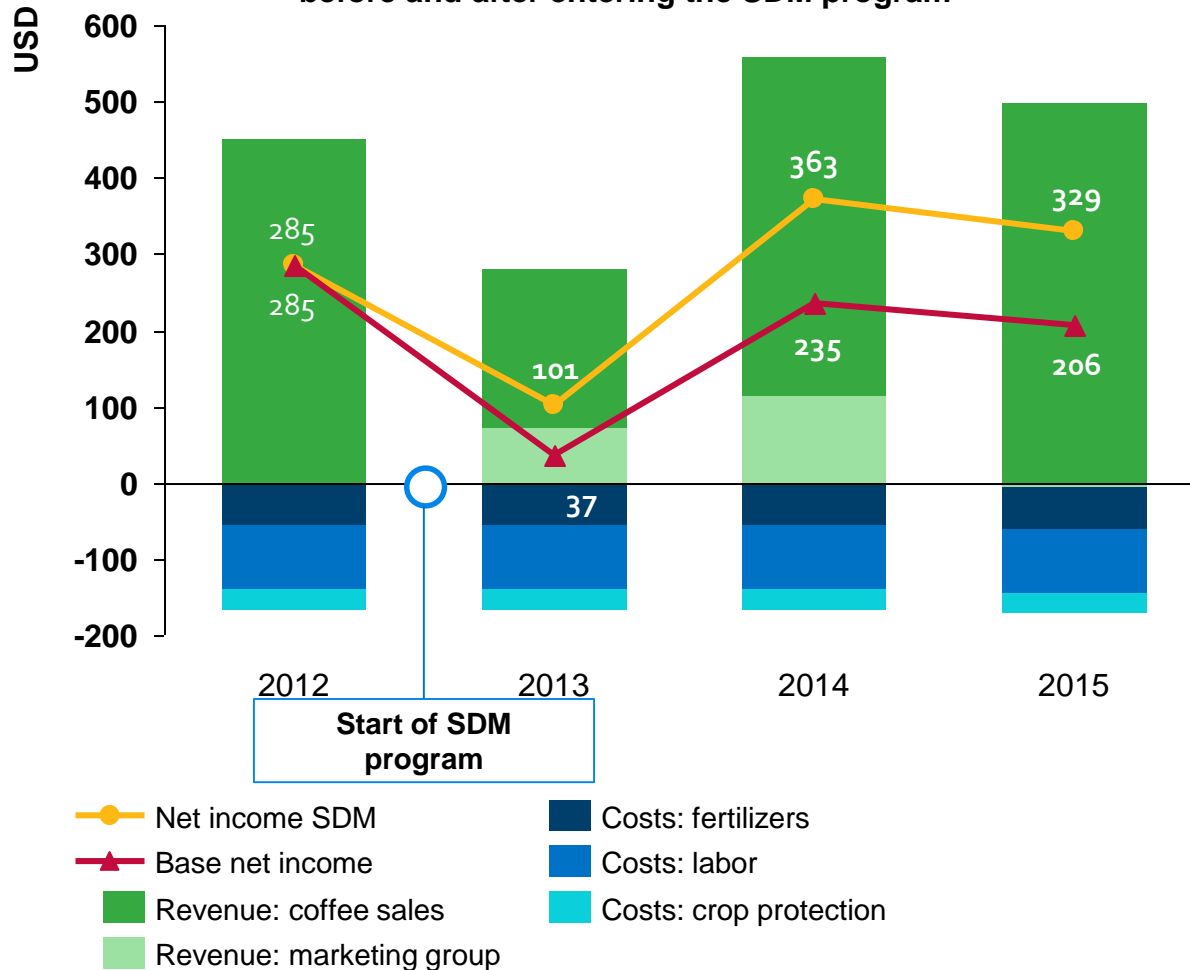


Types of services delivered within the SDM

	Service Provider/ Value Chain Investor	Other
		 
 Training	<ul style="list-style-type: none"> Tutunze Kahawa has field officers on the payroll that train lead farmers in Good Agricultural Practices. Lead farmers pass this on to other farmers. They also train on specific issues to enable certification 	<ul style="list-style-type: none"> ECOM & DEG support the financing of Tutunze Kahawa's agronomical trainings Hivos and other NGOs support trainings on social issues such as gender and youth
 Value adding	<ul style="list-style-type: none"> The CPUs of marketing groups, as well as ECOM's own wet mills are supported by advisory services by Tutunze Kahawa to ensure quality. 	<ul style="list-style-type: none"> ECOM supports financing the wet mill operations and advisory services to marketing group CPUs
 Financing	<ul style="list-style-type: none"> Tutunze provides loans to marketing groups as working capital (crop advancements) as well as investments in CPU machinery etc. 	<ul style="list-style-type: none"> DEG match-funds the cost of capital of provided financing
 Certification	<ul style="list-style-type: none"> Tutunze Kahawa has a team that is familiar with all major certification standards that can link buyers and farmers ready for certification 	<ul style="list-style-type: none"> Roasters seeking certified coffee pay a premium to producers ready to grow coffee in the required way
 Planting Material	<ul style="list-style-type: none"> The Tutunze nursery at its Mbinga head office produces both coffee planting material and a variety of shade trees 	<ul style="list-style-type: none"> TaCri authorizes the planting material grown in the nurseries DEG match-funds nursery establishment and operations.

The SDM's economic sustainability at farmer level

Individual farmer, 0.8 ha (~2 acre) coffee farm before and after entering the SDM program*



Economic sustainability at farm level

- Tutunze monitors the production of SDM farmers over time, allowing the construction of a farmer P&L before and after entering the program.
- Net coffee income for an average SDM farmer in 2015 has increased with 15% compared to 2012, and is estimated to be 60% higher than the income of non-SDM farmers.

Main revenue drivers

- Coffee revenue of SDM farmers improved due to higher yields (+34% in 2015). However, the positive yield development is seriously affected by the volatility of farm gate prices, as is demonstrated by the dramatic drop in farmer net income in 2013 due to a 50% lower coffee price compared to the previous year.
- Farmers connected to marketing groups doing their own CPU processing have a price advantage in certain years (e.g. 34% and 26% higher prices in 2013 and 2014).

Main cost drivers

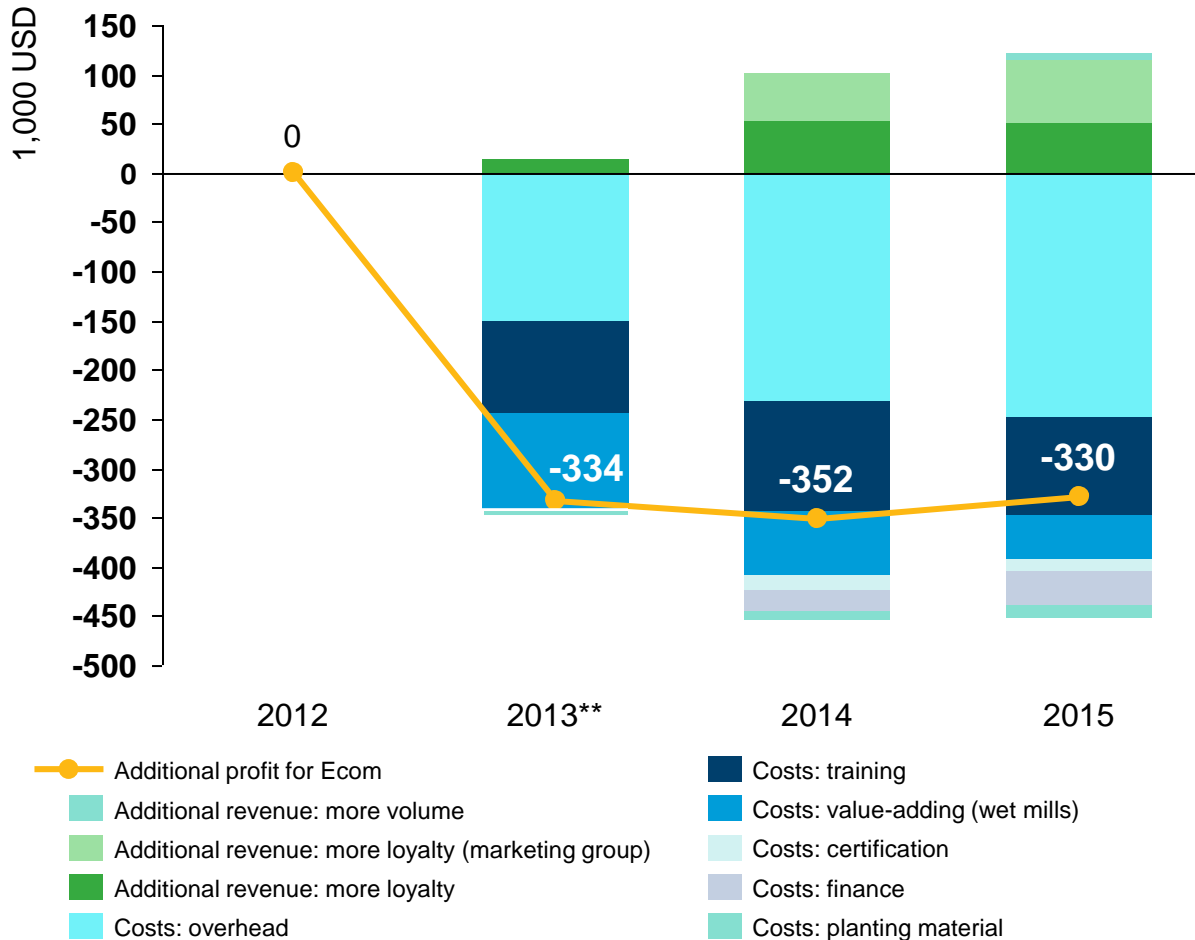
- Labor is the highest cost component for farmers, followed by fertilizer. However, the common fertilizer used (Urea/CAN) is not appropriate for coffee and is more likely to negatively affect yields instead of improving it.

*Based on farmer yield records of 2012-2015 and farm gate prices paid. Historical exchange rates used to convert to USD. 2012 baseline yield estimated at 1,300 kg of cherries (280 kg parchment) on 0.8 ha.

The SDM's economic sustainability at service operator level

Tutunze Kahawa's P&L

Cost and revenues for Tutunze Kahawa for coffee sourced from the farmers in the SDM program*



Economic sustainability at the level of value chain investor & service provider

- The graph shows Tutunze's additional revenues and costs related to the coffee sourced from farmers in the SDM program (3,255 in 2013; 16,633 in 2015).

Main revenue drivers

- Since the start of the SDM program, farmer loyalty towards Tutunze has increased from 5% to 18% in the case of farmer organizations receiving training by Tutunze, and to 52% in the case of marketing groups (farmer groups with own CPUs and receiving finance).
- Tutunze also benefits from the production increase of SDM farmers, resulting in ~82 kg of extra parchment produced by SDM farmers in 2015.

Main cost drivers

- Tutunze highest SDM costs item is the overhead (staff salaries, admin, and capital investment), followed by the cost of farmer training (materials, logistics, demo-plots, training trainers).
- Ecom/Tutunze has received donor support from DEG in the past years to cover 20% (2013) to 40% (2014/15) of the SDM costs.

*Assuming a profit margin per MT of traded coffee by Ecom/Tutunze of 5% of the average annual coffee market price.

Conclusions and lessons learned

Key drivers of success



- Tutunze Kahawa's service provision to farmers and their clear long-term presence in the field does result in both positive yield effects and increased loyalty over time.
- The financing of marketing groups combined with advising on proper processing has proven to be a successful way to enable professionalization and price benefits for the farmers
- The value-adding and certification services enable them to meet their buyers' demands regarding quality and sustainability claims, offering their farmers access to higher-value markets.

Key risks



- Coffee yields of SDM farmers remain relatively low due to the wide use of ineffective fertilizers and soil management, and the old age of trees.
- Even when the right fertilizer would be applied, positive yield effect will remain limited unless large-scale rejuvenation takes place.
- Ecom/Tutunze has a large record-keeping system in place. However, quality of farm-level data is an issue as most data are self-reported by farmers and show inconsistencies. The program could benefit from improvements in data collection methods, quality control & data entry.

Key factors in replication of the model



- The key factor is the combination of farm-level services of training, certification and planting material with active advisory and financial support in the processing afterwards.
- The model may in fact be easier replicated in other countries where the baseline situation of farmers is better than in the lower yielding farms in Tanzania.

Impact on objectives



Increased farmer income

- Productivity of SDM farmers increased with 34% according to farmer record keeping
- Farmers connected to marketing groups doing their own CPU processing experience price advantages (e.g. +34% and +26% in 2013 and 2014).



Increased farmer loyalty

- Record keeping of Tutunze shows a clear increase in farmer loyalty since the start of the SDM program: coffee sourced by SDM farmers has increased from 5% to 18%.
- For the farmer groups receiving finance (marketing groups) this increase was even higher: they currently sell 52% of their volumes to Tutunze.



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