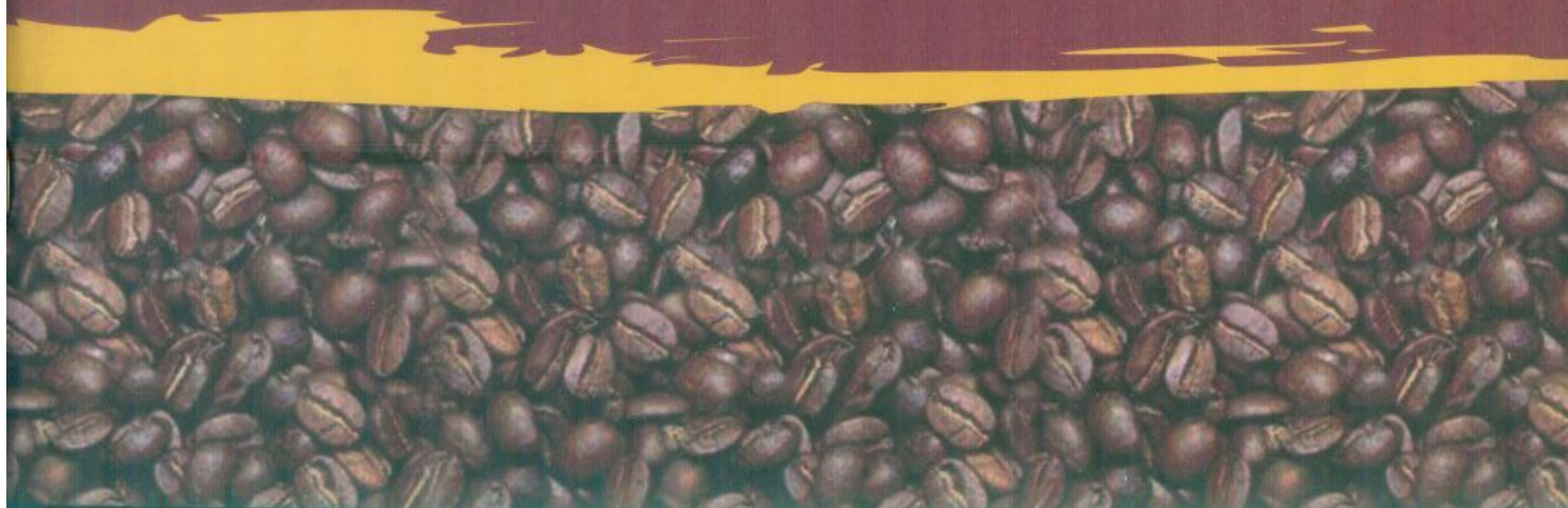




Evaluating Coffee Value Chains:
**Case Studies of Selected Coffee Value
Chain Initiatives in East Africa**

Popular Version





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Abbreviations and Acronyms

AKSCG	Association of Kilimanjaro Specialty Coffee Growers
CBK	Coffee Board of Kenya
EAFCA	Eastern Africa Fine coffees Association
EPOPA	Export Promotion of Organic Products from Africa
EUREP-GAP	European Retailer Group
FLOI	Fairtrade Labeling Organizations International
ICA	International Coffee Agreement
ICO	International Coffee Organization
KNCU	Kilimanjaro Native Cooperative Union
KPCU	Kenya Planters Cooperative Union
NCFCs	Ndumburi Coffee Farmers Cooperative Society
NUCAFE	National Union of Coffee Agribusiness and Farm Enterprises
SAPs	Structural Adjustment Policies
SIDA	Swedish International Development Agency
TCN	Tanzania Coffee Board
UCDA	Uganda Coffee Development Authority
USAID	United States Agency for International Development



Executive Summary

Many coffee producing countries rely on coffee as a major foreign exchange earner. The global market conditions and regulations under which coffee is traded have changed from time to time. Due to the changes in national and international coffee regulations, coffee traders and producers have been significantly affected. Global coffee trade was regulated by International Coffee Agreement (ICA) until 1989. Under ICA, producing countries negotiated a system of price bands and export quotas for coffee trade. Export quotas limited coffee oversupply in international markets while national governments coordinated the purchase and holding of stocks when national production exceeded the export quota. These policy interventions provided a measure of stability to the international coffee market. However, in 1989, coffee trade under ICA collapsed leading to oversupply in the global market.

The period after the collapse of ICA has been characterized by increased coffee supply in the global market and changes in the governance structure of coffee value chains. These changes have resulted in the concentration of roasters and global traders on the consumption part of the value chain and fragmentation of coffee farmers on the production part of coffee value chains. Due to these changes, coffee market prices drastically dropped, which devastated many smallholder coffee farmers in producing countries. Other changes include increased differentiation of coffee brands, consumption of sustainable coffees and liberalization of coffee sectors in many producing countries. Due to these changes, the proportion of the coffee retail price that farmers earn has decreased while roasters and international traders capture greater returns. Consequently, smallholder coffee farmers' livelihoods have deteriorated resulting to the near collapse of the sector in many producing countries.

In the wake of the coffee crisis, several agencies have initiated projects aimed at improving smallholder coffee farmers' income. These initiatives include adoption of coffee certifications systems, direct sales and promoting domestic consumption. In a sector that has suffered low prices for some time, any increase in coffee prices is beneficial to coffee farmers. Although certified coffees represent a small proportion of global exports, they have the potential of changing the way coffee production and trade takes place across the world. This is because, under coffee certification systems, coffee is produced and processed with strict adherence to prescribed standards and codes. Certified coffees also fetch premium prices and are thought to increase coffee quality and productivity. Direct sales offer higher prices while domestic consumption aims at expanding local coffee markets in order to stabilize coffee prices. However, to what extent have these coffee value chain initiatives enabled farmers to earn higher incomes along coffee value chains? Based on value chain analysis, this study evaluated selected coffee value chain initiatives in Kenya, Uganda and Tanzania. The study examines whether coffee value chain initiatives have increased coffee production, quality and prices. It also evaluates whether the initiatives have increased coffee farmers' returns within the value chain. This study also aims to establish whether increased prices from certified coffees are sufficient to cover increased resources invested in the production of certified coffees. Data for this report was collected over the period between July and December 2007. Sampling of coffee value chain initiatives discussed in this report was selected from those in Kenya, Uganda and Tanzania. Through purposive sampling, NUCAFE and KAWACOM Organic Coffee Project in Uganda; NFCS in Kenya; KNCU and KILICAFE in Tanzania were selected. In addition, information about direct coffee sales and domestic coffee consumption in the three countries was gathered by use of both secondary and primary data. Primary data involved in-depth interviews with selected key informants and focus groups comprising stakeholders in the coffee industry. A review of secondary data on the coffee sector was also done.

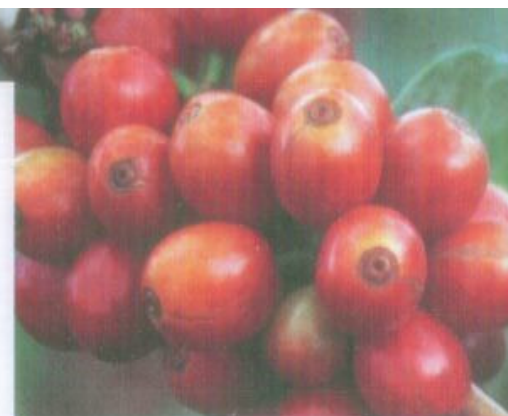
Study findings show that, of the various coffee certification systems, Utz Certified, Fair Trade and Organic certification are the most common in Kenya, Uganda and Tanzania. In addition, this study found that, although coffee quality varied from once scheme to another, coffee certification schemes have led to an improvement in both coffee quality and productivity. The improvement is attributed to adherence to good agricultural practices and the entrepreneurial approach taken by farmers. Further, certified coffees fetch higher prices compared to non-certified coffees of the same grade although the prices varied depending on the markets to which they are sold. However, it was not possible to establish whether additional resources invested in certified coffee production are covered by premiums earned from certified coffees. This is because the data from which such analysis could be done was either not available or not in a form appropriate for such analysis. On the other hand, lack of policies to regulate coffee certification systems in the three East African countries has led to the proliferation of certification projects implemented on an ad hoc basis. This creates confusion in the sector and farmers do not know which certification scheme would generate a higher return. Besides, knowledge of operations of certification systems is made worse by minimal information available to

farmers about the schemes. Moreover, due to lack of literature to establish whether increased resources invested in certified coffees are covered by the higher price premiums that are earned from certified coffees, it is difficult to establish whether certified coffee production is profitable.

Direct sale of coffee aims at bridging the gap between coffee producers and buyers by eliminating agents who exploit farmers without necessarily adding value. According to this study, although direct coffee sale is at different stages of development, it is more developed in Tanzania and Uganda as compared to Kenya. Further, policies to ensure that direct sales fetch higher prices than what the same coffee would earn at the auction are necessary in ensuring that farmers are not exploited. Direct coffee exports have consistently increased since the system was introduced in Tanzania in 2003/2004. Since direct sale involves premium and specialty coffees, farmers are motivated to produce high quality coffees that fetch higher prices. However, some farmer organizations/associations lack the capacity to deal directly with buyers as anticipated by direct sale policies in Kenya and Tanzania. This means that they continue to rely on agents who have to receive commissions.

It is argued that increased coffee consumption in producing countries can increase local demand and stabilize coffee prices. Findings show that although there have been efforts to promote coffee consumption, promotions are uncoordinated and the current level of coffee consumption in Kenya, Uganda (3-5%) and Tanzania is very low. At the current level, domestic coffee consumption does not provide a sufficient demand to stabilize coffee prices. However, there is evidence of increasing coffee consumption and drinking culture especially among the middle class in all the three East African countries covered by this study. Domestic coffee consumption is hindered lack of a coffee drinking culture in East Africa, lack of clear and systematic policies and limited activities to coordinate and promote coffee consumption. It is also hampered by poorly brewed coffee which does not taste well and lack of awareness on the benefits of drinking coffee.

Based on the findings, this study advocates for more transparency among stakeholders in the coffee sector in Kenya, Uganda and Tanzania. This could be achieved by organizing forums in which critical information about coffee value chains including operations of certification systems can be disseminated. This would ensure that different players perform their roles for the benefit of the sector. Two, enhancing the capacity of farmer organisations, especially producer cooperative societies to focus on coffee production from an entrepreneurial perspective. Cooperative societies could be transformed to efficient business groups able to access markets and negotiate better prices. Three, it would be beneficial to work towards harmonizing numerous coffee certifications systems based on common standards. This would make it easier for farmers to understand and implement the standards at a lower cost and limit unnecessary duplication of certification. Four, there is need change or develop appropriate national and international policies realistic to the current global coffee trade. Policies would be aimed at enhancing farmers' share of value and power within coffee value chains. Five, further research is needed to establish whether additional resources invested in certification schemes are covered by higher coffee price premiums earned. Findings of such a study would help in formulating policy guidelines relating to certification systems to improve the plight of coffee farmers.



Introduction

VALUE CHAINS AND VALUE CHAIN ANALYSIS

A value chain describes 'the full range of activities which are required to bring a product or service from conception, through the intermediary phases of production, delivery to final consumers, and final disposal' (Kaplinsky, 2000:8). The worth of a product increases at each stage of a value chain.

A value chain also identifies key actors who play a critical role in coordinating production in the chain defining who is to perform what role, what standards are to be met in participating in the chain, coordinating a process of chain-upgrading, and influencing the distribution of returns amongst the various parties who participate in these chains. In a global value chain, the international structure of production, trade, and consumption of commodities is disaggregated into stages that are embedded in a network of activities controlled by firms (Ponte, 2004). Global value chains are characterized by adherence to standards and producers participating in these chains are increasingly required to conform to an increasing number of standards (Kaplinsky and Morris, 2001).

According to Schmitz (2005), a value chain becomes useful for analytical and policy purposes because it includes three features. One, the activities are often carried out in different parts of the world (global value chain). Two, some activities add more value and are more lucrative than others are. Three, some actors in the chain have power over the others. The powerful actors often become the 'lead firms' who seek to 'govern' the chain and set and enforce terms under which others in the chain operate. The location of rule setting within a value chain is a common indicator of where power within that chain lies (Kaplinsky, 2004).

GLOBAL COFFEE VALUE CHAIN

Value chain analysis looks at each discrete step in the life of a product, the players at each step, how value is added, and how much they earn for that value created (Piper, 2007). The Global Coffee Value chain is characterized by greater concentration at the roasting and retailing link of the chain and differentiation of producers. Due to this, power and governance in the global coffee value chain is asymmetrical with the top five importers accounting for over 40 percent of total global trade while 70 percent of global coffee is grown on farms less than five hectares (Daviron and Ponte, 2005).

Differences in the power of actors within global value chains also arise from the form of coffee sold. Several studies (Daviron and Ponte, 2005; Filler and Kaplinsky, 2001; Bradley et al, 2005 and Piper, 2007) point out that a coffee cup or coffee package consists of two key components - material attributes and symbolic in-person attributes. Material attributes relate to the taste, aroma and appearance of coffee a consumer buys and drinks. Symbolic in-person attributes are linked to the brand, the concept of the bar, ambience, interior design, including the component labour and takes place at the point of consumption. Thus, the product offered at the retail level is not just material coffee, but the ambience, the image associated with costly coffee consumption, co-products such as snacks, relief from the bustle and traffic (Filler and Kaplinsky, 2001).

Since, symbolic and in person service attributes, which provide higher value added gains are generated in the north, roasters and other players based in the north earn best returns from the coffee business. This means that an exclusive focus on the materiality of coffee can be misleading. It also means that the key challenge is not to move out of 'commodities' defined products, but out of all activities which only lead to material attributes in coffee.

(See figure on page 17)



COFFEE CERTIFICATION SYSTEMS

Certification systems provide a means of differentiating products. In the coffee industry, certification systems communicate information about the social and environmental conditions surrounding the production of goods or the provision of services. Coffee certification revolves around sustainability issues like economic viability of coffee to farmers, environmental conservation, and social responsibility aspects (Daviron and Ponte, 2005). Coffees sold under sustainability labels are predominantly certified as Organic, Fair Trade, Bird-Friendly, Rainforest Alliance-Certified and Utz Certified. Sustainable coffees represent a market-based effort to communicate information about environmental and social conditions surrounding coffee production to the consumer and thereby correct the failure of the market to value these associated attributes (health, environmental protection and social justice) (Calo and Wise, 2005).

Different arguments are given for the growing sense of consuming certified products. On one hand, certification is perceived as an outcome of food safety concerns among consumers especially in developed countries over food origin and traceability. On the other hand, certification is perceived as a deliberate and calculated scheme among major western firms to create a trade barrier for products originating from developing countries. Whatever the argument, there is no doubt that certification schemes have become so common in the coffee sector and they have fundamentally transformed global coffee trade. Coffee certification schemes cannot be ignored altogether because they influence market access and coffee prices.

Coffee certification may be single, double or multiple. Double and multiple certifications take different combinations. Multiple certifications are an attempt to create a 'super-label' covering a series of sustainability issues in order to attain economies of scale and market advantages. One reason for this is that farmers already involved in one certification scheme can easily attain another certification especially where standards of other certifications schemes are similar (Ponte, 2004).

ORGANIC COFFEE CERTIFICATION

Organic products are grown using methods that enhance biodiversity, feed soils, and minimize reliance on purchased inputs. Organic production systems therefore aim at replenishing and maintaining soil fertility, reducing the use of toxic and persistent pesticides and fertilizers, and building biologically diverse agriculture. Organic coffee is grown using methods and materials that have a low adverse impact on the environment. Certification for organic coffee is granted based on organic production standards. These standard involves growing coffee without using synthetic agro-chemicals for a period of three years; keeping detailed records of methods and materials used in coffee production and management plans; and a third party certifier annually inspects all methods and materials used to establish that they conform to set standards (Daviron and Ponte, 2005).

Organic buyers, buy organic coffee through producer associations, which ensure compliance with organic norms. Organic coffee producers are paid a market based premium for certified organic coffee. To the extent that demand for certified organic coffee outstrips supply, the premium will rise. If supply catches up to demand, the premium will fall. The premium paid consists of organic differential, which is an economic incentive paid to certified coffee producers. The organic differential is paid on top of the minimum price or negotiated price, whichever is higher. The organic differential is meant to cover the additional costs of production. Organic coffee receives a premium of USD10.50/lb above the prevailing conventional coffee price. The variation in the premium relates primarily to quality characteristics.



A Case Study of KAWACOM Organic Coffee Export, Uganda

Kawacom was founded in 1996 as a guarantor of high quality Robusta and Arabica coffee in Uganda. Since then, it has spearheaded the development of the first organic coffee projects in the country. Kawacom focused mainly on export of natural Uganda Robustas, but with the successful implementation of processing and export procedures, it moved forward into both the washed and unwashed Arabicas.

In an effort to enhance coffee production, Kawacom launched an official programme of organic certification in 1998. Organic certification was aimed at increasing rural incomes by giving farmers access to organic markets where premium prices could be obtained (Alexandra, 2004). The forward integration of farmers into the organic coffee trade was also initiated due to a decline in coffee production resulting from reduced soil fertility (Alexandra, 2004). Although in 1999, only 46,000 kg could be bought from the farmers, Kawacom coffee exports have increased since the year 2000. In 2002, the organic coffee project was expanded to three project areas namely Bushenyi, Sipi and Paidha to encompass 13,000 farmers. The expansion was to consolidate the three areas, increase farmers' incomes and improve the sustainability of the farming system (Agro Eco, 2007).

How has the Project Improved Farmers' Livelihood?

There is evidence that due to the organic coffee project coffee quality has improved among not only participating farmers but also for non-participants who live in areas close to organic coffee projects (Daviron and Ponte (2005). Farmers earn a premium for the organic coffee they produce. A study by Ponte and Kawuma (2003) found that premiums at the export level were at the range of 25-30 percent and 17-30 percent at the farm level depending on the type of coffee. This premium is due to the adoption of organic practices and improved quality. Due to this, organic coffee farmers receive higher pay (20-30%) compared to conventional coffee farmers. Increased prices are likely to improve farmer income due to a reduced cost of production because organic farmers do not use farm chemicals and fertilisers both of which are expensive.

In terms of enhancing immaterial coffee attributes, Kawacom has developed elaborate and sophisticated marketing materials for each of its three organic coffees, designating them each with a distinct brand name (Savannah, White Nile, Sipi Falls). (Gibbon, 2006).

Lessons Learned

From the implementation of the organic coffee project, it has been observed that it takes time to encourage and convince farmers to accept new ideas.

The process of conversion to organic farming also created reluctance among farmers due to reduced output and earnings in the initial stages. It takes about 2 – 3 years before farmers receive the first organic yields.

Diligent recording and documenting of farm inputs that are used and activities undertaken was a challenge to many farmers although it is necessary to attain certification. Consistent and systematic monitoring and evaluation of coffee farmers' activities is also critical in attaining standards under organic certification systems.

Organic coffee is much more expensive to produce as compared to conventional coffee (Cola and Wise (2005).

A CASE STUDY

KILIMANJARO NATIVE COOPERATIVE UNION, TANZANIA

Kilimanjaro Native Cooperative Union (KNCU) is the oldest cooperative union in Tanzania. KNCU begun in 1925 and was registered in 1932 with an objective of assisting smallholder farmers to sell coffee. The union, based in Moshi, collects coffee from 96 primary societies representing over 150,000 small-scale farmers around Kilimanjaro region. KNCU was first certified by the fair trade movement in 1993. Fair trade certified coffee accounts for one third of KNCU's total exports (Bradley et al, 2005). It also produces organic coffee certified by Naturland.

The KNCU organic coffee programme begun in 2003 and involved seven cooperative societies. It took less than three years for KNCU to sell organic coffee. In implementing the organic coffee programme, KNCU received a grant from SIDA through the Export Promotion of Organic Products from Africa (EPOPA). The EPOPA initiative was created by SIDA in 1994 to link small-scale producers with organic export markets in Europe. EPOPA assists exporters and farmers to certify that crops are organically produced so that they are sold at a premium to increase farmers' incomes (Forss and Lundström, 2004).

The first batch of organic coffee was sold in the 2004/2005 season (Table 1 below). KNCU organic coffee is sold through the Fair trade market and the rest is sold as conventional coffee or in the mainstream market. The first crop was sold to Royal Coffees, then to Organic Products Trading Company and Seven Oaks.

Table 1: Fair trade and organic exports by KNCU

Year	Quantity(Kgs)		Value(USD)	
	Fair Trade	Organic	Fair Trade	Organic
2005/06	343,260	22,380	1,012,800.58	80,195.04
2006/07	1460,380	70,380	1,431,633.93	252,055.00

HOW HAS THE PROJECT IMPROVED FARMERS' LIVELIHOOD?

Organic coffee farmers under the project receive a higher price for organic coffee. However, because the data on production costs was not available due to poor record keeping by farmers, it is not possible to establish whether farmers under the project earn an additional income compared to additional resources that are invested. Moreover, a study of organic coffee in Mexico found that organic premium paid to organic coffee producers generally failed to cover the added costs associated with organic certification and maintenance (Calo and Wise, 2005).

KNCU has also received a social premium for community development. This amount was used to partly finance organic coffee conversion activities, support coffee farmers unable to pay school fees for their school going children, and initiate a coffee tourism project.

Data gathered about the project indicated that coffee production had increased among participating farmers and farmer organizations. This is attributable to the adhered to organic standards and focus of coffee production as a business.

Literature indicates that in the long term, organic coffee leads to higher yields and a reduction in chemicals in the soil is of benefit to the health of farmers.

LESSONS LEARNED

Supporting strong farmer organizations that motivate members to contribute and allow them to hold leaders accountable is essential in the success of local initiatives.



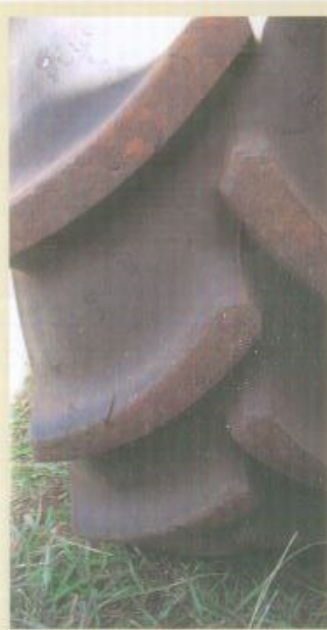
Fair Trade Certification

Fair trade refers to an equitable and fair partnership between consumers in the North and producers in Asia, Africa, Latin America, and the Caribbeans. Fair trade is a niche market for those commodities managed under certain conditions that meet the requirements of the fair trade code of conduct. 'The fair trade movement critiques conventional production, trade, and consumption relations and seeks to create new more egalitarian commodity networks linking consumers in the global North with marginalized producers in the global South' (Laura, 2002 : 404).

In relation to coffee, Fair Trade Standards have been designed to empower producers and farm workers, to increase the environmental sustainability of the farm activities and to develop the business skills necessary for competition in the global marketplace.

Coffee sold under the fair trade mark is guaranteed four conditions.

- * One, a minimum price will be received that covers the cost of sustainable production and living.
- * Two, payment of a price premium so that certified producers can invest in strengthening their organizations and implement programmes that benefit their members and local communities.
- * Three, buyers must provide partial advance payments if requested by cooperatives.
- * Four, buyers must sign long-term contracts, which extend beyond one harvest cycle, direct with cooperatives (Bradley et al, 2005).



This study established that only a handful of cooperative societies are involved in fair trade coffee in Kenya, Uganda and Tanzania. In Uganda, fair trade coffee exports account for about 1 percent of Uganda's total coffee exports. This study further found that Fair trade certification is sought by farmer organizations that have attained other certifications like KNCU which is Fair Trade certified and attained organic certification.

Lessons on fair-trade coffee

To the farmer, fair trade is seen as a way to getting better prices with a minimum price guarantee and a fair trade premium. Producer organizations are guaranteed a floor price (Fairtrade Minimum Price) of 1.21 US/lb for washed Arabica from Africa (FLO, 2007). A Fairtrade Premium of 10 cents US/lb (since June 2007) is added to the purchase price.

Based on a study done by Daviron and Ponte (2005) fair trade seems to be the only coffee value chain where the proportion of the consumer price paid to farmer organizations is high. In addition, unlike other certifications and labeling systems, Fairtrade initiatives aim at transforming trade relations and the multifaceted connections between producers and consumers.

Fair trade is a niche market that is small and will always remain small implying that it would not serve the majority of smallholder coffee farmers in the region. Further, there is an overwhelming oversupply of fair trade coffees meaning that the benefits may be hard to maintain in the future in the fair trade system (Daviron and Ponte, 2005).

The new policy of charging participating farmers initial and annual certification fees is likely to have a negative impact, both in terms of benefits to farmers and in the marketability of the Fairtrade Mark (Bradley et al, 2005), (Bigirwa, 2005).

Under fair trade, farmers remain raw material suppliers with only primary processing. In addition, fair-trade was designed in such a way that southern farmers would always depend on the willingness of northern consumers to pay a fair price (Bigirwa, 2005).

Utz Kapeh/Utz Certified

Utz Kapeh means 'good coffee' in a Maya language from Northern Guatemala. Utz Kapeh is the name of the certification program for good-responsibly produced coffee (Utz Kapeh, 2005) that has now been changed to Utz Certified (UTZ, 2007). It was initiated by Nick Bocklandt, a coffee producer and Ward de Groot, of Ahold Coffee Company in 1997. In 2002, the independent Utz Kapeh Foundation set the standard for responsible coffee production. In March 2007, the name was changed to Utz Certified. The Utz Certified process was part of a joint development project of the World Bank, Coffee Support Network and Utz Kapeh (UTZ, 2007).

The mission of Utz Certified 'is to implement a worldwide standard for good agricultural practices as well as socially and environmentally responsible coffee growing practices' (Utz Certified, 2006:3). It is based on a code of conduct and an independent certification of responsibly grown coffee. Utz Certified focuses on the mainstream coffee market and is open to all growers from all producing countries and to all traders, roasters and retailers across the entire product range (EAFCA, 2004).

Utz Certified program has set a policy related to pricing and market information based on three elements.

- * One, producers are rewarded with a price premium for their compliance with the Utz Certified code of conduct.
- * Two, the actual amount of Utz Certified premium is determined in negotiations between buyer and seller.
- * Three, Utz Certified does not interfere in price-negotiations. These local principles are always in line with the general pricing principles (Utz Certified, 2007).

Utz Certification takes place at farm level and a

traceability system provides the credibility and accountability that traders and roasters require throughout the chain (Utz Kapeh, 2005). Utz Certified coffee beans can be tracked through the chain by a web-based track and trace system, providing transparency and traceability that is unique in the coffee market (Utz, 2007).

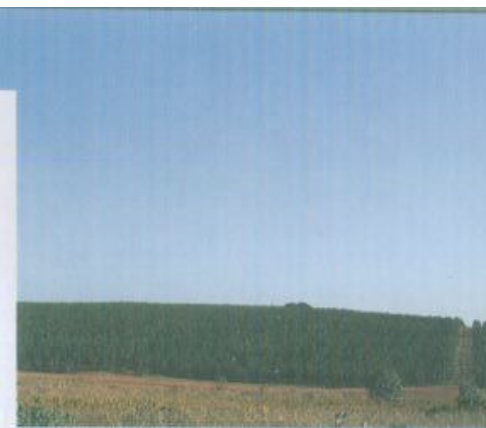
Applying for certification usually requires coffee producers and cooperatives to make investments. They must bring their farming practices and management systems into line with the Code of Conduct by keeping records of fertilizer and agrochemical use, providing access to clean drinking water and basic healthcare for workers and their families.

Once certified, producers register their sales in the track and trace system and undergo annual re-inspections. Moreover, roasters who buy Utz Certified coffee can demonstrate their commitment to sustainability by using the Utz trademark on packaging and in communication (UTZ, 2007).

Issues Relating to Utz Kapeh Certification

Being certified does not mean that the coffee quality is necessarily higher. Coffee quality is also influenced by other factors like the soil of the area, inputs used and other husbandry practices. Thus, other than being Utz Certified, farmers have to use a lot of inputs and work hard in order to produce high quality coffee.

It appears that the premium system has become strictly voluntary or that it has been abandoned altogether. The current position on pricing is that 'a certified producer is 'rewarded' in a market oriented way and not in the form of a minimum price'. Utz does not interfere in the price negotiations between roaster and farmer (Daviron and Ponte, 2005). This does not necessarily lead to increased incomes for farmers neither does it enhance value earned within coffee value chains.



A Case Study of Ndumberi Coffee Farmers Cooperative Society, Kenya

Ndumberi Coffee Farmers Cooperative Society (NCFCS) is situated in Central Province of Kenya, Kiambu District on the slopes of the Aberdare Mountains. It was formed in 1960 and opened on 30th June 1962. In 1962, the society had only one factory with 432 members. Currently, the society has three wet mills serving over 2516 coffee farmers. NCFCS comprises three factories viz. Ndumberi, Ngoita and Riabai and the total certified size of Ndumberi Coffee Growers Co-Operative is 530 Ha. The coffee collected from these factories is milled at SOCFINAF Co. Ltd and marketed by SANGANA Commodities.

The society's vision is to produce the best quality coffee using sustainable, good agricultural and processing practices that will lead to higher production. NFCS sought Utz Certification in 2005, which was awarded on 13th September 2006. Another certification was awarded in Sept. 2007 after an independent audit.

Initial certification was sought in order to revive coffee production and to forge partnerships in order to fetch higher prices. The certification process was supported by CSN (a Netherlands based NGO), the Value Chain Based Matching Grant Fund, the Mars Group and Sangana Commodities Ltd. (KCTA, 2007). Other than the Utz Certified project, FOUR SQUARE has also undertaken efforts to improve the operations of the cooperative.

How has the Project Improved Farmers' Livelihood?

Farmers received higher payments than other societies in Kiambu district. This is through a reduction in factory expenses and premiums they receive. Utz certified coffee sold at the Nairobi Coffee Exchange fetches higher prices at the auction compared to non-certified coffee of the same grade.

There has been improved coffee quality and productivity through training farmers on good agricultural practices. Quality improvement has been attributed to renovation of the society's infrastructure and better pulping facilities. Table 2 below shows some of the statistics of the cooperative society.

Certification has improved the capacity of NFCS to negotiate for better coffee prices and establish relationships with overseas buyers. It has also built the capacity of farmers to undertake coffee production. This is primarily due to extensive training. Finally, the cooperative is able to maintain proper farm records due to the development of a data base and also has a modern quality management system in place.

Compliance with the Utz code of conduct and standards is challenging and demanding yet, there is insufficient evidence to show that additional investments are compensated adequately through price premiums.

Year	00/01	01/02	02/03	03/04	04/05	05/06	06/07
Cherry (kgs)	802,891	1,950,055	548,200	905,924	746,888	405,923	1,260,358
Parchment (kgs)	160,079	381,149	109,421	170,543	140,190	76,742	219,295
Clean coffee (kgs)	115,166	286,772	77,758	134,426	97,241	57,519	177,161
Cherry (Kshs)/kg	-	10.75	5.70	14.65	24.40	20.90	25.30
Mbuni (Kshs)/kg	-	10.45	12.15	16.90	46.25	29.85	51.40
Active Members	1900	1847	1729	1798	1842	1430	1906



Certification Systems: Emerging Issues

In all the three countries covered there is no policy framework governing certification schemes. The result is that there are as many as 12 coffee certification schemes initiated by various organizations on an ad hoc basis.

Development of certification schemes has enhanced the capacity of farmer organisations. Certified organisations have been transformed and operate on an entrepreneurial model. Further, the organisation of farmers into business groups and provision of training under different certification systems has stimulated coffee production and productivity.

Although farmers receive a premium, they pay for certification and audits. There are also hidden costs of coordination, which may dramatically decrease the overall net benefits of certification efforts. In addition, most of these schemes are market based. Thus, the overall income impact of a certification scheme depends on the balance between the extra cost of meeting the standards compared to the extra income earned from the premium.

Major certification schemes only cover approximately 5 percent of the world market, which is insufficient to fix a global coffee crisis. (Daviron and Ponte, 2005).

The schemes have been weak in targeting certain disadvantaged groups (Ponte, 2004). The schemes tend to target organized farmer or producer groups and in other schemes like fair trade, not all farmers in a given area are involved.

Certification schemes do not address power relations among actors in coffee value chains, since they are built upon them (Daviron and Ponte, 2005). Smallholders have rarely been able to influence codes of practice and labels, with the result that they do not address all of the priority issues for smallholders (Ponte, 2004). This is unfortunate

because farmers are required to implement standards that they hardly understand and have not participated in formulation.

It has also been argued that coffee certification schemes are part of a broader conspiracy to discourage value addition and are aimed at blocking uncertified coffee from the developing countries accessing some markets. Very little attention is paid to enhancing symbolic and in person attributes that enhance coffee prices. Coffee farmers still remain commodity suppliers.

It appears that only farmers are subjected to many certification activities compared to other players along coffee value chains. Moreover, certification schemes are not generally accepted across the board and ICO has no agreed position regarding various certification schemes.

Certification schemes are not well understood. There is a serious information asymmetry that results in exploitation of farmers.

There is no evidence that organisations promoting certification schemes have put in place measures or activities to promote overall development of the coffee sector. Instead, certification schemes are implemented in terms of projects without a clear link with the rest of the industry.

The foregoing notwithstanding, coffee certifications are essential in securing market access such that those that are not certified might not be able to sell to certain markets.

For consumers wishing to take account of social and environmental factors in their purchasing decisions, the separate but related development of these regimes complicates rather than facilitates transparency. Moreover, their proliferation generates highly uneven coverage in the ways that social and environmental claims are attached to coffee.

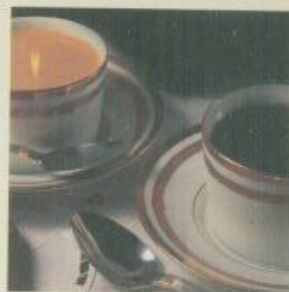
Specialty Coffee Production

Specialty coffee includes all coffees that are not traditional industrial blends, notably single-origin and high-grade Arabicas, and certified coffees, which guarantee a higher compensation to producers and workers. In consuming countries, specialty coffees have added flavoring, packaged in special ways, or sold in special cafés and coffee shops to enhance the consumption experience (Ponte 2002).

In Kenya, Indicators of Geographic Origin (IGO) branding is based on the understanding that the aroma, taste, flavour and body of coffee is dependent on geographical factors like microclimate, rainfall and soil. Under the project 'appellation d'Origine contrôlée' (branding by geographical origins), KPCU has differentiated its specialty coffees as single origin brands, away from the commoditized bulk of the tradable coffees. The aim is to tap into niche markets for the gourmet coffee, which have specific quality and other characteristic requirements.

KPCU has developed four specialty brands namely Mount Kenya AA, Kenya AA Aberdares, Kenya AA Tsavo, and Kenya AA Blue Mountain. All these brands have different qualities and characteristics, and are meant for niche markets where there is demand for their unique, specific and single origin qualities.

In Uganda, one of the Specialty Coffee



projects is Gumutindo. Specialty coffee production has been encouraged due to the problems coffee farmers experienced after liberalisation of the coffee sub sector in Uganda. The period after liberalisation was characterized by low farm gate prices for much of the coffee produced at Mbale. The project was established in 1997 with the help of Twin Trade, the trading department of the 'Twin World Network Information', (a Fair Trade organization based in the United Kingdom).

Producers who market their coffee through Gumutindo receive a price incentive of Ushs 600/kg. This is added to the standard price (currently around Ushs 800/kg) and is made up of Ushs 200/kg 'Quality Premium' and Ushs 400/kg 'Fair Trade Premium'. If the market price increases, the Fair Trade Premium pays an additional 10 percent as a guarantee for farmers. If they engage in organic coffee production, this price increases to about Ushs 1500/Kg.

A Case Study of the Association of Kilimanjaro Specialty Coffee Growers

KILICAFE is the brand name of the Association of Kilimanjaro Specialty Coffee Growers [AKSCG]. Launched in the year 2000, KILICAFE is Tanzania's largest coffee farmer association and supports 102 farmer groups representing more than 10,000 smallholder coffee growers. KILICAFE is supported by TechnoServe [TNS].

AKSCG promotes the production and processing of high quality specialty coffee; improves access to international and local markets; and provides credit, transportation, contract milling, bulking of sellable volumes and strict financial management that pays member farmer groups the true value of their coffee (TNS, 2006).

AKSG obtained a Fair Trade certification in September 2004. It has also acquired CAFÉ PRACTICE verification after being critically inspected by Starbucks in Southern Highlands region particularly in Mbinga Chapter.

How has the Project Improved Farmers' Livelihood?

Farmers who sell coffee through the association consistently earn high prices. The prices are 70 percent higher than the national average (TNS, 2006). For example, in 2005, farmers whose coffee was purchased by PEET'S received a price that was 150 percent higher than other coffee growers (TNS, 2006).

There has been a consistent increase in coffee quality attributed to the establishment of village based Central Pulperies Units (CPUs) business groups. CPUs are processing facilities where farmers collectively remove the coffee cherry

skin, wash and then dry their coffee, resulting in a consistent and higher quality product.

The program has improved farmers' capacity. This is because KILICAFE enables group members to develop business professionalism, get experience in accountancy, business planning and literacy.

KILICAFE is implementing a Price Insurance Scheme. This is done by purchasing Options-Insurance products from New York Board of Trade to protect against price fluctuations.

Challenges

Mobilising farmers and convincing them to participate in the arrangement was challenging. More effort was also needed in training of farmers on how to grow and process specialty coffee.

KILICAFE is a small organisation comprising smallholders. Linking it to the global market was a big challenge. Coordinating many farmer groups in different regions has not been easy either.

Lessons learned

Success requires strict adherence to quality guidelines, a professional management team, efficient delivery to markets, unique financial management systems, a democratic corporate structure and partnering with international organisations. The management needs to be flexible and innovative so as to build an institution that is relevant to the needs of both the members and the buyers.

DIRECT COFFEE SALES

Direct coffee sales are attempts by governments to link coffee farmers directly to markets by eliminating or reducing intermediaries. This is based on the understanding that many intermediaries between farmers and buyers increase inefficiency and costs without adding value to farmers. It has also been argued that numerous intermediaries imply that it takes longer for farmers to receive payments and reduces farmer earnings due to the commissions that are charged.

Kenya's 'Second Window'

Direct coffee sales, known as the second window was introduced by amending the Coffee Act 2001 to accommodate direct coffee marketing by gazetting the Coffee (General) (Amendments) Rules 2006 through Legal Notice No. 100 dated 21st July, 2006.

Issues Relating to the Second Window

The ability of smallholders to benefit from the second window is limited because individual farmers harvest small amount of coffee which are insufficient for direct export. Further, farmers do not have the ability to classify or grade coffee because coffee is sold at the second level (after milling, sorting and grading) - clean green coffee. Farmers hardly understand the logistics involving transportation, hedging, insurance, coffee samples, for marketing, warehousing and statutory deductions necessary to trade in coffee.

To facilitate direct sale, CBK licensed dealers to become marketing agents in December 2006. However, most of these marketing agents were dealers and exporters who have been acting as agents of the big multinationals. Some marketing agents also act as farm management agencies to gain access to coffee more easily and more cheaply. This has led to farmers being exploited.

Direct Export of Premium Green Coffee in Tanzania

The direct export programme was established in October 2003 due to concerted efforts by TNS to promote coffee production by changing rigid and irrelevant policies in the coffee sector. Direct export permits farmers to sell coffee directly to customers overseas as a parallel mechanism to the Moshi Coffee Auction.

Record obtained from the Tanzania Coffee Board show that several companies are involved in direct coffee exports. During the 2003/04 crop season, four organisations were involved in direct coffee exports- MRINGA, TROPEX, SOOCHAK and AKSCG. During the

2006/07 crop season, over ten different firms were involved in direct coffee exports of mild Arabica, hard Arabica and Robusta (Table 3).

Year	Sales (Ksh)	Sales (USD)	Average price USD/50kg
2003/04	723,840	1,351,216	93.341
2004/05	2,904,101	7,207,312	24.08
2005/06	3,726,912	7,315,932	132.31
2006/07	3,834,433	9,451,021	132.71
2007/08	3,333,100	6,063,080	90.9

From this analysis, it appears that farmers involved in direct coffee exports earn higher prices than those selling conventional coffee at the auction. However, it is important to consider the fact that all direct coffee sales involve premium coffee, which is demanding in terms of production and inputs.

Uganda

The Ugandan coffee industry is currently in the hands of marketing agents offering "take it or leave it" prices to desperate coffee growers. Consequently, information about direct coffee exports is minimal.

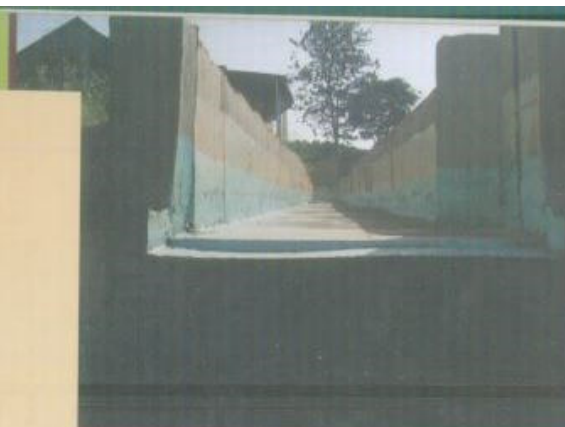
Direct Coffee Sales: Emerging Issues

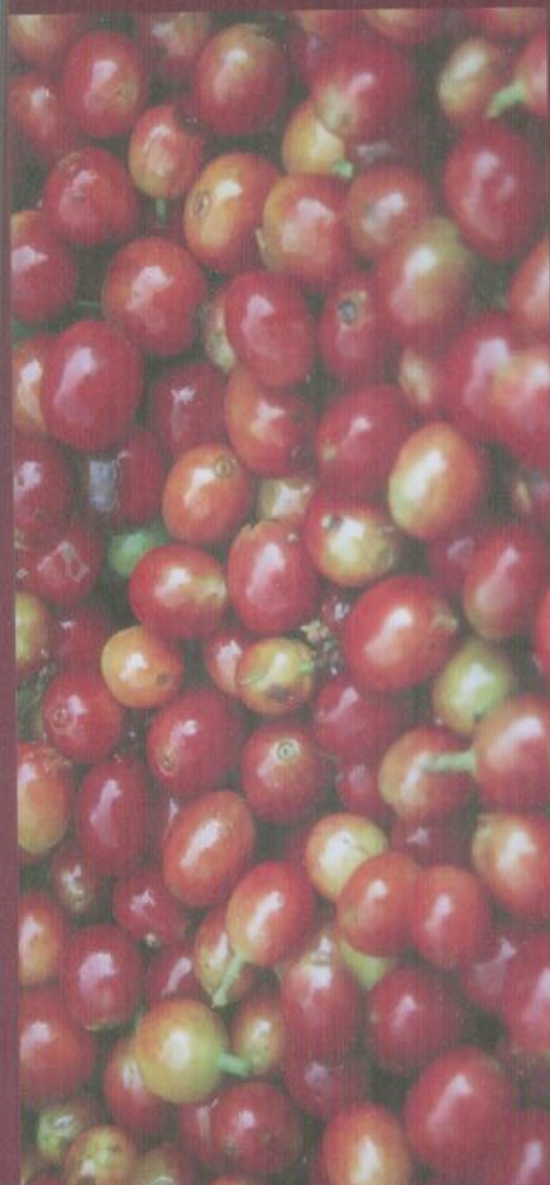
Policy documents governing direct sales have not addressed the capacity of farmer organizations to engage in the complex global coffee trade.

Communication between government agencies and farmer organisations is poor because farmers hardly understand regulations involving direct coffee sales. Marketing agents are more privileged to this information and have been known to even manipulate or skew it in their favour.

It is a cheap ideological undertone to claim that by merely interacting and dealing directly with foreign buyers, farmers get better proceeds for coffee. Such direct dealings do not address the fundamental inequalities and power relations that govern global coffee value chains.

Due to direct sales, the institutional framework is moving away from a formal and relatively stable system towards one that is informal, inherently unstable and buyer dominated. This is made worse because local cooperatives cannot compete with local subsidiaries of multinational trading companies. The farmers may end up being the greatest losers from this skewed institutional framework which is currently riddled with manipulation and exploitation.





DOMESTIC PROMOTION AND CONSUMPTION

According to ICO, coffee producing countries consume about 25 percent of total global demand. Promoting domestic coffee consumption in producing countries is seen as a way of striking a balance between supply and demand. It is premised on the argument that increase in local consumption would provide an additional market for coffee, reduce global supplies in order to improve farmer's incomes and reduce poverty. The study found that coffee consumption in all the three East African states is negligible.

Kenya

It is estimated that Kenya consumes only one percent of her coffee, and worse still the lowest quality grades. Some of the players in the sector operate exclusively by exporting coffee. Coffee consumption is estimated at 0.1 kilogrammes per person.

The coffee sector is dominated by Nestlé Foods Kenya Ltd and C. Dorman Ltd in terms of retail sales of coffee in 2005. Nairobi Java House Roastery was the third leading player. Three players dominate coffee shops in Kenya - Java, C. Dorman and Sasini.

Kahawa Yetu, an initiative of KPCU, was introduced in the Kenyan market in 2002. The initiative aims at introducing a coffee drinking culture in Kenya but has made little headway.

Uganda

Annual coffee consumption is estimated at 0.13kgs per capita (about 3-5% of Uganda's total annual production). A study conducted by UCDA found that domestic coffee consumption in Uganda was limited by poorly prepared coffee in restaurants and hotels, non availability of attractively packed coffee in retail outlets like supermarkets, little attention and awareness of roasted Ugandan coffee on both the domestic and international market, low value addition and promotions due to low income levels of the roasters, prohibitive coffee prices and people's perception that coffee is harmful to health (UCDA, 2004).

The first ever promotion of domestic coffee consumption in Uganda took place in December 2003, at two supermarket

chains, Shoprite and Uchumi in Kampala. UCDA has made soft grants to cafes and coffee shop owners and targeted tertiary institutions to lift the sector (UCDA, 2004). NUCAFE, EAFCA and UCDA are involved in initiatives aimed at promoting local consumption.

Tanzania

The TCB is encouraging local consumption of coffee. However, funds to promote local consumption are lacking and there is no unified strategy.

Issues Regarding

Domestic Promotion and Consumption

Coffee consumption in Kenya, Uganda and Tanzania is negligible and cannot influence coffee trade or prices.

Because most roasted coffee requires blends with types of coffee not necessarily produced in a given country, successful blending and roasting may require coffee to be imported from other countries (Baffes, 2006).

Promotion of domestic consumption initiatives is unlikely to have any effect on the welfare of growers if roasters and instant coffee producers pay the same price as exporters (Baffes, 2006).

Because East Africans do not have a coffee drinking culture to build upon, promotion may be expensive and take a long time to change people's attitudes.

An agribusiness approach to coffee production

The National Union of Coffee Agribusinesses and Farm Enterprises, Uganda

NUCAFE was established in 2003, when the Uganda Coffee Farmers Association (UCFA) changed its name to NUCAFE. NUCAFE operates in 19 districts of Uganda. It has 110 Coffee Farmer Associations at sub county level spread all over the five main coffee growing regions of Uganda with over 100,000 coffee farming families. NUCAFE's vision is to ensure that coffee farmers profitably own their coffee.

NUCAFE is supported by AGRICORD, an alliance of 8 agri-agencies from France, Netherlands, Japan, Belgium, Norway, Sweden, Canada and Denmark. Technical support to NUCAFE is provided by IEDER VOOR ALLEN (IVA).

From 2005, NUCAFE entered into Public-Private Partnership with key Government of Uganda agencies such as the National Agricultural Advisory Services (NAADS) and Coffee Research Institute (CORI). At the international Level, NUCAFE has a strong partnership with IFAP, AGRICORD, IVA, Coffee Support Network of SOLIDARIDAD, Utz Kapeh Foundation, CIRAD, Oxfam and the Global Alliance on Coffee and other Commodities (GLACC).

These partnerships have been used to increase the impact of its empowerment model, by providing farmers with knowledge, capacity for attitudinal change and skills that they themselves can control their own future and build sustainable businesses within the value chain.

Achievements

In 2005, NUCAFE had 18,000 farmers in 16 districts organised into 600 groups. Farmers who work with NUCAFE are committed to adopting good agricultural practices, accessing training and producing coffee of uniform quality. The number of marketing associations

substantially increased from 60 to 102.

In terms of marketing, the amount of coffee sold directly to buyers through the NUCAFE system increased from 69 metric tons in 2004 to 125 metric tons the following year, with 25 metric tons sold through warehouse receipt systems and 9 metric tons through the Commodity Exchange in Kampala.

Through improved quality, value addition in form of minimal processing and by negotiating directly with buyers, prices obtained by farmers increased. The change was dramatic, from Uganda shillings 300 (Euro cents 30) for 2 kg of dry unprocessed coffee cherries (KIBOKO) to as much as Ushs 2000 (Euro 1.00) per kilogram of Fair Average Quality.

With the support of Coffee Support Network of SOLIDARIDAD, NUCAFE has provided Kibinge Coffee Farmers Association with technical assistance. This has helped Kibinge attain the final stages to complete the implementation of Utz Kapeh compliance and certification.

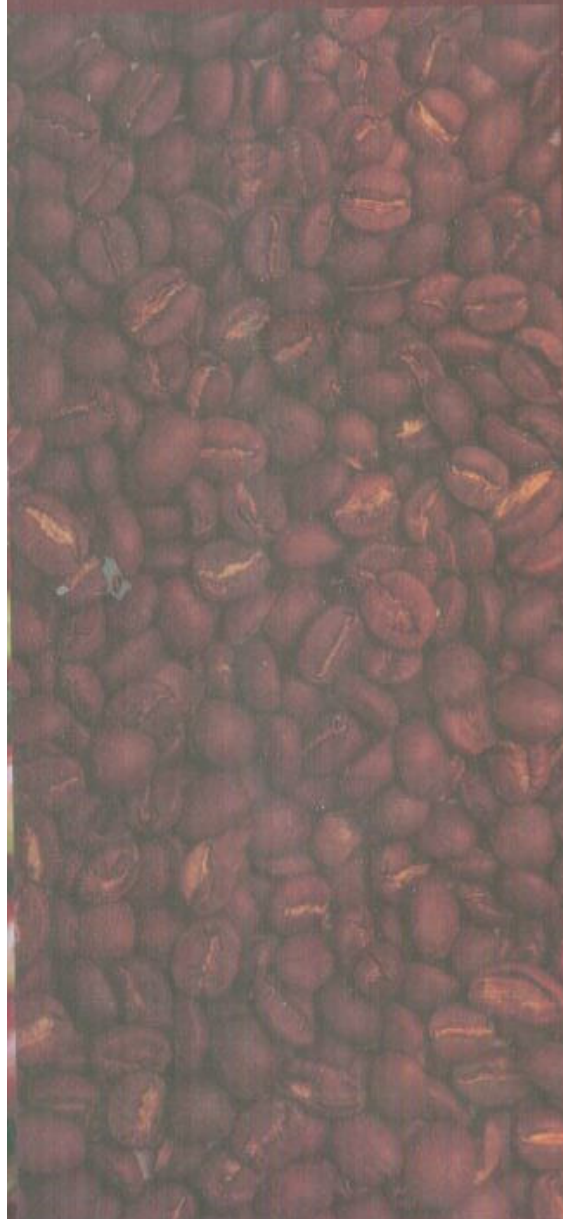
To NUCAFE, coffee is used as an entry point and an integral part of other enterprises in the farming system. To this end, NUCAFE is also involved in Cocoa and Macadamia, providing coffee farmers with diversified sources of income in form of risk management.

Challenges

Although it has a good price incentive, the costs of certification are prohibitive

In addition, NUCAFE is unable to provide satisfactory services to the vast numbers of farmers due to lack of adequate resources.





Conclusions, Lessons Learned & Recommendations

In response to low coffee prices especially after the collapse of ICA, several coffee value initiatives have been established. These initiatives aim at increasing smallholder earnings from coffee. By using a value chain analysis framework, this study evaluates selected coffee value chain initiatives in Kenya, Uganda and Tanzania. The key objective of this study is to find out whether and how small holder farmers have benefited from these value chain initiatives. It also sought to establish whether the coffee value chain initiatives have enabled coffee farmers to capture material and symbolic and in person coffee attributes within coffee value chains.

Conclusions

There are numerous coffee value chain initiatives focusing on different aspects of coffee production and trade. These involve certification and verification schemes like Utz Certified, Organic Certification, Fair Trade Labels, Café Practice and Specialty Coffee production. The study found that in all the three East African Countries, there is no policy framework regulating coffee certification and verification schemes. Due to these state of non-regulation, there has been a proliferation of certification schemes.

Further, certification schemes are donor funded and are implemented in form of projects. This questions the sustainability of some of these certification schemes especially when farmers are required to pay certification fees annually. Moreover, some of these certification schemes are at the early stages of their implementation. Thus, although certification schemes add value to participating farmers, by themselves, they cannot solve the coffee crisis.

From the study, implementation of coffee value chain initiatives has had diverse results. There has been an increase in coffee quality for farmers under certification schemes. Due to the increased coffee quality and premiums involved, certified coffees are sold at higher price compared to conventional coffee. However, it would be important to consider the totality of resources used by farmers to meet certification standards in order to determine whether certified coffees are more profitable than conventional coffees.

Certification schemes also emphasise on organisational building and farmer capacity improvement. Consequently, the capacity of farmers to engage in coffee production has increased due to training on coffee husbandry practices. Finally, even though these new markets provide an important incentive to producers to organize, the requirement that producers be organized to access organic and Fair Trade markets leaves out a majority of growers.

This study also points out that although the selected coffee value chain initiatives have increased earnings to participating coffee farmers, the initiatives have not enhanced the position or power of farmers along coffee value chains. Participating farmers still remain commodity coffee suppliers.

Higher prices and a fairer distribution of value in coffee is unlikely to occur unless producers embed symbolic content in the material coffee they sell, and also secure property rights on this symbolic content.

Organic and specialty markets remain inaccessible to the majority of smallholders due to quality constraints, transaction costs and barriers to entry that deter new entrants and fail to adequately remunerate required investments. Market-based premiums are only part of the solution. Government intervention is also needed. To the extent the organic transition can also raise quality levels; it will bring more widespread benefits beyond its low premiums.

Conclusions, Lessons Learned & Recommendations

Lessons Learned

Rejecting or ignoring coffee certification and verification schemes or standards would most likely work against the local coffee industry in Kenya, Uganda and Tanzania.

Exposing the coffee industry stakeholders (from smallholder farmers to policy makers) to global best practices and working in partnership, would create desirable changes.

It takes substantial resources including time, to build self-sustaining, competitive value chain initiatives.

To overcome supply side constraints, smallholder farmers should be supported through technical assistance, investment in infrastructure and organisational development within appropriate institutions.

The role of government in form of policy formulation to protect coffee farmers remains crucial and paramount but insufficient under current trading circumstances. Direct government intervention in the sector is essential in enhancing its development.

Recommendations

There is need to provide information to farmers regarding key issues along coffee value chains including information on the operations of certification schemes. Provision of information would aim at enabling farmers to understand emerging issues affecting coffee trade in order to make appropriate decisions. It would also enable farmers to identify reliable coffee markets, suitable certification schemes and dependable partners. Information would also encourage accountability along coffee value chains such that farmers are able to question issues or actors who do not add value along global coffee value chains. Information would also be aimed at empowering farmers or their organisations to cultivate and produce coffee as a business.

It would also be beneficial to enhance the capacity of farmer organisations in form of business groups through which they can engage in the coffee business. Most cooperative societies have outlived their usefulness in a world where real time information is important in accessing markets and negotiating for better prices. There is need to fundamentally transform cooperative societies in order to build strong farmer's associations as a basis of developing the coffee sector.

It would be important to work towards harmonising numerous coffee certification and verification schemes. Currently, the numerous schemes are confusing as farmers need them to access some markets. Related to this would be the establishment of local organisations to certify coffee as opposed to relying on those from developed countries some of which are subsidiaries of coffee stakeholders in those countries. Certifications should be harmonised because inspections converge at several points.

Lobbying for change or development of appropriate national and international policies realistic to current global coffee trade is of paramount importance. Such policies should move beyond the rhetoric of value addition and instead provide guidelines necessary to solve the 'coffee crisis' by enhancing farmer's share of the coffee value chain.

There is need to establish a consortium to strategically promote domestic roasting, grinding and consumption of coffee. This could be achieved by lobbying for a change of regulations to enable farmer business groups or cooperatives to roast and sell ground coffee through agents or by themselves. Incentives could also be given to entrepreneurs by the government to establish coffee shops within the region. Such efforts should be premised on increased farmer earnings.



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However, interpretations and analysis in this report are mine.

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Global Coffee Value Chain

The Dry Method [Natural Arabica and Robusta]

Labour Process	State of the Product	Labour Process	State of the Product
Nursery	Seedling		
Planting	Seedling in the orchard		
Seedling maintenance	Adult coffee trees		
Weeding, fertilising, pruning, spraying	Coffee cherries on the tree		
Harvest	Harvested coffee cherries		
Transportation	Coffee cherries delivered to the farm		
Drying	Dry cherries		
Storing	Dry cherries		
Transportation	Dry cherries delivered to the huller plant		
Hulling	Bulk green coffee		
Cleaning, sorting, grading, bagging	Bags of graded green coffee		
Transportation to the harbour	Bags of graded green coffee in the producing country harbour		
Storage	Bags of graded green coffee in the producing country harbour		
Shipping	Bags of graded green coffee in the vessel located in the producing country harbour		
Transportation	Bags of graded green coffee in the consuming country harbour		
Unshipping	Bags of graded green coffee in the consuming country harbour warehouse		
Storage	Bags of graded green coffee in the roasting factory		
Blending	Bags of graded green coffee in the roasting factory		
Roasting	Batches of blended green coffee		
Grinding, packing	Batches of roasted coffee		
Transportation	Bags of roasted coffee in the location of consumption		
Storage	Packages of roasted coffee in the location of consumption		
Preparation of the beverage [Consumption]	Coffee ready to drink		

The Wet Method [Mild Arabica]

	Coffee cherries delivered to the pulping station
pulping	Pulped cherries
fermenting	Fermented cherries
washing	Fermented and washed cherries
drying	Parchment coffee
storage	Parchment coffee
transportation	Parchment coffee in the curing plant
curing [peeling]	Bulk green coffee

Soluble Coffee Value Chain

Extraction	Batches of blended green coffee
Concentration, drying, [spray, freeze]	Liquid coffee extract
Packaging	Batch of soluble coffee
Transportation	Boxes of soluble coffee
Storage	Boxes of soluble coffee in the consumer city
Preparation of the beverage [Consumption]	Coffee ready to drink

Source: Daviron, B. and Ponte, S. (2005)



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