



Case Report Unilever

TANZANIA

**Service Delivery Model
Assessment - Summary
2018**

IDH Introduction

Importance of Service Delivery

Agriculture plays a key role in the wellbeing of people and planet. 70% of the rural poor rely on the sector for income and employment. Agriculture also contributes to climate change, which threatens the long-term viability of global food supply. To earn adequate livelihoods without contributing to environmental degradation, farmers need access to affordable high-quality goods, services, and technologies.

Service Delivery Models (SDMs) are supply chain structures which provide farmers with services such as training, access to inputs, finance and information. SDMs can sustainably increase the performance of farms while providing a business opportunity for the service provider.

A solid understanding of the relation between impact on the farmer and impact on the service provider's business brings new strategies for operating and funding service delivery, making the model more sustainable, less dependent on external funding and more commercially viable.

About this study

To accelerate this process, IDH is leveraging its strength as a convener of key public-private partnerships to gain better insight into the effectiveness of SDMs. IDH developed a systematic, data-driven approach to understand and improve these models. The approach makes the business case for service delivery to investors, service providers, and farmers. By further prototyping efficiency improvements in service delivery, IDH aims to catalyze innovations in service delivery that positively impact people, planet, and profit.



Thanks

IDH would like to express its sincere thanks to Unilever Tea Tanzania (UTT) for their openness and willingness to partner through this study. By providing insight into their model and critical feedback on our approach, UTT is helping to pave the way for service delivery that is beneficial and sustainable for farmers and providers. IDH would also like to explicitly thank the Mufindi Out-growers Project (MOG) farmers and groups that provided information and hosted the research team in the farms and offices during the field visit of this study. Finally, IDH thanks all stakeholders that were consulted during this study for their active participation.

UTT Introduction

Service delivery by Unilever Tea Tanzania

Unilever's core tea production experience and expertise lies on its plantations, including Unilever Tea Tanzania (UTT), which largely consist of own estate tea farms, with smallholder farmer green leaf input contributing average of 14% of total production currently.

The SDM's has been pioneering training programs as part of extension services which has helped SHF modernizing their production and improve livelihoods, including breaking the downward spiral and turning it positive through innovative service delivery models which has a catalytic impact on the sector. Providing farm inputs – fertilizers, herbicides on credit and other free services like planting fertilizers, seedling transport, Rainforest Alliance (RA) certification with quality extension services (GAP), has improved yields and improved farmer returns, which is encouraging more investment and improvement on Yield & Quality Vision.

Objectives

The objective of the Mufindi Out-growers Project, apart from supporting the integration of the tea supply within UTT is largely to enhance the livelihoods of smallholder farmers in the villages surrounding UTT estates. All-round strategic initiatives driven together with IDH addresses key issues facing Smallholder farmers, including improving livelihoods through competitive quality bonus and second payments, management of environmental problems (climatic change) and at the same time building capability to farmers on stronger SDM's when there are no external funds for sustainable supply chains- sourcing raw materials from RA certified farmers base.



About this study

The SDM analysis has greatly contributed on the sustainability of the supply chain through highlighting fundamental basics that includes setting up of project enablers and pointing out levels of farm sizes that guarantees farmers financial breakeven. The methodical and analytical study approach supported by Unilever and IDH strengthens the project and underpinning the business case to service delivery, investors, service providers, and farmers.

How did it all start?

The Grow Africa Initiative

The partnership between IDH and Unilever on the MOG Project was a result of the Grow Africa Initiative. An initiative founded jointly by the African Union (AU), The New Partnership for Africa's Development (NEPAD), and the World Economic Forum in 2011. The overall purpose of Grow Africa is working on promoting responsible investments into African agriculture through public-private partnerships between governments, farmers and businesses. Tanzania, one of the initial members of Grow Africa, formed the Southern Agricultural Growth Corridor of Tanzania (SAGCOT), an inclusive multi-stakeholder partnership to rapidly develop the region's agricultural potential, in line with national priorities and Grow Africa objectives.

MoU with the Government of Tanzania

In 2013, UTT signed a MoU with the Government of Tanzania through the Ministry of Agriculture, Food Security and Cooperatives for building Private Public Partnerships focusing on further development of tea production and manufacturing in Tanzania. The MoU is in line with the 10 year strategy of the Tea Board of Tanzania (TBT) (2012/13-2022/23) and as per the 5 year strategic plan for the transformation of the tea sub-sector in Tanzania as developed by the Tanzania Smallholder Tea Development Agency (TSHTDA) (2013/14 – 2017/18). The focus was to address challenges including: relatively low smallholder yields, low quality of black tea produced and low market prices paid to the smallholders compared to the major tea growing countries, due to limited involvement of smallholder farmers in the tea value chain and a lack of effective farmer groups as well as cash flow management issues.



Translating commitments into action

In 2014, UTT partnered with IDH to implement the MOG project, with the joint aim to contribute to sustainable smallholder tea development in Tanzania, with a focus on the Mufindi tea growing area. This partnership was split into two phases; with phase one largely implemented and analyzed key results shared in this SDM report. Phase two, being designed now with insights from this report, is expected to be implemented between 2019 and 2020.

Context – Unilever and Tanzania

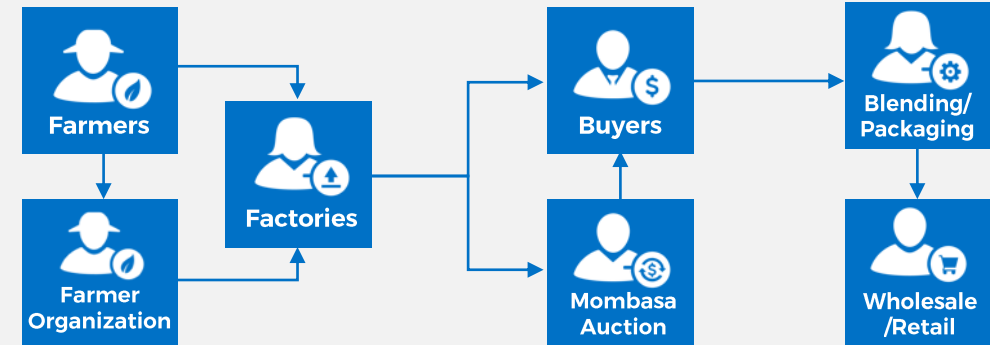
UTT



- Unilever is the world's largest tea packer and is committed to sustainable sourcing in order to secure the tea needed for its brands and to make a significant positive impact on communities and the environment.
- Unilever acquired the Unilever Tea Tanzania Mufindi estates and factories in 1984, which now consistently produce some of the highest quality teas in Tanzania creating much needed rural jobs and export earnings from tea.
- UTT has been working with smallholder farmers around its Mufindi estates since 2014 to process their tea in the Unilever factories through the Mufindi Outgrowers (MOG) project, initiated with IDH.
- This SDM analysis focuses on the MOG project as it grew from just 69 farmers back in 2014 to 1520 farmers today.

Sources: 1: IDH and TSHTDA, Mufindi Smallholder tea farmers report (2017); 2: Intergovernmental Group on Tea, Report of the Tea Industry in Tanzania (2016); 3: FAOSTAT database

Overview of the Tanzanian tea value chain



- Tea is the fifth largest export crop of Tanzania, after coffee, cotton, tobacco and nuts¹, with total annual export earnings of USD45 million².
- There is around 20,000 ha of cultivated tea farmland, producing 35,000 MT of Made Tea* per year³. The Mufindi district alone produces nearly half of this².
- From tea processing factories, most tea is either sold directly to international buyers, sold via the Mombasa Auction in Kenya, or sold on the local market.

* When freshly plucked, tea is in the so-called Green Leaf (GL) state. It is transported to nearby factories for processing (in general fermenting and drying of the leaves). The processed tea is then called Made Tea (MT).

Context – farmers in the Mufindi district

Farm Demographics



The Farm

- Mufindi district is home to about 1,800 tea farmers³.
- Tea farmers are mostly smallholders, with on average 2.5 ha of farmland, of which ~0.7 ha is dedicated to tea¹.
- Farmers generally use low amounts of farm inputs¹.



Household

- Mufindi tea farmers have an average household size of 5.4 people¹.
- 65% of tea farmers is male, with an average age of 46 years¹.
- Family members rely heavily on tea and/or crop farming incomes, while half of them contribute to farming activities¹.



Income

- Mufindi outgrowers in- and outside this SDM have low incomes, with on average USD1.09/day earnings from tea farming¹. Households make USD1.45/day, while the average Tanzanian household income is USD5.90/day⁴.
- Income from tea is 52% of tea farmers' total income².

Main Challenges



Agronomic

- Mufindi farmers struggle with low tea productivity of on average 1,165 kg/ha Made Tea¹, which is half as much as private tea estate productivities⁵.
- Average Mufindi farmers are neutrally satisfied with agronomic services. Few farmers participated in agronomy trainings¹.



Economic

- Tea farmers are often organized as associations or in non-registered groups. These groups cannot receive loans from banks³.
- There is a risk of farmers defaulting input loans, which are often provided by the farmer groups. This negatively affects these whole groups.



Social & Environmental

- Mufindi district has a high potential for improved tea farming, with many farmers already organized and support from tea stakeholders including the government of Tanzania³.
- Relationships between farmers and producers are uncertain since contracts close annually and farmers are dissatisfied with tea prices and profits¹.

Sources: 1: LEI Wageningen: Baseline study of the Mufindi Outgrowers Project, Tanzania (2016); 2: IDH MoG report summary (2017); 3: IDH and TSHTDA: Mufindi Smallholder tea farmers report (2017); 4: Gallup Worldwide Median household income (2013); 5: Calculation based on numbers presented on the previous slide.

Farmer Testimonials – Mufindi Outgrowers Project



Edina Joseph Mbinda
from Mufindi Tanzania

Edina Joseph Mbinda is a tea smallholder farmer in Mufindi, Tanzania. She owns 10.3 acres of tea. She started growing tea to get money for educating her children and gain income to establish other businesses. Before she joined the MOG project, she had limited knowledge on Good Agricultural Practices and lacked capacity to purchase farm inputs. As a result, her income and production from tea was low.

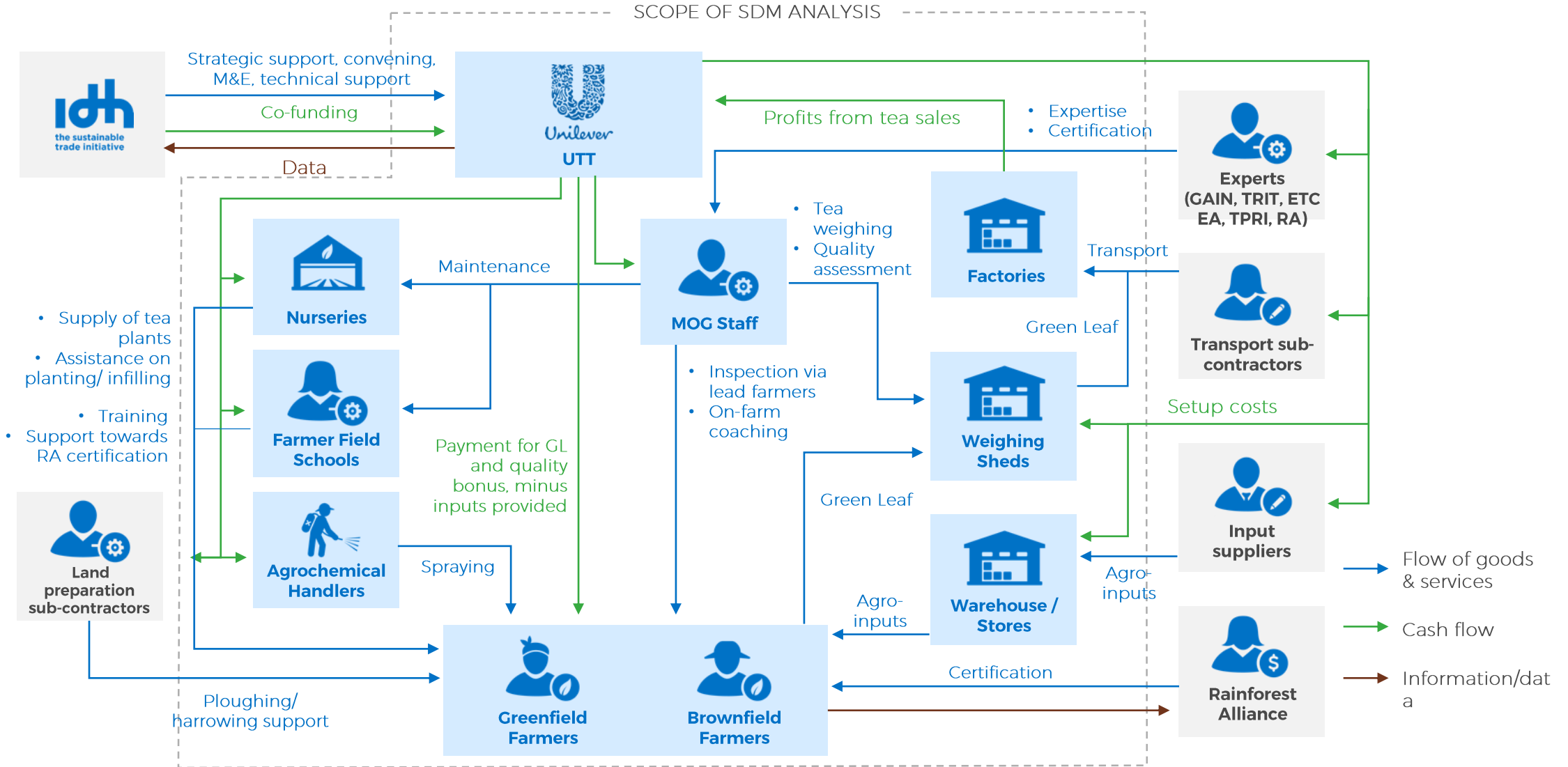
Edina on the MOG project:

“The training on Good Agricultural Practices and input loans from IDH and Unilever Tea Tanzania help me to pluck on time, apply fertilizer and enable me to infill tea at my farm.

This improves the quality of my tea. Next to the improved quality, I have increased my production from 150 to 200 Kg Green Leaf per acre per month, to about 500 Kg. I have also started poultry farming, about which I learned in the Farmer Field Schools.

The project’s quality bonus payment increased my income and made it possible to pay college fees for my daughter in 2016. This also enabled me to purchase 5.5 acres of land, on which I plan to grow avocado. I also purchased a tank, a water pump, and a generator and pipes for irrigating the farm.”

SDM Services and Financial Flows



SDM Objectives

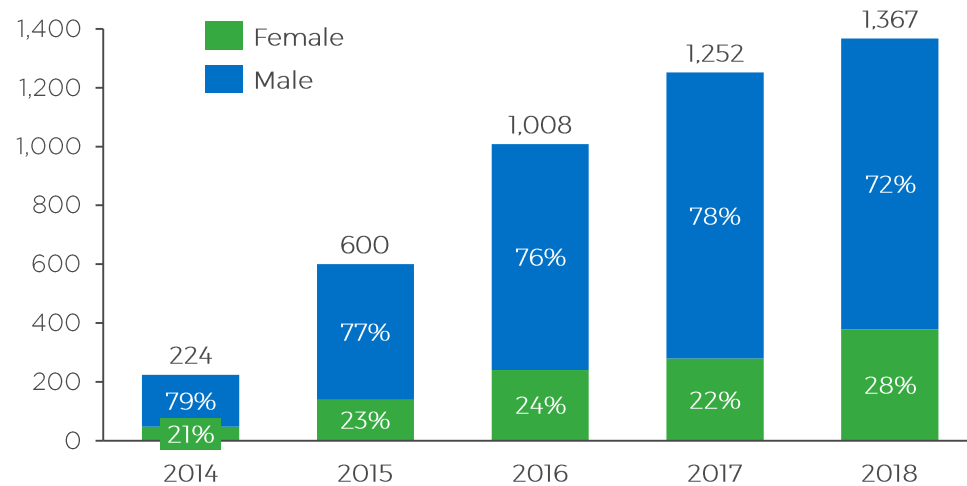
OUTCOMES PER STAKEHOLDER

		Farmer	UTT	IDH
CORE OBJECTIVES	1 Increase tea productivity and quality, and improve farmer livelihoods	<ul style="list-style-type: none"> Increased profitability from farming Improved farmer livelihoods 	<ul style="list-style-type: none"> Increased volumes of higher quality tea Meet commitments to improve livelihoods 	<ul style="list-style-type: none"> Increased impact at farmer level
SECONDARY OBJECTIVES	2 Expand tea smallholder supplier base - in number of farmers and hectares	<ul style="list-style-type: none"> Increased income compared to previous farming practices Increased income from larger farms 	<ul style="list-style-type: none"> Increased sourcing volumes Traceability of supply chain 	<ul style="list-style-type: none"> More farmers reached
	3 Secure market and increase marketability of tea	<ul style="list-style-type: none"> Secured take-off 	<ul style="list-style-type: none"> Increased and more stable sourcing volumes Higher farmer loyalty 	<ul style="list-style-type: none"> More sustainable and larger market
	4 Strengthen farmer organizations	<ul style="list-style-type: none"> Improved production efficiency Increased bargaining power Higher margins 	<ul style="list-style-type: none"> Improved sourcing security and efficiency Improved sustainability of the SDM (with FOs providing services) 	<ul style="list-style-type: none"> Improved sustainability of the SDM (with FOs increasingly providing services)

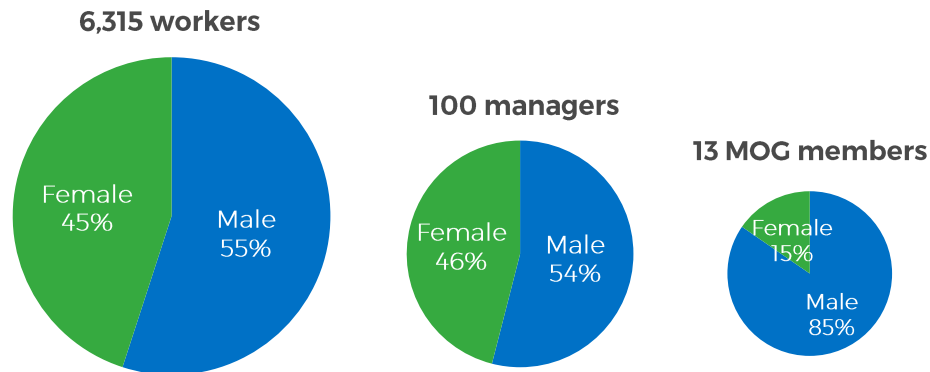


Gender Equality

SDM smallholder farmer distribution



UTT staff distribution



SDM farmers and adoption

- Most farmers (currently 72%) in the SDM are male. The percentage of female farmers has been increasing over the past years. This is because, while historically men have been farm owners, now children and increasingly women are inheriting existing tea farms. Some women have also actively bought tea farms.
- Regarding adoption of services, there are small differences between sexes. Female farmers are seen to have higher application of fertilizer (579 versus 438 kg/year for men), likely correlated to their observed higher productivities (5954 versus 5142 kg GL/ha for men), while male farmers score higher at consistent record keeping.

Social & Environmental

- UTT has no specific policy for women rights, but women's rights protection is covered in different policies, such as
 - Parental Leave
 - Nursing Breaks
 - Work Place Harassment
 - Child Protection (identifying practices which go against girls' rights)
- UTT has a strategy to increase the number of female staff to 50% in all levels, including leadership/management positions. Currently women are given priority over men during recruitment. It can be seen that this strategy has paid off with currently 45% of all UTT staff being women.

Overview of Services 1/2



Farmer training

- UTT and IDH establish Farmer Field Schools (FFS)
- Extension staff trains farmers on GAP (tea, non-tea) and wider topics like gender, nutrition and record-keeping
- Farmers are trained and supported to become RA certified



Soil analysis & inputs

- UTT provides farmers with fertilizer and herbicides on credit
- Inputs are bought in bulk and delivered by input providers
- UTT subcontracts transportation of inputs to farmers
- UTT conducts soil fertility and leaf sample analyses



Infrastructure

- UTT builds weighing sheds close to farms that serve as central pick-up and quality assessment points
- UTT constructs chemical stores for safekeeping inputs
- UTT seeks ways to improve and maintain the local roads



Planting materials

- UTT establishes and manages nurseries
- Seedlings are provided on credit and are used both for infilling and Greenfield farms
- UTT subcontracts transportation to farmers, groups and FOs



Bonus payments

- UTT assesses and records the quality grade of Green Leaf supplied by farmers on a daily basis
- After establishing the annual average quality grade, a bonus is paid out to farmers during the second payment next year

Overview of Services 2/2



Greenfield support

- UTT selects and trains new farmers on tea cultivation
- UTT subcontracts land preparation activities like ploughing, harrowing, and lining
- UTT provides seedlings and inputs on long-term credit



Transportation

- UTT refunds transportation costs of farmers bringing Green Leaf to the factories
- UTT subcontracts pick-up and transportation of Green Leaf to factories at no cost to farmers



Governance support

- UTT seeks to collaborate with the government to support and professionalize FOs
- Ideally FOs are registered as cooperatives and can serve as independent service providers



Diversification

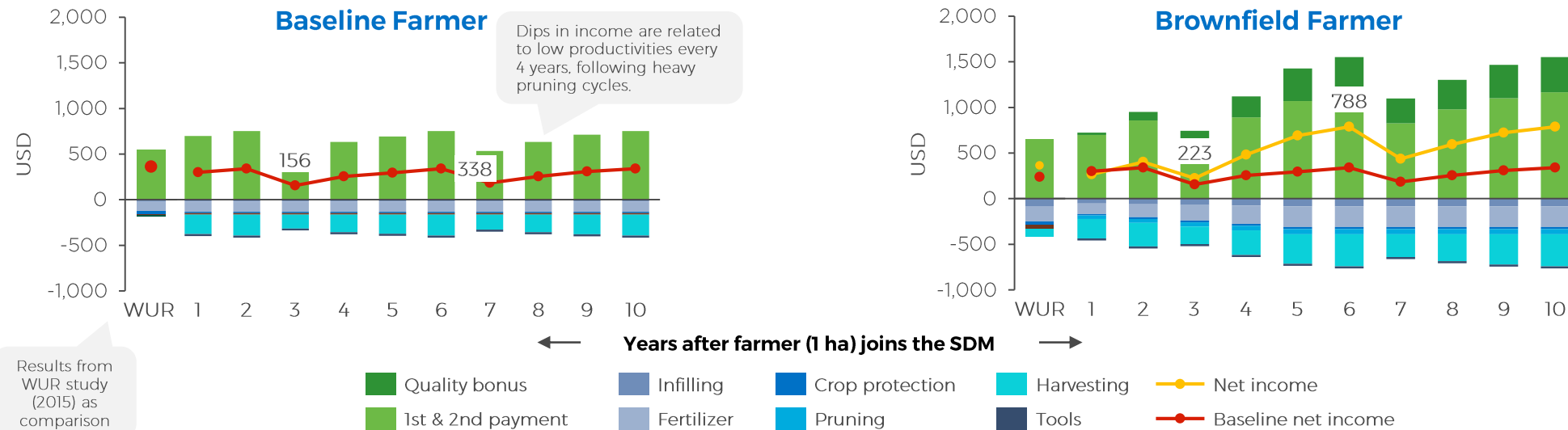
- UTT and IDH seek to improve farmer livelihoods through crop diversification, mainly beans, potatoes and/or avocados
- A business case and organizational model needs to be established before implementation



Climate resilience

- UTT and IDH explore ways to improve farmer resilience to climate change
- Possibilities looked into are providing irrigation services or introducing and distributing drought-resistant tea clones

Brownfield outgrower farm P&Ls: overall impact



Economic sustainability at farm level

Costs and revenues are based on 1 ha of tea farmland. In reality, baseline and SDM farmers in the region have on average 0.7 ha dedicated to tea. Brownfield farmers are assumed to start with low productivities in year 1 (5,000 kg GL/ha) and progress to a maximum of 7,730 kg GL/ha in year 5 (the level of current high-performing farmers).

During the initial years in the program, brownfield farmers have a similar income as baseline farmers. This is mainly due to the increased input costs for brownfield farmers, while productivities increase only slightly each year. As such, it takes a few years before the additional costs really start to pay off.

After these initial years, brownfield farmers have consistently and significantly higher incomes than baseline tea farmers.

Compared to the WUR study conducted in 2015, costs and revenues are slightly different here, mainly estimating harvesting costs higher. As a result, net incomes are slightly lower in the first years of this study.

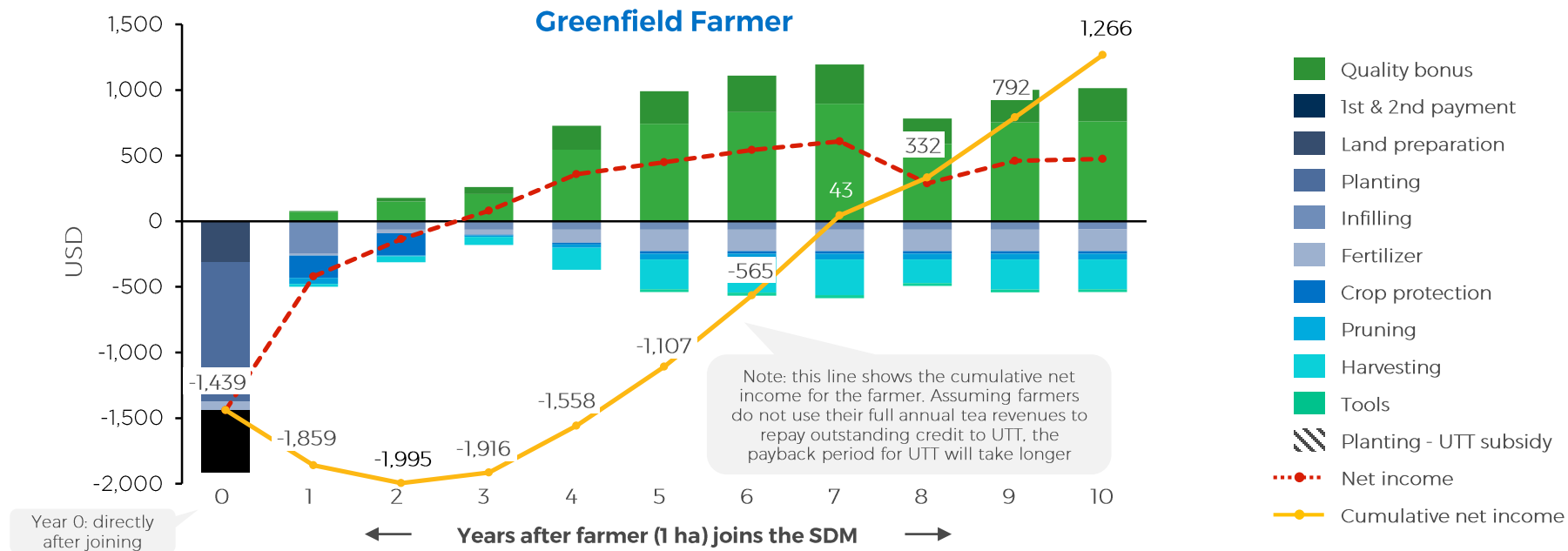
Main cost drivers

- **Harvesting:** Plucking is a major cost of tea farming. Pluckers are hired by farmers and paid a standard fee per kg GL plucked. As such, harvesting costs are always 20-30% of total tea revenues.
- **Inputs:** Brownfield farmers apply more fertilizer than baseline farmers. Within a few years, these costs will be outweighed by the additional tea productivity.

Main revenue drivers

- **Production:** As brownfield farmers in the SDM increase their productivity, so rises their net income above baseline farmers
- **Quality bonus:** Tea quality rises steadily for brownfield farmers in the SDM, fetching higher prices by UTT's bonus payment system. This amounts to a major additional source of income for brownfield farmers compared to baseline farmers.

Greenfield outgrower farm P&Ls: overall impact



Economic sustainability at farm level

To develop a new area of tea farming, large investments are needed initially (year 0) for preparing the land and planting tea. UTT bears around 1/4th of these costs, reducing the investments needed from the farmer.

Still, only 3 years after the original planting does a farmer have his first profitable year. 7 years after planting the full investment has been recouped.

During initial years of no / low tea revenues farmers earn an income by growing crops like beans on other plots they own.

Over the years shown, productivities of greenfield farmers are assumed to progress towards the productivity of an average brownfield farmer (5,945 kg GL/ha). From there, they can advance as brownfield farmers to high performers of 7,730 kg GL/ha (see previous slide).

Main cost drivers

- **Initial development:** The main costs are land preparation and planting in the first year of tea plantation development. In the 2 following years, infilling of bare patches and crop protection of the young tea plants are high.
- **After establishment:** Once the tea plantation is mature, cost distribution is similar to brownfield farmers, with most costs going to harvesting (hired pluckers) and fertilizer.

Main revenue drivers

- **Production:** It takes 4 years after initial planting before the plantation productivities significant tea production. Once the plantation is mature and Green Leaf quality is increased, greenfield farmers are effectively the same as brownfield farmers.
- **Quality:** Like brownfield farmers, during later years the quality Bonus system is a significant boost to farmers' income.

Sources: based on productivity curve and cost of cultivation shared by UTT

Minimal viable plot size for SDM farmers

Plot size (ha)	Average productivity (kg GL/ha)							
	4,500	5,000	5,500	6,000	6,500	7,000	7,500	8,000
0.5	0	0	0	0	8	41	74	106
0.75	24	74	123	172	221	270	319	368
1	172	237	303	368	434	499	564	630
1.25	319	401	483	564	646	728	810	892
1.5	466	564	663	761	859	957	1055	1154
1.75	614	728	843	957	1072	1186	1301	1416
2	761	892	1023	1154	1285	1416	1546	1677

Based on an average Brownfield productivity of 6,000 kg GL/ha, a plot size of 1.8ha is needed to exceed the household poverty line***

Assumptions

Farmer segment	Brownfield
Household size	5.4 people*
Non-tea income per household	367 USD / year**
Poverty line per person	252 USD / year***
Total household poverty line	1359 USD / year

The farmer P&Ls presented earlier show the business case of farmers with a plot size of 1 ha (net income of USD 539 on average per year for brownfield farmers). On the previous slide was shown that most farmers actually have smaller plots dedicated to tea, resulting in even lower incomes. This raises the question which plot size is economically viable to tea farmers in this SDM. Additionally, productivity is seen to vary wildly between farmers. Here, we elaborate on these observations by analyzing the sensitivity of a brownfield farmer's net income to average productivity and plot size. The top left table presents the resulting annual net income for a brownfield farmer under various combinations of productivity and plot size.

From this, we can determine the plot size that is needed to lift a tea farmer household out of poverty. Farmer household and poverty assumptions are given in the bottom left table. Tea farmers should earn USD992 per year to lift their household out of poverty. Consequently, the sensitivity analysis shows that **a farmer with an average productivity of 6,000 kg GL/ha needs a tea plot size of at least 1.8 ha to reach this income.**

* Based on 2015 WUR baseline study

** Based on IDH MoG report summary (2017). We assume here that this income does not increase for farmers in the SDM.

*** Poverty line based on the World Bank international poverty line set at USD1.90/day, adjusted for local purchase power parity (PPP) using the World Bank 2016 PPP conversion factor for private consumption of 809.32 TZS/USD.

Farmer Testimonials – Mufindi Outgrowers Project



Josephat Msakwa
from Mufindi Tanzania

Josephat Msakwa is a smallholder tea farmer in Mufindi Tanzania. He is working in tea since 1993, through his family tea farm of about 2 acres. He joined the MOG project and enrolled in FFS in 2015.

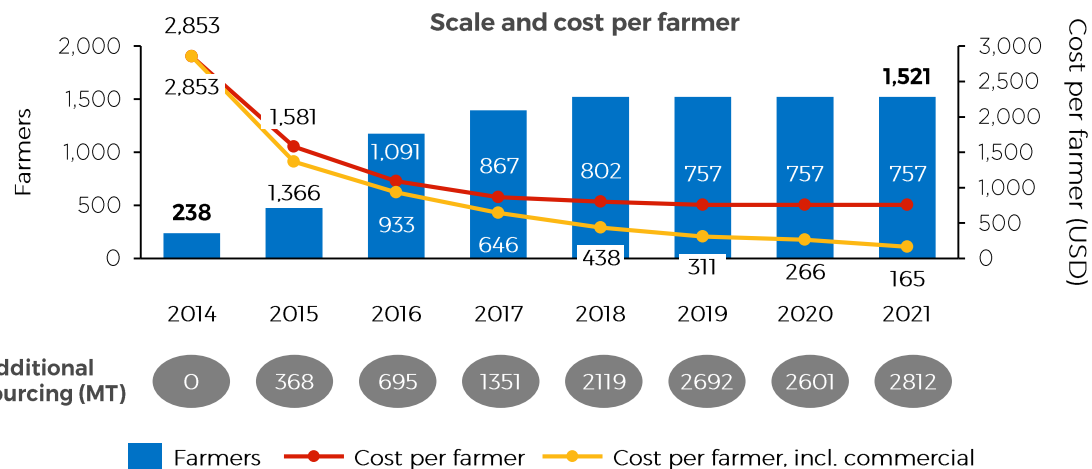
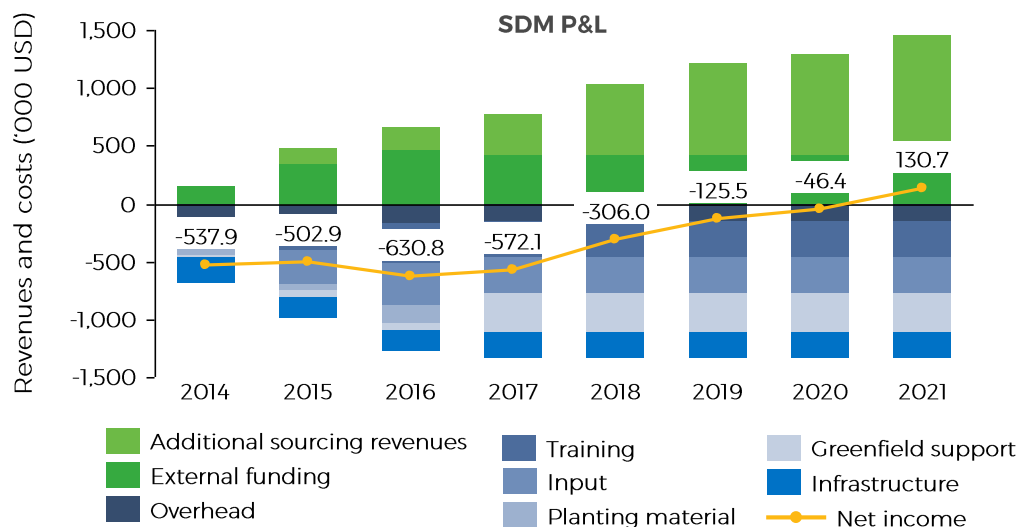
Josephat on the MOG project:

“After a Farmer Field School exchange visit, I learned how other farmers grow and manage tea and increase their income. Another farmer showed me that through applying Good Agricultural Practices and recommended fertilizer rates, you are able to realize good crop and income. From that day, I was motivated and I started to expand my own tea farm.

Between 2016 and 2018, I have established about six acres of tea. The MOG project supplied the plants as a loan, which I pay back in small instalments.

Through the FFS trainings and applications of GAP, tea production in our family farm has increased and I received more income from my tea farm. **The project’s quality bonus has also increased my income, which enables me to pay for education for my children.** I am also planning to expand my farm further.”

SDM P&L



Economic sustainability

- Not taking into account commercial revenues, this SDM is not economically sustainable, relying heavily on donor funding (31% of cost)
- Including additional commercial revenues (see next slide) and external funding, annual costs are covered from 2020 onward (assuming costs to stay around the 2017 level)

Main revenues drivers

- Increased brownfield productivity and new tea production from greenfield farmers drive up sales volumes and revenues
- Increased GL quality allows UTT to make larger margins on tea sold

Main cost drivers

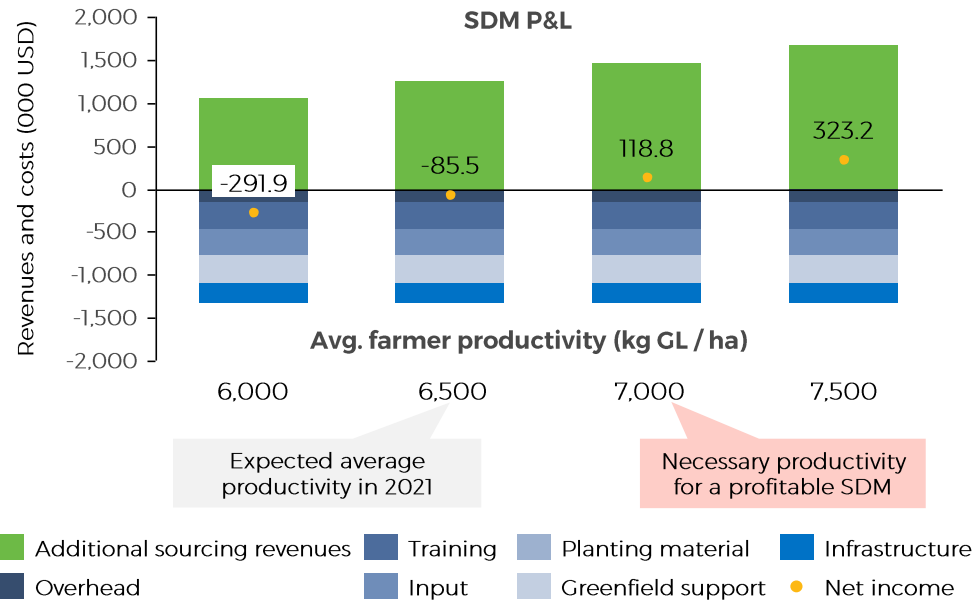
- Services are provided to farmers either at cost or free of charge; no margins are made
- In 2015 a large one-time investment has been the WUR baseline/impact assessment
- In 2016/17 farmer training and inputs ramped up
- So far the investments in greenfield support (USD400,000) have not provided a return as greenfield farmers are not yet producing
- Overhead (management salaries, office equipment, utilities etc.) and infrastructure (weighing sheds and chemical stores) remain relatively stable

Efficiency

- Scaling up from 238 farmers (2014) to around 1,521 brought down the cost per farmer to USD757, while total costs have actually gone up. Further potential for scale up is limited with only around 1,800 GL farmers in the region.

* SDM costs for 2018 are provisional (assuming 2017 costs) as discussions about the design of the next phase of the program are still ongoing.

To reach a financially profitable SDM, high tea yields are key



SDM sustainability

- The economic sustainability of the SDM is driven by increased tea productivity and quality.
- On the left, a graph is shown giving the SDM P&L for varying farmer productivity. As tea productivity increases (holding quality constant), so does the additional commercial revenue of the SDM.
- In 2021, farmers are projected to have an average productivity of 6,500 kg GL/ha (taking into account both brownfield and greenfield farmers). At this stage, the SDM still runs at a loss. Average productivity must be increased to 7,000 kg GL/ha to make the SDM financially profitable (which is currently projected to be reached in 2023). Alternatively, a further focus could be given to expanding the existing tea supplier base to reach the additional sourcing volumes necessary, although this will postpone the breakeven moment, since additional investments are then required.
- Next to increasing tea productivity UTT and IDH seek to improve efficiency of service delivery. Three models are being explored (see below table):

Structure	Revenue model	Additional investment	Challenge	Potential farm impact
Leaner, UTT managed	<ul style="list-style-type: none"> Cost of service provision recouped through margins on larger sourcing volumes 	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> Further increasing efficiency of field staff while maintaining quality of service delivery 	<ul style="list-style-type: none"> n/a
Dedicated service provider (SP)	<ul style="list-style-type: none"> UTT: margins on sourcing SP: margins on service provision 	<ul style="list-style-type: none"> Building presence of SP in the region Training staff 	<ul style="list-style-type: none"> Offering services at competitive yet sustainable prices Coordinating service delivery and sourcing between 2 parties 	<ul style="list-style-type: none"> Improved service quality at higher prices
Cooperatives as service provider	<ul style="list-style-type: none"> UTT: margins on sourcing Coop: margins on sourcing and service provision 	<ul style="list-style-type: none"> Capacity building 	<ul style="list-style-type: none"> Creating professional cooperatives with sufficient financial resources 	<ul style="list-style-type: none"> Greater control over service delivery

Reflection on SDM objectives

These results do not represent an official assessment of SDM success or failure by IDH or NewForesight. An indication is given based on the analysis done in this forward-looking study and assumptions provided by the SDM operator(s). Actual assessment should be done during and after the SDM, using measured data

SDM aims to...	Discussion
<p>1 Increase tea productivity and quality, and improve farmer livelihoods</p>	<ul style="list-style-type: none"> • With adequate support and given that farmers adopt practices, we estimate brownfield farmers are able to improve their productivities from 4,642 kgGL/ha to 7,730 kgGL/ha (67%) and incomes due to increased tea quality • The greenfield business case is less optimistic with farmers making a USD79 average annual net income over a 10-year horizon. Still, with the right repayment schedule developing new land can be profitable for UTT and farmers
<p>2 Expand tea smallholder supplier base - in number of farmers and hectares</p>	<ul style="list-style-type: none"> • Between 2014 and 2017 UTT has managed to successfully expand their supply base in terms of farmers (238 to 1,521) and hectares (540 to 1,314) • With the total number of tea farmers in Mufindi region at around 1,800, a promising way for UTT to further expand is by developing 1,300 ha of land that may be granted by the government in the near future
<p>3 Secure market and increase marketability of tea</p>	<ul style="list-style-type: none"> • UTT has been able to attract more farmers by introducing a bonus payment system rewarding higher quality tea, even with relatively stringent tea sourcing requirements. The percentage of tea produced by Mkonge cooperative that is sold to UTT grew from 42% in 2014 to 82% in 2018 • High quality and RA certified tea improves marketability. Branding tea as being produced by smallholders has not been a proven concept yet
<p>4 Strengthen farmer organizations</p>	<ul style="list-style-type: none"> • A study has been conducted to map and understand the strengths, weaknesses, opportunities and challenges of farmer organizations • No structural support has been provided to strengthen FOs in the region • Increased outreach, capacity building and incentives for FOs, next to stronger collaboration with government is recommended to further professionalize FOs



Innovation in the UTT SDM



Type of innovation

Bonus quality payments

Since its introduction in 2015 UTT rewards farmers delivering higher quality with bonus payments on top of the farm-gate price set by TBT. Tea is graded (unacceptable, 1st, 2nd and 3rd quality band) after which the total price to be paid out is determined. While the strict (above average in the region) tea quality requirements set by UTT initially daunted farmers, farmers are now selling to UTT because they recognize the good prices and support that UTT provides for the high quality tea.

Description



Data collection

In 2015 UTT and IDH commissioned WUR to perform a baseline study about tea farmers in the region. Such rigorous studies, which can be followed up on over time to measure farm level impact of services provision and cost effectiveness of the program investments, are rarely seen. Additionally, the way UTT and IDH are measuring farmer adoption of practices is unique with respect to the level of detail, allowing granular insights and understanding of what drives adoption and resulting impact. In turn it informs the strategy of UTT and IDH (this being part of a wider data collection effort).



Diversification

One way UTT and IDH seek to improve livelihoods is by supporting farmers in diversifying the portfolio of their crops. The region seems suitable for cultivation of potato and avocado. By bringing in other stakeholders into the SDM, farmers could benefit from access to GAP training, inputs and markets for those crops, eventually leading to improved incomes.



Conclusions: key drivers for success and key risks



Key drivers of success

- **The quality bonus payments**, coupled with training on good agricultural practices and strict (and above average) quality requirements **attract farmers to the SDM and improve loyalty rates**. Farmers see the added value of the training and input investments while being sensitive to the higher prices paid out.
- Different from many other SDMs, the **service provision and commercial activities are closely integrated** ensuring internal alignment between activities. Sourcing is an important revenues driver covering more than 30% of SDM costs on an annual basis.
- This SDM benefits from UTT managing their own plantations in the area as well, allowing UTT to **use some of their resources more efficiently** (e.g. factories, transport, nurseries). Also the expertise gained on the plantation can be easily transferred to the smallholder program.



Key risks

- **The MOG is relying to a large extent on donor funding**. Key activities that have been invested in and are now in place could cease to continue in case funding dries up. This has been the case for farmer managed nurseries that were left unattended when no financing was available anymore.
- Thought has been given to the continuation of specific services if donor funding ceases. The general plan for UTT is to retain a lean service structure, and hand over other service delivery to sufficiently capable coops. The success of this is to a large extent dependent on the profitability of tea farming, determined by high yields.
- While scale is often a key driver and sometimes even a prerequisite to reach breakeven, **the number of farmers in Mufindi region is limited** at 1,800 (THSDA estimate 2016). The SDM focuses on improving productivity and increasing the average tea area per farmer to mitigate this risk.
- The planned greenfield ingrower model demands a **large investment requiring long-term commitment of farmers to invest in and later supply to UTT**. In case this relationship is not managed and contracted well, UTT and/or farmers could incur significant losses. Another risk to the ingrower model is **the large investment in irrigation** required to obtain maximum potential productivities. To mitigate that risk UTT and IDH are first piloting a smaller scale brownfield ingrower model to be able to apply those lessons learned on a larger scale.



Lessons learned during the study exercise



Opportunities for improvement

- **Further strengthening the relationships with farmers can further improve farmer adoption and loyalty.** through more frequent communication and increased exposure to the extension team.
- **In order to diversify farmer incomes and crops grown in the region (potato, avocado), different service providers and/or buyers need to be drawn into the SDM.** These should be brought in to provide support in developing adequate training curricula, as well as linking the region to international markets ensuring steady offtake and higher prices.
- While data collection is already a key focus area of the program, **further automatization can improve efficiency,** allows reaching more remote farmers, and will provide more up to date insights on farmer economics and behavior.
- With independent farmer organizations (especially Mkonge cooperative) capable of providing services to farmers being a promising exit strategy, the program would benefit from increasing investments in aligning with governments and other capacity builders **to strengthen FOS' management, financial, marketing and organizations skills.**



Key factors in replication of the model

- **UTT and IDH have invested heavily in collecting high quality data.** For example, they have commissioned a study to WUR to assess the baseline and SDM farmer economics to understand how service delivery contributes to the impact at farm level over time. Also the field staff is gathering detailed information about adoption of practices and the effect on productivities. Continuing these efforts will allow UTT and IDH to continuously improve the model based on fact-based insights.
- **Increasing productivity to breakeven levels while transferring services provision to well-established cooperatives** (or an independent service provider operating in the region), **would be an exit strategy that can be applied to other regions as well.** Measures still to be taken include:
 - Increased and continuous investment in capacity building of and sharing best practices between existing farmer organizations.
 - Implementation of farmer organization graduation model and incentive structure (e.g. linked to bonus payments) rewarding scale, quality and service provision.
 - Reduced financial and administrative barriers to set up cooperatives.



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