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Coffee Production a Golden Opportunity for Rural Youth Employment

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Executive Statement

This brief provides evidence on the status-quo in the coffee value chain and reveals that over 68 percent of profit margins along the international raw coffee value chain are retained at the farm level – and therefore opportunities for youth employment in the coffee value chain lies at the production level. Nevertheless the challenge remains the limited ability for the youth to actively participate in the primary coffee production. The upstream coffee production is a domain of households headed by the persons in the prime aged 31 years and above, seemingly with secure access to land - a key prerequisite given that coffee is a perennial crop. Therefore the concept of a new generation of young coffee farmers becomes more distant if issues regarding to access to land are not addressed.

Introduction

Studies have attributed the significant decline in poverty in the Central, Western and Eastern regions along the Lake Victoria crescent of Uganda to coffee growing. With growing youth unemployment and underemployment dilemma in Uganda - coffee growing is one crop production activity that has not yet been exploited fully as a promising source of employment especially for the youth in rural Uganda. A number of programmes have been initiated as a response to avert the youth unemployment crisis but such noble initiatives lack guidance from empirical research. This brief is an excerpt from a report by Mbowa *et al* (2013) and provides information on the latent golden opportunity coffee production presents in rural economies in terms of employment opportunities matched with capacity of earning high incomes just from crop production.

Upstream Coffee Production Activities and Employment Effects

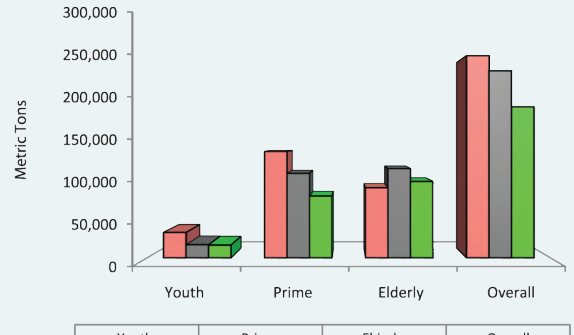
Recent data form the Uganda National Panel Survey (UNPS), 2010/11) shows that on average, coffee farming employed about one million households. Such employment opportunities at primary production node of the coffee value chain tend to improve with age – peaking within the prime age group (Figure 1). A phenomenon explained by the need to have access to secure land before investing in coffee production - which like other forms of wealth is acquired in the later stages of life.

A decline in coffee output between 2006 and 2011 suggests reasons for the general decrease in employment in the coffee sector (Figure 1). There are mixed trends in coffee output and employment from different sub-regions in the country. Two reasons appear to have been responsible for the trends in employment at household level in the coffee sector - the effects of the coffee wilt diseases (CWD) that destroyed 50 percent of coffee trees in the wider Central region, and variations in the international coffee prices.

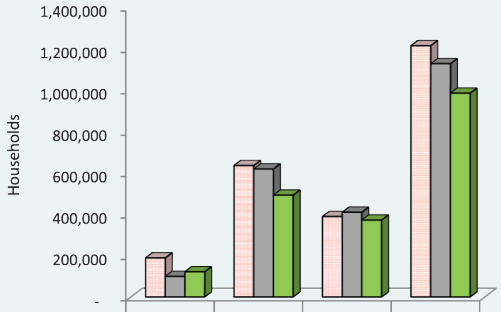
Furthermore,Mbowa *et al* 2013, document that the number of persons living in coffee producing homesteads are on a decline (from 4 million in 2006 to 2.8 million in 2011). The declining trends in the availability of family labour in the coffee sector are steadfast within the youth age group. It is apparent from regional distribution of coffee output (Figure 2) that employment stimulus programs from primary coffee production and marketing activities countrywide are best suited in the 6 sub-regions (i.e. Central1; Central2 south-Western; mid-West; east Central and Eastern) of the country.

The key policy message from this section of the brief relates to the fact that the youth have had limited capacity to participate in coffee production. This is attributable to limited access to land, which has kept coffee production a domain of the capitalized households headed by the persons in the prime and elderly age group. Uganda needs a new breed of young coffee farmers, but without access to land, and facilitation the youth dividend within the coffee sector will remain unrealized. The UCDA technical staff consulted by the research team revealed that a 5 to 10 acre coffee garden with good management can deliver a decent living to an average Ugandan.

Figure 1: Household Level Life Cycle Employment at the Production Level of the Coffee Value Chain



	Youth	Prime	Elderly	Overall
2005/06	32,195	134,521	88,712	255,505
2009/10	16,600	106,877	112,829	236,306
2010/11	16,134	78,148	96,545	190,913



	Youth	Prime	Elderly	Overall
2005/06	188,919	635,037	388,716	1,214,24
2009/10	99,752	618,284	409,218	1,127,25
2010/11	121,512	491,666	371,521	984,698

Source: Authors computations from 2005/06 UNHS & 2009-12 UNPS data

Employment from Primary Procesing and Marketing the Coffee Value Chain

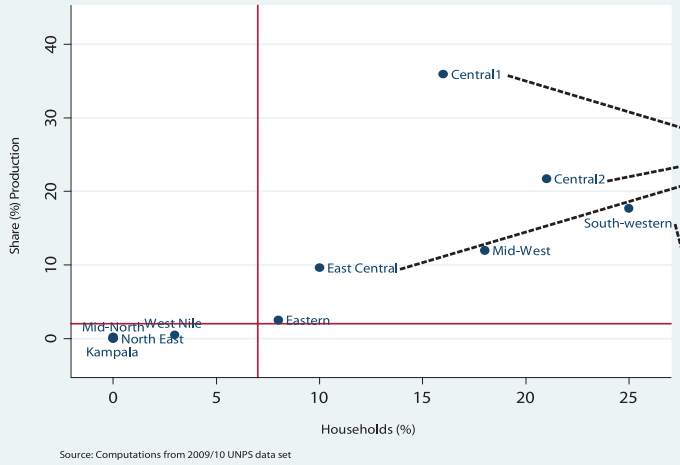
A total of about 3,000 persons are employed by 489 registered business firms operating in the midstream sections of the coffee value chain as processors and merchant traders, respectively (Table 1). It is evident that employment opportunities in the midstream sections of the coffee value chain tend to be centered within the major coffee producing regions (Central1; Central2 south-Western; mid-West; East Central and Eastern) of the country - where most of the key business firms are located (Figure 2).

Apparently coffee processing firms are the most labour intensive, providing a mean of 13 jobs per firm, compared to the only 2 jobs generated from merchant coffee trading firms.Coffee processing firms provide de-hulling[1] services to kiboko (dry Robusta coffee cherries) traders (assemblers/collectors) at a fixed fee. After processing the dry cherry, the kiboko traders more often sell the FAQ coffee at the mill to "FAQ" merchant traders[2], and rarely sell the FAQ coffee directly to

1 Coffee mill owners (processors) prefernot to take the price risk involved in buying unprocessed coffee (Kiboko) due to the low margins (the result of low world prices) and high price volatility. Instead, most mills provide de-hulling services to kiboko traders (assemblers/collectors) at a fixed fee (Collinson*et al.*,(2002).

2 Collinsonet al., (2002) relate the justification of having the merchant FAQ traders as an extra set of intermediaries between the Kiboko collectors (assemblers) and exporters due to: (i) the extensive buying processes at the exporter depot; (ii) conditionality of making payments through bank transfers, with the associated delays.

Figure 2: Zonal Clustering of Business Firms within High Potential Coffee Producing sub-Regions in Uganda



Source: Computations from 2009/10 UNPS data set

Sub-regions	Processors		Merchant Traders	
	Business Firms	(%)	Business Firms	(%)
Kampala	-	-	9	5.4
Central1	39	12.5	58	34.7
Central2	61	19.6	43	25.7
East Central	35	11.2	8	4.8
Eastern	48	15.4	6	3.6
Mid-North	-	-	-	-
North East	-	-	-	-
West Nile	-	-	-	-
Mid-West	44	14.1	15	9.0
South-western	85	27.2	28	16.8
Total	312	100.0	167	100.0

Source: 2010/11 COBE

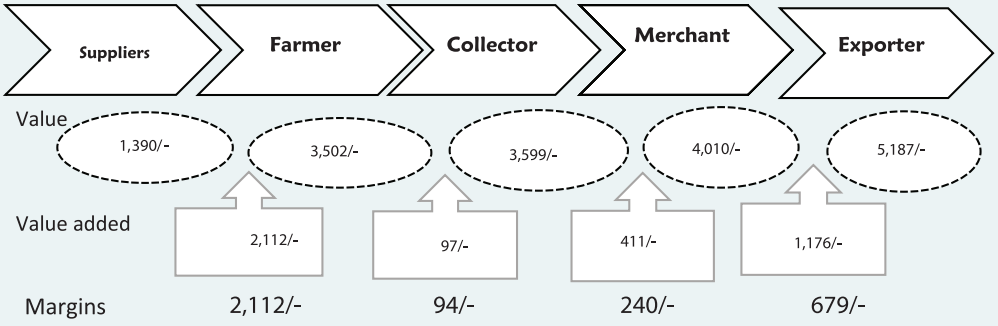
exporters.

Table 1: Distribution of Employment Outturns from Formal Midstream Coffee Business Firms

Sub-region	**Processing**		**Merchant Trading**		**Total**	
Employees	(%)	Employees	(%)	Employees	(%)	
Kampala	530	23.9		-	530	17.7
Central1	404	18.2	78	10	482	16.1
Central2	338	15.2	131	16.9	469	15.7
East Central	40	1.8	60	7.7	100	3.3
Eastern	266	12	154	19.8	420	14.0
Mid-North	-	-	-	-		-
North East	-	-	-	-		-
West Nile	-	-	-	-		-
Mid-West	-	15.6	103	13.3		-
South-western	294	13.3	251	32.3	545	18.2
Total	2,218	100.0	777	100	2,995	100.0
Employee Distribution						
Value Chain Activity	**Firms**	**Employees**	**Minimum**	**Maximum**	**Median**	**Mean**
Merchant Trading	312	777	1	2	1	2
Processing	167	2,218	5	13	5	13

Source: Computations from 2010/11 Census of Business Establishment (COBE)

Figure 3: Mapping value added and income in the Robusta coffee[3] value chain



Source: Authors computations from data contained in USAID (2010) report

The majority of kiboko traders –operate on small profit margins and wish to recoup working capital quickly to maximise profits in a coffee season; (iii) The most tellingly fact relates to the need to reduce the transaction costs, which force most exporters to set a minimum buying quantity usually to 300 to 500kg of rough-hulled coffee. Most kiboko traders are unable to collect this minimum quantity; while the "FAQ" merchant traders are able both to assemble sufficient quantities, and wait longer for the payment investigated.

3. Prices are given in clean (green) coffee equivalent of dry cherries (kiboko) at an outturn of 55 percent per kg

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The brief shows evidence of zonal clustering – in the upstream and midstream coffee value chain activities in the same sub-regions (Figure 2). This is useful information to government – identifying the parts of the country with high potential for creating more jobs by innovatively introducing employment stimulus programs with synergies that link coffee production, processing, to the export market. The precondition to having this in place would require reactivating and or building cooperatives institutions with programs where the youth are organized in groups, where credit facilities could be extended, to enable the purchase of optimal volumes of coffee which is to be processed in centrally managed coffee processing facilities.

Insights on Income Distribution along the Coffee value chain

In the coffee value chain, the farmer assembles inputs (valued at Ugx 1,390) in the production of a kilogram of FAQ coffee – and adds the highest value of Ugx3,502 (41 percent) in the robusta coffee value chain. The farmers likewise earn the highest margins (Ugx 2,112) for each kilogram of green coffee beans produced and sold off farm (Figure 3). As alluded to earlier, it is quite evident from Figure 3 that greater employment opportunities are at farm level.

Conclusions and Recommendations

The pathway for opening employment opportunities for the youth in the coffee sub-sector lies in aiming to create a new generation of young youthful coffee farmers. Lessons need to be picked from the increasing number of foreign companies (like Kaweri in Mubende, and Mugerwa Venture Farm in Masaka) making entries into primary coffee production activities to optimize on high farm level margins in the coffee value chain. This would call for public investment in programs to sensitise and demonstrate to the youth that one can derive a decent livelihood by engaging in coffee production. The way forward would involve - identifying and targeting the youths with access to land (5 acres and above), and increase public funding to Uganda Coffee Development Authority (UCDA) to intensify coffee growing campaign to the youth with access to family holdings. The Mid-Northern sub-region is one part of the country with vast opportunity to expand coffee production in the country.

Endnotes

i. Collier Paul (2001). The Future of Perennial Crops, The World Bank, Prepared for International Conference on The Future of Perennial Crops, Côte d'Ivoire and Simon Appleton (2001). Poverty reduction during growth: the case of Uganda, 1992-2000, University of Nottingham

ii. Mbowa, S., Ahaibwe, G., and Lwanga, M.M. (2013). Insights on opportunities for youth employment in agricultural value chains: the case of maize and coffee. Unpublished economic Policy Research Centre (EPRC) Working Paper. Plot 51 Pool Road, Makerere University, Kampala Uganda.

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