

MARKET LINKAGE EVALUATION REPORT FOR THE PERIOD JANUARY 2006 TO OCTOBER 2006.

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THRU: THE SENIOR BUSINESS MANAGER

TO: THE EXECUTIVE DIRECTOR

Back ground

Market linkage is part of the NUCAFE total quality program and a key feature of the ownership model. This is because it acts as the means by which farmers can own their coffee along the Value chain to such a point where it is profitable for them to engage in coffee production and obtain the optimal profits. Generally the concept is based on the need expressed by the member associations to cut short the market chain. This came about because member farmers were not obtaining considerable benefit given the fact that the supply chain had a number of MIDDLEMEN.

The concept

Market linkage works on the principle of farmers getting organized into producer groups (25-35 members), groups into associations (about 18 groups per association) and the associations organized into the National organization with a secretariat and a Board of directors. The group or the association or the National secretariat acts as the honest broker in the marketing of the coffee for the members without taking possession of the coffee. This means that the individual farmers own their coffee up to the point of sale by the group, or association or National secretariat of NUCAFE.

This differs from the cooperative way, where the cooperatives used to take ownership of the coffee and therefore the value obtained from processing; transportation and even export were never passed on to the farm family but retained at the cooperative level. This accumulation of value can be seen in a number of defunct cooperative assets that are redundant and depreciating without the due maintenance and use. This concept overcomes this poverty creating tendency of resource accumulation at the point of sale rather than passing on the value added to the farm family for investment in the coffee enterprise or other enterprises and family welfare.

Evolution in procedure

The initial perception was that Market linkage was only possible at the National or association (sub county) level. Experience has shown that market linkage can only be realized by starting with empowering the group and the group actually bulking and selling their coffee to an agent of the exporter. With a number of groups able to market their coffee at that as individual groups, then bulking at the

association level becomes easier. This is the natural growth path. However there has been variation in this as explained below.

- i. Group preferring to market as at group level since they feel its faster and they are satisfied with the benefits at that level
- ii. Group Sends samples to the national secretariat, the national secretariat sends the samples to the exporter, the exporter makes an analysis and gives a price. The price is negotiated by the national secretariat in consultation with the farmer groups or the association
- iii. Business manager together with Group leaders contact a processor (who may sometimes be a member farmer and agent for an exporter) and agree to mill their coffee from that particular processing plant and hence that becomes the point of sale.
- iv. Association offers central marketing store and acts as an agency for a particular exporter
- v. At a more advanced level there is marketing of coffee through a defined chain of custody. This is envisaged to be the market linkage procedure that will take place once kibinge coffee farmers association is certified. This will involve separation of the Utz Kapeh certified coffees, contracting a certified processing factory, selling to or through a certified Exporter and the premium obtained declared as part of the transparency
- vi. National secretariat marketing coffee for an association that has raised exportable volumes of exportable grade & quality coffee to importers abroad. In this case the National secretariat of NUCAFE would hold an export license on behalf of its members and use the same for exporting coffee.

Results so far

Total amount of coffee linked by NUCAFE for the period January 2006 to November 2006 is **205.276** metric tones.

LOCAL MARKET IMPROVEMENTS JAN to DEC 2006

- establish information dissemination system

Farmers have been taught how to use the SMS for obtaining Daily coffee prices, NUCAFE contacts for market information. Efforts were made to restore the system by contacting UCDA when the system broke down.

- Assistance to farmers for sale at point further in supply chain (warehouse, commodity exchange, exporter,)

This has been done through the Market linkage service at the group, association and National secretariat level. So far 205.276 Metric Tonnes have been sold with premium to the farmers. An estimate of 60 to 70 Metric Tons is expected to be sold. This gives a total of 276 MT for the period Jan to December 2006. December coffee sales have been hindered by the rains which make it hard for the farmers to dry the coffee in order to attract a premium.

- Document quality control system, implementation of quality control system and sensitization on professional ethics / integrity

This has been done in during the group leaders' training

- Supply coffee samples in the local market

Locally A total of 21 samples have been received from groups and associations, analyzed in partnership with UCDA quality department and sent to various exporting companies. Mainly Kyagalanyi, olam and Ibero.

On the international level, kibinge coffee farmers association was able to exhibit and give over 15 samples of coffee to buyers in the slow Food exhibition in Italy. In addition there are two requests for coffee samples to the USA and NUCAFE is in the process of registering with the FDA which is a requirement for coffee entering the USA market.

Please refer to the annexes for further information. The annexes include

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Annex I-2006 regional sales targets per coffee type

Annex II- sales per association

Annex III- sales on month Basis

Annex IV- Percentage share marketing channel

Annex V- premium Vs different marketing channels, average premium & range

Annex VI seasons and associations were expectation is.

Tools so far developed for market linkage

Challenges

There are a number of challenges which include

- Lack of physical facilities that can make the consensus of the group marketing together become a reality
- The cooperative legacy of non payment of farmers' money makes it harder for the farmers to trust the bulking and selling together system. The process of building trust will therefore be a a time consuming activity
- Record keeping
- Lack of a clear understanding of the concept by some group leaders and association leaders
- Lack of understanding on the part of the Exporters on the benefits of the system to them. Some look at the concept as a threat
- Time lag between sending sample to national secretariat, analysis by UCDA, getting response from Exporters while the price idea changes on a daily basis

- False information from farmers about the volumes of coffee available.
There is still no effective crop estimate mechanism

Opportunity

The key opportunity is that with investment in the market linkage service, developing it to a level of having inter- NUCAFE system agreements or contracts that formalize this relationship, would lead to more farmer benefits and sustainability by enhancing collection of the market linkage fees. This can be developed in a participatory way which would allow for more sensitization about the costs and benefits of the system. The resources generated should benefit all levels of the NUCAFE system with major focus at the group level.

Market Linkage fees

There has been varied response to the issue of paying market linkage fees. This is not because the farmers don't appreciate this service but because of

- i. the varied ways in which the service is delivered and therefore "a point of collection or defined system/ procedures for collection" need to be handled in a careful way
- ii. Level of development of the group or association. In cases where the groups members are just beginning to trust each other "additional costs for the services" are treated with suspicion unless the additional costs are clearly explained. Therefore some group leaders and association leaders have advised that the issue of market linkage fees collection be postponed for the subsequent sells after the members have sold and seen the benefit of marketing as a group.
- iii. Lack of formalized relationship in regard to the different levels (group- association, association- National secretariat or group- association)
- iv. Lack of equipment that can facilitate the process of bulking and central marketing and therefore collection of market linkage fees
- v. Introduction of the fundraising system of 5kgs of parchment or kiboko per farmer per year. This meant that introducing another fee was seen as a system creating more costs than benefits.
- vi. Elaborate receipting system that would create accountability for the funds got from the market linkage service at each level of the NUCAFE system.

Recommendations

- ✓ Invest in developing the market linkage service, through strategic inputs, sensitization and creating stronger (contract) working relationships for this service
- ✓ Improve receipting system for effective collection of market linkage fees.