

Challenges and Opportunities in Firm-Farmer Relationships in Commercial Coffee: A Case of Star Cafe Ltd and Small Holder Farmers, Uganda



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University of Applied Sciences



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Dedication

I dedicate this work to my only brother Energy, I will not know of any man better than you. You taught me honour loyalty and respect! As always I dedicate this to my mother and father, ndinotenda.

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List of Abbreviations and Acronyms

APF: AgriProfocus

CA: Challenge Area

CF: Contract Farming

CBI: Centre for the Promotion of Imports from Developing Countries

FAO: Food and Agriculture Organisation

FF: Firm Farmer (relation)

FGD: Focus Group Discussion

GDP: Gross Domestic Product

GM: General Manager

IFRCRS: International Federation of Red Cross and Red Crescent Societies

KUCFG: Kabeywa United Coffee Farmers Group

KDS: Kampala District Stores

LTD: Limited

NGO: Non Governmental Organisation

Pvt: Private

UBOS: Uganda Bureau of Statistics

UCDA: Uganda Coffee Development Authority

UNBS: Uganda National Bureau of Standards

WHO: World Health Organisation

EXECUTIVE SUMMARY

This research explored the firm-farmer (FF) relationship of Star Café Pvt Ltd, a coffee processing company located in Kampala and the Kabeywa United Coffee Farmers Group (KUCFG) based in Kapchorwa district, Uganda. It is a food security research that seeks to not only highlight challenges and opportunities of a business, but to also bring to light how the small holder farmers involved stand to benefit for their food security in a thriving firm-farmer relationship. KUCFG is a group of small holder farmers supplying Star Cafe with parchment coffee and this relationship was formalised in 2009 by signing of a contract. Cultivation and selling of Arabica coffee is the main livelihood of the farmers and the income generated is the most important for their household food security.

The firm-farmer relationship was analysed using the 2 to tango, which is a participatory tool that helps to harness views of farmers and firms on their business relation, based on them scoring a questionnaire with the same set of statements. The tool permits to have quick results and is tailored for a specific business case (AgriProfocus n.d). High scoring by respondents is interpreted to agree with a challenge area (CA) and/or statement. A high score means a positive perspective by respondents to the challenge area/statement.

Prior to formulation of the statements separate interviews were held with company staff and members of the farmer group. The interviews formed the basis to create statements in the 2 to tango. From the interviews issues of concern (challenges) as highlighted by the interviewees were grouped into 6 challenge areas under the headings of production, functioning of farmer group, markets and prices, quality standards, cost/benefit of contract farming and contract. A challenge area had 8-9 statements (See Annex 1). The statements were all in English.

The researcher held (individual) interviews with 3 respondents from the company and a group interview with 4 representatives of the farmer group. The interviews were held in Kampala and Kapchorwa districts respectively where the parties are based. After the interviews, the 2 to Tango (questionnaire) was administered, the results of which were used in the debriefings (Focus Group Discussions).

A total of 29 respondents scored the questionnaire (7 respondents from Star Café and 22 respondents from KUCFG). Respondents from both sides seemed positive on the current state of the relationship with an overall average score of 59.1, although improvements in CAs, production and functioning of farmer group were mentioned. Both the firm and farmers seemed very positive for at least 3 out of 6 challenge areas, which were performing well. The highest levels of disagreement were noted for the challenge areas functioning of farmer group and quality standards. The lowest disagreement was on challenge areas costs/benefits of contract farming and markets and prices.

This research was carried out by a food security student and as such gives focus on how the firm-farmer relationship is important to sustain the livelihood of the farmers involved. Coffee was chosen as the crop of research because it is one of the biggest cash crops in Uganda and gives poor people a livelihood as well as earning huge foreign currency for the country.

CHAPTER ONE

1.1 Structure of the report

This report was done as a case study of Star Café Pvt Ltd and the KUCFG which supplies the company with Arabica coffee. It had the objective to assess the firm-farmer relationship of the company and small holder farmers and highlight challenge areas and opportunities so as to create a platform to optimise performance and create a win-win situation in the relationship. The research which had both a quantitative and qualitative approach was based on both literature review and empirical data collection. Chapter 1 gives a brief background context of coffee farming in Uganda. This is followed by the research problem and the objective in the same Chapter 1.

The conceptual framework and the definition of terms are given in Chapter 2. The literature review is found in Chapter 3 and is followed by the description of all the methodological steps undertaken by the researcher.

The 2 to tango tool was used to assess the relationship, and as such, the report has two main outputs. The first output of the research is the business case description, which shows the specific details of the FF relationship as it currently is on the ground as seen by the researcher through the initial desk study, field observations and interviews with the two stakeholders (the firm and the farmer group). The business case description was the one used to draw the potential challenge areas that existed in the FF relationship. From the business case description the statements used in the 2 to tango were also formulated. The business case description is in Chapter 5 of the report.

After the business case description and the formulation of statements, the respondents filled out the questionnaire. These results are in Chapter 6 of the report where the discussion analysis of the results is also done. Focus group discussions were held with the stakeholders after scoring, where the parties explained their reasons for having scored the questionnaire the way they had done, and also any suggestions they may have to improve on some of the challenge areas that had been highlighted in the case description. The contributions are incorporated in the conclusion and recommendations of the report in Chapter 7.

1.2 Context of Uganda

Uganda is located in east Africa. It had a projected population in 2010 of approximately 31.8 million inhabitants of which 85% were rural people (UBOS, 2012). The business environment in the country is generally conducive with a peaceful political and stable economic environment currently prevailing.

The country is landlocked, with a large portion of the surface area covered by lakes and rivers. Uganda has a largely tropical climate, with most parts about 1,000 metres above sea level. It receives rainfall ranging between 1,500 and 2,300 mm per year and is generally humid all year. This means the country has a favourable climate for cultivation of a variety of crops. Agriculture land area takes up 60- 64% of the country's total land area (World Bank, 2012). Agriculture alone contributes hugely to the total GDP of the country, and it employs over 80 % of the country's population (UBOS, 2012). The major agriculture commodities for export are coffee, tea, cotton and tobacco. Matooke (the local cooking banana) is also important but is not for export.

Coffee cultivation is however particularly important to the country. Coffee occupies 290 485 hectares, making Uganda one of Africa’s important coffee producers. The country is second after Ethiopia as the biggest coffee producer on the continent. Coffee is Uganda's top commodity export accounting for 17.9 per cent of Uganda's GDP (CBI, 2011). Coffee exports in May 2012 amounted to 252,548-kilo bags worth US \$35.8 million (UCDA, n.d).

A unique feature about the Uganda coffee sub-sector however is that it is almost entirely dependent on smallholder farmers estimated to be around 500,000 people, with average farm sizes ranging from 0.5 to 2.5 hectares (UCDA, 2012). Through related activities such as processing, input supply, trading, and transportation and employing people as hired farm labour, the coffee industry employs over five million families in the country (CBI, 2011).

But Uganda with a per capita income of about \$220 remains one of the poorest countries in the world (FAO, 2004). In 2009/10, almost 7.5 million Ugandans, living in 1.2 million households, were considered poor (UBOS, 2012). While volatile world prices result in price uncertainties, Uganda’s farmers remain loyal to coffee, and many farmers and their households continue to rely on coffee as their major source of income (USAID, 2006).

Table 1. Proportion of food-insecure households in Uganda

| YEAR | 1999/0 | 2002/3 | 2005/6 |
|------------|--------|--------|--------|
| Rural (%) | 56.5 | 61.6 | 60.0 |
| Urban (%) | 73.0 | 75.4 | 72.7 |
| Uganda (%) | 58.7 | 63.5 | 62.1 |

Source: *Uganda National Bureau of Standards, 2010*

1.3 Problem Context

As already mentioned, the cultivation of Arabica and Robusta coffee is a livelihood for a large number of Ugandans, especially in the rural areas. The farmers are generally small holder in nature growing coffee trees on several fragmented pieces of land with very few alternatives for income generation. Coffee also creates employment both directly and indirectly for a large part of the population, reportedly of upwards of five million families. So through coffee cultivation households generate income important for their food security situation.

Institutional and infrastructural support for small holder coffee farmers from government is however very low. Small holder farmers tend to be unorganised, generally giving low outputs of coffee of highly variable quality. These factors and more make it difficult to market the coffee, with market information not readily accessible to farmers, while buyers and middlemen traders do have it (Schrader, 2012). A lack of both economic and physical resources limit the smaller farmers’ capacity to be competitive on both the local and international market due to the inferior quality of their produce.

All this (and certainly other factors) has necessitated growth of various forms of FF relationships. It is widely agreed that such types of relationships are necessary for especially the smaller and poorer farmers to stand a chance of competing in highly competitive global

markets. There are potential mutual benefits, which for the small holder farmers may be improved income generation and ultimately household food security.

But information on the state of firm-farmer relationships is generally lacking. So a need exists to generate information on firm-farmer relationships. The information generated may be used to set up a platform which can fuel dialogue between the two parties. Using the results of this case study as a reference point, firms and farmers may understand the dynamics of their business relationship better so as to create a win-win situation for the future.

It is reasonable to think that both firms and farmers are eager to improve business relations. A thriving FF relationship is more profitable which increases income generation. This can be used to get many small holder farmers out of poverty and become more food secure.

So optimising coffee production can be an effective tool to make the livelihoods of the majority of the country's citizens much more sustainable, and thus help improve their food security situation.

1.4 Objective:

To assess the firm-farmer relationship of Star Café Pvt Ltd and small holder farmers and highlight challenge areas and opportunities so as to create a platform to optimise performance and create a win-win situation in the relationship.

1.5 Research Questions

- a) How can the relationship between the firm and farmers be optimised to improve the performance of the business?
 - I. What is the current state of relationship?
 - II. What are the perceived weaknesses from the firm position?
 - III. What are the perceived weaknesses from the farmer's position?
 - IV. What is the current state of communication between firm and farmers?
 - V. How can the firm deal with small quantities from different farmers with variable quality?
 - VI. What are the roles of firms and farmers in the production of coffee?
- b) How can the firm farmer relationship help improve the food security situation for the smaller holder farmers involved?
 - I. How does the firm farmer relationship guarantee farmers with a steady income?
 - II. How does this relationship help in giving farmers alternative income generating projects?
 - III. What kind of changes would farmers propose or want to see from the firm to make coffee farming more sustainable?

- IV. How does alternative income generating projects in place complement the coffee farming livelihood of the farmers?
- V. How does the farmers' livelihood and food security situation impact on the firm farmer relationship?
- VI. What are the other crops farmers grow that competing with coffee at household level in terms of income generation?
- VII. How can the coffee chain become more organised to get better profitability and to improve the livelihood of farmers?

CHAPTER TWO: CONCEPTUAL FRAMEWORK & DEFINITION OF TERMS

2.1.1 Food Security

According to the World Health Organisation (WHO) food security has three facets: food availability, food access, and food use. That is to say it exists when food is available in sufficient quantities on a consistent basis, with people having sufficient economic and physical resources to access it, and people can obtain appropriate foods for a nutritious diet. Food use is the appropriate use based on knowledge of basic nutrition and care, as well as adequate water and sanitation.

Food security is also defined as, a state when all people at all times, have physical and economic access to sufficient safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life (FAO, 1996).

This definition is highly relevant for this research as it brings out four clear dimensions to food security that are

- I. Physical availability of food
- II. Economic and physical access to food
- III. Food utilisation
- IV. The stability of the other three dimensions over time.

The FAO definition has the extra ***“stability of the other three dimensions over time”*** as part of its definition, and as such it will be used in this thesis.

This is important in the context of this research because small holder farmers in many developing countries are vulnerable during some parts of the year. Volatility and frequent price fluctuations of world coffee prices or occurrences of severe natural disasters threaten farmers livelihoods. Price volatilities put their economic access to food at risk whilst droughts may mean both their economic access and physical access to food is compromised. This makes understanding the firm –farmer relationship important as contracts mean a guaranteed market for farmers. This continuous supply of income may give farmers income stability guaranteeing economic access to food all year round.

2.1.2 Livelihood

It can be described as the capabilities, assets and activities required for a means of living (Chambers and Conway, 1992). The International Federation of Red Cross and Red Crescent Societies (IFRCRCS) however define livelihood as a means of making a living which encompasses both the people’s capabilities, assets, income and activities required to secure the necessities of life. The definition goes further to say a livelihood is sustainable when it enables people to cope with and recover from shocks and stresses (such as natural disasters and economic or social upheavals) and enhance their well-being and that of future generations without undermining the natural environment or resource base.

The IFRCRCS definition will be adopted here as it clearly indicates that income generation is important for the people to improve their well-being. The importance of the people’s ability to recover from shocks and stresses is also emphasised in the definition which is also important.

2.1.3 Firm-Farmer Relationship

A firm can be a person or group of persons turning inputs into outputs. In most cases the firm is the one buying raw materials that will be converted to finished products (Sawyer, 1985). Farmers are the producers of the particular agriculture commodity the firm uses as a raw material in its manufacturing.

Farmers in this research will be either individual farmers or farmer associations. FF relationships can be defined as the way in which the two parties collaborate and join forces through formal and/or informal agreements to render services to each other for the supply of coffee. The relationship is established to be mutually beneficial for both parties. There are however arguments that some large firms use contracts to take advantage of cheap labour and transfer production risk to farmers (Prowse, 2012). But these types of discussions are always difficult to assess and are influenced by many factors.

So in this research FF relationship will be defined as the manner in which firms and farmers get connected, feel and behave towards each other. The research will view both the firm and the farmer as having the aim of contributing towards the commitment to improve the relationship by making it more or less mutually beneficial.

2.1.4 Small Holder Farmers

Small holdings in developing countries are largely defined as small land areas supporting a single family. The family does subsistence farming but any surpluses are sold. Labour is supplied largely by family members. In most cases land area is the guiding factor as to whether a farmer is considered a small holder or not. But arguments exist that many other critical aspects of smallness such as limited capital, fragmented holdings and limited access to markets are critical to characterising resource poor small farmers in the developing countries (Chamberlain, 2008).

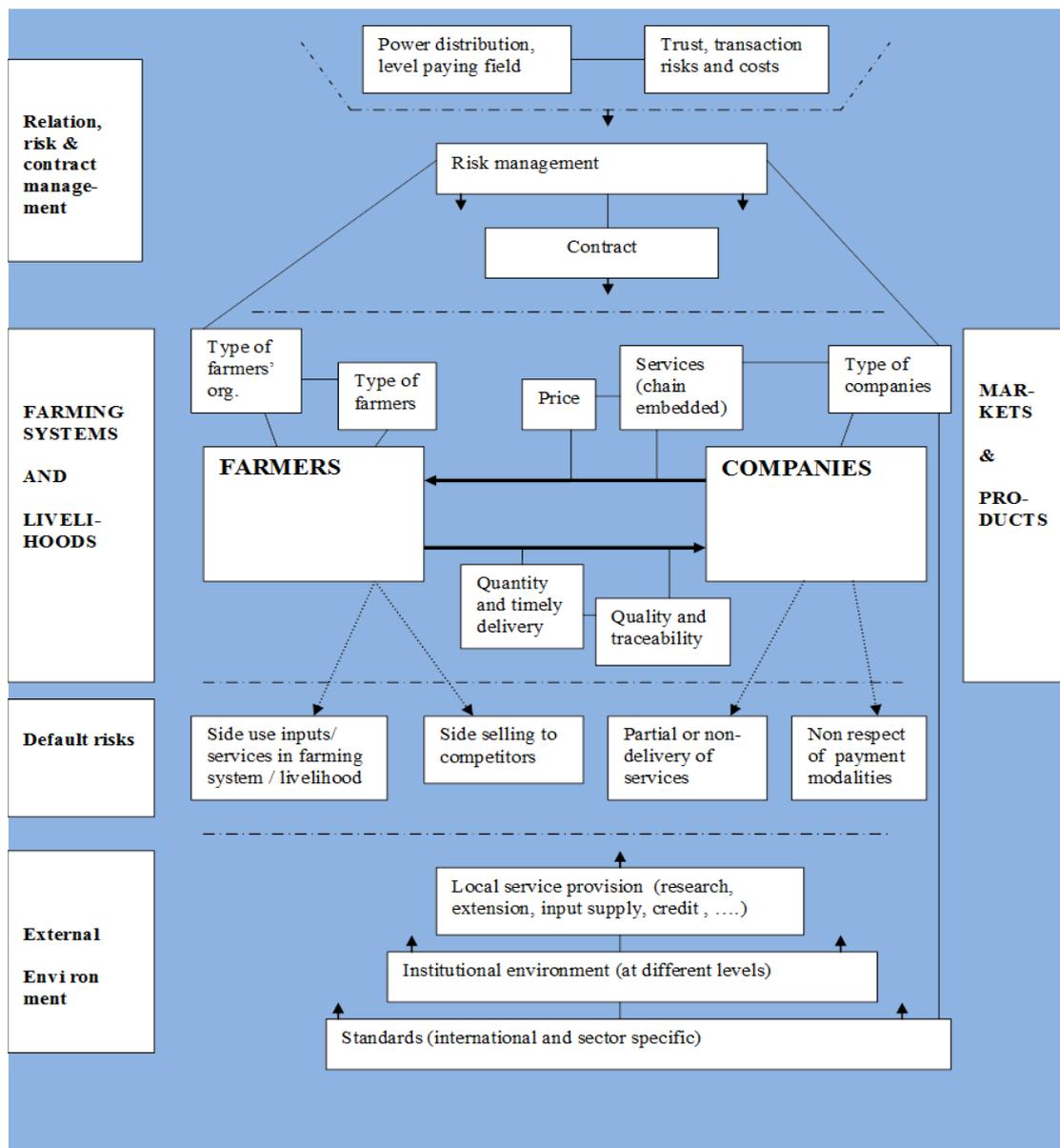
The World Bank's Rural Development Strategy defines smallholders as those with a low asset base, operating less than two hectares of cropland (World Bank, 2003). This author agrees that there are indeed other critical aspects to describing small holder farmers on top of land size.

However in this report small holder farmers will be largely defined according to the size of the land they possess. In most instances especially in Africa, land size is the most limiting to the other aspects of small holders. It usually follows that the smaller the land size the more limited farmers are to accessing markets, capital and so forth. In light of this argument small farmers in this study will be those with less than one hectare of land to produce their coffee.

2.1.5 The Contract Farming Model

The CF Model is adopted from AgriProfocus and it shows the levels of and aspects that influence the functioning of a typical contract between firm and farmers. It indicates that the state of firm –farmer relationships is affected by various factors which have been grouped into 4 different levels.

Figure 1. The Contract Farming Model



Source: *Agriprofocus*

The Model shows that the 2 most important stakeholders in a FF relationship are the farmers and the company. The farmers are largely defined by their livelihood and farming systems. This influences the type of farmers they are i.e. small holder or large commercial, and also the type of farmer organisations they belong to. Farmers' livelihoods will also affect the quantity and quality of their produce, and the ability of farmers to deliver the crops on time and how they handle traceability issues.

The company is more closely related to the markets and products than the farmers. Firm type and size determine the products that the firm is providing, to which markets and in what volumes. A firm may be looking to cater for either an elite market or a lower class one. This has a bearing on the overall quality of the product demanded from farmers. Markets and prices influence the chain embedded services the company offers farmers it is in contract

with. The chain imbedded services given farmers will in turn affect the price at which the company will buy the crop from the farmers.

The potential default risks according to the model are side selling of crops by farmers and partial and non-delivery of services by the company. Relationship and risk management will be affected by the type of contract put in place, power distribution, transaction risks and costs and trust levels between the firm and farmers.

The external environment through such things as local service provision (research, extension etc.), the institutional environment and international and sector specific standards will also have an influence on the state of a firm-farmer relationship as they affect the occurrences of any default risks. Farmers require easy access to inputs, credit and extension services to be more productive. Thus the institutional environment has to be enabling for the growth of a healthy FF relationship. The relationships between farmers and suppliers of the above services such as banks and research stations should be optimal to allow for better farm productivity.

CHAPTER THREE: LITERATURE REVIEW

3.1 Production of Coffee

Coffee is a perennial crop. The coffee plant produces berries from which coffee is extracted. It can remain productive for 40- 60years (Coffee Farming Manual, 2008). Trees blossom continuously, meaning a tree can carry green, red and overripe cherries all at the same time, which presents challenges to farmers when harvesting. Generally coffee is planted in the beginning of the rainy season. Coffee planting is mainly done using the shaded method, with coffee plants grown under trees and usually intercropped with food crops.

The overall quality of coffee is determined by the following factors; variety/species of the coffee tree, the ecological factors in the growing areas (rainfall patterns, humidity and sunshine and soil types). The effect on productivity of the ecological factors however greatly depends on the variety of coffee grown. For example Arabica coffee can not with stand high temperatures such as Robusta coffee.

Farm practice also greatly influences the crop such as fertiliser and manure application, pruning practices, pest and disease management and the age of the coffee trees affects their productivity (replantation). Fertiliser and organic manures are particularly important. These need to be adequate as the plant requires nutrients for vigorous growth. Pruning is important for good growth and production of the trees. Farmers should prune regularly. Improper pruning can reduce yield and subject trees to biennial bearing, often resulting in *dieback*, when leaves, fruit, laterals, and sometimes verticals die before harvest due to exhaustion of nutrients, particularly N, and depletion of carbohydrates in the tree due to overproduction of fruit(Bittenbender and Smith 2008)

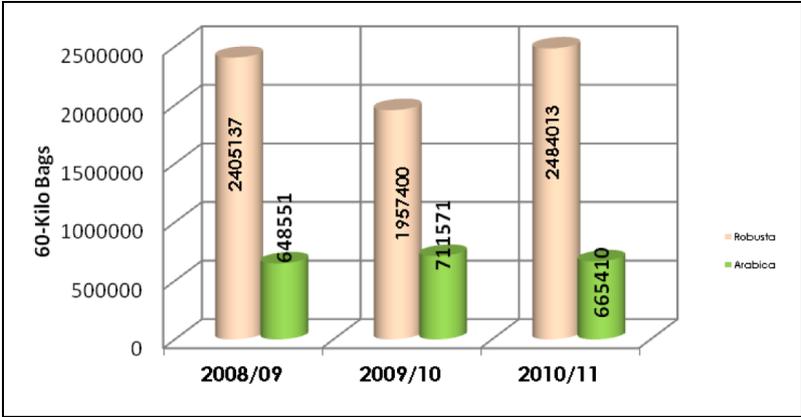
The final quality of coffee also depends on how the coffee has been picked and dried. The most common method of harvesting is stripping (by hand or machine), although it is less accurate. But hand picking is the best method of coffee harvesting (UCDA, n.d). It gives better selection hence lessens the chance of mixing green and ripe and/or overripe beans. Picking should be very selective for mature beans (red), whilst leaving behind green beans to ripe further.

Harvesting sheets are used when harvesting so that beans don't come into contact with soil. To keep high quality standards beans on the ground should never be picked. Coffee farmers need to use tarpaulins when drying their coffee beans as they should not dry coffee directly on the soil. Direct contact with the soil encourages formation of moulds (white mould) and leads to contamination with impurities. When drying the coffee has to be protected from rain, night humidity and morning dew as this compromises the drying process and ultimate bean quality.

Robusta and Arabica are the two main species of coffee grown for commercial purposes across the world. Arabica coffee is more preferred than Robusta coffee. Three quarters of coffee grown worldwide is Arabica (FAO, 2004). This is because Robusta tends to be bitter and has less flavour than Arabica (UCDA, n.d).

In Uganda however more Robusta is grown than Arabica. This is because the climate is generally more favourable to Robusta coffee cultivation. Almost 85-90% (by weight) of the coffee exported by Uganda is Robusta (UCDA, n.d).

Figure 2. Comparative annual exports of Robusta and Arabica coffee



Source: UCDA 2011

3.2 Growing Arabica Coffee in Uganda

Arabica coffee is grown mostly in the hilly and mountainous parts of the country at high altitude. Most areas in these regions are over 2500 meters above sea level. Arabica thrives in these high altitudes areas.

The Arabica coffee plant is self-pollinating whilst Robusta depends on cross pollination. The abundant rainfall of Uganda mean coffee is continuously flowering. This results in two main harvest seasons for coffee in the country. As is shown in the table below, for Arabica the main season is April-June for the Western regions and October –February for the Eastern and Western Nile regions. Arabica is mainly found in the Mount Elgon areas in the east, the mountain ranges around the west-Nile and in southwest Uganda in Mount Rwenzori.

Table 2. Coffee harvest periods of Uganda

| REGIONS | Oc t. | No v. | Dec . | Jan | Feb. | Mar. | Apr. | May | Jun . | Jul. | Aug. | Sep. |
|--------------|-------|---------------------|-------|-----|------|------|------|---------------------|--------------------|------|------|------|
| CENTRAL | | MAIN CROP (Robusta) | | | | | | FLY CROP(Robusta) | | | | |
| MASAKA | | FLY CROP(Robusta) | | | | | | | MAIN CROP(Robusta) | | | |
| EASTERN | | MAIN CROP (Robusta) | | | | | | FLY CROP (Robusta) | | | | |
| BUGISU/SEBEI | | MAIN CROP (Arabica) | | | | | | FLY CROP (Arabica) | | | | |
| WESTERN | | FLY CROP (Robusta) | | | | | | MAIN CROP (Robusta) | | | | |
| | | FLY CROP (Arabica) | | | | | | MAIN CROP | | | | |

Source: UCDA

Most of Uganda’s Arabica is wet processed, also called washed Arabica. Farmers usually use hand pulping machines to remove pulp from the beans immediately after picking. The mucilage that remains is removed by natural fermentation (1-2 days), before beans are dried under the sun. At this stage the Arabica is termed parchment coffee.

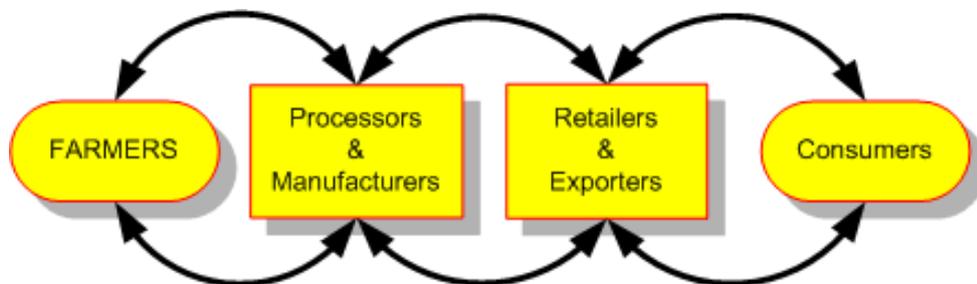
Arabica coffee is more competitive on the international market as it boasts a superior quality. In the 2008/2010 Ugandan market year data, Arabica generated about 33% more revenue per kilo than Robusta (UCDA, n.d). Uganda's coffee exports in May 2012 amounted to 252,548-kilo bags worth US \$35.8 million. This comprised 167,933 bags (\$ 20.18 million) of Robusta and Arabica was only 84,615 bags (\$ 15.59 million) (UCDA, n.d).

3.3 Value Chain Development

The value chain approach has great potential to secure markets and value addition for small holder agriculture commodities. It is necessary to improve both the supply and quality of the crop in question, in this case Arabica coffee. But for this to happen a greater understanding is required of the various aspects and range of steps in the chain from production to consumption. The challenges and opportunities, demand and supply of necessary products and services should be known. Strengthening value chains is especially important for Africa, where support from governments for agriculture, is going down (FAO, 2011). This coupled with globalisation and liberalisation of food markets, together with the emergence of tightly coordinated supply chains have combined to further diminish the chances small holder farmers have of penetrating markets.

But taking a value chain approach to economic development and poverty reduction involves addressing the major constraints and opportunities faced by farmers and producers, processors, traders and other businesses at multiple levels and points along a given value chain (RIU, 2012). Thus the farmers and other actors in the chain's access to necessary inputs, information flow, value addition of goods and market access must be enhanced.

Figure 3. Understanding value chains



Source; Research Into Use

3.3.1 Major Constraints to Coffee Production in Uganda

The UCDA which is the main coffee regulatory body in Uganda states the major constraints of the sector as

- i) Low production and productivity levels. Uganda faces the problem of old coffee trees with most trees over 50 years (UCDA n.d). The trees are less economically productive as a result.
- ii) Infection of coffee by the Coffee Wilt Disease, (CWD) found in all the coffee farming districts in the country.
- iii) Inadequate management capacity as most farmers, now including woman and youths do not possess good concepts of coffee husbandry and coffee nursery work.
- iv) Volatile world market coffee prices

CHAPTER FOUR: METHODOLOGY

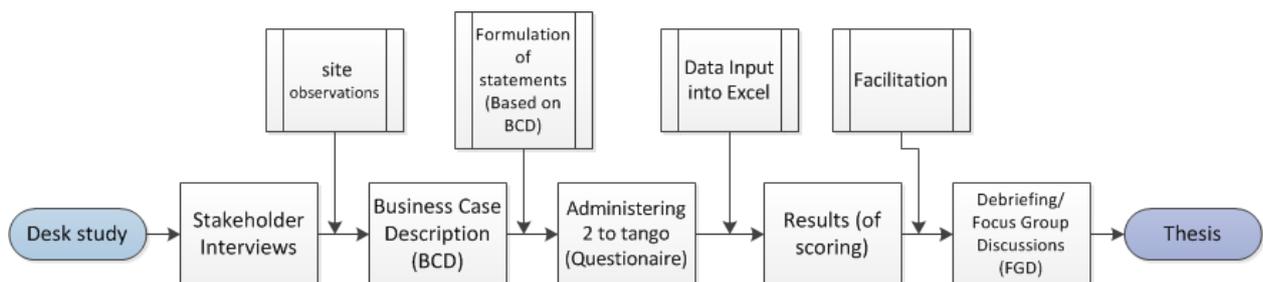
4.1 Business Case Analysis

The business case was obtained through the partnership of Agriprofocus (APF) and Van Hall Larenstein (VHL) University Netherlands and Agrihub Uganda. APF is a network of development and agricultural organisations, credit and training institutions, research institutions and government from Netherlands which is promoting farmer entrepreneurship in developing countries (AgriProfocus n.d). APF works at Dutch (based) level and at a developing country level through so-called Agrihubs.

Potential business cases were initially identified by Agrihub Uganda of which the FF relationship of Star Cafe with the small holder farmers it works with was one case. Member companies of the Agrihub such as Star Cafe had earlier requested for facilitation of the study as a way to better understand their relationship with farmers.

Through the same partnership VHL Masters students were given the option to use the 2 to tango tool developed by APF in facilitation of the FF relationships identified by the Agrihub and use the businesses cases for their thesis. The researcher did 2 business cases in the 24 days, but for the purpose of this thesis only one business case is used.

Figure 4.Steps followed in conducting fieldwork



4.2 Research Area

This research was done in Kampala and Kapchorwa districts where the company and farmer group are based respectively. Description of the areas is done in the business case description in the next chapter.



Figure 4. Map of Uganda

A desk study was used to gather background information on Star Café and Arabica coffee farming in Uganda. Information about the company was found on the company's official website and related articles on the internet. Journals, newspaper articles and other literature sources were used to come up with a context picture of the coffee sector in Uganda.

4.3 Selection of Farmer Group

Random sampling was done to select the farmer group. Star Café works with 2 groups, one in the Western (Kasese region) part and the other in the Eastern part (Kapchorwa district) of Uganda. Both farmer groups supply the company with the same product, Arabica coffee. The KUCFG in Kapchorwa was selected.

4.4 Semi Structured Interviews

Stakeholder interviews of company and farmer group were done using the checklist (See annex 2). The checklist covered the subtopics of market situation, farmer group functioning, contract contents and understanding, price setting modalities and quality transparency. This was an informative way to get the views of farmers and company on their current business relationship. By having separate interviews with the 2 stakeholders, perspectives from both the firm and farmer side would be heard and considered. The results of the separate interviews would also be used to triangulate the findings from the stakeholder consultations and would be compared. with findings of the desk study.

Interviewees were selected on criteria of function and managerial level.

Table 3. Breakdown of Respondents

| Stakeholder | Company (Star Café) | KUCFG |
|---|--|---|
| Type of interview | Individual face to face | Group interview |
| Number of respondents | 3 | 4 |
| Role/function of respondents (management vs non management staff) | <ul style="list-style-type: none">• General Manager | <ul style="list-style-type: none">• Group Chairman• Business Manager |
| | <ul style="list-style-type: none">• Administration Officer• Production Supervisor | <ul style="list-style-type: none">• Ordinary Member• Ordinary Member |

Interviews with the firm staff took place in the company offices in Kampala. Respondents were chosen based on function and managerial level as this influences the regularity with which they engage with farmers and the physical product in question (Arabica coffee beans). This would impact greatly on perceptions.

The farmer group interview was done in Kapchorwa district. The ordinary members were specifically chosen to guarantee that the views of common (ordinary) members which may be slightly different from those of the leadership be heard and taken on board.

Since the interviews were conducted at the respondents' homesteads/business premises, observations were also used as a tool for data collection. Observations were based on assessing the farmers input base (storage facilities) and their management practices like pruning and weeding and the age of the coffee trees. Observation was used to also look at any other sources of income generation that farmers are engaging in or can opt to do on top of their coffee farming.

4.5 The 2 to Tango Tool (questionnaire)

This is a participatory tool that helps to harness the views of farmers and firms on their business relation. It is practical and flexible, and can (must) be tailored to the specific business case at hand. The tool permits to have quick results, which can be visualized by easy to understand graphs (Schrader, 2012).

It is based on firm and farmers scoring a questionnaire with the same set of statements. Statements were formulated based on and related to the challenge areas as highlighted in the interviews. The interviews formed the basis for the formulation of statements. From the interviews challenges were noted. Challenges were then grouped together e.g. challenge area Production. A challenge area had 8-9 statements (See annex 1). The statements were in English.

Indicators to rank the challenge areas were formulated in the form of statements that can be scored by both farmers and company simultaneously. The statements are scored on a Linkert scale of 0-3 represented by smiley's (as shown below)

Figure 5. A sample of the 2 to tango

| Statements | | 0 | 1 | 2 | 3 |
|------------|---|--------------------------|-----------------|--------------|-----------------------|
| | | <i>Strongly disagree</i> | <i>Disagree</i> | <i>Agree</i> | <i>Strongly agree</i> |
| | | ☹☹ | ☹ | ☺ | ☺☺ |
| 1 | Production | | | | |
| 1.1 | Farmers have sufficient fertilizer available for their coffee cultivation | | | | |

Firm- The researcher managed to mobilise 7 company staff members (3 female, 4 male). The rest of the staff was said to be busy and unavailable carrying out company business at the one week national agriculture show that took place in the town of Jinja during the 2 days the researcher visited the firm.

Farmer group -Only 22 farmers managed to be mobilised to fill in the questionnaire (4 female, 18 male) from the sample size for the farmer group which had been decided before hand as 40 (consisting 20 males and 20 females). This was because of the inaccessibility of some of the farmers' houses as it had rained heavily for the 2 days in the mountains.

There was generally a good appreciation of English from both sides and an interpreter was not used.

4.6 Analysis of Results

2 to tango scores were entered in Excel. Results are in the form of 1 table and 2 graphs per challenge area. Graphs generated indicate the

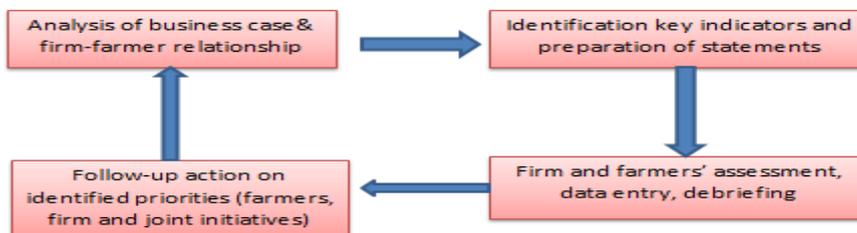
- i) Level of (dis)agreement on each statement between farmers and company
- ii) Level of scoring per challenge area or statement by both firm and farmers.

A high score will represent a positive outlook on the challenge area or statement in question. A low score will represent a negative outlook on the challenge area in question. So the higher the score the more positive respondents were on the particular challenge area.

4.7 Focus Group Discussion (debriefing)

As part of the methodology of the 2 to tango tool, there was a debriefing (FGD), where the firm and farmers had their own self-assessment of the results. This is very crucial otherwise the tool is confined to mere data collection resulting in the production of '*nice looking graphs*' (Schrader, 2012). FGDs were held as a way of debriefing farmers and company staff on the results generated from scoring the questionnaire. This further indicated the subjective perceptive of both sides. The outcomes are used and incorporated in the analysis of results and drawing up recommendations for bettering the firm-farmer relationship by the researcher. The methodology as explained above followed the implementation context as illustrated below.

Figure 6. Context of Implementation of 2 to Tango



Source: *AgriProfocus*

CHAPTER FIVE: BUSINESS CASE DESCRIPTION

5.1 Overview of Company

| | |
|--|--|
| Country: | Uganda |
| Product: | Coffee (Ground and Instant) |
| Name of Commercial Business: | Star Café |
| Business Location (Head Office and Factory) | Kampala |
| Number of Employees | 31 permanent |
| Official Mission of Company | <i>“To become the global supplier of choice for processed Uganda coffee”</i> (Star Café, n.d). |
| Year of establishment: | 2000 |
| How has the business been registered? | Private Limited Company |
| Brief History of Company Formation | <p>The company was incooperated in November 2000 from the Kampala Domestic Stores (KDS). This followed the 1990’s coffee crisis which had led to drops in green coffee prices of more than 50%. The main activities of the then KDS was the selling of green coffee, so after the crises value addition of the coffee (processing, packaging and branding) was decided to be done as part of the new business venture. The employees of the KDS were given shares and took control of the new business.</p> <p>There were however early reports of gross mismanagement probably from a lack of adequate management skills from the employees. But in the 2008-9 financial year the company managed to record its first profit. The current major shareholder of the company is Montana Holdings.</p> |
| Type of business: (processor/wholesales/exporter) | <p>Star Café buys parchment coffee (washed Arabica) from small holder farmers and processes this into instant and ground coffees. The company roasts, blends and grinds coffee beans.</p> <p>The processed coffee is packaged, stored and is dispatched to markets as ready made packaged coffee.</p> |

| | |
|--|---|
| What functions does the company perform? | Collects, roasts, blends and grinds Arabica coffee beans |
| Number of Coffee Brands Produced | 7 (seven) |
| The 7 brands of Star Café Coffee | <ul style="list-style-type: none"> • Starcoffee Roasted Beans • Star Cafe Premium • Bugisu Gold Fresh Ground Coffee • Bugisu Gold Whole Bean • Starcoffee Pure Instant Spray Dried Coffee • Starcoffee Freshly Roasted & Ground • White Mountain Fresh Ground Coffee |

Kampala where Star Café is based is the capital city of Uganda. It had an estimated population of 1,659,700 people in 2011. It is the commercial heart of Uganda, with the highest level of infrastructural development and concentration of commercial businesses.

Star Café buys parchment coffee from small holder farmers directly. The company said this was to effectively cut out the middlemen. Fears were that middlemen are untrustworthy and may mix coffee beans with contaminants as a way to make quicker profits. This has a negative impact on quality of the beans they supply. Also by dealing directly with farmers the coffee can be traced back to the source should any food safety concerns occur. The company is motivated to work directly with farmers as this way it is able to monitor farmers and gains some degree of influence on their farm practices in the current setup.

Some coffee beans are sent to Egypt, to the only Instant coffee plant in Africa, where they are processed into instant coffee. Upon returning to Star Café, the coffee is packaged, branded and sold. Star Café is currently the only producer of instant coffee in Uganda. The biggest market for their coffees is the regional and neighbouring countries, such as Kenya and North Sudan.

This is because domestic consumption within Uganda itself is still very low. Ugandans traditionally drink tea. The General Manager (GM) of Star Café alluded to this when he said **“we need to start drinking our own coffee”**. The company staff had the impression however that domestic coffee consumption in the country is rising.

The company’s Instant coffee sales are a lot more compared to sales for ground coffee. Instant coffee rose 20% in consumption for the company since they started producing it 10 years ago. The staff related this to the fact that when people start to drink coffee they start with instant coffee, so in Uganda where the coffee drinking culture is just starting, the company projects growing instant coffee sales for the future.

The company has won several awards. These include UCDA’s Best Coffee Roaster 2011 award and the People’s Choice Award for coffee 2011 from the Kampala City Trade Association among others.

The company's official core values according to the company website are to

- *Maintain the highest business ethics at all times*
- *Guarantee our consumers a quality product*
- *Build and maintain strong relationships that add value to our business*
- *Continue entrenching innovation as a part of our company culture.*

4.2 Brief Description of Kapchorwa District

The district has an estimated population of 208 100 people (UBOS, 2012). Kapchorwa district borders Kenya in the east. It has a total land area of 1738km² (3.8% of total land area of Uganda), of which Mt Elgon national park takes up 638km² (UBOS, 2012) and 442.0km² is farmland under subsistence cultivation (about 40%). The district is a mountainous and humid area, with huge agricultural potential. Most areas in the district are over 2000m above sea level.

Predominant soil type is deep red & black alluvial soils. The soils are deep, well structured and very fertile (mainly derived from volcanic parent material since Mt Elgon is an extinct volcano).

Rainfall is abundant in the region with 2 wet seasons. The duration of the wet seasons however differs with altitude and topography of the area in question. Annual rainfall is 920-1650mm.

Major food crops grown by locals are maize, beans, bananas and groundnuts. The major cash crops cultivated are Arabica coffee and wheat. Land tenure in the region is mostly customary. Fathers pass on land to their children through inheritance when they are old enough.

The district is characterised by

- Low development with poor infrastructure (roads and other social and economic infrastructure)
- Difficult terrain which makes certain places highly inaccessible
- General remoteness of the rural area.

Kapchorwa offers some tourist attractions in the form of caves, waterfalls and nice scenery in the mountains.

4.3 The Kabeywa United Coffee Farmers Group

The farmer group is a legally registered entity by Ugandan law as a Farmer Group Association. The farmer group was established in the year 2007. It sells one physical commodity, Arabica coffee.

Subsistence agriculture is the main economic activity for most of the farmers. The farmers in grow cabbage, tomatoes, beans and peas on top of their Arabica coffee plants. These crops are in most cases intercropped with the Arabica coffee trees. The district includes some of the most intensively farmed and highly productive areas in Uganda.

The group has 365 members all of which are small scale coffee farmers from the various sub counties found in Kapchorwa. At least 100 members of the group are women. Members pay a subscription fee on joining. This is currently 10 000 Uganda Shillings in 2012. (1 UGx = 4200.00 USD)

All members of the group are very small holder with on average, an individual farmer having 1000-5000 coffee trees. Coffee trees are found on highly fragmented pieces of land around or some distance away from the family homestead. The typical cultivation characteristic of the Arabica in the area is low input and low output cultivation. Farmers depend on simple hand tools such as the hoes, axes and spades. These tools farmers own themselves. Coffee trees are generally old with most over 40 years. Younger members of the group often lamented that **“these coffee trees are even older than us”**.

Farmer group members do several value addition processes to their coffee beans such as pulping, fermenting, washing, drying and bulking of the coffee before they sell it to Star Café. This goes a long way to ensuring their coffee fetches higher prices for them.

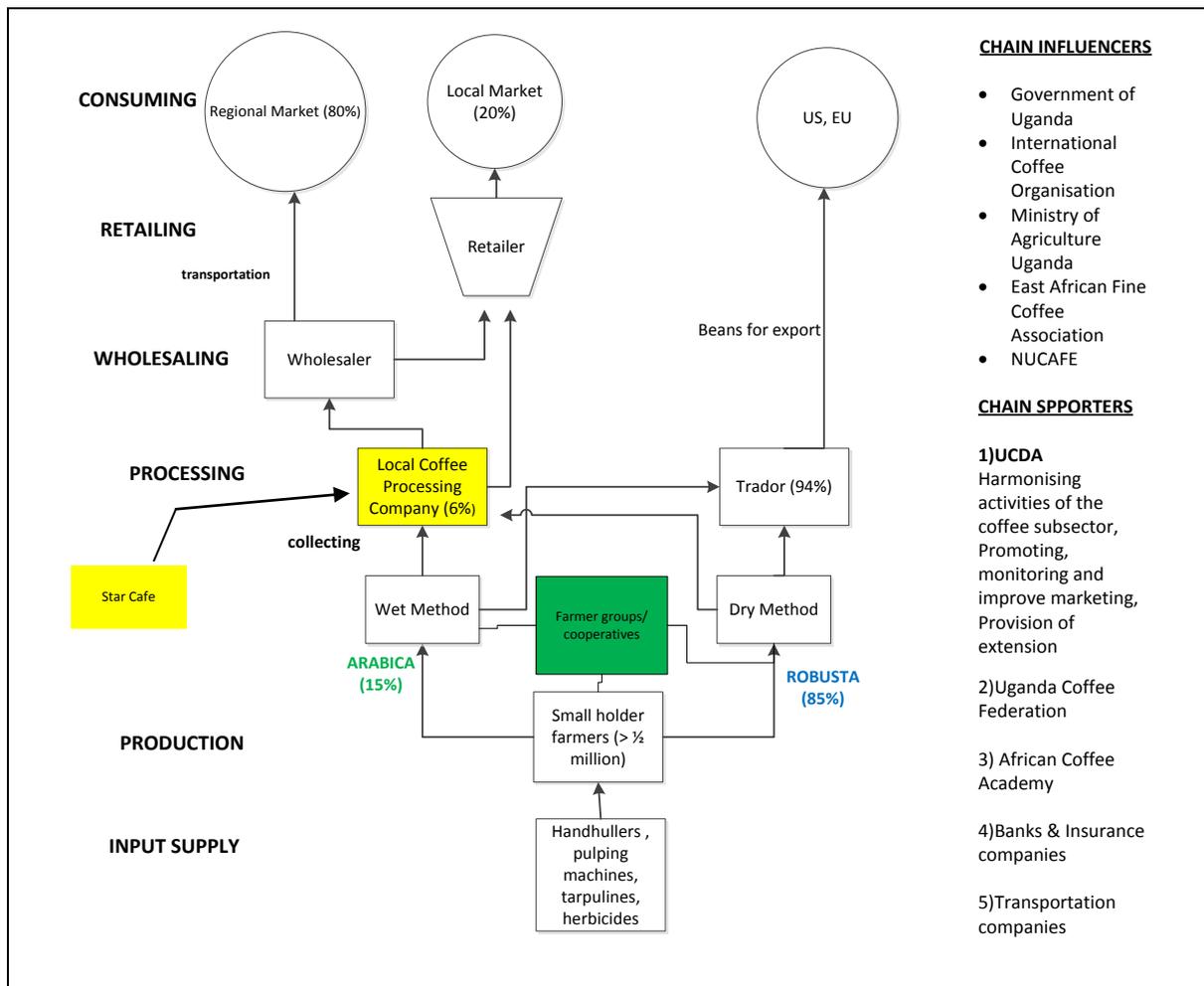
Figure 7. Stages undertaken by KUCFG before selling coffee



Source: Formulated by author

It is however important to note that all value addition processes the members carry out are not through the group. Group members are only cooperating in the bulking stage of the coffee in preparation for sale. Star Café lacks the capacity to buy all of the Arabica coffee produced by the small holder farmers and they sell some of their coffee to exporters and middlemen.

Figure 8. Uganda Coffee Value Chain



Source: formulated by author

4.3.1 Chain Sustainability

Chain is sustainable because

- High number of small holder farmers growing Arabica coffee in the country.
- Soils in Arabica growing regions tend to be fertile to support good production even without fertiliser.

Gender equity and child labour

- No gender discrimination or child labour as this unlawful under Ugandan law. Children help during school holidays. Women do not generally own land and are involved in harvesting and the drying of beans as their roles.

Farmers bargaining power

- There are many buyers of coffee on the market. Majority of farmers belong to coops and farmer associations giving them reasonable bargaining power.

Environment Safety

- Good environment safety. Production is mainly “low input in low input out”. Fertiliser user is very minimal.

4.3 The firm –farmer relationship

Star Café sources only parchment coffee from the farmer group. Most of this comes through two farmer associations called Kabeywa United Coffee Farmers Group (KUCFG) and LEAF Farmers Association which are found on the Eastern (Kapchorwa) and Western (Kasese region) parts of Uganda respectively. The report will however pay attention to the firm – farmer relationship between the firm and the KUCFG in the eastern part of Uganda.

The firm-farmer relationship between KUCFG and Star Café was formalised in the year 2009 by signing of a written contract. The contract signed is in English. There is a relatively high presence of alternative buyers of Arabica coffee on the market. There are at least 19 small coffee processing companies in Uganda processing both Arabica and Robusta coffee into ground coffee. A list of the companies is given in annex 3. Middlemen and large exporting companies are the other options KUCFG has to selling their Arabica coffee. Some farmers often sell to middlemen and exporter companies. These however usually buy at lower prices than Star Café, since they buy coffee as unwashed green beans.

Kyagalanyi Coffee Ltd has a washing station in the area next to the farmers’ fields. The company is involved in coffee procurement, processing and export. It buys red cherries only. The farmers’ role is limited to picking and selling if one chooses to sell to this company. But because of emergencies some farmers do sell to this company.

Star Café buys volumes of 8-10 tonnes of parchment coffee (washed Arabica) from the farmer group per harvest season. The amount each individual farmer contributes to this is highly variable, with some farmers contributing more than other farmers. Upon delivery of coffee, a weight note is produced, which shows how much each farmer contributed. This will be used to pay farmers individually through the mobile money transfer. Weight notes are also important for record keeping and traceability issues for the company.

As part of the contract, the firm supplies farmers with inputs to use in farming such as hand hullers, tarpaulins and coffee pulping machines. During the harvest season Star Café vehicles collect coffee at various collecting points in the region. This is done with cooperation from the farmer group, usually the chairman and one or two chosen members. Farmers bring their coffee to the collecting point on hired motorbikes, referred to as “**border borders**” in Uganda. This is a widely used means of transportation for either goods or people in the whole country. In Kapchorwa it is very effective and reliable and may be the only means of transport for some parts which are generally inaccessible by cars. Some areas are only accessible to four wheel drives, and in the rain even trucks find it difficult to move in the sticky mud.

Star Cafe also gives advice on production related matters to the farmer group. It arranges and facilitates members’ participation in various coffee shows. The shows for farmers are organised by UCDA and other interested stakeholders in the Uganda coffee sector. The company covers the accommodation and transport costs for farmers in the group taking part in these shows. On average 1 – 3 farmers are attending these shows, and in most times it is

the senior members and hierarchy. The shows are aimed at increasing farmers' understanding of how their on farm practices are related to the quality of processed coffee.

An employee of Star Café said **“these shows are meant to bring out some sense of passion in the farmers so when they grow coffee, they take good care of it from growing to harvest”**.

Star Café has to adhere to the food safety standards as set by the Uganda National Bureau of Standards (UNBS). Ensuring farmers follow good agriculture practices and proper pre and post handling techniques, which reduces coffee bean contamination, is very important in making the company meet these standards. The company is ISO certified in their processing of coffee in Uganda.

Star Café management also said the firm tries to get more involved in the private lives of farmers as a way to build trust. So above and beyond the signing of the contract both the company and farmers feel there is a lot more to this relationship. This attitude can be picked up from the following statement by the GM of Star Cafe that said **“you can't just say to a farmer sign a contract I will call my lawyer, there is a lot of trust that has to be invested.”** The farmers seemed to share the same sentiments, that this to them was much more than a business transaction.

The firm as a result has helped a number of farmers open up savings accounts. It has also given some members money to use in emergencies such as during sickness to pay for hospital bills or pay school fees especially in the coffee off season. Farmers repay the money later to the company through selling coffee during the next harvest.

The company is also about to begin a bee keeping project with the farmers so they have another alternative for income generation during the coffee off season. This, the company hopes will help farmers concentrate solely on their coffee farming. With another source of money available, farmers will become more patient and not take up bad agriculture practices such as harvesting of immature beans etc. Harvesting of immature beans is thought to be related to farmers' need to make money quickly.

The bee project was particularly chosen as a suitable project by both parties because it does not compete for land with the coffee trees and because honey is harvested during the coffee off season. This way the project will directly complement earnings from the sale of coffee to the firm, by providing farmers with money at a time farmers can't sell their coffee.

The farmer group members are also keen on this venture because they feel it is something that has already been started by some locals in their district. They feel confident they can do it successfully as well. The project is not too labour demanding, with labour generally required when the honey is ready for harvest and delivery of the honey to the markets. A farmer said **“this can be done on the side, it won't affect how we look after our coffee at all”**. The group however wants the company to help them find a market where they can sell their honey at good prices.

4.4 Identified Challenge Areas in FF Relationship

4.4.1 Challenge Area Production

- Inadequate inputs are a cause for concern. Hand hullers for harvesting, and farmers say fertiliser and pesticides are unaffordable for them.

- The training services offered by the company may not be adequate enough and may reach only a few individuals in the group.
- Threats of potential yield decreases in Arabica coffee due to pests and diseases, and further land fragmentation.

4.4.2 Challenge Area Functioning of Farmer Group

- Group organisation and constitution related matters and how they influence the way the group engages the firm in doing business potentially not clear to all members.
- Group financial matters and how they are handled potentially not understood by all group members.
- The ability of the group to handle internal disputes and its general ability to protect farmers' rights generally not outlined and understood by all members.

4.4.3 Challenge Area Markets and Prices

- potential threats of farmers' side selling
- Farmers unclear/or generally unaware of coffee volumes company wants/expects from them
- The transparency of the company's pricing and payment methods and the time frame of payment is a sensitive issue in most firm-farmer relationships. It was the case here also.

4.4.4 Challenge Area Quality Standards

- Inconsistencies of farmers to supply a top quality coffee to the firm.
- Low understanding by the farmers of the quality control mechanisms the company has in place. It's important to note the company does not pay farmers differently on quality of coffee supplied.
- Farmers generally not following good agriculture practices, lack of adoption of change of behaviour as necessitated by trainings offered by the company
- Shortages of storage facilities in the area and its negative effects

4.4.5 Challenge Area Cost/ benefits of Contract Farming

- Farmers livelihood being threatened by price fluctuations and instability of world coffee prices. This has potential problems associated with farmers' heavy dependency on coffee for their food security situation.
- (potential) unequal benefit by group members (especially women and youth) from the fruits of working with the firm.
- (potentially) very low trust and loyalty levels by both sides in doing business

4.4.6 Challenge Area Contract

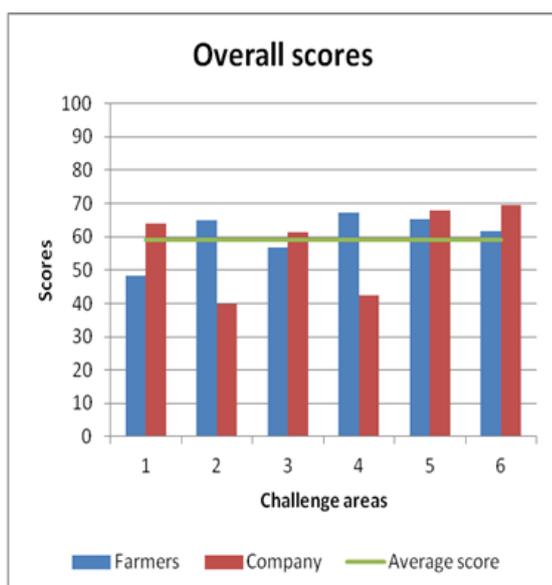
- Lack of effect of the contract in determining the running of day to day business activities by both parties on the ground.

CHAPTER SIX: RESULTS

This section will present the results of the scoring of the 2 to tango questionnaire by the farmers and firm respondents. Results will be described only. The discussion of the results, which will analyse what the scoring means to the FF relationship and also look at what the state of the relationship means to the livelihood and food security situation of the farmers households to follow immediately after the results.

Table 4. List of challenge areas

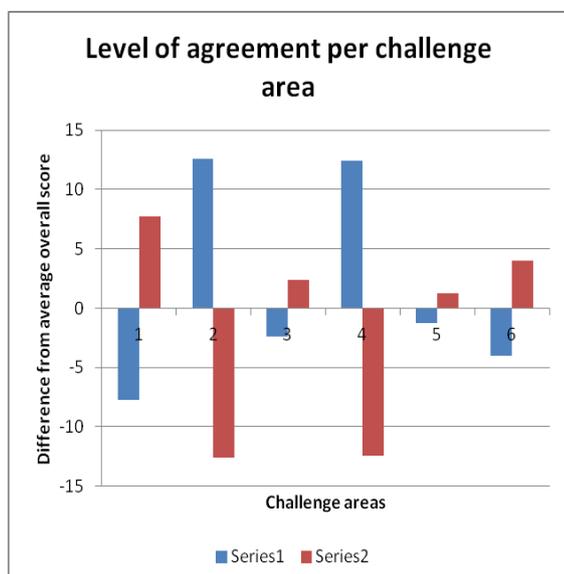
| CHALLENGE | |
|-----------|----------------------------------|
| 1 | production |
| 2 | functioning of farmer group |
| 3 | markets and prices |
| 4 | quality and record keeping |
| 5 | cost/benefit of contract farming |
| 6 | contract |



The results of the overall scoring partly answer sub question A (I), which asked what the current state of the FF relationship is. The scoring here shows the relationship is generally good, with a reasonable overall score average of 59.1. There are low scores for CAs production (CA1) where parties acknowledge input shortages

Low scores by the firm are also recorded for CA2, functioning of the farmer group while farmers were less positive on the CA 1. They named a lack of adequate inputs and storage facilities as serious constraints to their farming.

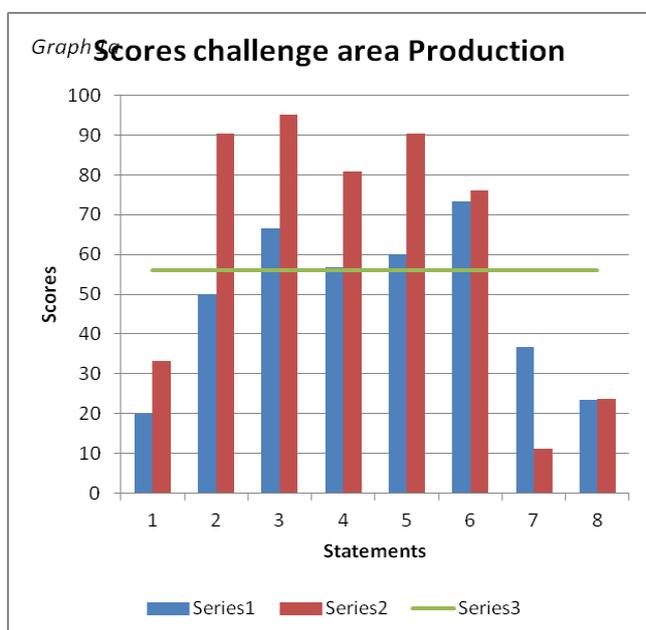
It can be observed from the graph that the perceptions of farmers and the company are quite different for CA 2 (functioning of farmer group) and 4 (quality standards). The majority of company staff questioned the business mindedness of the farmer group. They said they felt the group lacked clear constitution and mandate, where they have year plans for the future. All 5 CAs are looked at in greater detail one by one in the report, starting with CA production.



6.1 Results for Challenge Area Production

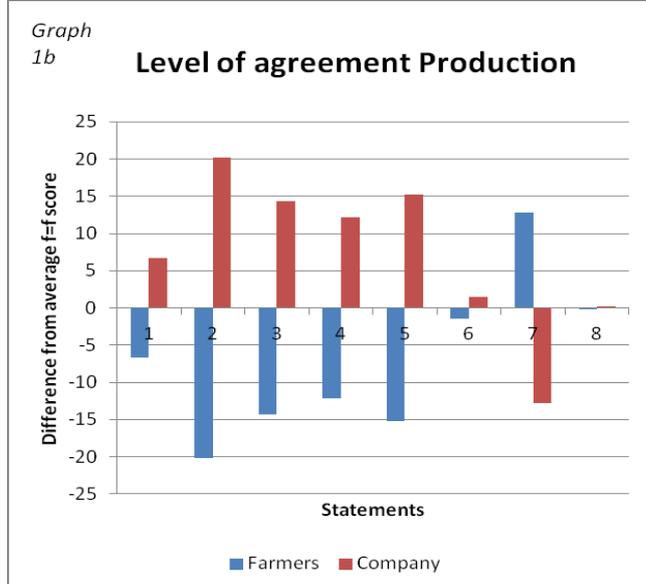
Table 5. Statement list for CA production

| 1 PRODUCTION | |
|--------------|---|
| 1.1 | Farmers have sufficient fertilizer available for their coffee |
| 1.2 | The company provides quick feedback to farmers' questions related to production |
| 1.3 | The farmer training facilitated by the company is very useful to farmers |
| 1.4 | Farmers' Arabica coffee yields are increasing |
| 1.5 | Farmers are making use of the trainings provided by the company |
| 1.6 | Farmers are sometimes putting stones, sticks and/or chuff in coffee bags |
| 1.7 | Farmers have sufficient equipment in place to use in coffee production |
| 1.8 | Inputs (fertilizer and pesticides) are affordable |



Both the farmers and the firm were negative about the current production aspects in their coffee farming scoring lowly with an average score of 56.1. Both parties acknowledged that there are issues of input shortages that negatively impact on the farming operations of farmers.

The results obtained here partly answers sub research question A (I) in that the current state of this relationship with regards to production is characterised by an shortage of inputs by the farmers (tarpaulins and storage facilities) as the results show. Most farmers do not own hand hullers and pulping machines and resort to sharing.



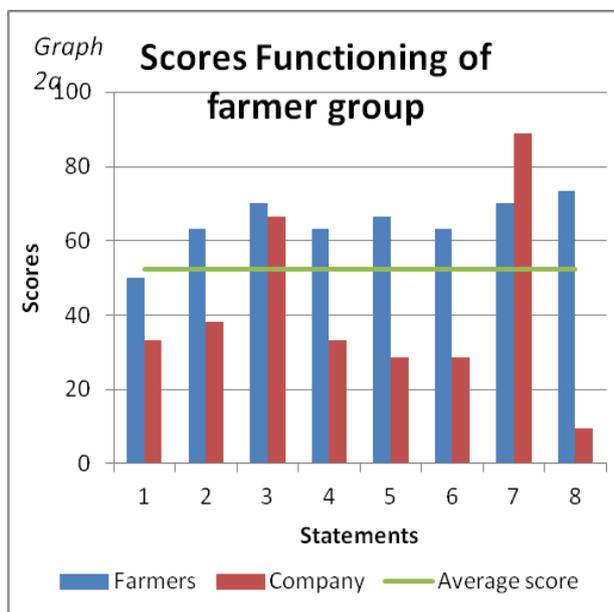
Artificial fertiliser is not widely used. Very few farmers used artificial fertilisers which almost all of them preferred to use. The results also show a high level of disagreement in s2. According to the results farmers do not get quick feedback from the company on questions related to production in a lot of cases.

The chairperson of KUCFG said "**our biggest problem is the lack of proper storage facilities**".

6.2 Results for Challenge Area Functioning of Farmer Group

Table 6. Statement list for CA functioning of farmer group

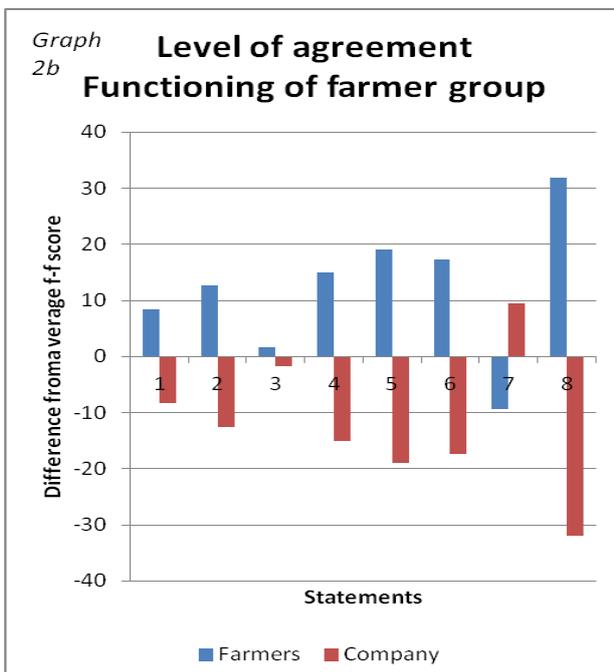
| 2 FUNCTIONING OF FARMER GROUP | |
|-------------------------------|--|
| 2.1 | Farmer group meetings are regular and effective |
| 2.2 | The company is happy with the way farmer group is working |
| 2.3 | The farmer group leaders always represent the common interest of the farmers |
| 2.4 | All members are informed and understand group financial issues |
| 2.5 | farmer leaders adhere to tasks and responsibilities defined in constitution laws |
| 2.6 | The constitution laws cater for internal and external issues of coffee farmer groups |
| 2.7 | The company does not interfere with the running of the farmer group |
| 2.8 | The farmer group is necessary to preserve rights of farmers |



The results show that the farmer group represents the common interest of the farmers in most cases. This is picked up from the high scoring by both the firm and the farmers.

The results further indicate there is a positive perspective that the company, Star Cafe does not interfere with the running of the farmer group as a high score by both farmers and the firm is seen on the graph.

The farmers scored positively to the statement that the farmer organisation is important to the preservation of the rights of farmers. This is something the firm did not agree to, and is highlighted in the second graph with a huge level of disagreement.



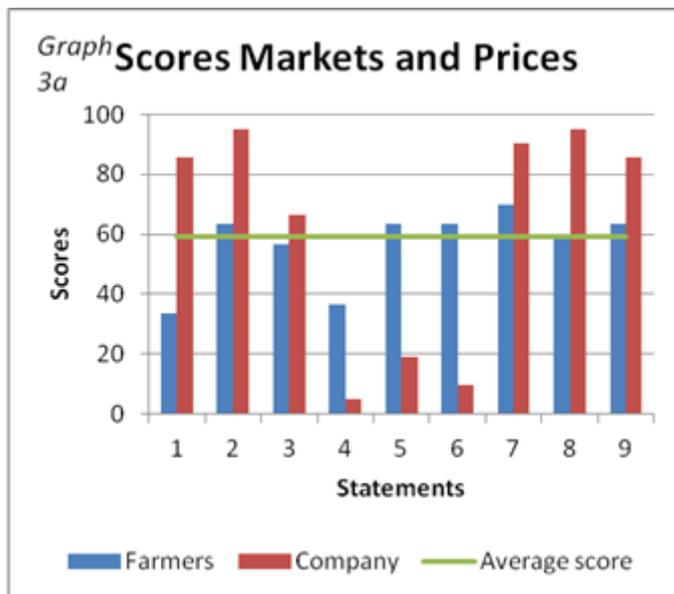
The results of this section partly answer the sub research question A (VI) that seeks to understand the current level of communication between the firm and farmers and communication among the farmers themselves within their group.

The results also partly try to answer the sub research question B (VI), about how the chain can be better organised to improve the livelihood of farmers.

6.3 Results for Challenge Area Markets and Prices

Table 7. Statement list for CA markets and prices

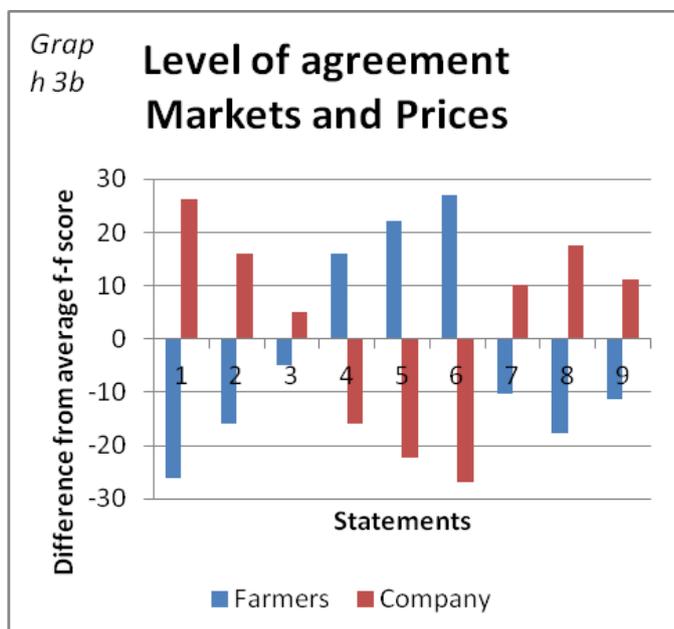
| 3 MARKETS AND PRICES | |
|----------------------|---|
| 3.1 | There are other guaranteed coffee buyers on the market |
| 3.2 | The company is clear about the amount of coffee it wants to buy from farmers |
| 3.3 | Farmers know who are the consumers of their coffee |
| 3.4 | Farmers are satisfied by being paid through the farmer group account |
| 3.5 | Farmers are aware of the important factors affecting coffee prices |
| 3.6 | Farmers are only working with the company because it gives them better prices |
| 3.7 | Farmers feel company can afford to give better prices for their coffee |
| 3.8 | The company offers farmers the best prices most of the time |
| 3.9 | The company pays farmers at the right time |



The results of this CA answer the following sub research questions A (V), B (I), B (IV) and B (VII).

The results show positivity and high agreement to the fact that Star Cafe offers the farmers best prices for their coffee most of the time, with both farmers and firm scoring highly (statement 8).

There is a high score with both parties clearly agreeing that they are aware of the coffee volumes farmers have to supply to the firm as part of the contract (s2), where both parties scored over 60.



Disagreements however exist with farmers having the perspective that there are very low numbers of guaranteed coffee buyers in the market for their Arabica coffee with low scoring under 40. The results as mentioned earlier particularly answer the 2 sub research questions, how the FF relationship guarantees farmers with a steady income, and how the firm can deal with small quantities from different farmers with variable quality.

6.4 Results for Challenge Area Quality Standards

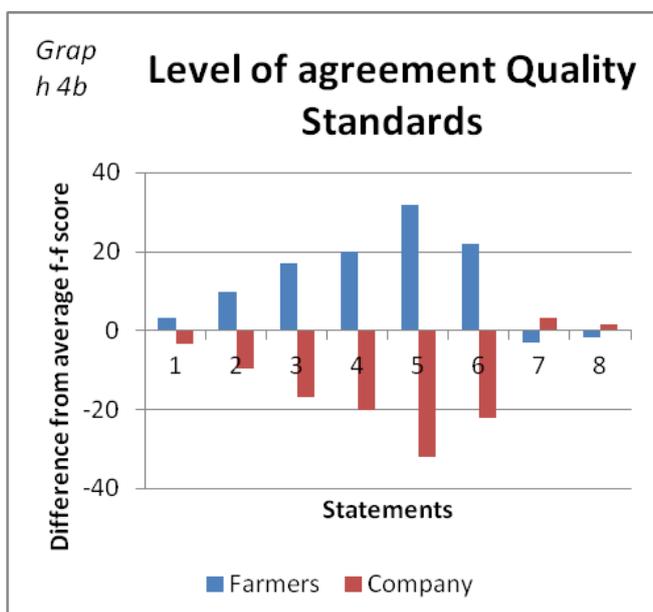
Table 8. Statement list for CA quality standards

| 4 QUALITY STANDARDS | |
|---------------------|--|
| 4.1 | Farmers follow good agricultural practices |
| 4.2 | Farmers are supplying the company with good quality coffee |
| 4.3 | Farmers are clear on coffee quality standards required by the company |
| 4.4 | The available coffee storage facilities for farmers are adequate |
| 4.5 | Farmers are aware of the important factors affecting coffee prices |
| 4.6 | The company has given farmers enough knowledge about importance of quality |
| 4.7 | The company has given farmers enough exposure to coffee shows |
| 4.8 | Farmers understand why coffee quality is of importance to company |



The results of this CA answer all the sub questions that had anything related to quality of the Arabica coffee the farmer group supplies to the firm such as the main research A, which asked how the relationship can be further optimised to improve the performance of the business.

The results show high positive scoring by both parties which meant farmers are generally adhering to good agriculture practices. The results also show both parties are in agreement that the farmer group does supply the company with quality Arabica coffee.



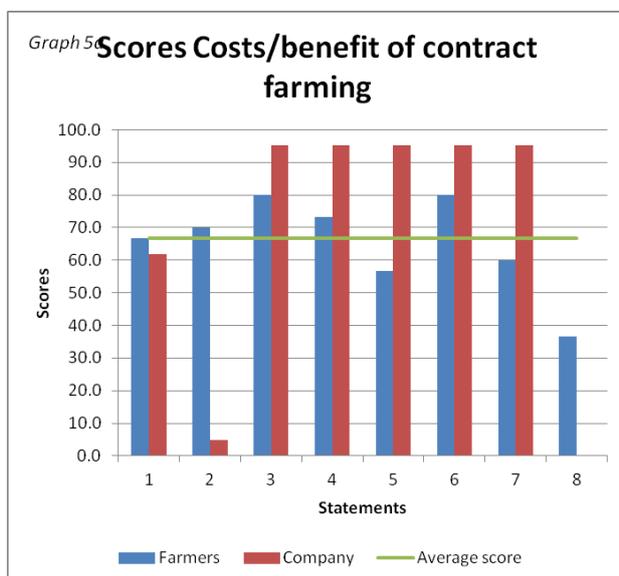
Low scoring by the 2 parties for statement 4 however shows that the farmers have shortages of storage facilities which present challenges in their quest to regularly supply a good quality of coffee.

The scoring shows that farmers receive training through coffee shows by the company aimed at helping them understand the importance and aspects of what is meant by quality. An employee of Star Café said *“these shows are meant to bring out some sense of passion in the farmers so when they grow coffee, they take good care of it from planting to harvest”*.

6.5 Results for Challenge Area Cost/ benefit of contract Farming

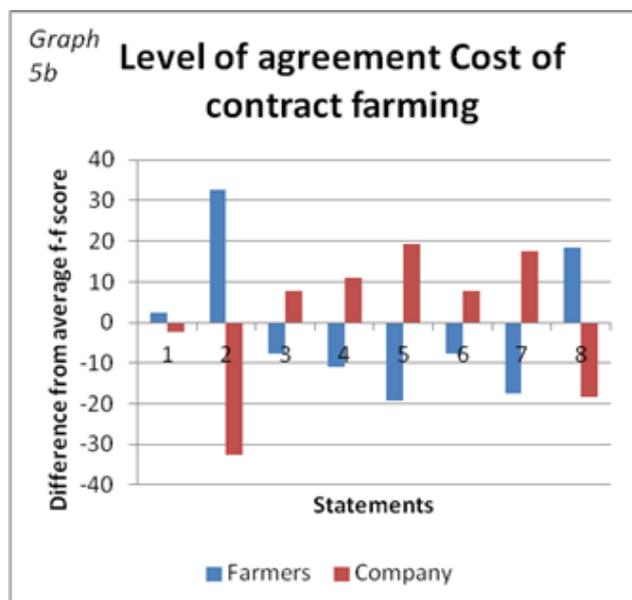
Table 9. Statement list for CA cost/benefit of contract farming

| 5 COST/BENEFIT OF CONTRACT FARMING | |
|------------------------------------|---|
| 5.1 | Farmers are happy with the services offered by the company |
| 5.2 | Arabica coffee provides farmers with a steady income |
| 5.3 | Income from coffee farming is the most important for the family |
| 5.4 | Coffee farmers are developing other income generating projects |
| 5.5 | The company is assisting farmers with the other income generation projects they pursue |
| 5.6 | All farmers (large and small, men and women) benefit equally from the sale of coffee to the company |
| 5.7 | The company can do more to assist farmers in their coffee production activities |
| 5.8 | Coffee farmers have good access to bank loans in this region |



The results show an overwhelming high scoring (over 70) stating Arabia coffee farming as the most important source of income for farmers households (s3).

High scoring for s4 suggests that farmers in the farmer group are indeed developing other income generating projects with scores over 75 by both firm and farmers. High scoring is also seen for s6 showing parties are very positive that all the farmers, including women and youth do in the farmer group do indeed benefit equally from the FF relationship with Star Café. The results of the CA answer the main research question B and all the sub-questions falling under B

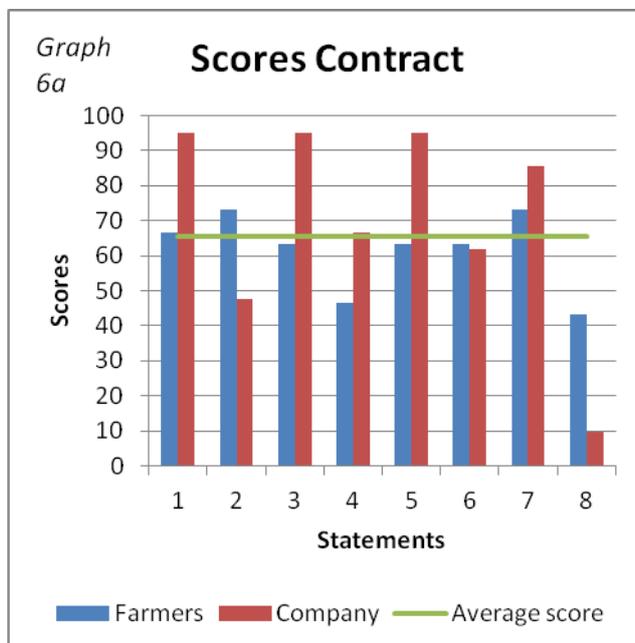


The results of the CA answer the main research question B and all the sub-questions falling under B, which are mainly look at the benefits to overall livelihood and food security aspects the FF relations has for farmers.

6.6 Results for Challenge Area Contract

Table 10. Statement list for CA contract

| 6 CONTRACT | |
|------------|---|
| 6.1 | Farmer groups can always discuss contract issues with the company |
| 6.2 | Farmers think signing a contract is important to them |
| 5.3 | The company takes farmers' opinion on contract matters into consideration |
| 5.4 | The contract is binding |
| 5.5 | Farmers think their current relationship with the company can be further improved |
| 5.6 | The contract is clear on dispute resolution |
| 5.7 | The company follows the rules as laid down in the contract |
| 5.8 | Farmer cooperative penalizes members for breach of contract |

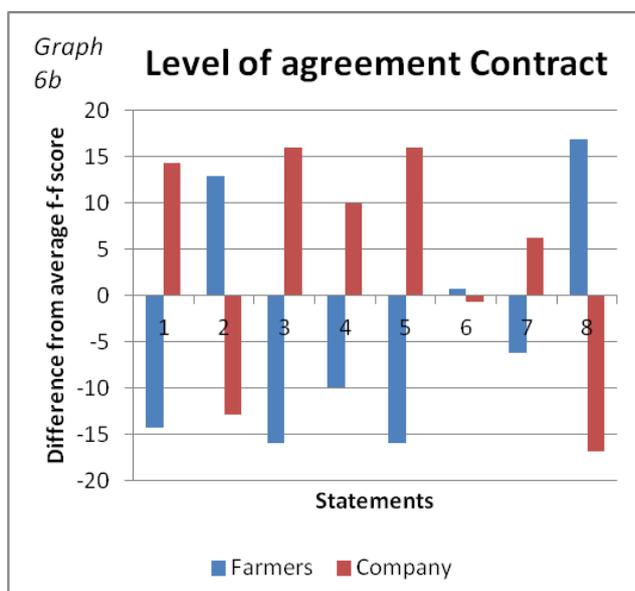


The results show high scoring for most of the statements in this CA. Both farmers and firm scored well above 60 that farmers can discuss regularly contract issues with the company.

There was high scoring by both parties (all scoring above 70), that the company follows rules as laid in the contract with regards to working with farmers.

Low scoring was mainly for s8 where farmers and firm denied the group penalises its members for breach of contract.

A Star Café employee had this to say about contracts **“These so called contracts can not be enforced by law even if we sign them”**.



6.7 DISCUSSION AND ANALYSIS

6.7.1 The Tool

First and foremost it is important for the reader to understand that the 2 to tango as a tool has an important part of it based on the raw perception of the stakeholders. The perception part comes especially on the scoring of the statements. But the tool is not purely based on perception as the initial interviews get a real picture of the challenges in an FF relation on the ground at that particular time according to the farmers and company themselves. This way any perceptions arising are of the challenges that actually do exist and may cause tension in the relationship.

When the word perception is used however it may sound to some to not be very important, as some people want “*scientific or quantifiable*” results to work with. But working and understanding the minds of small holder farmers is complex. According to Leeuwis (2004), what farmers do or do not do depends in part to the following i) their perceptions of the manifold consequences of certain practices ii) perceived likelihood that this consequences will emerge.

So perception is very important as it affects how the firm and farmers will work together. Important to also know is that perception includes both elements of indigenous knowledge, scientific knowledge and external knowledge (Leeuwis, 2004). Several extension services have failed because extension people generally go with the approach that farming is done by farmers, and is grounded primarily in rational technical and economic considerations (Leeuwis, 2004), which is now generally known to be untrue. There have been in various development literature several arguments for organising change processes in a participatory way with stakeholders as a result (e.g. Chambers, 1994; Pretty, 1994; Webler and Renn, 1995) cited in (Leeuwis, 2004). So the 2 to tango in line with such thoughts is an interactive and participatory way to harness information from stakeholders (Schrader, 2012).

The author used the findings of both the business case description (gained through stakeholder interviews and observations), and also the results (scores) of the 2 to tango in the discussion and analysis of the results that follows.

6.7.2 Results

The shortage of inputs for production hampers the capacity of small holder farmers' coffee production. This makes their livelihood of coffee farming less economically viable and threatens optimisation of the FF relationship, as farmers may be at risk of not catching up with any growing demand for Arabica coffee in the future by the company. Most coffee trees of the group members were over 40 years old, but literature puts the economic life of a coffee tree at 40 calendar years (UCDA and Coffee Farming Manual, 2008). At over 40 the coffee tree produces less and less. The old trees further compound challenges of production, as according to the UCDA a lack of adequate inputs is one of the major causes reducing output by small holder farmers. Input shortages reduce productivity and result in farmers losing motivation to do their farming activities. This has bigger consequences for a perennial crop such as coffee. Leeuwis (2004) stated an important factor influencing the practises of

farmers is their perception of whether or not their socio-economic environment is able to support their farming practices adequately. Farmers with low motivation and facing a shortage of inputs may opt to grow other faster growing crops that fetch them quick money if it may prove worthwhile.

Star Café staff also mentioned “***when a parent passes on the land to his children, what it means is further fragmentation of the land, and there is a high chance some of the children will use this land for other things that bring in fast money***”. Incidence is high of coffee plants being uprooted for high earning crops like chillies and hot pepper. Land tenure-ship is customary and passing on of land happens frequently in Kapchorwa.

The KUCFG members own very simple tools such as axes and machetes, which is the general trend for most of Uganda’s small holder farmers. It has been reported that to be more economically viable, improved seeds, fertiliser and farm management techniques that help small holder farmers sustainably increase productivity, and reduce production risk must be delivered to farmers by both the private and the public sector.(FAO, 2011). But in Uganda and Kapchorwa in particular the UCDA is not very present on the ground. Farmers almost totally depend on the private sector for support. The UCDA’s poor extension services in the district is attributed to few and inadequately trained extension workers, inaccessibility of some farmers due to the difficult terrain in the region; ill-motivated extension staff; inadequate logistical support; and a lack of appropriate technological packages (District State of Environment Report, 2004).

Fertiliser and improved seeds are generally not used in coffee farming in Uganda, but yields of crops including coffee have increased in production in recent years. This is some what in contradiction to (FAO, 2011), that improved seed and fertiliser provision to farmers is necessary for small holder farmers to farm sustainably. Production for the major crops in Uganda increased in 2011 compared to previous years (UBOS, 2012), and has been very sustainable for a long time with low fertiliser use as the sector has historically been small farmer dominated. Although the author agrees that increased fertiliser use would help make farming more sustainable, this would probably be a more short term solution. In the long run fertiliser has negative effects on the environment, and in the long term becomes needed in larger quantities which subsistence farmers are not able to buy as money and credit lines are very limited. In Kapchorwa mulching together with the high fertility of the soils has meant production is relatively good despite the input shortages farmers face. According to the UCDA, the use of inorganic fertilizers and improved farming practices by small-holder farmers can significantly increase, and even double, coffee production in Uganda. The increase in coffee production can however be a result of the increase in cultivated land in the country which was reported by the Uganda Bureau of Statistics.

The private sector, through FF relations, like that of Star Café offer trainings to farmers as shown by the results. NGO’s such as ActionAid have also been active in the region but their extension work has been mainly focused in animal husbandry. This shows the private sector is stepping up to fill the void left by relevant government departments that are otherwise incapacitated. The company gives the group inputs such as tarpaulins and hand pulping machines for processing of harvested coffee, on top of the trainings related to quality of coffee. But this has been very inconsistent, and the company management did acknowledge

blaming poor economic times in the country. Uganda had double digit inflation in 2011 for the first time in recent years.

A lack of adequate inputs hinders farmers' ability to enter markets in 2 ways, (I) inability to produce high volumes and (II) inability to produce a quality product (RIU, 2012). Low production volumes by farmers mean they will have less Arabica coffee to sell, which diminishes the income they generate from their farming activities. Lack of storage facilities exposes beans to environmental elements, which may decrease quality and hence money realised from the sell of coffee. This affects household food security as farmers have few other alternatives for income generation.

With regards to CA functioning of the farmer group, results though they maybe inconclusive because of the low numbers of farmers number scored, show the group leadership represents the common interests of the group and that the company does not interfere with the running of the group. This is an important point as there are wide arguments that some large firms use contracts to take advantage of cheap labour and transfer production risk to farmers (Prowse, 2012). Good and well defined business relationships which are carried out in a transparent manner are however important to the performance and sustainability of any FF relationship. The results on this CA are also complemented by the results in CA contract where the both the firm and farmers were positive that the company also takes the opinions of the group in consideration in the formulation of the contract. This is important because to sustain growth in FF relationships does to a large extent, depend on the poor people's ability to influence policies that affect their lives (Bigsten and Kayizzi-Mugerwa, 2001).By taking farmers opinions on board the company gives them the chance to influence policies. This is very important as at the end of day farmers know their own challenges to meet the targets of production or any other aspects of farming better than anyone. The good level in communication that seemingly comes out in the results is good for a healthy FF relationship and represents an area of strength for the thriving business.

The group is generally well organised as results show, which further helps with the aspect of having the value chain better organised. Working with an organised group decreases transaction costs for Star Café. The high costs of working with small holder farmers have been attributed to their general unorganised nature which increases transaction costs for a firm (Grover and Kustere, 1990). This is because the firm will be dealing with many small farmers spread out on a large geographic area, and has to cater for fuel costs and other costs related to the coordination process the firm has to play etc. Through better organisation farmers become more efficient in the bulking of the coffee prior to selling it to the company. So in the CF model better organisation by the farmers mean they can bulk their coffee and increase the volumes delivered to Star Café, the farmers through the group are able to deliver on time as collection is done simultaneously. The weight notes the farmers receive through the group as proof of delivery and for receiving their payment, are also used for traceability of their coffee by the company which is a prerequisite for answering any food safety issues should they arise. .

Through the group farmers share the inputs they have, knowledge diffusion from trainings is quicker. Their efficiency through team work in doing tasks is very useful for their own livelihoods as well. By collaborating, work is done quicker, leaving individuals with time to persue other income generating activities. The farmers being subsistence farmers may use

the time to grow other food crops such as maize in their other fields. Growing food crops is the surest way of eliminating food shortages for poor households (FAO, 1994). The collaboration and kinships established in the group are also very important in the socio-cultural standing of Africans in general as it builds bonds and brings a sense of togetherness which individuals need for a sense of good well being. Leeuwis (2004) agrees with this notion by stating that farmers have 3 important domains they include in their farming practices, which they take into account. One of these domains is of social organisational relationships which cover farmers relationships with input suppliers, members of their household, community members state organisations and so on. Farmers need a sense of having these relations to be working at optimum as they affect a lot their approach and decision making with regards to farm practice.

The benefits farmers stand to gain in the FF relationship are closely related to the market situation which affects pricing of the commodity, in this case Arabica coffee. The commodity is generally sold outside Uganda. 94% of coffee is exported as green beans (UCDA n.d), and for the firm side, processed coffee consumption in the country is below 10%. The General Manager (GM) of Star Café alluded to this when he said “***we need to start drinking our own coffee***”. The coffee sector was liberalised in Uganda in 1991, under the government’s structural adjustment program. There are a lot of buyers on the market from middlemen to local coffee processors and large exporting companies competing to buy coffee from the farmers as a result. But liberalisation also meant coffee prices are influenced by market forces on the global scale. Prices are volatile as the forces that determine coffee prices are set in foreign lands where consumption is highest (for both processed and processed coffee e.g. USA and EU).

The countries most exposed to price swings on international markets are however typically poor countries like Uganda (FAO, 2011). This poses a very huge risk on the stability of income generation by farmers. Instability in the generation of income leads to food insecurity according to the FAO definition which states that economic access to food should be stable over time. If farmers don’t earn money or they earn less, as a result of a drop in prices as happened in the 1990’s they are unlikely to find money elsewhere. The results indicated that for over 90% of respondents in the farmer group, income from selling coffee to Star Café is the most important for their households. Uganda Bureau of Statistics (2012), states that 79% of the working population (between 14 and 64 years) in 2009/10 were self employed and only 21% were paid employees. It also reports the level of poverty as being highest in the rural areas, where it characterises as having more of income poverty.

Furthermore, even perfectly predictable changes in prices can cause problems for poor households that are unable to borrow (FAO, 2011), results of farmers scoring also showed there is no easy access to the farmers for credit in the region. However as part of the FF relationship the company and KUCFG have been doing a bee keeping project together as a way to earn alternative money for farmers in the coffee off season. This will help farmers lessen their heavy dependency on selling coffee for their household needs. But investment in agriculture is the key to providing sustained access to food for all and reducing vulnerability to price volatility and natural disasters such as drought (FAO, 2011).

The results showed a high scoring that all farmers including youths and women do benefit equally from the FF relationship. The results may not be conclusive enough to suggest women especially as being equal beneficiaries for two reasons, one, because of the 22

farmers there were only four women respondents. This number is too small to make any conclusions on and two, because though membership in the group is open to everyone, there is still only just over 100 female members in the group which falls close to or under a third of total group membership. The Kapchorwa district report (2004) mentioned there were still gender imbalances in the district emanating from the fact women and some male youths never own property especially land. The County District Office department had a gender imbalance too with only 2 female staff that would be in the fore front on the issues of gender during time of the same report. Estimates of literacy levels in the district also indicate that in the district 41% female and 68% males are literate.

So without owning the most important asset which is land, and a majority of women being uneducated it will be unlikely that sharing of the benefits for women is truly equal despite the results gotten in this research suggesting otherwise.

Quality is very important for coffee as it is consumed by humans. Coffee is put through a lot of continual series of quality control tests. But above and beyond the generic and environmental effects influencing coffee quality, human influence is also high. It comes through the farm practices of farmers, such as pruning management, harvesting techniques, and the processing they do such as sun drying. Pruning of coffee trees for example can reduce yield and subject trees to biennial bearing, often resulting in *dieback*, and sometimes verticals die before harvest due to exhaustion of nutrients, particularly N. (Bittenbender and Smith, 2008). So farmers need to prune regularly, as the berries produced without proper pruning are of poorer quality. Farmer practices should therefore try to cut out contamination of the coffee. The company as the results show does have trainings in place to teach farmers. A few farmers attend the shows and from the scoring farmers do benefit a lot and understand the quality requirements the company expects from them.

For the sustenance of their own livelihoods quality can indeed generate more income for farmers. Gowa (2001) mentions that the market for Arabica is forecast for a 20% growth in the next 10 years. However for the farmers to benefit from this quality of their coffee has to be high. The niche markets place particular emphasis on quality of Arabica coffee, as the coffees brewed from it are considered tasty. If farmers produce high quality coffee they can use this to try and get niche markets where they will get premiums on their product, More income will give farmers households capacity to buy different types of other foods to eat in their households.

So optimisation of the FF sector does indeed offer mutual benefits for both parties. For the farmers it generally makes their livelihood more sustainable and continue into the future as it becomes economical viable to continue cultivating coffee. The money earned as income from the selling of the coffee to the firm at good prices, as was the case of KUCFG and Star Café, farmers can buy enough food to feed their families.

CHAPTER SEVEN

7.1 Conclusion

Although the sample size used in the research was not too big, with the addition of observations and triangulations from various literature sources about the Uganda coffee subsector the researcher was able to come up with the following conclusions.

The researcher concluded that the production situation of the farmers was dire and this caused some tension in the FF relationship and needed the most urgent attention. There is an acute shortage of inputs and storage facilities by farmers which reduce chances of the relationship to be further optimised. The problem is compounded because the coffee plants are very old (most are over 40years), which also reduces the quality of the coffee cherries they produce and overall Arabica coffee yields. The lack of storage facilities also negatively impacts on the quality of coffee beans during processing as they are exposed to environmental hazards such as rain which is high and unpredictable in the region. The impact on food security is that the input shortages dampen the chances farmers have to produce more coffee and hence earn more money through selling the coffee.

There is generally very little infrastructure and extension services support from the UCDA and government for coffee farmers in the Uganda. This has meant the FF relationship is very important for the farmers in terms of both income generation and the embedded services such as the farmer trainings they receive from the company, which helps their livelihood become much more sustainable. The benefits of inputs supply from the company (although inconsistent), and agriculture practice trainings are more important because they give farmers hope and motivation to continue with the coffee cultivation tradition, which in turn reduces the number of farmers opting to uproot their trees and grow other crops. Coffee is the main household income for more than 90% of the farmer respondents in Kapchorwa who participated in this study. The services farmers get from the company also cover some what the gap that is left by the relevant government agencies and UCDA in this sector although the access to the trainings is limited to a small number of farmers.

Markets are not the biggest problem that coffee farmers face, as there is a reasonable competition in the local market for coffee beans in Uganda. The problem is generally the pricing, which is highly variable among the coffee buyers. Thus farmers get different prices for the same product. This threatens their income generation and hence livelihood. Also the consumption for processed coffee is still low so prices are very closely related to the world situation as no local markets exist to fall back on.

The last conclusion is that the FF relationship is very important for the food security situation of farmers because all farmers are subsistent, with little other options for generating income. Coffee sales are the most important for the households, and through the FF relationship farmers get higher prices than from other buyers. Through helping farmers in alternative income generating projects such as the bee keeping project, farmers have benefited to the betterment of their own food security situation by working with Star Cafe. The number of woman and youth in the group is low however, as woman were only under 1/3 membership by woman in the farmer group, which may imply unequal sharing of benefits in the farmer group.

7.2 Recommendations

Based on this study the researcher recommends the following

- There is need for both the farmers and the company to invest in the replanting of new coffee trees to replace the old. This may increase yield and improve quality of coffee beans harvested. Increased Arabica coffee production will mean more income generated for the farmers and for the company it ensures a constant supply of good quality Arabica coffee for the future.
- The trainings offered to the farmers should also be done in the Kapchorwa area itself and not only in the capital, Kampala. This will increase access for farmers to be trained especially women and youths. This increases rate of diffusion of the knowledge gained, and will go a long way in further strengthening the coffee cultivation livelihood of farmers by making it more sustainable as farmers will likely practice better farming methods, reducing the number of farmers uprooting trees to plant other faster money making crops.
- The company needs to be more consistent in supplying the farmers with the inputs for farming. This will improve their production capacity. Investment by the farmers to construct a storage facility which they can share will be a worthwhile investment. With adequate input supply and sound storage facilities farmers can produce a high quality Arabica coffee and can potentially secure high premiums in niche markets.
- The firm should continue to help farmers as much as is economically possible, with alternative income generating projects, that may complement coffee farming. With farmers having other source to make money they may desist from bad agriculture practices such as harvesting overripe and/or green beans to sell and make quick returns. Such behaviour is reportedly linked to the desire by some farmers to make quick money. So diversification will reduce the dependency of farmers for survival on one crop. This means they can withstand shocks as coffee prices are highly volatile.
- More women and youths should be encouraged to join the farmer group and take up coffee farming. This will help in them attain equal benefits from coffee farming and lessen their dependency on their husbands or parents.

The End

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Annex 1: **Statement list 2-2 Tango**

For the researcher:

Please fill in the following information about the case:

| | |
|-------------------------|--|
| Country: | |
| Case: | |
| Name researcher: | |
| Date: | |

For the respondent:

Please fill in the following information:

| | |
|---------------------------|---|
| Name respondent: | What is your name? |
| Gender respondent: | What is your gender? (please tick) <input type="checkbox"/> Male <input type="checkbox"/> Female |
| Age respondent: | What is your age? years |

For **company** employees:

If you work for a company, please fill in the following questions. If you are finished you can start answering the statements on the next page. Thank you for your cooperation!

| | |
|-----------------------------------|---|
| Characteristic respondent: | What is the name of the company that you work for? |
| Position respondent: | What is your position in the company? |
| Duration participation: | How long do you work for this company? |

For members of the **farmer group/cooperative**:

If you are a member of the farmer group/cooperative, please fill in the following questions. If you are finished you can start answering the statements on the next page. Thank you for your cooperation!

| | |
|-----------------------------------|--|
| Characteristic respondent: | What is the name of your farmer group / cooperative? |
| Position respondent: | What is your position in your farmer group / cooperative? <input type="checkbox"/> I am a farmer and sell my products through this farmer group <input type="checkbox"/> I am a board member / member of core group <input type="checkbox"/> My position is: |

| Statements | | Scores | | | |
|--------------------------------------|---|---|---|---|---|
| | | 0 | 1 | 2 | 3 |
| | | <i>Strongly disagree</i> | <i>Disagree</i> | <i>Agree</i> | <i>Strongly agree</i> |
| | |  |  |  |  |
| 1 Production | | | | | |
| 1.1 | Farmers have sufficient fertilizer available for their coffee | | | | |
| 1.2 | The company provides quick feedback to farmers' questions related to production | | | | |
| 1.3 | The farmer training facilitated by the company is very useful to farmers | | | | |
| 1.4 | Farmers' Arabica coffee yields are increasing | | | | |
| 1.5 | Farmers are making use of the trainings provided by the company | | | | |
| 1.6 | Farmers are sometimes putting stones, sticks and/or chuff in coffee bags | | | | |
| 1.7 | Farmers have sufficient equipment in place to use in coffee production | | | | |
| 1.8 | Inputs (fertilizer and pesticides) are affordable | | | | |
| 2 Functioning of farmer group | | | | | |
| 2.1 | Farmer group meetings are regular and effective | | | | |
| 2.2 | The company is happy with the way farmer group is working | | | | |
| 2.3 | The farmer group leaders always represent the common interest of the farmers | | | | |
| 2.4 | All members are informed and understand group financial issues | | | | |
| 2.5 | Elected farmer group leaders adhere to the tasks and responsibilities defined in the constitution and by-laws | | | | |
| 2.6 | The constitution and by-laws cater for internal and external issues of coffee farmer groups | | | | |
| 2.7 | The company does not interfere with the running of the farmer group | | | | |
| 2.8 | The farmer group is necessary to preserve rights of farmers | | | | |
| 3 Markets and prices | | | | | |

| | | | | | |
|--|---|--|--|--|--|
| 3. 1 | There are other guaranteed coffee buyers on the market | | | | |
| 3. 2 | The company is clear about the amount of coffee it wants to buy from the farmers | | | | |
| 3. 3 | Farmers know who are the consumers of the coffee | | | | |
| 3. 4 | Farmers are satisfied by being paid through the farmer group account | | | | |
| 3. 5 | Farmers are aware of the important factors affecting coffee prices | | | | |
| 3. 6 | Farmers are only working with the company because it gives them better prices | | | | |
| 3. 7 | Farmers feel company can afford to give better prices for their coffee | | | | |
| 3. 8 | The company offers farmers the best prices most of the time | | | | |
| 3. 9 | The company pays coffee farmers at right time | | | | |
| 4 <i>Quality standard and record keeping</i> | | | | | |
| 4. 1 | Farmers follow good agricultural practices | | | | |
| 4. 2 | Farmers are supplying the company with good quality coffee | | | | |
| 4. 3 | Farmers are clear on coffee quality standards required by the company | | | | |
| 4. 4 | The available coffee storage facilities for farmers are adequate | | | | |
| 4. 5 | The company has given farmers enough knowledge about importance of quality coffee | | | | |
| 4. 6 | The company has given farmers enough exposure to coffee shows | | | | |
| 4. 7 | Farmers understand why coffee quality is of importance to company | | | | |

| Statements | | Scores | | | |
|---|---|---|---|---|---|
| | | 0 | 1 | 2 | 3 |
| | | <i>Strongly disagree</i> | <i>Disagree</i> | <i>Agree</i> | <i>Strongly agree</i> |
| | |   |  |  |   |
| 5 Cost /benefits of contract farming | | | | | |
| 5.1 | Farmers are happy with the services offered by the company | | | | |
| 5.2 | Arabica coffee provides farmers with a steady income | | | | |
| 5.3 | Income from coffee farming is the most important for the family | | | | |
| 5.4 | Coffee farmers are developing other income generating projects | | | | |
| 5.5 | The company is assisting farmers with the other income generation projects they pursue | | | | |
| 5.6 | All farmers (large and small, men and women) benefit equally from the sale of coffee to the company | | | | |
| 5.7 | The company can do more to assist farmers in their coffee production activities | | | | |
| 5.8 | Coffee farmers have good access to bank loans in this region | | | | |
| 6 Contract | | | | | |
| 6.1 | Farmer groups can always discuss contract issues with the company | | | | |
| 6.2 | Farmers think signing a contract is important to them | | | | |
| 6.3 | The company takes farmers' opinion on contract matters into consideration | | | | |
| 6.4 | The contract is binding | | | | |
| 6.5 | Farmers think their current relationship with the company can be further improved | | | | |
| 6.6 | The contract is clear on dispute resolution | | | | |
| 6.7 | The company follows the rules as laid down in the contract | | | | |

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|-----|---|--|--|--|--|
| 6.8 | Farmer cooperative penalizes members for breach of contract | | | | |
|-----|---|--|--|--|--|

Annex 2: checklist (interview guide)

| | | |
|--|--|--|
| Context of firm-farmer relation | | |
| Contextual factors <ul style="list-style-type: none"> <input type="checkbox"/> Power distribution / level playing field <input type="checkbox"/> Information asymmetry <input type="checkbox"/> Trust between farmers and companies / previous experiences <input type="checkbox"/> Transaction risks and costs <input type="checkbox"/> Project orientation | | |
| Availability of local services <ul style="list-style-type: none"> <input type="checkbox"/> Research <input type="checkbox"/> Extension services <input type="checkbox"/> Agro-input dealers <input type="checkbox"/> Banks and MFI's <input type="checkbox"/> Transport | | |
| Products, market and standard | | |
| Crop / produce and related market situation <ul style="list-style-type: none"> <input type="checkbox"/> High-end domestic market <input type="checkbox"/> Bulk product for local market <input type="checkbox"/> Alternative crops that farmers can choose <input type="checkbox"/> Alternative market channels for farmers | | |
| Institutional environment <ul style="list-style-type: none"> <input type="checkbox"/> Legal system <input type="checkbox"/> Informal and formal contract enforcement <input type="checkbox"/> Dispute settlement <input type="checkbox"/> Witnesses of (contract) agreements <input type="checkbox"/> Bureaucracy <input type="checkbox"/> Corruption | | |
| Standards <ul style="list-style-type: none"> <input type="checkbox"/> International and sector specific standards <input type="checkbox"/> Hygiene and food safety standards and inspection <input type="checkbox"/> Certification and traceability | | |
| Institutional environment <ul style="list-style-type: none"> <input type="checkbox"/> Legal system <input type="checkbox"/> Informal and formal contract enforcement <input type="checkbox"/> Dispute settlement <input type="checkbox"/> Witnesses of (contract) agreements <input type="checkbox"/> Bureaucracy <input type="checkbox"/> Corruption | | |
| Standards <ul style="list-style-type: none"> <input type="checkbox"/> Specific sector standards | | |
| The actors: Firm and farmers | | |
| Firm (company) <ul style="list-style-type: none"> <input type="checkbox"/> Legal status <input type="checkbox"/> Experience of company <input type="checkbox"/> Credibility ('good name') <input type="checkbox"/> Size and turnover <input type="checkbox"/> Resource endowment of company <input type="checkbox"/> Range of sourcing (local, national, international) <input type="checkbox"/> Open door policy <input type="checkbox"/> Orientation on CSR <input type="checkbox"/> Qualified staff Reliable staff | | |
| Farmers <ul style="list-style-type: none"> <input type="checkbox"/> Resource endowment <input type="checkbox"/> Food & livelihood security | | |

| | | |
|--|--|--|
| <input type="checkbox"/> Level of specialization on targeted product <input type="checkbox"/> Market-economic orientation <input type="checkbox"/> Modalities for selecting farmers | | |
| Farmer group functioning <input type="checkbox"/> Membership base (profile of members) <input type="checkbox"/> Size and experience of FG <input type="checkbox"/> Leadership / accountability to members <input type="checkbox"/> Internal communication, transparency <input type="checkbox"/> Internal control mechanisms (Good Agriculture Practice, quality, delivery) <input type="checkbox"/> Record keeping and administration <input type="checkbox"/> Financial management <input type="checkbox"/> Autonomy for organizational costs | | |
| Risks | | |
| Production risks <input type="checkbox"/> Climate <input type="checkbox"/> Pests and diseases <input type="checkbox"/> GAP <input type="checkbox"/> Distribution of risks over producers and company <input type="checkbox"/> Possibilities for insurance <input type="checkbox"/> Likelihood of producing contracted volumes | | |
| Market risks <input type="checkbox"/> Competitors (domestic and international) <input type="checkbox"/> Price fluctuations <input type="checkbox"/> Quality standard risks <input type="checkbox"/> Transport risks <input type="checkbox"/> Possibilities for insurance | | |
| Institutional risks <input type="checkbox"/> Sudden change in: policies, standards, subsidies, taxes, ... | | |
| Default risks (see below) <input type="checkbox"/> <i>Non-respect of delivery agreement (time, volume, quality)</i> <input type="checkbox"/> Side use of inputs provided <input type="checkbox"/> Side selling <input type="checkbox"/> <i>Partial on non-delivery of services</i> <input type="checkbox"/> <i>Partial, late or non-payment</i> | | |
| The agreement/ contract | | |
| Prices, price transparency and price setting modalities <input type="checkbox"/> Fixed prices <input type="checkbox"/> Min-max prices <input type="checkbox"/> Flexible prices (responding to market price fluctuations (reference market prices) <input type="checkbox"/> Differential prices for quality (1st and 2nd grade) <input type="checkbox"/> Bonus for higher volumes | | |
| Embedded services <input type="checkbox"/> Provision of inputs <input type="checkbox"/> Provision of credit <input type="checkbox"/> Training, demonstration and monitoring <input type="checkbox"/> Services beyond targeted product | | |
| Delivery agreements <input type="checkbox"/> Timeliness <input type="checkbox"/> Volume <input type="checkbox"/> Quality and grading, <input type="checkbox"/> Traceability and record keeping | | |
| Payment modalities <input type="checkbox"/> Group/individual payment <input type="checkbox"/> Cash payment | | |

| | | |
|---|--|--|
| <input type="checkbox"/> Bank account <input type="checkbox"/> Time of payment | | |
| Farmers' default | | |
| Side use of inputs <input type="checkbox"/> Use of inputs on other crops <input type="checkbox"/> Sale of received inputs | | |
| Side selling <input type="checkbox"/> Farmers' respect of contract <input type="checkbox"/> Farmers credit discipline <input type="checkbox"/> New entrants / predatory purchasing <input type="checkbox"/> Horizontal coordination (code of conduct with other buyers) <input type="checkbox"/> Vertical coordination (interaction firm-farmers) <input type="checkbox"/> Firm goodwill with farmers (company interest in farmers' constraints or other activities than target product) | | |
| Non-compliance with delivery agreements <input type="checkbox"/> Time of delivery <input type="checkbox"/> Volume <input type="checkbox"/> Quality <input type="checkbox"/> Grading and sorting services <input type="checkbox"/> Traceability and administration | | |
| Firm default | | |
| Company default on service provision <input type="checkbox"/> Inputs (time, price, quality) <input type="checkbox"/> Credit (sum, time, interest) <input type="checkbox"/> Training, demonstration and monitoring (time, quality) | | |
| Weight and quality transparency <input type="checkbox"/> Scales <input type="checkbox"/> Units of measurement <input type="checkbox"/> Delivery receipts and signatures <input type="checkbox"/> Company staff side selling or theft | | |
| Non-respect of agreed payment modalities <input type="checkbox"/> Adaptation of agreed price <input type="checkbox"/> Delay of payment <input type="checkbox"/> Non-payment | | |

Annex 3: List of coffee processing companies in Uganda

| | |
|-----|--------------------------------------|
| 1. | Cofiplas Ltd. |
| 2. | Banyankole Kweterana Society |
| 3. | Coffee Millers Ltd |
| 4. | Busiro Coffee and Produce Ltd. |
| 5. | Bugisu Cooperative Union Ltd |
| 6. | Busingye and Co. Ltd. |
| 7. | Cargill Uganda |
| 8. | Budadiri Aribica Coffee Factory Ltd. |
| 9. | Tanganyika Instant Coffee Co. Ltd. |
| 10. | Kawacom (U) Ltd. |
| 11. | Lake Land Holdings Ltd. |
| 12. | Ibero (U) Ltd. |
| 13. | Kyagalanyi Coffee Ltd. |
| 14. | Uganda Crane Coffee Ltd |
| 15. | Star Cafe Ltd. |
| 16. | Job Coffee Ltd. |
| 17. | Great Lakes Coffee Co. Ltd |
| 18. | Olam (U) Ltd. |

| Statements | | 0 | 1 | 2 | 3 |
|-------------------|---|---|---|---|---|
| | | <i>Strongly disagree</i> | <i>Disagree</i> | <i>Agree</i> | <i>Strongly agree</i> |
| | |  |  |  |  |
| 4 Contract | | | | | |
| 4.1 | Each individual farmer understands the content of the contract with the company | | | | |
| 4.2 | Farmer groups can always discuss contract issues with the company | | | | |
| 4.3 | The company takes farmers' opinion on contract matters into | | | | |

| | | | | | |
|----------|--|--|--|--|--|
| | consideration | | | | |
| 4.4 | The contract is binding | | | | |
| 4.5 | The contract is clear on dispute resolution | | | | |
| 4.6 | The farmer group follows the rules laid down in the contract | | | | |
| 4.7 | The company follows the rules laid down in the contract | | | | |
| 4.8 | Farmer groups penalize members for breach of contract | | | | |
| 4.9 | The company takes measures for breach of contract | | | | |
| 5 | <i>Quality standards and record keeping</i> | | | | |
| 5.1 | Farmers follow good agricultural practices | | | | |
| 5.2 | Quality standards and reasons for rejection are clear | | | | |
| 5.3 | At collection points farmers follow the hygiene standards | | | | |
| 5.4 | The company staff at collection points follow the hygiene standards | | | | |
| 5.5 | The farmer groups keep records of the cassava delivered to the company | | | | |
| 5.6 | Farmer groups engage in group grading of the produce | | | | |
| 5.7 | At collection points, grading and crating takes place on raised tables | | | | |
| 5.8 | At collection points, people wash their hands with water and soap | | | | |
| 5.9 | Farmer groups correctly file the collection overviews provided by the company | | | | |
| 5.10 | Farmers trust the delivery records by the company | | | | |
| 6 | <i>Costs / benefits of contract farming</i> | | | | |
| 6.1 | Farmers are happy to have a guaranteed market for their produce | | | | |
| 6.2 | Cassava farming provides farmers with a steady income | | | | |
| 6.3 | Farmers are happy with the services offered by the company | | | | |
| 6.4 | The company is happy about the relationship with the farmers | | | | |
| 6.5 | The money from cassava farming is the most important income for the family | | | | |
| 6.6 | All farmers (large and small, men and women) benefit from the sale of cassava to the company | | | | |
| 6.7 | Cassava revenues are invested in other crops | | | | |
| 6.8 | In this area, cassava farmers manage to get bank loans | | | | |
| 6.9 | Cassava farmers are developing other income generating activities | | | | |

