



Improving Performance of Farmer Organizations in Value Chains
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Case study: The National Union of Coffee Agribusiness and Farm Enterprises (NUCAFE) Farmer Ownership Model

To introduce the theme: The role of Farmer Organizations in value addition

Content

- Background
- NUCAFE
- Interventions
- Results
- Lessons learned

Background

Coffee in Uganda is predominantly grown by smallholders with farm sizes of 0.1 to 0.5 hectare. Coffee is exported as green beans through the port of Mombasa in Kenya. With the liberalization of the coffee sector from 1991 onwards, private exporters and thousands of small traders entered the industry. Around 80% of total exports is Robusta coffee.

Robusta growers usually sun-dry the red cherry coffee on the farm and then sell the dried cherries (*kiboko*) in small quantities to the so-called *kiboko* traders who transport it in quantities of 1 to 2 bags to the coffee mills. The mills hull the coffee for a fixed fee after which the *kiboko* traders sell the green beans to the larger traders, the so-called FAQ traders (FAQ = fair average quality). The FAQ traders sell to the exporters at a minimum of 10 bags per delivery. So the *kiboko* and FAQ traders connect the 500,000 coffee growers, who produce each 5 to 6 bags per season, to the 15 exporters that account for 95% of exports. Each of those exporters handles an average of 160,000 bags of coffee per year. (Baffes, 2006)

NUCAFE

NUCAFE was founded in 1995 as the Uganda Coffee Farmers Association (UCFA) but in 2003 changed its name to National Union of Coffee Agribusinesses and Farm Enterprises. NUCAFE is registered as a private, non profit making limited company. Its mission is “to develop and establish sustainable market-driven system of coffee farmer associations to better position the farmers within the coffee value chain”.

Currently NUCAFE has 125 member associations, representing a total of around 100,000 coffee farmers. Member associations are composed of farmer groups, with 25 to 35 members each and a minimum of three farmer group leaders. The 8 staff members of the NUCAFE secretariat supervise business managers who are attached to member associations and who work closely with the farmer group leaders.

Since 2005, NUCAFE has been implementing annual projects with AGRICORD, Solidaridad (coffee Support Network) and DANIDA/Café Africa. One of NUCAFE’s main activities is the implementation of its Farmer Ownership Model. This model has been implemented with many associations, although with variable success, see table 1.

Table 1. Number of farmer associations implementing the NUCAFE Farmer Ownership model and total volumes sold through the model.

Year	2007	2008	2009	2010
Farmer associations	40	65	50	52
Metric tonnes	630	781	682	550

In this model, the farmer association does not buy from the farmers. The association collects the coffee, let it be hulled by the mill and sells the graded coffee on behalf of the farmer. Until this sale, the farmer retains ownership of its coffee. In this way, the value addition that is normally captured by the traders is now captured by the farmers. How this model works in practice is explained through the example of the Kabonera Coffee Farmer Association.



Figure 1 value addition along the coffee chain
Source: NUCAFE 2009

Interventions in Kabonera sub-county

In 1999 NUCAFE started sensitizing the farmers in Kabonera sub-county and helped those who were interested to organize into groups. NUCAFE subsequently facilitated the groups to form the Kabonera Coffee Farmer Association, which was registered in 2003 as a limited company. To finance the organisational costs, members pay 5000 Ugandan shillings (USh) (US\$2) per year to their group, the groups pay USh30,000/yr to the association and the association pays USh100,000/yr to NUCAFE.

NUCAFE provided training on “coffee farming as a business”, the coffee market and business management. A business manager was attached to the association and a bulking centre was established. NUCAFE linked the association to a hulling mill within the community and to an exporter in Kampala. A Memorandum of Understanding was signed between the association and the exporter as well as a contract specifying the quality and quantity of the coffee to be delivered.

The system is now fully operational. The farmers’ *kiboko* coffee is collected and is sent to the mill for hulling. After hulling, the business manager organizes the transport and delivers the coffee to the exporters’ grading factory in Kampala. The coffee is graded into screen 15 & 18 for export and screen 12 and under-grades for local processing factories. The exporter pays NUCAFE, deducting the grading and processing charges from the price. NUCAFE deducts the market linkage fee and transfers the funds to the association account. The association pays the mill owner, who accepts delayed payment because he trusts the NUCAFE system. Finally the farmers receive the payment for their coffee that was sold on their behalf.



Throughout the chain, a detailed record keeping and traceability system is implemented, with receipts signed at each stage. This is necessary because the coffee remains the property of the farmers until the coffee is sold to the exporter in Kampala. At the end it should be exactly known how much was received for the coffee from each individual farmer.

The percentage of a particular screen grade in a batch of coffee depends on the genetic properties (cultivar) and on growing circumstances like the amount of water received by the crop, fertilizer applications and other agricultural practices. To ensure quality, farmers are trained to use good agricultural practices and, for the drying and bulking, in good hygienic practices, like the use of tarpaulins. The Product Development and Quality Control officer of NUCAFE regularly takes coffee samples for testing. Based on the test results, NUCAFE organises a “know your cup” training, informing the association about the quality of their coffee and how to improve their drying and storage practices.

Results

Sales by Kabonera association to the exporter increased from 3 tonnes in 2007 to 15 tonnes in 2010 (figure 1). Table 2 shows that 66% of the coffee sold by the association falls within the export grades and less than 10% is under-grades.

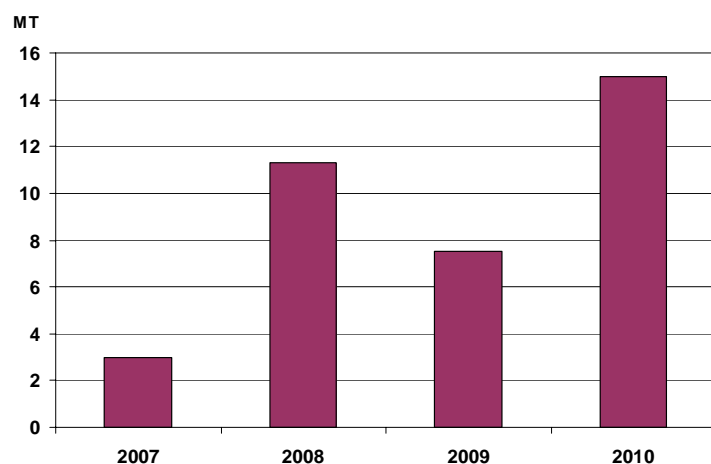


Figure 1 Sales volume by Kabonera Coffee Farmer Association 2007-2010

Table 2: Grades and prices of coffee delivered by the Kabonera Coffee Growers Association

Screen size	% of coffee delivered	price U.Sh.
SC1800	10.3 %	4700
SC1500	55.5 %	4550
SC12	25 %	4250
under grades	9.2 %	2250
Average price		4279

On average, 2kg *kiboko* coffee results in 1kg FAQ coffee. The price received by the farmer for 1kg graded coffee (from which all costs are already deducted) is estimated to be US\$2,230/kg more on average than the farmer would have received for selling 2kg *kiboko* (see table 3). This is after the deduction of the costs for transport, loading and unloading, hulling, storage, grading and processing and the market linkage fee charged by NUCAFE. This fee is divided equally over NUCAFE, the business manager and the association to cover the costs of the services they provide.

	Price in US\$
sales price of 2 kg kiboko coffee	1,800
average price of 1kg graded coffee sold in Kampala	4,279
minus costs	- 0,249
price received by farmer for 1kg graded coffee	4,030
difference in price received by farmer between normal chain and NUCAFE model (per kg)	2,230

From this profit the farmer has to pay the association membership fee and the rest is a reward for the time spent in meetings, training and the effort to follow the good agricultural and drying practices. The NUCAFE model is thus highly profitable for the farmer. However, the market linkage fee is not sufficient to cover all services provided by NUCAFE; some costs are paid by donor contributions.

Lessons learned

Lesson 1. Business manager and farmer control

Any business needs proper operational management to be able to deliver the right product at the right place at the right time while making a profit. Therefore, also farmer groups need to have a kind of business manager, whether this is one of the group leaders or an externally hired professional. In this case, the business manager in effect takes over the role of the traders. However, whereas a trader will work in the interest of the trader, an association or cooperative can ensure the employed business manager works in the interest of the farmers. Still, this requires a minimum of understanding on the part of the group members about how the chain works. In this case, the training of the farmers by NUCAFE and the feedback on quality has been very important.

Lesson 2. Record keeping

Record keeping is an essential element of business management and traceability. In this case, business manager is selling coffee in Kampala on behalf of many farmers. If there would not be a proper traceability system the association would not know which farmer delivered which quality and quantity and would not be able to know how much each farmer should be paid.

Lesson 3. Outsourcing

Instead of owning a mill, the Kabonera association has outsourced the coffee hulling. This arrangement has many advantages. The farmer association did not have to buy a mill, for which they would have needed to obtain a loan, which would have added the cost of interest. They also did not need to learn how to operate a mill. Furthermore, if the farmer associations had owned the mill, they would have to pay for all its overhead costs. Now, the mill owner can spread the overhead costs of the mill over all its clients (economies of scale).

Sources

- Baffes, J. 2006. Restructuring Uganda's coffee Industry: why Going Back to the basics matters. The World Bank, Washington.
- Richard Seninde, NUCAFE (direct communication February 2011)