



GrowAsia



Case Study
Coffee Sector in Indonesia
Business Model



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1 Overview

Indonesia is among the largest coffee producers in the world. In terms of Robusta coffee, which makes up approximately 85% of Indonesia's total coffee production, Indonesia is the 3rd largest producer and 2nd largest exporter in the world. More than 60% of Indonesia's Robusta production comes from South Sumatra, with an estimated 0.5 million smallholder farmers in the region¹.

Compared to other crops such as cocoa, rubber and palm, coffee produces competitive net income potential to smallholder farmers – approximately US\$800 per hectare per year². However, robusta coffee yields in Indonesia have stagnated over the past two to three decades, and remain around 0.5 MT/ha currently³. In contrast, average yields for coffee farmers in Vietnam are more than three times higher⁴.

^{1,2,4} Sustainable Coffee Program, Indonesia – A business case for sustainable coffee production, 2014

³ Neilson, The value chain for Indonesian coffee in a green economy, 188

2 Challenges

Minimal fertilizer use, aging tree stock and poor agricultural practices have resulted in low productivity. As a result, exporters face higher unit costs for verification and certification, making it a challenge for the Indonesian coffee industry to meet increasing global demand for sustainable coffee. There is significant potential to improve coffee yields by improving awareness and adoption of improved agronomic practices with minimum additional cash outlays by farmers.

3 The Project

As a solution to challenges in the sector, PISA Agro Coffee Working Group (WG) brought together industry players and Indonesian Government officials with the goal of empowering 20,000 smallholder farmers by 2020 and improving outcomes in coffee quality, coffee output, coffee sustainability, and farmer incomes. In line with the Grow Asia approach, the WG aims to achieve this through multi-stakeholder collaboration where actors seek a common good to create inclusive, sustainable change in the coffee value chain.

The program targets Tanggamus district, Lampung province in Sumatra, which is the second largest coffee producing province after its neighboring South Sumatra province.

Based on the challenges the coffee WG identified, the WG has adopted the following strategy. By providing farmer training, improved seed varieties, traceability and access to finance, the WG aims to improve the farmgate price for smallholder coffee farmers. This strategy is executed through project sub-components, with the lead company Nestlé playing a strong role in coordinating among the different sets of stakeholders.

4 Stakeholders

Government

- Ministry of Agriculture, Indonesia

Private

- Seeds: Indonesian Coffee and Cocoa Research Institute (ICCRI)⁵
- Crop protection: Syngenta
- Fertilizer: Yara
- Local integrators: Kelompok Usaha Bersama (KUB)⁶
- Banks and digital finance: BTPN, Telkomsel, Rabobank Foundation
- Off-taker: Nestlé (leader)

NGO

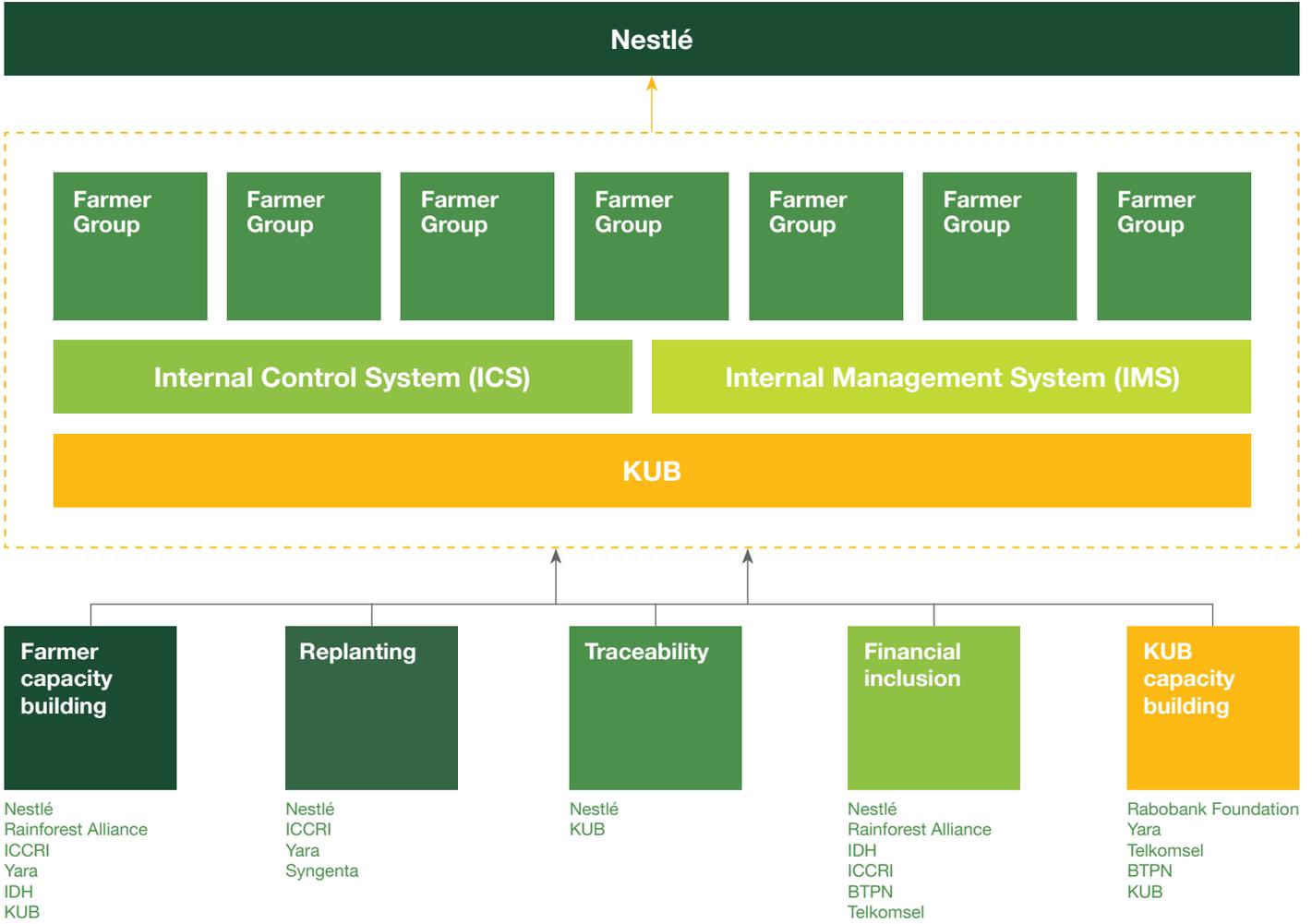
- Training: IDH, Rainforest Alliance

⁵ ICCRI is a state-owned enterprise.

⁶ A KUB is an independent organization that was established to organize farmer participation in the value chain project. In the early phases of Nestlé's operations in Tanggamus, Nestlé realized that it could not work alone in organizing farmers and building capacity for them. Nestlé took the strategic step to work with informally operated integrators in its network and support them to become KUBs.

5 Core Activities and Structure

Legend
KUB



Farmer capacity building

Nestlé

- Provides training to farmer groups on quality (defect factor, dryness level, flavor)
- Provides funding for module development and training delivery to Rainforest Alliance
- Monitors Training of Trainers (ToT) and farmer training
- Develops Edu Farm as nursery and learning center
- Develops demo plot as learning center for model farm

Rainforest Alliance

- Develops six training modules with supports from ICCRI, based on Nestlé's Nescafe Better Farming Practices (NBFP)
- Provides Good Agriculture Practices (GAP) ToT to KUB
- Provides 4C (Common Code for the Coffee Community) Certification to eligible farmers
- Provides ToT on livelihood and financial literacy as part of advanced farmer training modules

ICCRI

- Provides technical assistance at Edu Farm and demo plots
- Provides technical assistance on pruning, fertilizing, and protective plant management at demo plot
- Provides technical assistance to encourage independent nursery for locally developed seeds

Yara

- Provides technical assistance on how to use fertilizer in Edu Farm and KUB's nurseries

IDH

- Provides financial support for GAP training program and farmer 4C Certification

KUB

- Acts as main intermediary between WG partners and farmer groups, with around 2,000 farmers in each KUB
- Announces daily price to farmer for transparent and fair pricing
- Provides quality control of bean from farmer
- Provides Good Agriculture Practice (GAP) training to farmer and facilitate 4C certification process
- Develops farmer field school (*sekolah lapang*) as training centers
- Appoints ICS staff who coordinate farmer groups, lead farmer trainings and monitoring at field schools. There are 40 ICS staff across the 8 KUBs, each handling around 10 farmers groups each.
- Through ICS staff, provides feedback to WG partners to facilitate program improvements

5 Core Activities and Structure

Coffee replanting

ICCRI

- › Sells coffee plantlets to Nestlé at market rate
- › Supervises activities at Edu Farm nurseries
- › Provides support to KUB to monitor farmer replanting activities
- › Provides technical assistance on land clearing and land replanting
- › Conducts research and testing for super clone seeds in demo plots

Nestlé

- › Oversees program where farmers replant 10% of their trees every year
- › Provides free and subsidized plantlets to farmers
- › Monitors plantlets distribution and replanting activities
- › Subsidizes the cost of starting up a local nursery to produce future plantlets

Yara

- › Sells fertilizer at market rate to farmers through KUBs

Syngenta

- › Develops nursery protocols
- › Oversees plant nutrition at nurseries
- › Supplies crop protection at nursery

KUB

- › Organizes distribution of plantlets for replanting
- › Develops nursery that sells plantlets to farmers

Supply chain of traceable sustainable coffee beans

KUB

- › Buys 4C coffee beans from farmers and sells to Nestlé
- › Pays premium for 4C produces to farmers
- › Ensure traceability of coffee beans
- › Appoints Internal Management System (IMS) staff who handle farmer information, which is key for traceability

Nestlé

- › Buys 60% - 70% (20,000 tons) of 4C farmers' production annually from KUBs
- › Recommends supply excess to export-oriented buyers
- › Provides tracking system for traceable produce
- › Provides training for traceability and premium payment to KUB
- › Monitor traceability program in KUB

Financial inclusion

Rabobank Foundation

- › Provides low interest loan to KUB for farmer loan
- › Provides training and consultation for loan management to KUB

Yara

- › Provides inputs that the KUB disburses to farmers as part of the loan package (in-kind)

Telkomsel (T-Cash)

- › Promotes digital finance through Telkomsel mobile banking and support cashless transaction; bundle with BTPN WOW to farmer

BTPN

- › Provides Branchless Banking service to farmers through agents
- › Provides ToT on financial products and services, including branchless banking and digital financial service to KUB staff
- › Provides consultation on payment system to KUB

KUB

- › Disburse loan to farmer
- › Receive repayment of loan in the form of coffee bean every coffee season
- › Monitors loan disbursement and payment
- › Facilitates bank account opening of farmer
- › Promotes branchless banking and mobile money use among farmers

KUB Capacity Building

Nestlé

- › Provides technical assistance on quality control
- › Provides management training and support to KUB
- › Provides tracking system, traceability and premium payment training
- › Provides support to KUB for recruitment and training of ICS and IMS; also subsidizes remuneration

BTPN and Telkomsel

- › Provides ToT on financial products and services, including branchless banking and digital financial service to KUB staff
- › Provides consultation on payment system to KUB

IDH

- › Provides capacity building to KUB for loan management and accounting

Rainforest Alliance

- › Provides GAP ToT to KUB ICS staff
- › Handover GAP modules to KUB at the end of program

Rabobank Foundation

- › Provides training on loan management

ICCRI

- › Provides consultation for on-farm technical assistance to ICS

6 Progress and Achievements

Progress and Achievements				
Farmer Capacity	Plantation	Productivity	Profitability	Financial Inclusion
<ul style="list-style-type: none"> ➤ 18,000 farmers trained and certified with 4C standard ➤ 8 KUBs with 20,000 farmers registered ➤ 40 ICS staff trained ➤ Strengthened KUB management 	<ul style="list-style-type: none"> ➤ 3 million new coffee trees (replanting) ➤ Lower mortality rate of plantlets in nursery – reduced from 4% to 2% ➤ Good Agriculture Practice: from ‘coffee forest’ to coffee plantation 	<ul style="list-style-type: none"> ➤ Average increase in production of 1.2-1.3 tons/ha, from 0.8 tons/ha ➤ Improved quality with lower reject rate (From 15-20% to 8-9%) ➤ Supply of 20,000 tons annual traceable coffee beans ➤ Supply of export quality beans from 8 KUBs 	<ul style="list-style-type: none"> ➤ Net income (from increased production and 4C premium) increased by more than 80%, from IDR 9 million per year to IDR 17 million per year. 	<ul style="list-style-type: none"> ➤ Piloted in KUB Robusta Prima 14,000 farmers using savings account and T-Cash ➤ 280 branchless banking agents in Tanggamus area, including farmers and ICS staff ➤ Financing program piloted in KUB Robusta Prima ➤ KUB trained on loan management and accounting ➤ Disbursed loans to 201 farmers, for a total loan portfolio of IDR 1 billion

7 Timeline

Pre-Working Group		Coffee Working Group			
2012	<ul style="list-style-type: none"> ✓ R&D plantlets with <i>root cutting</i> method (Nestlé and ICCRI) 	2013	2014	2015	2016
	<ul style="list-style-type: none"> ✓ Capacity building for Farmer (focus on coffee quality) (Agri-service of Nestlé) ✓ Establishment of KUB and recruitment of ICS (champion farmers) (Nestlé) ✓ Development of basic modules, piloting, TOT for ICS (Rainforest Alliance) 				
		<ul style="list-style-type: none"> ✓ Nestlé and ICCRI assist farmer with GAP, and continue research for “Super Clone” seeds ✓ Development of Edu Farm ✓ Replanting process of up to 10% area per annum ✓ ICS started “Field School” for farmers 			
				<ul style="list-style-type: none"> ✓ Use of quality fertilizer and technical assistance for the use in demo plot and Edu Farm (Yara) ✓ Development and pilot of Livelihood training module (Rainforest Alliance) 	
				<ul style="list-style-type: none"> ✓ Financial Inclusion (BTPN, Telkomsel) ✓ Loan scheme for farmers (Rabobank Foundation) ✓ Supply of quality fertilizer for farmers through KUB (Yara) 	
					<ul style="list-style-type: none"> ✓ Modules hand over to KUB and continuous monitor (WG)
					2017-2020