NETWORK OF FARMERS' GROUPS IN TANZANIA

ASSESSMENT OF COFFEE MARKETING SYSTEM IN KAGERA REGION

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1.0 INTRODUCTION

This report is an outcome of the study commissioned by the Network of Farmers' Groups in Tanzania or *Mtandao wa Vikundi vya Wakulima Tanzania* (MVIWATA) to assess coffee marketing system in Kagera Region to establish reasons for failure of coffee market and propose practical solutions for effective marketing system. The study was a joint initiative in the framework of partnership between MVIWATA and VI Agro-forest which aimed at establishing common advocacy strategies to revamp coffee production and enhance coffee market in the region that has been dwindling for several decades.

The motivation behind this study emanated from the fact that coffee was one of Tanzania's primary agricultural export commodities accounting for about 5% of total exports value, and generating export earnings averaging USD 100 million per annum over the last 30 years (TCB & TCA, 2012, TCB&TCA, 2013). The industry provides direct income to more than 400,000 farmer households thus supporting the livelihoods of an estimated 2.4 million individuals in the coffee growing regions of Tanzania (Baffes, 2003; TCB & TCA, 2012). The average yearly production over the past thirty years has continuously decreased and quality potential has not been fully exploited, thus contributing to low farm gate prices and failure to eradicate rural poverty. While this is happening, the global coffee demand is anticipated to grow to an estimated magnitude of between 1.5% and 2 % by 2014 (Stiftung, 2014, Oxfarm, 2005). Considering the existing opportunities on the international market, and the existing production potential in Tanzania MVIWATA felt it has responsibility to commission this study to examine factors limiting Tanzania coffee market development.

While coffee is grown in several regions in Tanzania namely Kilimanjaro, Arusha, Kagera, Mbeya, Songea, and some parts of Kigoma. This study focuses in Kagera Region given the fact that for many years coffee has been an important cash crop for the economy and livelihood of people in the region and accounting to about 30% of the total coffee produced in the country (Stiftung, 2014, TCB & TCA, 2013). The contribution of coffee in the economy, social development and culture of people in Kagera Region is well known and cannot be disputed. Likewise, the contribution of coffee to the national economy is well documented. In Kagera Region, coffee has not only been a key part and parcel of the farming system but has also contributed significantly in the raising education profile of the people and overall socio-economic welfare of the society. Despite the economic value of the crop in the region and the country in general, recently there has been a shift from coffee production to other crops a situation that has affected the sustainability of the crop. One of the advanced reasons for this shift is the challenge of marketing system that does not work effectively to motivate farmers to increase production.

The challenges in coffee production and marketing have given a way for farmers to diversify to other minor crops such as vanilla and rice which in spite their potential have not successfully substituted coffee as the main cash and cultural crop in the region. Contrary to situation in Kagera Region, it appears in the Northern Circuit of Tanzania particularly in Kilimanjaro Region there is an effective system of coffee marketing that gradually evolved to more or less satisfaction of farmers and other stakeholders. This raise an empirical question as to why coffee market is working fairly good in Kilimajaro Region compared to other regions of Tanzania and Kagera Region in particular? Moreover, during the forums between MVIWATA and farmers in Kagera Region the issue of coffee market has been recurring. Indeed it has been raised as one of important advocacy issues that farmers want to embark on. At the consortium of organizations that are working with smallholder farmers in the Lake Zone, the issue of coffee marketing was also raised. It was from this context MVIWATA and VI Agroforestry felt a need to commission this study to examine challenges confronting coffee market in Kagera region as part of their strategic objective.

1.1 The Purpose and Objective of the Study

The purpose of the study was to assess factors contributing to a failure of coffee market in Kagera Region and recommend appropriate actions for remedy.

1.1.1 Specific Objectives of the study

Specifically this study intended to

- establish the current status of coffee marketing in Kagera Region
- study the main coffee marketing constraints in Kagera Region
- study existing opportunities for improving coffee marketing make recommendations on practical and workable solutions to address challenges confronting coffee market.
- highlight policy issues that can be taken for advocacy.

1.1.2 Scope of work

The scope of the research was guided by the ToR in which at the end of the study researchers presented a thorough analysis of the current status of coffee market in Kagera Region, a set of coffee market constraints in the region, pointed out opportunities for improving coffee market in the region, and finally presented a set of recommendations on the way forward to improve coffee market.

1.1.3 Structure of the Report

The report is structure in four sections. Section one presents an introduction which gives a general overview of the research and the motivation behind this study; section two, presents an approach and methodology adopted to collect, analyze and present data. Section three, present results and discussion of the study, gives the implications in relation to the coffee marketing issues identified during the study and the lessons learned, and finally section four gives conclusion and recommendations on the way forward to address the identified market constrains.

2.0 APPROACH AND METHODOLOGY

2.1 Study Area

This study was carried out in Bukoba and Muleba Districts to represent coffee growing areas in Kagera Region. The next sections present the geographical location, climatic conditions, major economic activities, sampling procedures, data collection and analysis.

2.1.1 Geographical Location

Kagera is one of 30 regions of Tanzania, located in the Northwest of the Tanzania mainland with the region's capital in Bukoba Town. The region borders Uganda to the North, Rwanda to the West, Kigoma Region to the South, and Geita Region to the East. Kagera Region lies South of the Equator between 1°00' and 2°45' South Latitudes. Longitudinally, the region lies between 30°25' and 32°40' East of Greenwich. Out of the region's total area of 40,838 square kilometers (15,768 sq mi), 11,885 square kilometers (4,589 sq mi) is covered by water. The major water bodies in the region are Lake Victoria, Lake Ikimba, Lake Burigi and two major rivers namely Ngono and Kagera (URT, 2012). Kagera is the fifteenth largest region in Tanzania and accounts for approximately 3.3 percent of Tanzania's total land area of about 885,800 square kilometers (342,000 sq mi) with significant economic contribution to coffee production.

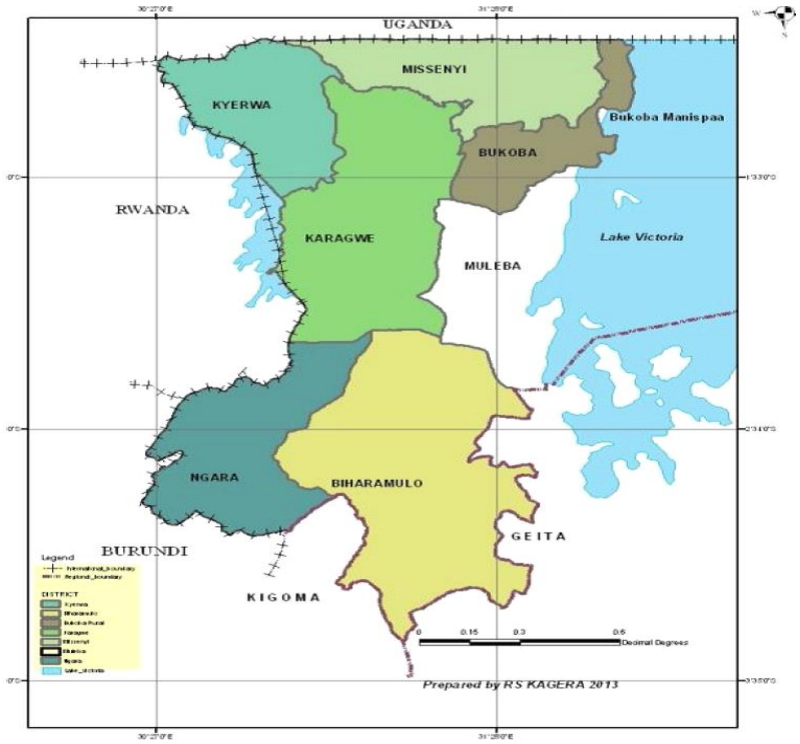

Figure 1: Map of Kagera Region (***Source: URT, 2013***)

2.1.2 Climatic conditions

The region experiences a pleasant climate, with an average temperature of 20°-30°C throughout the year, although it can drop as low as 10°C at night in the rainy season. Much of the region is hilly terrain with thick tropical vegetation including forests and wide-open grasslands. The region experiences two rain seasons. The heavy rains fall from March to May and short rains from October to December. Kagera receives an average rainfall of 800mm to 2,000mm per annum, which is within the optimal range of coffee rainfall requirement of between 1000mm and 2000mm (Mitchell, 1988). The region is divided into three broad climatic zones namely Bukoba Rural and Muleba District Zone, Karagwe District Zone, and Ngara and Biharamulo Zone.

The Bukoba and Muleba District Zone in which this study was conducted is characterized by mild temperatures and adequate rainfall conducive for cultivation of permanent cash and food crops like coffee, bananas and tea and in the plains one finds the grasses suitable for animal feeds. The Karagwe District Zone experience **a**mple rainfall and fertile soils, which allow for the cultivation of the largest volume of bananas cultivated in the region, coffee, beans, vanilla, and horticultural crops.

2.1.3 Economic Activities

Agriculture is the main economic activity in the region, which accounts for 50% of the Region's Gross Domestic Product (GDP) that recorded 1,260,688 million in 2010 (URT, 2013). Main

crops are coffee, green bananas, beans, cotton, cassava and tea. Other crops include sugar, sweet potatoes, vegetables, millet, sorghum and paddy. Vanilla is a recent cash crop, which is being grown in Bukoba and Muleba Districts. Vanilla has high economic value though it has not spread to the large area in the region. On the other hand, dairy farming as another emerging economic activity is spread throughout the region with an estimated 6,000 heifers (URT, 2013). Fishing, fish processing and marketing are major economic activities among inhabitants along the Lake Victoria and hence vital sources of revenue and livelihood. while

Coffee being the major cash crop in the region, has attracted processing plants to add value through coffee curing, roasting and packaging. The processing plants in the study area are TANICA Ltd, BUKOP Ltd and Amir Hamza (T) Ltd. These factories are considered to have potential to add value of coffee. However, in each district the local government through District Agricultural Support Programme (DASP) supported farmers' groups with the fertilizers, processing plants and improved coffee seedlings to be able to increase production and add value of coffee.

2.2 Sampling Procedure, Data Collection and Activities

2.2.1 Sampling Procedure

With the view that market linkages of coffee in Kagera Region and Tanzania in general depends on practices of various stakeholders along the coffee value chain a combination of probability and non-probability sampling procedures were used to obtain sample of interest. Specifically, purposive sampling was used for key informants and random sampling was used to select farmer groups and individual farmers (Appendix X).

For the purpose of addressing the objectives of the study the following actors were consulted during data collection; coffee farmers' groups, buyers i.e. Kagera Cooperative Union (KCU), Tanzania Coffee Board (TCB), Processors (TANICA Ltd), five Primary Cooperatives (Kyaitoke, Mugajwale,Kanyangereko, Tukutuku and Magata) and one farmer's group (Nyamuhanga colcafe farmers group). The study also covered important key informants such as District Executive Director (DED) (Bukoba and Muleba District Councils), DAICO (Bukoba and Muleba District Councils), District Treasures (Bukoba and Muleba District Councils), General Manager TCB, General Manager KCU, and General Manager TANICA Ltd.

2.2.2 Data collection

The study used both primary and secondary data sources to complement information required to answer the objectives of the study. The study team therefore used three complementary methodologies such as the desk review, key informant interviews, and focus group discussions. A combination of these methods ensured full coverage of the relevant issues regarding the status

of coffee market in Kagera region and the constrain confronting the coffee industry in the region. The subsequent sections briefly highlight activities accomplished during the study.

2.2.3 Activities

The activities carried out to accomplish this study were categorized into desk review, field research, feedback workshops/meetings and report writing. The details of each activity are elaborated in the following sections.

1. Desk Review

The desk review involved reviewing of several documents such as the Coffee Industry Act of 2013, Tanzania Coffee Industry Development Strategy 2011/2021, Tanzania Coffee Research Institute Strategic Action Plan, Tanzania marketing policy, Coffee Regulations, Kagera Investment Profile of 2013, and other relevant documents. The essence of doing critical review was to examine the global and local development of coffee industry, understand the global and local market structure of coffee, identify coffee market challenges, estimate magnitude of potential opportunities of global and local coffee industry, and possible best solution to address the identified challenges of coffee market in the study area.

2. Field Work

Field work was conducted in Kagera Region; represented by Muleba and Bukoba District Councils. The two district councils were considered appropriate to represent status of coffee industry in the region. The field work involved conducting focus group discussions with farmers and members of primary cooperative societies, . Also there were a series of key informant interviews at the district and village levels with various actors in the coffee market supply chain i.e. DED, DAICO, DT, and representatives from TCB, TANICA and KCU. The coverage of multiple sources of information helped to verify information obtained from different sources.

3. Meetings and validation workshop

The consultants held an inception meeting, debriefing meeting, and stakeholders' validation / workshop planned to be held in Kagera region to enable coffee stakeholders to validate information contained in the research report. The Details of the meetings and validation stakeholders' workshop are given below:

4. Inception meeting

The Consultants held an inception meeting with MVIWATA Management to agree on the ToRs and other logistics such as transport, reporting procedures, payment schedules, and roles of consultant. Also the detailed work plan was discussed and agreed upon.

5. Debriefing meeting

A debriefing meeting with MVIWATA was done prior to a stakeholders' validation workshop in order to capture opinions of the client. During the debriefing session the major findings of the study and recommendations were discussed and agreed.

6. Stakeholders' Validation Workshop

The stakeholders' validation workshop will present findings of the research to the key stakeholders of the coffee industry and validates the research findings. This workshop will be held in Kagera region to enable a wide range of stakeholders to participate, contribute and own results.

3.0 RESULTS AND DISCUSSION

Results are presented in four sections based on the key objectives intended to be addressed by this study. The first section presents status of coffee industry in Kagera Region focusing specifically on marketing. The second section identify constrains of coffee market in the region, followed by section three which presents the potential opportunities to improve coffee market, lessons learned and finally section four draws conclusions and recommendations on the practical and workable solutions to address challenges confronting coffee market in the study area.

3.1 Status of Coffee Marketing in Kagera

3.1.1. Trend of coffee production in Kagera region

Kagera region account for the highest number of households growing coffee (223,137) and Robusta being the most grown Result shows that, the coffee production over the past thirteen years is fluctuating. However, the line of fit provides evidence of slight increase in production for the same period. During the key informant interviews in Muleba and Bukoba Districts with District Agriculture, Irrigation and Cooperative Officers (DAICOs), it was clearly noted that coffee productivity in the study area has declined to an average of 0.6 tons per hectare, which is far below the recommended yield of 6.5 tons per hectare. This suggest that farmers are not motivated enough to commit meaningful investment in coffee production.

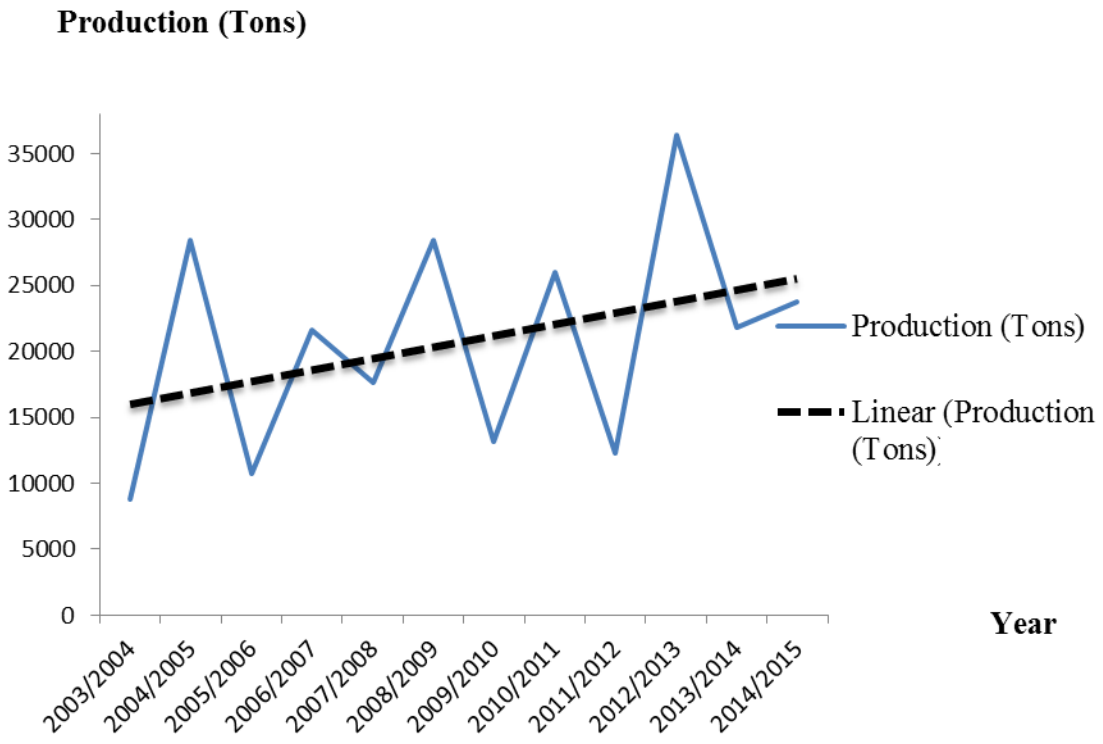

Figure 2: Trend of Coffee Production

Among reasons for low coffee productivity are fluctuations of world market price, coffee diseases, reluctance to adopt improved coffee varieties, poor farm management, lack of inputs and decline of youth engagement in agriculture. Failure of price stability in coffee has resulted into farmers operating in an uncertain environment a situation that discourage them to have meaningful investment in coffee farms. Consequently farmers have either abandoned coffee farming or adopted alternative crops like vanilla and rice.

Findings on figure 3 shows that in Kagera Region, coffee is mainly produced in Karagwe District of which in 2013/2014 season the district accounted for about 78% of the total regional production, followed by Muleba and Bukoba districts which accounted for about 10% and 9%, respectively.

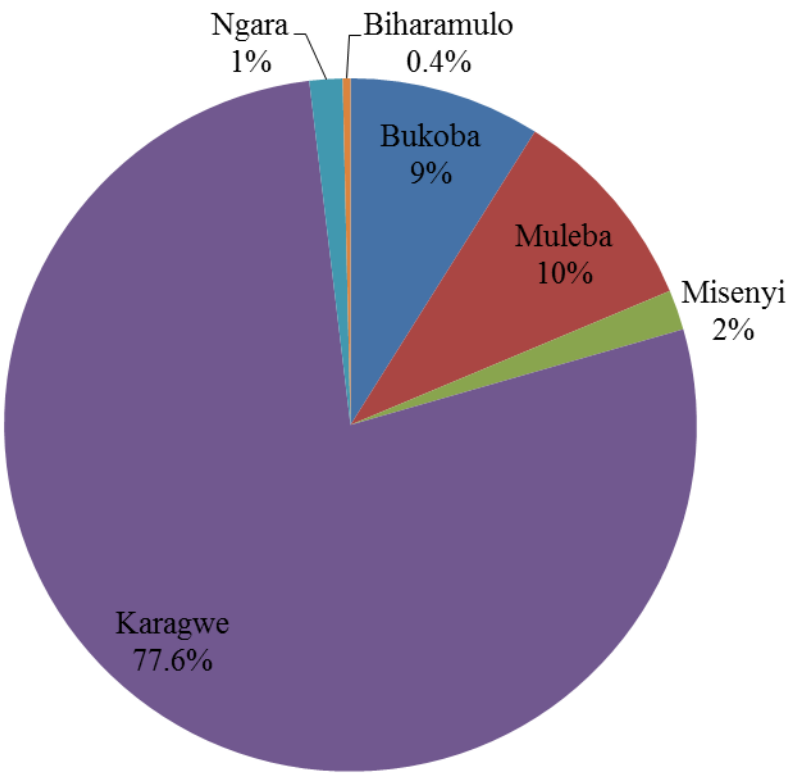

Figure 3: Coffee production per district season 2013/2014

3.1.2 Coffee processing

In the course of examining marketing status of coffee it was considered important to examine coffee processing. The findings revealed that primary processing of coffee in the region is done mainly by smallholder farmers and mainly involves sun drying. The secondary processing such as parchment hulling, grading and sorting is done by the private traders and cooperatives. TANICA accomplish coffee processing to produce roasted and instant coffee. With the view that smallholder farmers' sale unprocessed and ungraded coffee it is obvious that they are losers in the coffee value chain for not adding value the product they sale. Selling unprocessed coffee give advantage buyers to dictate low farm gate price. This study is in the opinion that if farmers are to be liberated from trap of low payments then government intervention is necessary to build capacity of farmers to acquire and utilize processing facilities to be able to add value. This will enable smallholder farmers to sale processed coffee which will fetch reasonably good price.

3.1.3. Coffee Market Channels

This study explored major market channels in the study area and findings revealed that there are basically three market channels identified namely cooperatives, private buyers and farmer groups. The subsequent sections give brief account of each market channel and their implication on improvement of farmers' livelihood.

3.1.3.1 Cooperative

The cooperative system is a very old system existed before liberalization of the coffee markets. This system operates at two levels; primary societies and cooperative union. During monopoly of the market, cooperative system was very strong compared to a period after market liberalization. During the monopoly period farmers had farmers had no any other market option to sell their coffee. In this system coffee producers delivered their coffee to the primary societies in which they are members. In delivering stage farmers received an advance payment based on announced market price and later were paid arrears (second payments) based on the extra money accrued as a result of price fluctuation.

Kagera Cooperative Union (KCU) being one of the major cooperative unions in the region is composed of several primary Cooperatives which are spread in three districts namely Bukoba, Muleba and Misenye. KCU has been long serving coffee farmers before and after coffee market liberalization with the vision to maintain favourable markets to raise farmers' income. Its mission is to improve the well being of its farmers by assisting them to produce a high quality product that continues to capture the satisfaction of its customers and hence fetching premium returns.

The discussions with farmers revealed that, during the monopoly of market cooperative unions like KCU were strong in supporting coffee production and market. In the current years after market liberalization, cooperatives are losing their strength and meaning. The philosophy of cooperatives in the past was not to buy coffee from farmers rather was to collect coffee from farmers and search for market and pay farmers later. The major role of the cooperative union was marketers of coffee than playing a role of being buyers. In the current environment of open market cooperatives are forced to shift their role from collectors to being buyers of coffee from farmers. Failure to respond competitors' force they are likely to lose grip of market share. While this shift is crucial Cooperatives lack capital to buy coffee from farmers; consequently KCU collects only about 7% of coffee produced in the region.

In striving to survive in current market situation, KCU acquires loan from commercial banks like Community Rural Development Bank (CRDB) to buy coffee from farmers. The loans from commercial banks are associated with high interest rates coupled with other overhead costs such as loan insurance, various applicable fees charged by the Tanzania Coffee Board (TCB) and

District Councils which are all together dumped on shoulders of farmers that subsequently have consequences on the farm gate price.

Table 1 present a list of permits and fees charged to coffee buyers and processors which in our opinion they contribute in lowering farm gate price. Looking at the fee structure and the management of the fee, we learned that of 13 fees are managed by TCB and one fee is charged by the District Council. This study suggest that to reduce burden of fees and taxes which are dumped to burden farmers there should be a review of the fee and tax structure and merge some of fees and taxes so that there are few and affordable.. The complexity of fee and tax structure that lump huge burden to farmers coupled with other overhead costs has compelled KCU who is a price leader to set relatively low farm gate prices and has given advantages to private buyers who are price followers to set relatively higher price to attract farmers to sell their coffee to them.

Table 1 List of Applicable fees to coffee buyers and processors

S/No	License	Cost (US$)	
		Application fee	License fee
1.	Green coffee export license	20	1000
2.	Warehouse	20	500
3.	Curing/hulling license	20	1000
4.	Premium coffee export license	20	1000/500**
5.	Local roasting license	20	250
6.	Roast bean and instant coffee export	20	500
7.	Liquorer (trading) license	20	-
8.	Cherry processing license	20	250
9.	Parchment/dry cherry coffee buying license	20	1000/-**

*500** and -**: applicable to cooperatives and farmer groups* *Source: TCB, 2015*

Given the current situation farmers are in a dilemma of whether they should continue selling coffee through cooperative/ or sell to private buyers who relatively give higher prices. Also this raise another important argument to whether KCU should declare to be price follower to take "late comer advantage" to allow muscular private traders to announce price believing that they have low transactions cost and are very efficient. This is likely to address the challenges of incremental price offered by private buyers to build short term competitive advantage over KCU. Said it differently, KCU need a flexible mechanism to set price rather than using a current system that is bureaucratic in decision marking to allow price change. The KCU bureaucracy has

given advantage the private buyers to take late mover advantage with the confidence that KCU will not be able to adjust timely to pose competition.

In striving to improve cash income for its members, KCU subscribed to different certification organization including Fair Trade.. Currently KCU is benefiting from Fair Trade by selling about 50% of organic coffee. In 2013/2014 season KCU received premium price of US$ 22.2 cent per Kg for social premium and US$ 33 cents for organic premium. Social premium is extra amount to top up farm gate price which is supposed to be paid back to farmers to support social services in respective villages. During focused group discussion in Butahyaibega, Mugajwale and Kyaitoke, it was reported that individual farmers have not received Fair Trade premium for the past three years. According to KCU, the amount received from Fair Trade as a social premium was used to service debt from commercial bank and compensated the loss accrued from KCU operating costs. If this trend is allowed to continue, the whole meaning of social premium offered by Fair Trade is lost if farmers who put up extra effort to invest time and resources in organic farming are not rewarded accordingly. This study is in the opinion that there should be a fencing mechanism to protect mismanagement of the social premium rewarded to farmers if organic farming is to be sustainable.

This study also examined primary cooperative and one case in point was Magata AMCOS in Muleba District. The findings revealed that Magata AMCOS recorded a success story for offering the highest price to farmers of about TZS 320/kg higher than KCU could offer just a year after deflection from KCU. Magata AMCOS was among 126 primary cooperatives which feed KCU with coffee from farmers. In 2014/2015 it decided to deflect and started to find market for its coffee. In 2014/2015 season managed to collect about 65 tons of clean coffee and offered the highest price of TZS 2420/kg as reversed to TZS 2100/kg offered by the KCU. The price differential between the two (Magata AMCOS and KCU) can be explained by the huge overhead costs and bank higher interest rate in KCU. . This implies that if cooperatives are properly managed farmers can still benefit in the current environment.

Despite the identified challenges and existence of various market channels the cooperative system still play a major role in coffee marketing in Kagera region. The interview with famers' groups revealed that the major reasons for selling their produce to cooperatives are the expectations of receiving second payment (arrears), long term established trust and commitment towards strengthening their union. Since for the past four years cooperatives members had never received any second payment (arrears), the motivation of farmers to continue selling their coffee to cooperatives is dwindling. This has got negative implications to the volume of coffee collected by primary societies which ultimately affects the amount collected and sold to KCU. While KCU failed to pay arrears to farmers Magata AMCOS managed to pay second installment of TZS 220/kg and it met expectations of its members. This is possibly a lesson to KCU they should revise their cost center and device mechanism to reduce overhead costs.

3.1.3.2 Private buyers

Coffee market liberalization has encouraged participation of private buyers in coffee marketing system. The findings revealed different private buyers in Kagera region namely Amri Hamza, Olam, TANICA and Export Trade. In 2014/2015 season private buyers bought about 32% of coffee produced in Kagera region. Table 2 summarizes quantity purchased by different buyers. The private buyer market channels have been reported to attract a large number of producers to sell their produce. The discussion with farmers and other coffee stakeholders in Kagera region revealed that there are various incentives for producers to sell their coffee through private buyers; factors like, prompt cash payment, on farm buying and relatively higher prices than the cooperative union serve as incentive for farmers to sell their coffee to private buyers.

Table 2: Amount of coffee purchased by different buyers in season 2013/2014

Buyer	Quantity(tons)	Percent
Olam	3797.7	14.19
TANICA	449	1.68
Export trade	1747	6.53
KCU	2071.5	7.74
ASU co	1598.3	5.97
Karagwe estate	14867	55.54
Magata PCS	108	0.40
Amri Amir	771	2.88
KDCU	1174.8	4.39
Nkwenda	182	0.68

While private buyers are preferred by farmers there were complaints that some private buyers do not use certified weighing scales. While primary cooperatives use certified weighing scales they fail to collect enough coffee due to inadequate capital to be able to buy coffee from farmers and meet all overhead costs incurred during coffee collection. For example, at Butahyaibega village in Bukoba District Council, it was noted that the Kanyangereko Primary Cooperative failed to collect coffee from farmers because of financial constraints they faced during collection and not having a convenient mechanism to collect coffee from farmers. Also it was reported that in most cases the private buyers as reversed to primary cooperatives are flexible to buy coffee through “pay and carry” approach at each household which cut transport costs but the primary societies wait farmers to bring coffee to a common collection point which is usually at the cooperative warehouse. This practice attracts farmers to sell coffee to private buyers. Supporting this argument, one of the leaders of the primary cooperative said;

``farmers who sell coffee to cooperative have to carry coffee for long distances to the collection point which is located far from the farmers' farms while private traders meet them at their homes and those who sold their coffee through cooperatives, he named them as die with cooperative people``.

Through key informants it was also evident that private buyers take late mover advantage on price offer. They wait KCU to fix price and they add little amount on top of KCU price and take advantage of KCU inertial to attract more farmers to sell coffee to their selling points. It was also evident that the private buyers do not incur coffee improvement costs compared to KCU that offers extension services to farmers.. This gives flexibility the private buyer to elevate the coffee price to attract farmers. Given this scenario, the future of cooperative union is threatened and the possibility of the cooperatives to sustain after sale services to farmers is not guaranteed a situation that is threatening the sustainability of coffee industry in the region.

3.1.3.3 Farmers groups

Another emerging coffee market channel is farmers groups. There are two types of farmer groups found in Kagera region. There are farmer groups which were established by the district council through Agricultural Support Development Programme (ASDP) with the intention to improve coffee productivity in the districts and region at large. In these groups farmers were facilitated to establish nurseries for clonal coffee seedlings, given money for inputs like fertilizer, supported to establish processing plants and they are supported by village agricultural extension staff in production of quality coffee. In Bukoba District Council researchers were informed that a total of 7 villages were covered and each village had a group of 30 farmers who benefited from the ASDP initiative. In this modality after group members (farmers) have processed their coffee they had a freedom to choose where to sell their produce. However, in most cases members deliver their coffee to the nearby primary cooperatives or sell through the private buyers.

The second category of farmers group is the voluntarily farmers groups registered by the district council on voluntary basis. While the first farmers groups are under the local government support, the registered group operates autonomously. This type of group has long term goal of producing quality coffee and attracting good prices. The group plays almost the same role played by cooperative unions. Example of this group is Nyamuhanga colcafe farmers group in Muleba District. The group was established in year 2009 with a total of 262 members. The motivation behind establishment of this group was to tackle continuous decline of coffee price, coffee quality decline and high production cost which was associated with withdraw of the government subsidies in agriculture inputs. Therefore, the group was established to improve coffee productivity in general. The group is currently having active 200 members. The group's highest achievement is ability to secure loan of low interest rate at a tune of 7% from Kolping. The Kolping support the group in areas of good farming practices and quality improvement.

The group started to collect coffee in 2010/11 season where around 6.4 tons of coffees were collected from farmers. The next season of 2011/2012 4.5 tons were collected while in the last season the group collected 28 tones. The group adopted the same payment mode as cooperative union where farmers receive the advance payment upon delivering their coffee and later receive the second payment if the market price rises over time during the same season. Apart from collecting and selling coffee group member receive extension services and improved seedlings. The donor supported the group through training where few members were trained through TaCRI to become coffee extension worker to be able to sustain extension services in their jurisdiction area.

The challenges facing the group are startup capital resulting from group's operation from collecting to buying where they are forced to take loan. As in cooperative system all the overheard costs are shouldered back to farmers hence make the price offered to farmers to be low. However, the performance of voluntary group is striking; despite the farmer group doing almost all the obligations the cooperative unions do but it is still able to pay back arrears to farmers as reversed to cooperative unions which are not able to pay on the argument that the prices offered are too low. The question now comes if the voluntary farmers groups are paying back the arrears why cooperative unions are not able to pay? The answer might by the source of capital the cooperative uses (i.e. the commercial banks) are associated with the higher interest rates at a tune of 18% which is almost three times higher compared to 7% from the voluntary group and other overhead costs which raises the operation costs. Possibly this should be a lesson to cooperative unions to negotiate low interest rate with the commercial banks and find possibilities of reducing the overhead costs or find another source of capital with favorable interest rates.

3.1.4 Comparative collection of coffee by different buyers

Comparing collection of coffee by different buyers this study found that Karagwe estate is the main coffee marketing actor in Kagera region. In 2014/2015, it marketed about 56% of produced coffee in the region (figure 44). Albeit the region having about 126 primary cooperatives which deliver coffee to Kagera Cooperative Union (KCU) and Karagwe District Cooperative Union (KDCU), only 11.6% is marketed through these two cooperatives unions (KCU and KDCU) (figure 4). Large amount of coffee is sold outside the rims of the cooperatives a situation that is threatening the survival of cooperatives and the sustainability of coffee development in the region. This is attributed by the growing number of private buyers and black market players in the coffee industry. A new shift of farmers to sell their produce to private sector and black market is weakening the cooperatives capabilities to provide after sale services consequently farmers will no longer continue enjoying the cooperative benefits they used to enjoy during the monopoly period.

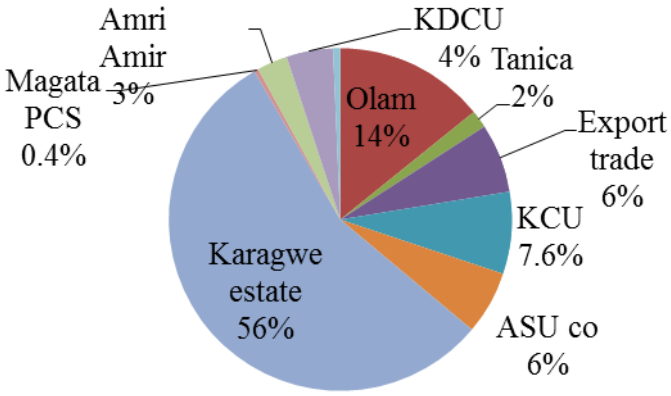

Figure 4: Coffee bought by different Buyers in Kagera Region

3.1.5 Coffee market Institutions

Coffee marketing in Tanzania is governed by several institutions namely Coffee Industry Act (Cap 347) of 2013, by-laws established by respective district councils, cooperative unions, primary cooperatives, Tanganyika Instant Coffee Company (TANICA), and Tanzania Coffee Board (TCB). The subsequent sections present briefly the role of these institutions in governing coffee marketing.

3.1.5.1 Coffee Industry Act Cap 347 of 2013

The Coffee Industrial Act of 2013 guides the rule of game in coffee marketing. Part IV of the Act stipulates trading of coffee and it includes types and grade of trade, restrictions, obligation of registered coffee buyers, declaration of coffee buying season and the mandate of the TCB as a regulatory authority. Part V of the Act put forth types of licenses of coffee dealers and the associated fees, which are managed by the TCB. Table 1 give a summary of applicable license and fees for coffee buyers charged by TCB and Table 2 give list of fee and taxes charged by the local government authorities and COASCO..

As indicated earlier on section 4.1.3.1 the fee structure presented on table 1researchers consider them to be complicating the marketing process and adding unnecessary costs which is at the end are dumped to farmers. The best way to manage these costs could be to combine some of the fees and distribute the load to other players in the coffee supply chain instead of charging all costs to buyers and processor a situation that burden farmers since all costs are factored back to a farm gate price. For example, currently coffee exporters are given waiver from Value Added Tax (VAT) and export tax; under good management they could have shared some costs to give relief to farmers.

3.1.5.2 District council bylaws

Each district council is responsible to develop bylaws to govern the conduct of institutions operating in their jurisdiction areas. With regards to the coffee the study area both Muleba and Bukoba District Councils developed more-less similar by laws that require each coffee buyer to comply with before granted coffee purchase permit. Some of these fees and tax are presented on table 2 below and include coffee purchasing permit at district levels, coffee anti-smuggling fee, coffee research fund, COASCO, coffee development fund, and cess levy. In view of list of these taxes and fees, buyers and processors are supposed to comply before starting market operations. These costs are factored on the operational costs which are subsequently charged to farmers.. During discussion with potential actors in coffee marketing system, it was reported that if costs are not deregulated, farmers will continue getting low price and if there will be any other alternative cash crop, farmers will shift to other alternative crops as a coping strategy.

Table 3: Other Associated Costs

S/No.	Permit	Amount (TZS)
1	Application to purchase coffee at district level	1,000,000
2	Anti-smuggling fee	1,000,000
3	COASCO	254,880 per cooperative
4	Coffee research	0.75 of total sale
5	Coffee development fund	0.10 of total sale
6	Cess levy	5% of total sale

During the interview it was also interesting to know if the anti-smuggling fee paid to the local government by all coffee buyers is helpful to control the black market. Despite the claim of the local governments that the fee was helpful the response from buyers was it is not clear to what extent the anti-smuggling fee is helping because what is clear despite this fee being paid by each buyer the problem of coffee black market is growing and it is causing huge damage to the national economy and local livelihood. This can be evidenced by the fact that the coffee sold through formal market channel is declining and one root that is claimed to be passing through is the black market.

Another aspect which was explored was the fact that the local government regulations require 20% of cess levy collection per annum being paid back to farmers for coffee development. When we explored this aspect findings revealed that for about 4 consecutive years there have been no payments made to the local communities with regards to the cess levy pay back. With the understanding that this fund was supposed to support coffee development in the respective area if not paid back to farmers it is threatening the sustainability of the coffee industry. Given the fact that coffee is the major economic activity in the region with a contribution of over 70% of the

districts councils' own source income failure to sustain this crop is threatening the survival of the district councils and the entire development in the region.

3.1.5.3 Role of Kagera Cooperative Union in coffee marketing in Kagera region

Coffee market liberalization was intended to create competition among buyers that subsequently could influence high farm gate price for the benefits of farmers. The situation in Kagera region has remained different to some extent. KCU is the sole actor to announce the price it will offer to farmers and then other traders follow. It was reported by KCU management that setting of indicative price it depends on the prevailing price at the auction in Moshi and other overhead costs. Apart from prevailing auction market price, the common overhead costs that influence farm gate price include loan service, interest rate, loan and crop insurance, transportation of money, coffee development fund and other related costs as presented on Table 4.

Despite the indicative price set by KCU, private traders have room to offer the same price or higher price based on production situation of the given season. When production is high all buy at the same price and in season with low yield, other traders just raise price a little bit above the KCU price to attract farmers. For example, when KCU announce price to be TZS 1000, other traders may buy between TZS 1050 and 1100. In view of this practice, this study observed that KCU contribute much on the existence of low price of coffee in the region. The reasons behind being the fact that KCU has high overhead costs which are factored as costs when establishing farm gate price. For example, in 2014/2015 auction price for robusta was TZS 2900/kg but farmers received TZS 1700/kg a difference of TZS 1200/kg (41.4%) was due to overhead costs. This study observed that famers who sold coffee at highest price offered by KCU received about 58.6% of auction price while a person received the lowest price received about 27% of auction price.

Looking at the trend that private buyers that do not add much on price announced by KCU it implies that the low level of price set by KCU due to overhead costs give advantage private buyers to fix low price as well with a marginal increase from the KCU price. In this regard market liberalization in the coffee market is not helping farmers due to conspiracy among private buyers. The economics of pricing in competitive market suggest that price leader has to buy high proportional of the produce and must offer the highest price because it is expected that market leaders to be efficient in pricing. But the situation in Kagera is very different since KCU that is claimed to be market leader is able to collect only 7.6% (2071.5 tons) and the big amount of coffee is bought by private buyers and the black market. The major reason for the KCU to buy little amount of coffee is inadequate capital to buy large amount of coffee a situation that leads to a failure of KCU to attain economy of scale. Coupled with the high overhead costs KCU cannot attain efficiency pricing. This implies that private buyers take late mover advantage to generate high profit.

Table 4: KCU Projection for Coffee Marketing During 2014/2015 Season

s/n	Description	Quantity (kg)	Per unit cost	Total cost	% auction crop value
1	Auction Sales	4,000,000.0	2,900.0	11,600,000,000.0	
2	Payment to farmers				
	dry coffee robusta	3,500,000.0	800	2,800,000,000.0	
	clean robusta	1,550,000.0	1700	2,635,000,000.0	
	dry coffee Arabica	500,000.0	800	400,000,000.0	
	clean arabica	450,000.0	1700	765,000,000.0	
	Total			**6,600,000,000.0**	56.90
3	**Money transportation**				
	Car cost	200,000.0	360	72,000,000.0	
	Escort	15,000.0	720	10,800,000.0	
	Total			**82,800,000.0**	0.71
4	**Coffee transportation**				
	Dry coffee	4,000,000.0	45	180,000,000.0	
	clean coffee	2,000,000.0	45	90,000,000.0	
	Bukop-Kemondo	4,000,000.0	11.25	45,000,000.0	
	Total			**315,000,000.0**	2.72
5	**Insurance**				
	Money (TZS 11,428,900+25%)			14,286,125.0	
	crop (TZS 14,835,662+ 25%			18,544,578.0	
	Total			**32,830,703.0**	**0.28**
6	Patchments (vero)				
	dry coffee	4,000,000.0	16	64,000,000.0	
	clean coffee	2,000,000.0	13.333	26,666,667.0	
	vero for dry coffee	4,000,000.0	1.5	6,000,000.0	
	vero for clean coffee	2,000,000.0	3	6,000,000.0	
	Total			**102,666,667.0**	**0.89**
7	warehouse operations	Lumpsum		37,065,717.0	0.32
8	**Weighs**				
	inspection fee	30,000.0	150	4,500,000.0	
	inspection cost			4,935,000.0	
	Total			**9,435,000.0**	**0.08**
9	District levy				
	Dry coffee	4,000,000.0	40	160,000,000.0	

s/n	Description	Quantity (kg)	Per unit cost	Total cost	% auction crop value
	clean coffee	2,000,000.0	85	170,000,000.0	
	Total			**330,000,000.0**	**2.84**
10	**Coffee register books**				
	Sisal threads	5000	8000	40,000,000.0	
	Registers	500000	126	63,000,000.0	
				103,000,000.0	0.89
11	Loan				
	Loan follow up			70,000,000.0	
	interest rate 18%			750,000,000.0	6.47
	payment			550,000,000.0	4.74
	Total			**1,370,000,000.0**	**11.81**
12	Cooperative fees				0.00
	KCU	8,000,000.0	90	720,000,000.0	6.21
	Primary cooperatives	8,000,000.0	90	720,000,000.0	6.21
	Total			**1,440,000,000.0**	12.41
13	Guarantee supervision				0.00
	Bukop	2800000	9	25,200,000.0	0.22
	Kemondo	3000000	9	27,000,000.0	0.23
	Total			**52,200,000.0**	**0.45**
14	Processing costs				
	Hulling	4,000,000.0	75	300,000,000.0	
	Cleaning	2,000,000.0	75	150,000,000.0	
	drying			28,000,000.0	
	Total			**478,000,000.0**	**4.12**
15	**Sacks**				
	Purchasing	66700	4000	266,800,000.0	
	Transportation			13,694,844.0	
				280,494,844.0	2.42
16	Research	11,600,000,000.0	0.0075	87,000,000.0	0.75
17	Coffee development fund	11,600,000,000.0	0.001	11,600,000.0	0.10
18	Cooperative meeting			193,412,400.0	1.67
	Sample transportation			10,075,000.0	0.09
	Balance			**63,419,670.0**	0.55

There are many transactions undertaken by KCU which contribute much to low farm gate price. Loan services (insurance, interest and follow up) have been contributing to lowering farm gate price. In 2014/2015 loan services was about 7.07% (TZS 820,000,000.0). Loan service includes interest paid and loan follow-ups which was 750,000,000.0 and TZS 70,000,000.0 respectively. These two components estimated to reduce farm gate price by TZS 205.0/Kg. While KCU pays high interest rate at a tune of 18% in commercial banks, Nyamuhanga colcafe farmer group achieved to secure loan from Kolping with about 7% interest rate of which it reduced about TZS 80/kg. Following this situation, there is a need to find other means which can be used by KCU to raise its own fund for farm gate price improvement, which will charge competitive interest rates. Other costs are presented on table 4 above shows how they reduces farm gate price and column six shows the corresponding percent of auction crop value.

Improving coffee marketing mean farmers have to get high return from their activity so that they may continue and increase coffee production. As KCU is seen as the benchmark of coffee pricing, it is possible to raise price which will implicate to reduced coffee smuggling, increased production, farmers selling through cooperatives and other coffee traders will raise price. During the discussion with members of Kyaitoke, Mugajwale and Tukutuku primary cooperatives claimed that

> ”*Cooperative union (KCU) offers lower price because much of auction price is absorbed by unnecessary spending of KCU and we have been shouting to leaders with no effect*”.

This claim might hold water because price offered by KCU was TZS 2100/kg while Magata AMCOS offered TZS 2420/kg with a difference of TZS 320/kg, which we consider it is huge given the fact that the economy of scale is in favour of KCU.

3.1.5.4. Tanganyika Instant Coffee Company (TANICA) in coffee marketing

Tanganyika Instant Coffee Company (TANICA) was established in 1963 and became operational in 1966. It produces dried instant coffee and roasted coffee of different blends for domestic and export markets. The plant has a capacity of 500 tons a year and currently is the only instant coffee factory in East and Central Africa. KCU own 53% share which is deemed to be an opportunity for KCU to fetch more return for its farmers. TANICA purchases coffee from farmers and in 2014/2015 it collected about 449 tons (about 2% of coffee marketed in Kagera region).

In the past ten years, the factory supplied instant coffee on average of 156.5 tones locally and about 100 tones export. In 2010 it started roasting coffee whereby it supplies about 71 tons annually. Regardless of availability of cheap inputs and export business environment, the company reported to operate under loss as indicated in table 5. Simple analysis is that; in 2014/2015 season TANICA offered TZS 1200 per kg of coffee and the same amount of raw

coffee produces half kg final consumable coffee which is sold between TZS 17,000 and TZS 20,000. As shown in table 5 the annual profit generated was 24.75million, an average of 2.5 million annually. During discussion with management, it was revealed that inadequate capital, high costs used in promotion, many regulatory costs, low internal consumption of its products were reported as the main contributing factors to the realized loss. However, this study is still optimistic that this is one of the facilities if managed properly can facilitate to to generate high profit margin to farm gate price for a reason that it is a value adding unit that is close to the vicinity of farmers which does not attract higher cost to buy and transport coffee from farmers to the processing plant.

Table 5: TANICA coffee processing and marketing trend for the past ten years

Year	Local Market		Export	Profit (000,000)
	Instant Coffee	Roasted Coffee	Instant Coffee	
	111	-	131	-174
2005	165	-	135	221
2006	154	-	117	186
2007	158	-	94	194
2008	83	-	63	-112
2009	148	-	62	-126
2010	159	-	93	-40
2011	140	67	94	-246
2012	133	148	88	169
2013	154	226	63	0.75
2014	160	270	69	54
Total	1565	711	1009	24.75
Average	156.5	71.1??????	100.9	2.475

Source: TANICA (2015)

3.2 Coffee marketing constraints

Despite the significance of coffee in the local economy, the industry face several market constraints. The major constraints identified by this study are low price offered to farmers, overregulated market environment, insufficient market information, selling of low quality and ungraded coffee, insufficient competition due to conspiracy among coffee buyers, complex tax structure, lack of own capital by cooperatives and farmers group and emerging of black market. The subsequent sections describes each constrain in details.

3.2.1 Low price offered to farmers

The major complains from farmers concerning the declining coffee price was that, coffee is no longer the crop of hope to support farmers' needs. For example, farmers reported that in a year 1995, 1 kg of ungraded coffee was sold between TSZ 550/kg and TSZ 750/kg while in the last production season (2014/15) farmers received a price of TSZ 800/kg – TZS 1000/kg. Looking at the inflation rate occurred over time and the rise of costs of production for the past two decades farmers would expect the price to reflect this reality. In addition to low prices, farmers are no longer receiving arrears (the second payments) from cooperative unions for the last four years, which is one of an incentive used to motivate farmers to increase production. The discussion with cooperative union reveal that, one of the reasons for not receiving arrears is the low auction coffee price. It is known that the world market price of coffee is claimed not to be stable and basically is declining over years. However, this study also observed regardless of uncertainties of the world market price high transaction costs in cooperative systems associated with the high overhead costs and bank interest rates affected the farm gate price offered to farmers.

The study found that price of coffee in Kagera region was set based on the calculations of KCU of which it was very low because of high overhead costs. For examples farmers received just about 56.9% of auction price and over 43% is factored as transaction costs which is shouldered to farmers. This argument is supported by the fact that Magata AMCOS was able to pay farmers 65% of auction price just a year after deflection from KCU. Among coffee buyers in the region, Magata AMCOS paid the highest price at a tune of TZS 2420/kg while KCU paid only TZS 1700/kg in the same season. This suggests that under good cooperative management coffee can still benefits farmers if overhead costs are well managed.

3.2.2 Overregulated market environment The current coffee market is operating under open market system where different buyers have equal rights to buy coffee from farmers. The open market system was intended to create competition among coffee buyers in order to benefit farmers. The structure of coffee pricing in Tanzania follows a trend of the World market price that further regulated by the Tanzania Coffee Board. However, how much is paid to farmers depends on several other factors such as cooperatives' union overhead costs, taxes and fees charged by the TCB and the respective district councils. Table 6 gives summary of application fees and license fees applicable to buyers, roasters, processors and exporters charged by various government agencies such as TCB, local government, COASCO and others.

Table 6: Application and license fees charged to buyers and processors

S/No	License	Cost (US$)	
		Application fee	License fee
1.	Green coffee export license	20	1000
2.	Warehouse	20	500
3.	Curing/hulling license	20	1000
4.	Premium coffee export license	20	1000/500**
5.	Local roasting license	20	250
6.	Roast bean and instant coffee export	20	500
7.	Liquorer (trading) license	20	-
8.	Cherry processing license	20	250
9.	Parchment/dry cherry coffee buying license	20	1000/-**
10.	OTHERS	TZS	
11. 1	Application to purchase coffee at district level	1,000,000	
12. 2	Anti-smuggling fee	1,000,000	
13. 3	COASCO	254,880per cooperative	
14. 4	Coffee research	0.75 of total sale	
15. 5	Coffee development fund	0.10 of total sale	
16. 6	Cess levy	5% of total sale	

Looking at the requirements for multiple licenses and permits arguably contribute more to the cost of doing business than to the quality of the regulatory environment. These regulations result into other challenges to sector like weakening the incentives to increase farmer prices and returns. The regulatory arrangement in effect backs one group against the other, creating an asymmetry of power that is reflected in the overall level of competition, and in the market shares of the various buyers. In general the complexity of pricing structure contributes enormously to reduce the gate farm price paid to farmers. In this view, this study consider that although the coffee market is considered operating in the open market system but in reality it is highly regulated a situation that does not give full benefits of open markets to farmers. The severe regulation has resulted into the private buyers to conspire to fix low prices after the initial price has been fixed by the cooperatives. This practice has not helped farmers who were expected to benefit from open market economy.

3.2.3 Selling of low quality and ungraded coffee

Apart from organic coffee which is graded and certified, farmers who sell coffee through cooperative system, private buyers and farmer groups do not receive differential prices based on quality and grade of the coffee delivered. Primary societies and other buyers offer the same price of coffee regardless of the quality of coffee delivered by farmers. This has an impact on farmers since no benefits attached to the efforts and inputs spent to improve quality of coffee. Consequently, the current pricing system affects the quality of coffee produced by farmers since the price between farmers producing low and high quality coffee does not differ. It was noted that, even in organic coffee where farmers expect to receive good prices, still the price offered by KCU is not relatively high compared to the price of conventional coffee sold by farmers. This again is damaging the spirit of promoting organic coffee in the region since there is no motivation to attract farmers to engage in the organic farming that require farmers to spend much more time to prepare organic fertilizers as reversed to the use of chemical fertilizers and other agrochemical inputs.

Production of quality coffee has been a concern for the government of Tanzania for a long time. It was found that apart from organic coffee produced for niche markets like Fair Trade farmers concern for quality coffee production and selling is minimal. Discussion with farmers on production of quality coffee revealed that there is no incentive for farmers to produce quality coffee. In the current existing market channels there is no differential price offered to farmers based on coffee quality. Farmers low interest is contributed by several factors like low coffee price, non differential farm gate price, farmer's low knowledge on grading, poor crop husbandry, high inputs cost, local coffee varieties with low yield potential, and diseases. No processing done by farmers apart from sun drying. Regardless of existence of various processing centers farmers still sell unprocessed coffee to the cooperatives. The reason behind there is no price incentives to add value to coffee. This study is in the opinion that farmers should be encouraged to add value and grade their coffee and the incentive should be tied on price to motivate them to produce quality coffee.

However, during the study it was revealed that emerging of black market complicate the process of quality improvement because in the black market buyers do not care about the quality and they are willing to pay relatively higher price compared to other buyers. Buying low quality coffee rather than sticking on quality product affect the overall quality of coffee from Kagera region and consequently the overall quality of coffee from Tanzania that translate into low market price. In this view, the government should join forces with other stakeholders to fight against black market that is accelerating deterioration of quality. The low coffee quality has posed a critical challenge for our farmers among other factors to penetrate international markets. The quality standards which are set in global market can hardly be mate by individual farmers in the region. Although government policies and programs strive at improving quality to meet

standard, yet few smallholder farmers are able to meet such standards. Lack of appropriate technologies is a major impediment to sustainable production of high quality coffee from Tanzania. During the field work, it was found that there were very few on farm processing plants that could be used for processing and grading. This study considers that it could be worth for the current government initiatives of providing processing plants in villages to be expanded to reach more farmers. Thereafter there should be motivation on price by paying prime prices to farmers selling top grade coffee. This approach in a way will attract farmers to strive producing high quality coffee for the purpose of securing economic price.

3.2.4 Failure to pay arrears

The aim of cooperative was to collect coffee and fetch good prices, but due to the current uncertainties of coffee market, cooperative union normally offer very low farm gate price and pay farmers between 70-75% of the price. Unfortunately, even if the auction price is good farmers do not get the second payments (arrears). It was found that in the current coffee business environment there are high transaction costs which are shouldered back to farmers. For example, it was found that it is almost four years now KCU had never being able to pay the second payments to farmers. During discussion with KCU representative it was found that, the cooperative union is not able to pay second payment due to low price offered at Moshi auction. The transaction cost incurred by cooperative union includes transport costs, processing and packaging costs, taxation cost and other union administrative costs like salaries etc. it was also noted that due to lack of capital and competition posed by private buyers, cooperative union is now forced to pay advance payments to farmers. This has made KCU to engage with commercial banks to take loans for the purpose of getting money to pay farmers. The loan taken with high interest rates has been found to cost individual farmers since all the overheard costs including the loan interest are burdened to farmers who sell their coffee through cooperative system.

The cost of servicing the loan is charged in each Kilogram of coffee sold by farmers. This has been one of the reasons KCU has failed to pay second payment to farmers since the transaction costs are very high. Apart from loan, it was found that the amount of coffee collected by cooperative societies and delivered to KCU is declining a situation that raises the unit cost of coffee due to high fixed costs. This trend in long run will affect after sell services such as extensions services provided by the cooperatives union to farmers and a proportion of coffee development fund paid back to primary cooperatives to sustain coffee production. Failure to pay arrears (second payments) and dwindling of after sell services to farmers will weaken ties between farmers and cooperative union a situation that is threatening the sustainability of cooperative and coffee industry in the region. This argument is based on the fact that although cooperative unions are losing ground on coffee market but it is one of the institutions that has played great role on the development of coffee industry in the region and the improvement of the livelihood of farmers. Failure of cooperative union to strive on tides of competitive environment

is threatening the sustainability of coffee industry in the region because other buyers do not have sustainability strategies to sustain coffee farming in the region compared to cooperative union with the market infrastructure up to the low levels. Possibly this could be a reason why private buyers are flexible to add incremental price over KCU price because they do not incur much on after sell services compared to KCU.

3.2.5 Variety differences and coffee pricing

Kagera region produce about 90% of Robusta coffee and 10% of Arabica coffee. According to TCB (2011) Arabica coffee actual yield in Tanzania is estimated to be 200-300 kg/ha while Robusta is 750 kg/ha. According to Mwakalobo (1997), potential yield of Arabica coffee is about 1,250kg/ha while Panyatona and Nopchinwong (2005) contend that potential yield of Robusta coffee yield is 1500kg/ha. The difference in yield for the two varieties is because of the genetic nature whereby Robusta variety is robust in producing beans. Basically price of Arabica coffee is higher than price of Robusta coffee. Also grading of Robusta is different from that of Arabica and this is one factor that differentiates their prices. It is unfortunate that Arabica producers are institutionally disadvantaged in Kagera region since their coffee (Arabica) is graded with the lowest quality as reversed to the same Arabica coffee grown in Kilimanjaro, Arusha, Mbinga and Kigoma. Arabica coffee from Kagera region is sold as hard coffee leading to low price contrary to the same Arabica in other regions. Anyone can call the situation as institutional disaster of Arabica coffee farm gate price in Kagera region. The same weight of Arabica sold at US$ 4800/50kg in Kagera region is sold at US$568/50kg in other regions. During discussion, cooperative members were not able to tell why Arabica coffee from Kagera region is treated that way. Lack of grading and promotion of Arabica coffee in the region and inadequate awareness among farmers and reluctance of coffee actors in Kagera region to grade and put emphasis on quality are main cause of the problem. Table 7 shows grading and pricing of two coffee varieties as per Moshi Coffee Auction Results (Sale No. TCB/M/5 & TCB/H/5 held on 25.09.2014).

Table 7: Grading and Pricing of Arabica and Robusta Coffee

MILD COFFEE			**PRICE PER US$/50KG**		
Grade	**Offered**	**Sold**	**High**	**Average**	**Low**
AA	5172	48000	243	203.49	193
A	3024	3024	224	206.5	198
AB	861		861	220.64	206
C	931	851	201.81		170
HARD COFFEE	**Offered**	**Sold**	**High**	**Average**	**Low**
Robusta FAQ	1369				
ARABICA FAQ	568	568	178.40	175.1	171.00

Source: Tanzania Coffee Board 2014

3.2.6 Insufficient market information and transparency

In the coffee sector it is unfortunately that farmers or producers do not have platform where they can set price for their produce. They are voiceless when it comes to the issue of negotiating coffee price. This was revealed to be associated with the market information asymmetry that is skewed to private buyers and cooperatives and lack of transparency on the whole process of setting coffee prices. It was observed that lack of information and transparency from various actors in coffee value chain prevents farmers from receiving fair prices.

Obtaining information on prices and market supply and demand is more important in an environment where prices fluctuate with local weather changes, seasonality of supply, world market conditions, and market performance. Imperfect and asymmetry information hinders farmers to access input services, financial services, existing price and reputable input suppliers and coffee buyers. During discussion, farmers were so worried that lack of information facilitates opportunism among cooperatives and private sector actors to exploit farmers by reporting false information about existing price and transactions costs involve reaching auction or elsewhere. This can probably hold when we observed huge price differences between Magata AMCOS and KCU.

3.2.7 Emerging of black market

Apart from formal market channels coffee smuggling through emerging black market has posed a serious problem in Kagera region. This was reported to affect the coffee business environment. For example, it was reported that buyers from Uganda who come for the black market offers relatively high price than other buyers (cooperative and private registered buyers), in addition they buy whatever quality of coffee delivered by farmers. This study through farmers' group discussion revealed that such buyers do not have formal buying point/centers since they have no business license from the responsible authorities. In black market buyers escape a number of taxes that give them an advantage of buying coffee from farmers at relatively higher prices than legal buyers who incur several costs on taxes, various fees for a number of permits and other overhead costs.

The emerging of black market is accelerated by continuous decline of coffee prices in the formal market. Smuggling of coffee through this channel can hardly be prevented if remedy on price stability in the formal market in Tanzania is not done. Uganda being a potential buyer of coffee through black market produce similar type of coffee produced in Kagera region a situation that makes difficult to trace and differentiate coffee originating from Kagera once it is in Uganda markets. Coupled with the fact that black marker offers relatively higher farm gate price compared to other local buyers in Tanzania, smallholders farmers always prefer to continue trading through this channel despite the fact that the government loses income through tax

aversion and other applicable fees. Also black market causes smallholder farmers to lose some benefit received through local government resulting from coffee cess levy. A typical example of the lost benefit is the failure of the local government to pay farmers 20% of cess levy for coffee development and this has been attributed to the low amount of coffee sold to the formal channel. In long run this has an implication on the sustainability of coffee since cooperatives will fail to sustain after sell services offered to famers which are crucial to sustain coffee development.

3.2.8 Capital acquisition by cooperatives

As explained earlier loan taken by cooperative union has affected farmer's welfare through low farm gate price. The loans provided by commercial banks have very high interest rate ranging between 18 and 21%. In 201472015, farmers supplied coffee to KCU were liable to pay interest and other loan services of about 11.81% of auction price. This has made a business environment to be very cumbersome and inefficient hence pushed farmers to find ways to benefit from the sector. Although farmers showed an interest to fight against low coffee prices by establishing new market channels, startup capital has been a challenge. One among the option was to organize into registered groups or split from the cooperative and make an independent cooperative society. For example, Nyamhanga colcafe farmers groups secured a 7% interest loan to sustain somehow high farm gate price. The study has identified that apart from this good initiatives, farmers are still facing challenges of receiving low farm get prices. One among the reason identified to affect the initiatives is lack of source of capital with competitive interest rates that could support farmers to fulfill their dream. Possibly this study considers it is high time for the government to find ways of establishing farmers bank that is geared to support farmers with favorable interest rates rather relying on commercial banks which normally charge high interest rates. Another way which we consider can be a short term solution is for the government to create a guarantee scheme for coffee farmers to lower the risk implied in the coffee marketing so that commercial banks are convinced to offer attractive and affordable interest rates

3.2.9 Input supply

After removal of government subsidies to agricultural inputs through implementation of structural adjustment programs farmers are now depending on inputs supplied at market price. Due to the volatility of coffee price, there have been problems of farmers not being able to afford agricultural inputs. This problem is accelerated by the lost monopoly power of cooperative unions that used to provide agricultural inputs too farmers. This study believes that if cooperatives were strong and well managed they could still be able to support farmers to access agricultural inputs at reasonable prices.

3.2.10 Aging problem in coffee production

In Tanzania there is overall low motivation for youth to engage in agricultural sector. The situation is becoming worse in coffee farming due to various reasons. Farmers argued that youth are looking for quick returns' crops like vegetables where they can realize easily the return within a shorter period of time. Coffee is a perennial crop which its income is received in a circle of one calendar year with a lot of price uncertain. This situation has demoralized youth to spend time on coffee farming. During the discussion it was revealed that although farmers reported vegetable production to be a risk sector youth believe in quick money with high return regardless of the implied risks. This study view this behavior as a threat to the sustainability of coffee industry in the region and possibly it needs an immediate intervention to ensure smooth succession of good practices between the old and young farmers in coffee sector.

3.2.11 Low adoption of improved coffee varieties

Almost all coffee farmers in Kagera Region have traditional coffee varieties. With increasing indecencies of diseases, traditional varieties are very susceptible to diseases making farmers to incur much cost to purchase agrochemicals. Before economic liberalization, cooperative unions were assigned with the responsibility to supply seedlings and other agricultural inputs to farmers. After liberalization of coffee market cooperative unions seem to be not able to cope with the pace of competition posed by rivals. Consequently, cooperatives have been pushed to cut off some of services they used to offer to farmers such as provision of agricultural inputs and improved coffee varieties. This situation has lead farmers to grow local varieties and find their own ways of getting agricultural inputs. The local breeds grown by farmers are susceptible to diseases and do not have high yield potential. In response to this TaCRI is staged to develop appropriate technologies to support farmers. Although TaCRI has achieved to produce improved seedlings the adoption to improved seedlings among farmers is low. Among reasons for low adoption are; insufficient support such as extension services, poor crop management practices, inability to expand farm size, high price of other inputs like manure, and hesitant to uproot old coffee tree because of associated risks.

It is therefore very important to improve productivity of available farms to enhance cash flow among coffee producers. But this is only possible if proper interventions on technology transfer are staged to educated and support farmers to adopt new technologies.

3.2.12 Climate change

Climate variability and change has been a challenge for various crops coffee being inclusive. Unstable rains were claimed to be one of the reason for poor coffee productivity in the region. To cope with this situation it is important for TaCRI to work on the issue to come up with the varieties which are adaptable to the new environmental conditions. However, development of

these technologies should involve farmers from the development stage to increase chances of adoption.

3.3 Opportunities for improving coffee market

This study also examined various existing opportunities to improve coffee market in the study area. While there are several opportunities identified and may not be appropriate to include all in this document, but this study considers that if coffee market is to be revived the focus should be given to find possibility of exploring the avenue of direct export, organic farming, value addition and grading, and adoption of improved varieties (clonal coffee) with high yield potential and resistant to diseases. Among others, this study considers if interventions are done in those areas the coffee market is likely to be revitalized.

3.3.1 Direct export

The coffee export in Tanzania has basically two windows namely coffee auction and the other is direct export where coffee is allowed by the Tanzania Coffee Board (TCB) to be export without passing through auction given the condition that it meet criteria for direct export. During the coffee season, auctions are carried out at Tanzania Coffee Board in Moshi. The Tanzania Coffee Board has responsibility to regulate coffee industry in Tanzania including the auction price. However, of the two export outlets direct export is considered most appropriate if sellers are able to abide to contract regulations due to relatively high price it can offer.

The current existing market channel has not fully utilized the opportunity for direct export. While there is avenue for farmers groups, private, primary cooperatives, and individual farmers to export coffee it was found that the opportunity is not fully utilized. The opportunity is not known by farmers since the only channel they have explored is to sell coffee through auction in Moshi. The level of awareness of this potential was very low among different actors. It was surprising to find that even the KCU is expecting to sell its coffee through auction than direct export. The engagement into this market channel could help farmers to attract good prices while at the same time reducing transaction cost incurred within the internal market structures.

3.3.2 Organic coffee production

There is an increase niche market for various food products including coffee. Apart from demanding for quality coffee there is a special market for organically produced coffee in various parts of the world. KCU had decided to grab the opportunity by encouraging farmers to produce organic coffee. Farmers who adhere to the standards catch premium prices. Apart from the good price attached to the coffee there are other social benefits like social premiums offered by buyers and goes back to the communities. Farmers who are engaged in organic coffee production do benefits from this avenue. This study considers farmers in Kagera region have positive

orientation to adopt organic farming since mostly they prefers to use organic fertilizer. In this case what is required is the compliance of other organic criteria for certification.

3.3.3 Availability of processing facilities and grading

Processing facilities are available in some primary societies but not utilized effectively. It was found that farmers are not interested to process and grade their coffee before selling because it does not add value in terms of price offered. The buyers offer a blanked price that does not consider quality of coffee and this is among reasons cited for farmers not bothering to process and grade their coffee. The processing and grading activity has been left to KCU which is responsible to sale to the auction. While farmers do not grade coffee when selling to primary / cooperative union or private buyers during data collection it was learned that there are various processing centers available which are not used by farmers to process and grade their coffee. This suggests that since the processing and grading facilities exist it is easier for farmers to be encouraged to use these facilities to add value and sale coffee at relatively good prices.

3.3.4 Availability of Improved varieties

Successful research through TaCRI placed farmers in advantageous position to improve coffee quality. One among the challenge reported to affect coffee quality was diseases and drought. The available new varieties have capacity to resist disease hence ensuring quality production. With the existence of TaCRI research center in Maruku gives an advantage the region to tape this potential. However, during data collection this study observed several initiatives have been taken by the Bukoba and Muleba District Councils through ASDP to support farmers' groups to use improved coffee varieties. Despite this initiative farmers still complained that the price of TZS 500 per seedlings was high and the amount offered to the group was inadequate to purchase reasonable number of seedlings to bring impact. In this view, other initiatives need to be though to improve the adoption rate of improved varieties.

3.4 Lessons Learned

- This study learned that the low prices offered to farmers is one of the major factors contributing to the deterioration of the coffee production and marketing system in Kagera region. It was further learned that regardless of uncertainties of the world market price high transaction costs in cooperative associated with high overhead costs including high interest rates charged by the commercial banks are among factors contributing to lower farm gate price offered to farmers.

- This study learned that although coffee market is considered operating in the open market system but in reality it is highly regulated a situation that does not give full benefits of

open markets to farmers. The severe regulation has resulted into the private buyers to conspire and fix low prices after the initial price has been fixed by the cooperatives (i.e. KCU). This practice has not helped farmers who were expected to benefit from open market economy.

- During the study it was learned that for about four years the cooperatives have stopped paying arrears (second payments to farmers) and has continued to cut down after sell services they used to offer to farmers to sustain coffee development. Failure to pay arrears (second payments) and dwindling of after sell services to farmers will weaken ties between farmers and cooperative union a situation that is threatening the sustainability of cooperative and coffee industry in the region.

- The study also learned that the supply of coffee in the formal market is declining. Among reasons is that large amount of coffee is smuggled through black market an emerging market channel that is considered attractive among farmers. The emerging of black market is accelerated by continuous decline of coffee prices in the formal market. Smuggling of coffee through this channel can hardly be prevented if remedy on price stability in the formal market in Tanzania is not done.

- While farmers are rushing for a black market as beneficial market channel for their produce they should understand that the implication is on the loss of government revenue which leads to the failure of the local government authorities and cooperative authorities to offer social services and after sell services, respectively. In long run this has an implication on the sustainability of coffee since cooperatives will fail to sustain after sell services offered to famers which are crucial to sustain coffee development.

- Coffee farming is confronted by aging problem in which young generation is reluctant to engage in coffee farming due to uncertainties of coffee market price. To ensure sustainability of coffee industry in the region an immediate intervention is necessary to ensure smooth succession of good practices between old and young farmers.

- Given the competition posed by private buyers and black market, the future of cooperative union is threatened and the possibility of the cooperatives to sustain after sale services to farmers is not guaranteed if cooperative will not consider reducing cost centers and be able to withstand competition pressure.

4.0 CONCLUSION AND RECOMMENDATION

4.1 Conclusion

This study examined factors accounting to failure of coffee market in Kagera region and provides appropriate recommendations for remedy. The main observations from this study indicate that failure of market system in the region is accounted by several factors. Among these factors include instability of coffee market that lead to low price payments to farmers, complexity of tax and fee structures for various permits that impose huge budget of costs to farmers, huge overhead costs associated with the cooperative channel on purchasing of coffee, high interest rates charged by the commercial banks that subsequently imposed to farmers, failure of cooperative union to utilize direct export window as a diversification to coffee auction market channel. While the coffee industry encountering several challenges as outlined above, it is clear that there are several opportunities if well exploited can advance development of coffee industry in the study area. Among the potential market opportunities include possibility of exploiting direct export window as another option for export, emphasis on organic farming for farmers to fetch high coffee prices, availability of processing and grading facilities and readiness of TaCRI to develop appropriate technologies suitable for farmers.

4.2 Recommendations

This study draws the following recommendation based on the experienced challenges and potential opportunities existing in the coffee market in the study area.

1. To reduce overhead costs in cooperatives and ensure good market price of coffee to farmers there is a need to restructure cooperative unions by reducing cost centers to be able to reduce transaction costs that subsequently translate into reasonable higher gate farm price.

2. To improve quality that subsequently translate into economic value of coffee locally and in the international markets there is a need to promote use of processing and grading facilities available in different primary societies in events where these facilities are not available the government should intervene to make them available. This should go hand in hand with the change of attitude among buyers to offer price based on quality in order to motivate farmers to improve quality of coffee production.

3. Given the fact that farmers are voice less on price negotiation, to address this challenge there is a need to empower them on negotiation skills and how to form and operate farmers groups to attain economy of scale. This can be achieved if the cooperatives revive the concept of collecting farmers produce and adopt warehouse receipt system which will ensure security of farmers produce and allow them to sell only during peak season. With the understanding that

cooperative have storage infrastructures (warehouse) it is easy to adopt warehouse receipt system and benefit farmers.

4. To address the problem of high interest rates charged by commercial banks, the government intervention is necessary to support establishment of farmers' development bank which will offer loan to farmers and cooperatives at competitive interest rates. As short term strategy, the government can establish farmers guarantee scheme to lower risk involved in coffee marketing so that commercial banks are able to reduce interest rates tied on loans.

5. The private sector companies generating revenues from coffee have to be engaged to improve the sector. Through the implementation of shared functions and public private partnerships, these parties should support after sell services such as extension services to motivate farmers to increase production and qualiy of coffee. This should go hand in hand with the livelihood strategies to support social welfare in areas where these comapnies are operating.

6. Local government authorities in Kagera region have the responsibility to engage resources and funding for coffee through their agricultural development plans and budgets. Additionally, local government can assist in creating the necessary conditions by investing in infrastructure developments like feeder roads, constructing coffee warehouses and coffee marketing information dissemination centers which will encourage optimal coffee growing and marketing conditions for farmers. This include pay back of 20% cess levy that is supposed to be returned to farmers for coffee development. This will motivate farmers to increase production by knowing that the government is with them.

7. To cope with the impact of the climate change and improve productivity it is necessary to promote adoption of improved varieties among farmers. The emphasis should be to grow clonal coffee which is currently available at TaCRI. These are varieties which are resistant to diseases and adaptable to the changing environment.

8. KCU need a flexible mechanism to set price rather than using a current system that is bureaucratic in decision marking to allow price change. The KCU bureaucracy has given advantage the private buyers to take late mover advantage with the confidence that KCU will not be able to adjust timely to pose competition.

9. To reduce burden of fees and taxes which are factored on operational costs to burden farmers there should be a review of the fee and tax structure and merge some of fees and taxes so that there are few and affordable. One possible way of managing these taxes should be to distribute the tax load to the upper end of the supply chain. For example, currently exporters

of coffee have tax waiver for both VAT and export tax under good management they can share some of these taxes.

10. With the understanding that social premium price paid by Fair Trade to farmers through cooperatives have not been paid for some years. This study is in the opinion that there should be a fencing mechanism to protect social and organic premium reward directed to farmer so that farmers should enjoy value of their investment directed to organic farming.

11. The tax and fee structure observed in the coffee industry is complex and creating unnecessary costs that is at the end dumped to farmers and reduces the gate farm price. The best way to manage these costs could be to combine some of the fees and distribute the load to other players in the coffee supply chain instead of charging all costs to buyers and processor a situation that burden farmers since all costs are factored back to a farm gate price. For example, currently coffee exporters are given waiver from Value Added Tax (VAT) and export tax; under good management they could have shared some of costs to give relief to farmers.

12. This study is in the opinion that farmers should be encouraged to add value and grade their coffee and the incentive should be tied on price to motivate them to produce quality coffee.

13. The challenge surrounding higher interest rates charged by the commercial banks this study considers it is high time for the government to find ways of establishing farmers bank that is geared to support farmers with affordable interest rates rather relying on commercial banks which normally charge high interest rates. Another way which we consider can be a short term solution is for the government to create a guarantee scheme for coffee farmers to lower the risk implied in the coffee marketing so that commercial banks are willing to offer attractive and affordable interest rates.

14. To improve productivity of coffee in the study area launch an awareness campaign for farmers to adopt improved clonal coffee which is proved to be tolerant to diseases and adoptable to climate change.

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APPENDICES

Appendix 1: Terms of Reference

Mtandao wa Vikundi vya Wakulima Tanzania

M V I W A T A

Terms of Reference for Conducting a Study on Status of Coffee Market in Kagera Region

1. General introduction of MVIWATA

MVIWATA (*Mtandao wa Vikundi vya Wakulima Tanzania*) is a network of farmers groups in Tanzania, which was founded in 1993. It is a network of small-scale farmers groups that operates in both Tanzania Mainland and Zanzibar.

The **vision** of MVIWATA is to become a strong farmers' organization that will guarantee small scale farmers' participation and representation in socio-economic and policy decision making process at various levels through learning, initiating, implementing and monitoring their own socio and economic development.

Its **mission** is to strengthen farmers' groups, local and middle networks to form a sound and strong national farmers' organ to ensure effective representation of their interests, to facilitate learning and training, to enhance communication and advocacy strategies to defend and promote their interests.

Currently, MVIWATA estimates to have at least 150000 individual members who belong to groups ranging from 5 to 100 members organised in local networks.

MVIWATA was initially registered under the society ordinance Act in 1995, and thereafter registered as the Trust Fund in 2000. In September 2007, MVIWATA was registered as a non-governmental organisation under the NGO Act of 2002 to comply with the new registration requirement for non-governmental organisation. As a consequence to that, substantial changes were made to the constitution of MVIWATA to allow for more autonomy of middle level networks of MVIWATA.

2. Structure of MVIWATA

Being a membership-based organisation, the highest body in the structure of MVIWATA is the Annual General Meeting (AGM). The Board of Directors is a nine-member body, which oversees the organisation on behalf of members.
The management team is headed by the Executive Director.

The Council is a consultative forum of middle level networks and Board members with the purpose of collectively looking at the progress of the organisation.

In terms of networking, there are 3 levels;

i. National level, which is the umbrella of all networks in the organisation.
ii. Middle level networks (intermediary level) this is composed of farmers' networks at regional and district level.

iii. Local networks: local comprises of local groups of producers and their networks at village and ward levels.

3. Strategic Orientation

The strategic orientation of MVIWATA has been defined in the 2010 – 2014. This strategic plan identified five main areas as being priority (Strategic objectives), namely:

SO 1: To ensure that farmers are well organized and able to advocate for their interests

SO 2: Strengthening lobbying and advocacy capacity of farmers to influence policy process

SO 3: Economic empowerment – through initiatives such as saving and credit (microfinance), market linkage, and development of entrepreneurship skills

SO 4: Building knowledge of MVIWATA members, leaders and staff on cross cutting issues (HIV/AIDS, gender and climate change)

SO 5: Institutional development of MVIWATA

4. Background

For many years coffee has been an important crop for economy and livelihood for the people of Kagera region. The contribution of coffee in the economy, social development and culture of people in Kagera Region is well known and cannot be underestimated. Likewise, its contribution to the national economy is well documented.

In Kagera, coffee has not only been a key part and parcel of the farming system but has also contributed significantly in the raising education profile of the people and overall socio-economic welfare of the society.

Unfortunately, recently there has been regression of coffee production because of various factors; but one of the main disincentives is perceived to be the challenge of marketing system. The challenges in coffee production and marketing have given way for emergence of minor

produce, such as vanilla and rice which in spite of their potential have not successfully substituted coffee as the main cash and cultural crop in Kagera.

Contrary to situation in Kagera, it appears in the northern Tanzania, an effective system of coffee marketing has gradually evolved to more or less satisfaction of farmers and other stakeholders. A recent study tour to Kilimanjaro to learn about warehouse receipt system in coffee marketing in which farmers, legislators, primary cooperative members and local government representatives participated indicated that so far coffee marketing is working fairly well.

During the forums of farmers in Kagera, the concern on coffee has been raised many times. Indeed it has been raised as one of important advocacy issues that farmers want to embark on. At the consortium of organizations that are working with smallholder farmers in the Lake Zone, the issue of coffee marketing was also raised.

In the framework of partnership with VI Agroforestry and in the spirit of establishing common advocacy strategies, MVIWATA intends to undertake a study to establish the reasons for failure of coffee marketing in Kagera Region and find out practical actions that can enable effective marketing system of coffee in Kagera.

5. Objectives of the assignment

- To establish the current status of coffee marketing in Kagera Region
- To study the main coffee marketing constraints in Kagera Region
- To study existing opportunities for improving coffee marketing
- To make recommendations on practical and workable actions for addressing coffee marketing.
- To highlight policy issues that may taken for advocacy actions.

6. Scope of work

- Analysis of the current status of coffee marketing in Kagera Region
- Analysis of coffee marketing constraints in Kagera Region
- Analysis of existing opportunities for improving coffee marketing
- Presentation of findings to a forum in the Lake Zone

7. Duration of the assignment

Maximum two weeks, final report by Mid June 2014.

8. Methodology

a. Meet some members and get their views.

b. Meet some leaders and staff to get their views

c. Deskwork for documents production

9. Main outputs

i. Full report of the assignment
ii. Policy brief based on main findings of the study

Appendix 2 List of participants

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1	Babylus Mashauri	DAICO	Bukoba District Council	
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