

SOURCING AND SUSTAINABILITY REPORT 2018-19









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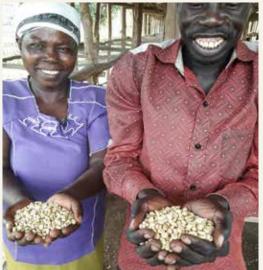




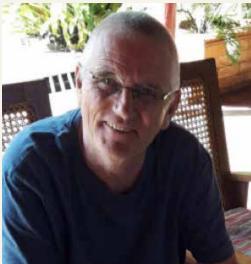














WELCOME

Welcome to our Sourcing & Sustainability Report 2018-19. We are a specialty coffee exporter operating in the districts of Zombo and Nebbi, in the Nile Highlands of far north-western Uganda, home of the Alur people. We are very small and very new and – as Winston Churchill said of Clement Attlee, who replaced him as Prime Minister in 1945 – we have much to be modest about. However, like Attlee we also have things we are proud of, and would like to share them with you.

We will publish this report annually as a way to hold ourselves to account; to compare what we do and how we do it with the very best practice in our industry; to improve year-on-year; to learn and receive input from you, our partners, local and global; and to integrate our learnings into the way in which we conduct ourselves as a business.

We have worked with some of our farmers since 2015, but 2018-19 was our first year of business as Zombo Coffee Partners Ltd (ZCP). It has been an eventful and exciting year, and we have learned tremendously. We want to express our work, aspirations and learnings within this, our first Sourcing & Sustainability Report.

Kind Regards

Andy, Jason and Aggrey

Directors of Zombo Coffee Partners Ltd.





OUR MICROSTATION PARTNERS

Coffee microstations, and the farmers who build, own, operate, and supply cherry coffee to them, are the beating heart of our business. They are our first partners. They are a key reason for our business to exist.

The coffee microstation is an African farmer-owned business and processing model which produces consistently high-quality coffee at a very small scale. It is a central coffee washing station that is within the means of a small group of farmers to construct and manage, with a minimum of external support. Its purpose is for smallholders by their investments and their work to increase the quality, consistency and selling price of their coffee, and thereby maximise their income. Its salient features are:

Quality improvement. Central processing of cherry allows industry best practice to be maintained at each microstation, through meetings with farmers, technical training of key personnel, quality monitoring, constant cupping of samples and feedback to the farmers.

Increased farmer income. Microstations produce coffee which is sold at premium prices that give farmers a better income. In 2018 we prefinanced farmers' fresh cherry at a price around 20% above the local market, and paid farmers a quality premium of 33% of the profit we made per lot, after sale.

Small scale. Specialty coffee production at the level of up to 150 farmers means greater attention to detail than can be maintained on a large washing station, which in turn means better quality.

Self-help. The members themselves source locally-available resources to build the microstation framework - drying shed and tables, quality table, coffee store. Each member makes a (roughly) equal contribution to the microstation, in the form of land, construction materials, (timber, bricks, sand and stones), construction labour, construction skills, and cash.







Member shares. Each member's contributions are valued at rates agreed by all the members, and the member is given a share certificate showing the value of his or her investment in the microstation. This investment does not confer special voting rights, the microstation is a democracy – one member one vote.

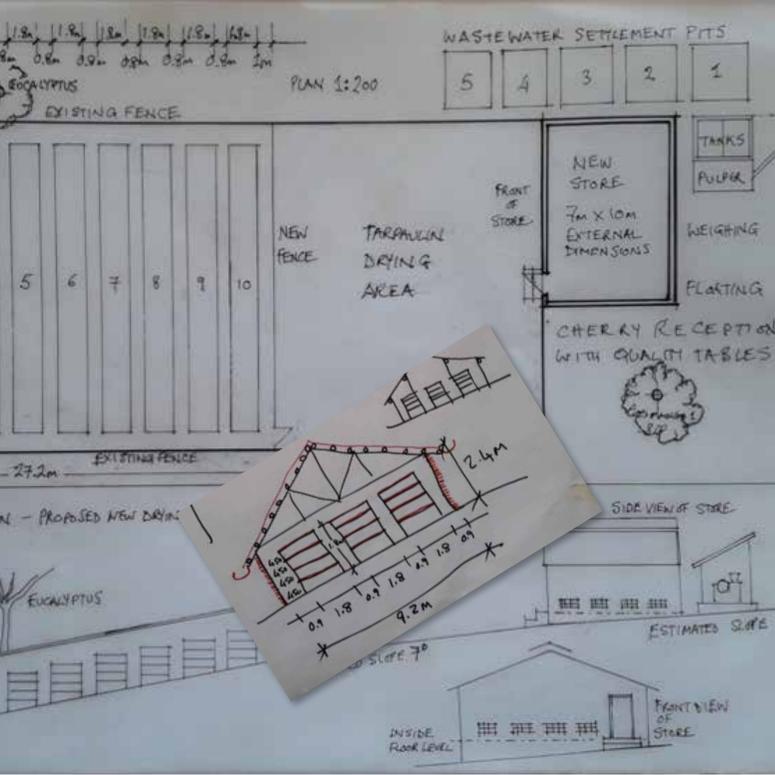
Self-management. Members elect a small committee which appoints a manager, and operate the microstation themselves with voluntary or paid labour, most often a combination of both.

Low labour requirement. Coffee is dried for the initial period under a roof, reducing the labour needed to protect it from hot sun and rain. This also improves quality by extending the drying period and giving greater control over the drying speed.

Low impact. A microstation has a small footprint anyway, and an extra feature is that the coffee is dried on tables (beds) arranged in vertical tiers, radically reducing the need for space. The volume of clean water consumed, and of contaminated water produced, is much lower than for a conventional coffee washing station. It's still there, but at a level that does not risk producing an environmental hazard.

Reward for quality. In 2018-19 ZCP made a profit on only a small part of our coffee, microlots from Culamuk and Ajere microstations. We paid 33% of this profit to the two microstations as a quality bonus (\$0.82 per kg of green coffee sold). 25% of this went to the microstation and 75% direct to individual farmers, cash in hand, according to volume delivered. We guarantee to our farmers that whenever we make a profit on an export lot we will pay a minimum of 33% of that profit as a quality bonus, whether or not the business as a whole makes a profit on the year.

Equitable credit. The company provides interest-free crop and operational pre-finance to each microstation. If members deliver their cherry on credit and wait to be paid till the coffee is sold, we pay interest to them, since they are acting as our bankers. Our database allows us to track every delivery of cherry and calculate the interest we owe to each farmer, per kilogram of cherry, per day since it was delivered. We paid interest on about 10% of the cherry delivered in 2018-19.



Financial empowerment. Microstations have the option to buy shares in our company on behalf of their members and thereby benefit from the success of the company as it grows. Our target is 25% farmer-ownership by 2028. This offers the possibility of a route out of the "commodity trap" that coffee farmers are caught in around the world, particularly severe in Africa where farms are very small and costs of export are high.

Local economic development. Microstations increase the income of the community by paying a core team of permanent staff, and casual workers in the coffee season. They also increase its collective skills, as members learn how to produce exceptional coffee, how to run a small business – by actually running a small business – and how the specialty coffee value chain works.

In 2018-19 we worked with seven microstation groups. There is more detailed information about each group on our website **www.zombocoffee.com**.

Microstation	Altitude MASL	Members			Coffee Trees	Per Member
		Women	Men	Total		
Ajere	1,590	20	65	85	39,515	465
Ambe	1,480	93	180	273	107,289	393
Culamuk	1,370	63	48	111	36,980	333
Gonyobendo	1,495	51	103	154	60,522	393
Leda	1,506	49	60	109	43,884	403
Ndhew	1,445	41	75	116	53,739	463
Pamitu	1,641	39	46	85	24,940	293
	Totals	336	512	848	327,354	386
		40%	60%	100%		

THE STORY SO FAR

1940s - Farmers in and around Zombo start planting coffee. In Africa coffee farmers have pocket-handkerchief-sized plots with between 50 and 500 coffee trees as the normal range. The coffee from a single farm does not produce enough surplus to invest in processing equipment that can maximise coffee quality. And every farmer does things slightly differently. So farm-washed coffee tends to be uneven in appearance and taste, which means it is of lower value.

2011 February – ZCP co-founder-to-be, Andy Carlton, visits Indonesia on behalf of Twin UK and sees the system used at cooperatives in Aceh Province, northern Sumatra. Collectors buy cherry from coop members, process it in their own tiny washing stations and sell the wet parchment coffee back to the cooperative at a fixed price. The collector system would be difficult to transplant to Africa, but the idea of a tiny washing station owned and operated by a small farmer group – the microstation – is born. Inspiration also comes from minipulperies in Peru (COCLA) and Malawi (Mzuzu Coffee).

2011 September onwards – The first microstations are built in Uganda by farmers at Bukonzo Joint Cooperative Union and Bukonzo Organic Cooperative Union. The microstations are co-funded by the farmers and Rabobank Foundation NL, which provides investment and crop finance loans, and free technical assistance through Twin UK. By 2019 about 80 microstations are operating in Uganda, producing about 30 containers of specialty coffee a year.

2013 onwards – Farmers begin constructing microstations in DR Congo at the four cooperatives of Kawa Kabuya, Kawa Kanzururu, Kawa Maber and CPNCK. The project is co-funded by the farmers in partnership with the Belgian government, the Common Fund for Commodities and Cordaid. It is co-implemented by the farmers and the Belgian NGO Vredeseilanden (now Rikolto). To date the members of the four coops have constructed over 100 microstations between them and export annually more than 20 containers of specialty coffee. Microstations have done extremely well at the *DRC Taste of Harvest* and the *Saveur du Kivu* cupping competitions, in 2018 gaining 8 out of the top 10 scores.

2015 - Oxfam funds and Twin implements a pilot project to investigate whether farmers in the Nile Highlands of north-western Uganda will cooperate with each other to build microstations, and whether the coffee they produce will reach specialty quality. Farmer groups construct three microstations - Leda, Culamuk and Pamitu. Despite difficult drying conditions caused by severe El Niño rains, the coffee they produce reaches the remarkable scores of between 85 and 87.5 in the first season. The coffee, a small volume as the project has no trading capital, is bought by Atlas Coffee Importers in Seattle.

2016-17 - Almost nothing happens. The farmers continue to deliver small quantities of cherry to their microstation on credit, and to produce superb coffee which is sold locally at above market price, but never enough to export. Attempts to fund a follow-on project fail. It slowly becomes clear that the way forward is for farmers to partner with their former technical supporters in a new coffee business.

2018 – August, September – Zombo Coffee Partners Ltd is registered in Uganda with Andy Carlton and Jason Ferriman as its co-founders. ZCP enters partnership agreements with seven microstation groups in Zombo and Nebbi districts, (including the original three, Leda, Culamuk and Pamitu) and prefinances them as the season starts.

2018-19 – The seven microstations between them produce 33.9 tonnes of "parchment" coffee. It is milled into 27.8 tonnes of green coffee. ZCP exports 2.16 tonnes as microlots in April 2019 at \$2.93/lb, and pays a bonus to the producers of 33% (\$0.82/kg of green coffee) of the profit we made on those microlots. 19.2 tonnes are exported as a container of single-source fully-washed arabica in May at \$0.70/lb above New York. This is a not-unreasonable quality premium (one would think) but it does not cover the cost of production and export, since our volume is small and New York is exceptionally low.

Microstation cup scores

Date	Cupper company & name	Ajere	Ambe	Culamuk	G-bendo	Leda	Ndhew	Pamitu
14-Dec-18	UCDA Q-Grader (Clare Rwakatogoro)	84.75	84.75	85.75	87.50	88.25	82.25	85.00
04-Jan-19	Twin Trading (Andrea Otte, Maire Reier, Florian Cross)	84.75	78.67	83.83	84.42	84.75	83.42	84.00
10-Jan-19	Falcon Speciality UK (Matt Sealy)	85.25	85.00	83.00	83.25	84.75	81.75	83.50
25-Jan-19	Nordic Approach (Joanne & Morten)	86.50	86.00	83.75	82.50	84.75	83.50	N/A
27-Jan-19	BJCU Cupping Event (Drew, Susan, Kate & Mollie)	85.00	84.69	84.19	82.81	83.06	84.75	84.69
12-Mar-19	OLAM Specialty UK (Bertie Sewell & col- leagues)	81.65	84.03	83.84	81.46	83.83	81.54	81.54
12-Mar-19	Mercanta (cuppers unknown)	82.63	80.50	80.25	82.00	81.25	80.50	81.75
14-Mar-19	OLAM Specialty UK (Phil Schluter & Chris Mackrill)	83.52	83.47	82.42	83.13	83.70	83.66	82.80
19-Mar-19	49th Parallel (Damian Durda & Sasa Stojanovic)	85.12	85.88	85.62	86.00	85.38	85.25	85.25

QUALITY

On the farm and the microstation, quality procedures are the focus of constant attention. Farmers are asked to take care when picking, to train their pickers – family members and hired labour alike – to hand-sort the cherry on farm and bring only fresh red-ripe cherry to the microstation. If the cherry is still a mixed bag on arrival, the farmer must hand-sort it again before presentation. It's then floated in water and the floaters removed. After pulping the parchment is fermented for 36 hours then tested, and washed thoroughly in clean water when the fermentation process is finished. The washed parchment is floated and the floaters removed, it is hand-sorted while still wet, dried on raised beds under shade until it reaches 15% moisture, then out in the sun until it reaches 11.5%. It is stored on pallets in a well-ventilated clean store at the microstation, then transported to the central ZCP store at 1,500m elevation until time to transport it to Kampala for milling and shipping. The process varies for naturals and honey coffee but the attention to detail at every stage does not.

Total parchment milled kgs33,390Total green FAQ produced kgs27,323Outturn of FAQ from parchment81.83%Total Above Screen 15 (AB) colour-sorted kgs22,632Outturn of AB from Parchment67.78%Outturn of AB from FAQ82.83%

Dry-milling, grading and sorting

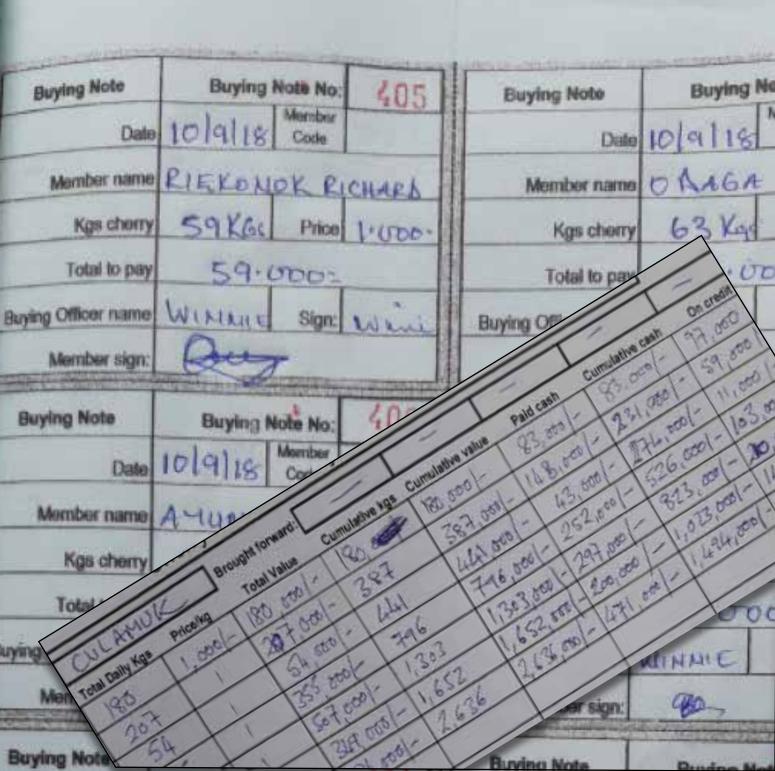
The milling, grading and sorting returns are good, confirming that the farmers are growing good coffee and the microstations are selecting good cherry and producing high-quality parchment.



Cherry price

When buying from smallholder farmers, the availability of **cash** overrides everything else and **price** is the next most important element. In fact we were never short of cash and our price was highly competitive throughout the 2018 harvest season, September to November. The multinational buyers set the benchmark price in our area. They started at UGX 800/- per kg of fresh cherry. Our microstation partners started buying from their members, using our interest-free crop finance, at 1,000/-. Our competitors' prices gradually increased, varying from place to place and reaching 1,050/- in one or two places by the end of the season. Our microstations stayed ahead of the competition by a price margin of between 15% and 20%. Our final cherry price was 1,200/-. The price that members received for their cherry did not include the following payments: **The microstation operating levy** of 500/- per kg of parchment delivered; **the interest paid on credit deliveries** around 10% of the coffee that was delivered on credit; **the quality bonus paid on microlots** \$0.82 per kg of green coffee sold as a microlot.

The coffee in Zombo and Nebbi is produced on very small farms, almost entirely without applying chemicals. A number of projects have trained farmers in sustainable production, and some of the coffee is already certified organic and/or Utz, although the farmers we work with are yet not certified by us. We plan to certify our farmers as organic in time, but before that we want them to focus on the quality of the cherry coffee they produce, which means concentrating on good plant nutrition and general good husbandry. To that end we work closely with our development partner, the Agency for Community Empowerment (AFCE), based in Nebbi. AFCE's coordinator, Aggrey Chombe, was made a director of Zombo Coffee Partners at the end of our first year. AFCE is funded by Irish Aid via Oxfam, and works with farmers to improve cultivation practices, improve soil fertility, retain soil moisture, increase local biodiversity, control soil erosion, plant shade in the coffee, and by all these to maintain and increase productivity per tree. Apart from price, the biggest threat to sustainability is climate change. It is forecast to be too hot and dry to grow arabica coffee in Zombo and Nebbi by 2050. In the medium term farmers must look for ways to diversify from coffee. Meantime they need to make as much as they can from their coffee while it still yields a crop, in order to fund diversification to other sources of income while maintaining their livelihoods today. So, along with price, productivity per tree is a vital measure. This is where AFCE is helping the farmers and us. We will report on this in more detail in future years.



TRACEABILITY

We trace our export coffee lots in two directions: **back from the export lot to the microstation** and **forward from the export lot to the roaster.**

Tracing back - our ZCP system

The microstations have a number of records. The primary source document is the **Buying Note**, which records the date, the farmer code and name, the kgs of cherry delivered, the buying price and the total paid in UGX, and is signed by the farmer and the cherry-buying officer at the microstation.

This data is summarised in the **Cherry Purchase Daybook** which records the total deliveries per day in kgs and in UGX.

Each farmer also has a **Member Delivery Form** and the data from each Buying Note is transferred to this record. This records and summarises all the deliveries per member on one or more pages per season.

The **Stock sheet** shows dry parchment as it comes from the drying tables into the microstation store, and as it leaves the microstation store for the ZCP store in Paidha.

There are two types of parchment stock: Grades A and B. Grade B is the hand-sortings after fermentation, and includes light coffee which is separated from heavy coffee when floating the fermented wet parchment in water. So there are two stock sheets in each microstation.

Dry parchment transferred from the microstation to the ZCP store travels with a **Delivery Note** that records the microstation name, the date, the grades of parchment, the kgs of each grade loaded, the time of departure of the truck from the microstation.

The parchment is weighed again on reception at ZCP store and a **Stock Sheet** is completed for that delivery.



A discrepancy of more than 5 kgs between loading and unloading weights is investigated immediately.

The stocks of Grade A parchment per microstation are kept separately in the ZCP store, and are labelled with each microstation's name. The Grade B from microstations is mixed together but stored and dry-processed separately from the Grade A.

The microstation records show who delivered cherry on each day, and the microstations maintain separate parchment day-lots on the drying tables, which can then be tracked back to cherry deliveries, and therefore to farmers, on that day. This means that we can in theory say which farmers contributed their coffee to each export bag. In practice this would mean having our own small dedicated dry-mill, a dream for the future. Parchment lots leave the Paidha store for Kampala when an export contract is signed. The Grainpulse mill in Kampala produces high-quality green coffee, but is not set up to process single bags of parchment into single bags of green coffee for export. Therefore in 2018-19 our export lot traceability went back to the microstation but no further. We can of course name, contact, and visit, any farmer who delivered coffee to a microstation during the season.

In the upcoming 2019-20 season we are experimenting with intermediate-sized microlots. Every time the microstation reaches a truckload – about 2.5 tonnes – of dry parchment in its store, the coffee is transported to our central store in Paidha. This coffee will be stored separately on a single pallet as a "parchment lot", with a lot number and the microstation name. After milling, grading and sorting it will render 25 or 26 export bags of AB coffee (Above Screen 15). Each parchment lot will be separately sampled and cupped. It can then be separately milled and exported as a microlot, depending on buyer interest in the sample. Each microstation will produce several such microlots in the season. This improved product diversification allows for different nuances of taste profiles to be offered to our buyers.

Roaster-buyer tracking system example

Tracking code	EUBNLTSU001
Roaster name	The Roast Factory, The Hague, Netherlands
Specialty Importer	This Side Up Ltd., Amsterdam, Netherlands
Sale Region	BENELUX microlots
Total volume (60kg bags) purchased from Importer	10 bags of green coffee
ZCP product type	Culamuk microlot
Microstation affiliation	Culamuk
Roaster product types	Used for our Amani Blend for Lola Bikes and Coffee. These guys needed a blend with DR Congo, Rwanda and Uganda in it. Also sold as a Roast Factory single origin coffee. Roasted for espresso.
ZCP Stock availability tracking system example	States States

Tracking Code	EUBNLTSU
Importer-buyer name	This Side Up Ltd.
Region	BENELUX Microlot
Office name	This Side Up Ltd.
City	Amsterdam, Netherlands
Volumes available (60kg bags)	36
Product items available	Ajere microlot, Culamuk microlot, Peaberry Blend
Microstations represented	Ajere, Culamuk
Farmer Quality Bonus paid	82cts/kg

Tracing forward

We are very interested in who roasts our coffee and who they sell it to. We offer our buying partners whatever information, text and images their roaster clients need, as well as direct channels of communication with us via Instagram DM, Whatsapp and Skype. We are very aware of the vital role that specialty importers play in the value chain, and we are working towards agreeing exclusive geographic areas where our coffee is available to our partners. We believe that this has real long-term benefits for our company. We offer to work with one importer per region, and to have a contract which states the terms of trade between us.

The effect on farmers of importers and roasters visiting them, of hearing where their coffee is sold and to whom, of seeing, handling and tasting the retail and wholesale products containing their coffee beans, is enormous, and an important widening of their understanding of the world of specialty coffee. These visits also allow us to discuss with our importers and roasters taste profiles, preparations of our coffee and its in-depth background, and we heartily welcome you to visit us.



Annual Review & Planning Workshop - Goli 23/24 July 2019

Like traceability, transparency works in two directions, up the value chain and down. In order to be transparent with our farmers, we held our first annual farmer event in July 2019 with forty-five farmers from nine microstation groups. We spent two days in vigorous discussion about the past year, and in planning the coming year. Our farmers were:

- Surprised at how long it took us to sell the bulk of their coffee
- Shocked that the company made a loss in 2018-19
- Confused by the range of cup scores we received from potential buyers
- Delighted by the price paid for the Culamuk and Ajere microlots
- Happy to see photos of Lennart Clerkx of This Side Up and Stefan Coster of Roast Factory, who bought those microlots
- Disappointed in the prices we sold the rest of the coffee for
- Interested in how much work we did in visiting coffee trade fairs and buyers, and interested to see the smiling faces of so many potential buyers
- Appalled by the current state of the global coffee market
- Fascinated to learn, for the first time in their lives, about the inner workings of a coffee business
- Looking forward to visits from Stefan Coster, from Ben Jenkins at Bespoke Coffee in South Africa, and from Tom Lange and Sheaian Lee of Touton Specialty Coffee in Hamburg
- Keen to get samples of our not-for-sale Roast & Ground packs
- Hopeful that more specialty buyers will be interested in the new crop coffee, and will pay good prices
- Eager to start producing specialty coffee again in 2019



TRANSPARENCY

Transparency is one of our foundational objectives. We are willing to open our books to our importer and roaster partners to show exactly where the money goes, how much is spent where, how much is made or lost, and exact amounts paid as cherry price and quality bonus to individual farmers, and as operating levy and quality bonus to microstations. We do this to build trust and collaboration with our partners, as well as to participate in the promotion of transparency within the coffee industry. Below is a summary of our Cost of Coffee in 2018-19. Please contact us if you want to know more.

	Kgs	USD
Parchment coffee collected	33,938	52,917
Interest paid on credit deliveries	3,394	144
Microstation operating levy	33,938	4,873
Quality bonus on microlots (Culamuk & Ajere)	1,800	1,514
Total Cost of Coffee (Cost of Goods Sold)		59,448

Cost of Coffee was **64.86%** of total Sales income this year.

Women's special preparation coffees

The farmers at the workshop, men and women together, agreed that they would construct new drying tables for naturals and honey coffee at each microstation, to be produced by the women members and sold as women's coffee, with 75% of the quality bonus being paid to the women. When the woman earns a significant part of the family income everyone benefits; the children most of all, but the woman as well, and even the husband! The men recognise this and are fully behind the project to produce women's naturals and honey coffee.



PARTNERSHIPS

Partnership with our farmers

When setting up the company we included three aspects of operation as a mandate: abovemarket cherry price payment; a structural profit share per export lot as a quality bonus as opposed to ad-hoc amounts decided by the executive; and farmer equity in the company. Our company will sink or swim on this, but we decided to make these as non-negotiable parts to our business operation from the beginning so as to place transparent farmer benefit firmly inside how we work.

We aim for the company to be 25% owned by our coffee farmers by 2028. We will donate 5% of the company's equity to get the ball rolling, but any in excess of that will be acquired by the purchase of shares by farmers, through quality bonus payments or third party contributions. It is purely voluntary and we only expect this to catch on after 3-5 years of operation, when the value of owning part of ZCP will be better understood as our business grows. An advantage of this is that importers, roasters, coffee drinkers and other stakeholders can, if they wish, donate ZCP company shares to farmers, as they build affiliations with particular microstations. This will allow our farmers to acquire a greater share of the bean-to-cup value chain than African farmers are presently afforded, and we encourage interested parties to donate in this way.





Other Partners

Apart from the seven microstations and their members, we partnered with a number of industry actors in 2018-19, and hope to maintain and grow those partnerships going forward:

Processors & exporters

Grainpulse Uganda OLAM Uganda Ibero Uganda

Buyers

This Side Up, Amsterdam InterAmerican Coffee, Hamburg Bernhard Rothfos, Hamburg Great Lakes Coffee, Kampala Louis Dreyfus Coffee, Kampala

Roasters

Roast Factory, The Hague, Netherlands Ineffable Coffee, Sevilla, Spain

Fellow Niche Specialty Exporters

Red2Roast, Uganda Migoti Coffee, Burundi Bukonzo Joint Cooperative Union

Development Partners

AFCE, Uganda Proudly Made in Africa, Ireland Twin & Twin Trading, UK Happy Coffee Bean UK

Local Coffee Partners

Okoro Coffee Growers Cooperative Union,

Nile Highland Arabica Coffee Farmers Association Uganda Coffee Development Authority Africa Coffee Academy



CONTACT US

Please do feel free to make direct contact with us simply choose a suitable channel:

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To see and interact with our work on Instagram visit @zombocoffee

To visit our website click on www. zombocoffee.com

To call us on Skype use @zombocoffee