



The Coffee Gardens

Can the private sector be an effective vehicle for sustainable rural development?

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Photo credit: The Coffee Gardens

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ACRONYMS

3BL: Triple bottom line

CBE: Community based enterprise

CSR: Corporate social responsibility

GLC: Great Lakes Coffee

MNCs: Multinational corporations

NGO: Non-governmental organisation

TCG: The Coffee Gardens

UGX: Ugandan shillings

EXECUTIVE SUMMARY

The Coffee Gardens (TCG) is a young enterprise that started as three coffee aficionados working directly with rural coffee farmers to improve their coffee quality and processing practices, and later evolved into an international specialty coffee exporter. TCG aims to incorporate social and environmental goals into their for-profit specialty coffee export business in rural Uganda. Although TCG is a relatively new company and therefore still not achieving its long-term goals yet, it is a pioneer in building transparent relationships with coffee farmers in the region.

This report precisely aims to evaluate whether TCG's focus on transparency and trust can bring positive changes to the Ugandan coffee industry. We combine both first-hand primary data and secondary data from a wide range of sources and hope to answer the following research question: *Can The Coffee Gardens, a farmer-oriented business model, be an effective vehicle for rural development by reshaping farmers' incentives and investing in long-term relationships?*

We explore a range of literature on organisational theory, business models from the private sector and hybrid structures with the aim to understand how such structures affect the Ugandan coffee value chain. While neoliberal market approaches are widely adopted in Uganda, local community-based approaches used by social businesses like TCG can potentially mitigate market failures and promote rural development for underserved coffee farmers in the region.

Our team also conducted a series of interviews with different stakeholders along the coffee supply chain. Interviews and surveys were carefully designed to understand the impact of such a coffee business model. Interview results indicate that TCG's current operations bring positive value to both farmers and the Uganda coffee industry, but there are still challenges to be addressed. The report closes with a series of recommendations which aim to provide some constructive insight to the future development of TCG. On one hand, in addition to paying a higher price and bonuses, TCG needs to respond to direct farmers' needs, i.e., provide training, agri-inputs and pre-season financing. On the other hand, TCG needs to continue building their long-term relationship with farmers. We argue that it can be done by investing more in farmers' communities and working on creating a structure that formalises farmers' networks, to increase cooperation, knowledge spillovers and trust between farmers.

INTRODUCTION

I. Market Context in Uganda

Uganda, the world's eighth largest coffee exporter (Shahbandeh, 2021), has undergone various phases of rural development throughout the years. Upon independence, state-led development was adopted but also quickly proved to be inefficient and corrupt (Wedig and Wiegratz, 2018). It was followed by a series of neo-liberal market-oriented reforms that, with the ongoing civil wars and political struggles, failed to deliver the promised development goals, including rural income growth and social reforms.

The Ugandan coffee sector illustrates how market liberalisation, along with the collapse of the cooperative movement, resulted in the creation of a highly extractive sector (Wiegratz, 2010). Smallholder farmers typically work on fragmented plots of land and sell their coffee to multinational corporations (MNCs) that vertically dominate the market by purchasing in bulk. They favour quantity over quality and eventually push both the aggregate price and quality down (Bolwig and You, 2007). MNCs then sell the coffee beans around the world, making huge profits, while coffee farmers earn very little income and do not reap equivalent benefit from this globally profitable industry. The market is plagued by market failures: exposure of farmers to price volatility, misaligned incentives for production, disproportionate distribution of returns along the value chain, multinationals pricing out smaller competitors, missing markets where farmers are unable to gain competitive prices for higher quality coffee, and negative externalities such as high levels of environmental degradation (Wiegratz, 2010). In other words, the market is highly unregulated and beset by severe market failures for it to be effective in shaping the agenda for development.

II. About The Coffee Gardens

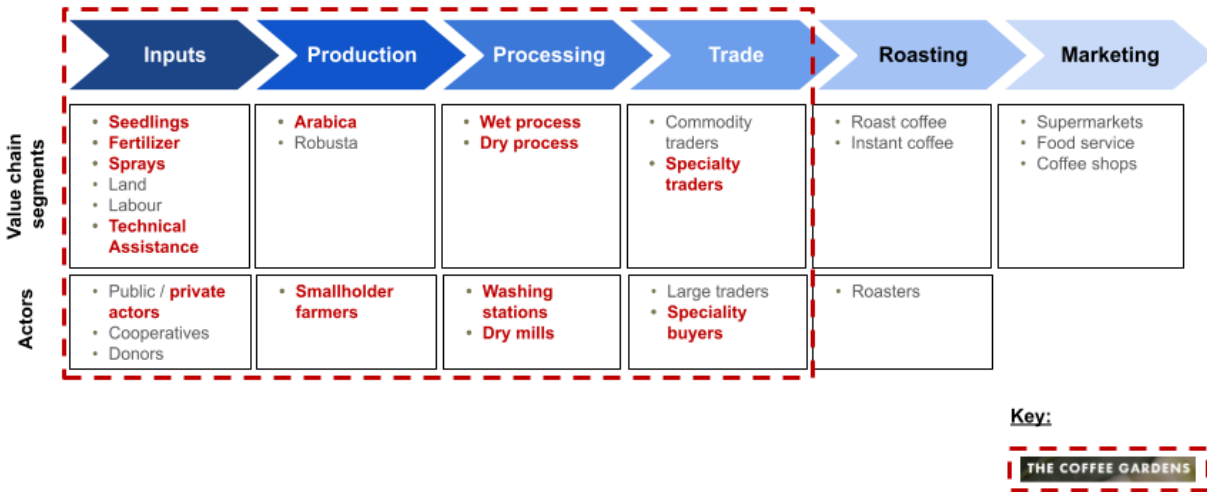
The Ugandan coffee sector faces a wide range of problems, including, but not limited to, distorted price, a lack of quality coffee, and coffee with untraceable origins (Robert, 2020). The Coffee Gardens (TCG) started in 2017 as a pioneer social business specialising in specialty coffee - high quality, traceable coffee. TCG purchases raw coffee cherries from farmers in eastern Uganda, provides training and supervision to the farmers on how to optimally ferment and wash their produce, and prepares their produce for the markets (See Figure 1). TCG's goal is to build a sustainable business that can also have a positive impact on local communities and the environment.

However, as Ugandan farmers typically received minimal remuneration for their produce regardless of their cherry quality in the past, they became disincentivised to produce quality coffee cherries or adopt environmentally friendly practices. To break this vicious circle, TCG tried to increase the purchasing price for quality coffee, thereby incentivising farmers to adopt better and cleaner farming practices. However, although this can be a powerful strategy in the

short run, it can only act as a bandage and does not positively impact long-term rural development. Therefore, TCG has spent a lot of time and resources to build long-term, mutually beneficial relationships with the farmers through higher levels of transparency.

Currently, TCG works with approximately 400 farmers and employs 100 people from the community in their hopes to scale up while achieving the triple bottom line (3BL), i.e., producing specialty coffee in a way that is economically viable, socially benefiting the farming community, and environmentally respectful. Achieving the triple bottom line whilst scaling their rural coffee business could potentially play a restructuring and restorative role in the Ugandan coffee market and promote rural development.

Figure 1: TCG’s Involvement within the Coffee Value Chain



Source: Adapted from Bamber et al. (2014)

III. Our Objectives

This report aims to investigate TCG’s operations and understand whether TCG can be an effective vehicle for sustainable rural development. We aim to provide insights on TCG’s relationship with their farmers and assess whether TCG’s transparent, farmer-oriented approach indeed creates incentives for farmers to change their practices and support the long-term sustainability of the TCG business.

TCG’s business model differs from the traditional coffee practices in Uganda and our team would like to know how it can bring different positive or negative impacts to the Ugandan coffee industry. As it is difficult to assess TCG’s current impact on the whole Ugandan coffee industry due to their limited size and history, our team is investigating how TCG is affecting the people that are directly involved in their operations.

Moreover, this research also attempts to identify the opportunities and limitations of TCG’s operation. The research tries to discern whether TCG’s operations are scalable in the long-run and able to bring meaningful changes to the communities they work with. Additionally, we will

try to understand how TCG can affect current market structures and contribute to rural development.

Therefore, our team believe that the following research question positions us to understand the topic and carry out meaningful analysis on TCG: *Can The Coffee Gardens, a farmer-oriented business model, be an effective vehicle for rural development by reshaping farmers' incentives and investing in long-term relationships?*

IV. Report Outline

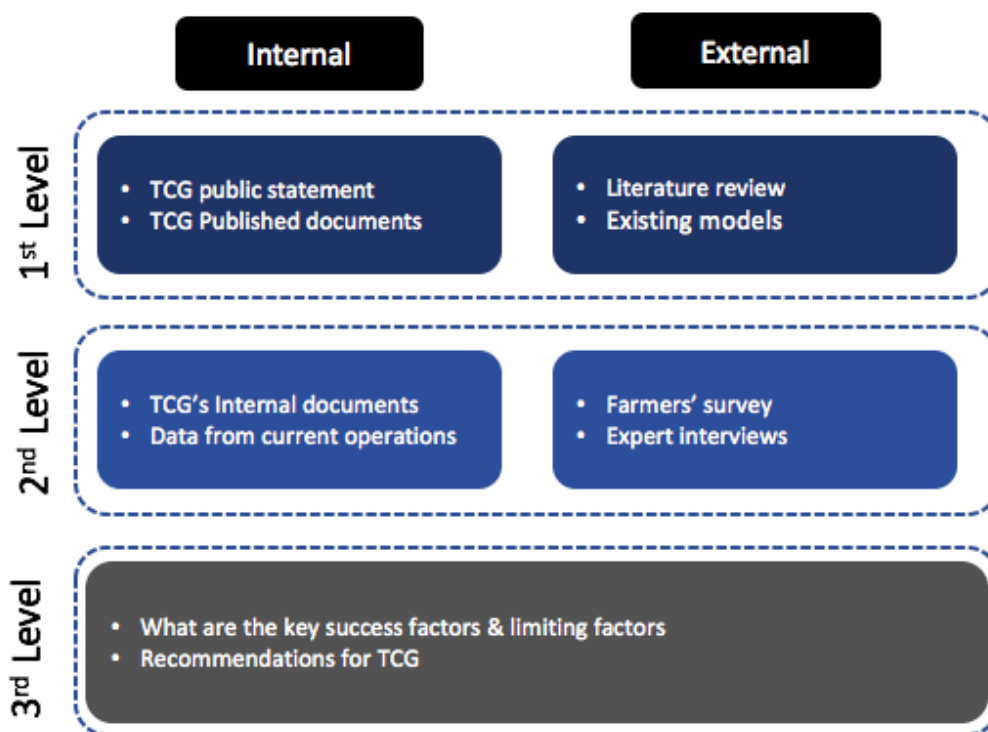
The report is organised as the following: the second section presents the methodology; the third section provides the literature review and the fourth section reviews internal documents and TCG data. The fifth section covers the primary data collection, the sixth section explores findings, and the seventh section outlines our recommendations. The eighth section displays the limitations of the report and the last section concludes the report.

METHODOLOGY

I. Analytical Framework

Upon collection of data, our team designed an analytical framework that allowed us to assess TCG's operations.

Figure 2: Our Three Levels of Analysis



As shown in Fig. 2, the first level analysis - the literature review and the desk research - builds a strong foundation for the report, engaging with various internal documents and academic literature to determine where TCG sits between various coffee business models. By reviewing internal documents and the data that TCG provided, the first level also allows us to understand their alleged impact on farmers.

The second tier will provide micro-level analysis. We will use data collected through interviews and establish whether it corroborates with the secondary data, thus providing insight into the ways in which TCG's operations influence farmers and are viewed by other coffee industry actors.

Finally, the third level of analysis, based on current results, will form recommendations for TCG to retain farmers, scale up, and further impact rural development in Uganda.

TCG has a farmer-oriented business model, therefore this framework aims to provide a comprehensive analysis of TCG's operations on farmers' incentives and help understand the possibilities and limitations of TCG's work to date. This framework does not present the ideal way of promoting rural development, but it aims to provide an entry point to explore how private businesses such as TCG are able to contribute sustainably to rural development.

II. Data Collection

The Coffee Gardens is a relatively new company and hence has a limited amount of historical data. To understand the Ugandan coffee market and produce a comprehensive evaluation of TCG's operations compared to other coffee businesses, we based our analysis on two critical sources. First, we collected secondary data through desk research, a review of public information provided by TCG, published documents and data on the Ugandan coffee market from other local coffee companies, and TCG's internal documents and datasets. Secondly, for more detailed analysis, we collected primary data by conducting interviews¹ with coffee industry experts and with TCG-affiliated farmers, to glean their perceptions of TCG.

¹ Method will be explained in the Data Collection section.

TIER 1 ANALYSIS: LITERATURE REVIEW

I. Farmer-Oriented Business Models

The global supply chain of coffee production includes a lot of different stages including producers (farmers), middlemen, exporters, importers, processors, and retailers that often have diverging incentives (Chaddad and Boland, 2009). The different organisational structures affect each organisation's operational efficiencies, impact on farmers, and more broadly their effects on rural development. There are two main organisational forms mentioned in the literature on organisational theory and adopted in the coffee industry that deal directly with farmers: cooperative and private processing (Murekezi et al., 2012).

Cooperatives are groups in the coffee supply chain that aim to maximise profit per member through engaging in coffee production, processing, and marketing (Murekezi et al., 2012). Cooperatives also provide training and production inputs for the farmers - including pesticides and fertilisers - required for the production of coffee (Murekezi et al., 2012). In most cases, coffee cooperatives are owned by members who have a small stake in their organisations and are heavily subsidised by governments or NGOs. Therefore, the impact of cooperatives depends on farmers' income, which in itself depends on the prices received and the types of benefits offered by the cooperatives (Murekezi et al., 2012). Moreover, as cooperative members might lack management experience, this often results in a high level of turnover of leadership positions and requires a higher level of NGO and government support for their operations (Murekezi et al., 2012).

As for private processors, they aim to maximise their overall financial profits and rely on the supply of raw coffee by farmers as many do not have coffee farms or plantations (Murekezi et al., 2012). Therefore, they have little to no influence on how coffee is produced. However, they sometimes offer small loans to farmers for their production. Overall, because of the aforementioned reasons, coffee farmers tend to supply more coffee cherries to private processors than to cooperatives, as cooperatives cannot match the liquidity capabilities of private processors (Murekezi et al., 2012). Additionally, although private processors aim to maximise their profit, they do not necessarily pay less to their farmers because of the high level of competition they face and might even pay more to fulfil the capacity of their plants (Murekezi et al., 2012).

II. Business Models and The Triple Bottom Line

While there are many approaches to evaluate how different structures bring various results, the triple bottom line (3BL) can be used as a framework to measure the social, environmental, and financial performance of a company, i.e., the extent to which a business is committed to benefitting not just the company in terms of profits but to serve a larger social and environmental purpose (Slaper and Hall, 2011). The question is rather about which structure

is capable of delivering such long-term equilibrium. On one hand, it could be inferred that as private processors have no influence on coffee, they may fail to incentivise the production of high-quality coffee and the adoption of environmentally friendly practices. On the other hand, as cooperatives often depend on NGOs and governments and hence are more vulnerable to reforms, they are less likely to achieve the 3BL. Moreover, in the case of Uganda, market liberalisation and the rising competition between multinationals and cooperatives have provoked the collapse of the latter, leaving no space for cooperatives to have a positive impact on farmers' communities and rural development.

III. Emerging Hybrid Structures

New forms of organisations operating in the private sector are playing an increasing role in rural development. The literature on the 3BL presents a sophisticated picture on how the private sector can take different stakeholders into account in their operation. Social needs can be financed by market activities, in particular hybrid structures. There are at least four streams of hybrid organisations: socially responsible businesses/corporate social responsibility (CSR), enterprising non-profits, social enterprise/social business, and hybrid organisations (Jäger and Schröder, 2014). In the case of coffee, such hybrid businesses can shape farmers' incentives to achieve their long-term commitments, eventually reconcile the three goals of the triple bottom line and impact long-term rural development (Jäger and Schröder, 2014). In other words, although there is ongoing research on the structure and definition of hybridity, hybrid organisations systematically connect civil society and the market through integration of the two (Jäger and Schröder, 2014). By taking into account the goal of sustainability on a community level, private sector enterprises combine their values into long-term community development (Chaabane et al., 2012; Elkington, 1997; Hagelaar et al., 2001; WCED, 1987).

IV. Hybridity and The Role of Communities

Although they are dissimilar to cooperatives who can be considered private community-based organisations that often struggle with management issues, hybrid models still emphasize the role of local communities. Peredo and Chrisman (2006) suggest that participants of local communities are powerful and inseparable from the development and empowerment process. It is important for rural communities, in addition to collectively cooperating with government and NGOs, to realize the significance of their role in the local development and implementing the 3BL framework. Peredo and Chrisman (2006)'s theoretical framework moves away from the traditional government or NGO-to-beneficiaries welfare delivery model and proposes a more proactive approach called community-based enterprise (CBE). As part of CBE, the onus is on local communities to contribute to rural community empowerment and to effect long-term social and economic development collectively. As suggested by their definition of CBE, 'the community is simultaneously both the enterprise and the entrepreneur' (Peredo and Chrisman, 2006, p. 310).

V. TCG Public Literature

TCG's approach is summed up as the following: understanding farmers' needs and creating better incentives by addressing quality, i.e., incentivising farmers to separate coffee cherries instead of mixing them. This is done via five main mechanisms (The Coffee Gardens, 2019):

- a) Paying above market rates,
- b) Setting up better coffee processing facilities,
- c) Providing access to finance,
- d) Providing training on agronomy, sustainable farm management and financial literacy,
- e) Supporting farmers to save money.

The first step in the creation of this social business was to build better facilities for the drying of coffee and ensure high quality coffee processing, as well as provide pre-season financing and technical support. As it was challenging for smallholder farmers to process their coffee themselves, TCG's second important step was to set up their own small-scale but fully equipped coffee processing station. The station then imposed strict processing practices, and in turn created consistent, better quality coffee and potential scalability of the company's processing capacity. According to the founders, such a structure - one that shapes incentives to produce higher quality products - will allow the farmers to increase their incomes and ability to meet their basic needs.

In order to achieve greater transparency, traceability and efficiency, farmers receive a receipt for every transaction and a booklet to improve record keeping and future planning. Farmers with mobile phones receive SMS updates on price changes, training events and other important information.

TIER 2 ANALYSIS: INTERNAL DOCUMENTS & DATA

This section reviews the documents and reports that were published or shared by TCG and aims to provide a summary of what TCG is or considers itself to be.

I. TCG's Long-Term Goal: The Triple Bottom Line

At the heart of TCG's business model is the concept of the triple bottom line, meaning their economic, social, and environmental goals are equally valued and prioritised. The underlying logic is that for a specialty coffee company, a healthy environment and motivated farmers are crucial for the production of high quality and traceable coffee cherries and business sustainability in the long run. Although these goals have not yet been fully achieved, the Social and Environmental Impact Report of 2019/2020, recounts the advancements of TCG in each area and sets targets for 2020.

In terms of income and livelihoods, the report suggests that farmers earned between 16% and 34%² more from TCG than they would have from supplying to other local traders. They also earned additional incomes when transporting coffee from their gardens to TCG's processing station. 60³ farmers received financial literacy training which covered planning, household decision-making, and savings. In terms of gender equality, 20%⁴ of the registered farmers are women. As for environmental protection, to prevent extensive deforestation and land degradation, 100 farmers received training on tree planting and sustainable agricultural practices, as well as 2,000 seedlings.

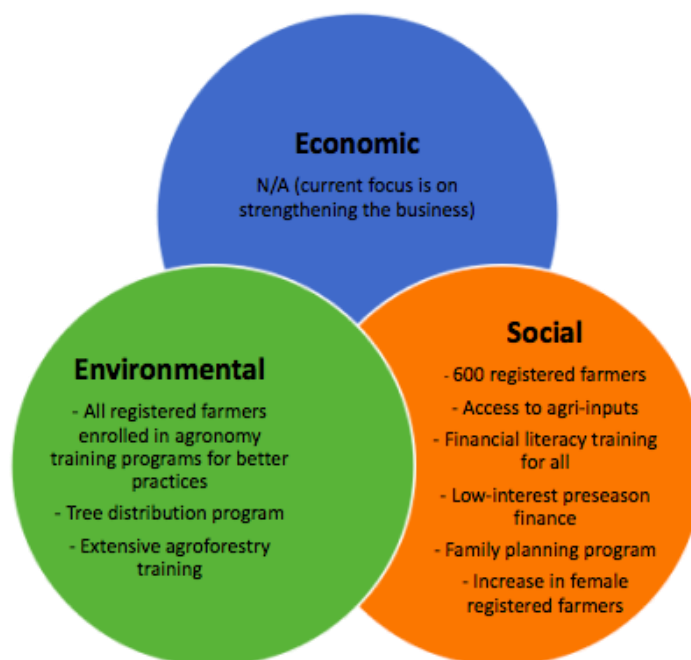
For 2020, TCG planned to increase the number of registered farmers to 600, increase the share of female farmers, provide financial literacy training for all, organise a family planning program, increase access to agri-inputs and offer pre-season financing. They also planned to organise agronomy and agroforestry training programs to instil better practices, as well as a tree distribution program. These goals are summed up in Figure 3. Overall, TCG's alleged loyalty rate is 83%, which demonstrates that farmers are responding positively to these measures.

² Social and Environmental Impact Report of 2019/2020

³ Ibid.

⁴ Ibid.

Figure 3: TCG’s Social, environmental and economic targets for 2020



Source: Social and Environmental Impact Report of 2019/2020

II. The TCG Difference: Transparency

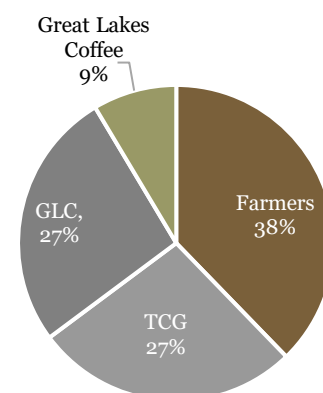
One major strategy of TCG’s business model is to bet on transparency to achieve their long-term goal, the triple bottom line. According to their transparency report in 2019/2020, TCG purchased coffee cherries at an average price of 1,400 UGX (\$0.38⁵) per kilogram of red cherry (the equivalent of \$2.97 per kilogram of export green beans) and was 10% (minimum) above the market price and 30% above for farmers that live in hard-to-reach areas. Farmers were also rewarded through a number of different monetary and non-monetary ways, including postseason bonuses⁶, tree distribution and a range of training programs. The report provides the breakdown of the allocation of the total sale price offered by Falcon Specialty, TCG’s buyer of wholesale processed coffee. Figure 4 and the corresponding pie chart show that farmers received ~38% of the sale price in 2019/2020.

⁵ All prices in US Dollars, unless otherwise stated

⁶ A bonus is a second payment provided to farmers that is contingent on the coffee quality. This payment is given after the coffee is tested by the buyer.

Figure 4: Allocation of coffee sales price by supply chain member

Allocation of Sales Price	\$USD	Proportion
Farmers	\$ 3.39	38%
TCG (Cost of sale)	\$ 0.85	9%
TCG (Overheads & Off-season activities)	\$ 1.60	18%
Great Lakes Coffee (Export services)	\$ 0.77	9%
Falcon Specialty (Importer)	\$ 2.39	27%
Total Sale Price (to final European customer)	\$ 9.00	100%



Source: Transparency Report of 2019/2020

III. Farmer Satisfaction Data

Last but not least, the company conducted a farmer satisfaction survey in July 2020. 133 farmers completed the survey, including 79 that grow coffee at high altitude and 54 at low altitude. The results shown in Figure 5 are striking. 100% of the farmers, whether they are in high or low altitude, are satisfied with TCG’s operations. This is proven again by the fact that none of the farmers are planning to stop selling to TCG and only 3 farmers are planning on selling less to TCG.

Figure 5: Overall satisfaction

	High Altitude	Low Altitude
Satisfied with TCG’s operations	100%	100%
Will supply to TCG again	100%	100%
Will less than before	0%	6%
Will supply same as before	61%	76%
Will supply more than before	39%	14%

Source: Farmer satisfaction survey 2020

Farmers were then asked about the most important benefit they received when working with TCG. As shown in Figure 6, the benefits are diverse and include accessibility and community. The most important benefit remains increased income - for 68% of the farmers at high altitude and for 35% of the farmers at low altitude.

Figure 6: Most important benefit of working with TCG

Most important benefit:	High altitude	Low altitude
Accessibility	3	5
Communication	1	2
Employment	1	11
Income	54	18
Prompt payment	12	5
Training	6	5
Transparency	2	5
Total	79	51

Source: Farmer satisfaction survey 2019/2020

Farmers were then asked to describe the aspect they liked the most about working with TCG. Again, as shown in Figure 7, the results are diverse and include accessibility. However, the farmers also emphasized the transparency that TCG is creating: 39% of high-altitude farmers and 75% of those at low altitude value it the most. Bonuses and high prices remain the aspect that 29% of farmers at high altitude value.

Figure 7: Aspects that farmers like the most

Aspect they like the most	High altitude	Low altitude
Accessibility	2	4
Communication	6	4
Employment	0	0
Bonus/Price	23	2
Prompt payment	16	2
Training	1	1
Transparency	31	38
Total	79	51

Source: Farmer satisfaction survey 2020

In terms of the areas that could be improved, the overall results are shown in Figure 8 and are again very diverse. None reported a needed increase in terms of employment, improvement of prompt payment, and need for more transparency. Nonetheless, 50% of farmers in high altitude ask for better accessibility, while 48% of farmers in low altitude solicit higher bonuses or prices.

Figure 8: Areas for improvement

Areas for improvement	High altitude	Low altitude
Accessibility	38	0
Communication	2	10
Bonus/Price	14	24
Training	9	10
Inputs	9	0
Loans	3	1
None	1	4
Seedlings	0	1
Total	76	50

Source: Farmer satisfaction survey 2020

Regarding the training requested, most of the farmers asked for one on agronomy; 83% for agroforestry and 65% on financial literacy; which suggests that trainings were still uncommon in July 2020.

Figure 9: Training Requested

Training Requested	High Altitude	Low Altitude	Total
Agronomy	75	50	125
Agroforestry/Tree Planting	65	46	111
Financial Literacy/Coffee as a Business	50	37	87

Source: Farmer satisfaction survey 2020

TIER 2 ANALYSIS: DATA COLLECTION

The goal of our expert and farmer interviews was to get insight into TCG's operations and compare them with the claimed effects described in the section above.

I. Aim

As TCG is a young business, it is impossible to measure its impact on farmers' family physical and human capital, i.e., income, consumption, health, education. The risk, when measuring the overall impact of TCG on farmers' lives and rural development, would be to give false attribution of any changes to TCG.

At the moment, TCG is incentivising farmers to produce higher quality coffee and paying higher prices to farmers, in the most fair and transparent way possible. Therefore, the first goal of the survey is to find the direct impact of TCG regarding changes and smoothing of household income across seasons; as well as the impact of the services provided by TCG (trainings, SMS-based information sharing system, receipts and farmer record booklets) on farming efficiency and skills that might have motivated them to expand production or adopt more organic approaches to farming.

However, as TCG believes that building a long-term, trustful, and mutually beneficial relationship - and not just an increase in income - is the key to achieve its long-term strategy, the main goal of the surveys is to measure farmers' perceptions of TCG, and changes in farmers' incentives, attitudes, and/or strategy. Thus, the survey focuses on the level of trust and improvements to wellbeing that TCG is succeeding or failing to instil compared to other buyers. The results will give us insight into the relationship between TCG and the farmers, the level of cooperation, the extent to which TCG is transparent, the level of loyalty, and the expectations of farmers.

We believe that measuring the extent to which TCG is building long-term relationships and forging a sense of community among the farmers is going to allow us to extrapolate on whether the business is resistant to shocks and whether it is scalable in the long-term, and what services they need to provide to make further improvements.

II. Expert interviews

TCG introduced us to two key actors in the industry who were able to share their guidance and views on the Ugandan coffee sector:

- An expert from Falcon Specialty (who wished to stay anonymous), TCG's importer that distributes to 35 different clients/roasters across Europe.
- Koen Sneyers, the Agribusiness Manager from Great Lakes Coffee (GLC), one of TCG's partners, with a similar business model but that operates at a much larger scale. GLC

also provides TCG with a range of services such as hulling, exporting, access to working capital, warehousing and additional drying space.

During these interviews, we aimed to answer questions that emerged from the literature review and desk research. Our questions pertained to the different types of coffee business models, these models' capacities to scale up, the sustainability of different models, and the incentive structures in place for farmers within each of these models. Later questions looked closer at their relationship with TCG. A full list of questions and a synthesis of the key ideas from these interviews can be found in Appendix 3.

III. Farmer interviews

Method

Our farmer survey allowed us to get insight into farmers' everyday lives and measure their perceptions of TCG. Although our farmer survey focussed on transparency and the dichotomy between relationships of trust vs. higher prices from farmers' points of view, we also wanted to form an elementary understanding of TCG's social impact on their affiliated farmers to date. Our survey was taken at a singular point in time; therefore, we are not aiming to attribute specific impacts to TCG in the following section. Rather, we are highlighting instances where TCG's involvement with these coffee farmers seems to have benefits for the farmers. The full list of questions we asked to the farmers can be found in Appendix 2.

Logistics

As it was not possible to conduct the interviews ourselves in person or through Zoom due to COVID-19 travel restrictions, language barriers and poor internet connections at altitude in the areas where the farmers live, TCG provided us with three local enumerators to conduct the interviews in the field. We trained the enumerators on our survey's aims and provided them with a sample of farmers across TCG's areas of operation. Prior to receiving the full database of farmer data, we signed a non-disclosure agreement with TCG. Then, over the course of three days in March 2021 the enumerator team managed to conduct 76 in-person interviews with TCG-affiliated smallholder farmers in the Sironko district of Mount Elgon in Eastern Uganda.

Sample stratification

Female farmers are underrepresented in the coffee business and often have smaller crop yields⁷. As only 20% of the farmers TCG works with are women, we decided to stratify our sample according to gender. We also stratified the sample according to farmers' plot altitudes, because in general high altitude coffee gardens yield better, albeit more labour intensive, quality coffee. The labour intensity of higher altitude gardens can often also reduce the yield size (Anon, 2014).

⁷ Source: TCG Social and Environmental Report 2019/2020.

TIER 2: FINDINGS

I. An introduction to The Coffee Gardens' affiliated farmers

TCG only selects premium coffee graded at approximately 85⁸, where 80 is the threshold to be considered specialty coffee and also the average grade received by most specialty coffee produced in Uganda⁹. High altitudes and cooler weather are the favoured conditions of high-quality arabica coffee cultivation (Anon, 2014). Consequently, farmers of arabica coffee reside at a high altitude in mountainous areas, with limited access to outside resources and opportunities¹⁰.

TCG farmers' lives are highly centred around agriculture. These farmers usually have more than three sources of income, with coffee as a major source. Other than coffee, they also cultivate other crops, such as fruit and vegetables, and raise animals¹¹. This could possibly imply that farmers choose multiple sources because they cannot simply rely on coffee farming, particularly due to the seasonality of coffee production¹². Smallholder farmers often do not have enough land or facilities to manage their own businesses. To make the situation worse, banks are unlikely to finance smallholders as the due diligence costs are often too high (Duflo and Banerjee, 2011).

Smallholder farmers also have high barriers to entry into the certified coffee market. Therefore, most farmers are only able to depend on exporters who collect coffee less selectively from various channels and bundle them together in bulk shipments. However, in order to attract a higher volume of farmers, middlemen often lower quality requirements and incentivise premature harvesting.

All of the farmers we spoke to currently supply coffee to The Coffee Gardens, and the majority (76%) had an established relationship with TCG. Figures 10 and 11 below outline descriptive statistics about the farmers included in the survey.

⁸ Using the industry standard Speciality Coffee Cupping Association (SCAA) grading scale from 0-100. Ugandan speciality arabica tends to score from 80-87 (Source: Africa Fine Coffee Association, Bean Auction 2017).

⁹ Source: Falcon Specialty expert interview.

¹⁰ Ibid.

¹¹ Source: Farmer survey, 2021.

¹² Source: Falcon Specialty expert interview

Figure 10: Descriptive statistics about TCG-affiliated farmers

Female	29%
Male	71%
Male-headed households	94%
Age range (years)	18 - 78
Access to bank account	2%
Access to mobile money wallet	97%

Source: Farmer survey 2021

Figure 11: Farmers' coffee experience, income reliance, and production

Majority¹³ of income derived from coffee	62%
Majority¹⁴ of coffee sold to TCG	80%
No. of years producing coffee, average	15.4
No. of years selectively picking coffee cherries, average	3.2
Registered with TCG prior to the 2020-2021 season	64%
Delivered coffee to TCG (directly or indirectly) prior to the 2020-2021 season	76%
No. of other buyers sold to, average	2.5

Source: Farmer survey 2021

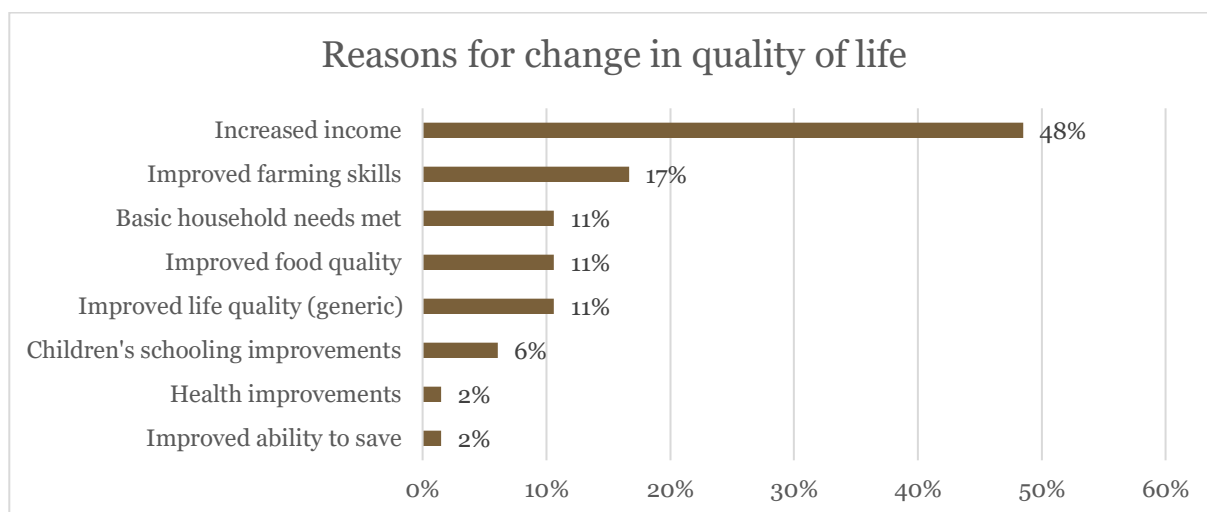
II. Broad Impact of TCG Affiliation

We wanted to learn more about farmers' general perceptions of the impact of their affiliation with TCG on their quality of life. Overall, 92% of farmers said that their affiliation had had a positive impact on their lives. This was notably high among female farmers and low altitude farmers of whom 100% said TCG's general impact was positive. The top three drivers for improved quality of life were increased income, improved farming skills, and an improved ability to meet basic household needs (e.g., less hunger) in comparison to before their affiliation with TCG - see Figure 12 for more detail.

¹³ Greater than 75% of income

¹⁴ Greater than 75% of coffee produced

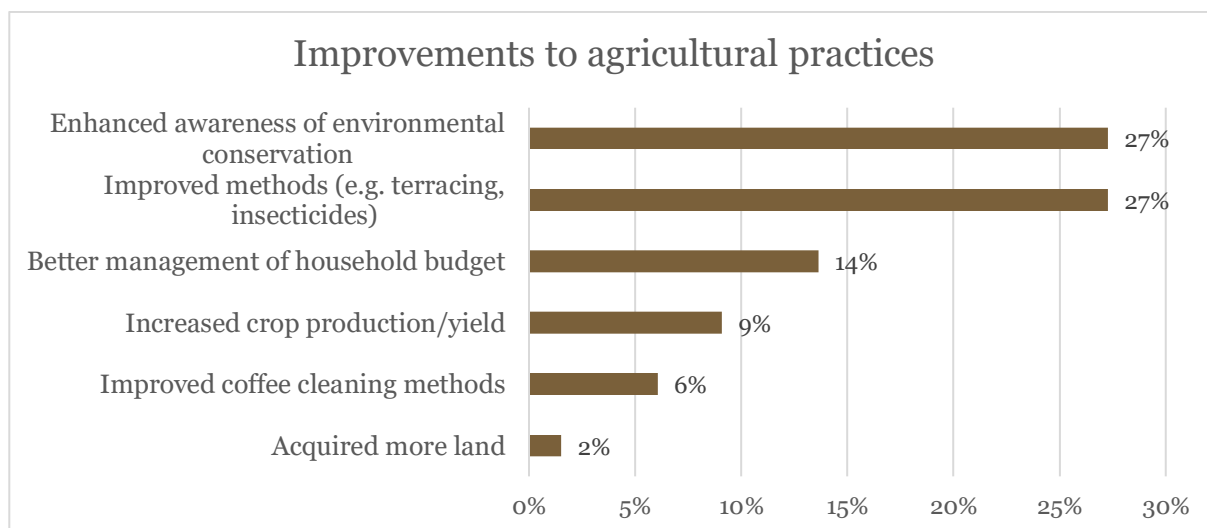
Figure 12: How has your quality of life changed? (n = 66)



Source: Farmer survey 2021

As noted in the internal document review, TCG has begun to offer its affiliated farmers training on financial literacy and agronomy. 79% of the farmers we spoke to had completed some form of training on agronomy or agricultural practices. The farmers noted that the top benefits to come from this were improved awareness of environmental conservation, improved coffee production methods (e.g., use of terracing and insecticides), and better management of household budget and expenditure - see Figure 13 for more details. Five of the farmers we spoke to had received financial literacy training to date. The top benefit farmers mentioned about this training was improved financial planning practices (2 out of 5 farmers).

Figure 13: How has this training [on good agricultural practises and agroforestry] impacted you? (n = 66)



Source: Farmer survey 2021

III. Trust vs. Price

One of the main elements that we are interested in exploring in this analysis is to what extent farmers are willing to give up a higher price for a more trustworthy long-term relationship.

On average, according to farmers, TCG pays 477 Ugandan shillings (\$0.12) more per kg than competitors in a low yielding season and 629 Ugandan shillings (\$0.16) more per kg than competitors in a high yielding season. Compared to the TCG Transparency Report of 2019/2020, the premium versus competitors paid to farmers is lower than the ones published (\$0.37). This might be due to COVID-19, which slowed down the production of coffee and therefore the willingness of competitors and multinationals to pay a higher price to get coffee.

As shown in Figure 14, when we asked the respondents about how they choose one buyer over another, the top three factors appeared to be: a fair or high price (55% of the farmers); a good relationship based on trustworthiness (30%), and bonuses (15%). Very few farmers - only 3% - mentioned choosing a buyer according to the level of transparency. Although the proportion of farmers favouring a good relationship is significant (30%), the price offered seems to remain the dominant farmer strategy. Sellers' behaviours and incentives created are not valuable reasons to choose a buyer.

Furthermore, when respondents were asked to explicitly choose between the following two options: a trustful relationship or a higher price; 57% said higher price, while 43% said they would prefer a trustful relationship. There was little variation by gender and altitude.

Figure 14: How do you choose who to sell your coffee to? (n = 66)

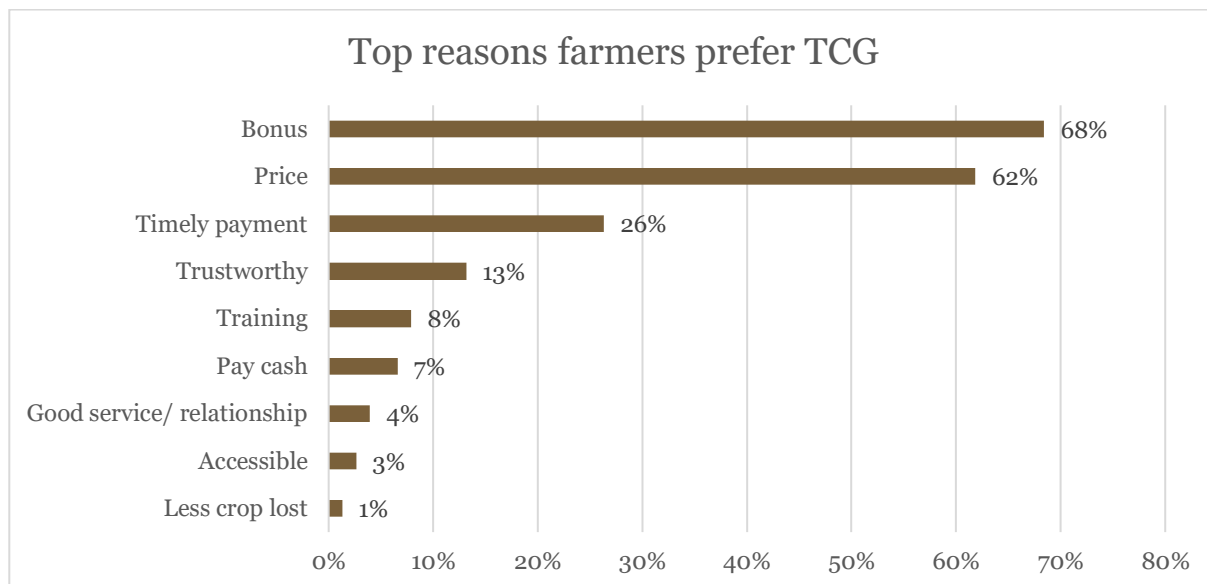
Theme	% of farmers
Price (fair, high)	55%
Trustworthiness / good relationship	30%
Bonus	15%
Transparency	3%
Training	2%
Incentives	2%
Sellers' behaviours	2%

Source: Farmer survey 2021

We wanted to explore what drew farmers to TCG specifically, Figure 15 outlines our findings. The results shows that the two main characteristics that differentiate TCG from other buyers and influence farmers' choice of buyer are bonuses (68% of the farmers, including 82% of female farmers) and price paid for coffee (62% of the farmers, in equal proportion across male and female respondents), which is consistent with the results shown so far. It seems that

accessibility is not an aspect that draws farmers to TCG, as it has been cited by only 3% of the farmers. Surprisingly, only 4% - all of whom are male respondents - stated that good attitude and service are factors that differentiate TCG from other buyers.

Figure 15: What are the top two reasons that you prefer selling your cherries to TCG over other buyers? (n = 76)



Source: Farmer survey 2021

Finally, 96% of farmers considered TCG’s price fair despite paying just \$0.12/kg to \$0.16/kg more than the market. According to our expert interviews, there is a disruption in the market as recently there were multinational buyers paying an above-market price to fulfil their quotas. This demonstrates that although other buyers offer higher prices than TCG, farmers still perceive TCG’s purchasing price as fair. In turn, this demonstrates that the relationship between farmers and TCG goes beyond price premium.

Comparing other market structures is a useful way to account for the impact of TCG on farmers’ incentives when producing and selling coffee. We decided to compare what it is like for farmers to be directly working with the buyer to what it is like to be working with intermediaries in the market, i.e., middlemen.

In terms of the advantages, as shown in Figure 16, approximately half did not find any advantage when interacting with middlemen. The two advantages most commonly mentioned were the strategic aspect involved when interacting with middlemen and the ease of accessing middlemen. Strikingly, 50% of female farmers mentioned the strategic aspect of working with middlemen, in comparison to 8% of male farmers.

As for the disadvantages (see Figure 17), the main reasons farmers suggested against interacting with middlemen were lack of trustworthiness (61% of the farmers, encompassing 52% of male respondents and 83% of the female respondents). Secondary reasons include

payment issues (delays, poor prices, and failures to pay) for 31% of the male farmers and none of the female farmers; and the absence of bonuses for 18% of the farmers, with an equal proportion of male and female.

Finally, in terms of farmer wellbeing and the perceived pressure of working with TCG vs. middlemen: 85% of farmers said they felt less pressure while working with TCG, while 15% said they felt more pressure. Interestingly, 100% of female farmers and 79% of male farmers said they felt less pressure. Overall, the results demonstrate a relatively low presence of pressure when directly interacting with a buyer, i.e., TCG.

There seems to be a relationship here where more female farmers rely on intermediaries such as middlemen as part of their sales strategy, yet a greater proportion of female farmers also report a lack of trustworthiness when dealing with middlemen, and they feel less pressure working with TCG. Our sample size is too small for a conclusive answer but it's worth pursuing in future research.

Such results provide an insight into the terms and conditions of selling to TCG and prove the importance of trust in the relationship between TCG and farmers, compared to the one between middlemen and farmers. TCG is succeeding in filling the gap, giving farmers what middlemen have failed to do.

Figures 16 and 17: Were there advantages/disadvantages when you were working with middlemen? If yes, what were they? (n = 66)

Advantages	% of farmers
There are none	52%
Strategic	20%
Accessible	17%
Bonus	6%
Pay cash	3%
Link to cheap buyers	2%
Depends on price	2%

Disadvantages	% of farmers
Lack of trustworthiness	61%
Poor payments / delays	23%
Do not give a bonus	18%
Oppression	3%
Poor regulation	3%
Poor recordkeeping	2%
Do not provide fertilizers	2%

Source: Farmer survey 2021

IV. Transparency

In this section, we will investigate the transparency between farmers and TCG and transparency's impact on TCG's operations and farmer satisfaction.

TCG takes pride in the level of transparency in their operations and produces transparency reports every year. They regularly disclose their allocation of costs and price to the public. To achieve this, TCG traces all the necessary data from farmers through databases and traceable electronic and paper receipts. TCG also provides real time data and training for farmers to keep track of their records and help farmers with their operations. In theory, the high level of transparency and the data availability should build a healthy relationship between farmers and TCG and in turn could have a positive effect on rural development in the area.

Coffee farmers do not usually keep records and it is difficult to keep track of the prices they have received for coffee throughout a season. However, according to TCG reports, specialty coffee requires higher grade cherries with traceable origins. Therefore, one of TCG's main goals is to improve transparency and encourage information flows along the coffee supply chain to help TCG's business development while also creating a positive impact to society.

To achieve high levels of transparency, TCG tries to maintain a steady information flow with the farmers. TCG started to send SMS messages to the farmers to provide them with real-time coffee cherry price fluctuations. Most farmers find this scheme at least moderately useful, while a significant number of farmers (42%) regarded this as extremely useful. It should also be noted that farmers from higher altitudes tend to find SMS messages less useful, as they might not have access to phone service in their regions. TCG also tries to provide receipts and record booklets for their farmers and 42% of the farmers find both very useful and 89% of them think these can be good methods to track their operations and have future references. This might help farmers build good entrepreneurial practices and make it easier for TCG to trace coffee sources in the long run.

According to the expert interviews, it is uncommon in the coffee industry to disclose a lot of information regarding cost allocation and pricing strategies. Compared with TCG's partner, Great Lake Coffees (GLC), GLC does not disclose as much information as TCG due to its larger size and limited data availability. Although disclosing data might put TCG in a vulnerable position, it enhances TCG's relationships with clients and farmers. Experts pointed out that despite its small-scale operation, TCG provides unique services and products as they have one of the most transparent operations and data on their farmers. Experts acknowledge the potential of TCG as the coffee market is moving towards higher demand for acutely traceable cherries and transparent supply chains.

We try to investigate how higher levels of transparency can affect the relationships between farmers and TCG. While it is unlikely that farmers actually have access to the reports published

by TCG, this higher level of transparency discourages TCG against underpaying farmers and ensures TCG will pay the farmers bonuses when there is an additional contingent payment from exporters available. The bonus income received by the farmers is highly appreciated as almost half (48%) of the farmers view the bonus as the most valuable element of their relationship with TCG. On the flip side, TCG also values transparency from the farmers as they need to purchase traceable coffee cherries to ensure the cherries' standard. This is critical to the growth of TCG as the industry experts pointed out that TCG cherries are generally higher quality than other specialty coffee producers.

Moreover, the high level of transparency ensures TCG contributes to social factors in the community through the triple bottom line. While the triple bottom line is widely adopted, literature has critiqued many companies failing to achieve what was claimed in their statements (Norman and MacDonald, 2004). However, the transparency of their operations brings TCG under public scrutiny, therefore, all TCG social initiatives have to show material positive impacts on the community. In light of this, it may be challenging for TCG to maintain this level of transparency as their operation grows as the level of competition will increase and with increased scale it might be too expensive to gather all necessary data.

After evaluating a range of desk research, expert interviews, and farmers' surveys, it is clear that TCG operations can bring positive impact through transparent practices. However, despite TCG's effort to improve data availability within the community, 22% and 17% of farmers think more training and more information and communication can improve transparency respectively. A significant number (11% of farmers) also think that TCG should try to understand farmers' needs better. Therefore, despite being one of the most transparent coffee buyers, much can be done to improve TCG's operations and have an even greater impact on rural development.

V. TCG Value Proposition for Farmers

Each of the respondents were asked to explain what they value the most about supplying to TCG. Figure 15 reveals that the reasons vary from the price that TCG pays (20%) to cash payments (3%). The most important factor for almost half the farmers (48%) and 67% of female farmers is bonuses.

Figure 18: What do you value most about supplying coffee to TCG? (n = 66)

Theme	% of farmers
Pay cash	3%
Training	5%
Trustworthy	15%
Good attitude/ service/ relationship	15%
Price/ payment	20%
Bonus	48%

Source: Farmer survey 2021

Focusing on trustworthiness (Figure 19), 44% of farmers said TCG was very trustworthy compared to other buyers, 52% said that TCG was moderately trustworthy and only 6% said TCG was slightly trustworthy. These results are consistent across altitudes and genders. Overall, TCG appears to be a trustworthy social business and buyer of coffee according to the majority of the farmers.

Figure 19: How trustworthy is The Coffee Gardens compared to other buyers? (n = 66)

Level of Trustworthiness	% of farmers
Not trustworthy at all	0%
Slightly trustworthy	5%
Moderately trustworthy	44%
Very trustworthy	52%

Source: Farmer survey 2021

When asking respondents why they value trust, almost half of the farmers, including 61% of the female farmers, related trust to good and long-lasting relationships; and 1/3 linked trust to reliability and honesty. Less cited reasons are that trust allows for overall better payment, empowerment, coffee quality and hope (see Figure 20).

Figure 20: Please explain. Why do you value trust? (n = 66)

Themes	% of farmers
Good management	2%
Pay in cash	2%
Hope	2%
Improved coffee quality	3%
Providing receipt	3%
Empowerment	3%
Confidence	6%
Better payment in general	11%
Honest and reliable	29%
Good and long-lasting relationship	47%

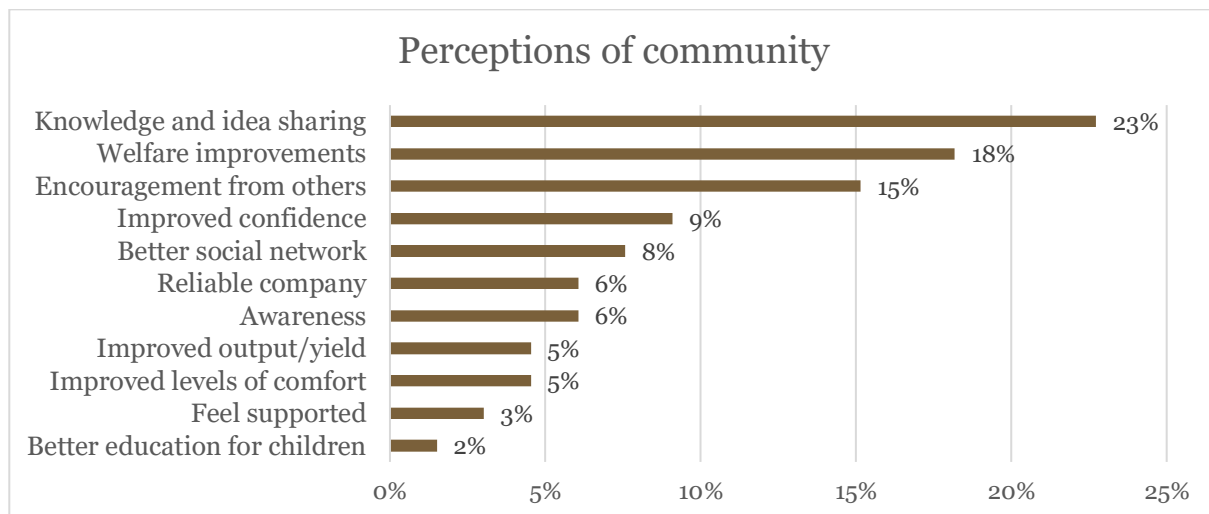
Source: Farmer survey 2021

The results so far show the extent to which TCG is succeeding in changing the mindset of the farmers, i.e., to not only think about the daily coffee price they receive but also the long-term commercial relationship they have with TCG. Overall, the price offered, and the conditional bonuses remain the key determinants of their loyalty. Farmers do not yet have enough incentives yet to be willing to give up a higher price for a good and trustful relationship. Although trust in TCG provides more incentives to produce higher quality than middlemen for farmers and farmers have shown that they highly value trust, this parameter is not the most important determinant in their choice of buyer yet.

VI. Farmer Community and Loyalty

We asked farmers whether they felt they were part of a community or farmer network since working with TCG. 98% said yes, they did feel as though they were part of a community. The top reasons they gave for this sense of community were the exchange of knowledge, information, and ideas between the farmers, improvements to welfare, encouragement from peers, improved confidence, and a better social network.

Figure 21: When supplying to TCG, do you feel like you are part of a community or farmer network? How has this impacted you and/or your work? (n = 66)



Source: Farmer survey 2021

TCG seems to be en route to achieving Rogers and Ryan (2001)’s framework that builds on the triple bottom line but goes further to emphasize how a sustainable business must invest in its local community by 1) ensuring the well-being of its members, 2) offering and encouraging tolerance, creativity, participation, and safety, 3) empowering people with shared responsibility, 4) providing equal opportunity and access to expertise and knowledge, in addition to the three core values of environmental awareness, financial viability, and social responsibility.

Finally, to evaluate TCG’s long term potential, we analysed the results of the farmer surveys to see if farmers’ answers matched with suggestions from the expert interviews. 67% of the interviewees indicated that TCG is the sole buyer of their cherries which suggests a dependence on TCG. Additionally, 100% of interviewees said they will continue supplying coffee cherries to TCG next season, which indicates that the farmers have built a certain level of connection with TCG and are comfortable in this relationship. This ensures the relevance of the data and allows us to speculate on farmer retention in the long term.

TIER 3 ANALYSIS: RECOMMENDATIONS

Based on our research and our findings, we designed a few recommendations in Section 1 that we believe will help shape TCG's short-term strategy in response to farmers' immediate needs. In Section 2, we address long-term development goals that will help mould farmers' incentives, ensure the sustainability of TCG's operation and empowerment of Ugandan farmers.

I. Short-term Recommendations

Farmer feedback suggests three major demands from the farmers:

1.1. Provide organic agricultural inputs

Farmers showed needs for pesticides and fertilizers provided by TCG. The use of pesticides and fertilizers could ease the farming process and increase the volume and quality of coffee production but might cause degradation of the environment. We suggest TCG to find a balance between the use of chemicals and organic agricultural inputs. For instance, selection of more eco-friendly chemicals and setting up thresholds of time and quantity of applying chemicals could reduce the environmental and economic cost (Ayer, 1997).

1.2. Provide trainings

The farmer satisfaction survey conducted on 133 farmers by TCG in July 2020 revealed that most of them request more trainings. Our findings from the March 2021 survey show that trainings are not yet an element that allows TCG to differentiate itself from other buyers. Although 66 out of 76 respondents received an agricultural and agronomy training in 2019/2020, TCG needs to provide more of the following training:

- Financial literacy training: only 5 out of 66 farmers received training on budgeting and saving. TCG should provide more training to help farmers smooth their income and reduce their vulnerability to shocks.
- Training on organic practices: no farmers received such training on organic farming practices to meet certain certification standards.
- Environmental sustainability training: while some farmers had received training on soil fertility which is certainly a part of environmental sustainability, more could be done to shape incentives to increase farming efficiency and adoption of environmentally friendly practices because it does not seem to appear in farmers' decision-making processes.

1.3. Loans and Bonuses

The findings of our survey are corroborating the results of the farmer satisfaction survey of 2019/2020 and clearly reveal that farmers highly value bonuses. Such rewards seem to work on farmers and incentivise them to produce higher quality coffee.

Be that as it may, even though farmers are generally satisfied with the price and bonuses offered by TCG, they request loans in order to tackle fluctuating income due to different yielding seasons and markets. TCG could offer pre-season finance and loans to the most productive farmers and farmers who consistently produce the highest quality coffee. We recommend TCG to constitute a set of standards for evaluating farmers' performance, vulnerability, and loyalty and offer loans based on evaluations respectively. Farmers will be rewarded with more flexibility in finance and provided with an incentive to work with TCG in the long term. By doing so, TCG could also gain a great reputation among farmers and increase loyalty, in turn working towards a mutually beneficial long-term relationship.

II. Long-term Recommendations

Prices and bonuses remain the main thing that farmers are interested in. We do believe that responding to basic needs through increased bonuses and prices is positive but not enough to achieve the long-term goal of TCG, i.e., achieve the 3BL. Therefore, TCG must further invest in relationships with farmers in order to efficiently continue shaping farmers' incentives.

Moreover, our findings show that one issue that TCG is facing - and one that could potentially become a major issue for scalability on the long-term - is accessibility. In the farmer satisfaction survey of July 2020, 38 out of the 79 farmers from high altitude suggested it as an 'area for improvement'. In fact, in high-altitude regions, residents might have limited mobility and access to meet with TCG staff. The results from our survey show that a few farmers expect expansion of farming facilities in the future. Farming facilities are worthy of investment as they are durable and generate long-term profits. However, expanding facilities requires large-scale investments and TCG might not yet be in the capacity to do so.

One way to mitigate the accessibility issue could be for TCG to invest more in the community and work on creating a structure that formalises farmers' networks and perceptions of community. Inclusion in communities and farmer networks is highly valued and preferred by farmers. In the survey that we conducted, 98% of the farmers said they felt part of a community. Farmers acknowledged that they had expanded their social networks since working with TCG. As shown in the literature review and in accordance with Rogers and Ryan (2001)'s model mentioned earlier, reinforcing the role of communities and the connection between farmers could help TCG achieve their goal and strengthen the mutually beneficial commercial relationship they are trying to build. Putting efforts in the community could:

- Reduce the cost of transportation to the processing station
- Increase communication, encourage spillovers and sharing of farming practices: farmers develop farming skills and money management skills through daily practice. Facilitated flow of such information could generate considerable values for farmers without imposing a high cost of employment and training.
- Spur trust among farmers that sometimes lack it (Fafchamps and Hill, 2005)
- Empower farmers, improve farmers' ability to negotiate with buyers (Fafchamps and Minten, 2012), i.e., encouraging them to be actors and not just coffee sellers

Generating values within such areas and organizing farmers to create joint benefits collectively stimulate the growth of social and human capitals. Even though we found evidence that TCG has already endeavoured to do so by working in the most transparent way, TCG could particularly:

- *Increase female farmers*: reduce the gender gap, promote independence and empowerment of women. TCG has currently 20% of registered female farmers. However, in 2019, TCG was already working with 20% of female farmers. Therefore, TCG needs to include more female in the farmers' community.
- *Employ from the community*: allowing farmers to work with people they are acquainted with could potentially promote collaboration within the community and connection between TCG and farmers.
- *Create peer groups and lead farmers* (similar to the Great Lakes Coffee model): constituting peer groups so that farmers collaborate within each neighbourhood could enhance farmers' sense of inclusion. Some farmers could become lead farmers that act as intermediate aggregators, allowing for efficient scalability.
- *Establishing workshops for communication and improved collective strategy*: We recommend TCG to create workshops for farmers to communicate their achievements, innovations, and challenges in coffee farming and in all other aspects of their lives.

LIMITATIONS OF THE REPORT

This report investigates TCG operations through the combination of primary and secondary data and tries to understand the current situation and the future possibilities. However, this report does not account for a series of internal and external factors due to a wide range of reasons.

I. External factors

Global pandemic: The global pandemic impacted the global supply chain significantly. According to interviews with TCG management, the demand for coffee production shrunk up to 70% during the peak of the pandemic. This drastically changed both the projection of the company and its capacity to achieve their targets for 2020. This report does not take into account external anomalies as it will be difficult to formulate any meaningful analysis as TCG is a relatively new company with little 'normalised data'. However, it should also be noted that the global pandemic also provided an opportunity to build trusting relationships with the farmers through helping them and purchasing their produce in this difficult time. Therefore, these unexpected external shocks can bring significant changes, but it is very difficult to incorporate them into the analysis (it will probably be worth conducting a separate report on such an event).

External data availability: A lot of companies and individuals along the coffee supply chain do not have complete records on their operation and tend to be unwilling to provide data for our research. At the farmers level, our analysis has to rely heavily on oral knowledge. On the other hand, as TCG only has limited data due to their brief history, this report attempted to reach out to other businesses and NGOs for meaningful information. However, although some organisations or companies agreed to talk with us, they did not provide us any data beyond their publicised information.

II. Internal factors

Biased data: As the research team was unable to connect with the local community directly due to geographic and financial limitations, TCG assisted the data collection process through connecting the local researchers and providing financial assistance. We also rapidly understood that due to the context in Uganda in which the farmers are working, the existence of a lot of external actors on the market (MNCs, middlemen, NGOs, etc) and given the relationship that the TCG is trying to build with farmers, it is extremely highly that farmers thought that the enumerators were part of TCG. This might have created incentives for farmers to shape their answer, therefore biases in the results. However, we do believe that a series of preventive measures, including training and communication with the enumerators, helped in reducing the potential

CONCLUSION

Under neoliberal reforms in Uganda, hybrid structures have become especially suitable for the coffee market. They contribute to the high flexibility and enormous potential of the Ugandan market, in which private social enterprises are more likely to succeed and deliver value directly to their partners. In the case of TCG, these values are primarily reflected in the alleviation of financial pressure, enhancements in quality of life, and expansion of social capital within the community. Equipped with more knowledge, wealth, and power, farmers can then branch out into broader society and better connect with the government and NGOs to pursue more holistic empowerment.

Revisiting the objective of this report, this report aimed to investigate whether TCG is an effective vehicle for sustainable rural development. The analysis pinpointed TCG's major strengths and weaknesses of operation and how these practices affect their relationships with different stakeholders. Evidently, TCG has brought positive changes to the small communities they are working with and continues to explore ways to positively impact the Ugandan coffee supply chain. Through working closely with farmers and disclosing as much information as possible, TCG has already provided an alternative method for farmers to produce coffee, reshaped their incentives, and allocated resources more efficiently along the value chain. The report also presents constructive recommendations for TCG's operations to be as impactful as possible in the future.

Although Ugandan rural development challenges are deep-rooted and often beyond TCG's capacity, TCG is at the forefront of social change and ready to play a bigger role in their industry as they continue to grow. However, readers ought to be cautiously optimistic as previous neoliberal initiatives have demonstrated the fragility of rural development and the potential backlash of such programmes (Karim, 2011). It will be interesting to see how TCG's current farmer-oriented practices can weather the highly competitive Ugandan coffee market or whether they are going to evolve into a vehicle for alternative purposes like the anti-politics machine suggested by Ferguson (1990).

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APPENDIX

I. Terms of Reference

Project Title: *Can the private sector be an effective vehicle for sustainable rural development? A case study of The Coffee Gardens*

Introduction

Uganda has undergone various kinds of rural development throughout the years. Upon independence, state-led development was adopted but also quickly proved to be inefficient and corrupted. It was followed by a series of neo-liberalisation reforms but with the ongoing civil wars and political struggles, liberalisation and market-oriented reforms failed to deliver the promised development goals, including but not limited to expected rural incomes growth and social reforms. The Ugandan coffee sector highlighted the results of these initiatives as the widespread of market liberalisation, coupled with the collapse of the cooperative movement, resulted in the creation of a highly extractive sector. Smallholder farmers are being exploited as they work on fragmented plots of land and earn very little income while the market is vertically dominated by multinational corporations (MNCs). MNCs purchase coffee cherries/processed beans in bulk, favouring quantity over quality and pushing both price and quality down. MNCs then sell the coffee beans/coffee around the world, making huge amounts of profit yet the coffee farmers cannot bear the fruit of this hugely profitable industry. Therefore, a wave of non-profits, hybrid enterprises started to play critical roles in the coffee industry and try to facilitate rural development in Uganda. While the results are still questionable, these 'sustainable approaches' have brought changes to the Ugandan coffee market and created distortionary effects in the industry.

Liberal macroeconomic advocates insist that markets should shape the agenda for development. However, the global coffee market, in Uganda specifically, is highly uncontrolled and beset by severe market failures including: full exposure of farmers to price volatility, an unregulated sector with misaligned incentives for production, processing and export of coffee with disproportionate distribution of returns along the value chain, monopolisation by multinationals pricing out smaller competitors, missing markets where farmers are unable to gain competitive prices for higher quality processed coffee, and negative externalities such as high levels of environmental degradation.

As the Ugandan coffee sector is missing a market for quality coffee, the Coffee Gardens started as a social business, working with and training coffee farmers in eastern Uganda in 2017, and producing high quality coffee for export markets. They aim to achieve the triple bottom line, i.e. producing speciality coffee (high quality and traceable) in a way that is economically viable, benefiting the farming community as well as the environment. The issue in Uganda is that farmers are paid low prices, which disincentivises quality or environmental protection. Therefore, the idea is to break this vicious cycle: by increasing prices and paying higher wages to farmers, they are incentivised to produce higher quality coffee. The Coffee Gardens now works with 400 registered and trained farmers, employs 100 people from the community, and has distributed over 5,000 trees.

Although the business model is not unique, it contrasts strongly with the norm in Uganda. The question is now is to understand the extent to which The Coffee Gardens can be an efficient and sustainable vehicle for rural development; the extent to which this farmer-oriented model actually creates incentives for farmers to improve quality and benefits all actors in the value chain; and the extent to which this business model is scalable, in a sustainable and transparent manner in the long-run.

Research questions:

- Is The Coffee Gardens, a private business model, an effective way to deliver sustainable rural development?
- What can be leveraged to achieve higher returns for small scale coffee farmers and higher impact on rural development, and potential scalability?

Objectives:

This objective of the research is to assess the business model of The Coffee Gardens and compare it to other coffee business models, identifying the implication of each on rural development. This research will try to explore possibilities in different rural development approaches, demonstrate the relationship between the private sector and social changes in the rural area, and whether private-sector can effectively instil rural development in a way that is economically, socially, and environmentally sustainable. Overall, this research will try to inform on the limitations and possibilities of The Coffee Gardens in the future, especially in the context of COVID-19.

Methodology:

The project will be conducted through a combination of:

- Desk research:
 - i) Literature reviews,
 - ii) Data on coffee industry in Uganda and TCG Data
- Interviews with different actors along the value chain:
 - i) with farmers
 - iii) with experts from the coffee industry

The key factors that we will consider when comparing different business models are likely to be: farmers' share of export/sale price, non-monetary value addition (evaluated critically), employment created, positive externalities, etc. This will allow us to establish the variations in organisational set-up, organisational objectives, dynamic effects, and evaluate the transferability of the model.

Deliverables:

- A written report (approximately 8,000 words)
- A final presentation highlighting the main findings

Contact Details:

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- From The Coffee Gardens:
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II. Farmer Survey

Language: Interviews should be conducted in local language via an enumerator

INTRODUCTION - to be filled out by enumerator prior to survey

- A. Date of interview:
- B. Interview conducted by:
- C. Farmer name:
- D. Farmer phone number:

***** Script begins *****

Hello, my name is [xxxxxx] and I am conducting research on behalf of The Coffee Gardens to help them understand and improve their service to coffee producers like yourself. Just to confirm, you're a coffee producer and you sell your coffee to TCG, right? Can we ask you some questions about your experience with them? This should take 15 minutes.

I am not working for The Coffee Gardens, so you can speak freely. Any information you share will remain confidential and anonymous, and will not be shared with anyone without your consent.

Would you like to participate? Yes/No

SECTION 1: PRODUCER PROFILE

1. Producer Name:
 2. Which of the following applies to you:
 - a. Male head of household
 - b. Female head of household
 - c. None of the above
 3. For how many years have you been producing coffee?
 4. For how many years have you been picking cherries selectively? (i.e. separating red cherries from mixed coffee)
 5. What are the top 3 sources of income for your family?
 6. How much of your entire family's income in the last 6 months came from selling coffee?
 - a. 0-25% (a little bit)
 - b. 26-50% (up to half)
 - c. 51-75% (more than half)
 - d. 76-100% (almost all)
 7. What proportion of your coffee cherries are you selling to TCG?
 - a. 0-25% (a little bit)
 - b. 26-50% (up to half)
 - c. 51-75% (more than half)
 - d. 76-100% (almost all)
-

8. How many other buyers (not including TCG) did you sell your coffee to in the past year?
9. How do you choose who to sell your coffee to?
10. Instinctively, what do you value most when choosing a buyer: a trustful relationship or higher price?
 - a. Trustful relationship
 - b. Higher Price
11. In high seasons, how much more or less (compared to other buyers) per kilogram does TCG typically pay you?
12. In low seasons, how much more or less compared to other buyers did the TCG pay you?

In this next section, I'll be asking you more questions on your relationship with TCG.

Please remember that all your answers to this survey will be confidential, and your name will not be shared with TCG so you can answer as openly and freely as you want.

SECTION 2: IMPACT OF TCG

13. Have you received financial literacy training from TCG?
 - a. Yes
 - b. No
14. How has this training affected your day-to-day finances?
15. Do you have access to mobile money or a bank account?
 - a. Bank account
 - b. Mobile money
 - c. Both
 - d. Neither
16. Have you received training on good agricultural practices/agroforestry from TCG?
 - a. Yes
 - b. No
17. How has this training impacted you?
18. In general, would you say that your quality of life changed since you started selling coffee to TCG?
 - a. Positive impact
 - b. Negative impact
 - c. No change
19. How has your quality of life changed?
20. Does your food consumption change depending on the season, e.g., high vs low season?
21. If yes, how?

SECTION 3: RELATIONSHIP WITH TCG

(LOYALTY/TRANSPARENCY/CHALLENGES)

22. Were there advantages when you were working with middlemen? If yes, what were they?
23. Were there disadvantages when you were working with middlemen? If yes, what were they?

24. Do you feel more or less pressure working with TCG compared to working with middlemen?
- More
 - The same
 - Less
25. What do you value most about supplying coffee to TCG?
26. What are the top two reasons that you prefer selling your cherries to TCG over other buyers?
27. Is there anything you would like to change about your relationship with TCG?
28. Do you think the price that The Coffee Gardens gives for your coffee cherries is fair?
- Yes
 - No
29. If no, why not?
30. Do you have an alternative to TCG for selling your coffee?
- Yes
 - No
31. Is it a good alternative? If not, why?
32. How trustworthy is The Coffee Gardens compared to other buyers?
- Very trustworthy
 - Moderately trustworthy
 - Slightly trustworthy
 - Not trustworthy at all
33. Please explain. Why do you value trust?
34. Do you keep a record of the price you receive for your coffee?
- Yes
 - No
35. How useful is it to find out about price changes from a buyer? E.g. via SMS messages.
- Very useful
 - Moderately useful
 - Slightly useful
 - Not useful at all
36. How useful is it to receive receipts from a buyer?
- Very useful
 - Moderately useful
 - Slightly useful
 - Not useful at all
37. How useful is it to receive farmer record booklets from a buyer?
- Very useful
 - Moderately useful
 - Slightly useful
 - Not useful at all
38. Please explain why these things are useful? (price change SMS, receipts, farmer record booklets)
-

39. How do you think transparency between coffee buyers and coffee producers could be improved?
40. Have you experienced any challenges in working with The Coffee Gardens?
- a. Yes
 - b. No
41. Can you please explain these challenges?
42. When supplying to TCG, do you feel like you are part of a community or farmer network?
43. How has this impacted you and/or your work?
44. How is your association with The Coffee Gardens impacting your ability to deal with shocks (like COVID)?
45. Was their help at the level of your expectations?
- a. Exceeded my expectations
 - b. Met my expectations
 - c. Did not meet my expectations
 - d. I did not have any expectations
46. Can you see yourself supplying cherries to TCG in the next season?
- a. Yes
 - b. No
47. If no, why?
48. As a coffee supplier, what do you expect from TCG in the future to maintain the relationship, for example in terms of services, assistance?

SECTION 5: SURVEY CLOSE

49. Is there anything else you'd like to share with us?

Thank you very much for your time. We will use this information to inform The Coffee Gardens ways in which they may be able to improve. Have a great day!

***** Script ends *****

III. Expert Interviews – Questions

- General coffee business model questions
 - What are different coffee businesses you've seen?
 - How are these business models different/similar?
 - What makes them scalable/not scalable in your opinion? At what cost?
 - What incentive structures are often in place for farmers?
 - What is the role of middlemen in the Ugandan coffee industry?
 - How does businesses generally retain farmers?
 - Relationship with partners
 - How do you select your partners? What is the standard procedure to become a partner with your company?
 - Who makes these decisions and is it difficult for your company to end relationships with partners?
 - Relationship with TCG
 - How did the relationship start?
 - How much of their product do you typically purchase?
 - Moving forward, what do you expect from this partnership?
 - Social mission statements
 - How do you ensure your social mission statements are achieved?
 - How are your relationships with your partners and do they understand your mission statements?
 - Sustainability and development
 - In what ways has your company contributed to sustainability in Uganda, Ethiopia, or the UK? How?
 - Do you use any sustainability certifications e.g., SAFA?
 - How about the triple bottom line model? What is your experience with this?
 - Do you have any prospective sustainability plans for Falcon in the next 3-5 years? What outcome would you expect from it?
 - Can you tell us more about deforestation in the coffee industry?
 - How do you mitigate uncertainty in countries like Uganda or Rwanda? Do you work with the government to make sure the business isn't affected?
-

IV. Expert Interviews – Key Points

Great Lakes Coffee (Koen Sneyers)	Falcon Specialty (Anonymous)
<ul style="list-style-type: none"> • GLC is focussing on improving traceability through networks with farmers and lead farmers • TCG is unique as a coffee company in Uganda as it has limited reliance on intermediaries who reduce farmer margins • In the process of arranging pre-financing loans for farmers via commercial banks, this will allow for improved financial inclusion in the region • Bonuses can be based on traceability information in order to meet certain certification standards. Traceability adds value for certain buyers • Sceptical of NGO impact in the coffee sector, private businesses are often more effective • Scalability is dependent on reputation among farmers, number of farmers, and an increasing ability to cover management costs • Social businesses are aspirational, but fundamentally businesses cannot run without a profit • Lobbying and advocacy could help enforce sustainability and socially focussed practices along the coffee supply chain 	<ul style="list-style-type: none"> • Different coffee business models: cooperative, estate, exporters • Fundamental difference between models are economies of scale • Scalability hinges on whether capitalism can accommodate the rural poor. Until the dichotomy between size, risk, and reward changes: there is little scope for scalability. There always needs to be an umbrella entity that takes advantage of economies of scale. • Farmer retention often boils down to price offered and quality requirements. • Structural reasons such as the size and productivity of farms mean that the price farmers receive is not always a fair price. • A way to overcome this problem is to make a contract with a group of farmers and prefinance their crop e.g. up to X% of their next season’s volume, and pay them an advance. • Retention also depends on market conditions, there can be so much competition that if someone comes in with a higher price, your usual suppliers are swayed. However, if you have a strong enough community e.g. through off season benefits such as seedlings, agronomy training, compost, you may be able to increase loyalty.