VALUE CHAIN ANALYSIS FOR COFFEE IN TANZANIA: A CASE STUDY OF ASSOCIATION OF KILIMANJARO SPECIALTY COFFEE GROWERS AT MBEYA CHAPTER, TANZANIA

BY

JULIANA EMMANUEL NG'WEBESA

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ABSTRACT

Coffee has been a mainstay of Tanzania's agriculture based economy since its introduction as a cash crop about 100 years ago. It contributes between 15-17 percent of the total GDP. However in the mid 1990s the industry has fallen into steady decline. In 1994 there was coffee liberazation whose immediate effect include increased in the nominal prices for coffee. In 2003, new regulations were enacted allowing for direct export of coffee. This has had a very big impact in the participation of the private sector in the coffee industry where farmers have a wide range of choices for markets. Coffee has the merit that the value chain is relatively simple but highly concentrated at the processing stage. The value chain analysis extends traditional supply chain analysis by locating value to each stage of the chain. The value of coffee has been increasing upwards of the market chain from the producers to the final consumers in Europe. This shows that roasters get higher percentage of retail coffee price leaving the producers receiving low price sometimes below production costs.

The explanation of declining producer shares is that processing, marketing and distribution costs incurred in the consuming countries have tended to increase over time while production costs in the countries of origin have declined. This study show how KILICAFE, which is an association of farmer business groups in the Arabica producing regions of the North and South of the country with technical assistance from TechnoServe, has promoted the production and processing of high quality specialty coffee to improve its access to international and local markets in order to boost the incomes of its members. It also shows the main actors in Tanzania coffee value chain and KILICAFE coffee value chain, and describes the role of each key actor along the chain. It also shows how KILICAFE chain differs from alternative coffee channels.

DECLARATION

I, JULIANA EMMANUEL NG'WEBESA, do hereby declare to the Senate of Sokoine University of Agriculture, that this research paper is my own original work, and that it has never been submitted for a higher degree award in any other University.

Ng'webesa
JULIANA NG'WEBESA
(MBA- Student)

11/07/2008
Date

The above declaration is confirmed

DR. DAMIAN GABAGAMBI
(Supervisor)

12.07.2008
Date

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DEDICATION

Dedicated to Almighty God and my beloved parents; Mr. Emmanuel Ng'webesa and mother Mrs. Hellen Ng'webesa who laid the foundation of my education.

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LIST OF ABBREVIATIONS AND ACRONYMS

AKSCG	Association of Kilimanjaro Specialty Coffee Growers
CPU	Central Pulperly Unit
EAFCA	East African Fine Coffee Association
FAQ	Fair Average Quality
FBG	Farmers Business Group
FLO	Fairtrade Labelling Organization International
FOB	Free On Board
GDP	Gross Domestic Product
HPC	Home Processed Coffee
IACO	Inter-African Coffee Development
ICA	International Coffee Agreement
ICO	International Coffee Organization
IRF	Internal Reserve Fund
ITC	International Trade Centre
Kg	Kilogram
KILICAFE	The Association of Kilimanjaro Specialty Coffee Growers
KNCU	Kilimanjaro Native Cooperative Union
MNC	Multi Nationals Company
NGO	Non-Government Organization
PC	Parchment Coffee
PCB	Private Coffee Buyer
SACCOS	Savings and Credit Cooperatives
SDC	Swiss Organization for Development Cooperation
TACRI	Tanzania Coffee Research Institute

TCB	Tanzania Coffee Board
Tshs	Tanzania Shillings
URT	United Republic of Tanzania
US	United States
US $	United States Dollar
USA	United States of America
USAID	US Agency for International Development

CHAPTER ONE

INTRODUCTION

1.1 Background Information

Tanzania is a country rich in natural resources such as timber, germ stones, fish and minerals. Despite the country's richness in natural resources, it is agriculture, which is the mainstay of the country's economy. Apart from providing food, agriculture is the country's main source of income for 70 percent of the workforce. It accounts for 57 percent of the Gross Domestic Product (GDP) and about 85 percent of the foreign exchange earnings (EAFCA, 2003). In the country staples are maize, rice and wheat, while main cash crops include coffee (of which 85 percent is grown by smallholders) cotton, tobacco, cashew nuts, tea and sisal (EAFCA, 2003). In Tanzania agriculture employs 80 percent of the country's 36 million people (TechnoServe, 2006).

Coffee is one of the main foreign exchange earners in the agricultural sector. Compared to other cash crops, coffee contributes between 15-17 percent of the total GDP and employs about 7 percent of the country's population. Apart from being the main source of income to the nation at large and to the farmers in particular, coffee production has proved to be a vital tool for poverty reduction and food security (Swai *et al,* 2003).

Since its introduction as a cash crop about 100 years ago Coffee has been the main stay of Tanzania's agriculture-based economy. It was Arabica coffee, which was introduced as a commercial crop in 1900 on the slopes of mount Kilimanjaro. This coffee accounts for nearly 75 percent of the 50 000 tons of coffee that Tanzania produces every year (EAFCA, 2003).

There are about 400 000 smallholders on average plots of 1-2 hectares and 110 large-scale coffee producers (Baffes, 2003). These cover an area of 260 200 hectares, which can further be broken down into smallholders (90 percent) and large estates (10 percent). Coffee remains an important crop in Tanzania but domestic consumption is negligible (ITC, 2002).

Tanzania coffee growing areas encompass diverse geographic and climatic conditions and a variety of farming systems. Tanzania produces both Arabica and Robusta, which accounts for about 800 000 60-kilogram bags, or 0.7 percent of the world output of 117 million bags. About two-thirds is mild Arabica, and the rest is hard Arabica and Robusta. Arabica is grown in Arusha and Kilimanjaro regions in the North and the Mbeya and Ruvuma regions in the South (Baffes, 2003). Robusta is grown in the lake zone mainly the Kagera region (where a small amount of low grown natural Arabica is also found (ITC, 2002). Mild Arabica is wet processed, while Robusta is dry processed. Marketing of coffee, both domestically and internationally is largely under the control of private sector in Inter-African Coffee Organization (IACO) member countries, which Tanzania is a part. On the international market, coffee buyers are mainly coffee roasters in consuming countries or their agents located in producing countries (Multinational project, 2003).

1.2 Problem statement and Justification of the study

Coffee is a significant cash crop for smallholders in the Southern highlands especially in Mbeya and Ruvuma regions. Although Mbeya is among the major producers of coffee in Tanzania, there are still major problems that face farmers not only in that particular region but also the coffee sector countrywide. Coffee producers in Tanzania face a number of challenges as outlined in the subsequent paragraphs.

One of the challenges is the prevalence of limited access to high value marketing channels because the yields are not large enough to have them qualify them to sell at the auction. Currently, small farmers must sell their produce to private buyers who pay low advances and may fail to make second advances. Also farmers get low prices as coffee prices have decreased significantly since the mid 1990s to historic lows in 2002 due to oversupply in the market (Speicher, 2007).

Lack of access to Modern processing technology is another challenge faced by coffee farmers. Over 90 percent of Tanzania's smallholder growers lack access to modern processing technology and market information. As a result, despite the high quality of their coffee, farmers must sell their produce into the undifferentiated commodity markets (TechnoServe, 2006).

In the country, there is still inadequate production of enough quantity of specialty coffee. Specialty coffee buyers from the USA, Japan and Europe market Tanzanian coffee as a 'premium' brand. However, buyers including Starbucks Coffee Company report difficulties in sourcing a sufficient quantity of specialty coffee from Tanzania that is needed to meet growing demand (TechnoServe, 2006). However, the market has adjusted accordingly and prices have been increasing as the world production decreases to meet demand. This is slowly persuading farmers to return to their coffee assets and will have a positive effect on Central Pulperly Unit (CPU) utilization in the coming years (Speicher, 2007). The aim of preparing coffee using CPU is to produce large quantity of coffee with high quantity in order to be able to sell it at a high price.

Another challenge is inadequate access to financing. Lack of access to credit and capital is one of the biggest hurdles for entrepreneurs in Tanzania, including farmers who intend to

expand their production or create a higher quality product. Most of the small scale farmers in Tanzania who grow over 95 percent of coffee lack enough capital to buy agriculture inputs such as fertilizers and insecticides; as a result they fail to produce an adequate amount of high quality coffee (TechnoServe, 2006).

Having reviewed the main challenges, which face farmers in Tanzania, this study intends to address issues related to the marketing problem. The main aim of KILICAFE (which is a brand name for the association of Kilimanjaro specialty coffee growers in the Arabica producing regions of the North and South of the country) establishment was to search for coffee markets for its members in the three chapters of Mbeya, Mbinga and North.

This study intends to show the route that coffee passes before reaching the final consumers and also reveals how the coffee value increases along the chain. This is a case study of showing the extent at which KILICAFE simplify the marketing of coffee and its contribution to the increase of production and incomes to coffee farmers.

There is a need of educating coffee farmers about the importance of forming business groups comprising well known farmers organizations like KILICAFE or well known private coffee buyers as this will enable the farmers to access finance and produce high quality coffee that will catch high price in the market.

Of course there are good opportunities for farmers to gain premium price for quality coffee if farmers can access those markets that reward high quality. This can be achieved by using modern processing technologies through the use of CPU and market the produce locally and internationally, which would in turn enable the Farmers Business Groups (FBGs) members to achieve better incomes.

1.3 Study objectives

1.3.1 Main objective

The study intended to analyze the coffee value chain for the association of Kilimanjaro specialty coffee growers (KILICAFE) in Tanzania.

1.3.2 Specific objectives

Specifically the study was set

i. To describe coffee marketing arrangement for KILICAFE
ii. To identify and compute market costs along the coffee value chain involving KILICAFE
iii. To compare returns of different coffee marketing channels in the study area, and
iv. To recommend measures for improving the coffee value chain in the study area.

1.4 Rationale of the study

This study is useful to smallholder coffee farmers, FBGs, KILICAFE, Tanzania coffee Board (TCB), Government policy makers and other Tanzania coffee stakeholders in general as it looks into a number of issues include the liberazation of coffee market and its impact, coffee value chain analysis and opportunities and constrains in the marketing of coffee especially in the direct export of coffee.

Furthermore, the study shows the importance of monitoring all the key actors in the coffee value chain. Whose actor for instance highly benefit from the chain. The study also shows how the value of coffee increases in the chain. In that case, farmers would be able to understand the coffee market channels and costs incurred before coffee reaches the final consumers.

The study is also useful to KILICAFE and other coffee stakeholders in general, as it will enable them to know different coffee marketing channels in the study area. It also shows how the Tanzania Coffee Board (TCB's) new licensing has removed a bureaucratic barrier between Tanzania specialty coffee producers and international buyers who are willing to pay premium price for fine coffee.

On the other hand, Policy makers will also be benefit from the study, as they will understand how farmers are rewarded with greater prices by producing specialty coffee. Thus policy makers have to make policies that attract farmers into producing high quality coffee in order to correct price imbalance among all farmers. With such policies all the coffee farmers and the community at large will benefit.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 History of coffee marketing in Tanzania

Coffee marketing in Tanzania has come a long way. It has passed through different stages up to now. From independence in the 1960's to the early 1990's, parchment coffee was marketed through cooperative unions operating under the socialist regime. These cooperatives sorted the coffee and paid prices based upon grade and class. However, these cooperatives failed to survive afterwards because they became corrupt as they start paying the prices, which depend more upon kinship links than coffee quality. In addition, the cooperatives failed to pay on time with payments as late as 2 to 3 years.

In 1994, limited liberazation of the coffee sector enabled the farmers to sell their produce to private buyers or to cooperatives. Further the liberazation of the sector in 1996 brought a competitive marketing of coffee, which allowed the Tanzania Coffee Board (TCB) auction in Moshi. This auction however remained out of reach of the majority of smallholder farmers, with a minimum volume requirement of 10 000 kilograms (kg) of parchment coffee, and with the requirement of payment to be done to registered bank accounts only.

In October 2003, new regulations were enacted allowing for direct export of coffee. Several of Tanzania coffee buyers are now using the opportunity to market their coffee. KILICAFE became the first organization to be licenced by TCB to export specialty coffee directly to overseas buyers.

2.1.1 Current coffee marketing systems

According to ITC (2002), Marketing systems in many producing countries reflect different historical, social and geographical influences. Currently, Tanzania has internal and external marketing systems.

2.1.1.1 Internal marketing system

According to TCB (2007), internal marketing system involves buying of coffee from farmers at designated buying posts. Following liberalization of coffee trade in Tanzania, since 1994/95 coffee seasons, farmers are free to sell their coffee in cherry or parchment to any licensed coffee buyer. Every coffee buyer must get a licence from Tanzania Coffee Board after fulfilling the basic conditions underlying this type of business. For the purpose of monitoring coffee movements from farmers, the buyer must send all parchment and/or cherry to licensed coffee processing factories and inform TCB accordingly. Prices are purely based on negotiations between farmers and coffee buyers.

2.1.1.2 External marketing system

All clean coffee in Tanzania is sold through auctions conducted centrally by the Tanzania Coffee Board. Licensed coffee exporters participate in auctions held at the head office of the Board in Moshi twice every month. The auctions operate by a fall of hammer and coffee is sold EX licensed clean coffee warehouses. The seller in this case is coffee buyer whereas the bidder is a licensed coffee exporter. The above systems have proved to be the best marketing systems for our Tanzania coffee whereby coffee buyers and farmers are rewarded adequately (TCB, 2007). The Tanzania coffee auctions are held every two weeks in Moshi.

2.1.1.3 Internal and external marketing efficiency

The participation of the private sector in the coffee marketing has increased tremendously since the implementation of economic reforms. However, most of the companies, which participated, were multinationals. Due to their good financial position such companies were able to have multiple licences in coffee business. According to Swai *et al* (2003), this shifted the monopoly power from cooperatives to multinationals, which resulted into a decreased competition between players in the market.

Furthermore, since all the coffee has to pass through the auction, a lot of coffee from multinationals was repossessed back and exported making the coffee brought by local companies to lose bargaining power and ultimately fetching very low prices. It is therefore imperative to review the entire marketing process by removing captive coffee and re-addressing licensing procedure so as to improve the bargain power of producers.

For the case of external marketing system, the actors must bear in mind that all coffee has to pass through the auction and that the whole auction process requires classification of coffee through samples delivered to TCB and cataloguing process. This long process delays coffee shipment for about 25 days. Thus according to Swai *et al* (2003), this reduces the industry's ability to compete internationally as coffee prices are very volatile.

2.2 Coffee value chain

2.2.1 Actors in the chain

Following setbacks in the existing pro-liberalization from the producers to consumers, currently the coffee value chain in Tanzania is driven by any actor (Swai, *et al* 2003). Through the uncontrolled producer to consumer market relations systems, the quality and price of coffee has been changing to benefit mostly the Private Coffee Buyers (PCBs) and

Multi National Companies (MNCs) while leaving producers to share a small fraction of the market. Unlike the quotas system, the current international coffee trade is not regulated by the commodity agreement as was expected. The main actors of the coffee chain in Tanzania are smallholders (individual farmers), primary cooperative societies, farmer groups, cooperative curing plants, cooperative unions, large – scale farmers, domestic traders buying posts, exporters buying posts, private curing plants, TCB auction and exporters (Figure 1).

According to the coffee baseline report (2003), after trade liberazation growers now have a choice of selling their produce through four marketing channels:

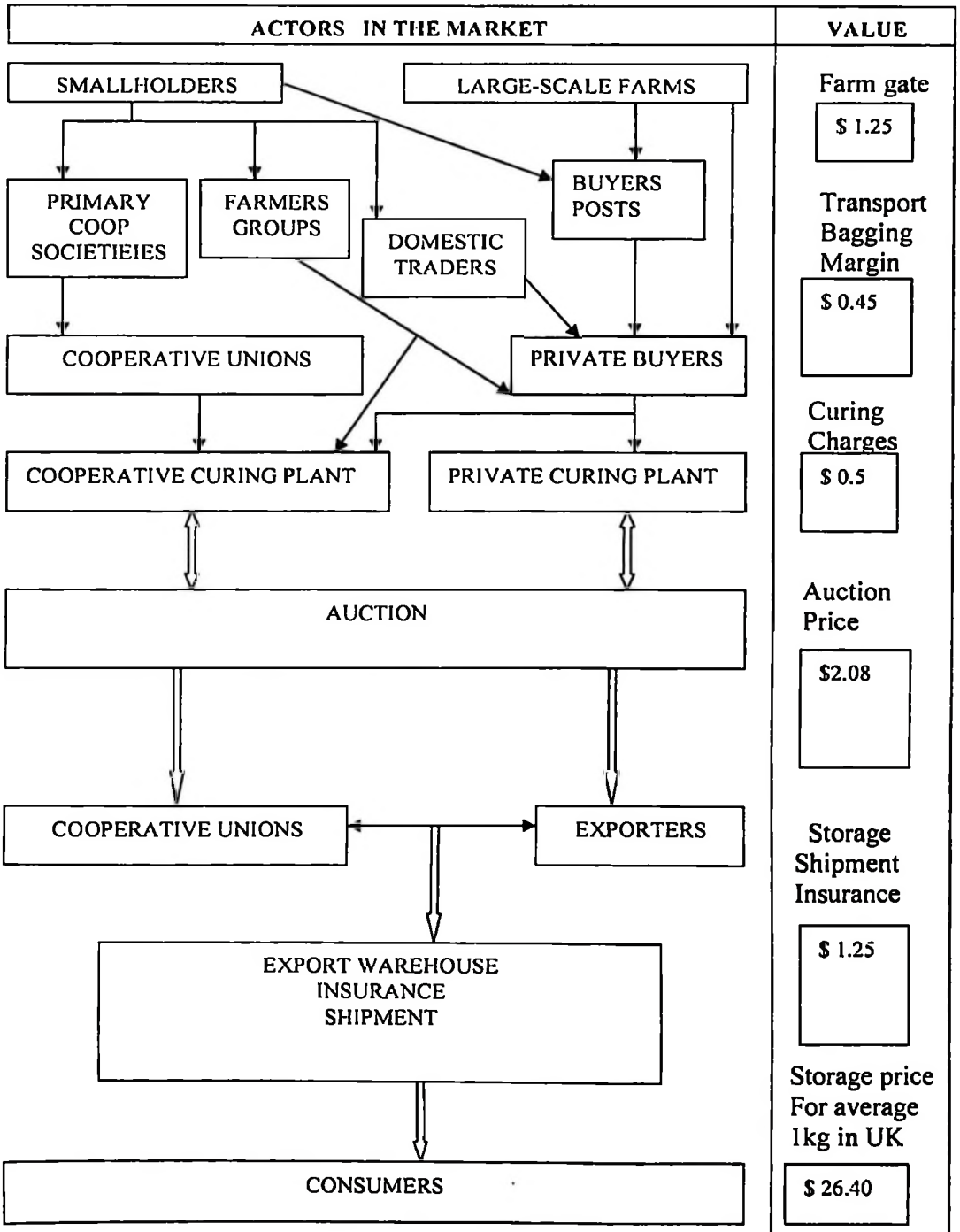
(i) Primary society

(ii) Private Coffee Buyers (PCBs)

(iii) Cooperative systems, and

(iv) Farmer groups.

Farmer groups emerged as a result of poor prices offered by cooperatives and PCBs. Examples of farmers group are Association of Kilimanjaro Specialty Coffee Growers (AKSCG), Gomata coffee rural co-operative society ltd. and others. The dependence on private buyers is highest in the southern and western coffee growing zones than in the northern zone.



Source: Updated from Ponte (2001)

Figure 1: The Tanzania coffee value chain

Other actors in the chain who are not formally approved are Domestic traders. These are people with money and who purchased coffee seasonally through informal arrangements with farmers and sometimes PCBs to procure parchment coffee. This situation usually appears under intense economic hardship, where farmers have no money for other commitments such as school fees.

The coffee procured is sent to curing factories. These are cooperative and private owned processing factories. This is where parchment coffee is converted into graded 'clean' coffee through de-husking. Samples of clean coffee are taken to TCB for classification, cataloguing and auction process where exporters (can also be Cooperatives) purchase the coffee at the Auction. Once the coffee is sold, export approval is given to exporter ready for shipping (Swai, *et al* 2003).

2.2.2 The nature and importance of marketing channels

A market channel or distribution channel is a set of independent organizations involved in the process of making a product or service available for use or consumption by consumer or business user. Few producers sell their goods directly to the final users, however most producers use intermediaries to bring their product to the market. Intermediaries reduce the amount of work that must be done by both producers and consumers (Kotler, 2005). In effect, consumers need the highest produce value at the lowest possible price, farmers want the highest possible return of their products while the middlemen seeks to earn the greatest profit. A good marketing system has to reconcile all these points.

2.2.3 New marketing channels development in the coffee sector

The Government allowed private participation in all segments of the coffee chain. Licences for Private Coffee Buyers (PCBs), cherry buying, coffee curing, warehousing

and export were made available to private buyers (Swai, *et al* 2003). The data compiled by Baffes (2003) reveal that before 1994, 75 percent of coffee was marketed by cooperative unions, 19 percent by other government organizations, and 6 percent by private estates. Four seasons later, the market shares were 67 percent by private buyers, 26 percent by cooperative unions, 7 percent by estates, and 1 percent by other governmental organizations. Private firms participation was exhibited in the whole coffee chain, from production, processing, warehousing to exporting. Two-thirds of Private buyers are vertically integrated exporters, companies that buy coffee from the growers; these people process the coffee in their own factories, and export it themselves. Often, these exporters also buy the coffee at the auction or from primary societies. During 1998, these firms accounted for 45 percent of the coffee sold at the auction, and 62 percent of the coffee exports. Even though the vertically integrated exporters own the coffee throughout the entire chain, selling the crop at the auction implies (at least technically) that they lose ownership of the coffee since any auction participant can outbid them.

2.2.4 Quality in relation to marketing

The basics of quality in relation to marketing are simple. Coffee must be suitable for human consumption, free from extraneous matter, live pests and moulds, fully conform to the contract description or selling sample and be of uniform quality throughout the entire shipment and be clean in the cup i.e. free from obnoxious flavours. The first two points cover the general acceptability of coffee, while the third and fourth deal directly with the quality (ITC, 2002).

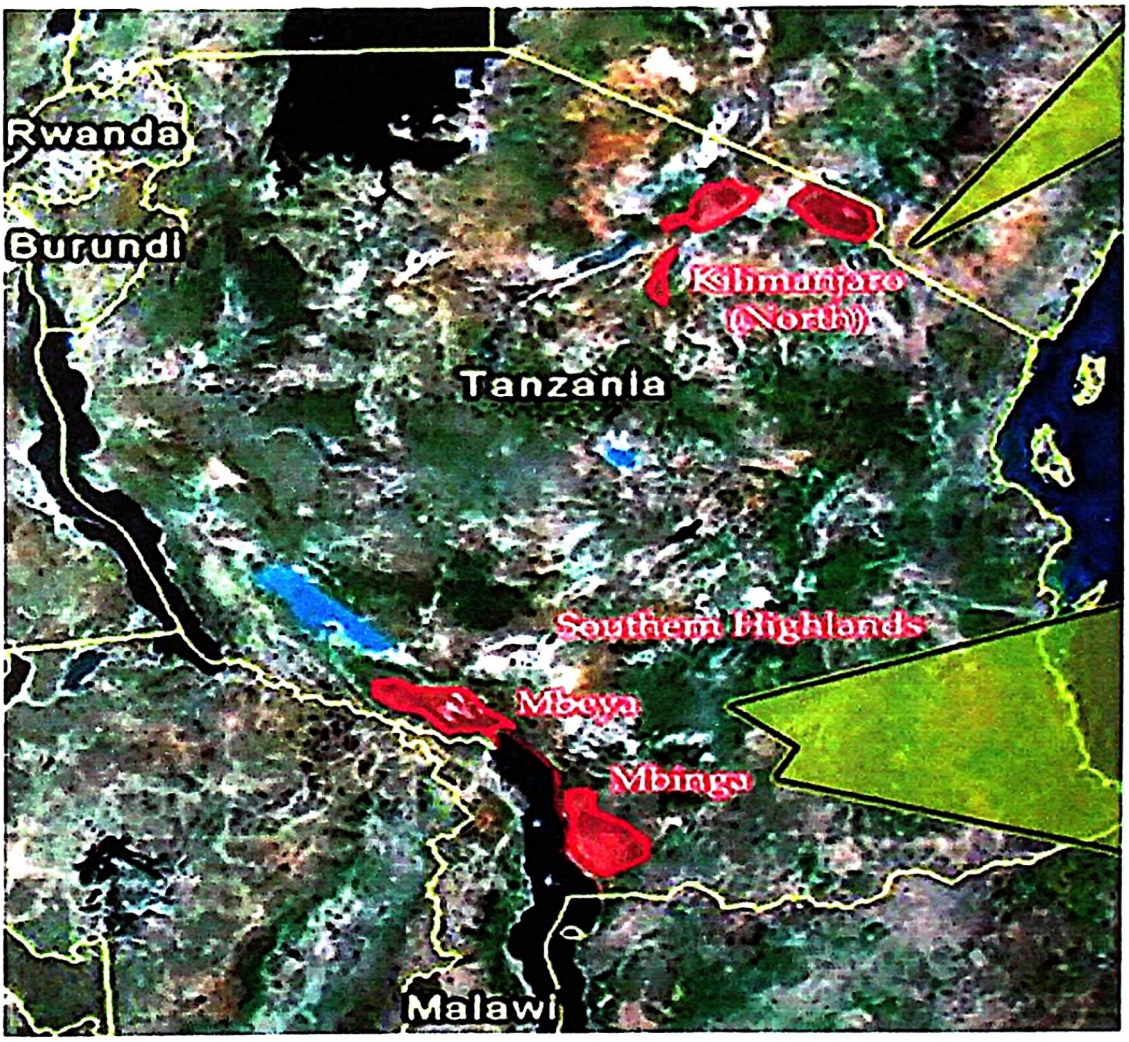
CHAPTER THREE

METHODOLOGY

3.1 Description of research area

The research was conducted in Mbeya Region at KILICAFE Mbeya chapter comprises Mbeya rural, Ileje, Rungwe and Mbozi districts. Mbeya district lies between longitudes 32^0-34^0 E and latitudes 8-9.5^0 S. It occupies an area of 2610 square kilometers, with an arable land of 213 750 hectares. The altitude of the district is 1220 to 1830 meters above sea level. Rainfall ranges from 800 millimeters to 2200 per annum (URT, 1997). KILICAFE smallholder groups come from three highland regions in Tanzania namely Kilimanjaro, Mbinga and Mbeya, producing a wide variety of superior specialty coffee. These chapters are all shown in (Figure 2).

KILICAFE Mbeya chapter has been selected as a case study because Mbeya is a potential site for coffee production where the crop is produced in four districts of Mbozi, Ileje, Rungwe and Mbeya Rural. Also the researcher was attached for internship in the study area for about six months hence it was easy for the researcher to access adequate secondary data and even to collect primary data through structured questionnaire, which were administered to both selected FBG leaders and KILICAFE officers.



Source: KILICAFE

Figure 2: Map showing three KILICAFE chapters

3.2 Data collection methods

The research was conducted during June to December 2007 while the researcher was doing internship. Both secondary and primary data were used to address issues raised in the specific objectives of the study. Secondary data were obtained from the Internet, report, records and materials from TCB and KILICAFE, also from FBGs progressive reports. Primary data were collected through structured interviews during the internship period whereby the author was able to interview some of the FBG leaders in Mbeya

chapter. Leaders from 7 FBGs were interviewed out of a total number of 29 FBGs. Among the 7 FBGs, 2 FBGs were from Mbozi, Rungwe and Ileje districts each and 1 was from Mbeya rural. Also, other data were collected from private coffee buyers and private CPU during the benchmark survey, which was carried out in December 2007 by TechnoServe Tanzania that works together with KILICAFE.

3.3 Data analysis

The statistical and descriptive analyses were conducted based on the data and information collected from primary and secondary sources. Quantitative data were analysed using the Statistical Package for Social Sciences (SPSS) to compute percentages and tabulation of responses.

CHAPTER FOUR

THE CASE OF KILICAFE

4.1 Background information of KILICAFE farmer association

KILICAFE is a brand name of the association of Kilimanjaro specialty coffee growers (AKSCG), a Tanzanian farmers association that was launched in 2001 by 11 farmers groups in Northern Tanzania. AKSCG was established with the assistance from Techno Serve, a U.S.-based non-profit development organization that is assisting Tanzania's coffee growers to earn higher prices by improving coffee quality, developing new quality-focused business models, and establishing market linkages with overseas buyers. TechnoServe's coffee operations in Tanzania are funded by the U.S. Agency for International Development (USAID), the Swiss Organization for Development Cooperation (SDC), Farm Africa, and private donors.

KILICAFE is the Tanzania's largest coffee farmer association which is registered and publicly recognized as non profit organization with over 90 member farmer groups representing more than 8000 smallholder farmers from Mbeya, Mbinga and Kilimanjaro growing regions. KILICAFE sold over 1500 metric tons of green coffee in 2004 with total gross sales of US$ 3 million. Over 10 percent of KILICAFE coffee was sold directly to leading international buyers in the USA, Europe and Japan with the remaining sold through the national coffee auction in Tanzania. In 2001 and 2003, KILICAFE member farmer groups were honored with the Tanzania coffee association's annual award for best quality coffee in smallholder category.

In 2005, KILICAFE provided over US$ 700 000 in working capital to its members and linked 12 groups to financial institutions in order to purchase quality-enhancing central pulpery (processing) equipment. In the same year, KILICAFE sold more than US$ 3 million worth of coffee and launched a partnership with the US-based Peet's Coffee & Tea to sell KILICAFE's coffee in the USA under the 'Tanzania Kilimanjaro' brand. As demonstrated by KILICAFE, the value-adding activities of supporting the development of central pulpery processing, credit access, improved marketing and the development of new business models translate into higher revenues and more income for the rural poor.

Smallholder farmers can sell specialty coffee, produced in central pulperies, for US$ 2 per kilogram at the farm gate, compared to US$ 1 per kilogram for commodity coffee produced using back yard processing. Creating access to efficient central pulpery facilities for all coffee growers in Tanzania, and developing the Tanzanian specialty coffee brand could benefit 400 000 rural families and increase foreign currency earnings annually by US$ 23 million.

Additionally, KILICAFE won a runners-up prize for the best Tanzanian coffee at the East African Fine Coffee Association (EAFCA) "Regional Taste of Harvest" cupping event in 2005. Other functions of KILICAFE include the provision of credit, bulking of saleable volumes and strict financial management that pays farmer groups the true value of their coffee, training on CPU business management knowledge and skills and improve access to loans and markets for the CPU businesses that were facilitated.

4.1.1 Statistics for coffee sales at KILICAFE

KILICAFE has shown a very good stable trend since its inception. Smallholder coffee farmers have been increasing resulting into an increased production of parchment coffee in

all chapters: North chapter, Mbinga chapter and Mbeya chapter. Steady increase in production led to steady increase is sales as well. Raw coffee sold at the auction and direct export has increased significantly in both quantity and value.

Table 1: Total coffee sales trend (in '000' Kg) since 2003/2004

Market system	2003/04	2004/05	2005/06	2006/07	2007/08*
Auction (FAQ grade)	829	1 400	856	908	692
Direct export (Specialty)	57	192	174	442	741
Grand Total	886	1 592	1 030	1 350	1 433

* Estimates

Source: KILICAFE

4.1.2 Relationship between KILICAFE and FBGs

There is a close relationship between KILICAFE and FBG. There is no KILICAFE without FBG, that is why KILICAFE is known as the association of smallholder coffee growers farmers. In order to join KILICAFE, farmers must organize themselves in an FBG. It is not allowed for an individual farmer to join KILICAFE; this is because even in the KILICAFE constitution there is a rule that does not allow an individual to be registered in an association.

4.1.3 Nature and form of linkage between KILICAFE and FBGs

The nature and form of linkage between KILICAFE and FBGs is around the manner KILICAFE operates. KILICAFE searches coffee markets for its members. At the FBGs levels, farmers through registered FBGs, collect coffee. The coffee collected could be parchment or cherries particularly when the FBG has a Central Pulperly Unit (CPU). The central pulperies are processing facilities where farmers collectively remove the coffee

cherry skin, wash and then dry the coffee, resulting in higher quality and more consistent end product. Up to that particular stage, farmers are given only the advance payments. Afterwards coffee is transported from FBGs to the selected curing company where it is milled and graded. The samples of clean coffee are sent to TCB for classification, cataloguing and auction process where buyers including exporters purchase coffee at the auction. Once coffee is sold, export approval is given to exporters ready for shipping.

At KILICAFE, all these activities are under their supervision as their role is to provide coffee marketing services to farmers. Ninety-five percent of KILICAFE coffee is being sold at the national coffee auction, where higher global prices and quality improvements have resulted in smallholder farmers receiving higher prices, while the remaining five percent (KILICAFE's top-quality coffee) is being exported directly to specialty buyers (TechnoServe, 2005). By doing so KILICAFE has been able to dramatically improve the quality as well as the yield of coffee produced with the assistance from TechnoServe, an international non-profit organization focused on development of businesses in the rural areas.

Higher quality coffee, supported by assisted marketing services, has commanded prices twice as high as the regional average with the consequence of substantially increased producer income. This allows for greater provision of resources for human development and basic necessities for producers' families and communities.

4.1.4 KILICAFE and other parchment coffee buyers compared

KILICAFE is not similar to other PCBs due to the fact that it is absolutely Non-business oriented but rather formed to help small-scale farmers to get better market and improve coffee quality. Most of PCBs are business oriented; they normally purchase coffee from

farmers through agents and offer them all the cash needed. But the payments in most cases are not similar across farmers, as they (payments) depend on the period the farmer sells the coffee. At the beginning of the season the price/payments are low but they tend to rise during mid season or at the end of the season depending on the nature of the competition. In most cases, farmers who sell coffee to the same PCB are offered different prices.

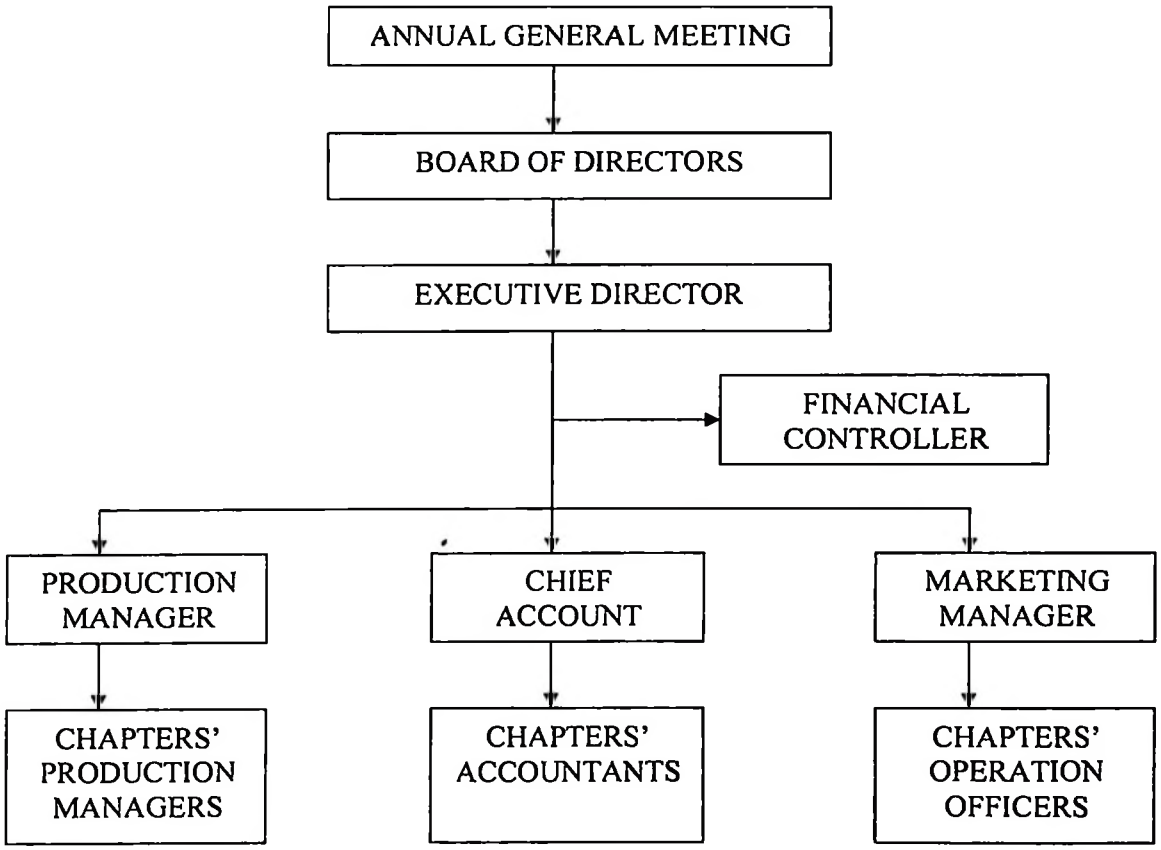
Cooperative unions typically pay a uniform price, dividing proceeds equally among members regardless of the quality of their coffee. But with KILICAFE, the mode of payment is also quite different here. First, they are given advances and the final payments are given to them after all their coffee is sold and all the cash clearance has been done.

On the other hand, KILICAFE prefers to deliver revenues to each farmer business group in proportion to the price received at auction or through direct export for the individual group's coffee. As a result, farmers with the prospects of producing high quality coffee maximize their income by associating themselves with KILICAFE, instead of allowing their coffee to be bulked and sold with inferior quality coffee. The potential for higher prices paid by KILICAFE creates incentives for higher quality production and processing. The higher quality coffee, together with the assistance of marketing services to its members, has delivered prices 70 percent higher than the national average to member farmers. In addition, KILICAFE enables their members to find agriculture inputs. This is a unique character which most of the PCB have failed to accomplish.

4.2 KILICAFE management

KILICAFE management who executes day to day activities comprises three departments all operating under the Executive Director. The departments include Production, Marketing and Finance. The office bearers at the time of this study were: Executive

Director: Mr. Adolph Kumburu; Finance Controller: Mr. Richard Tugume; Production Manager: Mr. Raphael Kundy; Marketing Manager: Mr. Geoffrey Ngulumbi; and Chief Accountant Mr. Benson Maro. The management structure of KILICAFE is shown in (Figure 3).



Source: KILICAFE (www.kilicafe.com)

Figure 3: Management structure of KILICAFE

4.3 KILICAFE mission

The mission of KILICAFE "Is to promote the production of specialty coffee, and market it locally and internationally to achieve better incomes for its members".

4.4 KILICAFE Mbeya chapter

North of Lake Nyasa lies the fertile, mountainous region of Mbeya in the ranges of Mount Livingstone. The hills and plateaus are populated by a number of distinct tribes, many of whom have been producing washed Arabica coffee since the early 20th Century. The Nyakyusa of the Rungwe Mountains were the first to adopt coffee farming following its introduction by German missionaries. From here, coffee cultivation spread to the Nyiha of the Mbozi Plateau. Mbeya Farmers joined the Association of Kilimanjaro Specialty Coffee Growers in 2003, and already their production volumes of specialty coffee have exceeded expectations. Two districts in the southern highlands, Mbozi in Mbeya region and Mbinga in Ruvuma region, account for nearly 50 percent of the coffee produced in Tanzania (TechnoServe, 2005).

4.4.1 Mbeya chapter groups

KILICAFE Mbeya chapter started to operate in 2003. It was not easy to start the chapter. But after few months of trainings and seminars in association with TechnoServe the farmers slowly understood KILICAFE mission, policy and strategies. The chapter is operating within four districts, which are Mbeya, Mbozi, Rungwe and Ileje. About eight FBGs started to operate direct in 2003/2004 season and were able to collect parchment coffee in the same season. In 2004/2005 season, the number of FBGs and amount of parchment coffee collected increased. From 2004/2005 to 2007/2008 seasons, some groups were able to access CPU, therefore they collected both CPU and Home Processed Coffee (HPC) coffee (Appendix 1).

4.4.2 Shortcomings of KILICAFE Mbeya chapter

As explained earlier, Mbeya chapter comprises Rungwe, Ileje, Mbozi and Mbeya rural district. At the beginning, the chapter was having about 31 Farmers Business groups as

members to the association. The number has been decreased to about 25 now. This is the number of FBGs, which collected their coffee to the chapter this season. Other FBGs like Nzovu Idunda, Ichesa and Isansa that used to collect their coffee did not collaborate with KILICAFE this season. Observations show that these FBGs have either failed to meet KILICAFE rules and regulations or have failed to collect coffee at KILICAFE.

However, the data from the current study show that Mbeya chapter is having many problems compared to other chapters. These include the decrease in the quantity of coffee collected i.e. specialty and parchment coffee. It has been observed that in Mbeya chapter the parchment production has been tremendously going down. Statistics show that 288 tons were collected in the season 2003/04, 808 tons were collected in 2004/05 season, 356 tons in 2005/06 season and only 173 tons were collected in 2006/07 season (Table 2).

Table 2: KILICAFE sales history

Chapter	2003/04		2004/05		2005/06		2006/07	
	Kg ('000')	Price/kg (US $)	Kg ('000')	Price/kg (US $)	Kg ('000')	Price/kg (US $)	Kg ('000')	Price/kg (US $)
North	227	1.41	456	2.20	211	2.51	342	2.43
Mbinga	593	1.15	796	1.84	531	2.39	851	2.56
Mbeya	288	1.19	808	1.53	356	2.27	173	2.50

Source: KILICAFE

Due to the failure by some Mbeya FBGs to cooperate with KILICAFE, in 2006/2007 season KILICAFE failed to meet the projected plan of collecting about 1 750 000 Kilograms of green coffee; instead only 1 647 252 Kilograms were collected. But with the exception of Mbeya chapter, Mbinga and North chapters exceeded the projected amount (Table 3).

Table 3: Total collections in 2006/2007

Chapter	Projections	Collected Amount		Total
		CPU	HPC	
North	400 000	119 383	308 121	427 504.0
Mbeya	350 000	47 773	125 665	173 438.0
Mbinga	1 000 000	636 323	409 987	1 046 310.0
Total	1 750 000	803 479	843 773	1 647 252.0

Source: KILICAFE, 2007

Due to bad progress in Mbeya chapter FBGs, the board of directors ordered for the research to be conducted in the chapter to look for the reasons behind the failures. The research conducted in March and April 2006 revealed the following reasons that are behind poor performance in Mbeya chapter.

- KILICAFE strategies are not well understood by some of the FBGs. Farmers' perception is that does not belong to them. They categorize KILICAFE in the same way as they do to a private company. The farmers must be well educated about KILICAFE strategies.

- The Model of sponsorship and distribution of Agriculture inputs is not well understood. Inputs were not supplied even after the farmers had agreed to deduct TShs.150 for inputs program. To solve this problem, the chapter must find a reliable and reputable input stockist who can take a risk of supplying inputs on credit basis.

- Weak communication between KILICAFE officers, FBGs leaders and members. This is a result of information gap between the head office and the chapter at FBG level; lack of communication facilities such as transport, telephones and proper informative documents. For example lack of meeting between KILICAFE officers and FBGs members have resulted to a serious problem of not knowing KILICAFE policy and its implementations. The difference between TechnoServe (consultant) and KILICAFE (client) is still not understood. Communication has to be improved by sending headed paper documents to FBG leaders and having a timetable of meeting farmers at least two times during operation instead of meeting the FBG leaders only.

- The mode of payments at KILICAFE. This is the question of timing of the payments. Farmers complain about the delayed payments. KILICAFE pays advance and final payments, which are regarded as bonus after sales. While advance payment was always at variance with the Private Coffee Buyers (PCB) and also they do not pay bonus. KILICAFE has to advocate three payments depending on farmers agreed time of needing the first and second payments leaving the last payment, which can come after final sales. These first and second payments are potentially for start up and necessity needs (input and school fees) and also for bridging the farmer's financial constraints especially in December.

- Lack of confidence within groups. This has resulted from unfulfilling promises. For instance, forwarding CPU deduction, early payments and low payment in comparison to nearby group. Also, some FBG members do not know CPU costs and agreements. CPU and HPC costing can be reviewed to give incentives to CPU producers but without increasing the burden to HPC producers.

- Competition with other private companies. KILICAFE should pre-finance in the same way as PCB even before the official opening of the new season. Timely payments as PCB can be a very good incentive to farmers to continue working with KILICAFE. Also the deductions at KILICAFE seem to be high and deceptive to smallholder farmers.

4.4.3 Achievement of KILICAFE Mbeya chapter

Despite the fact that some FBGs (especially those from Mbozi districts) are no longer working with KILICAFE, a number of new FBGs from Rungwe and Ileje districts want to join KILICAFE. This is a good sign for the existence of the organization because it means that Mbeya chapter will continue to operate and hence the amount of coffee will also increase. Moreover four FBGs were selected to receive premium in the season 2006/2007. Two of these FBGs have already received their premium; these include Tusungane-Igale that received Tshs.744 675 and Bwenda best coffee growers which received Tshs. 479 412 (Mbeya chapter meeting report, 2007).

4.4.4 Competitors of KILICAFE

In Mbeya region, there are quite a large number of private buyers dealing with coffee business. These have been divided into four major categories namely Farmers business groups (FBGs), Cooperative unions, Private buyers, and Farmers estates. Among those

PCB the most prominent competitor of KILICAFE was found to be LIMA Company Ltd. This company is well established in all coffee growing areas in Mbeya district. It is having its own large CPU and the coffee curing company in Mbozi district. It is also having CPUs in Rungwe and Ileje. Most of the farmers in the three districts are quite familiar with LIMA Company. They also admit that, the price offered is quite good. The company is having agents almost in all places and villages, which cultivate coffee.

4.5 KILICAFE competitive edge

KILICAFE competitive edge lies upon four pillars.

i. Accountability in respect of environment and social performance. KILICAFE creates impact to smallholder farmer members, particularly to the village and to the country at large.

ii. Predictability in respect of consistency in quality, reliability in supply and trace ability. Customers enjoy fine raw coffee that keeps on improving, necessitating reliability in supply due to a wide coverage in three major growing regions of North (Kilimanjaro, Arusha, Manyara), Mbeya, and Ruvuma (Mbinga district) region. The coverage and the number of members who adhere to best practices principles make KILICAFE stand firm. KILICAFE, under its competitive market system that rewards quality is capable of tracking and tracing the collection of coffee throughout the supply chain from smallholder farmer groups, transporting, milling, to selling.

iii. Participatory approach to all Smallholder member farmers. Producers who are under KILICAFE are selling directly to chains like star bucks and they can follow the prices up to the product being sold in a coffee shop.

iv. Transparency policy to Smallholder members.

4.6 KILICAFE coffee procurement operations and marketing channel

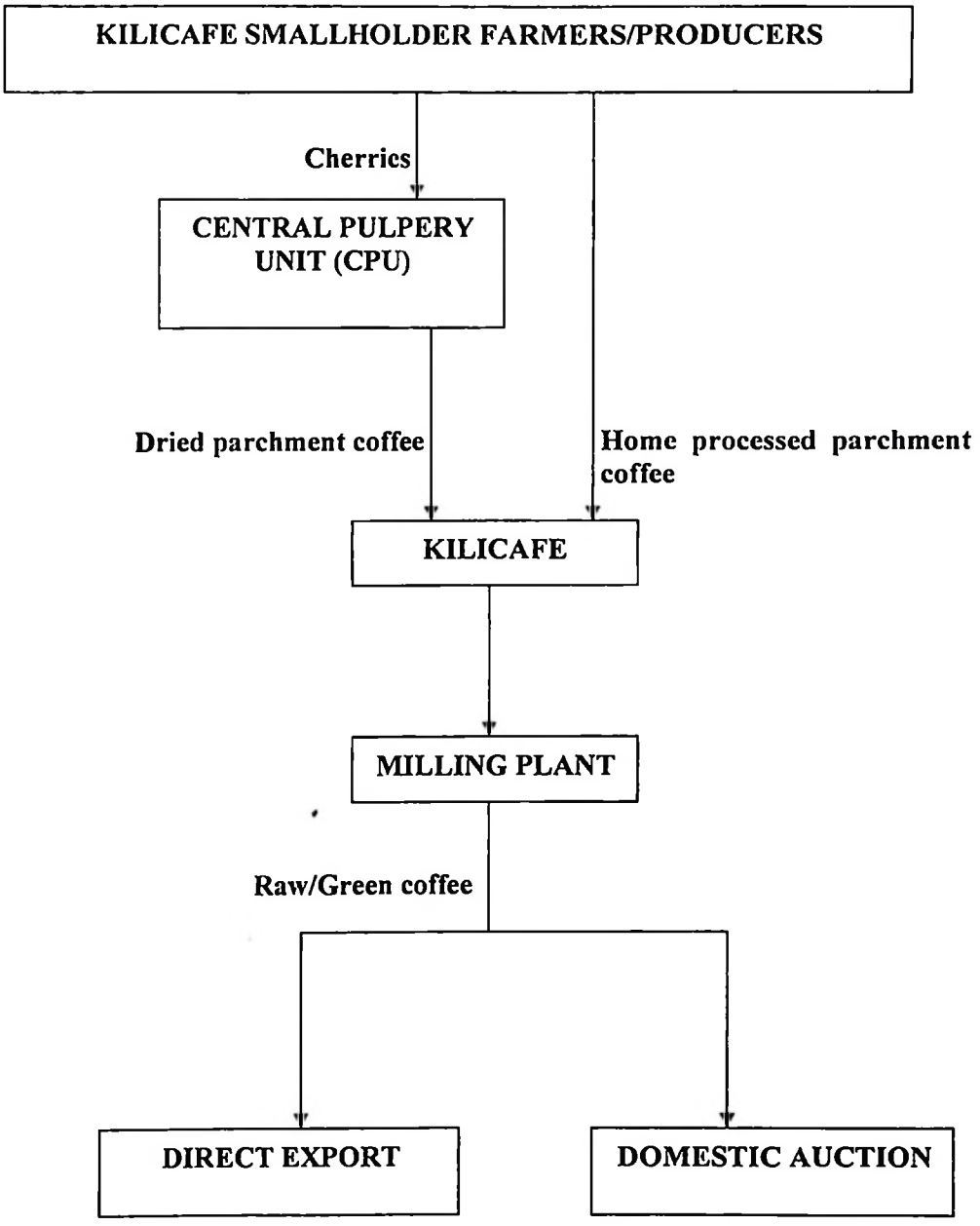
Marketing channel of farm output plays a dual role. One is to transmit signal between consumers and producers; the other dimension is the physical transmission of the commodity from the point of production by farmers to points of purchase by consumers (Ellis, 1992). During the reforms in the coffee sector, private companies were allowed to participate in internal coffee marketing to avoid a complete collapse of internal coffee marketing from 1994/95 season. Private firm participation was exhibited throughout the Tanzania coffee chain, from production, processing, warehousing to exporting (Swai, *et al* 2003).

The KILICAFE supply chain to the international market follows a simple structure of organization, which reflects the direct farmer to market attitude used by KILICAFE (KILICAFE, 2007). The 8000 plus farmers from the three regions of Kilimanjaro, Mbinga and Mbeya grow their own coffee under sustainable practices guidelines and under the management of their smallholder group Executive Director but using only their own inputs. Once the coffee cherries have ripened, the farmers use selective picking techniques and bring the coffee to Central Pulpery Units (CPUs).

The coffee is de-pulped and fermented into tanks before it is dried up through shading from the sun and put at least one meter above the ground so as to improve coffee quality. The farmers in the FBG are also allowed to bring dried home-processed parchment coffee in their groups. Dried parchment coffee is then transported to a milling plant where coffee from each group is separately stored. Hulling processes for parchment coffee starts with

removing husks, grading by size and later by gravity table, polished and kept into a special bags of 60 kg net designated as the highest quality. The raw/green coffee is then sorted, and poor quality beans are discarded. Only the finest washed Arabica coffee beans of AA, AB and PB are exported as per TCB regulations (KILICAFE, 2007).

The TCB controls the coffee auction in Moshi. Each smallholder group inside KILICAFE has separate sales and each group's coffee is kept separate so as to be sure that each smallholder farmer receives the profits from the sales of its coffee whether by direct export or domestic auction. Accounting is open and transparent and farm group members are kept informed of all transactions, and destinations of KILICAFE coffee. Figure 4 shows the summary of KILICAFE marketing channel.



Source: Survey, 2007

Figure 4: KILICAFE marketing channel

4.6.1 Benefits of KILICAFE value chain.

i. **Improved quality:** TechnoServe and KILICAFE have enabled FBGs to access CPU machine, which enables farmers to produce specialty coffee that enable them to get premium price of coffee after direct export.

ii. **Increased efficiency:** KILICAFE enable farmers to lower costs of processing of coffee and other marketing activities.

iii. **Differentiating products:** Improvement in coffee processing enables KILICAFE members to produce unique product (specialty coffee of higher quality) which in turn, enable them to get premium price.

iv. **Improved access to Market:** By adding value to the coffee of KILICAFE members, the association is now able to sell coffee to the world famous coffee roasters such as Starbucks, Peet's Tea & Coffee.

4.6.2 Roles of each key actor along KILICAFE coffee value chain

4.6.2.1 Producers

Producers' role is collecting coffee both cherries (if the FBG possess CPU) and home processed parchment coffee, which is marketed by KILICAFE. These small scale producers are what make KILICAFE association; without them there would be no KILICAFE.

4.6.2.2 Central Pulpery Unit (CPU)

The central pulperies are processing facilities where farmers collectively remove the coffee cherry skin, wash and then dry the coffee, resulting into higher quality and a more

consistent end product, specialty coffee. Thus, if processed well the coffee can be directly exported outside the country.

4.6.2.3 KILICAFE

As an organization, KILICAFE has various roles as follows:

- Provision of technical assistance for the pulperies by giving groups the know how on how to produce and process specialty coffee.
- To monitor the quality and consistent supply of coffee and in particular specialty coffee for direct export.
- Dealing with value adding activities created by pulping machines as well as working focusing on improved marketing and development of new business models.
- Empowering farmer's knowledge of the coffee market.
- Through TechnoServe assistance KILICAFE created a unique "Farmer business group'' model that helps small-scale growers improve quality, obtain financing, establish contract with overseas buyers, and ultimately increase profits.

4.6.2.4 Milling plant

As mentioned earlier in the plant, each group's coffee is separately stored. The hulling processes of parchment coffee is done here and starting with removing husks, grading the coffee by size and later by gravity table, polishing and putting the coffee into special bags of 60 kg net designated as the highest quality. The raw/green coffee is then sorted and poor quality beans are discarded. Only the finest washed Arabica coffee beans of AA, AB and PB are exported as per TCB regulations.

4.6.2.5 Domestic auction

Tanzanian coffee auction is controlled by the Tanzanian Coffee Board (TCB), which replaced Tanzania Coffee Marketing Board (TCMB). It is an arm of the government on all matters relating to coffee production and marketing. It operates the export auction, issues export permits and licenses for domestic trade and monitors and regulates the coffee industry. KILICAFE also market its coffee in this traditional auction, except for specialty coffee that is kept for direct export.

4.6.2.6 Direct exporters

Direct exporters is a second window that upon fulfillment of set criteria of standards supervised by Tanzania Coffee Board; coffee growers are allowed to directly export their products. Smallholders cannot access international market alone due to inadequate quantity, lack of information, infrastructure, market price (collective bargaining) and reliability of supply. According to TechnoServe (2006), direct export system enables producers to contact importers and make a deal. These include both national and international coffee roasters such as Peet's coffee and Tea; a specialty coffee roaster with international reputation for offering the highest quality coffee, purchased 176 bags (23,280 pounds) of washed Arabica from five KILICAFE member-groups representing 645 smallholder growers in Northern Tanzania. In 2004/2005, the volume of directly exported specialty coffee to roasters including VolCafe, Gepa Fairtrade, Lister & Beisler, Peet's Coffee & Tea and Starbucks Coffee grew to ten containers.

4.6.2.7 Export warehouse and shipment.

Warehouse is used for storage of coffee. Coffee is stored according to grades in standard weights. Standard weights mean a bag of 60 kg net of clean coffee plus 1.1 kg of empty bags. Standard warehouse shall have at least one moisture meter and must be provided

with pallets on which to stake the coffee. Coffee should not be stored on the floor (URT, 2001). From the store, coffee is shipped through two main ports which are Dar es Salaam or Tanga (EAFCA, 2003). Coffee for export shall be packaged in containers or packaging materials, which preserve quality and which adhere to weight measures provided by the International Coffee Organization (ICO). Other costs incurred before the coffee reach final consumer include those of insurance and freight.

4.7 Major cost elements along KILICAFE chain

The final price of a cup of coffee which the final consumer pays, absorbs the costs of insurance, taxes, transportation, processing, packaging, marketing, storage and many more (Fair trade, 2002). These costs resemble the costs in the KILICAFE marketing channel, which include CPU/Processing, transportation, curing, marketing, warehousing or storage costs and taxation. For example, at KILICAFE transport charges are Tshs. 40-60 per kilogram, milling charges US$ 48/ton and storage charges at Makambako warehouse is Tsh. 8 per kilo/day.

4.7.1 Producer's share on the export price

The producers' share was computed from the amount received by Mbeya producers from 2003/2004 season to 2007/2008 season (See Table 2) and TCB average prices observed in Appendix 2 (Direct export) for mild Arabica coffee. The assumption was that all the coffee has to pass through the auction, and so the average price for coffee is assumed to be more or less the same with the TCB price for most of the coffee direct exporters including KILICAFE. The general formula used to obtain the producers share is:

$$\text{Producer share} = \frac{\text{(Price paid to producer)}}{\text{Direct export price}} 100\%$$

The producer's shares from 2003/2004 to 2007/2008 seasons were calculated as shown in Appendix 4 and summary of producer's shares in percentages is as shown in Table 4.

Table 4: Producer's share

Years	Amount received by producers (USD/KG)	Direct export price (USD/KG)	Producer's share
2003/2004	1.19	1.86	63.9
2004/2005	1.53	2.54	60.2
2005/2006	2.27	2.93	77.4
2006/2007	2.50	3.15	79.3
2007/2008	2.54	3.26	77.9

Source: KILICAFE, TCB (2007)

The results above show that the producers' share is not constant. These results are good signs for KILICAFE because they indicate that the returns increase yearly. This is a good observation and can well be compared to observations from authors like Baffes. A key impetus for the reforms in 1994 was the declining share of export prices received by coffee growers. In his study, Baffes (2003) explains that the average producer's share of Arabica export price in the nine seasons prior to the reforms was 60 percent; and this rose to 73 percent in the five seasons following the reform. The corresponding figures for Robusta were 59 percent and 69 percent respectively. The differences are nearly the same between the five seasons before the reform and those after (from 65 percent to 73 percent for Arabica and from 61percent to 69 percent for Robusta). However, real producer prices have declined.

4.7.2 Producer's share on the retail price

Producers' share on the retail price was opposite from what was revealed by Gilbert (2006)'s study where the author looked at the producers' value shares for five major Arabica producing countries (Brazil, Colombia, Guatemala, Kenya and Tanzania) and five major Robusta producers (Brazil, Cote d'Ivoire, Indonesia and Vietnam). In each case, the author compared the producer price in the producing country with the retail price of coffee in the United States (all the prices are measured in U.S dollars) and came out with the following producers' shares of value for Arabica as shown in Table 5. The observation shows that when computing producer shares from retail prices the value becomes even much less. Also, in all the periods and for almost all the countries, the producers' share was higher for Arabica coffee than for Robusta coffee.

Table 5: Value shares (in %) for Arabica coffee producers from 1980-2005.

	Brazil	Colombia	Guatemala	Kenya	Tanzania	Average
1980-1988	27.3	27.4	37.4	43.6	35.9	34.3
1989-2005	22.6	23.4	21.1	*27.0	16.5	22.1
1989-1993	28.1	22.6	18.9	18.4	16.8	20.9
1994-1998	21.6	27.1	24.3	40.9	22.3	27.2
1999-2003	17.6	20.0	18.4	22.3	12.7	18.2
2004-2005	23.7	24.3	25.9	**24.9	10.6	21.7

Source: ICO as cited by Gilbert (2006)

It can be noted that the final column gives a simple average of the five country shares. Years are calendar years. *Kenya: 1989-2004, ** Kenya: 2004.

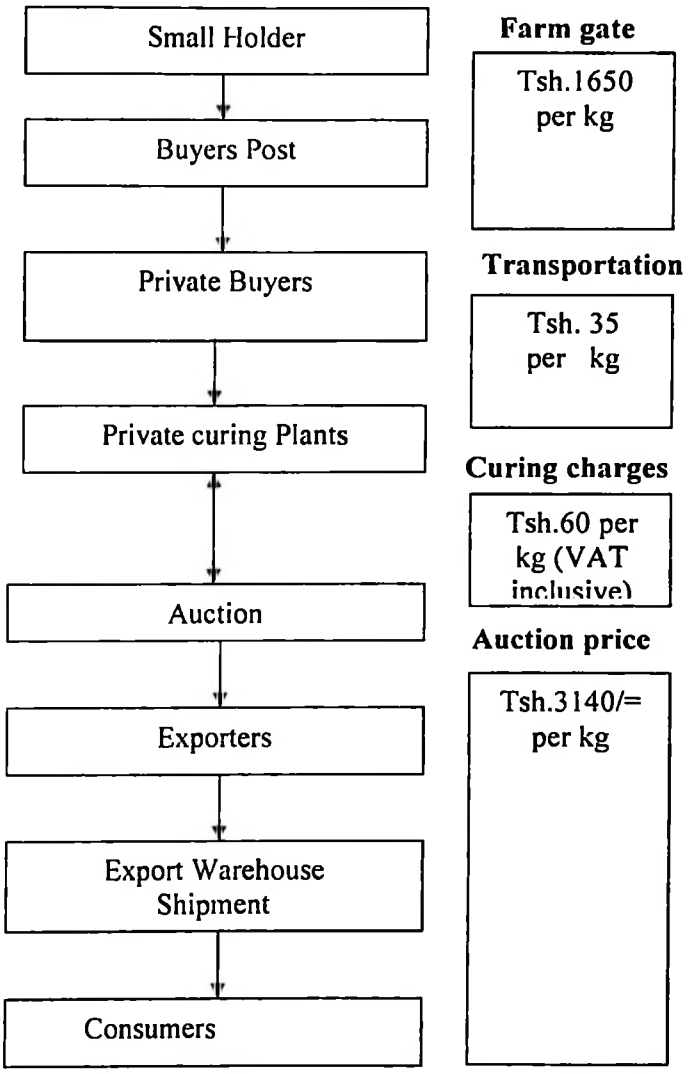
The comparison of producer value shares were between the final decade of International Coffee Organization (ICO) controls (row 1) and the post-International Coffee Agreement (ICA) (row 2), but the author also divides down the post-ICA period into four sub periods (1989-1993,1994-1998,1999-2003,2004-2005).

4.8 Alternative channel

With the exception of KILICAFE members, other smallholder coffee growers can sell their coffee to PCB, through primary society, or through cooperative systems. The alternative channel discussed here involves PCB. There are many private coffee buyers in Mbeya but the following case involves Unyiha associates limited.

4.8.1 Case study of Unyiha associates

This is one of the biggest private parchment coffee buyers operating in Mbozi district. The company normally buys coffee from small scale farmers and sells the crop in the auction. But along the channel, from farmers to the auction, there are some costs involved. These include commission, transportation, curing cost, marketing costs and taxation. The transportation costs are normally Tshs. 6/kg for Mbozi curing plant, and Tsh. 35/ kg for city coffee in Mbeya. The milling charges costs Tshs. 60/kg (VAT inclusive). Other costs include commission of Tsh 160/kg that is normally paid to Commission agents, and district cess, which is normally 5 percent of the auction sales (Benchmark survey, 2007). The market channel that involves PCB can be summarized diagrammatically as shown in Figure 5.



Source: Benchmark survey by TechnoServe, 2007

Figure 5: Alternative Marketing Channel

4.8.2 Differences between alternative channel and KILICAFE channel

Alternative channel is more or less the same as that of KILICAFE except that after the smallholders sell their coffee to the private buyers it is the end of business. Unlike KILICAFE, there is no second payment. After that the private buyers follows all the procedures of delivering the coffee to the final consumer. The farmers will never know the price which the consumers will offer these private buyers. In some cases, the price offered

tends to be higher, but still, the producer share from that export price is very minimal. It was observed that many PCB offer the price that is higher than that of KILICAFE. A large number of farmers even some from KILICAFE members sell their coffee to these buyers.

What is attractive to them is that they are paid all the cash at once and there is no time to wait for the second payments. This is one of the main differences between KILICAFE and alternative channel.

4.8.3 Weakness of KILICAFE channel

- **Slow adoption of CPU machine:** From the interview it is clear that a large number of farmers are not aware of the benefits of the CPU and they also believe that the cost of adoption is too high. Most of the FBG members do not like the idea of participating in buying the CPU machine. As a result, they tend to quit cooperating with KILICAFE after finding out CPU costs.

- **Low advance payment for cherries and PC1:** The advance payment paid by KILICAFE is still lower than the advance payment offered by private buyers and cooperatives. According to Speicher (2007), in his study conducted at Kilimanjaro (North chapter), advance payments from competitors have an average rate of Tsh. 1583 per kilogram of parchment from private buyers and Tsh.1466 per kilogram from cooperatives (mainly KNCU); while in the same season of 2006/2007 KILICAFE paid an advance of Tsh. 240 per kilogram of cherry, which assumes a 5:1 ratio of cherry to parchment. This is equal to the advance payment of Tsh. 1200 per kilo of parchment coffee (PC1). Due to low payments, farmers do not see the benefit of selling cherries to FBGs CPU.

- **Cost at CPU:** The CPUs are owned and controlled by farmer groups affiliated to KILICAFE though their capital cost is large relative to the incomes of individual group members. This means farmers encounter some costs by participating in the FBG/CPU model. Although observations revealed highest price in CPU-processed coffee, farmers are not very much willing to sell coffee to the CPU, this is due to costs like transportation costs, fuel costs (for machine operation) and loss in savings (in the form of parchment). In his study Speicher (2007) revealed that the opportunity costs of transporting cherry every harvest day to the CPU might be greater than the opportunity cost of producing PC1 at home. For the good quality coffee, farmers have to make sure that they harvest in the afternoon and bring their coffee to CPU in the evening for processing. Coffee is not allowed to stay overnight.

- **Narrow channel:** Given the still modest share of specialty coffee in the total world consumption, arguably it is not possible for all the producers to follow this route to increased incomes. The experience of the farmers with whom TechnoServe is working suggests that raising quality and accessing specialty markets is in the interest of those who can do so. However, it is also instructive to consider the post-liberalisation quality experience of the majority of Tanzanian producers who are not linked to the TechnoServe programme.

- **Low quality specialty coffee and home processed parchment coffee:** Although the specialty coffee buyers like KILICAFE are still not happy with the quality, as it has not yet reached the required level of quality, the buyers are willing to pay more if the quality will be improved. Also in most cases, home processed coffee lacks quality and they normally falls into class 8-10, catches low price as a result.

4.8.4 Strength of KILICAFE channel

4.8.4.1 Small farmers upgrade in the value chain

With the additional quality achieved by the CPUs and the access to higher value markets achieved through KILICAFE, farmers who sell through the new marketing channel are able to realise prices of 60 percent higher than those realized by their neighbours who sell to competing market traders (Poulton, 2006). This is because they can directly export their coffee.

4.8.4.2 Premium

Besides catching higher price when KILICAFE sell coffee outside (Direct export), the buyers normally contribute US $ 0.11 for each kg of coffee. In 2006/2007 season, KILICAFE receives premium from Starbucks and FLO. In totality, KILICAFE has received US $ 19 048 from Starbucks and US $ 10 296 from FLO. Mbeya chapter has received its part of US $ 1947.50 which will be used in social activities like building schools and water channels in selected FBGs villages and not otherwise. The selected FBGs are Tusungane-Igale, Isansa and Ichesa from Mbozi district and Bwenda best coffee growers from Ileje district (KILICAFE Mbeya chapter report, 2007).

4.8.4.3 KILICAFE Internal Reserve Fund (IRF)

From 2005/2006 season, KILICAFE deducts Tsh.50 per each Kilogram of coffee from each FBG which sells their coffee via KILICAFE. This is for the purpose of increasing the fund so as to earn the amount that will enable the organization to decrease the interest amount from the sponsor, the EXIM BANK that supply loans to KILICAFE. Up to now, Mbeya chapter has contributed about Tsh. 26 472 750, Mbinga Tsh. 8 411 450 and North Chapter 34 201 300 (KILICAFE Mbeya chapter report, 2007). Also, the money is used to

buy agriculture inputs on credit for FBGs members where each member pays 5 percent interest for the cash used.

4.9 The general returns of coffee producers

Before the explanation of coffee producer's returns, it is worth looking at the previous returns of coffee producers during the ICA and post ICA. Under the ICA regulatory system (1962 – 89), the distribution of total income generated along the chain was relatively stable with farmers getting around 20 percent of the total and consuming country operators around 50 percent (Ponte, 2002).

Talbot (1997a; 65 – 67) estimates that, in the1970s, producers retained an average of 20 percent of the total income, while the average proportion retained in the consuming countries was almost 53 percent. Between 1980 – 81 and 1988 – 89, producers still controlled almost 20 percent of the total income while 55 percent was retained in the consuming countries. After the collapse of ICA in 1989, the situation changed dramatically.

Under the Post-ICA regime (1989-present), the distribution of total income generated along the chain shifted to the advantage of consuming country operators (Ponte, 2002). The end of the ICA regime has profoundly affected the balance of power in the coffee chain. This has been accompanied by lower and more volatile coffee prices, a higher proportion of the income generated in the chain retained in the consuming countries, and a declining level of producer-held stocks.

Talbot (1997a) estimates that, between 1989 – 90 and 1994 – 95, the proportion of the total income gained by producers dropped to 13 percent and the proportion retained in the

consuming countries surged to 78 percent. This represents a substantial transfer of resources from the producing to the consuming countries, irrespective of the price levels. This suggests that not only gross margins but also profits have increased for roasters. The remaining shares of total coffee income are: (1) transport costs and weight losses; and (2) value added in the producing countries.

However, it is observed that in reality Farmers are small producers with low bargaining power. It is difficult for them to bargain collectively. The relationship between farmers and buyers is thus unbalanced. It must be noted that the producer's returns explained above are not specific for a certain country or place but are general.

4.9.1 Returns on producers using KILICAFE channel

In October 2003, the TCB enacted new regulations advocated by TechnoServe, KILICAFE and others to allow high quality coffee growers to sell directly to specialty buyers and bypass the auction system (TechnoServe, 2003).

Direct export reduces the likelihood of delays in shipping the coffee and also significantly improves marketability and profitability of Tanzania specialty coffee. It also increases the income for example in March 2004, a specialty coffee roaster with an international reputation for high-quality coffee– Peet's Coffee & Tea purchased more than 23,000 pounds of washed Arabica from five KILICAFE groups representing 645 smallholder farmers. This was the first direct grower-to-roaster transaction in Tanzania under the new regulations. The farmers received premium prices 50 percent higher than other coffee growers. And in 2006, the direct export value of coffee was US$ 3.30/kilo over 50 percent more than the US$ 2/kilo, which was paid at the Moshi coffee auction.

4.9.2 Strength of an alternative channel

i. No delays in payments

Coffee farmers are paid promptly and hence there are no payment delays to farmers as was the case with cooperatives. For example, in 2007/2008 seasons all the farmers who sold their coffee to PCBs received the price ranging from Tsh. 1500 to Tshs. 2000.

ii. Minimization of travel distance due to buying posts

Private parchment buying which necessitated the use of buying posts as points of sale for farmers resulted into minimal distance of travel for farmers in selling their produce as large numbers of buying posts were established in one village.

iii. Costs minimization

Farmers do not incur costs like curing costs and transportation. They just sell parchment cost and those buyers do other tasks like processing, warehousing and transportation.

4.9.3 Weakness of an alternative channel

i. Lack of market information

Most smallholder farmers are ignorant about coffee trade due to lack of price information as most of these PCB will not tell the final price to farmers because their business with these farmers ends after paying them.

ii. Lack of competition

At village level, most PCB purchase parchment coffee without considering the quality. This makes farmers fail to see the necessity of producing better coffee

quality because they know that whatever the case, they are going to sell their coffee.

iii. Marketing crisis

Small-scale farmers who sell in smaller quantities are dependent on private coffee traders who in most cases do not show up at their established buying posts. This compels farmers to sell parchment coffee at any price offered however low.

iv. Inefficiency in the auction system

Besides the advantages of auction system, the system, according to Swai *et al* (2003), delays coffee shipment for between 20-30 days in the chain to FOB for most of the crop. In some cases, exporters do not meet the shipment dates specified in their contracts, thus incurring extra and unnecessary export costs.

4.9.4 Areas of improvement along KILICAFE channel

Areas of improvement should involve:

i. Encouraging CPU use to produce specialty coffee, which will catch premium price. This will consequently improve the well being of producers and ensuring consumer satisfaction.

ii. Enhancing availability of credits and inputs to farmers through the establishment and strengthening of SACCOS, formation of farmers' banks and groups.

iii. Empowering and building the capacity of producers' and other actors in terms of production, processing, marketing strategies, technology transfer etc is inevitable.

iv. Credit arrangements for smallholder farmers should be facilitated through the establishment and strengthening of SACCOS, formation of farmers' banks and groups.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

Coffee is Tanzania's largest agricultural export, yet farmers are often paid less for their beans than it costs to produce them. The coffee market in Tanzania, as in many African countries revolves around Government run auctions. At the auctions, the beans often catch higher price compared to what growers are paid, leaving many coffee growers labouring in poverty. Power in the value chain is asymmetrical, as it seems to be very weak in the producer countries and hence reducing the capacity of farmers to raise their share in the value chain.

Studying value chain is therefore important as it enables us to know the producer-middlemen-consumer relationships and the path that coffee passes before reaching the final consumer. As far as coffee marketing is concerned, after the liberazation in the early 90s, it is apparent that coffee chain in Tanzania comprises various stakeholders: farmers, traders, PCBs, middlemen, Processors, TCB and exporters. Value chain is also important in revealing how coffee value increases throughout the chain.

The analysis of coffee marketing chain in particular is very important in developing country like Tanzania since coffee consumption happens mainly in the industrialized economies. However developing countries even those with a low share of global export market rely on coffee for high proportion of their export earnings and a lot of smallholder farmers depend on coffee as a source of livelihood.

This study shows how the value of coffee has been increasing upwards the market chain from the producers to the consumers and leaving the producer experiencing low price. It also enabled us in understanding a bit more about coffee production and marketing chain in Tanzania particularly the operations of KILICAFE. Up to now, coffee earnings fluctuate because of both the level of coffee production and coffee price change at the world markets.

Solving the current imbalances in the global coffee chain requires initiatives aimed at improving coffee quality in producing countries such as Tanzania, and the appreciation of quality in the consuming countries. The producing countries need to raise the reputation of producer's origins and refine marketing skills. Therefore, the developmental impact in the producing countries will not occur unless donors, the ICO, NGOs and the producing country governments ensure that value added is transferred to producers. This can be done first by facilitating the establishment of farmer groups (like the way KILICAFE is doing) and producer associations and link them directly with the consumers. This was also supported by Gahiro (2000) who noted that coffee producers could be given better bargaining grounds and defends their interest if they are grouped in co-operatives or Unions. Second by promoting regulation that requires coffee buyers in the producing countries to pay producers higher prices for higher quality coffee.

i. The way forward is to enable small-scale farmers to produce high-quality coffees and to know how to sell the right coffee to the right people. Farmers need to know which quality characteristics are appreciated where, what kind of premium will be paid, and what are the motivations that are needed for consumers to take a product seriously.

ii. It is important to develop modern harvesting practice and teach all KILICAFE FBG members to practice them especially in central pulperies where overipened or underipened cherries might be rejected due to low quality. It is also necessary to provide farmers with the proper information regarding the benefits and cost of adopting CPU.

iii. TCB new licensing procedures should remove a significant barrier between Tanzania specialty coffee producers and international buyers willing to pay premium prices. Therefore, emphasis should be put whereby farmer groups and/or co-operatives could be helped to get best practice guidelines which will enable them to improve coffee quality and become better producers than is currently the case.

iv. Market failures in agricultural input and credit markets should also be tackled because they make it difficult for producers to improve quality. Therefore producers should be exposed to better marketing system. Furthermore, new initiatives should be aimed at "cultivating" consumers rather than cultivating more coffee.

v. All coffee stakeholders should make sure that all coffee producers receive their payments on time.

vi. Also, filling the information know-how and awareness gap, particularly among the smallholders, about key practices for coffee marketing and enabling smallholders to be aware of all coffee actors in the chain is a must.

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APPENDICES

Appendix 1: A checklist for research on value chain analysis for coffee in Tanzania: a case study of association of Kilimanjaro specialty coffee growers at Mbeya chapter, Tanzania

FOR KILICAFE ORGANIZATION

Organization background

1. Name of the organization.....
2. (a) What is the trade name of the organization?.....

   (b) Is the organization registered? Yes ☐ No ☐

3. (a) How many farmers business Groups do you have in Mbeya chapter Mbinga and North? .....

   (b) How many members do you have in the organization? Please mention the number in each chapter (i.e. Mbeya, Male... Female.....), (Mbinga, male...Female...), (North, Male..... Female.....)

4. What is the organization Mission?.....

5. Do you have Organization strategic plan? Yes ☐ No ☐ (Please tick the correct answer) If yes, what are your strategies? Please Mention.....
   .....

Organization activities

6 a. What is your main task in finding markets for farmers?.....

   b. Do you face any constraints in finding market to farmers? Yes... No.....

   c. If the answer is yes what are the constraints?.....

7. Please give production details for both HPC and CPU in Mbeya chapter since 2003/04 season? .....
   .....

8. What are factors which make FBGS to receive premiums?.....

9 a. How much was your coffee collection target and how much did you collect? Were you able to meet your target?

Years	Targeted amount (Kgs)	Collected amount (Kgs)
2003/04		
2004/05		
2005/06		
2006/07		

b (i) Is the trend increase or not? .....

(ii) If not what are the reasons behind?.....

10. What are the requirements for the FBG to join your Organization?
.....

11. What are essential requirements for the FBG to be given CPU?
.....

12. Are you getting any support from government or non-governmental institution?

Yes ☐ No ☐ If the answer is yes please mention them
.....

13. What do you count as achievements contributed by collaborating with FBGs?

14. What is the organization sales trend from 2003/04 to 2006/07 seasons?

Chapter	2003/04	2004/05	2005/06	2006/07
	Kg (Price/kg)	Kg (Price/kg)	Kg (Price/kg)	Kg (Price/kg)
North				
Mbinga				
Mbeya				

15. What are other services that you provide to your customers besides coffee Marketing? (Please mention them if there are any)

16. Can you please elaborate the amount of money each FBG received for CPU and parchment coffee as advance payments and second payment during 2006/2007 season?

17. What factors influence customers' willingness to pay for KILICAFE coffee?.....

18. What are still persistent constraints facing FBGs to access international markets?

19. What is KILICAFE future plans?.....

THANK YOU VERY MUCH FOR GIVING ME MUCH COOPERATION!!!

Appendix 2: A checklist for research on value chain analysis for coffee in Tanzania: a case study of association of Kilimanjaro specialty coffee growers at Mbeya chapter, Tanzania

FOR FARMERS BUSINESS GROUPS (FBGs) LEADERS.

A: GENERAL EXPLANATION

1.Name of Respondent_____ Sex Male ( ) Female ( )

2. Position held in the group_____

3. Region_____ District _____ Village name_____

B: FBG IDENTIFICATION

4. Name of the Farmers Business Group (FBG)_____

5 a. Objectives of the FBG _____

b. (i) Do you have CPU machine in your group? Yes_____ No_____

(ii) If the answer is No what are the reasons?.....

(iii) If yes, where did you get the CPU_____

6. Current FBG members Female_____ Male _____

7. Does the group has a constitution and registered? ___ Yes ___ No

8. Year started_____ Year registered_____

C: GROUP LEADERSHIP

9 a. What training is given to leaders?

Name	Position	Type of Training

b. What type of training obtained by other group members?

FBG Members	Type of Training

D: GROUP RECORD KEEPING

10 a. Does the group have a bank account? ____ Yes ____ No
If yes, which type of account? _____
and bank name? _____

b. (i) What are the internal procedures for managing accounts?
Signatories_____ Others_____

(ii) If the answer is others please mention them _____

E: FARMERS BUSINESS GROUPS MARKET ACCESS

11 a. How many kgs of coffee did you harvest last season? _____

b. How many kgs of coffee did you harvest this season? _____

c. Is there any significant change of coffee amount harvested this year as compared to the one harvested last year? ____ Yes ____ No

d. Is there high competition in coffee business? Yes _____ No _____

12 a .Who are the main buyers of coffee in your village? Mention

b. Where do you sell your coffee in the group? _____

c. (i) Are you satisfied with buyers of your coffee? Yes_____No_____

(ii) If not what are the reasons behind?_____

d. Which buyer pays better prices for your coffee?_____

13 a. (i) Are there reliable markets for coffee? Yes _____ No _____

(ii) If not what are the main reasons? _____

b. Do you think there are changes in accessing market and income as a result forming FBG? Yes_____No_____

14 a. When did your FBG start to collaborate with KILICAFE? (Please mention the Year)_____

b. What made your FBG to join KILICAFE? _____

c. Do you think there are changes in income in your group after joining KILICAFE?
Yes_____ No _____

(i) Increase
(ii) Decrease
(iii) No change
(iv) No idea

15 a. What are other benefits that you receive from KILICAFE besides coffee Marketing? (Please mention if any)

b. Are there any differences in production trends in your FBG after joining KILICAFE? Yes_____ No _____

(i) Increase
(ii) Decrease
(iii) No change
(iv) No idea

16 a. What are your groups Coffee (CPU) sales trend in year?

YEAR	2003/2004	2004/2005	2005/2006	2006/2007
SALES TRENDS (Tones)				

b. What are your groups Coffee (Home processed) sales trend in year?

GRADE	2003/2004	2004/2005	2005/2006	2006/2007
SALES TRENDS (Kgs)				

c. Do you have any suggestion/comments regarding KILICAFE? _____

THANK YOU VERY MUCH FOR GIVING ME MUCH COOPERATION.

Appendix 3: Mbeya chapter specialty coffee production

No	Name of Group	Production 2003/04		Production 2004/05		Production 2005/06		Production 2006/07		Est. Prod. 2007/08	
		HPC	CPU	HPC	CPU	HPC	CPU	HPC	CPU	HPC	CPU
1	Nyinda Quality Coffee Group	14,300		30,937		12,111	-	26,455	-	5,000	10,000
	P. O. Box 220 Mbozi										
2	Isansa Quality Coffee Group	10,189		74,574	12,678	6,917	3,305	1,019	2,006	10,000	4,000
	P. O. Box 38 Mbozi										
3	Wakulima wa kahawa Tusunganc	190,844		177,681		18,138	8.793	7,433	3.415	15,000	15,000
	P. O Box 467 Mbozi										
4	Songambele Specialty Coffee Group	55,652		89,790	22,510	-	9,491	-	-	15,000	10,000
	P. O. Box 188 Mbozi										
5	Komboa Special Coffee Group	5,244		4,381		39,495	-	10,118	-	17,618	15,000
	P.O.BOX 691Tukuyu										
6	Wakulima wa Kahawa Bora Ichesa			140,558		8,417	7,347	-	10,105	-	
	P.O.BOX 300 Mbozi										
7	Waboreshaji wa Kahawa Wellu II			50,561		8,973	-	-	-	-	
	P.O.Box 427 Mbozi										

8	Wakulima wa Kahawa Spesheli Idunda			85,032		17,349	1,585	-	1,037		
	P.O.Box 70 Mbozi										
9	Juhudi Special Coffee Group			3,027		26,941	-	11,674	-	18,428	15,000
	P.O.BOX 245Tukuyu										
10	Urafiki Specialty Coffee Group			7,345		45,011	-	9,013	-	17,118	10,000
	P.O.BOX 245 Tukuyu										
11	Wakulima wa Kahawa Bora Lubanda			-		15,519	-	10,874	-	10,000	
	P.O.BOX 2 Ileje										
12	Kimasha special Coffee Group			11,992		-	-	-	-		
	P.O. Box 412 Mbozi										
13	Shisonta Mkombozi Kahawa bora			7,919		9,027		24,652	-	5,000	10,000
	P.O Box 1333 Mbeya										
14	Ilomba Best Coffee Producers Group			56,199		28,412		20,499	-	10,000	10,000
	P.O.Box 16 Mbozi										

15	Mkombozi Kahawa Bora Wellu			21,282		16,547		-	-		
	P.O.Box 427 Mbozi										
16	Tumaini Highland Best coffee Group			-		9,456		-	-	10,000	
	P.O.Box 472 Mbozi										
17	Isampu Special Coffee Growers Group			-		6,425		2,349	-	2,000	8,000
	P.O.Box 48 Tukuyu										
18	Muungano best Coffee Group			-		3,640		2,350		10,000	
	P.O.Box 705 Tukuyu										
19	Lusalala			-		7,901		3,936		12,450	
	P.O.Box 16 Ileje										
20	Wakulima wa kahawa bora Sange			-		10,003		8,997		11,017	
	P.O.Box 52 Ileje										
21	Ukombozi Quality Coffee Group			-		8,127		1,694		20,000	
	P.O.Box 272Tukuyu										
22	Baraka Coffee Group			-		1,561		273		5,000	
	P.O.Box 747 Tukuyu										

23	Lugombo Popular Coffee Growers			-		2,980		210		10,000	
	P.O.Box 410 Tukuyu										
24	Bwenda Best Coffee Group					12,729		9,024	4,755	8,325	4,000
	P.O.Box Ileje										
25	Wakulima wa Kahawa Lumbila			12,839		4,651		-			
	P.O.Box Mbozi										
26	Segela Best Coffee Group					5,166		1,550		8,000	
	P.O.Box 404 Tukuyu										
27	Chituso special coffee group									7,000	
	P. O. Box										
28	Makoga kahawa bora									10,000	
	P. O. Box 8 Ileje										
29.	Wakulima wa kahawa Umoja									12,000	
	P. O. Box 473, Mbozi										
	Total	276,229	-	774,117	35,188	325,496	30,521	152,120	21,318	248,956	111,000

Source: KILICAFE (2007)

Appendix 4: Direct export and average prices from 2003/04 – 2007/08.

	MILD ARABICA			HARD ARABICA			ROBUSTA			TOTAL DIRCT EXPORTS		
YEAR	KGS	USD	USD/50KG	KGS	USD	USD/50KG	KGS	USD	USD/50KG	KGS	USD	USD/50KG
2002/03	0	0	0	0	0	0	0	0	0	0	0	0
2003/04	723,840	1,351,216	93.34	0	0	0	0	0	0	723,840	1,351,216	93.34
2004/05	2,721,701	6,933,280	127.37	158,400	253,440	80.00	24,000	20,592	42.90	2,904,101	7,207,312	124.09
2005/06	2,172,512	6,377,006	146.77	554,400	838,926	75.66	0	0	0	2,726,912	7,215,932	132.31
2006/07	2,506,623	7,911,675	157.82	910,800	1,371,546	75.29	117,000	168,600	72.05	3,534,423	9,451,821	133.71
2007/08	2,222,591	7,247,678	163.05	415,800	686,268	82.52	3,309,960	5,297,370	80.02	5,948,351	13,231,316	111.22

Source: TCB (2007)

Appendix 5: Total sales and average prices from 2002/03-2007/08(auction sales and direct exports)

YEAR	MILD ARABICA			HARD ARABICA			ROBUSTA			TOTAL SALES		
	KGS	USD	USD/50KG	KGS	USD	USD/50KG	KGS	USD	USD/50KG	KGS	USD	USD/50KG
2002/03	29,286,603	30,609,047	52.26	1,665,723	917,830	27.55	18,835,060	9,907,738	26.30	49,787,386	41,434,615	41.61
2003/04	23,898,747	28,476,239	59.58	1,236,024	936,236	37.87	7,578,760	4,769,644	31.47	32,713,531	34,182,119	52.24
2004/05	28,849,166	51,986,745	90.10	3,306,598	4,341,402	65.65	24,429,898	16,622,659	34.02	56,585,662	72,950,806	64.46
2005/06	25,226,308	54,629,675	108.28	1,224,240	1,961,491	80.11	9,276,250	9,495,706	51.18	35,726,798	66,086,872	92.49
2006/07	33,344,755	74,634,567	111.91	2,417,400	3,421,312	70.76	19,075,680	24,289,496	63.67	54,837,835	102,345,375	93.32
2007/08	18,208,117	47,676,389	130.92	1,068,220	1,767,715	82.74	12,255,800	18,882,604	77.04	31,532,137	68,326,708	108.34

Source: TCB (2007)

Appendix 6: Producer's share on the export price

- 2003/2004 season:

Producer share = (Price paid to producer) 100%
Direct export price

$$= \frac{1.19}{1.86} \times 100\%$$

$$= 63.9\%$$

- 2004/2005 season:

Producer share = (Price paid to producer) 100%
Direct export price

$$= \frac{1.53}{2.54} \times 100\%$$

$$= 60.2\%$$

- 2005/2006 season:

Producer share = (Price paid to producer) 100%
Direct export price

$$= \frac{2.27}{2.93} \times 100\%$$

$$= 77.4\%$$

- 2006/2007 season:

Producer share = (Price paid to producer) 100%
Direct export price

$$= \frac{2.50}{3.15} \times 100\%$$

$$= 79.3\%$$

- 2007/2008 season:

Producer share = (Price paid to producer) 100%
Direct export price

$$= \frac{2.54}{3.26} \times 100\%$$

$$= 77.9\%$$

Appendix 7: Conversions

All quantity data in ITC's coffee guide represent bags of 60 kg net green coffee or the equivalent thereof, i.e. GBE: green bean equivalent.

Green coffee means all coffee in the naked bean form before roasting.

To convert different types of coffee to GBE:

Dried cherry to green bean: Multiply the net weight of the cherry by 0.5;

Parchment to green bean: multiply the net weight of the parchment by 0.8;

Roasted coffee to green bean: multiply the net weight of the roasted coffee by 1.19

Soluble coffee to green bean: multiply the net weight of soluble coffee by 2.6

Liquid coffee to green bean: multiply the net weight of the dried coffee solids contained in the liquid coffee by 2.6

Alternatively for statistical purposes:

60 kg green coffee represents: 120 kg dried cherry

75 kg parchment

50.4 kg roasted coffee

Source: ITC