# THE SUSTAINABLE COFFEE PROGRAM

## A business case for sustainable coffee production

# UGANDA

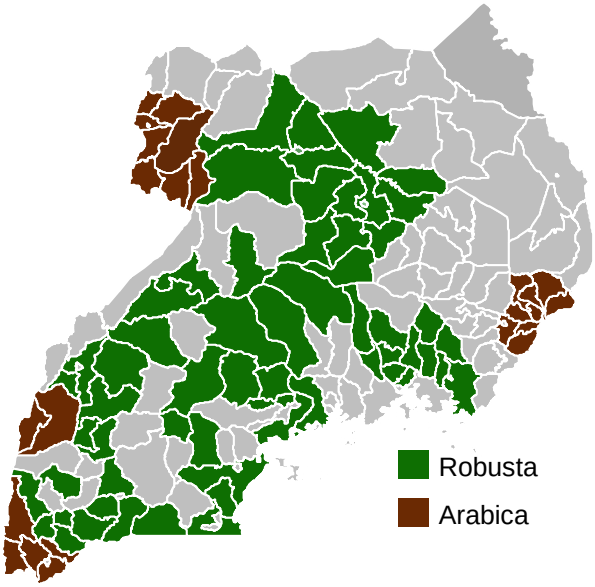
**OCTOBER 2013**

## Africa's largest Robusta producer

Coffee has been Uganda's leading export for decades and is a key economic activity in many parts of the country. Robusta production is still recovering from a major coffee wilt disease outbreak that occurred in the late 1990s and early 2000s; meanwhile, Arabica has been steadily growing and now represents over a quarter of total production.

Coffee is grown by 1.7 million smallholders as part of a diverse portfolio of agricultural crops. Farm sizes are small and have been getting smaller, as families subdivide their plots to pass land onto their descendants. There is also potential to increase yields through improved agronomy.

Uganda has an efficient supply chain and a favorable policy environment. However, the high transaction cost of working with high numbers of very small farmers poses unique challenges for investing in the sector.




## Emerging sustainability trends

Coffee buyers in the European Union – the market for 80% of Uganda's coffee – have set ambitious targets for increasing "sustainable" sales. The share of sustainably certified and verified coffee exports from Uganda currently stands at about 2%, below the global average of 8%.

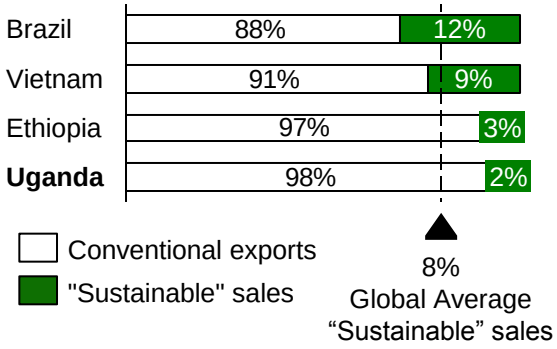
As result of Uganda's low average output per farmer, it is far more expensive (on a per ton basis) to implement supply chain-led sustainability programs in Uganda than in other countries. If Uganda is to keep pace with industry demand for "sustainable" sales, it will need to boost the output per farmer and develop a more cost-effective model of verifying / certifying smallholders' coffee production.

The challenge of increasing yields requires focused resources on teaching farmers good agricultural practices. This would represent a shift in focus for many sustainability efforts, from preparing farmers for verification / certification to helping them increase yield. However, it would position Uganda's coffee sector to become more globally competitive and attractive for farmers in the long run.

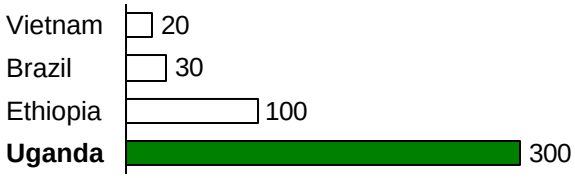
### Quick facts:

- Smallholder farmers: 1.7 million
- Avg. coffee farm size: 0.18 hectares
- Avg. yield: 120 kg green/farmer
- Annual production: ~200,000 tons (11th globally)
- Farmer receives ~75% of export (FOB) price

**Ratio of "sustainable" sales***
Out of total 2011/12 crop exports




**Cost of farmer-level sustainability trainings and audits****
US$ per ton exported as "sustainable"



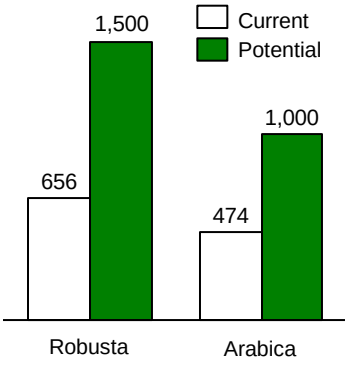

* Estimates; includes UTZ, Rainforest Alliance, Fair Trade, 4Cs
** Cost includes auditing, training and Internal Control System (ICS) management




## Key opportunities

More sustainable farming practices could help **one million coffee farmers double incomes**, from a base of about $180 per year. On a national scale, this could generate **$280 million in incremental coffee revenues** and have a substantial multiplier effect in the local economy.

### Yields could double *
Kg green coffee per hectare




### Through improved agronomy practices…

- Tree rejuvenation (stumping/pruning)
- Fertilization
- Gradual replanting
- Integrated pest management (IPM), e.g., to control Twig Borer
- Optimized intercropping

** According to stakeholder interviews and ongoing projects (e.g., HRNS)*

## A strategy for co-investing in sustainability

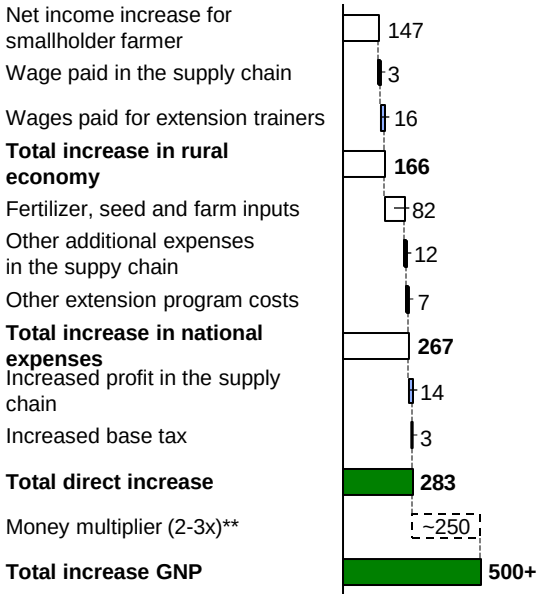
Donor and coffee industry resources can be focused on training farmers to adopt best practices and increase yields. The overall investment required for training is estimated at $67 million (about $70 per farmer), building up over 7-10 years. This assumes farmers receive on average two years of intensive technical assistance through Farmer Field Schools or similar adult-training methods. Such investment will require concerted action and shared financing by government and the Uganda coffee sector. Increasing the coffee cess (tax) may be a possibility to generate the required funding. To make this work, proper governance structures should be in place to ensure that the Ugandan coffee sector has decision power on using the revenue, in a transparent and accountable manner.

A phased implementation approach to reach one million farmers is recommended. To start, some specific activities are required to compare training approaches, harmonize curricula, and evaluate the scalability potential of different organizations.

These pre-competitive, nationwide investments build capacity in the government and supply chain actors to continue extension training or pursue more advanced verification / certification in the future.

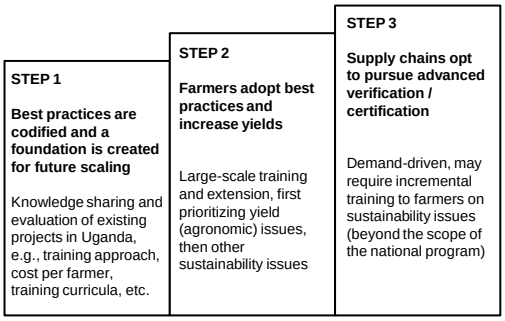
*Key sources: Café Africa; UCDA; HRNS and UCFA; IITA; USAID FtF; AMITSA; literature review; interviews with farmers, Ministry of Agriculture, and coffee exporters; TNS analysis*
*Photographs: TechnoServe; FMO*

### National impact of increasing Uganda smallholder farmer productivity
US$ millions per year (steady state, after 10 years)




*** Applied only to free cash flow items, i.e., farmer incomes, wages, profits, and taxes.*

### Steps in a continuous improvement process

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