African Export Successes: Surprises, Stylized Facts, and Explanations[1]

William Easterly

New York University and NBER

Ariell Reshef

University of Virginia

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Appendix: Interview Excerpts

In this appendix we bring excerpts of interviews conducted with entrepreneurs in three East African countries: Rwanda, Uganda and Tanzania. A few other interviews that were conducted with government officials are omitted.

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RWASHOSCCO - Rwanda Small Holder Specialty Coffee Company
Gilbert Gatali (Managing Director)
Kigali, Rwanda, June 26, 2010

Some coffee production background

High quality coffee is achieved by (1) maintaining consistency and (2) tight quality control of processing. The central washing stations can (and in this case, do) achieve this. The stations separate processing from dwellings, which is crucial for both elements of quality, and is also more efficient. Central washing stations also help small shareholders overcome credit constraints: they get paid at the time of delivery of the unprocessed cherries, not when they are sold to final consumer.

Quality control is critical because coffee is very sensitive: one bad bean can spoil an entire cup of coffee. Coffee beans are sensitive to the environment, in particular smells: they absorb any smell from their surroundings, at any stage of processing. That is another reason why the washing stations help keep quality high: the smells are controlled.

RWASHOSCCO

In 2000 USAID financed the PEARL project, which helped maintaining coffee quality and accessing markets. When funding ran out the coops wanted to figure out how to make this business model sustainable after the phase out. The coops were (and to some degree, are still) weak on the marketing/exporting side of the business: communicating with customers abroad, efficient use of technology (email, phones, fax, etc.), keeping hard deadlines, efficient price bargaining, etc.

With USAID/PEARL assistance, 11 coops were brought together under RWASHOSCCO in 2005 (today, some 20,000 coop members). They decided to set up an umbrella coop for exporting, which was eventually turned into a firm (hence, CO), which is owned by the coop members: RWASHOSCCO (henceforth: RCO). Representatives from the 11 coops went to Nicaragua to learn from the Nicaraguan quality coffee growers/exporters their business model. At the time of the establishment of RCO there were no exporters in Rwanda with experience in exporting high quality coffee (experienced coffee exporters dealt only with “regular”, low/mixed quality coffee). The coops decided eventually to hire some staff from the PEARL team, who had experience with logistics and marketing abroad, in particular making/keeping connections. In addition, they hired a Rwandan who returned from the U.S. with an MA in agribusiness from the Texas A&M University (the training in agribusiness was funded by PEARL). The PEARL project established a training center that was transferred to RWASHOSCCO. The training center was set up to train Rwandan “cuppers” (i.e. coffee connoisseurs, who know how to evaluate coffee, identify sources of quality/defects, and recommend ways to improve). This was done in collaboration with six American roasting companies, the Quality Coffee Institute in the USA and the East African Fine Coffee

Association. RWASHOSCCO received funding from USADF to facilitate its expansion and control of the supply chain to include a dry processing plant and roasting facility.

RWASHOSCCO also helps its members in the process of coffee certification of origin and of quality, writing of business plans, and application for loans in local and foreign financial institutions.

Coffee value chain:

Growers =>	coops (washing station) =>	RCO (exporter) =>	customers (importers).
	[owned by growers]	[owned by growers]	

Marketing high quality coffee is different from marketing regular coffee: more people are involved, both customers (coffee shops, small roasters) and growers (due to the coop corporate structure).

RCO gets 2.5% of sales, which is low relative to other exporters (5% and more). This is done in order to align the incentives of the growers with the exporter, which they own. In addition to export activity, RCO maintains quality control by operating a cupping lab, and also maintains a forum for coffee growers to discuss the business.

Challenges:

1. Credit constraints, especially for growth.
2. Limited experience: producing the right product, export logistics, maintaining contacts, finding new export markets and products that will satisfy them (growth).
3. Bigger markets pose different challenges, imply different kind of relationships. Growth is not just “scaling up”: it implies many complications. Bigger importers do not tolerate delays or deviations in quality (higher or lower), so in order to build a lasting relationship these aspects need to be implemented. Smaller “relationship” importers are more flexible and tolerant.
4. Changing the mindsets of smallholder coffee growers and giving them business skills. Many of them are myopic, they think about the immediate future, rather than medium-long run. Many times the growers prefer a higher price and tough bargaining over maintaining a good relationship with buyer.
5. Governance structure: RCO is owned by the coops, therefore there are many people involved in making decisions, since potentially all coops need to approve policies and each coops has its own committees, etc. There is no clear “chain of command”. This makes the organization slow to respond to opportunities and challenges. So although the current structure is good for small scale exporting, if the coops wish to grow, they will probably need a firm governance structure, with more authority given to RCO and its marketing staff.
6. Learning takes time due to the coop structure and ownership structure of RCO.

An important fact is that Gilbert Gatali is a Rwandan whose family left Rwanda and moved eventually to Canada, where he grew up. The familiarity North American culture and ways of doing business (although this is not his training) helps Gilbert in being an effective export manager. Gilbert studied development in Canada and worked with Rwandese youth as a councilor. Almost all staff at RCO hail from coffee growing families.

SPREAD (Sustaining Partnership to enhance Rural Enterprises and Agribusiness Development)
Jean-Claude Kayisinga (Chief of Party) and Edwige Gatali
Kigali, Rwanda, June 29, 2010

SPREAD is the descendant of PEARL, both funded by USAID for the duration of 2006-2011. PEARL started as a general capacity building project for the National University of Rwanda (NUR): mostly curriculum reform in agriculture to include agribusiness. The goal was to prepare people for management of Rwanda's potential exports in agriculture, and in value adding activities. 20 students were sent to the Texas A&M University (Norman Borlaug Institute for International Agriculture) and to Michigan State University (Jean-Claude was one of them). This not only builds capacity in terms of skills; it also helps overcome cultural differences.

Rwandan government and some district mayors requested an evaluation of which economic activities could be enhanced in order to improve incomes of rural villagers. So PEARL went out into the fields with the director, Tim Schilling, and examined which crops to have a comparative advantage in exporting. They saw lots of coffee and "discovered" that Rwanda has excellent climate and soil for growing coffee, but was receiving very low prices for it. Given the huge labor abundance and low wages, they realized that Rwanda's Bourbon Arabica coffee is suitable for high quality coffee production. Given high transportation costs and lack of infrastructure (e.g., no cold rooms) they focused on non-perishable products, e.g., green coffee beans (not roasted) and cassava flour.

SPREAD operates under the Ministry of Education through the National University of Rwanda-Faculty of Agriculture, and continues the work of PEARL. After initial success with coffee, they are trying to develop new export products (Bird's Eye Chili Pepper and Pyrethrum) and markets (inter alia, targeting Africans living in Europe/U.S.). They are trying to implement similar methods of success in these new products/markets.

Coffee:

Cupping labs not only maintain quality, but also facilitate communication between growers and exporters on one hand, and buyers/importers on the other.

Transportation innovation: “coffee bicycles”, which can carry up to 200kg on one bike. This helps the coffee growers deliver their harvest to the washing stations. The bikes have 8 gears and are very sturdy.

The coops (once established) were involved in designing RWASHOSCCO (henceforth RCO). They knew that PEARL was phasing out and hired several people from the PEARL staff to work for RCO.

Following success in exporting green coffee beans, RCO is developing markets for roasted coffee, a much higher value added activity. However, they are only targeting local and regional markets with the “Café de Maraba” brand. Maraba was the first coop established by PEARL.

Reasons for success:

1. Partnership and trust building. PEARL/SPREAD staff stresses partnership with farmers, exporters, buyers, and the government. They also promote leadership within the industry and hope to eventually not be involved. They do not impose. SPREAD (and PEARL before that) promotes cooperation between coffee growers, coops, washing station owners (if not owned by coops, as in the case of Bufcafe), exporters, buyers and the government. Today, SPREAD is transferring as much activities to the Rwanda Coffee Board, which was not promoting specialty coffee – but now they are.

2. Knowledge and technology transfer. Teaching farmers how to succeed. Farmers are learning how to improve the product, and how to succeed in business, e.g., meeting deadlines and business culture. Specialty coffee buyers visit the coops, washing stations and exporters, and inform them on how to improve quality (tending coffee trees, washing techniques, sorting, drying, etc.). The buyers have also trained “cuppers”, i.e. coffee connoisseurs, who know how to evaluate coffee, identify sources of quality/defects, and recommend ways to improve.

3. Bringing graduates from National University of Rwanda (BA education) to rural areas to work in the coffee coops, helping with accounting, investment, saving and general management tasks; for example, the accountant of the Maraba coop.

4. They argue that a general atmosphere of progress in Rwanda has fostered trust and technological transfer, i.e. willingness to invest in transfer (from the giving side) and willingness to adopt (by coffee growers).

5. SPREAD staff is committed to the growers, trust them and do not impose their will, despite their greater power.

6. Flexibility of USAID: the evolution of PEARL from general capacity building into focusing on specialty coffee exporting was allowed by USAID. This continues today with the (smaller) involvement of USAID in funding SPREAD.

After the success of specialty coffee the government is now active in helping the industry. Following international prize winning ("Cup of Excellence"), president Paul Kagame decided to help promoting the specialty coffee industry. One action he took was to push the Rwanda Coffee Board to increase plot sizes and overall allocation of land to coffee. In 2009 23% of coffee exports by kilogram are specialty coffee, but it accounts for 32% of value.

Challenges:

1. Hiring and retaining management. Potential managers usually do not want to live in rural areas. If they have an education, they prefer living in Kigali or other cities.

2. Accepting external management in the coops has been only partially successful. However, in the Maraba coop it is relatively successful.

3. The "partnership" (growers-PEARL-exporters-buyers) model is not sustainable as specialty coffee exports expand. The coops/exporters will not always have the close support from specialty buyers.

Experimentation: today the coops that are helped/advised by SPREAD are experimenting with Fair Trade/Organic certified coffee. Once they have established footholds into export markets with quality coffee, they wish to introduce more products/varieties.

General notes:

- Coffee beans are currently exported green, not roasted. Roasted coffee is much harder to export and need more care (refrigeration, airtight packaging, etc.). Also, once coffee is roasted, it starts losing its aromas, taste and quality.

- Washing stations consume lots of water. So they are investing in better, more efficient washing techniques and in methods to recycle the water and pulp residual from the washing process.

- Fair Trade: need to comply with many regulations, some of which are environmental. The buyers – instead of sending inspectors by surprise – instruct the growers how to comply. Part of the "partnership" mentality.

MISOZI COFFEE Co., Ltd.
John Rebero (Managing Director) and Jean de Dieu Kevin Nkunzimana (Quality Assurance)
Kigali, Rwanda, June 29, 2010

Misozi (means “hills”, henceforth MZI) is an exporter that has been operating since 2007. They export only top quality, fully washed, fully traceable Fair Trade certified coffee. Following the 1994 genocide, which left the coffee industry in shambles (and so was the entire Rwandan economy and society, for that matter), IFAD (International Fund for Agriculture Development) stepped in to resuscitate cash crops: rehabilitating existing farms; distribute seedlings; help forming coops and farmer associations, help coops build coffee washing stations (CWS); providing soft loans. Before the establishment of coops and coop-owned exporters, there used to be 9 middlemen (!) between farmer and buyer. The purpose of coops, ownership of CWSs and of exporting firms is to shorten the value chain. IFAD eventually also brought in representatives from Twin Trading Co. (a large coffee trading company) to help “build capacity”: teach how to wash coffee, control quality. When the Twin Trading project was being phased out MZI was established.

The first 3 coops exported one container (almost full) in 2004. In 2007 5 more coops joined and together they formed MZI as an exporting umbrella. Today the 8 coops have 7,334 members in total and own 9 CWSs. All coffee is Fair Trade certified. Next year they will start exporting Organic certified as a pilot; if successful they will expand this activity.

The coops are still supported by IFAD: they receive soft loans at 8-10% per year (8% during off season, 10% when they have positive income) for investment in CWSs and working capital (market rate is about 18%, according to John). Until last year MZI did not charge fees, but now it charges 2% of revenue to support its regular and investment activities. The funding works as follows: loans to the Rwandan government are transferred to the RDB (Rwandan Development Board) and from there to the coops; IFAD paid 50% of initial loan to establish MZI; the loans are actually managed by Bank Rwandaise du Development.

In 2007 MZI exported 11 containers, about 211 tons in total. Average price: 3.7$/kg for total revenue of about $780,700. For reference: $32.4 million coffee exports from Rwanda in 2007 (Comtrade).

MZI sells mostly to big buyers (e.g., Twin Trading, Intra America), who sell to small and big roasters, e.g. Starbucks. MZI also sells to smaller buyers, which is RWASHOSCCOs mode of business, but a different set of small buyers, supported by other organizations/aid institutions.

Product and marketing innovation. Once relationships with specialty buyers are established, MZI introduces new products: weaved baskets for packing coffee; roasted coffee for local and regional markets; Organic certification.

Auditing: the Rwanda Cooperative Agency audits the coops.

Contract signing: A buyer signs the contract both with MZI and the coops involved with the particular shipment. The presidents of the coops must also sign. This usually happens within one day. They use mobile phones to coordinate. MZI negotiates the highest price they can, but sometimes the coops argue that the price is too low. This, according to Kevin, is rare. The coops generally trust MZI.

Challenges: mostly managerial and financial.

1. Paying back loans is proving hard, even though they are subsidized. This is due to lack of both general and financial management skills.

2. Coops need to increase quantities sold, but keep quality in check.

3. Transportation costs. A container (20 feet) is the unit of export; it must be full for efficiency. Costs: $2,400 to Mombasa by land; then $1,500 to New York by sea. This exemplifies cost of poor road infrastructure, distance from shore, landlocked country.

The original "Women Coffee": John noticed on his visits to the CWSs that invariably women brought the coffee to the CWSs throughout the week, but it was the men that collected payments on Friday. Traditionally women in Africa work in the fields. In Rwanda 90% of coffee is grown/processed by women. (*In our visits to two CWSs we saw only one male worker; all the rest were women*). So John convinced one coop to give one day a week to women growing their own coffee, and getting paid directly. John stresses that this is only women coffee in Rwanda, and that Starbucks tried to hijack the story. They charge a premium for this coffee because (a) it is higher quality (women growing and processing for their own income) and (b) people are willing to pay more for a good cause (women empowerment). The washing stations give opportunity for Hutu and Tutsi women to meet during the washing season. They share poverty and lack of husbands (also unsupportive husbands). This story has featured in the media. Other women related activities: Coffee growing season is only 3 months long, so storage rooms are empty for more than 6 months. John uses the empty storage rooms for female education: antenatal clinical awareness, nutrition, HIV/AIDS prevention. The storage rooms are also used during the off season by women who weave baskets for packing coffee. Future women related activities include: "10 trees per woman" project;

More future ideas: growing coffee in schools as part of education program to provide agricultural skills while using the income to provide better nutrition at school; use water from CWSs for horticulture (needs some treatment, because it is too acidic when it emerges from the CWS); invest in small animal farming for fertilizer; creating educational movies and project them in rural areas (John argues that rural people do not learn from words nor from pictures: only when they see the process do they learn).

MARABA coop and BUFCAFE coffee washing station

Near Butare in Southern Province (formerly in Butare Province), June 30, 2010

We joined a visit of the owner of Intelligentsia Coffee, Geoff Watts, and his employee Steven to the coffee coops and coffee washing stations near Butare. The visit was organized by SPREAD. At the Maraba coop I was accompanied by Pascal Gakwaya Kalisa of SPREAD office in Batare (Production Officer for Southern Province); we also met the Maraba accountant, Jean de Dieu Shema, at the Maraba village. At Bufcafe we met Epiphanie and Samuel Mukashyaka, mother and son, the private owners of this coffee washing station. Epiphanie is a genocide widower, who got a loan to build her coffee washing station.

MARABA coop

At the coops we witnessed how labor intensive it is to make high quality coffee. Here is the process from after the cherries are picked (growing healthy, high yield coffee trees is another important determinant of quality, quantity and revenue):

1. Initial inspection of the cherries. Keep only cherries with the right shade of red; the others are either not ripe or too ripe.

2. Floatation tanks. Cherries that sink to the bottom are good; the ones that float have too much air in them and beans inside are oxidizing/spoiled.

3. From the bottom of the flotation tank coffee flows to the pulper machine, which gets the pulp off the bean. This is the only mechanized part of the process. A grid at the bottom of the machine prevents larger beans or beans with some pulp on them to continue the process. This is another part of the quality control process.

4. From the pulper machine the beans flow down to fermentation tanks (for 16 to 36 hours).

5. From there the beans flow down to collection mats and transferred to initial drying and sorting.

6. Wet sorting in the shade. While still wet, the beans exhibit different shades that correspond to different qualities. Too green is not good, nor is too light. Many defects will show at this stage, like small worm holes, rotten patches, etc. Most of these features fade when the beans dry out.

7. Dry sorting in the sun and drying. The beans are again inspected for other defects that show up when dry. When sun is too strong the beans are covered by nets or plastic to prevent overheating.

8. Storage. Each bag is weighed and documented. The storage room is very clean, insulated from water and well ventilated. Spaces between the floorboards help ventilation: the room is elevated so that fresh air comes from below and hot air escapes through small windows below ceiling.

From there the coffee is shipped to Kigali.

At Maraba village, the accountant, Jean de Dieu Shema, informed us:

1. Maraba coop started as a farmers' association in 1999 with 70 members. Farmers' associations cannot borrow, so they incorporated as a coop in 2001, with help from PEARL.

2. In 2001 the value (capital) of the coop was 70,000 RF (1,000 RF/member = 1 share, with 70 members). In 2010 the value is 50,000,000 RF (50,000 RF /member = 1 share, with 1,000 members).

3. The first container was shipped in 2002, with $2.66 per kg, on average. That was a huge success, given a national average price in that year of $1 per kg of regular (not fully washed) coffee. In 2009 Maraba shipped 4 containers, worth $4.22 per kg, compared to a national average of $2.2 per kg regular coffee. This is also a success relative to fully washed coffee from elsewhere in Rwanda, which fetched an average of $3.49 per kg in 2009.

4. The coop is not restricted to coffee activities. Other activities are: (a) education: HIV/AIDS, health, hygiene, IT and computer skills (the coops owns several desktops for its members' use); (b) medical insurance: all members today are covered; (c) transportation: two trucks serve members when not in use for coffee; and (d) help in funding funerals, up to 20,000 RF.

Bufcafe coffee washing station

Bufcafe is a 100% private enterprise, owned by Epiphanie Mukashyaka. It was started in 2000 with a loan from the Bank Rwandaise du Development and knowledge transfer from PEARL. Bufcafe owns a coffee washing station (CWS) and coffee trees; it employs farmers to grow their own trees and work at the CWS. It also purchases coffee from smallholders. Their Arabica coffee trees are planted at very high altitudes, which contributes to its superb quality at the source (says Geoff). But also quality control is very tight at the CWS. They pay their workers at the CWS a premium to ensure motivation, which is more than other sources of employment in the area. Samuel explains this premium with classic efficiency wages arguments: "to make workers care about their job and the quality of the coffee."

Here we witnessed the very close relationship between the owner of Intelligentsia Coffee, Geoff Watts, and the owners of Bufcafe, Epiphanie and Samuel, which was manifested by traditional gestures that imply trust. The relationship is also professional: Geoff and Steven worked with the wet coffee bean sorters, doing quality control. They also advised on streamlining and improving the washing process. In addition, they run cupping trials in Kigali in order to inform growers/CWS owners.

Intelligentsia Coffee sources coffee from all over the world, fostering strong partnerships with the growers, coops and owners of CWSs. They inspect when they visit, but also advise on streamlining and improving the washing process and quality control. This is part of their business model: by maintaining close relationships they ensure quality is monitored. They pay a premium and therefore attract coffee growers and processors. They serve brewed coffee in Chicago and Los Angeles for up to $8 per cup.

Geoff says that washing coffee the way they do it in Rwanda would be too costly in other places, like Central and South America, where wages are much higher. Whereas in Rwanda almost all sorting is manual, in LAC it is mechanized, so quality is not as good. Geoff was introduced to Rwanda specialty coffee as a contracted advisor for the PEARL project, when he was already involved with specialty coffees elsewhere.

BRALIRWA (Brasseries et Limonaderies du Rwanda)
Didier Sezirahiga (Export and Sales Execution Project Manager)
Kigali, Rwanda, July 2, 2010

Bralirwa (henceforth BRA) is a beer brewery and soft drink manufacturer, founded in 1957 by a Belgian owned regional brewery, in cooperation with the Rwandan government. In 1971 Heineken bought a 70% majority share. The rest of the ownership is 25% to the Rwandan government and 5% to private shareholders. It is a monopoly in beer in Rwanda. They operate state of the art brewing technology. Only now, in 2010, another brewery is opening (BMC, "Brasserie de Milles Collins"). They have always exported to the region, but very small quantities. In 2008 they have dramatically expanded beer exports, due to tariff reductions from the East African Community (EAC). Their current markets are regional: Uganda, Kenya, Tanzania and Burundi. If next year Congo and Sudan join the EAC, then they will export there too. Heineken does not allow exporting beyond East Africa, where they own other breweries. Currently exporting is only 4% of their revenue, but it is growing rapidly.

BRA has served the local market for a long time before exporting. Exported products are identical to those sold domestically. They have "certificates of conformity", which say that they meet international standards, which are needed for exporting. Also, they have the East African certificate of origin, which is needed for gaining custom benefits in East Africa. 70% of their exports are Mutzig beer, which is a premium beer (high quality) that has become popular in the region. They operate through local distributors in destination countries. Hops are imported to Rwanda; the part that is used for exporting is duty free. They also export branded soft drink, such as Coca Cola, Sprite, Fanta, and Krest tonic water.

Learning from exporting: Until now BRA was a monopoly in Rwanda. Exporting forces it to compete with the local monopolies in destination markets. This forced them to improve their marketing strategies.

They learned to compete in tougher markets. Also, exporting forced them to increase production capacity of exported goods, to meet demand.

Reasons for success:

1. Trade barriers: EAC has created a large market with no trade barriers. Free trade has made their products competitive. Without this, they would not expand exporting regionally. Penetrating regional markets is easy: BRA works with local distributors, which are very accessible.
2. Product differentiation and high quality: beer is a highly differentiated product, along many dimensions. BRA differentiates its leading beer export, Mutzig, from other local beers by higher quality and branding. Mutzig is the only local beer that is a premium beer. It uses better water for brewing than is used in the region. Mutzig is marketed as premium; it has the foil on the cap to distinguish it from other non premium beers, and it makes it look exclusive.
3. They apply Heineken best practices and technology.
4. Government has recently been promoting exporting, making it easier for them.

Challenges:

1. Transportation logistics and transportation costs.
2. Security in transporting over land: there are many bandits and pillaging.

GAHAYA LINKS

Joy Ndunguste (CEO and Founder) and Jean de Dieu Niyitegeka (Finance Manager). Joy's cofounder and sister, Janet Nkubana, was in the U.S. developing business.
Gifted Hands training center in Kigali, which is also the corporate headquarters, July 2, 2010

Gahaya Links (henceforth GYA) is a privately owned handicraft exporting firm, founded in 2004 by Janet and Joy with financial and logistical help from USADF (they started working together in 2003). They decided to be pioneers based on their perceived potential for the product and their desire to help women in Rwanda after the genocide. They do not manufacture anything directly: coops do. The firm is founded only for exporting. USAID became instrumental in 2005, as it helped them participate in trade fairs in the U.S. This led to maing critical contacts with Fair Winds Trading Co. and Macy's (see more below). Since then, they have been successfully selling hand woven baskets with unique designs in the U.S. Baskets were never exported from Rwanda before. The baskets that are exported are of higher quality than those found in Rwanda. The product is based on traditional Rwandese designs, but was slightly modified to satisfy demand in the U.S. The breakthrough came in 2007 with a $300,000 contract from Macy's. This was not only lucrative; it created visibility and as such was instrumental in opening new markets. Now they are expanding into handicraft jewelry and fabrics, all of which are based on traditional Rwanda designs. This is in addition to satisfying growing demand for their flagship products, woven baskets. They are currently in the process of purchasing a warehouse in U.S. to help satisfy demand. The firm has a training center in Kigali, where coop members learn new designs and techniques, and how to maintain high consistent quality. They currently work with 5,000 weavers organized in 52 coops.

The business:

There are two seasons: spring and fall. Before each season they ship out samples. The samples are designed by Joy with an eye to what the market might want, based on last year's experience, indications from previous buyers and intuition. Then orders come in, sometimes with requests for minor modifications (e.g., color). Then contracts are signed, and orders produced and shipped. Small orders can be made off season from a menu of designs on the internet. Large orders are shipped by sea from Mombasa or Dar es Salaam (after land transport), while smaller ones are shipped by air from Kigali (by FedEx). GYA does not manufacture anything directly: the production is done by coops, which are separate entities. I.e. all production is outsourced. The coops enter production agreements with GYA. But since GYA is the only exporter of baskets, it has significant power to direct the coops' production.

Macy's: they send GYA labels, plastic wrapping, price tags, etc. All is assembled by GYA and packed in boxes, so that the shipment arrives in U.S. ready for shelving. Plastic bags are forbidden in Rwanda for environmental reasons; plastic items that are imported for packing must be exported (tariff free).

Shipping out orders is relatively easy: the products are durable, nonperishable and well packed. There is no tariff for intermediate inputs and materials imported for use in exporting, and no tariffs on final goods entering the U.S. market. They have certificates from AGOA and E.U. The challenge is finding and penetrating new markets (see more below). Until now one company has been representing GYA in the U.S. and dealing with all their orders. This is Fair Winds Trading Co. (a for profit company). Through this company they managed to get clients such as Macy's, Starbucks, Oprah Winfrey, etc.

Growth: Demand for baskets is steadily increasing. Since initial success with woven baskets, they are expanding into new products: jewelry, fabrics (tablecloths, placemats, etc.) and handbags (which combine weaving and fabric) – all based on traditional Rwandan designs. This is a new development from 2010. To do this they have hired a Canadian designer to help design fabrics and jewelry and help training workers. Joy also designs jewelry. Until now Fair Winds Trading was the only mediator with the buyers. But from this year (2010) they are looking for more importers in more markets. During our visit Janet was in the U.S. doing exactly this: looking for new importers/business partners.

GYA has founded a new company in U.S.: Kam Gifted Hands Collection. This subsidiary firm (100% owned by GYA) will maintain staff in the U.S. to handle marketing there (samples distribution, trade show appearances, customer relationships), as well as purchasing inputs (e.g., dyes). It will soon have a warehouse in the U.S. to keep inventories in order to respond quicker to demand.

Financing: Continuous funding from USADF from the start. Funding from USAID for participation in trade shows came in 2005. In 2007 a $80,000 grant from USADF (U.S. African Development Fund) was approved, to "build capacity". Money was used to hire staff (e.g., Jean de Dieu), train staff, buy computer hardware and software, mobile phones, build new modern office space for headquarters (all of which we witnessed), purchasing materials. The result is a serious accounting and administration system. The main justification for the grant was to create a serious business plan, which leads to the next financing step. This year, 2010, a $300,000 loan was approved by USADF (money not received yet at time of interview). This loan is half grant. The loan will be used for growth: purchasing sewing machines, materials, training, paying Canadian designer, flying in clients from U.S. and China, etc.

Learning from exporting: Exposure to U.S. businesses' (e.g., Macy's, Starbucks) organization and control informs them on "best practices", which they try to implement in their own firm. GYA was forced to keep tight standards, track inventories, learn how to respond quickly to demand, meet deadlines. When orders come in, they must respond to them quickly, which proved to be a challenge, given the coop structure of manufacturing. However, they have found ways to overcome this.

Training facility: To satisfy growing demand and in order to keep high quality they built the Gifted Hands training center in Kigali. They train workers at the center, both new and veterans when new designs/products are introduced. For example, in 2007 they brought to the center an entire coop to work on a very large order, at GYA's expense (transportation, food, accommodation). This was in the peak season.

Reasons for success:

1. Personal contacts and experience. One key determinant of their success was the fact that Joy lived in Washington DC for 15 years before returning to Rwanda in 2004. She had experience in marketing there and understands the way business is done in the U.S. She is fluent in English and has many contacts in the U.S., inter alia in the Rwanda embassy, which helped making their products visible. After the 1994 genocide Janet was working at her father's hotel in Kigali and was buying weaved baskets from local women for their gift shop. These baskets are a traditional craft, very durable, and unique Rwandan designs. After sending samples to Joy, they realized that there much potential. For

example, Joy has a friend who works for an importer, who helped writing a business plan. This friend is now a consultant for Gahaya.

2. Product differentiation, quality and value added. The baskets are custom ordered and are not the same as the ones found in Rwanda, although based on traditional Rwandan designs. The designs are protected by intellectual property agreements with the buyers and the coop producers. The baskets are carefully hand woven and are very durable. Quality is tightly controlled. They sell the final product: all processing is done in Rwanda.

3. Government involvement: The embassy in Washington DC and the mission to the UN in New York helped promoting the product. When official visitors come to Rwanda, the government brings them to GYA in Kigali to help exposure and marketing. Also, the Rwandan Development Board and Ministry of Commerce were helpful in providing managerial training.

Challenges:

1. In the beginning the main difficulty was penetrating markets and name recognition.

2. Then, it was mostly production capacity: they did not have enough skilled weavers. Although baskets were always produced in Rwanda, quality had to be upgraded and new designs introduced. In fact, different designs also require different techniques. This led to building the training center.

3. Today: capacity can be met (training is effective), but finding new markets and penetrating them is the challenge. Establishing new connections (not necessarily buyers) is very costly: paying staff abroad, shipping samples, participating in trade shows, etc. Therefore, they request the government to subsidize participation in trade shows. They plan to penetrate the E.U. and Mexican market.

SORWATHE
Cally Alles, Director General
Kigali, Rwanda, July 2, 2010

Sorwathe (ST) is a tea exporter/factory, founded in 1975; production started in 1978. It is the first privately owned tea producer in Rwanda. They account for 20% of tea exports, while their land use is 10% of land used for tea in Rwanda. The difference stems from better maintenance of trees, higher production efficiency and higher quality products. ST was founded as a joint venture with the government of Rwanda (49.5%) and Tea Importers Inc. (50.5%), a private firm incorporated in Westport, CT. Eventually, the firm was completely privatized (the government owned only 23.5% in 1998). Today Tea Importers own 80-83%, and also buy 80% of the output.

Tea has been produced in Rwanda from colonial times, for exporting to Europe. However, it was always low quality. ST focuses on high quality, continually invests in quality and is experimenting with new high quality varieties (see more below). ST is the only Fair Trade (FT) tea producer in Rwanda. All their tea is FT. They buy 75% of the tea leaf input from farmers and coops. They teach them how to comply with FT and maintain high quality. ST is currently experimenting with Organic certification.

Almost all tea is for exports. Only 2% of output sold locally. ST has a 70% share of the local market. They ship samples to all major importers. They would like to sell in South Africa (the largest market in SSA by far) directly, but cannot due to trade barriers: South Africa is not a member of a free trade zone with Rwanda, so they face high tariffs. However, this might change soon, as SADC (South African Development Community) joins a free trade zone with the EAC (authorized in 2010).

New specialty activities: They are the only Green Tea and only "orthodox" tea producers in Rwanda. These command premium prices. There is a lot of interest in these new varieties.

Orthodox tea is produced using rollers, so that the tea leaves remain mostly intact, making the tea more delicate, more flavored and not as strong as crush-tear-curl (CTC) teas normally made in Rwanda. CTC tea is produced using machines that do exactly that – crush, tear and curl – to make flakes that fit tea bags. This method produces tea that produces strong taste and colors the water quickly and densely. In contrast, orthodox tea takes longer to infuse, makes a relatively less colorful brew, but gives a more subtle taste. Therefore, it suits the specialty tea industry and therefore commands a premium.

Reasons for success:

1. Better technology.
2. Consistent high quality.

RUPARELIA GROUP
Sudhir Ruparelia (Chairman of the Ruparelia Group)
Kampala, Uganda, July 7, 2010

The Ruparelia Group focuses on services: education, finance and banking. Exporting roses is an out-of-core business that was very good for a while. Uganda has become an educational and medical hub for the region, i.e., they are exporting these services. But there is no hard data on this. Education: only very rich parents can send kids to colleges in Europe/U.S. For growing middle class, Uganda offers good quality tertiary education (BA) in English, and much more affordable. For higher degrees (MA, MBA, PhD) students still go to Europe/U.S.

The rose exporting business was big. These were cut roses, cooled and flown out to Amsterdam. Uganda has good conditions for flower growing: high altitudes and low night temperatures. The increase in fuel prices starting in 2003 rendered the industry in Uganda unprofitable. An increase in global supply depressed prices. Sudhir claims that in Kenya and Ethiopia the business is still going well. Their flower heads are bigger due to higher altitudes in which the flowers are grown; this increases the price per kilogram exported, so they are still viable. Another reason that Sudhir cites for success of the Ethiopian flower business are government subsidies, as well as World Bank, USAID (development funds, training and market research) and Dutch support.

In general, Sudhir sees an explosion of regional trade following the East African Community free trade zone. The market has expanded and the population is growing steadily. This increases demand for manufactured goods, beverages, foodstuff (maize, beans, bread, oil, salt, sugar, etc.).

GOOD AFRICAN COFFEE
Andrew Rugasira (Founder and CEO)
Kampala, Uganda, July 9, 2010

Andrew Rugasira founded Good African Coffee in 2003 (GAC) to produce, roast and export quality coffee to western markets. The goal is to capture as much of the value chain as possible. GAC serves local market as well as export, and in addition operates a small chain of western style cafés in Kampala (since 2004), which combine quality coffee with pastries and food based on local produce. GAC is self funded. To ensure supply of quality coffee beans GAC formed farmer coops for growing coffee in Western Uganda. They taught them how to process high quality fully washed coffee beans and funded capital equipment. Today more than 14,000 farmers supply coffee to GAC through these coops. Since many of the coops are located near national parks, USAID helped in educating the farmers on conservation. Andrew stresses that the involvement of USAID was limited to this activity. He is a vociferous opponent of aid and has expressed his views (“trade, not aid”) in writing and speech.

Coffee was roasted for local consumption since the 1970s by the Ugandan coffee board. GAC is not the first to roast locally, but is the first in Africa to export roasted coffee. It is the only African owned brand to export to the U.K. As such, the marketing effort includes design and careful airtight packaging.

GAC first sold roasted and ground coffee in South Africa in 2004, using a plant there. A local distributor in South Africa was instrumental in helping Andrew make contacts in the U.K. Following 14 trips to the U.K. over 2.5 years and many meetings with distributors, in 2005 GAC started to sell to the U.K. supermarket chain Waitrose. The roasting and grinding facility moved to Dublin and they pulled out of South Africa. In 2006 GAC launched their freeze dried instant coffee, which together with their roast and ground coffees was listed in the U.K. supermarket chain Sainsbury's. Freeze dried instant coffee is also sold to Tesco. In July 2009 GAC set up a roasting and packaging facility in Kampala in an attempt to do all the processing in Africa. In July 2010 GAC started selling roasted and ground coffee to the U.K. supermarket Tesco.

Learning by exporting: competing with incumbents forced GAC to be more efficient, to build brand and to improve visibility and product differentiation. Adapting products to U.K. tastes: instant coffee, as well as ground. There is a strong emphasis and packaging and design.

Challenges and difficulties:

1. Convincing buyers that roasting and packaging in Kampala is a safe mode of operation (versus the facility in Dublin) proved to be a challenge in opening the plant. Another related challenge was getting the roasting and airtight packaging equipment from China.
2. The financial sector is very narrow and shallow in Uganda. This hurts mostly small and medium size enterprises that don't have deep pockets and cash flows to use for investments.
3. Coffee is eligible to for duty free access, but this is not the point. Non tariff barriers matter more. The difficulty of obtaining a business visa as an African entrepreneur and negative prejudice towards the African entrepreneur in the West are much more problematic. This perception is very detrimental in penetrating markets. Andrew works very hard to convince that he is personally reliable, and that he can supply products reliably, given many difficulties in Africa.
4. Hard to be visible. No support from government for trade fairs (which was not the case in East Asia).
5. Logistics of exporting.
6. Difficulty to do business in Africa and to export from Africa to the West is not quantifiable.

Transportation cost is not an issue, once all the value chain is internal to the firm.

Reasons for success: Andrew succeeds only due to his passion, he says. But his exposure to Western culture is key. Personal story: Andrew's father was a businessman, since the 1972 expulsion of Asians from Uganda. In 1992 Andrew graduated the University of London in Law and Economics. This gave him cultural exposure to the U.K. Following this he worked at the Center for Basic Research, which was founded by Prof. Mahmud Mamdani (now) of Columbia University. After Andrew's father died he decided to go into business. He first built a communications consultancy firm, and then founded GAC.

LAKE BOUNTY LTD.
Prashanth Rudrappa and Saju Thankappan (Managing Directors)
Kampala, Uganda, July 9, 2010

Lake Bounty was founded in 2007 and exports chilled and frozen Nile Perch from Lake Victoria to the E.U. and U.S. and the rest of the world. There is no international aid or government involvement. Chilled fish are shipped by air to E.U. and U.S., while frozen fish are shipped by sea anywhere, via Mombasa in Kenya. More than 90% of their produce is for export, which is why they founded the firm. Chilled/fresh fillets are exported as a final good, capturing the entire value chain (up to distribution and retail in destinations). The fish are processed and packed in Uganda as a final product that shows up on supermarket shelves (or delivered to restaurants) without modifications. Therefore, they must satisfy final customers' tastes regarding packaging and presentation.

The founders (cousins) studied fisheries (as agribusiness degree) in school in India before coming to East Africa in 1995 (Saju) and 1998 (Prashanth) for work. They have worked in several firms in the industry since arriving, during which time they learned the business, in particular customer relations and quality assurance. This turned out to be critical. They are not from a business family (their father taught agriculture sciences).

While working for one particular company in 2007, a disagreement broke out between their employer and a large buyer. The buyer wanted the producer to modify processing and presentation to accommodate final customers' tastes. The producer refused. Prashanth and Saju seized the opportunity. They got into an agreement with the buyer that they will start their own processing plant and commit to satisfy any required changes in processing and presentation of final product. The buyer provided initial capital for the new processing plant as part of this agreement. Connections with other clients helped secure loans from France. Together with their own private savings, they founded Lake Bounty. Within 3 months their previous employer was out of business and 6 months after starting to process they became one of the largest exporters of fish from Uganda. They participate in trade fairs every year in April/May in Brussels. Their experience indicates that there is still scope to improvements in the product.

They have succeeded where others have failed (in particular, their previous employer) due to a more professional and organized mode of business. They have developed a reputation for high quality and reliability and clearly are amenable to modifications in their final product, as final customers require. In addition, they are focused on one business, whereas some other entrepreneurs are not.

Main challenges: freight charges and volatile local currency. The buyers give them a final price for their products, in dollars, which is CIF. All transportation costs that are local are exposed to relative price fluctuations. They must comply with GMP (good manufacturing practices) for E.U. and FDA quality assurance for the U.S. Their produce is certified as Nile Perch from Lake Victoria.

History of Nile Perch exporting: Fishing and exporting from Lake Victoria started in the 1980s, with frozen fish. In 1995/7 E.U. and U.S. discovered the market for fresh, chilled Nile Perch fillet. Processing plants were built in 1997. That is when the business really took off. Nile Perch has high nutritional value, with high omega 3 content; it is a boneless fresh water fish, with a relatively bland taste, which makes it amenable to gourmet cooking.

JAMBO PLASTICS LTD.
Rupa Suchak (CEO) and Nimesh Suchak (Director)
Dar es Salaam, Tanzania, July 12, 2010

Jambo Plastics in Dar es Salaam manufactures a wide variety of tableware, chairs, kitchen and household plastics. The firm was founded in 1995. It is a privately owned company, founded by members of the Suchak family. In 2009 the firm held 18% of Tanzania (official) exports of plastics ($431 thousand / $2.38 million of exports of plastics, HS4 3924. Data is from the Bank of Tanzania, which originates from the Tanzania Revenue Authority). Its total sales in 2009 were $2.88 million.

The Suchak family, which is of Indian origin, has been in Tanzania for 100 years. In the 1930s-40s they imported cotton. After independence in the 1960s they invested in real estate properties for rental. In 1971 Tanzania nationalized most industries, theirs included. This forced them out of industry and into trading (less fixed capital, less likely to be confiscated by the state). They eventually started importing miscellaneous products from China. In 1990s the government started giving incentives and protection to local private industries, so the family could not import competitively many of their products. Then they moved into local production of plastics in 1995.

The choice to manufacture plastic products followed knowledge of the local market (from importing activities): there was a growing demand for packaging and containers, which were their first products (buckets, jerry cans, etc.). Later they expanded in to kitchen containers, other kitchen and household plastics, tableware, chairs, etc. Contacts with friends in Kenya, who were already plastics manufacturers, assisted in staring the business. The technology is state of the art. They own 200 moulds. Products are high quality. Jambo are the only firm in the region to use Korean printing technology: prints and patterns last as long as the product does. The quality of their plastic furniture products are on par with top quality worldwide. They are regional suppliers of tables and chairs for Pepsi Co.; these bear an engraved Pepsi logo, and are very durable. They are considering more products, like beverage crates, bread baskets, etc. Jambo also conducts R&D and is considering manufacturing more innovative plastic products.

Export decision and operation: Initially Jambo served only the local market. They increased capacity to serve local markets and following the creation of the EAC free trade zone, they decided to export. Duty free access to EAC is critical to their competitiveness in Rwanda, Burundi, and the Democratic Republic of Congo (DRC). But they also export to SADC countries, with which they do not have a duty free agreement with. Their exports are shipped by sea from Dar es Salaam to Zimbabwe and Mozambique. This is the lowest cost option for exports. By land their products are exported to Rwanda, Burundi and the DRC, where there is no local production capacity in plastics. Transportation costs are much higher by land, which is why the EAC free trade zone is critical for their competitiveness in landlocked countries; without that they would not export there. But for exporting by sea tariffs of 10-15% are not prohibitive.

EAC is not only an opportunity, it is also a threat: there are other companies that manufacture plastics and they flood the markets. Jambo differentiates itself by maintaining higher quality than the competitors.

Their products have the same high quality everywhere, although the set of products differs across destinations. They were not the first to export plastics from Tanzania (at least they don't think so), nor were they the first to produce them there (they are not even sure). However, they did not learn from incumbents. In principle, they would be interested in exporting to U.S. and E.U., if the opportunity would present itself; their technology and product quality is on par with what is available there.

Penetrating regional markets was not easy. They conducted feasibility studies, which revealed demand for high quality products, higher than what was available from Kenya at the time. They studied the logistics involved in exporting by land and met with other exporters (not plastics). Their initial success was with tables and chairs; once established distribution networks, they expanded into kitchen and household plastic products. Existence of roads was critical to expansion to landlocked countries. All raw materials are imported; tariffs on inputs that are used for exports are rebated when final goods are exported.

Main reason for success: growing demand and sufficient income, in conjunction with the correct business model. Jambo does research about demand, learns from buyer, uses state of the art technology and differentiates itself by quality. Jambo responds to taste shifts.

Learning by/from exporting: In preparation for exporting Jambo has implemented ISO quality control procedures. Meeting the ISO criteria has increased their efficiency. Jambo has invested in ICT hardware and software, as well as more automation. These have streamlined both management and production.

Product innovation: Jambo is constantly introducing new products, i.e. there is a life cycle dimension. But this is not related to exports, it is shared with all their products. New products are introduced either through market surveys or discussions with distributors. They purchase new molds elsewhere; they do not manufacture molds themselves. For large enough buyers they can purchase new moulds, if asked. They can easily change colors for all products. In addition, Jambo is conducting R&D for new products on its own. They are looking into creating joint ventures with other (international) companies in order to bring to Tanzania new technologies and new products. Some of this is driven by development motives, combined with a profit motive.

Financing: there is no aid or FDI or government involvement. All investment is self financed.

Transportation costs: plastics are bulky and take much space relative to value. Therefore it is relatively expensive to export plastics, because the cost is by container, not by weight. Transportation costs are much higher by land, which is why the EAC free trade zone is critical for their competitiveness in landlocked countries; without that they might not export there. But for exporting by sea (to SADC countries) tariffs of 10-15% are not prohibitive. Since a lot of exporting is done by land, existence of roads and road quality are critical. For instance, only after roads were laid out into the DRC they could export there.

Personal background: Both Rupa and Nimesh have been educated abroad. Networking: big family gatherings serve as information exchanges.

MURZAH OIL MILLS LTD. and MURZAH SOAP AND DETERGENTS LTD.
Lakshmi Narayana (General Director) and K. Sudhakar (Finance Controller)
Dar es Salaam, Tanzania, Murzah Oil headquarters, July 13, 2010

Murzah Oil was founded in 1997 to serve the local market. It produces edible oil and soap from palm oil, and edible sunflower oil. Edible oil in Tanzania used to be imported from South Africa. Murzah's founders, the Zakaria Family (more on this below), realized local market potential and started producing for the local market. 80-85% of palm oil seeds and other inputs are imported (purchased from Export Trading Group, a large regional import and export firm), since the local producers cannot satisfy local demand. Imports of these inputs are duty free. Following the establishment of the EAC duty free zone, Murzah started exporting in 2005 and a big spurt in export activity came in 2007.

Exporting activity started following the EAC duty free zone. Although oil and soap are processed goods, the margins are low, so tariffs matter a lot for export viability. Largest destination is the Democratic Republic of Congo (DRC), followed by (not necessarily in this order) Burundi, Rwanda, Malawi and Mozambique. Murzah exports some sunflower oil to Switzerland (see below). In 2009 Murzah's export share of palm oil products (HS 151190) was 93% (this includes 2% export share of Murzah Soap) – at $3.36 million. Murzah's export share of "Other oil seeds and oleaginous fruits, nes" (HS 120799) was

34% – at $1.12 million. Murzah's export share of soap products (HS 3401) was 85% (sum of Murzah Soap at 54% and Murzah Oil at 31%) – at $13 million. Both Murzah Soap and Murzah Oil are part of the Zakaria group (more on this below).

Palm oil products are produced for local and export markets. Most of the oil is packed in 20 liter containers. Recently they have been selling oil in bulk, 20 ton shipments. Soap bars are packed ready for use, in individual packages. Note that soap bars are mostly all-purpose large bars, although there is also "toilet soap" production, which resembles soap bars found in the West. Murzah also exports soap in "noodle" form for manufacturing (an input).

The sunflower oil products are exported to Switzerland. This activity, although small, is going well. There is also some interest from the U.K. Sunflower oil production started in Tanzania 2 years ago. There are trade preferences for importing sunflower oil from LDCs into E.U. Murzah was contacted by a Swiss importer, not a result of deliberate marketing activity.

Murzah was among the first to export (but they don't think they were first). They did not follow other exporters' example and gained their own experience from exporting. Export activity required more planning, communications, documentation and tracking, organization and marketing than domestic activity. Domestic sales are purchased at company depot in Dar es Salaam. Therefore, they invested in ICT. Exporting activity involves top management from start to end, while domestic sales do not require such involvement. Exporting demands higher reliability; Murzah even receives payments in advance.

The Swiss were also interested in purchasing palm oil in bulk from Murzah, but trial shipments did not meet quantity demand and quality standards. Both capacity and quality are lacking. The main reason is that post harvest processing of palm oil (locally, and imports) are not high quality. However, sunflower oil, locally sourced and processed, is of good quality.

Quality: oil is finely differentiated by quality: age, fat content, acidity, scents and "cloud point" (temperature at which the oil becomes "cloudy"). Same quality is produced for domestic and African export markets. However, adjustment is made for colder temperatures, to avoid "clouding" of the oil.

Technology: equipment from Belgium. Murzah consulted experts in oil production from India.

Marketing: quite passive. Customers find them through their website. Once presence in one market is established with one product, other products follow. All companies in the Zakaria group assist each other in destination markets and exporting.

Financing: no international aid but some government involvement. Japan funded (non project grant) a treasury loan via the Bank of Tanzania. Other loans were obtained from the East African Development Bank and from commercial banks. All is owned by Zakaria family.

Government policy: stable and transparent policies help. Since 1995 the president has been promoting private investment. Harmonization of export duties helped too. Government imposed some duties on final goods, although not from EAC, thus protecting local industries. Continuous currency depreciations help local producers' competitiveness, although it increases cost of imports of inputs.

Obstacles: documentation for E.U./U.S. markets is a burden. Meeting quality standards there is hard. Transportation costs are high. Trains are not used for land transportation, even if cheaper: too many transfer points allow stealing and bribery.

Reason for export success: large local demand allowed lowering production costs to improve export competitiveness. Experience in trading and help from other firms in the group also contributed. Murzah has succeeded where some competitors have not. For example, Bidco Oil (also interviewed) has a much smaller share of the market. Another firm, Mukweano Industries, which was founded by a Ugandan entrepreneur, was bought by Murzah when it faced financial difficulties. Both firms have/had external links, but Murzah is local.

Story: the founders of Murzah, the Zakaria family, were importers of many products. When strong local demand for oil and soap was identified, they decided to found an oil manufacturing plant. Soap manufacturing and exporting followed. With the success in oil and soaps, other manufacturing plants were founded, some of which are synergetic to Murzah, which is the flagship company in the Zakaria group and was the base of all manufacturing activity. Other companies in the group are:

- Saafa Plastics: packaging materials (buckets, jerry cans, ect.). This firm was founded directly as a result of Murzah's packaging needs.
- Jumbo Printing Industries: printing on boxes used for shipping soap and oil, inter alia.
- East African Polyester Bags: for sugar, cement, etc.
- Alpha Matches: safety matches.
- Jumbo Confectionary: sweets.
- Sea Star Shipping Co.: shuttle between Dar es Salaam and Zanzibar.
- Alpha Pet Bottlers Ltd. (under construction): will manufacture bottles and bottled water.
- Al Na'eem Enterprises: trading arm for entire group.

BIDCO OIL AND SOAP LTD.
Hemal Shah (Managing Director)
Dar es Salaam, Tanzania, July 13, 2010

Bidco Oil and Soap in Tanzania was established in 2001 as part of a group of companies that started producing and exporting oil from Kenya, Bidco Oil Refineries Ltd. All are part of the Bidco family of companies, which includes manufacturing of clothing (since 1970), soap (since 1985) and oil (since 1991). There is no involvement of international aid or government. The decision to expand into oil production in Tanzania is part of a strategy to be established in South and East Africa, before expanding to other markets. Bidco Tanzania is the first firm in the group outside of Kenya, followed by a plant in Uganda in 2003. The Kenya plant serves COMESA, Uganda plant supplies EAC (Rwanda and Burundi), Tanzania plant serves SADC.

Market research started in 1998. In 1999 they bought a small local Tanzanian soap manufacturing firm (Shirji & Sons) and obtained contracts to supply edible oil from a third party (not Kenya mother company), to test market potential without major involvement. Bidco Tanzania was established in 2001. In 2003 they installed a refinery for edible oils (palm oil) with state of the art technology from Germany. Soap production technology is also state of the art, from Italy. This is necessary, because it is more reliable and service is not available.

Bidco performs monthly market analyses of its own products and its competitors'. They supply slightly higher quality products for a small premium. This is how they try to differentiate themselves. Bidco owns today palm trees in Kenya, Uganda and very few in Tanzania. To this end, they helped establish cooperatives in Uganda, which was very successful. But in Tanzania they cannot do this because the government does not consent. Bidco has a modern ERP system, and is upgrading it to SAP. After establishing themselves in the Tanzania market, they started exporting. They were the first to export edible oil products from Tanzania; the rest followed their example, they claim.

Products: soap is manufactured in large bars of multipurpose soap, used for laundry, washing, dishes, bathing, etc. They are trying to differentiate themselves by making higher quality soap, with higher fat content which is less harsh on the skin. They charge a premium for this. When less fat is used, it is substituted by "fillers", which are harsh. So far, this has worked for the local market, but not for exports. They are also experimenting with toilet soap, i.e. small western style bars of soap. Edible oil from palm oil is differentiated by quality: more pure oil and less fat constitute higher quality. In colder climates one must have a higher content of pure oil to allow a lower "cloud point" (the point at which the oil becomes cloudy).

Exporting: to Zambia and Democratic Republic of Congo (DRC), the largest destination market. Zambia became a viable export market when it joined SADC in 2008. But exporting to Malawi is not viable, due to a 10% import tariff (even though it is in SADC). Duty free access to markets is critical, because margins are low. Before exporting, Bidco does market research and participates in local trade fairs. Exporting to DRC is done by importers from that market, who send their own trucks to Dar es Salaam. Bidco exports directly to Zambia, where it has a depot and employs some marketing staff. Almost all exports are of edible oil: in 2009 Bidco's export share of "Other oil seeds and oleaginous fruits, nes" (HS 120799) was

40% – at $1.33 million. Bidco's share of soap exports from Tanzania was negligible, at $3,679. Bidco finds soap exports not viable. Imports of crude palm oil for inputs are duty free. Exports of oil are of higher quality overall, not just due to lower cloud point.

Learning from exporting: since raw materials are imported, they are exposed to exchange rate risk. Exporting is a way to hedge against such risk. Increasing volumes via exporting helps cover overheads. This makes them more competitive both domestically and in exporting. The export division needs to be better organized in order to deal with more documentation, complicated logistics, etc.

Challenges and problems: corruption from competing firms, who cut deals with government, avoid taxes (Bidco is largest tax payer in industry), import on grey market, undervalue exporting and domestic sales, declare domestic sales as exports to avoid 18% VAT, etc. Land transportation is a problem and the train is not efficient. The port is congested and inefficient. All these add to shipping costs.

Reasons for success: Bidco is a firm that focuses on core competencies. They even turned down offers from E.U./U.S., in order to focus on their core markets. Competitors do not focus and therefore fail. They have established a reputation for reliability and quality. They also have unique technology to produce specialty fats for bakeries for use in pastries. Competitors do not have this technology.

VICFISH LTD.
Harko Bhagat (Managing Director and founder)
Dar es Salaam, Tanzania, July 15, 2010

Vicfish is a privately owned firm that exports Nile Perch from Lake Victoria. It was founded by Harko Bhagat with his own capital (no external finance whatsoever). This is the **first Nile Perch exporter**. It is part of the Bahari Bounty Group (also founded by Harko). The Bahari Group includes the food processing company Gahari Food Ltd. and the agriculture product processing firm Agrotanga Ltd. Harko also founded the Lake Victoria Fish Processors Association in Tanzania and has recently returned to head it.

Harko received his BSc in chemical engineering in Canada, and then returned to Tanzania. At first he worked in publishing. At some point a businessman he knew (not family, an acquaintance) in London asked Harko whether he could supply prawns from Tanzania, where they are abundant and labor is cheap. This encouraged Harko to start his own business. This was a fairly safe bet, since he had a significant client and he soon realized that there are large margins in exporting prawns. This is how he entered business: by chance.

After some time exporting seafood Harko learned (word of mouth) that there is a shortage of white fish in Europe and U.S. markets (1992/3). Following some research, he realized that this is potentially a huge market. Fishing was always done in Lake Victoria, so the potential to harvest fish in the lake was there. After securing a customer in Europe, he built his own fish processing plant (5 ton/day), using his own capital (although that initial buyer eventually failed to buy). Once other importers of fish in Europe heard about the high quality and competitive price of the product, the business took off quickly and others started their own fish processing plants. Today Vicfish has a 100 ton/day capacity.

Initially the exports were frozen fish. The jump in business came following harmonization with European fish processing plants in 1996/7: this allowed them to export chilled fish. It took some effort by Harko, as head of the fish processors association, to convince other producers of the importance of the harmonization and to make the necessary investments (he recalls complaints of lack of proper infrastructure). Eventually, the harmonization took place and this gave the industry its big push. Cash flow went up because for frozen fish the turnover time is 90 days, whereas for chilled fish it is less than a week. The product is sold and packed so that it can go directly to the shelf in supermarkets, as well as to restaurants.

The fish processing industry in Tanzania is the only one in the region that took off without foreign aid or government support, Harko claims. He argues that this is why they were able to grow so quickly and succeed. They financed themselves, free of constraints from banks, the government and international financial institutions. When they started in Mwanza (where most processing plants are located), it was nothing more than a fishing village. Today Mwanza is prosperous, and is bigger than Arusha.

Since they are far from the customers, Vicfish constantly consults their buyers to detect demand shifts, changes in tastes. They work hard to satisfy final demand in all dimensions.

Fish imports are duty free to Europe. This is critical: without this the business would not be viable.

Currently, there is overfishing in the lake, mostly illegal. This affects the size of the fish. The illegal fish are mostly shipped to the Democratic Republic of Congo. The fishing association created its own police to curb overfishing. Through a deal with the governments of Tanzania, Uganda and Kenya, violators are sanctioned. This is the only example of this kind of self-police, worldwide.

Relationship with government

1. The government does not respond to business needs. It is not willing to invest in extending the runway of the airport in Mwanza by only 200m. Therefore they are often forced to truck their produce to Entebbe or Nairobi and fly out from there. This adds significantly to costs. If the government would extend the runway, there could be some externalities. They could charter larger planes from Capetown, South Africa, to pick up flowers in Harare, Zimbabwe, then make a stop in Mwanza for fish and then fly to Europe. They could even export fruit directly to Europe, as Mwanza is rich in tropical fruit (e.g., mangos). The businesses involved in this are ready to cooperate, but there is no positive response from the government.

2. They must pay an export tax, in addition to many local taxes.

Future business development

1. Vicfish is the first processing firm to gain Fair Trade certification (from Germany).
2. Other foodstuff. Harko wants to replicate the success with fish with organic meat. The vision is to create a complete infrastructure for exporting organic beef and chicken (both chilled, not frozen) to the E.U. This will be feasible if the entire upstream industries (food for cows and chicken) are competitive. Harko is trying to get other entrepreneurs involved, as well as some government support, because this can create food supplies for locals, as well as exporting. For now he on his own, using the two other firms in the Bahari Group, the food processing company Gahari Food Ltd. and the agriculture product processing firm Agrotanga Ltd. They are already almost the largest poultry producer in Tanzania and now moving into beef. All of which is organic, although not yet formally certified as such. They use a local breed of chicken that satisfies the local taste for chicken.

CELLO INDUSTRIES
Vishal J. Divecha (Chief Accountant) and Saira Nathoo (one of the founders, out of 3)
Dar es Salaam, Tanzania, July 16, 2010

Cello Industries manufactures a wide variety of tableware, chairs, kitchen and household plastics (800 varieties). The firm was founded in 2004, and production started in that year, with 5 machines and 50 employees. Within one year they doubled capacity to 10 machines and a subsequent large expansion took place in 2007/8. Today they have 40 machines and employ 400 workers. It is a privately owned company, founded by three partners. In 2009 the firm held 9% of Tanzania (official) exports of plastics (Tsh 327 million / Tsh 3,562 million of exports of plastics, HS4 3924. Data is from the Bank of Tanzania, which originates from the Tanzania Revenue Authority).

Before Founding Cello the partners operated an imports/trading company. They imported from India pens, rulers, etc., as well as some domestic plastic products (e.g., laundry baskets). They realized that there is growing demand for plastic products, but that the products available for imports were of low quality and relatively high price. Most of these imports were from Kenya, at high prices. Also, local production was very concentrated; the few local incumbent plastics firms had much monopoly power, which also contributed to high prices. They conducted a market study and discovered potential for a larger variety of plastic products than what was available at the time. Subsequently they founded a plastic manufacturing firm, with technical assistance from Cello India, a firm from which they were importing, but they are not financially tied to, nor are there direct family ties between owners (but this is obviously an effect of the Indian network). They decided to supply local market with higher quality at lower costs relative to the imports hitherto. They decided to invest heavily in state of the art (German) technology for injection molding and for printing. Hence, their products are very durable. Their first products were chairs and tableware. Similar imported products were typically selling for 6-7,000 Tsh in 2004, when they started producing. Their substitute products (with higher quality) sold for 5-6,000 Tsh. This was the impetus to their success. Today they manufacture a wide variety of tableware, chairs, kitchen and household plastics.

They manage to succeed by keeping prices low without sacrificing quality, so they have built – over a relatively short period – a very strong brand. Their products are displayed in many stores and consumers recognize the brand. However, they cannot charge a premium on this brand. Their only advantage is that at the same price people will tend to buy their product because it is recognized as higher quality. At a slightly higher price Cello reports that people do not buy and will opt for the cheaper product, even though it is of lower quality product.

Technology: The firm owns over 800 molds, each of which corresponds to a different product. They can modify colors and also slightly modify designs. The technology is state of the art, purchased from Germany. They must use state of the art technology because it is more reliable; there are no qualified technicians in Tanzania to fix problems and replacement parts take long to arrive. Cello India – which is *not* affiliated, this is not FDI – advised on technological choices.

Marketing strategy: Cello targets poor consumers, although their products are of high enough quality that even some rich consumers purchase their products. Cello does not engage in much active marketing. Most of their sales occur directly from their factory shop, either by final customers or by distributors. It is also possible to order by email or by phone. However, they do not have an online catalogue. They do not have a sales/marketing team. No advertisement. Instead, they argue that their products self promote themselves, since their quality is recognized by consumers and the customers are the best sales promoters. All their products have their logo and address on them. The reason for not having a website is fear from imitation: if a new product was available to view online, then their competition could easily imitate, because there are no property rights (trademarks) on designs of plastic products. Cello claims that their quality is higher (durability, strength, appearance, colors, finishing and smooth edges, etc.). This is how they differentiate themselves. Although competitors can imitate their products once they are sold in the markets, there is a time lag before they can obtain a new mold. This lag is long enough for them to capture the market for new products, so that competitors gain only a small share upon entry. They provide exporting service to some buyers that do not have the capacity to deal with the logistics and paperwork.

Cost is the most important criterion for consumers; consumers are not very loyal because they are poor, so they go with the cheapest product. Cello's strategy is to sell at the lowest price (slightly lower than competitors) with higher quality than the competitors. They compensate for higher unit costs by larger volumes. Also, they respond quickly to orders and are keen to accommodate buyers' demands for modification of designs and color. They have 40 distribution vans for the local market. Importers typically come to the factory with their own (or rented) hauling vehicles. They import all raw materials through the port of Dar es Salaam.

Export decision and operation: Initially Cello served only the local market. Then they realized that some of their buyers were actually exporting. These importers came to their show room on the factory premises. Eventually, when production volumes became high enough, they decided to export themselves. They claim that probably 30% of their products overall are exported, but only 11% of their products are exported directly by them (this 11% is calculated from combining their total sales of 3,562mn Tsh in 2009 and total exporting of 327mn Tsh reported in the export data from the Bank of Tanzania). They know that some of their buyers come to them from other countries and are shipping outside of Tanzania. Most importers do all the logistics on their own. Cello provides export/import logistics services for importers that do not know how to deal with the logistics and the intricacies of passing through the port of Dar es Salaam. Their exports go by sea from Dar es Salaam to Zimbabwe, Mozambique, Dubai and Kenya (Mombasa). This is the lowest cost option for exports. By land their products are exported to Rwanda, Burundi, and the Democratic Republic of Congo. Their products have the same quality everywhere, although the set of products differs across destinations. Cello was not the first to export plastics in Tanzania, nor was it the first to produce them there. However, they did not learn from incumbents. Cello does not learn from exporting or improve efficiency to do exporting experience: they were trying to be efficient anyway. They do not engage in a lot of direct exporting, since most of their produce that is sold in other countries is bought in Dar es Salaam by foreign distributors (importers), so there is no need to improve logistics. They export to the EAC duty free. This is very important for their competitiveness in other countries. Outside of EAC they face 10% tariffs.

Product innovation: Cello is constantly introducing new products, i.e. there is a life cycle dimension. But this is not related to exports, it is shared with all their products (they export regionally). New products are introduced either in response to market surveys or discussions with distributors. They purchase new molds elsewhere; they do not manufacture molds themselves.

Financing: there is no aid involvement. Almost all investment is self financed. They have an overdraft facility from their bank for short term working capital needs (this is an expensive loan).

Challenges: workers at the port of Dar es Salaam are not incentivized to work. They do not know how to use computer software. An existing system should have made the port more efficient, but eventually creates more backlogs because users lack skills while use of the system is mandatory. Ships wait very long outside the port to enter. You can see them anchoring in front of all beaches in Dar. Land is expensive. Slums encroach on the city center and on industrial areas, so there is not much available land. Power shortages are a problem, so they have their own generator (typical in Africa). In addition, there are water shortages. So they dug their own bore hole and treat the water before industrial use.

Comments: although a very successful firm, they do not seem to have a true export business model. The fact that they do not actively seek export markets and mostly wait for importers to contact them is inconsistent with that paradigm. Related to this, their life experiences did not include much foreign exposure or education abroad. Compare to Jambo Plastics, who export twice as much value and are more export intensive.