

# Securing Incentives to Protect the Birthplace of Coffee

Case study



**REBUILD**  
FINANCE FACILITIES

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Federal Ministry  
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INTERNATIONAL  
CLIMATE  
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**REGENERATION**  
ACCELERATING NATURAL SOLUTIONS



**REBUILD**  
FINANCE FACILITIES

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

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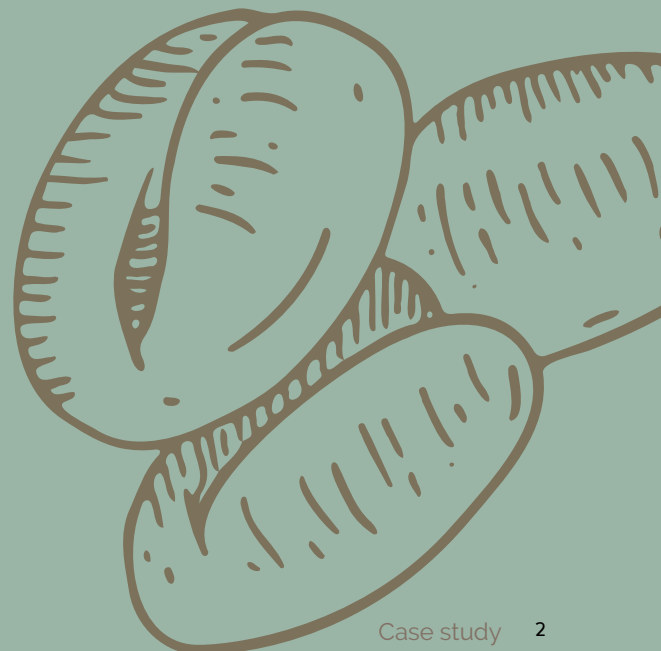
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# Foreword

The Rebuild Facility is a returnable grants facility that supports sustainable cocoa and coffee 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 across 5 countries - Ethiopia, Uganda, Kenya, Ghana, and Cote d'Ivoire

The Rebuild Facility's mission is three-pronged: 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, participatory forest management cooperatives (PFMC's), and cooperatives. As the commodities are successfully sold to end-markets, the grant is returned and redistributed to strengthen other sustainable market access players.

From 2020 to 2022, the Rebuild Facility has successfully unlocked private finance to benefit over 50,000 smallholder farmers, keeping over 100,000 hectares of land under sustainable land management.

**This case study documents Rebuild Facility's impact in Ethiopia**, where the incomes of the Kaffa Participatory Forest Management Cooperatives (PFMCs) were secured thanks to the contribution from the returnable grant.





# Glossary

Biodiversity	Biodiversity is the variability in species, genetics, ecosystems, and biological communities that encompass the biosphere. A high level of biodiversity is usually important and desirable because it enables adaptation to change, as well as greater resilience to shocks and stresses to the ecosystem. Genetic diversity is the variety of genetic characteristics within a species.
Biosphere reserve	'Learning places for sustainable development'. They are sites for testing interdisciplinary approaches to understanding and managing changes and interactions between social and ecological systems, including biodiversity management.
Deforestation	When a forest is cleared, and the land converted for agricultural uses, mining, or urban development.
Forest	Forest refers to land spanning more than 0.5 ha covered by trees (including bamboo) with a minimum width of 20m or not more than two-thirds of its length, and attaining a height of more than 2m and a canopy cover of more than 20% or trees with the potential to reach these thresholds in situ in due course.
Forest protection	Forest protection involves practices that reduce the conversion of forested areas to other land use like extraction of timber, or the unintentional destruction of forest. These include forest monitoring, patrolling and fire prevention and control.
Grantee	Recipient of the Rebuild Facility returnable grant
Non-timber forest product	Substances, materials, or commodities that are derived from forests but do not require the harvesting (cutting) of trees.
Participatory forest management	Participatory Forest Management intentionally involves forest-adjacent communities and other stakeholders in the management of forests within a structure that contributes to the communities' livelihoods.
Rainforests	Dense forest rich in biodiversity, typically found in tropical areas with consistently heavy rainfall.
Sub-tropical rainforests	Lying immediately north or south of the tropics, sub-tropical rainforests share characteristics of both tropical rainforests and temperate forests.



# Abbreviations

BMUV	German Federal Ministry for Environment, Nature Conservation, Nuclear Safety and Consumer Protection
COVID-19	Corona virus disease 2019
ECX	Ethiopian Commodity Exchange
EUR	Euros
FOB	Free on board
GDP	Gross Domestic Product
GMBH	Gesellschaft mit beschränkter Haftung; 'limited liability company'
P4F	Partnerships for Forests
PFM	Participatory Forest Management
PFMC	Participatory Forest Management Cooperative
SLM	Sustainable Land Management
sq km	Square kilometer
UNESCO	United Nations Educational, Scientific and Cultural Organization
USDA	United States Department of Agriculture





## Executive summary

In June 2021, the Rebuild Facility provided a returnable grant to Original Food, a company working directly with Participatory Forest Management Cooperatives (PFMCs) in the Kaffa region of Ethiopia.

The COVID-19 pandemic caused disruption across the coffee supply chain and delayed access to working capital. This impacted all actors in the value chain, but for coffee farmers in Ethiopia, the delayed access to finance had the potential to disrupt their livelihoods. The Rebuild Facility, by providing working capital to Original Food, contributed to securing the incomes for over 5,900 farmers within the Kaffa PFMCs. All Kaffa PFMC members received training as part of the certification schemes. The grant also supported over 6,000 new hectares of land placed under continued\* or improved\*\* sustainable land use practices, in addition to the 34,965 hectares of land already under forest protection in the Kaffa region.

Through establishing relationships with grantees such as Original Food, the Rebuild Facility can continue to support and protect farmer incomes, and work with partner organizations to deepen forest landscape protection measures.

\*Continued: relates to areas with previously applied SLM but that were threatened by COVID-19 market disruption with a clearly established threat to the practices being discontinued or disrupted without the Rebuild Facility intervention.

\*\*Improved: relates to areas with new Sustainable Land Management (SLM) practices being applied to that area that have been supported by the Rebuild Facility intervention. Areas that are improved represent an expansion of the land area subject to SLM practices.



# Ethiopia Coffee Context

Ethiopia is found in the horn of Africa and covers an area of approximately 1.01 million square km. Ethiopia has 17,068,500 hectares of forest, covering 15% of its total area. Coffee is an important commodity in Ethiopia, responsible for 4-5% of GDP and 30% of export earnings<sup>[i]</sup>.



## Where does Ethiopian coffee go?

An estimated 40–50% of coffee production goes to the domestic market, of which around 15–30% is smuggled for cross-border trade and the underground economy. The remaining 50–60% is channeled to the export market, of which around 80–85% goes through the ECX, 5–10% through direct trade by cooperatives, and 5% through commercial farms<sup>[v]</sup>.

An estimated 45% of total production is harvested from forest and semi forest coffee. Coffee is a valuable source of income for an estimated 15 million Ethiopians working in the sector<sup>[ii]</sup>, out of which four million smallholder farmers cultivate 95% of the total coffee production. Coffee also has high social and cultural value for Ethiopians.

Despite its significance, coffee farmers capture a small portion of coffee's total value, hence they face low incomes and are vulnerable to volatile prices. Ethiopian smallholders earn an estimated 60% of the export price<sup>[iii]</sup>, which is a lower share than that seen in most other producing countries, such as Kenya (70%) or Brazil (90%). For every GBP 2.50 (EUR 2.81) cup of coffee, farmers earn only 1 penny (about 1 cent)<sup>[v]</sup>. Climate change-related shifts in weather patterns have also contributed to lower crop yields, which further add to smallholder coffee farmer income precarity<sup>[v]</sup>. For instance, Ethiopian coffee trees have a biannual production cycle, but over the past 10 years, more farmers have reported they experience two bad years for every good year. This is possibly linked to climate change and is likely to get worse<sup>[v]</sup>.



*Coffee farmers Ayenachew Getanhe (L) and Aselefech Woldegiorgies (R) roast and grind Ethiopian Wild Coffee beans in the Kafa region.  
Credit: P4F*





# Impact of COVID-19 on the Coffee Value Chain

Globally, the COVID-19 pandemic caused businesses across the world to close as countries implemented lockdowns to combat the spread of the virus. The pandemic was characterised by widespread labour shortages, transport delays, and contract cancellations across the country. Outlets which typically buy and sell specialty coffee, such as cafes and hotels, faced closure and economic uncertainty. In turn, this reduced the demand for specialty coffee and caused defaults on existing specialty coffee contracts and caused the price of coffee to fall. In addition to businesses closing, COVID-19 also caused logistical issues such as shipping container shortages and shipping delays. Consequently, there was a surplus of coffee in warehouses and reduced demand, resulting in the reduction of coffee prices.

There was also reduced access to transportation from the farm sites to the processing warehouse (often in Addis); from Addis to Djibouti; and from Djibouti to the final destination. These transport shortages were driven by a combination of strict lock down restrictions across cities as well as truck owners and drivers' fear of contracting COVID-19.

Transport costs during this time also went up significantly; the transportation cost of a container from Addis Ababa to Djibouti increased from about 15,000-17,000 birr (EUR 406- 460) at the beginning of March 2020 to about 25,000-30,000 birr (EUR 678-813) by the end of April 2020. Local transport costs, from mills to warehouses in Addis, increased by about 15% as well. Djibouti also had a relatively high number of COVID-19 cases, pushing the government to take measures to address its further spread. Consequently, there were incidences that truck drivers transporting coffee from Ethiopia to the Djibouti port had to be quarantined for 14 days, during which shipments were blocked. This quarantine requirement created delays and additional costs (e.g., more truck shipment costs, moisture loss, and other associated costs). For farmers, restrictions led to delays in receiving sustainability certifications, without which farmers could not sell their coffee at premium prices.





Grantee in focus:

# Original Food and the Kaffa Participatory Forest Management Cooperative (PFMC)

Pictured: Wattled Crane (Gruscarunculatus), Ian White

**Original Food GMBH** was founded in 2003 with a mission to incentivize forest conservation through sustainably harvesting highly valued non-timber-forest products. Original Food works in Ecuador, Nepal, and the Kaffa and Sheka Forest regions in Ethiopia. The Rebuild Facility's collaboration with Original Foods targeted about 7,600 Organic and Fairtrade certified members of the Kaffa Participatory Forest Management Cooperative.



*Credit: Original Food.*

Original Food offers an efficient, traceable model, shortening the supply chain by buying from the PFMC, roasting the coffee, and selling directly to final consumers in Europe through its Kaffa Wild Coffee brand. Excess coffee is sold to other roasters within Europe. Through its direct engagement with the PFMC, Original Food delivers trainings on improved handling practices and quality management and pays farmers premiums on the coffee bought.



Credit: Bruno Damici for UNESCO

**The Kaffa PFMCs** are based in the western plateau of the highlands of Ethiopia, in the Bonga Forest, which is in the Kaffa region. The Bonga Forest is one of the last remaining subtropical forests and a biodiversity hotspot. Known as a UNESCO Biosphere Reserve, the area spans over 540,631 hectares of land and houses over 5,000 wild varieties of plants.



*Ashebit Haile, a coffee farmer who works for the Ufa Cooperative, in Kafa, Ethiopia. Credit: P4F*

The Kaffa Farmers PFMC was established in 2004 to improve sustainable collection of wild forest coffee and to distribute net benefits to its members. The PFMCs help smallholder farmers take advantage of the fair-trade coffee market through certifications. Working together as a PFMC cuts out middlemen, earning farmers higher margins. With 12,000 members managed through 24 cooperatives, Kaffa Farmers PFMC implements the Participatory Forest Management scheme in collaboration with

the Ethiopian government. Each farmer in the Kaffa PFMC is given roughly a hectare of forest area to harvest wild coffee on the condition that they conserve the forest where the coffee grows. Apart from regular forest patrols and reporting, the Kaffa PFMC has Organic Wild collection certification, which requires strict adherence to forest protection measures.

The Kaffa Biosphere Reserve is one of 34 biodiversity hotspots in the world, and harbours 5,000 Coffee varieties, all of which are native to the area. Earning the Kaffa region its title of the birthplace of coffee, this genetic diversity has great economic value for the industry globally. Wild arabica coffee's genetic resource is estimated to be worth around USD 1.5 billion.<sup>[x]</sup> The reserve is an Important Bird Area, and is home to 100 birds and 48 mammalian species, including the black and white colobus monkey, lions, hippos, and baboons.

Participatory Forest Management (PFM) is an inclusive solution to deforestation threats where communities living at the edge of the forests with traditional use rights take over the management of the forest in a legally binding agreement with the local government. Selected members of the community form the PFMC management committee which sets and enforces rules on how the forest is used. Before the Ethiopian government's PFM policy, anyone was able to enter the forest and indiscriminately harvest timber. Now, they must apply to the management committee before extracting from the forest. The Kaffa PFMC also conducts regular forest patrols and reporting and has Organic Wild collection certification, which requires strict adherence to forest protection measures.



*Above ground biomass density in the Kaffa zone. Kaffa PFMCs (orange circle) are in areas that range from 100-200 tonnes of forest biomass. Credit: Rebuild Facility*



# IMPACT



**6,699.7 new hectares of land**  
placed under sustainable land use practices.



**5,933 farmers' incomes secured**

Before the returnable grant, Original Food bought coffee monthly, in small volumes. With the returnable grant, Original Food was able to buy large volumes from the Kaffa PFMC at a go, ensuring higher and quicker economic benefits to over 5,900 farmers. Despite higher costs associated with the pandemic, the grant ensured that Original Food had enough capital to continue its farmer support programs such as certification training, equipment provision, and price premiums, without having to reduce the volumes of coffee bought from the cooperative. Had Original Food reduced purchase volumes, farmers would have had to sell their coffee as conventional coffee and earned 21% lower FOB prices.

Rebuild Facility funding supported over 6,000 new hectares of land placed under continued or improved sustainable land use practices, in addition to the existing 34,695 hectares of land under forest protection measures.

“The grant helped us to react faster than we are normally able to. We could pay the money directly to the union and then they started the shipments. Usually we do one contract then open a letter of credit which takes 6 to 8 weeks, then they receive the money, before shipping starts. That was much slower. With the grant, we were able to buy (several) containers of coffee at once. This was extremely helpful to be faster in a shorter time.”

Florian Hammerstein,  
CEO, Original Food.

“When we sell our coffee for a better price, it means a better livelihood, better clothes, paying taxes, and most of all, it means beating poverty, so taking this into account, we want to sell our coffee at a good price.”  
Worknesh Adeto, Farmer.



Worknesh Adeto, a coffee farmer, Ufa Cooperative in Kafa, Ethiopia. Credit: P4F



[i] USDA Foreign Agricultural Services, Coffee Annual Report, May 2019.

[ii] Kew Gardens, Coffee Farming and Climate Change in Ethiopia: Impacts, Forecasts, Resilience and Opportunities. Summary Report 2017. See: <https://www.kew.org/sites/default/files/2019-01/Coffee%20Farming%20and%20Climate%20Change%20in%20Ethiopia.pdf>

[iii] Minten, B, Dereje, M Engida, E and Kuma, T (2019) Coffee value chains on the move: Evidence in Ethiopia. Food Policy 83(March 2016) 370–383. See <https://doi.org/10.1016/j.foodpol.2017.07.012>

[iv] Financial Times, 'From bean to cup, what goes into the cost of your coffee?' <https://www.ft.com/content/44bd6a8e-83a5-11e9-9935-ad75bb96c849>

[v] Kew Gardens, Coffee Farming and Climate Change in Ethiopia: Impacts, Forecasts, Resilience and Opportunities. Summary Report 2017. See: <https://www.kew.org/sites/default/files/2019-01/Coffee%20Farming%20and%20Climate%20Change%20in%20Ethiopia.pdf>

[vi] Ethiopia's coffee farmers struggle to realize benefits from international markets. <https://www.ifpri.org/blog/ethiopias-coffee-farmers-struggle-realize-benefits-international-markets>

[vii] AGRER, 2014; El Ouaamari, 2013; Kodama, 2007; Minten et al., 2015.

[viii] International Coffee Organisation, Impact of covid-19 on the global coffee sector: Survey of ICO exporting Members. See: <http://www.ico.org/documents/cy2019-20/coffee-break-series-3e.pdf>

[ix] Daily Grind: 'How Has Covid-19 Affected Ethiopian Coffee?' See: <https://perfectdailygrind.com/2020/12/how-has-covid-19-affected-ethiopian-coffee/>

[x] Hein, L. and Gatzweiler, F., 2006. The economic value of coffee (*Coffea arabica*) genetic resources. Ecological Economics, 60(1), pp.176-185.





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