



Case Study no. 19

September 2019

This study is about one of 22 technical assistance supports for investees and their end clients to deepen the impact of investments funds under a public-private development partnership between SDC and responsAbility Investments AG from 2010 to mid of 2019. It forms part of a series of thematic case studies of SDC's Employment + Income Network.

Rainforest Alliance Certification for smallholder coffee farmers associated to Great Lakes Coffee Ltd., Uganda

1. Development relevance

Economic and poverty context: With a population of 41 million out of which nearly 40% live on less than \$1,25 a day, Uganda ranks among the poorest countries. Poverty remains deep-rooted in rural areas, which are home to 85% of the population. People in rural areas depend on farming as the main source of income and 90% of all rural women work in the agricultural sector.

Uganda has been experiencing consistent economic growth. Its large diaspora has largely contributed to this growth, through an estimated USD 1,1 billion remittances and investments. Agriculture accounts for more than 50% of the economy, with coffee being its main export (19%). Uganda was the 151st most corrupt country out of 176 in 2016 much affecting private businesses.

Uganda is a landlocked country and has faced a vast influx of refugees due to several factors in its neighbouring countries, especially war and violence in South Sudan and the Democratic Republic of the Congo, as well as associated economic crisis and political instability in the region. Uganda is today one of the largest refugee-hosting nations in the world, with over 1,1 million refugees.

Partner institution: Great Lakes Coffee (GLC) was founded in 1999 by the Nicolaidis family, who has been involved in coffee in Africa for three generations, starting out as farmers in the Democratic Republic of the Congo. Today, the family owns and operates Great Lakes Coffee, a Uganda-based green coffee sourcing, milling and exporting company. The company aims to distinguish itself from competitors by its high-quality coffees and services, ethical and transparent corporate policy, including a transparent purchase price calculation method, and strong governance.

Table 1

Population and economic indicators	
Population in million	41
GDP growth (%)	5,2%
Inflation (%)	3,3%
External debt (% of GDP)	23,3%
Net ODA received (% of GNI)	6,12%
Economic Freedom Index (rank among 186)	95
Poverty indicators	
GDP per capita (USD)	697
Gini Index (0= equality 100= inequality)	41
International poverty rate (at 1,90 USD/day)	41,7%
National poverty rate (%)	21,4%
National rural poverty headcount rate (% , 2012)	22,4%



In 2015, GLC was sourcing coffee from 18'200 smallholder farmers organized in a network of 32 farmer groups in rural Uganda. As a coffee processor and trader, GLC provides those farmers with access to high quality coffee export markets – GLC exports almost the entire volume purchased from farmers to 13 buyers, while only 1-2% are local sales.

Besides, GLC supports those farmer groups through training around coffee production practices, on the field technical assistance and provides traceability systems to better manage volumes and quality of production. GLC had also developed new infrastructures locally to adequately process the coffee, ensure best quality, enable farmers to sell the coffee production at an increased price thus generate higher incomes for farmers.

2. Intervention approach

The project aimed to support 3'600 smallholder coffee farmers in Eastern Uganda improving the quality of their production and strengthening the value chain in cooperation with GLC, their local trader.

It supported the development of the overall internal reporting and inspection systems necessary to comply with the Rainforest Alliance certification requirements. The certification cycle takes 4 years, whereby the bulk of the costs occur during the first year. In order to reduce the financial burden on farmers in the first year, GLC prefinanced the costs related the certification up to 30%, and SDC up to 33%. To sustain efforts and time invested over time, farmers themselves contributed to the remaining 37% of the costs.

Relation between the company and responsAbility¹. responsAbility started the investment relationship with GLC in 2014 at a time when the company was expanding its activity in the export of Arabica coffee which required the use of flexible working capital financing such as offered by the responsAbility Fair Agriculture Fund vis-à-vis the collateral monitoring agreement type of facility offered by local banks.

From July 2014 to March 2015, responsAbility disbursed a total of USD 6 million of trade financing. Most of the financing had already been repaid when the project started. A new lending facility up to USD 6 million was approved for financing the 2015/2016 season. Since then, responsAbility has invested additional short-term working capital to purchase coffee cherries. It financed the 2017/2018 coffee season with USD 8 million and the 2018/2019 season with USD 6 million.

3. Results

3.1. At farmers' level

The certification of 4'952 farmers out of 22'236 farmers - co-funded with USD 27'000 by SDC - helped increase the farm gate price by 36% between 2016 and 2018. The total earnings for farmers from the coffee sales over the three-year period was of USD 2,8 million, representing an aggregated additional income of USD 0.6 million, i.e. compared to if the farmers had sold the same non-certified coffee as ordinary.

The table below indicates the **incremental income per kg for certified farmers compared to non-certified farmers and lists the total and the incremental income for the certified farmers over the three-year period from 2016 to 2018.**

Table 2

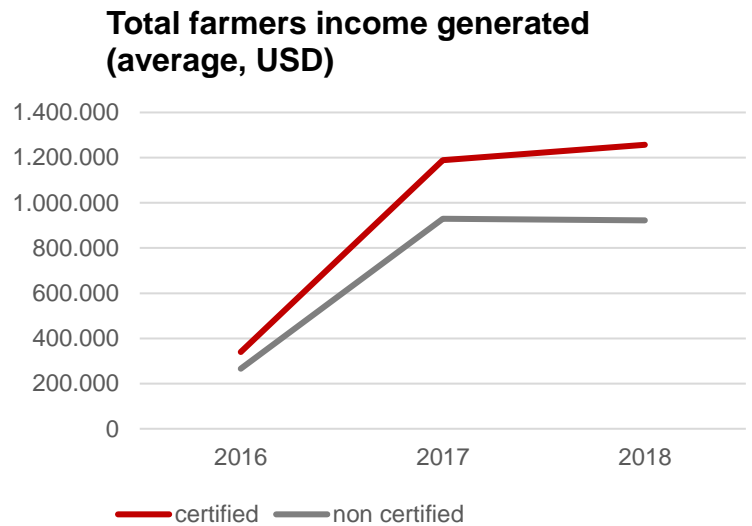
Effect of TA intervention on farmers' income			
	2016	2017	2018
Number of certified farmers	2'711	2'711*	4'952
% certified farmers, out of total number of farmers	15%	13%	22%
Sales price - non-certified coffee (USD/kg)	1,87	2,51	2,28
Sales price - certified coffee (USD/kg)	3,12	3,21	2,83
Farmers income without certification (USD)	265'877	929,551	921,745
Farmers income with certification (USD)	339'833	1'188'789	1'256'894
Additional income earned with certification	73'957	259'237	335'149
Additional income earned with certification (%)	28%	28%	36%

*No certification audit was conducted in 2017, the number of certified farmers remained the same as in 2016.

¹ The Fair Agriculture Fund managed by responsAbility invests primarily in actors along the agricultural value chain in developing economies and emerging markets. The investments are diversified over a range of agricultural commodities. As of end 2018, the fund was invested in 39 countries

and 43 commodities. More information is accessible under: <https://www.responsability.com/en/investment-products/responsability-fair-agriculture-fund>

The 2018 coffee price crisis. 2018 marked an important year in the world of coffee, as global coffee prices reached their **lowest level in 12 years**, leaving producer countries like Uganda distressed with stockpiles and coffee farmers deeper into poverty. What is noticeable looking at the above table is that while certified farmers were earning on average 28% more than non-certified farmers in 2016 and 2017, **this percentage raised up to 36% in 2018**. This illustrates the role that certifications such as Rainforest Alliance play in **ensuring a minimum income for farmers at times when coffee prices collapse**. The annual total income of the certified farmers over the 3 years is illustrated by the following graph chart:



CLIENT PROFILE

Masika Sarah Bwambale is 54 years old. She comes from the village of Kasemire, in the district of Kasese. Kasese is located in the north of Lake George in the Western Region of Uganda, a few kilometers away the border with the Democratic Republic of the Congo. Over 80% of Kasese residents live on less than one dollar a day. GLC sources 80% of its coffee volumes in Kasese, from 10,902 farmers. Thanks to the 1,220 coffee trees split in the 2 plots she owns, Masika is able to produce up to 400 kg of green coffee each season. To complement her income, Masika also grows other crops such as vanilla and maize. With her income, she is able to provide for a household of 11 members, including her husband and 3 under-aged children. In 2018, the income obtained from her coffee production totaled **USD 630**, representing around **42% of her total income**. Thanks to the project, Masika was able to attend training sessions and build her capacity on issues such as rejuvenation and pruning of coffee trees, land preparation and post harvest handling, which, as a consequence, enabled her to implement more sustainable production practices, obtain a certification, and sustain her incomes.

3.2. At Great Lakes' level

As an outcome of the project, Great Lakes successfully obtained the Rainforest Alliance certification in December 2015.



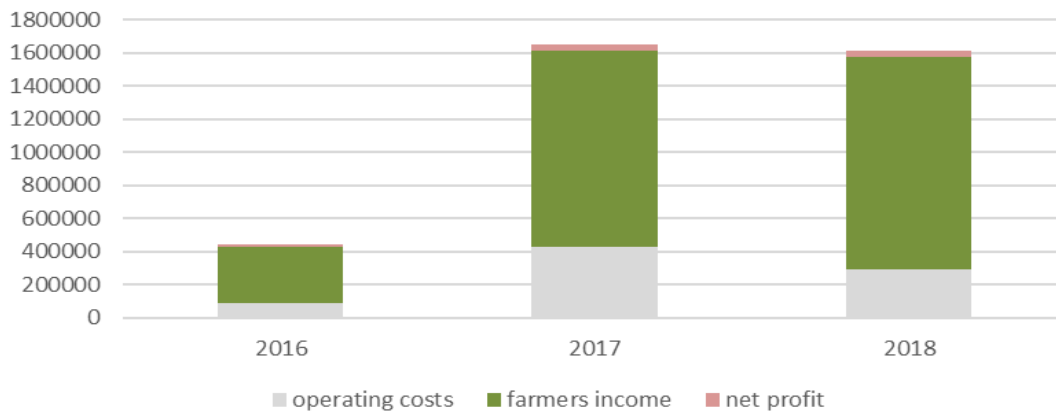
Since then, GLC's **exported volumes and sales of certified coffee have been increasing significantly**, as illustrated in the below table. Such growth is to be explained by the increasing global

demand for specialty coffee and GLC's improved coffee processing and exporting capacity to answer such demand. For 2019, the volume target of certified coffee export is 960'000 kg.

Table 3

Effect of TA intervention on Great Lakes exported volumes and sales			
	2016	2017	2018
Total USD sales value of certified coffee exported	445'508	1'653'166	1'611'402
% of total exported	2,5%	8,6%	11,3%
% increase in sales (since 2015)	-	271%	262%
Total volume of certified coffee exported (kg)	142'791	514'360	569'400
% of total exported	2%	7%	9%
% increase in volume (since 2015)	-	260%	299%

Total export value of certified coffee (USD)

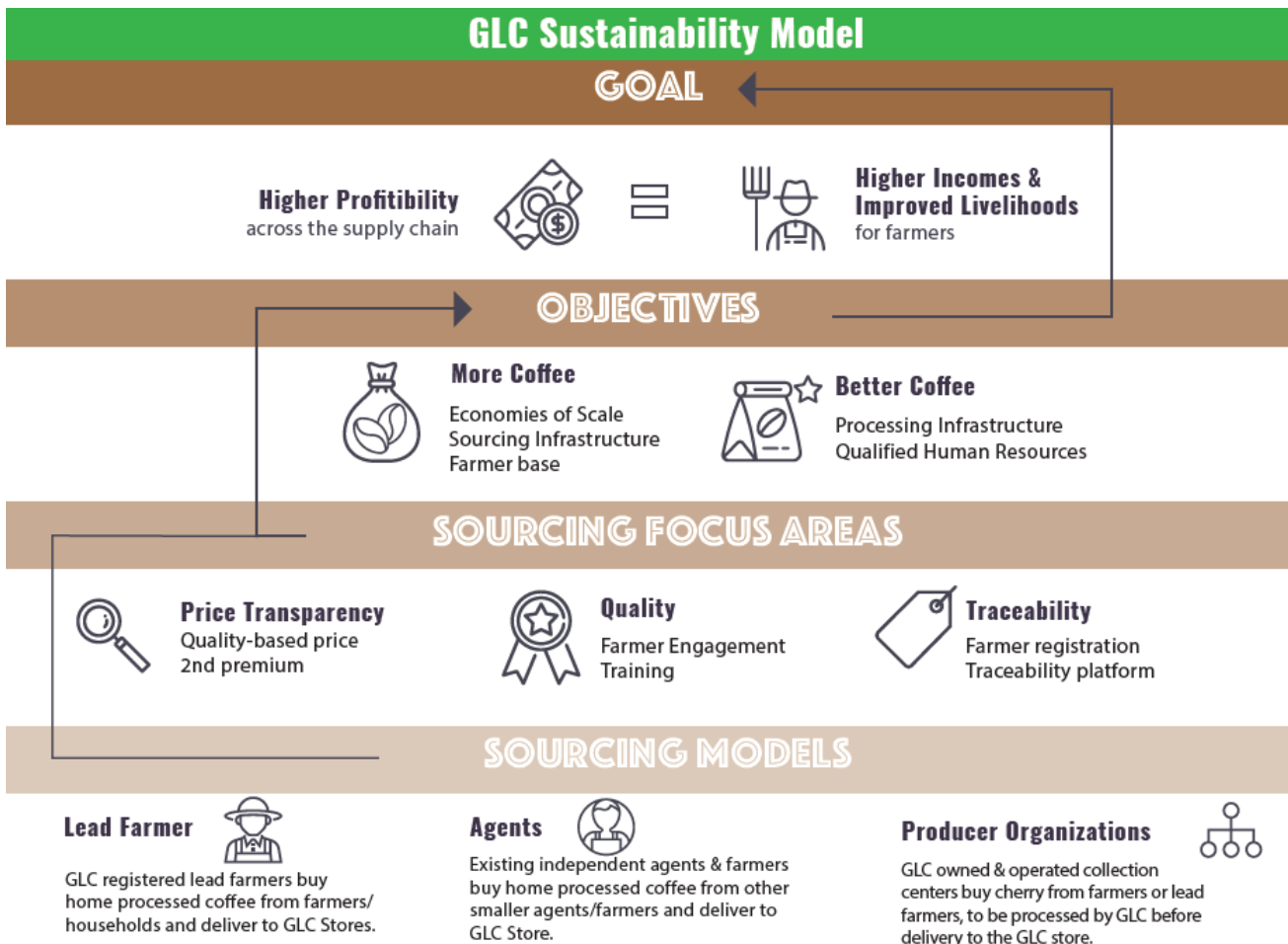


On average, 75% of the total sales value of the certified coffee exported are paid by GLC to farmers for purchasing their coffee. Due to the certification premium, this percentage is usually higher for certified farmers (compared to non-certified farmers).

GLC’s embedded approach to sustainability. In 2016, GLC launched its **Sustainable Coffee Program** which aims to create 100% traceable coffee sourcing supply channels for both commercial and premium quality coffees. This program is based upon the principle that commercial viability creates sustainability

and that two main objectives have to be reached to add social and economic value across the supply chain:

1. More coffee - Increased export volume will reduce the cost per pound to a point where all partners along the value chain will assume a profit, passing on savings to the buyer, and enabling GLC to pay a higher price to farmers for their coffee. Scaling will be achieved by expanding the number of farmers working with GLC, increasing the number of collection points and buying centers, and increasing GLC’s ability to process more coffee.



Source: GLC Sourcing and Traceability Annual Report 2017

2. Better quality coffee - Training and materials provided by GLC staff to its farmer base will greatly improve the quality of its coffee grown by farmers. By investing in skills development and processing infrastructure, GLC will improve post-harvest processing methods — allowing it to have greater control over the quality of coffee produced and exported.

Partnering with [SHIFT Social Impact solutions](#), GLC has defined the below sustainability framework that serves as a strategic guidance for its sourcing, processing, and exporting operations.

As part of GLC's efforts for higher traceability (see above focus area #3), the company has also designed **internal systems to ensure traceability from the farmer to the buyer**. After initial pilots in Western Uganda in 2016, GLC launched in 2018 **MaxTRACE, a digital traceability platform** which includes a farmer registration system: all certified farmers are registered under GLC's Certification ID, giving farmers direct market access. The platform also includes an integrated sourcing dashboard, purchasing application and a supply chain/financial tracking system. In 2018, the system has been expanded and deployed to reach farmers throughout Uganda and DRC. MaxTRACE was also upgraded to include a Farm Inspection System that will provide **greater insight into the economic, environmental, and social sustainability of GLC farming households** (see client profile above) and impact of its activities. GLC's landmark achievement in 2018 was to have 100% of exported coffees traceable.

The program is designed to offer a comparable level of ethical sourcing assurance to certification programs such as Rainforest Alliance, UTZ, Café Practices, etc., at a substantially lower cost of operation. GLC plans to roll out the inspection across its entire Uganda supply chain. For the next three years, GLC has committed to **sustain their Sustainable Coffee Program and improve farmer livelihoods through traceable coffee**. This includes setting up demonstration plots, agri-business training, collection center investments.

Investments made by Great Lakes in infrastructures. In order to meet the increasing demand for premium and certified coffees, Great Lakes has made invested USD 750'000 in processing equipment upgrading at Kampala Head Office, and USD 220'000 in processing equipment in Eastern Uganda to strengthen its supply chain in the region. Great Lakes also invested USD 1,2 million in building a new dry mill in Western Uganda to support current and future demand and USD 81'22 in certification international inspections, external audit fees and certification fees over three years. These investments have supported Great Lakes in sourcing, processing and selling **increasing volume** from farmers.

4. Lessons learnt

Although the total project budget was CHF 27,000 with 33% grant funding from SDC, the technical assistance was **catalytic for GLC to get the Rainforest Alliance program running**. This has **expanded as its core business** by the end of 2018 when 100% of its exported 6'264 metric tons was classified as traceable to farmer or agent level. The certified farmers have been receiving on average USD 60cts/kg more than non-certified farmers.

The following main factors were instrumental for the project success:

- 1) Selection of professional and committed partner:** GLC already had a **long-term strategic view** to optimize its sourcing model and reduce certification and training costs. As part of its Sustainability Coffee Program (see above), GLC set up its own Rainforest Alliance certified Producer Organizations. The latter buy coffees from registered GLC farmer households and deliver to GLC assigned collection centres. Relying on such sourcing model supports the improvement of production practices through farmers training and build the volume of premium quality coffee. Indeed, GLC relies on producer organizations to undergo agribusiness training focused around GLC community-based demonstration plots. **Certification and training costs are substantially reduced** through shared collaboration, and farmers are always paid their price premiums on schedule. The model has proven to be a great success in empowering farming communities to apply more sustainable coffee production practices.
- 2) Selection of qualified consultant:** GLC and responsAbility selected jointly a qualified consultant who supported in GLC in obtaining its certification licence in time. GLC recruited him and he currently serves as Head of Sustainable Coffee Program and Sourcing. The creation of this new function reflects the demonstration effect of certified coffee being a real business case for GLC. The voluntary certification system has grown in numbers of farmers as it has triggered positive employment and income effects for farmers and GLC.
- 3) In 2017, with the objective to develop its Sustainability Coffee Program and improve farmers' market access for, GLC added the UTZ Certification².** While in 2016, Rainforest Alliance certified Producer Organizations group represented 2% of GLC overall sourcing, it has been growing over years **up to 16% in 2018**. A positive external factor for GLC - as well as other sustainable coffee producers - has been the recent merger between Rainforest Alliance and UTZ leading to a single agriculture sustainability standard.

² Since then, the Rainforest Alliance and UTZ have merged and are now a single agriculture sustainability standard.