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# Coffee and Household Poverty

**A study of coffee and household economy in two  
districts of Uganda**

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## 1.0 Executive Summary

1.1 This study forms part of a four-country research programme funded by DfID. The overall goal is to develop methods of measuring and analysing poverty and modelling the impact of change at household level.

1.2 The focus of this study was on the impact of changes in the global coffee market on household poverty.

1.3 The study was conducted at four sites: two in Mpigi district, where lower value robusta coffee is grown, and two in Mbale district, within the catchment area of a speciality coffee marketing association.

1.4 Household economy methods were used to describe and quantify the components of household income and expenditure, including food production and employment. A representative sample of households was interviewed in all sites.

1.5 Comparisons were made between the income and standard of living of different households and between the four sites. These comparisons were made on the basis of disposable income i.e. income remaining after the household has met its food requirements. A minimum standard of living, consistent with Millennium Development Goals was established, using household expenditure data from the study sites.

1.6 In each of the study sites, food and cash income are obtained from a wide range of sources and paid employment makes up a high proportion of income. However, major differences were identified between the sites. For example, in the two Mbale sites, coffee remains an important source of income, providing up to 10% of total income. In Mpigi, households have diversified into mairunge<sup>1</sup> production in site I, where production accounts for over 10% of total income, but in site II, diversification out of coffee has not taken place to the same extent. Returns on mairunge are higher than coffee and the relative affluence of Mpigi site I can be attributed to the substitution of coffee with mairunge.

1.7 The effect of a change in producer coffee prices on household living standards was simulated using a simple arithmetic model. The fall in coffee prices has had a substantial impact on disposable income and living standards in some households. This effect is seen chiefly in Mbale, in the middle and upper income ranges. It is also seen in the poorer Mpigi site, across a broader income range. At the lower end of the distribution, the fall amounts to approximately one fifth of the calculated cost of the minimum standard of living i.e. around 5,000 Ug SH.

1.8 Overall, the modelling exercise indicated that a restoration of coffee prices, for example to levels prevailing before the price collapse in 2000-2001, would not make a substantial impact on the disposable income of the majority of households currently below the standard of living threshold defined in this study.

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<sup>1</sup> Mairunge (*catha edulis*, also known as qat or chat) is a stimulant originally grown in Harar and now widely produced in Yemen and in highland areas of East Africa

# **Coffee and Household Poverty:**

## **a study of coffee and household economy**

### **in two Districts of Uganda**

#### **2. Background**

2.1 This study was undertaken as part of a DfID funded research programme. The purpose of the programme is to 'develop methods of measuring and analysing poverty and assessing the impact of policies and programmes at household level, in ways that are practical and useful for decision makers involved in poverty and food security'.

2.2 The work was carried out in two districts: Mpigi, 40 km south west of Kampala, where standard, low altitude robusta coffee is grown, and Mbale, 190 km east of Kampala, where higher altitudes allow the production of arabica coffee.<sup>2</sup> In both Mpigi and Mbale district, household economy based methods were used to analyse the impact of the international price collapse on poor households and to define a standard of living threshold

2.3 It is hoped that this work will contribute to the national debate on poverty reduction and poverty monitoring, and provide insights that are relevant to the Plan for the Modernisation of Agriculture (PMA)<sup>3</sup>, with its explicit poverty reduction objectives. In the short term, it is hoped that the analysis presented in this report will enable donors and private sector organisations to better understand problems facing poor households in coffee producing areas and factors that limit progress towards wider poverty reduction objectives and Millennium Development Goals (MDGs). It should also provide the communities involved in the research with information they can use in the decentralised system of governance through which the PMA is being implemented.

2.4 In the longer term, national and international investment in household economy based information systems may prove to be an effective means of promoting and protecting the livelihoods of poor rural communities, including those that are vulnerable to international commodity price shocks.<sup>4</sup>

2.5 The report is divided into three parts. Part I provides an overview of the coffee production system in Uganda. Part II presents the findings of the Mpigi study and Mbale studies and draws conclusions from the field assessments. An account of speciality coffee production and marketing is included in Annexe 2.

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<sup>2</sup> Robusta varieties are grown at altitudes of 900m-1,500m, while arabicas are grown at higher altitudes, of between 1,300m-2,300m.

<sup>3</sup> MAAIF/MFPED (2000) Plan for the Modernisation of Agriculture: Eradicating poverty in Uganda

<sup>4</sup>Note also debates set out in 'Ex ante poverty and social impact analysis Uganda demonstration exercise' Booth D, Kasente D et al (2002), which highlights problems in the current use of household budget surveys for poverty impact assessment.

## Part I

### 3. The Coffee sector in Uganda: Organisation and marketing

3.1 Income from coffee currently contributes around 50% of Uganda's export earnings. These earnings have fallen steadily since the collapse of the International Coffee Agreement (ICA) in 1989<sup>5</sup>, and dramatically since the late 1990s. For example, Uganda's coffee income in 2001 fell by \$104.8 million (36%) on the previous year, despite a 5.4% increase in the volume of coffee produced (UCDA figures). The dilemma that faces both governments and smallholders in most coffee producing economies is that, although returns from coffee are falling, the lack of alternative income sources compels producers to maintain and even increase crop levels. The same drive to continue exporting coffee increases the problem of oversupply and contributes to the further decline in prices.

3.2 The Government of Uganda (GoU) response to this problem, led by the Uganda Coffee Development Authority (UCDA), has been to attempt to enhance the value and competitiveness of the coffee harvest<sup>6</sup>. The main strategy is to promote organic coffee, washed robustas and 'gourmet' coffee for speciality markets. Whilst the value of washed robustas is 20%-30% above ordinary robustas, speciality organic arabicas can command prices that are 100% higher than basic robusta (up to 2,500 UgSH per kg). Additionally, GoU is a signatory to ICO resolution 407, which aims to stem the international collapse of robusta prices by:

- (i) defining minimum standards for exportable coffee, based on a defect count and maximum moisture content and
- (ii) encouraging robusta producers to diversify into other crops.<sup>7</sup>

#### 3.3 Marketing mechanisms

3.3.1 Uganda liberalised its coffee sector in 1991. This resulted in the abolition of a system organised around co-operatives and a central coffee marketing board. Under this system, farmers received fixed advanced payments for their crop through the co-operative and additional payments based on quality. Independent buyers have almost universally replaced the role of co-operatives in farm level purchase and marketing.

3.3.2 Although only a small proportion (as little as 20%) of the final value of their crop was paid to farmers before liberalisation, quality based premiums were paid directly to producers, and provided an incentive to maintain standards. Under the present system, farmers receive a higher proportion of the final export price (up to 70%). However, with the exception of a small minority of speciality producers, they have lost the quality incentive. Liberalisation and the demise of the local co-operative monopolies, has led to a proliferation of local buyers, who tend to purchase all coffee

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<sup>5</sup> Coffee accounted for well over 60% of Uganda's export earnings for most of the '90s (Government of Uganda)

<sup>6</sup> This is the strategy adopted by major donors including DfID and USAID, and by the ICO. In Sept 2002, the ICO, which represents producer and importing countries, passed a resolution banning the to export of robustas that fail to meet basic quality standards. Note: the US government is not a member of the ICO

<sup>7</sup> The impact of resolution 407 cannot be measured in the context of this study, as its implementation began after the period for which data was collected

at a single price, and are unable to preserve the identity of small batches of coffee. At farm level this removes the incentive to invest in quality.<sup>8</sup>

3.3.3 The Uganda Coffee Development Authority (UCDA), was established at the time of liberalisation to deal with this problem, and maintain the export value of the coffee crop. Its role is to:

*‘Stimulate coffee production through development of high yielding and good quality planting materials, promote value addition through continuous improvement and processing, create a unique brand for Uganda and promote domestic consumption with effective participation of the private sector’.*

Analysis presented in Part II of this report, explores the challenges the coffee sector faces in meeting this goal.

3.3.4 Other institutional players in the coffee sector include the recently privatised extension service (NAADS); the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) and the Uganda Coffee Farmers’ Association. The largest on-going initiative to support the coffee industry is the government’s replanting programme, which has been in place for nearly a decade.

#### *3.4 Current initiatives to develop and modernise the coffee sector*

(i) Replanting programme and coffee wilt disease.

3.4.1 Coffee wilt disease emerged in Uganda in 1993 and since then has spread rapidly, particularly in older, robusta stock.<sup>9</sup> In the decade since coffee wilt first appeared in Uganda, it is estimated that up to 30% of trees have been affected<sup>10</sup>. A national replanting programme was initiated in 1994, which has enabled affected farmers to restock at no capital cost; free, high yielding, disease resistant clonal saplings are available from a national network of nurseries. The programme is being implemented by UCDA, through local authorities at district level, under the supervision of Agricultural Extension Workers. The programme covers both robusta and arabica growing areas<sup>11</sup>.

3.4.2 However, the uptake of clonal coffee is limited. Problems include lack of access to advisory services, and in some cases, poor quality of available extension services. Fluctuations in farm gate prices and the high cost of agricultural inputs required are also a disincentive. For many farmers, the levels of labour and other inputs involved in clonal coffee production make it uneconomical.

3.4.3 Rather than invest in a crop with falling value, farmers in robusta producing districts have been encouraged to spread production risks; thus, in Mpigi, the location of case study I, there has been some diversification into crops such as ginger and vanilla. Mairunge is also grown in some places. Other practices, such as intensive inter planting with food crops such as cassava, which further reduce coffee yields, are now widespread.

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<sup>8</sup> Ponte, S. Standards, Trade and Equity: Lessons from the speciality coffee industry (CDR Working Papers 21, Copenhagen 2002)

<sup>9</sup> A recent study indicated an annual infection rate of 3% per year (Munyambonera E, Msc thesis, University of Makerere 2000)

<sup>10</sup> Based on Munyambonera (ibid)

<sup>11</sup> Out of the 80,000 hectares planted with improved coffee stock since 1994, 50,000 hectares is already in production

(ii) Speciality coffee

3.5.1 In districts where arabica beans can be grown, production of higher value coffee has been encouraged by government and supported by donors and the private sector. This is seen as a means of sustaining revenue from coffee exports and raising living standards at producer level. The private sector now plays an important role in improving the quality of coffee produced in arabica growing areas, which in recent years have been marked through 'speciality' labels.

3.5.2 Case study II was conducted in an area where a speciality project has been in place since 1997 (the Gumutindo Coffee project, run under the auspices of Twin Trading, a Fair trade organisation based in the UK). The assessment looked at the contribution that speciality coffee, including coffee sold with the Fair trade premium, had made to household economy and living standards in the study area. Details of the project are set out in Annexe 2.

## Part II

### 4. Summary of methodology and findings

#### 4.1 Introduction to the study areas

Two assessments were carried out between February and April 2003. Study 1 was carried out in Mpigi district, where robusta coffee is produced. Study 2 was carried out in Mbale district, where arabica beans are grown.

#### 4.2 Study area 1, Mpigi

4.2.1 Mpigi district is situated in central Uganda, and bordered by Mubende and Sembabule districts in its western boarder, Masaka in the south and parts of Wakiso and lake Victoria in the East. The district is made up of 3 counties and 17 sub counties. It has an estimated population of 414, 543 with a total of 89,303 households (2002 National Population and Housing Census).

Altitude ranges from 1,182 metres to 1,341 metres, above sea level.

The average annual rainfall for Mpigi district is 1320 mm. The two main agricultural seasons are February to June and September to December.

#### 4.3 Food economy zones

Mpigi District has 3 main Food Economy Zones<sup>12</sup>

1. *The Semi Dry pastoral Zone*. This area covers the whole of Gomba Sub County and parts of Kabulasoke and is mainly occupied by pastoralists. Livestock in the area include cattle, goats, sheep, pigs, and poultry.

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<sup>12</sup> The term 'food economy zone' is an area in which most households obtain their food and cash incomes from roughly the same combination of means. In primarily agricultural areas food economy zones tend to relate fairly closely to agro-ecological zones. The zones used here were defined as part of the assessment, and have now been incorporated in an on-going national food economy and livelihoods zoning exercise (led by FEWSNET/USAID and SC UK funded by DfID).

2. *The low land Fishing Zone.* The low land fishing zone mainly covers the areas in Mawokota County and the swamps around lake Victoria. The main livelihood is fishing in Lake Victoria, although horticulture is also carried out, including production of pineapples for sale to the urban areas such as Mpigi Town and Kampala.
3. *The Mid Coffee growing Zone.* The mid coffee growing zone is located in the centre of Mpigi district and covers Butambala County, with a few other areas in Buwama and Mawokota County. The main economic activity in this area is agriculture. The traditional cash crop is coffee, although this has been severely affected by coffee wilt disease since the mid 1990s. More recently cash crops including beans, cassava, ginger, mairunge and groundnuts have been introduced. Horticultural crops such as tomatoes, onions and fruits such as avocados are produced, as the zone is situated near to the main district town (Mpigi) and to the road network linking Mpigi to Kampala. Only small numbers of cattle and goats are kept. Poultry keeping is more important and poultry and eggs are sent to the Kampala market.

#### *4.4 Location of the study site*

4.4.1 The study took place in the Mid coffee growing zone. Two villages (termed Mpigi I and Mpigi II) were selected in Kalamba sub county. Mpigi I has 196 households and a population of 984 people; Mpigi II has 262 households and a population of 1311. The distance between the two is approximately 1.5 miles (2.4km).

4.4.2 Sites were selected on the grounds that these villages would provide a picture of the range of production and employment options available to households in an area producing robusta coffee, with reasonably good links to the wider economy. Since the main purpose of the study was to demonstrate a methodology, and to illustrate the range of problems it could be used to explore, it was decided to avoid very poor or particularly well off sub counties.

4.4.3 Kalamba Sub County is well served by feeder roads, and Kampala can be reached in less than one hour's driving time.

4.4.4 The landscape is hilly and has a fairly thick cover of tropical forests, which are used for firewood, timber and charcoal burning. The study area also includes protected National Park land.

#### *4.5 Coffee in Mpigi district*

4.5.1 For over forty years, from the 1950s until the early 1990s, coffee was the most important cash crop grown in the study area. A combination of factors, including the global collapse of coffee prices during the 1990s, and the arrival of coffee wilt disease around 1994, have resulted in a fall in both the volume and value of coffee produced in Mpigi<sup>13</sup>.

4.5.2 In the last agricultural year (Jan 2002- Jan 03), at least 10 coffee dealers operating in the locality were able to buy an average of 9,000 kg of coffee each, bringing the total to 90,000 kilograms of coffee over the year. The purchase price from farmers was from around 150-450<sup>14</sup> Ug SH per kg. This was sold on either to larger traders (on a contract basis) or directly to the main exporters, at 1030 Ug SH

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<sup>13</sup> Exact figures for district level production are not available

per kg and 1050 Ush per kg respectively. The role of coffee factories is now limited to coffee processing i.e. (removing the husk) at a cost of 30 Ug SH per Kg.

#### *4.6 Study area 2, Mbale*

4.6.1 The second study was carried out in Mbale district, a prime arabica growing area. Mbale is situated in Uganda's eastern highlands, and shares an international boarder with Kenya. The district is 160 miles (192 kilometres) from Kampala.

4.6.2 Altitudes range from 1,299 metres to 1,524metres above sea level. The highest point, mountain Elgon, is 4,321 metres above sea level.

4.6.3 Mbale is in a high rainfall zone with annual precipitation of approximately 1191 mm per annum. Rainfall peaks at 800mm to 1,200 mm in March-June and July-November, with drier spells from December to February.

4.6.4 The district has a population of around 720,780 people with a total of 90,097 households (2002 Population and Housing Census).

#### *4.7 Food Economy Zones*

Mbale district has two distinct Food Economy Zones:

*(I)The highland coffee growing zone occupying 25% of the total land area*

*(II)The lowland cotton-growing zone, which occupies 75% of the total geographical area.*

The highland coffee-growing zone is characterised by steep, highland terrain, which is affected by landslides and soil erosion. Soils are mainly a fertile volcanic clay and loam mixture, which reaches across the entire highland area.

#### *4.8 Population*

The zone has a total population of approximately 159,381 people, most of whom are subsistence farmers, and rely on agriculture for both household food and cash income.

#### *4.9 Main Crops.*

The main cash crop grown in this zone is arabica coffee, although other crops such as vanilla have recently been introduced. The main staple food crops are matooke, cassava, sweet potatoes and beans. Yams, maize, pumpkins, sukuma, groundnuts, fruit and vegetables and sugar cane are also grown for sale and own consumption. Due to the small size of most landholding (0.5-2 acres) coffee is intercropped with other crops.

**All crops are prone to pest infestation and disease due to the high rainfall.**

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<sup>14</sup> The price range reflects the level of on-farm drying and processing

#### *4.10 Livestock*

Livestock numbers are limited in the highland zone and include local varieties of cattle, sheep, goats and some few pigs in specific households. Government has also introduced some exotic breeds of cattle, through the PMA.

#### *4.11 Location of the study sites*

The team was directed to two adjacent communities by district level authorities. The same criteria applied as in Mpigi i.e. that the communities should not be particularly well off, or particularly poor. An additional criterion was that the communities should be in the catchment area of a speciality coffee project. The Mbale project allows producers to market their coffee at higher Fair trade prices, and has recently introduced an organic production scheme.

Village 1 (termed Mbale I) has 234 households and a population of approximately 1170 inhabitants

Village 2 (termed Mbale II) MB has 102 households and a population of approximately 511 inhabitants.

#### *4.12 Coffee production in Mbale.*

High quality arabica coffee has been grown in Mbale for over a century. The crop was initially restricted to the higher altitude slopes of Mount Elgon. Cultivation has now spread to the lower lying central and Southern parts of the district, which is known nationally and internationally for its local "Bugishu Coffee". Lower quality robusta coffee is not grown in the district.

#### *4.13 Production levels*

Household landholdings are generally small and coffee yields are relatively low, averaging 1 kg per tree. This is mainly due to inter-cropping, poor management and low use of fertilisers and pesticides leading to disease infestations such as leaf rust. Arabica coffee is mainly harvested in a single season, between the months of September and February.

#### *4.14 Variation in yield*

Yields from arabica bushes tend to fluctuate considerably between years. Farmers give various explanations for this. Irregular application of inputs, pesticides and fertilisers clearly reduce yields. It is also recognised that the official replanting effort has both increased the number and improved the varieties grown in some coffee plantations, and resulted in higher yields.<sup>15</sup>

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<sup>15</sup> Reliable statistics for coffee production either at district or sub county levels were not available to us











































## **ANNEXE 1**

### ***The model***

In this study, household economy methods adapted from methods originally developed at SC UK for famine prediction, (the 'household economy approach') have been used. Famine prediction requires the ability to estimate household 'food entitlement' i.e. the ability of a household to acquire food under changed conditions e.g. of price, production, and market access. (Sen, 1981). Knowledge of reduced food production levels, (for example from drought) is not in a reliable or useful predictor as some or all households may (i) not grow crops, or crops that are drought prone (ii) may be able to make up any deficit in production in other ways e.g. by selling assets, falling back on wild foods etc.

The household economy approach was developed to see if it was possible to estimate household entitlement within and between defined populations of different economy (e.g. poor, better-off; cultivating, pastoral) with sufficient accuracy to allow predictions to be made of the likely impact on household economy of production failure and other shocks. To be effective the method also had to

- Produce output in terms that would be convincing to donors and other agencies.
- Be based on clear objectives e.g. to allow for a household to retain livestock and other assets and to maintain some access to non-food goods as well as food.
- Be able to identify possible interventions e.g. market support, which could be used to prevent a food crisis occurring.

The approach developed was therefore based on an economic model, to simulate the most likely outcome of the impact a shock or shocks on household food entitlement. To meet the other operational criteria it was important to keep the model as simple as possible. Put in other terms, the aim was to allow a user to develop a logical, quantified case about the most likely impact of a stated shock on economy at a high level of disaggregation (e.g. the impact on the poor) where the assumptions are explicit, areas of uncertainty are revealed, and where the prediction is open to test e.g. if a prediction is made that people will sell livestock, this, or a fall in livestock prices should be observed.

For famine prediction, information is required on large areas of diverse economy and a simplified data set is used. For each defined population, this includes a household budget and an estimate of household assets, for each of at least three 'typical' wealth groups (poor, middle, rich), with information on access to wild foods and gifts e.g. charity, food and asset transfers between kin. In larger scale applications an understanding of the market in labour, livestock and other goods is required.

The basic simulation is extremely simple i.e. the shock is used to adjust household food and non-food income to reveal the amount of food and cash remaining to the household and therefore (given stated assumptions about non-food costs) the ability of the household to acquire sufficient food. For example, at the simplest level, a household that made 50% of its income from maize cultivation in a baseline year, would, if maize production fell by 50%, suffer a fall of 25% in its income. If the household had maize stocks equivalent to 10% of its annual requirement, this would reduce the deficit to 15%.

In practice, households may produce some of their own food, exchange this for other food items and cash and have multiple employment and other income sources, and the 'shock' may involve multiple changes e.g. to prices and production levels. The basic calculations become very intricate but remain the same.

This approach has proved to be very effective. In all cases where we have some measures of actual outcome (a total of 14 examples) this has been consistent with prediction. The method has been widely used (e.g. by Operation Lifeline Sudan (OLS) in southern Sudan, for the prediction of the recent famine in Malawi), and has been adopted by USAID/FEWSNET and others. The operational effectiveness of the model lies largely in its structure (i.e. the simulation of the actual steps which households can take to preserve their livelihoods); the detail and 'completeness' of the data set, and the relative simplicity of the mathematics.

In this study the same basic model was used, the only difference being that the data is based on a representative sample of individual households and that the output is in terms of the household disposable income/ adult equivalent.

The impact of a change in coffee price on the disposable income of a household is estimated as follows. Taking for example a household of 3.2 adult equivalents which produced all the food it required for consumption and had a total cash income from all sources, of 300, 000 Ug SH of which 50,000 Ug SH was from the sale of 250kg of coffee at the reference year price of 200 Ug SH/kg

The disposable income/adult equivalent in the reference year would be  $300,000/3.2 = 93,750$  Ug SH.

Assuming that production remained constant, the effect of an increase in the coffee price to 300 Ug SH/ Kg would be to raise total income by  $(250*50) = 12,500$  Ug SH. Total income is now 312,500 Ug SH i.e. a disposable income/ adult equivalent of 97,656 Ug SH, i.e. an increase of 4.2%.

If production had in fact fallen and an estimate was available (e.g. a loss of 30% due to coffee wilt disease), this or any other combination of changes permitted by the data available (e.g. changes in input prices, and the prices and production of other commodities) could be included in the estimate.

## **ANNEXE 2**

### **Speciality Coffee marketing, Mbale <sup>28</sup>**

The marketing of speciality coffee or 'gourmet brands' in the North has provided opportunities for some producers in arabica growing districts to increase the value of their produce. The impact on household economy and living standards is described in the previous section. This section provides a more detailed narrative account of speciality coffee production in Mbale and the prospects for its further development.

#### **Background**

Prior to liberalisation, all farmers in Mbale sold their coffee through the local monopoly, the Bugishu Co-operative Union (BCU) and received around 30% of the co-operative's selling price. BCU supported coffee farmers throughout the district, providing agricultural inputs such as pesticides and fertilisers.

One of the consequences of the Uganda's coffee liberalisation policy has been a fall in the quantity and quality of Bugishu arabicas. Various factors have contributed to this, including the loss of incentives to produce high quality beans; the ending of guaranteed pricing arrangements; the withdrawal of cheap farm inputs etc. A

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<sup>28</sup> Based on field research by James Acidri

European Commission (EC) extension programme, implemented from 1992-5, aimed to help farmers maintain and improve the quality of their production post liberalisation, and more recently, DfID has supported coffee marketing. However, farm gate prices have remained low for much of the coffee produced in Mbale.<sup>29</sup> In response to this problem, both government and international donors have encouraged speciality coffee production. The private sector also now plays an important role in improving the quality of coffee produced in Mbale, which is marketed through 'speciality' labels.

#### Marketing mechanisms

In 1997 Twin Trade, the trading department of the 'Twin World Network Information', (a Fair Trade organisation based in the UK), made contact with the Bugishu Co-operative Union (BCU), with a view to establishing a Fair Trade association in the district. Subsequently, Twin Trade organised a conference for local farmers on speciality coffee production, and set up the Gumutindo Coffee Speciality project. Farmers who were able to meet the project's production requirements, and wished to take part in the project, were organised by Twin Trade into the Gumutindo Coffee Association. The association subsequently secured a Fair Trade mark to sell speciality coffee through Twin Trading.

#### Incentives to producers

Producers who market their coffee through Gumutindo receive a price incentive of 600Ush per kg. This is added to the standard price (currently around 800Ush per kg) and is made up of:

- 200 Ush per kg 'quality premium'
- 400 Ush per kg 'Fair trade premium'

If the market price increases, the Fair Trade premium pays an additional 10% as a guarantee for farmers.

The Gumutindo Association is currently focussing on organic coffee production, in addition to improving quality through better processing. As well as the standard Fair Trade and quality premiums, farmers producing organic coffee (i.e. coffee produced without the use of chemical fertilisers and pesticides) receive a further payment of 200Ush per kg. This is a relatively new initiative (started in 2001); so far 35 metric tonnes have been exported through the BCU.

Local farmers also sell their coffee through the normal market system. If producers need to raise cash before the initial drying has taken place, they have the option of selling to middle men but at this stage will receive less than half the speciality coffee price.

#### Disincentives

Gumutindo does not purchase all the high quality coffee produced in the project area directly from farmers. If it is not able to buy at a given time, farmers generally sell to the BCU at the standard rate (800-1000 Ush per kg). BCU may sell on to Gumutindo at a later date, and receive the higher 'Fair Trade' price of around 1,500 Ush per kg.

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<sup>29</sup> Non speciality prices in 2002 ranged from 400-800 Ush per kg, compared to factory prices of 1,000-1,200 Ush per kg and UCDA prices of 1,300-1,500 per kg

This partly reflects the storage costs of 70 Ush per kg per month that the BCU needs to cover.<sup>30</sup> This is seen as discouraging some potential producers.<sup>31</sup>

### Organic Coffee.

Over the past two years, Gumutindo has also introduced an organic marketing scheme. Due to its high value, most farmers in the highland areas where organic coffee is already promoted have joined organic coffee societies, despite the three-year period before they receive certification and higher returns. Members of organic coffee societies pay a membership fee and like other co-operatives, elect a committee. The primary farmers association is responsible for ensuring that the quality of coffee is maintained.

Farmers are not required to produce a minimum quantity of coffee, or possess a minimum number of trees. However the following rules are enforced:

- They must only use organic manure on the coffee bushes. This means that households must possess or have access to livestock.
- They must not use chemical fertilisers-only local organic fertilisers e.g. ash, cattle urine & chilli mix etc. Farmers are also advised to introduce pests that eat pests that can destroy coffee.
- They must follow a strict drying process.

This reduces input costs of up to 650 USh per kg<sup>32</sup>. Farmers reported that their coffee was doing better with the organic fertiliser and recognised that it was more cost effective to practice organic coffee farming.

Although it takes 3 years for coffee to pass the organic quality test, during this period the coffee farmer still gets a better price from Gumutindo (approx 1500 Ush per kg) than from middlemen. They also have a guaranteed market for their coffee.

### **Membership of Coffee Speciality Societies**

Factors that prevent wider participation in Gumutindo and other speciality coffee schemes include:

- (i) Lack of capital to invest in the basic facilities for processing coffee. Many farmers lack the equipment needed to ensure high quality: for example coffee drying stands, mats and trays. Some farmers involved in speciality coffee have only acquired processing facilities through loans.
- (ii) The Gumutindo Project has limited capacity to involve more farmers. Existing members fear that enrolment of more farmers without additional management input might compromise quality. Lack of extension services at sub county level also prevents some farmers from making the necessary changes in production techniques
- (iii) The project catchment area only covers 10 % of coffee farmers in Mbale district,
- (iv) The marketing agreement between Bugishu Cooperative Union (BCU) and Gumutindo Coffee project, which allows the BCU to retain the Fair trade

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<sup>30</sup> Coffee can be stored locally for only 3 months without loss of quality.

<sup>31</sup> Membership in the project catchment area has risen from 400 in 1997 to an estimated 1,620 by the end of 2003.

<sup>32</sup> Optimum input based on 10 kg per 50 trees: note that use of inputs varies enormously, from zero to optimum inputs.

margin on any coffee it buys from farmers and sells on to Gumutindo is not popular with some farmers. This is thought to have slowed the process of enrolling new farmers.

- (v) The geographical advantage of the highland in terms of coffee quality limits the expansion of coffee speciality to other parts of the district – preventing a significant proportion of the population from participating in this initiative. The high population of the highlands also prevents more households from acquiring fertile lands for coffee growing, particularly for speciality coffee.

### Non speciality coffee growing farmers

Most farmers continue to produce non-speciality coffee, sold at lower farm gate prices.<sup>33</sup> The main reasons for low producer prices are:

- Small quantity of coffee sold
- Sale before coffee is completely dried or cleaned
- Poverty: some farmers are unable to carry out processing procedures due to lack of basic equipment and time; they may also be unable to wait until the price improves and the coffee dries
- Limited awareness among farmers of official UCDA market prices for coffee
- Lack of capital/transport that would allow them to sell directly to the factory, rather than through middlemen.

Efforts to maximise the value of coffee grown by non-speciality producers include:

- Employment of extension staff linked to speciality coffee projects to reach more farmers. Farmers pay for services through higher income from Fair Trade Premium.
- Organisation of farmer support seminars and practical demonstrations on how to improve coffee value and quality.

### Other district level coffee initiatives

In contrast to Mpigi, for most farmers in Mbale coffee remains the preferred cash crop and the UCDA replanting initiative has been widely taken up. This has led to a recent increase in the number of coffee bushes in the district. In addition to private sector initiatives such as the Gumutindo project, an Africa Development Bank (ADB) project, the Bugishu Coffee rehabilitation project is currently under discussion. This aims to improve household income through increased production of high quality coffee. It will focus on improved extension services, availability of improved coffee seedlings, correct processing procedures and marketing in the liberalised economy.

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<sup>33</sup> Farmers can sell their crop as

(i) Raw coffee i.e. wet coffee still in husks (150 – 400/- per kg)

(ii) Block coffee i.e. half dried for 1 day, husks removed but coffee not cleaned (750 – 1000/- per kg)

(iii) Dry coffee i.e. Harvest, pulp, ferment for 3 days, wash, dry on raised mesh racks until completely dry, cleaning & remove all husks. All prices quotes are for 2002 crop

## ANNEXE 3

### Diversity of food and income sources, Mpigi and Mbale

#### Types of food

##### Mpigi

###### *Food crops*

Maize (intercropped)  
Beans (intercropped)  
Sweet potatoes  
Yams (bwaise)  
Irish potatoes  
Groundnuts  
Cowpeas  
Tomatoes  
Onion  
Matooke  
Sweet bananas ndisi  
Musa bananas  
Kivuvu bananas  
Yam (copper)  
Mangoes  
Jak fruit  
Avocado  
Papaya  
Sugar cane  
Pumpkin  
Cassava  
Sorghum  
Pineapple  
Cabbage  
Yams (coco)  
Other greens

##### Mbale

Maize  
Beans pure stand  
Beans (intercropped)  
Soya beans  
Sweet potatoes  
Cassava  
Yams 'coco'  
Irish potatoes  
Groundnuts  
Cowpeas  
Tomatoes  
Onion  
Sukuma Wiki  
Cabbages  
Cowpea leaves (libosche)  
Dodo  
Other greens  
Sugar cane  
Matooke  
Sweet banana 'ndisi'  
Sweet banana 'bogoya'  
Yam 'sibama'  
Mangoes  
Avocado  
Jak fruit  
Papaya  
Cabbage heads  
Pumpkins  
Passion fruit  
Sugar cane stem

#### Livestock and livestock products

Cow Meat  
Cow Milk  
Goat Meat  
Sheep Meat  
Pig Meat  
Chicken Meat

Cow Meat  
Cow Milk  
Chicken Meat  
Chicken Eggs  
Duck Meat

Chicken Eggs  
 Duck Eggs  
 Goat  
 Gifts  
 Cassava flour

<b>Mpigi</b> <i>Cash crops</i>	<b>Mbale</b>	<b>Mpigi</b> <i>Employment</i>	<b>Mbale</b>
Maize (intercropped)	Maize	Mairunge trade Handicrafts	Brewer Kiosk Carpenter
Beans (intercropped)	Beans pure stand	Teacher	
Sweet potatoes	Beans (intercropped)	Contract labour	Butcher
Yams (bwaise)	Soya beans	Tailor	Barber
Groundnuts	Sweet potatoes	Carpenter	Vegetable seller
Cowpeas	Cassava	Butcher	Coffee middle man
Tomatoes	Yams 'coco'	Brick maker	Cattle trader
Ginger	Irish potatoes	Hawker	Herbal/traditional healer
Coffee robusta	Coffee arabica	Local government official	National park worker
Mairunge, kibooke	Cowpeas	Timber feller	Taxi driver
Matooke	Tomatoes	Security guard/ watchman	Secondary teacher
Sweet bananas ndisi	Onion	Mairunge trader	Mandazi seller
Musa bananas	Sukuma Wiki	Charcoal manufacture	Nairobi/ other remittance
Yam (copper)	Cabbages	Basket making	Small trade bananas
Avocado	Cowpea leaves (libosche)	Petty trade	Small trade butcher
Sugar cane	Dodo	Remittance	Fruit and veg middle man
Cassava	Other greens	Sale of firewood	Landlord
Sorghum	Sugar cane	Brewing	Transporting food
Cabbage	Groundnuts		Coffee trade
Other greens	Matooke		Charcoal sales
Eggplants	Sweet banana 'ndisi'		Sugar cane sales
Irish potatoes	Sweet banana 'bogoya'		Petty trade clothes
Tomato sale	Mangoes		Local government official
Sale of Cassava plants	Avocado	Agricultural labour	Agricultural labour tree cutting
	Papaya	Collecting water	
	Cabbage heads	Charcoal making	Porter
	Pumpkins	Construction	Teacher
	Passion fruit	Kiosk owner	Nurse
	Sugar cane stem		

Coffee under thirty  
bushes  
Sale of trees  
molasses sale  
Sale of grass

**Sale livestock & livestock products**

Cow Milk sales	Cow Milk sales
Cow Live sales	Cow Live sales
Goat Live sales	goat Live sales
Sheep Live sales	calf Live sales
Pig Live sales	pig Live sales
Chicken Egg sales	piglet Live sales
Chicken Live sales	chicken Egg sales
	chicken Live sales
	ducks Live sales

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This study forms part of a four-country research programme funded by DfID. The overall goal is to develop methods of measuring and analysing poverty and modelling the impact of change at household level. The focus of this study was on the impact of changes in the global coffee price on household poverty in a coffee producing region of Uganda.

For copies of this or other reports in this research programme please contact:

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