

THE BASELINE WAKULI'S IMPACT REPORT 2020

WAKULI

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Welcome to Wakuli's first impact report! We started in 2019 with a mission to transform the coffee landscape - a change that the industry has been speaking of for many years but has not been able to apply effectively until today.

We've spent the last two years engaging in open conversations, and gathering data to build our understanding of this challenge and what it looks like around the world. This has formed our baseline - a kickstart to this coffee transformation, introduced here in our 2020 impact report.

Why a revolution? We at Wakuli are witnessing the unkept promises made by the multinational coffee giants and have decided to pick up the challenge, and share our vision to transform the industry bit by bit. We create awareness and call our consumers to action in changing the fundamentally flawed coffee industry, and work shoulder to shoulder with our network of smallholder farmers and farmer groups to unlock new origins, upgrade the quality of coffee and lead the way for change that is long overdue. Sounds amazing, right? And it actually is! But, what do we want to reach, and how are we getting there? What does this process mean for farmers? How does the magic happen?

Well... take a seat, grab a coffee and join us on this journey to ensure sustainable livelihoods for farmers while delivering the best coffee you have ever tasted!

DISCLAIMER

Working with diverse farmer groups to transform livelihoods in the coffee sector requires an awareness of the existing social inequalities at play, which worsen the position of certain groups to have access to opportunities in coffee, or other avenues to act on their potential and achieve a sustainable livelihood.

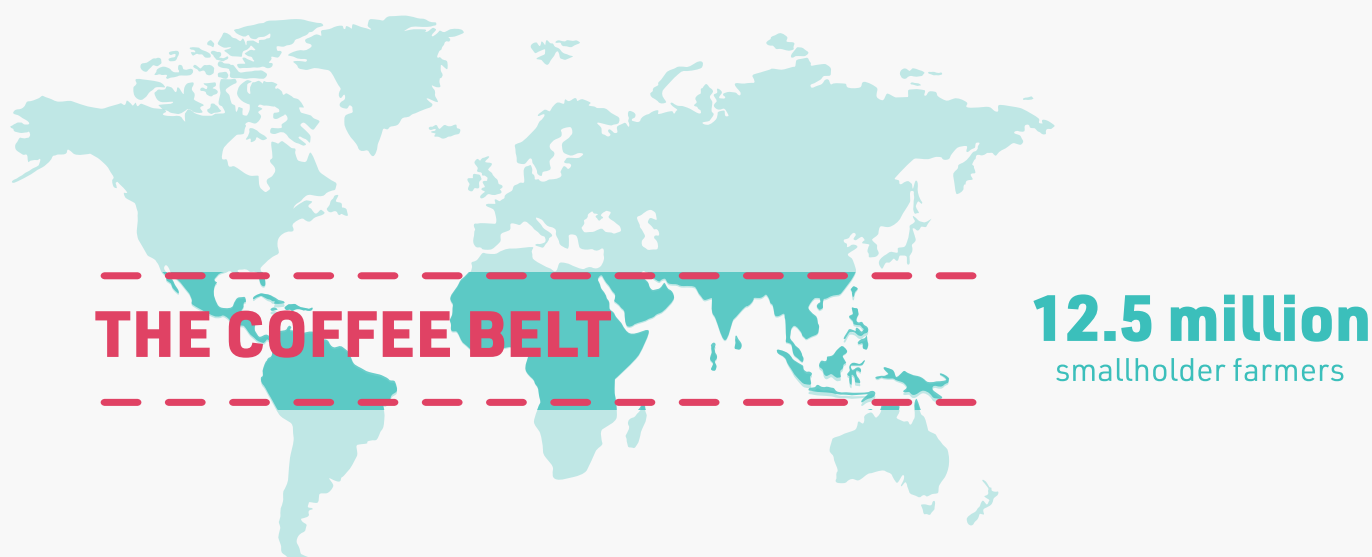
We do not take these effects lightly, so in forming new partnerships and continuing existing ones, we look to build our understanding of the effects at play in the regions we source from. This is not an overnight process, and we're still building an understanding of the gender inequalities, the limited access of remote communities, labour challenges, and many other challenges affecting populations at origin.

We're fortunate enough to have partners who share the same outlook in addressing these inequalities head on, so we're able to have open conversations with them in understanding the role we can play in supporting their work as leaders in their communities.

We are just getting started and will continue the conversations with our partners to understand their priorities and capacities for creating social change, with **Wakuli's aim to invest in projects at origin** to support their work.

WAKULI?

Coffee is one of the most widely consumed beverages in the world: altogether we drink more than 2 billion cups of coffee a day and approximately 12.5 million smallholder farmers are dependent on it.



It is considered a very ordinary product to most - for many of us it is our start to the day, for others it's the perfect time frame for a visit to your in-laws on a Sunday morning. However, far from ordinary is the history of coffee, with its long and treacherous road from the farms to our cups. Since the discovery of the coffee plant, and its first 'commercial' production in the Yemeni highlands, the plant's production has been distributed to all corners of its potential habitat, known as 'the coffee belt'. Its migration has brought us a great richness in flavours and possibilities, but it isn't all as simple and beautiful as it seems at first sight.

There persists a dark shadow over this richness. Less apparent on the consuming side of the industry, but devastating to those responsible for its production. Out of the total \$200bn industry that coffee is nowadays, only 10% resides at the origin (Coffee Barometer, 2018). This 10% is split across traders, exporters, local transport and many other actors, leaving the millions of smallholder coffee farmers, plus another 100 million workers supporting the industry, with the scraps - immensely undervaluing their intense labour.

The low world coffee prices, set in New York for Arabica and London for Robusta, worsen the living conditions of hard-working smallholder farmers. This has led to the current situation where farmers struggle to cover basic living expenses, not to mention the costs associated with producing their coffee. This enters them into a downward spiral of poverty, where they are unable to reliably invest in their business or benefit from innovations, and are left trying everything to drop production costs. Eventually the consequences are harmful for farm workers as well as the natural environment, putting the future subsistence of coffee at risk.

The C-price

Arabica coffee is traded as a commodity on the Intercontinental Exchange in New York (for robusta coffee this happens in London), where its value per pound, known as the C-price, is set based on the value buyers place on it at that point in time. Not all coffee is bought at the C-price, but the prices of coffee traded globally, even specialty coffee, are still largely linked to the behaviour of the C-market. So regardless of where the coffee comes from, how well it scores, or how much it costs to its, its value is largely allocated based on supply and demand.

This C-price seeks to establish a global standard, providing clarity to all stakeholders by simplifying the market. But in this case the result is a clear oversimplification of a complicated system. What does this look like? Well, the C-price was 1.22 (\$/lbs) in January '81, exactly 40 years ago. And the price today? 1.26 (\$/lb). This price might have sounded alright in the 80s, but the dollar is now worth around 4 times less, meaning farmer's livelihoods are now a fraction of what it was 4 decades ago. How's that for progress...

There is more to it though! With a price that would be stable for 40 years the producers would be able to make well-founded decisions on staying in the market or not. However, in reality the C-price has had some high highs and low lows, dropping below \$1.00 11 times since '81, and reaching as low as \$0.42 in '01 during the peak of the coffee price crisis, trends which are still being repeated in today's market. Fluctuations are being caused by a great variety of factors, from supply changes caused by climate change, to currency valuations, political influences or speculation by traders which can be influenced by again a multitude of reasons.

At Wakuli we are convinced that we can change the landscape, by turning the direction of the spiral around. We commit to long term relationships with the farmers that we buy from, capacitating them, and paying them a fair price.⁰

We leverage those partnerships to understand what farmers' visions for a sustainable living income look like. Our eventual goal is to work together with these farmers to achieve their SLI's in their way.

Sustainable living income (SLI) indicative of an income that brings households toward a decent standard of living covering the cost of food, decent housing, and other essential needs.

Ultimately they will be in a stronger position to make profitable and sustainable business decisions, with or without Wakuli, making their coffee futureproof.

What is a fair price?

Our goal is to have all our prices set based on the costs of production of each coffee, with profitable margins feasible for the farmers responsible. This requires extensive research to understand what these costs are in each of the communities we source from. While we currently investigate this, alongside partners like the FutureProof Coffee Collective, we use open and transparent negotiations to come to a mutually agreed price based on what farmers and associations deem as fair for the coffee that they sell to us.

Due to the earlier mentioned disconnection of the C-price from cost of production and farmer livelihoods, this naturally involves paying a higher price than that currently offered to them through conventional markets. Therefore we incorporate this in our conversations to ensure that we pay a price advantageous to farmers in the short term, even in cases of market spikes, and in the longer term as we move toward a sustainable income.

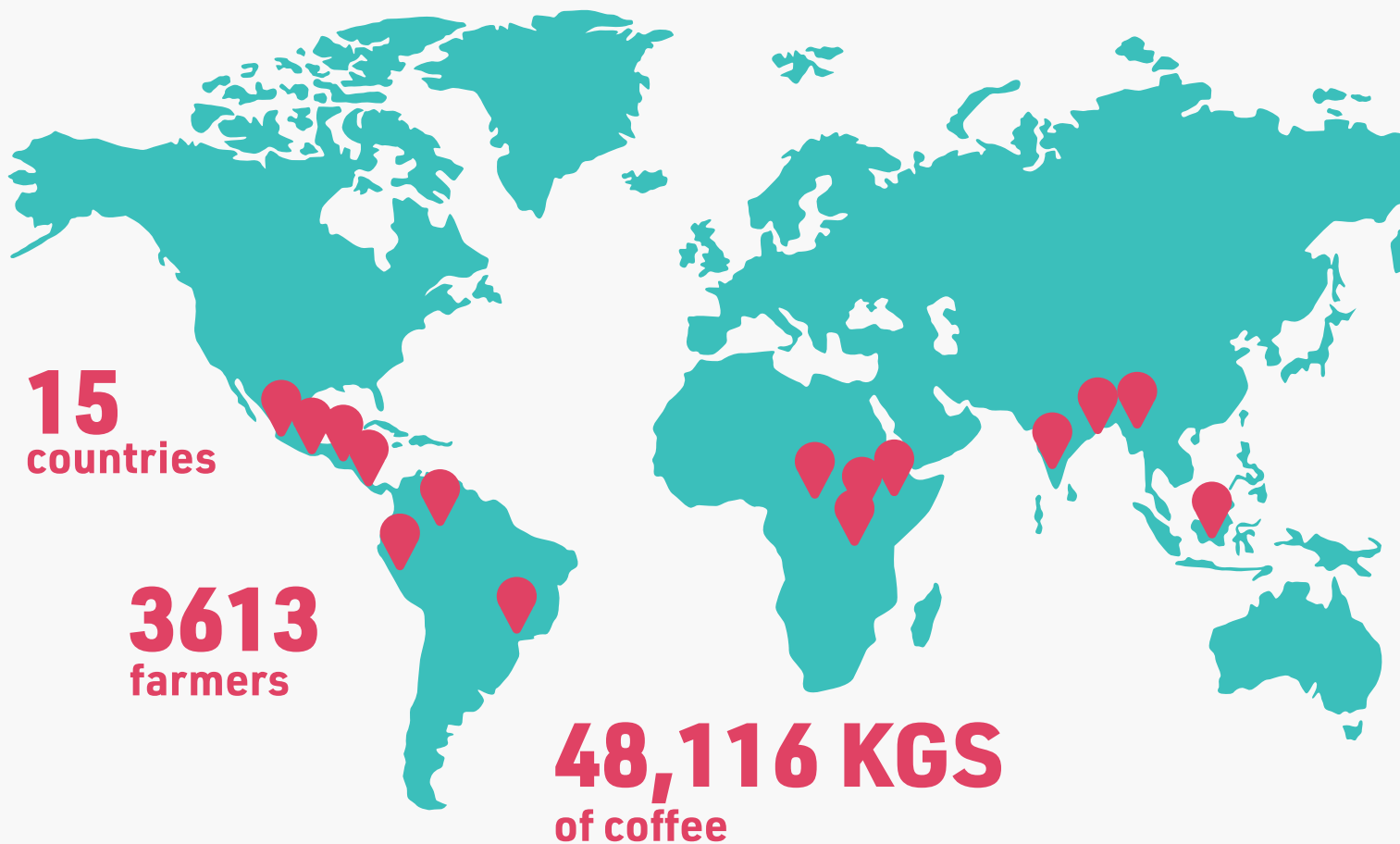
Both farmers and consumers experience a lack of transparency throughout the coffee chain and have to deal with its effect. Indeed, farmers do not have a clear understanding of who is profiting from their coffee and they are left in the dark on recent market prices for comparable coffees. On the other hand, transparency also presents a critical issue for consumers in a world where this concept is quickly becoming a trendy marketing tool. Even when accuracy is maintained, the risk remains of data being interpreted in a wrong way due to decontextualization. Wakuli strives to disrupt this vicious trend of lack of information. We are proud to report our prices and to promote a two-way communication with farmers. We take this challenge very seriously and we have an actual plan in mind ready to be shared!

WAKE UP TO THE WAKULI WAY

Our end goal is ensuring sustainable livelihoods for smallholder coffee farmers, and we work toward this in every aspect of our business:

- The way we source
- The way we trade
- The way we minimize our environmental impact

WAKE UP TO THE WAY WE SOURCE



The way we source is based on our three sourcing pillars. These ensure that on a global scale, we seek out partnerships where there is the need for us as a buyer, where we can maximise direct impact on farmer livelihoods and can sustain these changes in the longer term. At the same time this enables us to conscientize our consumers, while providing them with a wide array of flavours to taste.

Our three sourcing pillars

**Searching for
the offbeat
coffees**

**Stimulating
growth through
quality**

**Showcasing
robusta's true
potential**

Searching for the offbeat coffees

We source with the purpose of adding value. What this means is that we focus on farmers whose coffees are overlooked in the eyes of the specialty coffee industry, and undervalued through the markets that they have access to.

In turn, this means we're able to showcase coffees that are not often seen on the market, and customers are able to explore diverse taste profiles as we experience coffee together in a completely new way.

The Huancavelica case

As part of our newly introduced coffee pods and our blend, the coffee we purchased this past year comes from communities in the Huancavelica region of Peru. The dramatic terrain of the region, with staggeringly high snow-covered summits that lead into valleys that still lie over 1900m above sea-level, is both a blessing and a curse for the indigenous Quechua communities producing coffee here. It provides a microclimate that is ideal for a unique, high quality cup, but is also quite isolated meaning farmers have to travel very far to sell their coffee, incurring high transportation costs.

Beyond this, farmers have no contact with specialty buyers or any connection to the specialty market, so their coffee often goes to local coyotes (buyers) who pass this onto national traders that then sell on the commodity market at low prices to destinations unknown.



18975 kg

from these
communities



€9684

more earned by
farmers

Through our direct trade relationship and partnership with Cultivar, we're able to invest in local partners to support farmers through quality feedback and knowledge sharing, so that they can capture the full potential of their coffees as they expand in the specialty market.

Over the past year, we have improved the efficiency of this chain through local partnerships that also contribute to knowledge sharing and quality feedback to farmers.

From this, we were able to import our first full container of coffee from Peru at a price that is truly reflective of the quality that farmers produce, allowing them to earn **1.2 times** from this coffee than they would through the commodity market.

Stimulating growth through quality

Delivering a high quality product is not limited to the lots with the highest cupping scores on each farm, an approach often applied across the specialty coffee industry. We instead look for the coffees that have unique, distinct and interesting taste profiles, which form the main crops for the smallholders that we work with.

Paying a higher price for these coffees makes it possible for farmers to invest in their quality, upgrading their value and therefore providing more opportunities to obtain a higher price.

This results in incremental increases in quality through simple changes, applicable across a larger volume of coffee. In this way, the costs of production associated with a better quality do not outweigh the effects of an increase in price.

The Myanmar case

Myanmar is a relatively recent coffee producer on the specialty coffee stage, and our partners in the Hopong community have entered in fine form in 2017. The quality of their naturals is spoken for in the cup, and they have been a strong Wakuli favourite this past year.

The communities here have been using specialty coffee as a force of resilience, serving as a direct alternative to illicit opium poppy production and crop production reliant on child labour.

They take pride in the high quality they produce, and work to leverage this for stable and profitable margins, moving farming generations away from the dangerous opium industry and into showcasing Myanmar coffee to the world.



2400 kgs
from 3 villages



over
1,5 times
more paid to farmers

We've purchased 2400 kgs from 3 villages in the past year, at 1.5 times the price otherwise received. On top of this, we pay an additional €1.44 per kg of coffee (that's 45% more on the price paid) which is invested in infrastructure and quality training for farmers. These premiums are allocated not only to reward the exceptional quality produced, but also to incentivise investment into coffee production during these early stages.

In partnership with This Side Up, Wakuli's role here is to provide a consistent market for these coffees, and use our growth in tandem with that of the Hopong communities to create a reliable business opportunity of sustained social and economic value.

Showcasing robusta's true potential

Quality is not exclusive to arabica coffee...

Robusta, arabica's lesser loved cousin has been given an infamously bad rap in the world of coffee, conventionally described as muddy and inferior.

But even the most beautiful arabica bean could not be realised if not given the necessary attention during processing and roasting. This should not be any different with robusta.

There is much to be experienced around its full-bodied caffeine hit, in both taste notes and impact. Robusta is responsible for around 40% of coffee production globally, and is a main crop for the majority of coffee farmers across the world, while also providing a viable opportunity for farmers due to its **climate resilience**. There is enormous potential to add value here by upgrading the quality of these beans, so we're transforming the market's approach, with a renewed attitude to experiencing this unique product.

We start by approaching robustas in the same way that we approach arabicas - in the way we source, trade and deliver to customers. This involves paying a higher price for quality robustas through direct and traceable supply chains. This price is reflective of its quality, and over time incentivizes investment from farmers in a high standard of processing to build on this quality.

We simultaneously focus on sensitizing consumers to quality robustas. This creates a more open view, an increased demand and therefore a larger market available to farmers. With this approach, our aim is to open up robusta production as an avenue to achieve a sustainable livelihood in coffee.

The Rende Nao case

We have been partnering with families in the village of Rende Nao in Manggarai to bring high quality robusta to the market this year. They have been upgrading the robusta varieties on the island of Flores, with a focus on providing a high standard robusta, upgrading agricultural livelihoods, and doing so in harmony with the environment around them.

We bought 2880 kgs of specialty robusta from Indonesia this year, paying 65% more than conventional markets, resulting in farmers earning €3412 more from these coffees, rewarding their investments into the quality of these coffees and preservation of the biodiversity that they grow in.



2880 kgs

of specialty robusta
from Indonesia



€3412

more earned by
farmers

Overall, our approach results in an increase in:

- **Value** for a larger proportion of the farmers' harvest
- **Margins**, where the price paid for their quality product doesn't require an even more significant increase in production and processing costs.
- **Added market value**, through the access granted to new markets for previously unknown coffees, as opposed to added competition over already well-marketed coffees.

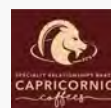
WAKE UP TO THE WAY WE TRADE

Direct trade

We connect with farmers through a direct trade model. This is a commonly used term in the coffee industry, with varying meanings. In our approach, this means that only actors that contribute to the value of the product are included in our supply chains, and the prices they receive fairly reflect their contributions. This results in a shortened, more efficient supply chain that can allocate more value to the main contributors, the farmers, and can facilitate the communication necessary to build sustainable business relationships.



So yes, we cut out the unnecessary middlemen. In some cases however the middlemen are able to engage us in valuable partnerships with suppliers that are in a strong position to connect with farmers directly, provide technical support, and manage the feat of getting coffee from remote regions to our base in Amsterdam in the smoothest, most cost effective way. Here are some of the partners we connect with to make this happen...



Transparency and traceability

Only talking about paying a higher price than the C-market means very little. We prioritize evidencing the prices we pay through transparent reporting, and using this to create a new benchmark for ourselves, farmers and the wider market.

To start with, comparing our prices to the C-price is comparing apples and oranges, simply because our specialty coffees are of a higher quality than most of the commercial coffee traded for the C-price. We compare to the prices that farmers would have received without our involvement instead, to ensure that Wakuli really adds value to their income at the current stage of our journey together toward a sustainable living income.

It is important that we establish a new benchmark outside of the C-market, by reporting on the prices we pay, and sharing this information with Wakuli members, farmers and other industry professionals in a clear and transparent way. This is essential for us to prove that our model is fair, effective and replicable, all of which are necessary for us to extend the effect of our approach.

Free-on-board (FOB) Price: this reflects the price paid upon delivery at the port of origin. It reflects all in-land costs and risks associated with the coffee up to the point of delivery on board of the departure vessel.

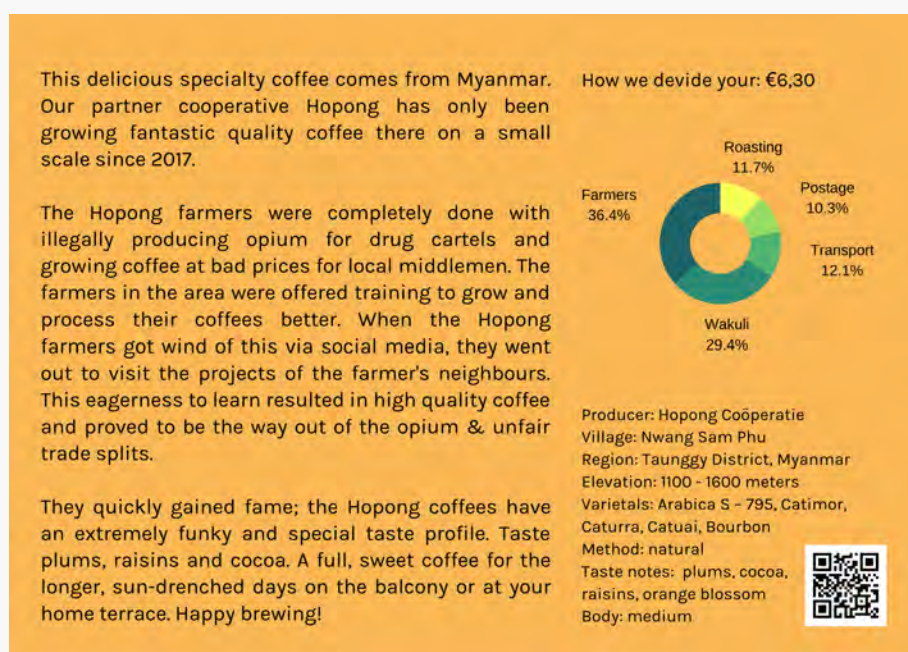
Farm gate price: the price paid to the farmer for their coffee, which can be bought in parchment or cherry form. The prices quoted reflect what is paid per kg of green coffee.

Origin	FOB Price Paid (EUR/kg)	Farm Gate Price Paid (EUR/kg)	Alternative Farm Gate prices available (EUR/kg)	Comparison to market
Arabica				
Democratic Republic of Congo - RAEK	6.42	4.18	1.26	332%
Myanmar - Hopong	5.55	4.67	2.04	229%
Brazil - Capricornio	2.84	2.77	1.73	161%
Brazil - Maria Lina	3.59	3.13	1.52	206%
Brazil - Do Lobo	3.59	2.91	1.73	168%

Peru - Tayacaja farmers	4.39	2.95	2.43	121%
Thailand - Doi Pangkhon	7.44	5.08	2.72	187%
Uganda - Zombo Coffee Partners	5.10	2.73	1.83	149%
Ethiopia - Limu Kossa	6.34	4.13	1.31	316%
Nicaragua - El Paraiso	4.74	3.48	1.80	193%
El Salvador - GECA Farms	5.05	3.75	1.38	271%
Colombia - La Pradera	5.43	4.83	2.10	229%
Honduras - COMSA	4.44	3.70	2.64	140%
Mexico - Bella Vista	4.50	3.15	1.72	183%
Robusta				
India - Venkids Valley	4.42	3.18	1.49	213%
Indonesia - ASNIKOM	3.39	3.03	1.82	166%

*Where primary data is unavailable, alternative prices are based on secondary data, taken from the International Coffee Organization. We work to improve on any generalizations made as we continue to collect primary data that is more relevant to the farmers we work with.

Presenting our pricing in the table above is not what we describe as full transparency however. The stories of those at origin responsible for these coffees: their work, challenges and successes as well as the value allocated to their contributions, have often remained hidden or described to the convenience of the green coffee buyer. It is our priority to change this, which first requires a fully traceable supply chain, i.e. an understanding of all the hands that contribute to each coffee bean we deliver and the value allocated to each of their contributions. We currently communicate this by presenting the margins allocated to all the major actors in our supply chain with each bag of coffee that goes out.



This is the first version of our transparency reporting. In 2020 we have been working toward collecting the required data for full price transparency in all of our supply chains, and using this to measure our impact historically and in purchases going forward. Now, we have a good foundation to improve on our reporting in 2021, and expand this to two-way communication with farmers, adapting to provide the resources that are most useful to them as well as consumers.

Long term partnerships

Paying the right price to farmers is a great step in the right direction, but there is limited benefit in doing this with one-off purchases. These leave room for uncertainty and un-managed expectations, both of which make it even more difficult for farmers to plan their business in the already unpredictable realm of agriculture.

A fundamental reason for us applying a direct trade model is the necessity of having strong communication and trust with the farmers that we partner with in order to build on our business relationship. The world of coffee has its continuous ups and downs, with fluctuating yields, market behaviours, hurricanes, controversial elections or the odd pandemic that might pop up. These all present risks to farmers in delivering coffee at the quality, quantity and price that they planned for, and to us in delivering a high quality, affordable product on time in another part of the world.

It's important for us to align with farmers and groups that share the same vision, so that we can work together to share these risks, and build a plan together for achieving a sustainable livelihood.

Establishing these relationships remotely over the last year has been a challenge to say the least, but is another reminder of how valuable this connection can be as we continued to build on our work in some origins. We've spent 2020 having open conversations with our partners in order to focus our efforts where we can add the most value. At times, this involves accepting that there is limited space to continue creating impact together, while in others it means expanding into new farmer groups and regions through our connection and growth.

We go into 2021 continuing these conversations, and forming new connections that bring different perspectives to achieving our impact targets.

In the end, three stages are defining how we will extend our vision throughout the wider marketplace, transforming the way that coffee is traded:

- **Increasing the awareness** of consumers on the effect of price on farmer livelihoods, and encouraging them to leverage this to hold the entire industry accountable.
- **Proving that it is possible** to pay a price that rewards quality and contributes to a living income, while delivering an affordable end product.
- **Share knowledge openly** with other actors in the specialty coffee industry so that the barrier is lower in starting to apply this approach.

WAKE UP TO THE WAY WE MINIMIZE OUR ENVIRONMENTAL IMPACT

Our goal is to holistically ensure a sustainable living income for smallholder farmers. This therefore involves delivering high quality, ethically traded coffee, produced in harmony with the environment.

Initiatives toward environmental sustainability at origin, with certifications as an example, often demand upfront investment from farmers into climate-smart, or environmentally friendly practices for a shot at achieving premium prices for their coffee. This is often infeasible, and excludes the most economically vulnerable farmers from achieving sustainable practices. In other cases the sustainable practices, which often come with higher costs, are already in place but due to the inability to make the investments for obtaining certifications, they are deprived of premium prices.

We instead flip this approach, starting at our baseline, where we prioritize paying a higher price that contributes to achieving an SLI. With this in place, there is greater opportunity for farmers to implement sustainable practices across their business, from coffee seed to bean, making their coffee futureproof.

Our sourcing strategy therefore aligns us with partners seeking to collaboratively achieve an environmentally sustainable coffee future, using a higher price as a starting point to sustain climate-smart approaches to coffee production.

Climate-smart practices in our current partnerships are seen...

In India, where quality robusta is shade grown at the Venkids Valley Estate within a balanced ecosystem of over 40 varieties of jungle trees and over 50 varieties of resident and migratory birds.

In Brazil, where our partners at Capricornio reduce the environmental burden of their 20 partner farms by applying water-efficient mills, waste water treatment technologies, energy-efficient machinery and irrigation systems, alongside environmentally-friendly fertilisers.

In Indonesia, where our partners at ASNIKOM work together with the NGO VECO to upgrade robusta on the island of Flores while preserving the island's natural habitat.

Our efforts to minimize our negative environmental impact extend beyond origin and into the choices we make when the coffee beans reach our point in the supply chain.

Coffee pods

We launched this product in 2020, and chose to introduce compostable pods, preventing approximately **880 kg** of solid waste from occupying landfills, 95% of which would be aluminium and aluminium alloys, through our sales in the past year.

Last mile delivery

Getting fresh coffee to our members on their doorstep comes with its challenges, but by focusing on letterbox deliveries, we're able to reduce the carbon footprint of each delivery by **92%** compared to regular parcel deliveries.

Roasting

For small businesses, the process of roasting coffee can be both costly and energy intensive. By roasting our coffee in a collective roasting space at Amsterdam Roasters, we're able to efficiently manage roasting and invest in technology to minimize environmental burden. In 2020, we started roasting on a new IMF RM60, one of the most energy efficient technologies on the market, which has allowed us to reduce our carbon footprint from roasting by **19%**.



IT'S A WRAP

You just read our first impact report. Are we glad you did? We are thrilled! Instead of reading (or skimming, we won't tell) our report you could've done so many other things. But you didn't.

So, thanks and kudos to you. Whether you're an expert on reading impact reports or it's the first time you ever read one, we hope you got something from it. It's mind-blowing to see how many people are so excited about our journey and we hope we sparked a little fire inside you that will slowly become an engulfing inferno of tremendous thirst to help change the world of coffee. Ok. That's maybe a tad bit much. We can't help it.

Everyone here at Wakuli - and when we say everyone - we mean *e v e r y o n e* wants to thank you for your precious time. But who exactly is everyone? Glad you ask! We're a team of 25 coffee and impact lovers, 14 men and 11 women from all over the world: Taiwan, Peru, The Netherlands, India, Trinidad & Tobago, Indonesia to name a few and we all have one thing in common: to make impact whilst drinking probably the best coffee out there.

TEAM WAKULI



Charlotte
BUSINESS
INTELLIGENCE



Daan
MARKETING



Deborah
SUSTAINABILITY &
RESEARCH



Bobby
OPERATIONS



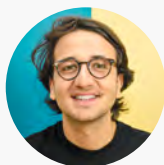
Fahim
OPERATIONS



Patrick
OPERATIONS



Joli
GROWTH &
MARKETING



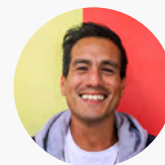
Joris
RETENTION
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Lukas
CO-FOUNDER



Yorick
CO-FOUNDER



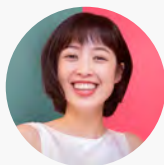
Alexis
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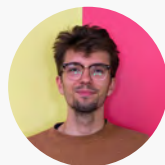
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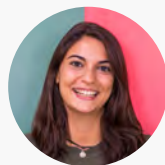
Lies
CHIEF BRAND &
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Hsiang
PRODUCT



Tomas
GROWTH



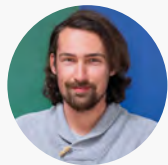
Sofia
IMPACT



Yasha
IMPACT



Kerissa
SOURCING & IMPACT



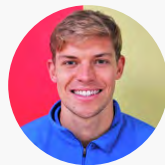
Dominik
MARKETING



Ilona
GROWTH &
MARKETING



Lieke
B2B



Sjoerd
B2B



Charlotte
B2B



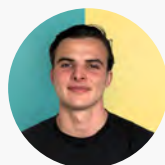
Laura
MARKETING



Martijn
CUSTOMER SUPPORT



Roos
CUSTOMER SUPPORT



Rijck
CUSTOMER SUPPORT



Jip
CUSTOMER SUPPORT



Jakob
CUSTOMER SUPPORT



Lieke
INTERIM MANAGEMENT

**THANK
YOU**