Medium-Sized Project Completion Report
Kibale Forest Wild Coffee

Project Description	
1. Date of Preparation of Completion Report: June 5, 2002	
2. Title of GEF MSP: The "Kibale Forest Wild Coffee" Project.	**3. GEF Allocation:** $750,000
a) **Grant Recipient:** Uganda Coffee Trade Federation succeeded by Kibale Forest Foundation	**Grant Allocation:** UCTF. $502,000 (thru Sept 2000) KFF $248,000 (Sept 2000 to date)
5. World Bank Task Manager: Nathalie Johnson	

6. Project Goals and Objectives

The project was designed to conserve globally significant biodiversity in Kibale National Park and in the agricultural landscape of Uganda by creating a system to use income from sale of Kibale Forest Wild Coffee to improve management of KNP It was also intended to provide an incentive to small arabica farmers sufficient to lead them to produce organic coffee in biologically diverse agricultural ecosystems

Coffee is Uganda's primary export and earner of foreign exchange The project created a system to certify coffee origin and quality to back the validity of "eco" claims for wild coffee Chief among these claims is that income from the coffee will help conserve Uganda's biological diversity in two areas.

Kibale National Park -- the income was intended to support KNP's recurrent costs as well as investment in building capacity and other improvements It was also expected to provide support for social and economic investments in villages around KNP.

Arabica production zone -- the income was expected to pay small farmers in a selected district a premium to grow their coffee in small farmer agricultural systems that are certified as organic and "shade" grown. ("Shade Grown" certification requires that coffee is grown in biologically diverse agro-ecosystems that provide habitat for a richer diversity of fauna than large scale coffee farms.)

7. Expected project outcomes:

Project outcomes originally anticipated include

(a) Removal of a present threat to biological diversity in both the core conservation zone and the buffer zone and the establishment of a ecologically sustainable management system (based on monitoring by independent third parties) for the buffer zones of Kibale National Park in harmony with KNP's current management plan. This outcome should be reflected in the scope and scale of protection of forest biodiversity within Kibale National Park

(b) Establishment of a self-sustaining incentive for conservation of biological diversity in an agricultural landscape characterized by small farms growing crops in biologically rich, traditional systems. This should be reflected in the stability of number and size of small farms within project areas

(c) Creation of a financial flow for sustaining the costs of KNP's management (both in the buffer and core zones) and for investing in economic and social improvements in surrounding villages and in villages in the small farm districts.

Outcomes

During the course of GEF funding the Wild Coffee Project did not achieve its primary objective, which was the generation of income from the sale of Wild Coffee Project blends and the allocation of those funds to biodiversity conservation and sustainable community development. Achieving this objective requires significant additional investment and sustained marketing efforts. The magnitude of the funding needed for this marketing (estimated to be an additional investment of at least $800,000) was not anticipated when the project proposal was originally written

The marketing effort lies beyond the scope of the project resources available from the GEF. Regardless, the Wild Coffee Project was able to develop several assets that are the foundation of the marketing efforts that will follow provided that investment can be found

The GEF grant was invested in.

a) The design of the Wild Coffee Project
b) The establishment of an Internal Control System for the wild certification
c) The establishment of the Monitoring System
d) The establishment of the Kibale Forest Foundation
e) Negotiating Community Management Agreements
f) Development of the Wild Coffee Project website
g) Development of the Wild Coffee Project brand
h) Generating publicity and awareness of the brand

Below is a detailed treatment of expected outcomes, indicators and results.

Indicators:	Results:
(a) Effective management of buffer zones around KNP reflected in percent of area of KNP buffer zones that are under sustainable management according to the buffer zone management plan	There are six villages or communities along the north-eastern border of KNP The Wild Coffee Project focused on the first three communities, Kabiriizi, Nyakarongo and Mbaale The Wild Coffee Project can reasonably claim to have impacted almost 50% of the buffer zones along the north eastern part of the park Kibale Forest Foundation, the current manager of the Wild Coffee Project has established a rapport with the members of the three communities engaged in wild coffee harvesting. KFF has noticed in the community members an elevated appreciation for the biodiversity of KNP based on their increased understanding of the value that consumers in the west attribute to biodiversity. Impact on the management of buffer zones is expected when the project's income increases because a high priority for use of that income is community mapping and monitoring. The extension of the monitoring program in a collaborative fashion to include KNP buffer zones is ongoing The impact on the communities' perception and appreciation for the biological diversity of Kibale is expected to be significant.
(b) Number and acreage of small farms that are certified organic	The project had expected small farms in the area to benefit from the certification program developed for wild coffee However, all wild coffee is harvested from the core conservation zone and thus the certification program could not reach the small farms that are all located in the buffer zones. Going forward if the project's financial resources increase, small farms can benefit from certification and thereby increase their income potential.

Indicators:	Results:
(c) Number and acreage of small farms that are certified as producing coffee in mixed agricultural systems -- equivalent to the "shade coffee" of Latin American plantation coffee	This indicator was rendered irrelevant through a lesson learned during the course of project implementation Certifying the coffee produced in the buffer zones as "shade grown" offers no marketing leverage to the farmers or the program because farmers in the area only produce robusta coffee. The specialty market on the other hand claims robusta coffee is "low quality coffee." It is only interested in arabica coffee
(d) Volume of Uganda coffee exports that are certified as either wild, organic or produced from mixed small farm ecosystems	Though the percentage of Uganda coffee exports that are certified as organic has increased, the project cannot take credit for it However, the project can take credit for increasing the awareness of specialty coffees in Uganda based on active participation at two major trade expositions over the past two years. One was held in Hanover in June 2000. The other was held in Nuremburg in February 2002. Furthermore, the Wild Coffee Project attended the 2000 and 2001 Specialty Coffee of America Association (SCAA) annual conventions and made a case for Wild Coffee and Uganda in general
(e) Flow of income from sustainable harvest into park management	***Not achieved.*** The Wild Coffee Project has not yet started generating income from the sale of Wild Coffee Project blends Generating such flows requires an investment in the marketing of the brand that was developed under GEF funding The Wild Coffee has conducted three harvests and has developed an innovative marketing program to bring Wild Coffee Project blends to the market. The marketing partnerships under formulation are expected to generate some income that will benefit the communities and park management However, the project ***has not and does not expect to channel any significant income to park management*** until the project itself achieves financial self-sustainability. ***Key to achieving that level of financial independence is investing in marketing.***

8. Lessons Learned

8.1. The Shortcomings of the Commodity Model

The Wild Coffee Project's initial strategy was predicated on the commodity model. The project expected to search Kibale National Park for as much coffee as could be sustainably harvested, have it certified as wild, set up a coffee washing plant to add value to the coffee, and export the coffee to dealers or sellers willing to pay a premium for it. The premium would be the income available to support conservation and community development A consultant was engaged to develop an Internal Control System that would provide the mechanism by which the coffee could be certified wild and organic The project engaged the services of KRAV Control in Sweden to certify each of the wild coffee harvests. The internal control system was successfully developed and, to date, the project has had two harvests certified

After an evaluation of the coffee plants in the forest, the Project discovered that very little coffee was available – a symbolic token only No more than 1,500 pounds of wild coffee could be harvested each year without harming the fragile ecosystem of the park. A commodity model approach would have required selling the limited quantity of coffee for as much money as possible to generate sufficient income for the biodiversity conservation and community development programs. However, the needs of the park and the surrounding communities run into millions of dollars each year. Each pound of wild coffee would have to be sold for more than $1,000, an unlikely objective

8.2. Quest for leverage

Still thinking within the confines of the commodity model, the Wild Coffee Project contemplated blending wild coffee with other certified coffees from Uganda. This led to a concerted effort to find a supplier of organic arabica coffee

In December 1999, the Project entered a verbal agreement to purchase more than 18 metric tons of certified organic arabica coffee from the only certified organic coffee exporter in Uganda at the time At the time, the rules of the GEF grant did not permit the project to purchase coffee for sale. In September 2000, the Kibale Forest Foundation (KFF) was incorporated in the United States. The remaining project funds, representing less than 33% of the original grant, were transferred to the Kibale Forest Foundation. Only then could the Project contemplate purchasing the coffee. However, by this time the international price of coffee had dropped so far that the contract price proved unreasonably high. The Wild Coffee Project did not purchase the coffee

Still intent on developing a Ugandan Wild Coffee blend, KFF set about finding an exporter or broker that could supply organic arabica coffee from Uganda. KFF also started inquiring from roasters whether they would be willing to carry a wild coffee blend that contained 10% wild coffee and 90% Ugandan arabica After a protracted effort, KFF discovered that members of the

Specialty Coffee Association of America (SCAA) did not want to deal with *robusta* coffee, of which the wild coffee is the ancestor. KFF then considered blending very small quantities of wild coffee (as little as 1%) with certified organic Ugandan *arabica* coffee. A subsequent discussion with the coffee buyer at a leading coffee retailer revealed that he considered Ugandan *arabica* coffee "forgettable " Clearly, trying to impose on the market a blend of coffee that was considered "forgettable" did not bode well for a marketing effort that expected to collect a significant premium on all coffee sold The return on any investment in a significant quantity of Ugandan coffee would be low

The Project changed its product development focus and abandoned attempts to impose a blend on roasters. Roasters after all are craftsmen. They understand their product well Why not have the roasters determine how to create a Wild Coffee blend? KFF would provide wild coffee and a story to roasters who would develop a blend using coffee of their choice from any part of the world. KFF would provide the branding that would connect the blend to Uganda. This approach provided the Wild Coffee Project with tremendous leverage The only challenge that remained was to find roasters, distributors and marketers willing to help the Project exercise this leverage. KFF has made progress identifying potential partners willing to market Wild Coffee Project blends.

8.3. Is product quality a competitive advantage?

The market has preconceived ideas about the taste of coffee from specific parts of the world. For example, Kenyan *arabica* coffee has a very good reputation but Ugandan *arabica* does not. Regardless of our best efforts and investment, it would be almost impossible to change the market's perception of Ugandan coffee. Given the "poor taste" of Uganda's coffee what are the alternatives?

- Give up on marketing Uganda's coffee as a high value coffee. Stick to the commodity markets, forever consigning producers to low prices

- Invest in improving quality, a very long-term proposition that requires massive investments in new varieties, changes in crop management systems and lots of farmer education. The key problem is that quality is not necessarily a long-term competitive advantage if competitors also invest in quality improvements.

Frankly, product quality by itself offers no competitive advantage.

8.4. Is product quantity important?

The Project's potential revenue is not correlated to the amount of coffee the Project *supplied* but the amount of coffee the Project *sold*. There is a subtle difference. Even if KFF invested in procuring 90% of its projected sales from a supplier of Ugandan *arabica*, the market would be unwilling to pay a premium for the arabica. The return on the investment would be negligible. If instead KFF invested that money in marketing the wild coffee program and getting roasters to agree to blend their fine coffees with wild coffee, the return on investment would be much greater Such thinking violates the national boundary frame of reference of development programs. Most development agencies insist that development investments need to be made in the beneficiary countries. Yet KFF discovered that investing money to purchase Ugandan coffee would not generate returns for the project beneficiaries In fact, it would be a waste of resources. Better to invest the money in marketing efforts in the United States and the EU to create brand equity that would, in the future, return an endless stream of income to the beneficiary communities

8.5. Does certification offer a competitive advantage?

Initially the Wild Coffee Project thought that certification provided value The assumption was that the margin from certification would add sufficient value to motivate the Kibale people to respect their environment. That was until the real cost of getting the coffee out of Kibale was tallied. No margin could possibly cover the expense involved in harvesting 1,000 pounds of coffee. Furthermore, certified coffee is now widely available in the marketplace so certification does make coffee unique enough by itself to command a significant premium Certification alone does not make coffee competitive There still has to be positive consumer perception of the coffee in the marketplace

If coffee farmers in Uganda are already following organic practices, why spend the money certifying them if that investment brings little return? WCI discovered that certification is predicated on the commodity model. It makes sense in the context of quantity, but not quality. Kawacom, now the sole exporter of organic coffee in Uganda, values certification because Kawacom trades in so much coffee. An additional 20% margin from certification makes a big difference to Kawacom's bottom line. For a rural farmer producing a few pounds of coffee a year, a 20% increase in price does not do much. This is in fact the reason why rural farmers should not invest in certification

KFF's next thought was that Fair Trade certification would hold sway in the market In fact, the project's compensation model during the first two harvests could have passed muster with Fair Trade certifiers. Harvesters were paid more than a competitive price for each pound of coffee picked. However, KFF soon realized that Fair Trade's tactics polarized the coffee industry. Many roasters in the industry serve Fair Trade coffee to insulate themselves from criticism, not because they believe it works.

- A number of the roasters that KFF contacted objected to a price floor that had no economic justification They claimed that they were already paying more than Fair Trade's mandated $1.26 per pound for certain choice coffees. Low coffee prices are an important signal to farmers that something is wrong. The most obvious problem is that

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the quality of the coffee the farmer produces does not justify a high price Mandating a price floor insulates such farmers from reality and encourages them to keep producing more undesired coffee. Greater supply results in further depressed prices defeating the intended purpose of Fair Trade.

- A number of roasters were dismayed that Fair Trade had taken a moral high ground and implied that any initiative that was not Fair Trade was not good for farmers. Slogans like "if it is not Fair Trade certified it is not Fair Trade" may sound cute but they have a devastating effect on roasters that do not jump on the bandwagon Some roasters established direct partnerships with producers and could prove that they had a much better impact on the lives of these farmers than a Fair Trade initiative would. Yet because of Fair Trade's successful marketing campaign, consumers are unwilling to consider coffee from such partnerships as "fair to farmers " In effect Fair Trade is crowding out all other initiatives that are beneficial to developing country farmers but do not have the same level of publicity.

- The most common objection to Fair Trade was its impact on the bottom line. For roasters like Folgers where coffee represents a significant portion of the cost structure, committing to a price floor *that is not enforced throughout the industry* makes them uncompetitive. If for example Folger's agreed to purchase only Fair Trade coffee but Maxwell house continued to purchase some of the very cheap coffee available today, Folger would lose market share to Maxwell house Companies like Starbucks where coffee represents a small proportion of the final product are willing to consider Fair Trade if it offers insulation against protests

The Wild Coffee Project seeks to establish win-win partnerships with roasters The incentives of the farmers and roasters need to be completely aligned. Fair Trade on the other hand coerces roasters into taking a hit on their bottom line An association with the Fair Trade movement would create, in the minds of many roasters, an impression of the Wild Coffee Project that could prove very difficult to alter in the future Fair Trade was not the way to go

Certification has become a commodity; it offers no competitive advantage on its own

8.6. Thinking outside the box

The challenge was to develop a lucrative solution that provided returns in the short to medium term, not the long term. It required an *inversion* in thinking

- Don't sell coffee, sell a story
- Create a brand around the story
- Use the commodity to get the brand in the hands of consumers

Leverage is the key Coffee shops leverage their coffee 40 to 1 Each pound of coffee makes 40 cups of coffee that are sold at prices ranging from $1 50 to $3 00 The challenge is selling enough cups of coffee to make a business out of it Starbucks can leverage the coffee 40 to 1 and also sell millions of cups a day They enjoy both leverage and volume How do they do it?

What is the source of the leverage? Leverage comes from the strength of a brand. Starbucks sells millions of cups of coffee a day simply because of its brand name, not because of the superiority of its coffee How can the Wild Coffee Project achieve the same leverage?

The Wild Coffee Project has evolved to become a brand marketing initiative Marketing the project as a brand offers the greatest leverage for the Wild Coffee and any other products that come out of the area The lessons learned from this process are being applied to a follow-on investment in the Wild Coffee Project brand.

9. Changes to the original financing plan

The only significant change in the original financing plan was the transfer of financial control and the $248,000 grant balance from UCTF to KFF in September 2000. Apart from that, project funds were disbursed in the intended fashion.

10. Accounts

UCTF submitted a statement of accounts prior to transferring control and funds to KFF in September 2000. KFF is currently preparing final accounts to cover the period from September 2000 to date. These accounts will be submitted by September 30, 2002.

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