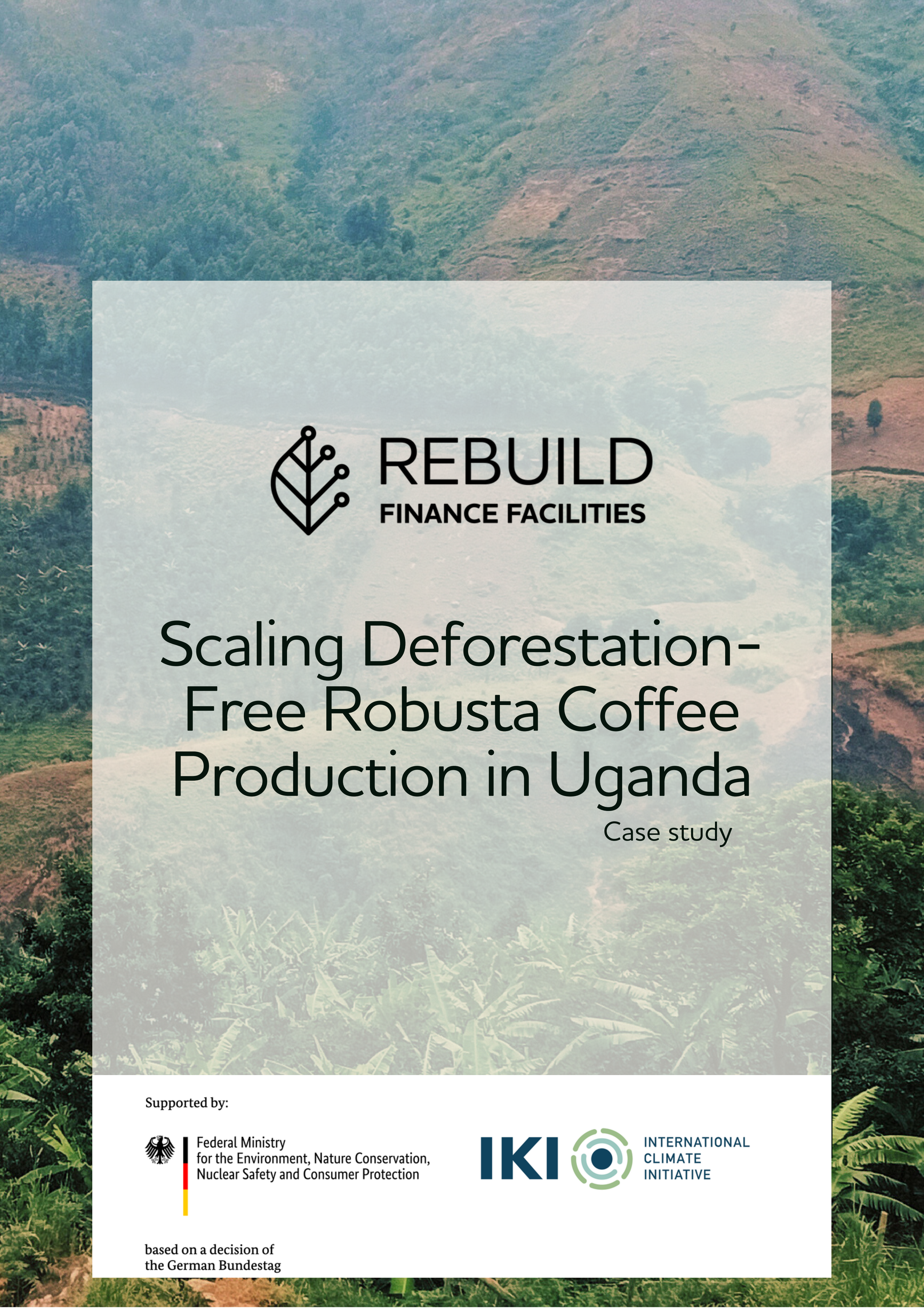

REBUILD
FINANCE FACILITIES

Scaling Deforestation-Free Robusta Coffee Production in Uganda

Case study

Supported by:

Federal Ministry
for the Environment, Nature Conservation,
Nuclear Safety and Consumer Protection

IKI INTERNATIONAL CLIMATE INITIATIVE

based on a decision of
the German Bundestag

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REGENERATION
ACCELERATING NATURAL SOLUTIONS

REBUILD
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Regeneration is a partnership between Systemiq and Palladium International.
Regeneration's mission is to accelerate natural solutions to tackle the climate crisis.

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Foreword

The Rebuild Facility supports sustainable cocoa and coffee market access players (MAPs) in East and West Africa by providing working capital to deforestation free cocoa and specialty coffee ventures that protect, restore, and regenerate nature.

Jointly implemented by the Palladium Group and Systemiq under the Regeneration umbrella, the Facility works with funding from the German Federal Ministry for Environment, Nature Conservation, Nuclear Safety and Consumer Protection (BMUV). The Rebuild Facility's portfolio spans 5 countries - Ethiopia, Uganda, Kenya, Ghana, and Côte d'Ivoire.

The Rebuild Facility's mission is three-fold: to protect smallholder livelihoods, conserve tropical forests, and strengthen the private sector. Providing working capital, offered as a returnable grant, facilitates the continued purchase of sustainable commodities from smallholder farmers and cooperatives. As the commodities are successfully sold to end-markets, the grant is returned and redistributed to strengthen other market access players.

As of June 2023, the Rebuild Facility's work has benefited over 50,000 smallholder farmers and kept over 100,000 hectares of land under sustainable land management. The Rebuild Facility is on track to mobilise over 14 million euros of private finance into sustainable MAPs by the end of 2023.

This case study, based on Uganda, details how the Rebuild Facility's returnable grant went toward strengthening the youngest cooperative supplying Kyagalanyi Coffee Ltd. (KCL), Uganda's largest coffee exporter.

Executive summary

In 2021, the Rebuild Facility provided a returnable grant to Volcafe to purchase sustainable coffee from Uganda, through its subsidiary Kyagalanyi Coffee Ltd (KCL), a subsidiary of Volcafe. KCL is one of the largest and oldest coffee exporters in Uganda. The grant was aimed at supporting KCL in overcoming liquidity constraints as a result of the Covid-19 pandemic, as well as expanding KCL's deforestation-free coffee scheme in the Masaka region.

By the end of its implementation, the Rebuild Facility returnable grant contributed towards:

- Expansion of sustainability practices despite COVID-19 related challenges – about 100,000 new trees planted as part of agroforestry and reafforestation efforts, protecting 1,369 hectares of land, and
- Securing the incomes and premiums of 1,661 Masaka farmers.

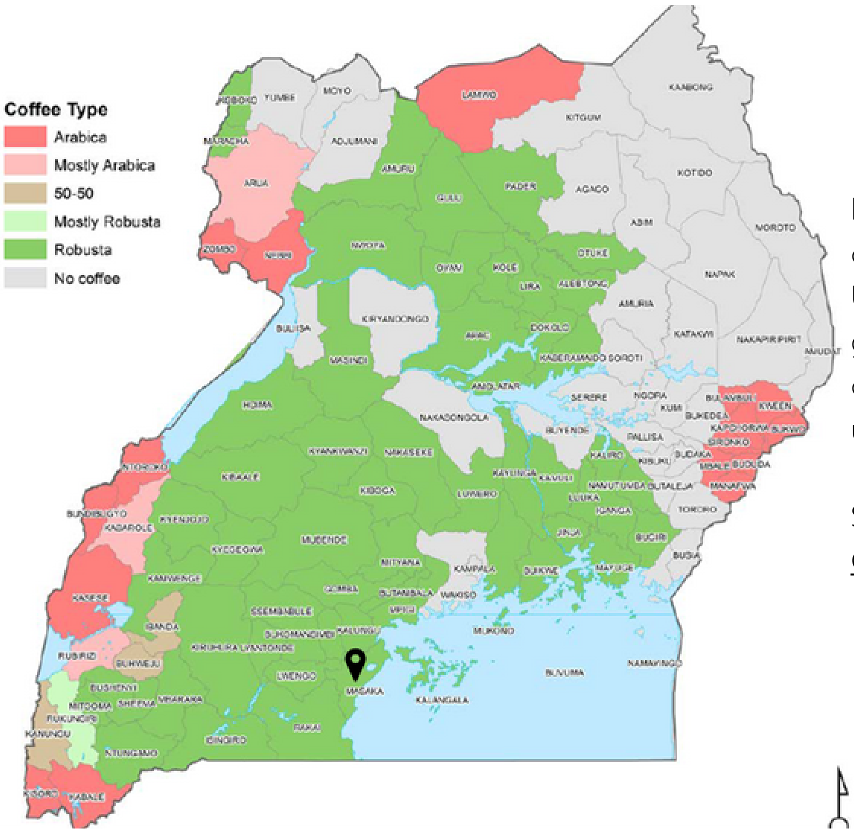
Uganda coffee context

Covering a total area of 241,038 sq. km with a population estimated at 41.5 million, Uganda is both the source of River Nile and the birthplace of Robusta coffee. Coffee has been the most important cash crop in Uganda since the 1980s, making it the top export earner. Coffee is cultivated in 100 out of 112 districts in Uganda and generates 15% of all export earnings[1]. Uganda has the world's highest number of small-scale coffee farmers - over 1.8 million smallholders each with an average farm size of 0.25ha - and over 2.5 million people depend on the crop for their livelihood.

Uganda is the world's 8th largest coffee producing country in 2020, and the second largest producer in Africa, after Ethiopia. It is, however, Africa's largest coffee exporter – exporting a record volume of 5.06 million bags in 2020. The country, through its Uganda Coffee Roadmap, has ambitious goals to increase its coffee production five-fold and triple farmer incomes by 2030.

Two types of coffee are grown in Uganda: Arabica, which is grown at high altitudes ranging from 1,300-2,300m above sea level, and the Robusta, which is grown at lower altitudes ranging from 900-1,500m above sea level. Robusta coffee makes up about 80% of coffee grown and is largely produced in central Uganda and in the Lake Victoria basin area. Ugandan coffee is imported by Italy (the country's biggest importer), followed by Germany, Sudan, India, Belgium, Tunisia, Spain, and Morocco.[ii]

Uganda has one of the most liberalized coffee sectors in East Africa. Private traders purchase coffee from either producer organizations or directly from farmers for onward processing and export. Regulated by the Uganda Coffee Development Authority (UCDA) which was established in 1992 to lead the liberalisation of Ugandan coffee, the sector has attracted significant private sector investment and most international coffee trading companies are locally represented.[iii]



Map of Arabica and Robusta coffee growing areas in Uganda. The Rebuild Facility grant went toward supporting coffee farmers in Masaka who grow Robusta coffee.

Source: International Growth Centre

COVID-19 and the Ugandan coffee value chain

Covid-19 lockdown measures were put in place by on March 18, 2020, triggering overwhelming cost to the Ugandan coffee economy. On the supply side, the onset of the crisis reduced the price of Ugandan exports through currency depreciation and coincided with higher than usual yields from the latest harvest, in part the result of additional investment in yields by farmers, as well as greater supply of household members who could work on the farm due to lockdown measures.[iv]

The pandemic caused exporters significant additional costs and delays associated with transporting goods during the pandemic and its resultant lockdowns. Limited availability of trucks (due to trucks being stuck in transit) and long delays at borders due to stringent testing measures meant that shipments that previously took 2-3 weeks to get from Uganda to the port in Mombasa took up to 2-3 months. This resulted in longer contract fulfilment periods and longer payment cycles, leading to significant liquidity constraints for exporters.

The loss for coffee farmers was also high. In a survey conducted by Technoserve in July 2020, 61% of households reported lost income from coffee farming since the beginning of the pandemic. The income loss resulted from movement restrictions, which limited farmers' choice of buyers and led to reduced prices.[v]

For grantees Volcafe and KCL, they were hugely impacted by the lockdown. During the sourcing period, stricter lockdown measures were put in place, causing KCL to have to postpone sourcing. Training for certification also suffered delays as a result of lockdowns. Due to liquidity constraints, KCL suspended coffee sourcing from farmers in Masaka.

Grantee in focus:

Volcafe and the Masaka Scheme

Volcafe Group is the Swiss-based coffee division of ED&F Man, which is a vertically integrated agricultural commodities trader with a presence in over 60 countries worldwide. Volcafe operates in Uganda through Kyagalanyi Coffee Ltd (KCL), the largest and oldest coffee exporter in Uganda. KCL is a subsidiary of Volcafe, sourcing coffee from four diverse regions in Uganda (Masaka, Rwenzori, Mt Elgon, and West Nile) through sustainable coffee schemes. The four schemes, comprising over 25,000 coffee farmers, are UTZ and/or Rainforest Alliance certified. KCL was one of the first five private export companies licensed to export coffee by the UCDA[vi] and has since been a strong contributor to the Ugandan coffee sector, responsible for 18% of Uganda's coffee exports. When Uganda's coffee crop was nearly decimated by the coffee wilt disease in the 1990s and early 2000s, KCL played a major role in re-seeding with wilt-resistant varieties of Robusta coffee. The company established a nursery with the new varieties and supplied them to farmers at no cost.[vii]

The company was the first 4C (Common Code for the Coffee Community) verified exporter in Africa, and is UTZ certified.[viii] KCL also implements an agro-forestry program that is aimed at increasing the adoption of agro-forestry practices among small holder farmers.

The Masaka Scheme

The Rebuild Facility grant targeted Robusta coffee farmers from the Masaka Scheme, the youngest of KCL's four sustainable coffee schemes. It comprises 1,324 UTZ-certified coffee farmers (16% of whom are women) who grow coffee on over 1,300 hectares of land in the Greater Masaka region of Uganda. The Rebuild Facility grant went toward providing some liquidity relief for Volcafe and purchasing Robusta coffee from the Masaka Sustainable Coffee Scheme farmers,

ensuring an average income of €246 for each farmer within the scheme in return for their sustainably produced Robusta coffee.

The grant was also aimed at providing the economic foundation for the Masaka Scheme to expand its agro-forestry development program created in response to deforestation threats in the area. Deforestation has been prevalent in the Jubiya and Mujuzi Forests since the early 1990s, mainly driven by conversion of forest area to agricultural land and the demand for timber, firewood, and charcoals. From 2001 to 2021, Masaka lost 112ha of tree cover, equivalent to a 13% decrease in tree cover since 2000, and 48.9kt of CO_2 emissions.[ix] Masaka Scheme's 5-year plan is aimed at integrating agro-forestry systems into 2,600 farms in the region and encouraging farmers to adopt deforestation - free production methods.

Impact of the returnable grant

The Rebuild Facility's returnable grant is measured for impact in 3 categories; private finance mobilised, livelihoods secured, and environmental impact.

Environmental impact

The grant successfully supported the expansion of agroforestry efforts in the area. During the grant implementation period, KCL planted about 100,000 trees in expansion of their afforestation and reafforestation efforts.

100,000 trees planted on 1,369 hectares of land.

Livelihoods impact

The grant went towards purchasing 956.15 MT of coffee the Masaka Scheme farmers. This benefited 1,661 new coffee farmers who received premium payments for their certified coffee.

956.15 tonnes of coffee, 1,661 Farmers' incomes secured.

Scaling Agroforestry

As of June 2023, two years after the Rebuild Facility grant, Volcafe and KCL continue to expand their agroforestry efforts, including training farmers on agroforestry implementation. Given its position as a market leader in the sector, Volcafe's agroforestry efforts could be a catalyst for shifting the sector toward more sustainable production methods and reduce deforestation rates.

Volcafe was the first MAP to receive financing from the Rebuild Facility. The company was selected both for its strong credit position and history as a key player in the Ugandan coffee sector. Based on its experience, KCL was an important first partner for the Rebuild Facility and provided feedback on the grant delivery approaches and other opportunities for the Rebuild Facility in Uganda. Working with Volcafe, Rebuild Facility enriched its knowledge base of managing successful agroforestry schemes and then scaled up its funding in projects that aim to integrate agroforestry as part of their sustainability programme and ensure they deal in deforestation-free coffee.

[i] Uganda the Pearl of African Coffee https://www.algrano.com/en/origins/uganda

[ii] UGANDA REPORTS RECORD 2022-23 COFFEE CROP https://bartalks.net/uganda-reports-record-2022-23-coffee-crop/

[iii] USDA Foreign Agricultural Service. Uganda Annual Coffee Report. https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Coffee%20Annual_Nairobi_Uganda_05-15-2021.pdf

[iv] UCDA Monthly Report, April 2020

[v] Technoserve, 'Coffee Farmers and Covid-19 in Uganda' Survey round 1, July 2020.

vi] Dr. Emmanuel Iyamulemye, 'The History of Coffee in Uganda,' African Fine Coffees Review Magazine, Jul – Sept 2017, Volume 7, Issue 4.

[vii] Kyagalanyi Gets New Coffee Machinery; https://web.archive.org/web/20140826115745/http://www.newvision.co.ug/D/8/220/686202

[viii] Kyagalanyi's trek to quality coffee exports https://www.monitor.co.ug/Business/Business%20Power/-/688616/897880/-/l58876/-/index.html

[ix] Global Forest Watch

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