EA Fruits Farm & Co Limited

EA Fruits Farm & Co Limited (East Africa Fruits or EA Fruits) is a social enterprise based in Dar es Salaam that is turning food waste into economic opportunities for smallholder farmers. The company purchases fresh fruits and vegetables from smallholders – grown on their own land or that provided by the company – and cleans, sorts, packs, and distributes for the end customer. Through an efficient cold storage and distribution system, EA Fruits can significantly reduce post-harvest losses and trading costs, resulting in high-quality products for its customers and fair prices for its suppliers.

The company is led by 2 energetic entrepreneurs – Elia Timotheo and Peter Msafiri – who first began the business in 2011. The company has steadily grown and is now scaling and formalizing its collection and distribution infrastructure. Construction is underway for a new, central facility in Dar es Salaam, and development of regional collection centers will begin over the next 2 years. Looking ahead, CEO Timotheo has a big vision for expanding EA Fruits to other countries in Africa, Asia, and Europe. But the business model must first prove its ability to generate strong financial and social returns in Tanzania.

The Opportunity: Turning Agricultural Waste into Farmer Incomes

In East Africa, nearly half of all agricultural produce goes to waste. Poor production practices, lack of storage options, and a highly fractured trading system all contribute to the high post-harvest losses that occur between farm and fork. Each year in Tanzania alone over 4.5 million tons of food are wasted – a total value of $800 million. Produce that does make it to market must pass through a number of traders and middlemen, which increases prices significantly. By the time a product reaches its final consumer, it can cost as much as 4 times what was initially paid to the farmer.

Yet the demand for fresh produce in the region is increasing as population and urbanization rates continue to grow. Through a more efficient storage and distribution system, EA Fruits seeks to meet this increasing demand by cutting out waste between farm and market. This requires cold storage technology and streamlined logistics, but presents an opportunity to deliver more volumes more efficiently. By cutting out the middlemen, such a system can also generate greater profit margins which can be returned to smallholder farmers in the form of higher prices.

1 Personal interview and site visit with Elia Timotheo, CEO, and Peter Msafiri, marketing director, of EA Fruits on March 24, 2016.
The Model: Managing Logistics from Farm to Fork

EA Fruits does not engage in direct production of the horticultural crops it sells. Instead, it focuses on developing and managing the collection, transportation, packaging, and marketing for fruits and vegetables grown by smallholder farmers across Tanzania. The company seeks to empower farmers to maintain autonomy over their own farms and crops, while providing support in using good agricultural practices and choosing crops that will be profitable. For the past 3 years, EA Fruits has been aggregating produce from farmers and selling it in Dar es Salaam, but it has had to rely on rented trucks and storage space, driving up costs. Over the next 3 years, the company seeks to solidify its relationship with its suppliers and develop its own cold storage distribution system, including a larger processing facility in Dar es Salaam. The business model requires the company to remain engaged across the entire agricultural value chain – indirectly supporting production and directly managing collection, transportation, processing, and sales.

Production: Smallholders & Franchisees

EA Fruits works primarily with farmers who have access to and use their own farmland. But the company also owns and outfits a small portion of land that “franchisee” farmers can use for production of crops under the EA brand. The company has a total of 110 hectares (ha) on which it has built a farmhouse, drilled a borehole, installed irrigation, and constructed 2 greenhouses. Currently, hired workers are maintaining the land, using the greenhouses for tomatoes and peppers; irrigating open fields for watermelons, tomatoes, and peppers; and using rain-fed fields for pineapples. Ultimately, however, there will be a total of 15 greenhouses and 15 franchisees, each with their own block of land. These farmers will not be required to pay EA Fruits for use of the land or equipment, but they will be under contract to sell yields to the company. They can choose what they wish to produce before the contract is structured, and compensation is based upon the prevailing market price plus a premium for quality. A transparent and competitive pricing system is meant to incentivize a higher quantity and quality of production by the franchisee farmers. This franchising model allows EA Fruits to remain engaged in the production side of its operations and pilot certain crops and techniques on its own land.

The more prominent way EA Fruits sources its produce, however, is through smallholder farmers. To-date, aggregation has occurred in an ad hoc manner, but the company is developing a network of collection centers to formalize its engagement with these suppliers. Between 2016 and 2017, 6 collection centers will be built across Tanzania, primarily in the northern and southern highlands. At each center, EA Fruits hopes to reach 200 farmers living within a 15-20 kilometer radius through extension services and the purchasing of crops. Over time, these centers will serve as resource hubs where farmers can access information on where to obtain credit services, purchase inputs, and hire equipment and services. A partner organization will be engaged to set up this smallholder program and provide the complimentary services required to support their production.

Similar to the franchising model, smallholder farmers will have a formal contract arrangement with EA Fruits and will be compensated based on the company’s set prices for various

2 The farmers from whom EA Fruits sources typically have plots of approximately 0.5-1 ha.
3 Collection centers are planned for Kilimanjaro, Tanga, Morogoro, Mbeya, Iringa, and a sixth location which is still to be determined.
levels of quality. The farmers determine what they will grow – crops in high demand include mangoes, oranges, tomatoes, and onions – before the contracts are negotiated. The company plans to leverage its competitive prices to secure farmer loyalty and incentivize the production and delivery of consistent quantities and quality. A system is also being developed to help smallholder suppliers build their credit worthiness through “liquid paper.” Farmers will receive an electronic receipt for the delivery and payment of their produce, and their performance with the company will be tracked over time. 2 financial organizations have already committed to accepting this liquid paper as a form of collateral for microfinance loans – the Tanzania Agricultural Development Bank and Kiva. Over the long-term, EA Fruits would like to see its suppliers managing their farms in a financially sustainable manner and investing in improved technology to improve their production practices (for example, through greenhouses or irrigation).

Collection, Transportation, & Processing

The first 2 collection centers will be completed by the end of 2016, with the remaining 4 coming online in 2017. These cold storage facilities will be solar powered and serve as the point of entry for fresh fruits and vegetables into EA Fruits’ supply chain. Once produce is delivered to a collection center, it will be inventoried and scheduled for pickup. Its source will also be documented at this time so that its exact origin can be traced throughout the process. A chief operating officer, based in Dar es Salaam, will coordinate logistics among the collection centers, dispatching cold storage trucks to pickup produce for transport along the most efficient routes possible. Upon delivery to the central processing facility in Dar es Salaam, the produce will then be cleaned, sorted, packaged, and stored until final shipment to the customer.

Over the next year, EA Fruits will procure a fleet of vehicles to support the transportation and distribution of its products, approximately 4 trucks and 4 motorbikes in total. Construction of the central processing and storage facility in Dar es Salaam is already underway, with plans to be fully operational by the end of 2016. Owning and operating its own vehicles and facilities will vastly reduce EA’s costs over the long-term and enable the company to achieve its mission of bringing produce to market with zero waste. A well-managed cold storage distribution system can extend the shelf life of products and reduce the time required to transport them to market.

Sales & Customer Care

EA Fruits is focused on marketing its products to retail outlets both domestically and regionally (and eventually internationally). The leadership sees an opportunity to replace imports of fresh fruit and juice concentrate in Tanzania and meet the demands of a growing middle class that now prefers shopping in supermarkets. Currently, however, only 25 percent of EA Fruits’ sales go to retail stores and kiosks, while 30 percent go to hotels and restaurants and 45 percent go to wholesale markets. The company hopes it can shift some of its wholesale channel into retail once its new distribution infrastructure is up and running. This system is designed to store larger volumes of product for longer periods of time, thus removing the need to sell excess product to wholesale customers. The target is to reach 60 percent sales in retail and 10 percent in wholesale.

4 To-date, approximately 50 percent of the company’s costs have come from rental fees associated with trucks and storage.
Through its sales and marketing functions, EA Fruits seeks to differentiate itself by providing high quality customer care. It is one of the first companies in Tanzania to advertise free replacement of spoiled or low quality products. Maintaining strong relationships with its customers through such service is a major component of the company’s value proposition.

**Finding Funders: More than just Financial Support**

Timotheo will admit that when they first began looking for financing the company was little more than just an idea. When one of the first funders showed up for a site visit, all that existed was less than a hectare of pineapples and a mud hut. The company first got off the ground largely through the support of its 6 original shareholders.\(^5\) These initial shareholders include the mother of Timotheo (herself an entrepreneur) and the father of Msafiri, who each contributed financial support to the young venture.

While still in its early stages, several investors did see the potential in EA Fruits and stepped in with equity or debt. The first was an angel investor from Belgium who was introduced to EA in 2013 through the BiD Network. Providing $65,000 in exchange for an equity stake, the angel investor encouraged EA’s leadership to further formalize its plan. This strengthened the company’s financial position considerably and made it more attractive for the approval of a loan from the Tanzanian Investment Bank (TIB), one of the largest banks supporting agriculture in Tanzania. TIB’s support further increased investors’ confidence, and in 2015 AgDevCo also committed $400,000 in debt to EA Fruits to be utilized over a span of 2 years. As a social investor, AgDevCo is able to take on more risk than other credit providers, offer deeper technical advice, and provide more flexible repayment terms. Through its lengthy due diligence process, AgDevCo helped EA Fruits strengthen its operational structure and set up a framework for tracking social impact. This loan, however, is in U.S. dollars presenting a challenge for the company which primarily operates in Tanzanian shillings. Finally, Fledge LLC – a U.S.-based accelerator where Timotheo spent 10 weeks incubating the EA Fruits business model and building a strong investor network – holds a small equity stake in the company.

EA Fruits has also secured several grants and awards – both direct investment and long-term commitments – to finance its operations. Grants of $250,000 and $150,000 from the Africa Enterprise Challenge Fund (AECF)\(^6\) and an African Entrepreneurship Award,\(^7\) respectfully, will be used for building the collection centers and funding working capital to purchase crops from smallholder farmers. An additional $5,000 in prize money was awarded to EA Fruits in 2015 from SEED Africa. Beyond the money, each of these early financial partners has provided a tremendous amount of mentorship to EA Fruits while its leadership was developing and launching the company.

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\(^5\) 1 of the original shareholders has since left the company.
\(^6\) The AECF awards funding to private companies through rounds of competition. It is a partnership initiative of the Alliance for a Green Revolution in Africa (AGRA) and is managed by KPMG International Development Advisory Services (KPMG IDAS).
\(^7\) The African Entrepreneurship Award provides mentorship and funding to African entrepreneurs and is managed by BMCE Bank of Africa.
Returns: Financial and Social Targets

In 2015, EA Fruits brought in $660,000 in revenue. A majority of this, approximately 80 percent, was from the sale of produce grown on smallholder farms, while the remaining 20 percent was from company-owned land. Although EA Fruits is still operating at a loss, it expects to break even in 3 years’ time. Growth in both its net profit margin and revenues are expected, with these figures rising to 2 percent and $1.3 million after 1 year, 10 percent and $2.1 million after 3 years, and 19 percent and $7 million after 6 years, respectively.

As a social enterprise, EA Fruits is also concerned with the socioeconomic impact of its business on the community – specifically, on the smallholder and franchisee farmers with whom it works. 3 of the company’s partners – AgDevCo, AECF, and SEED Africa – are also interested in defining and measuring metrics to track the company’s impact on crop yields, post-harvest losses, household income (female income in particular), child education, and water supply. Beyond such metrics, EA Fruits is collecting qualitative information from farmers on the challenges and concerns they face so as to better adjust their services and agricultural support for suppliers. Some of the most pressing issues farmers have shared to-date involve market access, pricing, and access to credit.

The company has found initial signs of positive impact on farmer incomes. Smallholder farmers who participate in the EA supply chain have, on average, increased their incomes from $640 per year to $1,700. Once the collection centers are operational, EA Fruits anticipates incomes to rise again, to $2,500 per year. Franchisee farmers are expected to earn $2,000 per year under the EA business model, slightly lower compared to other supplies but many of their production costs have been covered by the company. Currently, the company is working with 254 smallholder farmers but seeks to reach 3,000 smallholders and 15 franchisees in the coming years.

Future Threats and Concerns

Timotheo has a big vision for expanding EA Fruits in the future, both regionally and internationally. But they must first get the model right in Tanzania, a task threatened by several social, economic, and logistical issues. Internally, as the company continues to grow it will need to expand its staff and recruit the appropriate technical expertise. Key roles that will need to be filled include that of chief operating officer and farm manager. However, the cost of staffing has been extremely high, forcing the company to consider alternative ways to find good talent. One approach they are exploring is partnering with an NGO to have volunteers come work with EA Fruits for a set period of time.

Another ongoing challenge has been raising funds. Although financing options are available, it has been difficult for EA Fruits to align the interests of potential funders with its own timetable and financing needs. This will continue to be a challenge as the company seeks to identify an additional $300,000 of capital. Furthermore, of its existing funding, EA Fruits currently has a U.S. dollar loan and needs to quickly find a revenue stream in the same denomination in order to hedge the risk of dollar appreciation. While exploring export opportunities, EA Fruits is
also in discussions with some of its hotel customers about the possibility of receiving payment in dollars.

And finally, one of the most critical threats to EA’s continued operations is the commitment and loyalty of smallholder and franchisee farmers. EA Fruits will need to offer attractive prices and favorable extension services to make it an attractive business proposition for the farmers to continue supplying to the company. Additionally, the company will need to develop a system for ensuring adherence to a set of quality standards. EA Fruits hopes that it can establish such a structure through a positively reinforcing cycle whereby competitive prices incentivize farmers to deliver high quality products; high quality products fetch good prices while an efficient cold storage distribution reduces costs; and strong profit margins can be used to pay the competitive prices that incentivize farmers.