

Balanced growth through local entrepreneurship: The Komba coffee project in southern Tanzania

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Abstract:

This case study describes the approach and learnings of the *Komba Coffee Project* in Songea, Tanzania. The social start-up, which is driven by local entrepreneurs from the NGO *Songea Network Center*, aims to improve coffee farmers' economic conditions by allowing them a larger share of the value-creation process and giving them bargaining power. Thanks to the re-designed supply chain and the direct export to roasters, farmers have a greater share of the value added and, thus, the profits. In line with Banerjee and Duflo (2011), this case study argues that regional socioeconomic deficits can be successfully addressed when their specific characteristics are taken into consideration. For sustainable growth, economic activities should be supported by the important stakeholder groups and driven by local citizens: Balanced growth is ultimately a question of creating self-confident communities with project ownership and leaders committed to sustainability. Finally, developing a project that is financially self-sufficient and sustainable takes time: Citizens should not only understand the concept and its intentions, but also accept responsibility and ownership for it to be a success.

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1 Africa: A continent full of opportunities and potential

According to the McKinsey Global Institute (2010), African economies are on the move, especially industries like construction, telecom, banking, manufacturing, mining, and retail have flourished since the 1990s after two decades of almost stagnation. Africa is currently among the fastest growing regions in the world and has about 60% of the world's total uncultivated, arable land. The continent has a gross domestic product that roughly equals Brazil's or Russia's. Africa's rapid development is emphasized by its current future growth expectations: In 2020, Africa's collective GDP will rise to 2.6 trillion USD and consumer spending will be 1.4 trillion USD. There will be 1.1 billion Africans of working age in 2040 and 50% of the population will be living in cities by 2030 (McKinsey Global Institute, 2010). However, despite these bright growth perspectives, most African countries face serious challenges, including poverty, diseases, poor water quality, and insufficient food supply.

2 Tanzania: A country on the rise

Tanzania will play a key role in the future African development and will serve as an important economic and transportation hub in East Africa. With a total population of about 44 million and a gross national income per capita of 1,344 USD (in 2010) (National Bureau of Statistics, 2011; United Nations Development Programme, 2010), Tanzania no longer ranks among the least developed countries. It has slightly but continuously improved its position in the UN's Human Development Index over the last decades (United Nations Development Programme, 2010).

Tanzania has rich natural resources, including gold, natural gas, coal, iron, uranium, platinum, as well as fishery, arable land and dozens of National Parks like the Serengeti, the Ngorongoro Crater, and Mount Kilimanjaro. Moreover, Tanzania is a country that is politically rather stable. Several reforms and improvements in the education system, new import and export regulations, taxation reforms, the creation of investment opportunities, incentives and further policies to attract and protect foreign investments will further foster economic growth (Kulindwa, 2002).

This trend is nourished by the rising global demand for resources, increased international investments, a better-qualified labor force, and increasing international tourism. Tanzania has a great deal of growth potential besides exploiting its natural resources. Apart from mining and agriculture, the service and manufacturing sectors are expected to grow, strengthened by political stability and foreign direct investments.

Tanzania is positioned strategically in the center of the East African coast. With its three main harbors in Dar es Salaam, Mtwara, and Tanga it not only connects its economy to the world, but also that of its neighboring countries Mozambique, Malawi, Zambia, the Democratic Republic of Congo, Burundi, Rwanda, Uganda, and Kenya. The Tanzania Ports Authority has announced plans to further expand their capacity, especially in Mtwara (Tanzania Ports Authority, 2011).

But will the expected growth and development really be for the benefit of Tanzanian citizens? Or will only a few actors benefit from the country's natural resources, exports, and development as was the case in other resource-rich African nations?¹ Will the expected boom on the African continent really be for the benefit of all its people and not only for a few political and economic chiefs?

If one examines economic research, there are many recommendations on how to use Africa's untapped potential to secure developments that will improve the economic situation on a broad level. However, as Banerjee and Duflo (2011) conclude in their recently published book "Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty", there is no master recipe or magic formula that fits all nations, all their economies, and all their problems. In line with our personal experience, it is worthwhile analyzing and thinking about this particular problem since specific answers are needed in the majority of cases.

In line with this train of thought, the following case study does not intend to provide a one-size-fits-all solution, but rather describes the activities and insights of the authors and their team, who have been actively involved in numerous development initiatives in southern Tanzania. In order to foster sustainable and balanced growth, the inclusion of local needs and the co-development of initiatives together with the local citizens are pivotal. Only when people can be convinced to and are willing to advance development themselves, can such growth initiatives enjoy long-term success.

The rest of the chapter is structured as follows: The second section provides a brief overview of the Tanzanian NGO Songea Network Center's philosophy and activities. It illustrates that the vision and mission drafted by its founding members take a holistic perspective on improving the regional conditions by operating in a network with the local citizens. The third section looks at the entrepreneurial Komba Coffee project and shows that this locally initiated initiative is in many ways a paramount example of a co-developed model of sustainable regional development that takes various stakeholder needs into consideration. The fourth section concludes by highlighting several lessons learned that could also be important for other projects that wish to pursue sustainable and balanced development.

3 SNC: Fostering socio-economic development

Songea Network Center (SNC) is a Tanzanian NGO founded in 2005 by several local entrepreneurs and headed by Xaver Kazimoto Komba in Songea, Southern Tanzania. The aim was to institutionalize a platform of and for social entrepreneurs to support their idea generation and implementation of projects to help the local population. SNC is supported by many social investors, both from Tanzania and Europe. However, a major principle is to run projects that are based on economic principles and to make activities less dependent on donations. SNC is well con-

¹ See, e.g., Kronenberg (2004); Sachs and Warner (2001).

nected to political, social, religious, and business actors in the Ruvuma district. According to the organization's vision and mission statement, there are five key pillars on which activities focus:²

3.1 Entrepreneurship

Regardless of whether farming programs, school projects, or cultural tourism programs are initiated, all activities are strongly shaped by SNC's entrepreneurial spirit and thinking. As a network of entrepreneurial personalities, SNC believes in the power of entrepreneurship. SNC has often taken the entrepreneurial risk of being the first mover to find solutions for local problems. Before their kick-off, many projects addressing social or economic deficiencies seemed unlikely to succeed, but proved to be effective and were then multiplied with cooperating partners or imitated by others.

The Komba coffee project markets fairly traded coffee for the local coffee farmer cooperatives of the Songea-Mbinga region in Europe. This activity, as well as several other agricultural projects and the first Internet cafe in southern Tanzania comprise the SNC entrepreneurship pillar.

3.2 Health

Health issues, especially in the Songea rural surroundings, are a considerable problem. Villages are often far from the nearest hospital ward. Medicine and (public) transportation possibilities are scarce and expensive. Health problems include malaria – which is usually worst during the rain seasons when the road conditions are at their worst – and infections, often caused by stomach problems, tuberculosis, and HIV/Aids. In order to mitigate these problems, SNC built a hospital ward in the Mbinga-Mharule village by means of a public-private partnership, which sponsored a nurse and a midwife, and organized health education programs. There are also initiatives to improve water quality and supply by constructing and maintaining sunk wells.

3.3 Education

SNC's entrepreneurs believe that investing in education is key for the region's long-term development. Since the founding of SNC in 2005, two kindergartens and a secondary school for about 400 students have been successfully started. Further, Songea Network Center is Southern Tanzania's pioneer regarding new technologies: Even before SNC's official founding, the Valongo Internet Cafe was established in 2002 as a service to the local population. For some years, the internet cafe was not only the first, but also the only public internet access in southern Tanzania. In response to the strong general interest shown in the World Wide Web, computer and internet training programs were offered.

² Owing to the fast pace of development, SNC works with multiple leaders who deal with the issues emerging from project teams.

3.4 Cultural Exchange

SNC believes that, in a globalized world, mutual understanding and respect have become increasingly important for successful partnerships. Cultural exchange does not only mean inviting European partners and sponsors to Tanzania, but also sending out own team members to allow them to experience and learn from cultures outside Africa. Over the last few years, SNC has welcomed and hosted several groups concerned with ecological and cultural activities.

3.5 Environment

Environmental protection is becoming an increasingly important topic in sub-Saharan Africa, especially since the World Bank and other institutions predict that climate change will negatively affect agriculture in the future. SNC offers training programs and discusses cultivation, water management, and climate change issues with farmers. SNC has also supervised a tree-planting project to counter desertification. Overall, SNC is committed to thinking globally and taking the needs of various stakeholders into consideration, while simultaneously acting locally by addressing very specific socioeconomic issues in Ruvuma.

4 Development through local entrepreneurship: The Komba coffee project

Initiated by Florence Komba, Thadei Chiwangu, Michael Mbanu, Xaver Komba, and Felix Meissner, the Komba coffee project – Komba is a frequently found and typical Tanzanian name – is an important flagship project that brings positive cash inflows and serves as a platform to communicate the Songea Network Center's social initiatives in Europe.

4.1 Origins and ideation

When SNC started its coffee project, there were already several foreign-driven fair trade projects across the country. Organizations certified with recognized fair trade labels marketed these high-quality coffee beans around the world. Was another fair coffee initiative supervised by SNC really necessary?

After an analysis of the existing coffee initiatives, it became clear that the reality differed from the promoted image of “fair trade” coffee. At least some of the projects marketing coffees certified as fair and sold in the northern hemisphere could neither track the origins of their coffee, nor name the exact areas, villages or farmers in their program. According to insiders, agencies were often paid for their fair trade certificate without the coffee being purchased fairly and transparently from the producers. Sometimes, no proper assessment was available of the certification processes. Consequently, these business structures neither allowed the producers fair participation, nor did they provide a prospect of advancing the coffee regions in the long run. These projects also had only a few beneficiaries.

Farmers and their cooperatives approached SNC, as they felt that their chances of selling their products at good prices and exporting them were rather limited. Market inefficiencies and regional monopolies – since only certain brokers had a permission to purchase and export coffee beans –, as well as a lack of proper legal protection were major problems for the farmers. They actually had very limited market access via the merchants purchasing their coffee and reselling it at the national coffee auctions in Moshi. A merchant usually buys unprocessed coffee beans rather cheaply from farmers, processes these beans centrally with his own or rented machinery, and resells the beans – either at the national coffee auctions or directly to customers abroad. The margins are quite attractive for such coffee brokers since their processing, transportation, and storage activities are further value-adding steps.

However, owing to this system, the farmers had little room for negotiation, especially since they had few other options for selling their coffee. Moreover, regardless of the system, they always faced risk and insecurity since their sales were never guaranteed. Would the merchants again purchase their coffee the following year? Would coffee prices drop? Since coffee is their only product, thus securing their income, the inefficient markets and the brokers' strong bargaining position, exacerbated their problems. The farmers' bargaining position was so poor that they often had to accept the merchants' small prepayments, thereby financing the coffee beans' resale at an increased personal risk. Large wholesale merchants located many hundreds of kilometers away had at times only picked up the coffee for a small prepayment, but never returned to pay the outstanding amount. These deceived farmers had little legal security. Without the means to pay lawyers and with only a very basic education, they had no opportunity to enforce their rights. Another upcoming risk is the ownership of land. Although farmers traditionally own their coffee fields, their land was never officially (= legally) registered at the land ministry. In Northern Tanzania, an international coffee company registered the fields that certain coffee farmers had owned for many generations and expelled them.

4.2 Starting the Komba coffee project

When the managing board of SNC was asked to mitigate the farmers' situation, it became clear that an entire re-design of the production and marketing system was required for more value creation and bargaining power. The farmers were usually already loosely organized in village communities and these existing local structures were used as a basis to organize the farmers.

The re-designed value chain, which the partnering coffee-growing villages and the SNC own, works as follows:

- Even before the harvesting season starts, SNC is present in the villages, discussing the farmers' situation and ambitions with them. Agreements to buy that guarantee minimum prices are signed in advance.
- In order to signal the SNC's strong commitment, some producers even receive payments in advance to mitigate private financing issues.

- Building further on the SNC's strong presence and positive image in the district – thanks to past successful agricultural projects –, a permanent office has been opened close to the coffee villages to give everyone the opportunity to come and ask questions. This permanent presence gives SNC increased credibility and provides the farmers with legal security.
- The farmers' participation in SNC's coffee project remains voluntary. However, almost all farmers in the partner villages participate and are represented by a delegate from their specific village.
- In the harvesting season, which starts in March, SNC tries to leave as much value creation decentrally in the villages as possible:
 1. *Picking*. The cherries are individually picked by hand at the peak of ripeness.
 2. *Processing*. SNC has acquired a central processing unit that removes the fruit covering from the beans in a wet process. After fermentation, the beans are further sorted, cleaned, and finally spread out in the sun for drying.
 3. *Milling and storing*. The final steps include the removal of the last layers of the dry skin and a final cleaning, which have to be done centrally by using a bigger rented machine. Finally, the coffee is sorted and stored in bags until it is shipped.
 4. *Shipping and selling*. SNC was granted a license that allows the organization to officially purchase the coffee and export it after a quality check by the Tanzanian Coffee Board. This allows the social entrepreneurs to control the land and sea transportation until the coffee reaches Hamburg.
- SNC founded its own distribution agency to take care of the marketing and distribution in Europe. Owing to a strong and exclusive network of partnering roasters with a strong commitment to the Komba coffee project, SNC could negotiate long-term-orientated sales agreements that minimize market risks. The partner roasters are so committed that they partly finance the harvest and the farmers' remuneration. By circumventing intermediaries and motivated to build a long-lasting Tanzanian-driven business with its partners, SNC can ensure higher reimbursement of the farmers and further investments in the villages.

4.3 Outlook

The success of the Komba coffee project has exceeded all expectations. The few, carefully selected partner roasters' demand for coffee is a multiple of the current capacity. The end consumers do not only cherish the coffee for its fruity flavor, but also for the farmers and SNC's entrepreneurial spirit and transparent value chain. Already in its fourth season, the Komba coffee project could continue to grow and ensure sustainable development with improved conditions for the farmers.

Although already successful, SNC's entrepreneurs and their high ambitions there still have a long way to go. In order to make the coffee business a driver of bal-

anced growth in the region, continuous improvements will be also required in the future. Current plans seek further advances by

- offering the farmers training and education to increase their knowledge of farming, especially of organic production and optimal harvesting.
- acting as an advocate to officially register farmers' lands given the increasing number of land-grabbing incidents.
- further developing the rural region's untapped opportunities by, for example, providing basic health insurances and offering farming families better access to education.

5 Lessons learned: Thinking globally, acting locally

This case study has outlined that regional socioeconomic deficits can be successfully addressed if the specific problem characteristics are taken into consideration. The Komba coffee project is still on a rather small-scale, basic level. Our (still preliminary) learnings include the following points:

5.1 People driven

Activities that should be sustainable in the long term must be wanted and driven by the local citizens. If initiatives are developed and owned by the local people, they are more likely to be sustained. Problems can be addressed more specifically and ownership boosts motivation (Kulindwa, 2002). In order to achieve this, we need more African entrepreneurs committed to reducing poverty, more public-private partnerships, and, overall, more support from state institutions.³

5.2 Financially self-sufficient partnerships

Africa has for too long been viewed as a charity case instead of a dynamic continent that can soon become an important economic engine (U.S. Department of State, 2011). Africa is a rich continent. It should not be treated as a continent incapable of doing business with the rest of the world, but rather as a worthy partner. Balanced growth is ultimately a question of creating self-confident nations whose leaders are committed to sustainability. Many development initiatives are not only driven by foreign or state institutions, but are also financed by them. This often counteracts long-term success. Mere external sponsorship makes developing countries revert to a relationship of dependency instead of allowing them to be regarded as equal partners. A key concern of SNC's entrepreneurs is not only to run projects with a deep social impact, but which are also (financially) independent from donors and state institutions.

³ See also U.S. Department of State (2011); Dalohoun et al. (2009); Mc Lennan and Ngoma (2004); Thomas-Slayter (1992); Valente (2010).

5.3 Convince all stakeholder groups

Even well-financed initiatives supported by the local citizens can fail because other, important groups have not been included and convinced. SNC pays close attention to intense communication with the state and state-related supervising authorities. The Tanzania Coffee Board (TCB), which is responsible for quality controls and for export permission, acts as a facilitator and promoter of the Komba coffee initiatives. Since state institutions are expected to have more influence in the future, it is very wise to cooperate with them.

5.4 Growing slowly

Haraka haraka, haina baraka: Growing in a sustainable way means growing slowly. Haraka haraka, haina baraka is Swahili for “hurry does not bring any blessings.” SNC’s agricultural projects have shown that rushing does not bring long-term success. If projects are run by local farmers, they have to be absolutely convinced about the project, its processes, and benefits even before starting. It took SNC more than four years to communicate its intentions and to build trust with the coffee villages. Only now, after three seasons of successful coffee exports, are the farmers beginning to trust SNC’s good intentions and competencies, and are a greater number of villages and farmers willing to cooperate. Further, the sound redesign of the value chain also required time.

5.5 Strengthen local ownership

The Komba coffee project initiative is one of the first fair coffee initiatives initiated and run by local Tanzanians. Many fair projects were previously and currently started by foreign NGOs and were then controlled by expatriates who pursued their own objectives. Projects with a de facto local ownership have a completely different locally anchored legitimization, and their governance mechanisms depend less on foreign control.

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