# Middlemen: Thread or opportunity for the Ugandan coffee value chain?

The Ugandan coffee value chain is challenged by market failures and a number of risks. Poor infrastructure, limited access to financial and extension services, low coffee productivity and quality and price volatility, influence how farmers interact in the market. In a liberalised coffee market like in Uganda, farmers can choose between formal markets, i.e. producer organisations, (e.g. cooperatives or farmer groups), or informal markets, i.e. independent intermediaries, commonly known as middlemen. If a farmer is a member of a producer organisation and hence has an agreement with the organisation, selling to middlemen is seen as "side-selling". This behaviour threatens the economic viability of the producer organisation. From the farmers' perspective, different marketing channels could mean access to different quality markets, prices and services. Trading with middlemen however has a negative connotation, as it is related to price manipulation and swindle concerning the weight or quality of coffee.

To understand the role of side-selling and middlemen in the Ugandan coffee sector, the International institute of Tropical Agriculture, funded by the "Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH", analysed socio-economic and institutional factors driving farmers' choice on marketing channels.

## Can we actually talk about side-selling?

Side-selling usually refers to non-compliance with a contract in the context of a contract farming environment. The problem is, and this was also found in this study, that agreements between producer organisations and producers don't necessarily define specific commitments in relation to quality and quantity to be delivered and the price to be paid. In such a situation, partners remain autonomous and legally independent in their decision making, and ultimately have to rely on mutual trust and loyalty. If the term side-selling in such an environment is applicable, is a subjective feeling. For some, non-compliance with oral agreements based on trust is perceived as side-selling. For others, the concept of side-selling applies depending on the "quality" of the agreement (if price, quality and quantity is stipulated), since they are generally not legally binding to farmers.

### What's and Where's around the study

*What?* Participatory household & stakeholder surveys / interviews, and a validation workshop
*Where?* Buikwe, Luuka, Masaka, Mityana, Mubende
*When?* 2017/2018 for surveys (all results refer to this season), 2019 for validation of study findings
*Who?* For surveys: 503 coffee farmers (part of a producer organisation), 102 coffee stakeholders (49 intermediaries, 45 producer organisations, 8 private companies). For validation workshop: 30 stakeholders (representatives from NGO's, international cooperation, middlemen, producer organisations, export companies)

## Producer organisations and middlemen are valued by farmers for different reasons

Based on study data, producer organisations estimate that 56%-65% of the coffee of their members is side-sold. Data from farmer household surveys match well with this estimation: 55 % of farmer sold all their coffee to middlemen. Asking farmers for their reasoning for choosing one buyer over another shows that generally, better prices and trust are the primary motivation. While for producer organisations these were the two main reasons mentioned, the motives to sell to middlemen are more diverse.:

- Middlemen offer to buy at farm gate, i.e. farmers have reduced transport cost
- Middlemen usually do not have high demands on coffee quality. Many resource-poor farmers can not afford to care about quality
- Middleman, opposed to producer organisations, offer instant cash payments. Resource-poor farmers are usually in need of instant cash
- Middleman often buy different coffee processing forms, including red cherries. Resource-poor farmers can't or do not want to invest time and money in processing, and hence might prefer to sell unprocessed coffee.

## Farmers' decision making is a product of internal and external factors

An analysis based on a modelling approach revealed further potential determinants for farmers' choice on who to sell to. For instance, the district as an indicator for site-specific market dynamics was identified as the most important determinant. There are differences among districts in the frequency of side-selling, credits given, prices paid and farmer performance. Few farmers in Mityana sold to middlemen only, while many in Masaka did. Mityana stands out from the other districts (e.g., higher yields, higher received coffee prices, more credits received), indicating regional differences in producer organisations' efficiency. The validation workshop revealed that in Mityana, producer organisations had a strong basis because most were founded at the same time as coffee growing started. This in turn resulted in a lower number of middlemen in the market. In Masaka in turn, producer organisations offered fewer services, lower coffee yields were recorded, and the highest proportion of unprocessed coffee was sold. The historical background here is contrasting to what was found in Mityana: A previously existing cooperative collapsed, which allowed the entry of numerous middlemen who established long-term relationships with farmers. In many cases, middlemen also have milling stations, enabling them to buy and process unprocessed coffee from farmers.

*"For many resource-poor farmers, selling to middlemen is the only viable option"*

This leads to another important determinant found in the study: The processing form bought by different buyers. Many farmers sell their coffee unprocessed (as red cherries), however producer organisation buy mainly processed coffee. Stakeholders agreed that middlemen have diverse marketing niches allowing them to buy all coffee forms at different prices. Besides, they have more access to market information, hence getting better selling prices and more liquidity to reach smallholder farmers. Producer organisations on the other hand require 3 to 10 days to bulk coffee until they reach tradable quantities to sell to exporters.

For resource-poor farmers as well as for those selling their low quality produce of the season unprocessed, the only available market channel is via middleman. Smallholder farmers who trade small coffee quantities and who have other income sources, further processing of coffee could not be profitable or could be related to a business logic: selling red cherries is the most profitable alternative, which means that best prices can be obtained for the quality of cherries they have.

Farmers also decide on who to sell to depending on the time of the season. Higher quantities of processed coffee is sold to producer organisations during the peak of the harvest season, while lower quantities of low quality or unprocessed coffee is sold to middlemen throughout the season. In other words, farmers try to maximise their profit by selling different quantities and qualities to different buyers depending on the time of the season.

## The middlemen as "coyote": Myth or reality?

There is a widespread concern that farmers might be exploited by middlemen, e.g., receiving lower prices or pre-selling unharvested coffee, a practice in where farmers are given loans/cash advances payable with their coffee harvest. Study data however did not confirm these concerns. Comparing prices in the five districts and for different processing forms between producer organisations and middlemen show that in most of the cases, there was no difference between prices paid. Only in Mityana and Mubende, higher prices were paid by producer organisations for FAQ and Kiboko, respectively. According to stakeholders, Mityana and Mubende have infrastructures for coffee processing, larger amounts of coffee are bulked and sold directly to exporters. In addition, Mityana is close to Kampala, hence producer organisations may be able to pay higher prices due to lower transaction costs. For other districts or processing forms, there was no evidence that producer organisations paid higher prices. In some cases, middlemen were even found to pay higher prices than producer organisations.

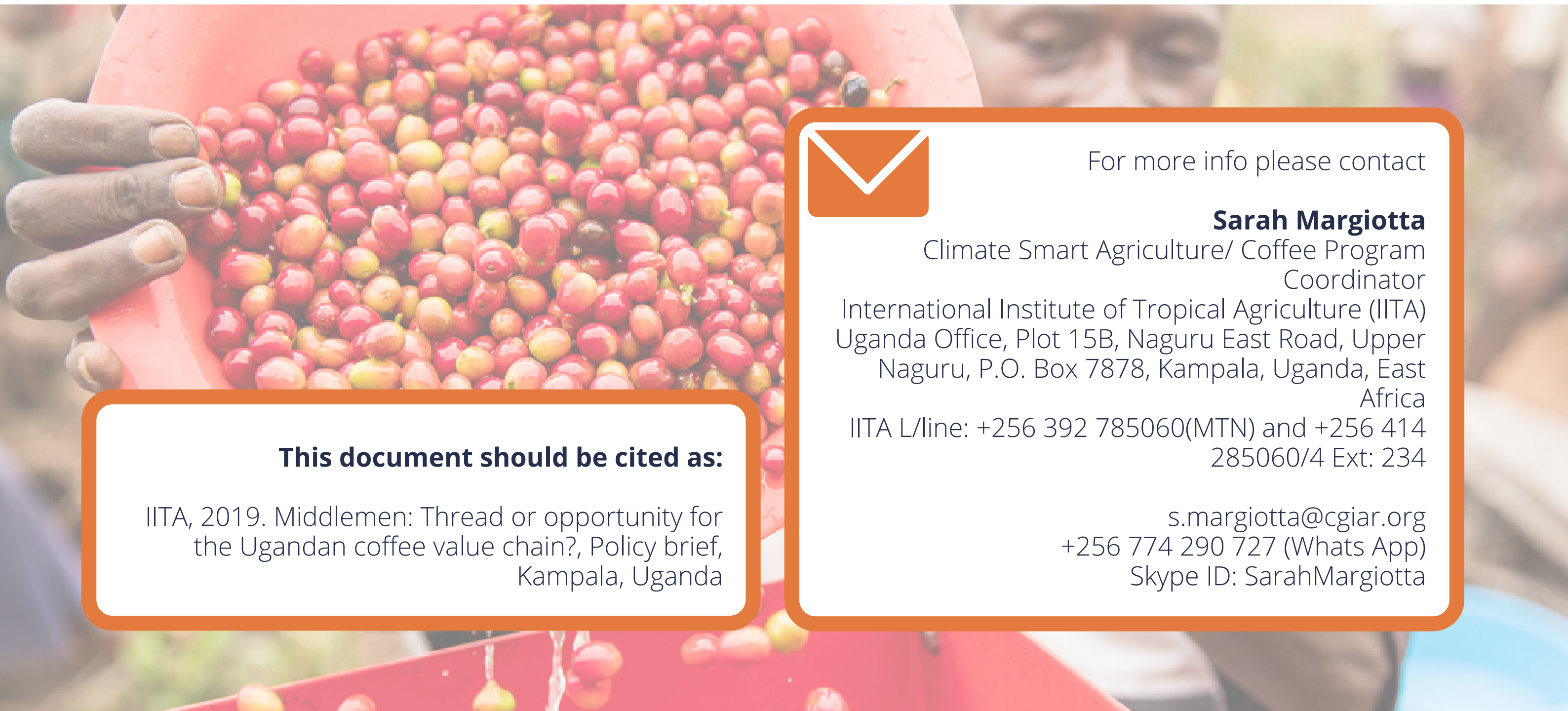
Concerning credits and pre-selling coffee, study results show that only 3% of farmers received credits from middlemen, and only 4% of farmers reported to have pre-sold coffee. This is the only aspect where stakeholders disagreed with the study results during the validation workshop: According to them, middlemen are farmers' main credit source or providers of cash advances for coffee. In contrast to producer organisations, they do not ask for collaterals, and they have the liquidity to provide larger amounts of credit or cash advances. Therefore they doubt that only 3% of farmers received credits by middlemen. Furthermore, pre-selling is believed to be much more prevalent that what was shown in the study. It is suspected that farmers might have not been honest during the survey, as pre-selling is considered a "bad" practice associated with a poor economic situation of the family. On the other hand, some stakeholder do believe study findings might be true, and that both, credits given by middlemen and pre-selling unharvested coffee might have decrease in recent years. Granting credits to members and pre-buying is a risk for middlemen, since in the end farmers might decide to sell their coffee to their organisations. In recent years, farmer organisations also received training in farm management and financial literacy, making them more aware of the risks of taking credits from middlemen.

Lastly it was also agreed that the finding might be related to the sampling of the study, where only farmers being a member of a producer organisations were surveyed. Pre-selling might indeed be much more prevalent among independent farmers.

## Are middlemen a thread or opportunity for Ugandan coffee value chain?

In the Ugandan coffee sector, middlemen have a vital function within the value chain. They link farmers to market when no other option is available, connecting remote communities to markets, buying low quality coffee that is not interesting for organisations (but still need to be bought from farmers), and their services are complementary to what producer organisations can offer to farmers. In addition, the ability of middlemen to bulk larger quantities makes them the main suppliers for private companies. Rather than holding on to the traditional stereotype “of the opportunistic middleman”, opportunities to include them as active contributors in building strong value chains should be explored.

Ultimately, a combination of the different services offered by producer organisations and middlemen would probably be a solution to tailor site-specific needs of Ugandan smallholder farmers.



**This document should be cited as:**

IITA, 2019. Middlemen: Thread or opportunity for the Ugandan coffee value chain?, Policy brief, Kampala, Uganda

For more info please contact

**Sarah Margiotta**
Climate Smart Agriculture/ Coffee Program Coordinator
International Institute of Tropical Agriculture (IITA) Uganda Office, Plot 15B, Naguru East Road, Upper Naguru, P.O. Box 7878, Kampala, Uganda, East Africa
IITA L/line: +256 392 785060(MTN) and +256 414 285060/4 Ext: 234

s.margiotta@cgiar.org
+256 774 290 727 (Whats App)
Skype ID: SarahMargiotta

*This work was fundend by„Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH“*