Economic Growth Forum, Republic of Uganda
Accelerating Economic Growth For Shared Prosperity

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Session 1: Agriculture and Agro-Industrialization

Agenda

1. Uganda's Coffee Sector: *selected facts*

2. How to enhance productivity and quality in agriculture to boost exports and growth?

   Description of newly funded IGC/PEDL/ATAI project:

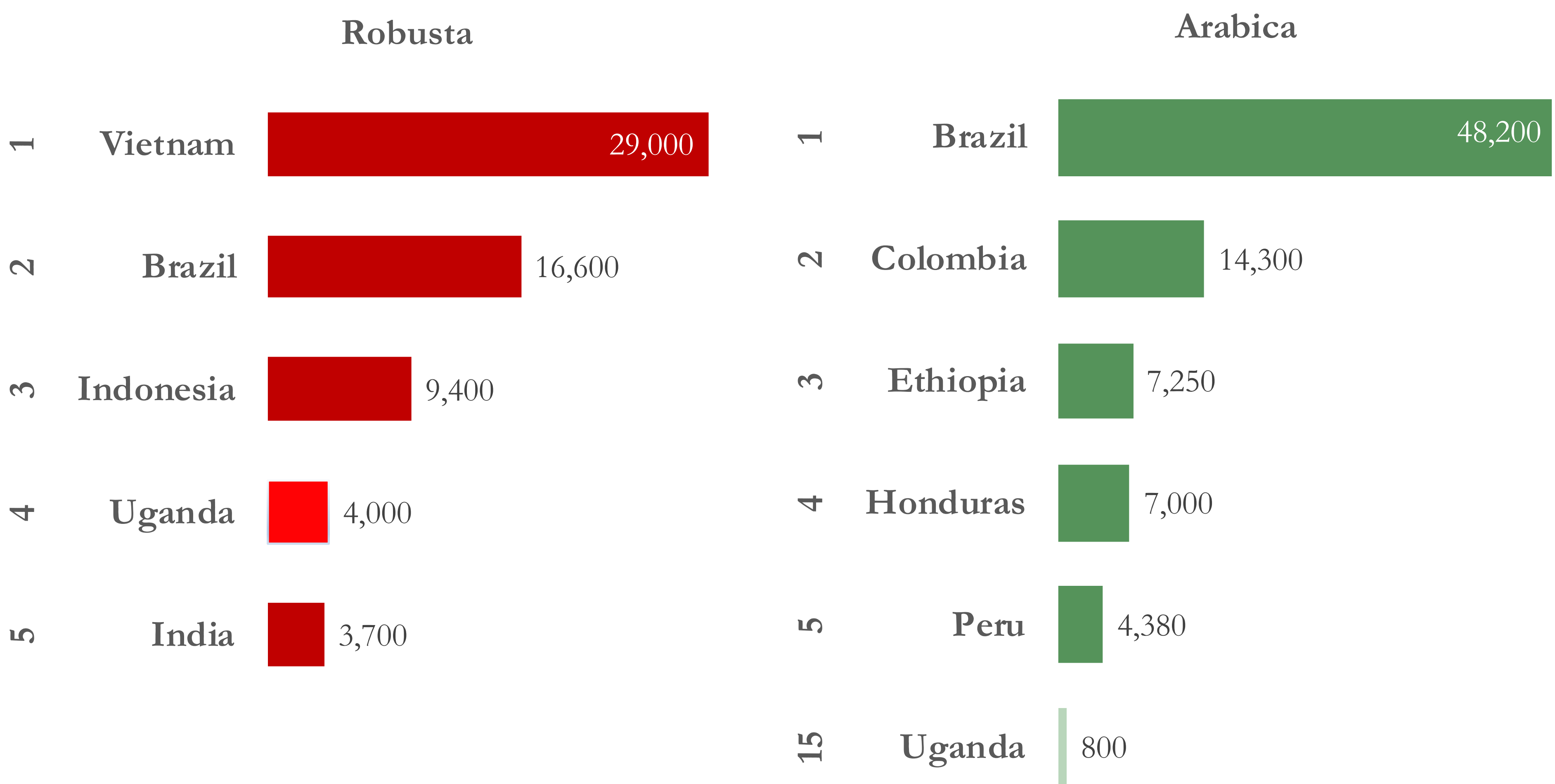
   Quality Upgrading and Pass-Through in Uganda's Coffee Sector

   joint with Jie Bai (Harvard KS) & Lauren Bergquist (Michigan)

3. National Policy: *regulation and enforcement on quality*

Global Coffee: Production 2018/19 ('000 *60 kg* bags)

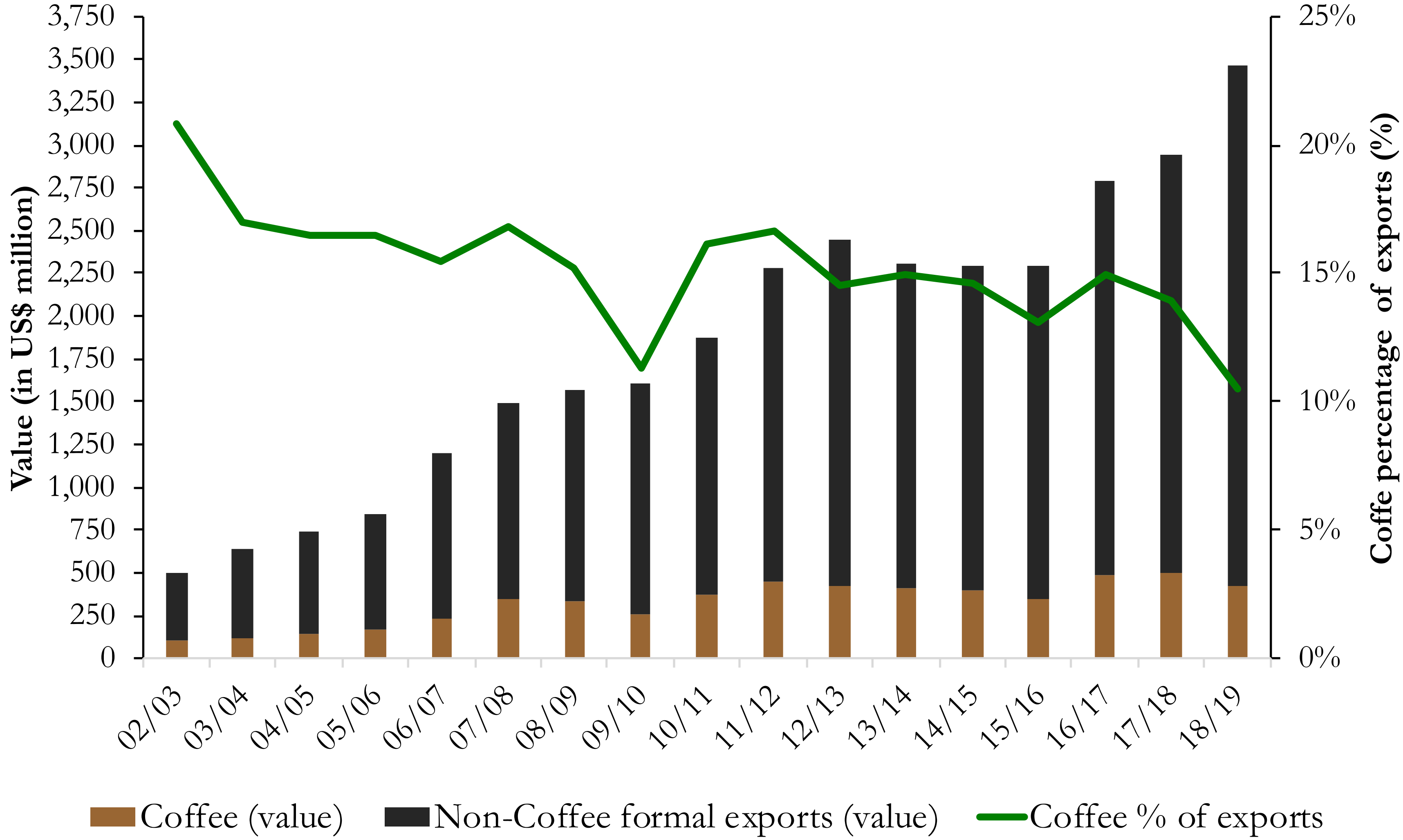
Uganda is an important player in both coffee varieties



Source: United States Department of Agriculture Foreign Agricultural Service, June 2019

Uganda's Macroeconomics

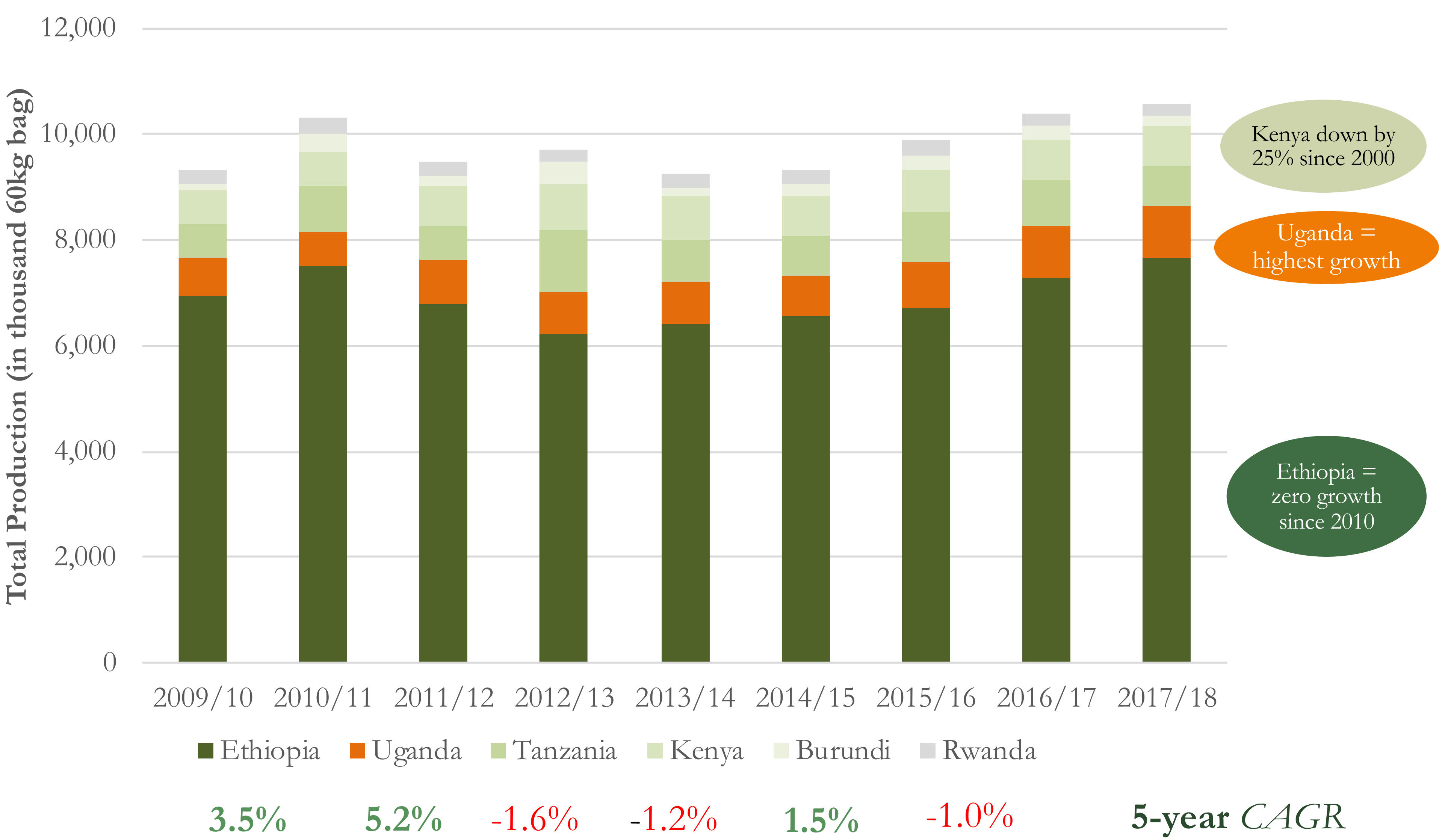
Coffee a stable contributor to FX earnings (last 10 years, 14%)



Source: Export Statistics, Bank of Uganda

Uganda Arabica

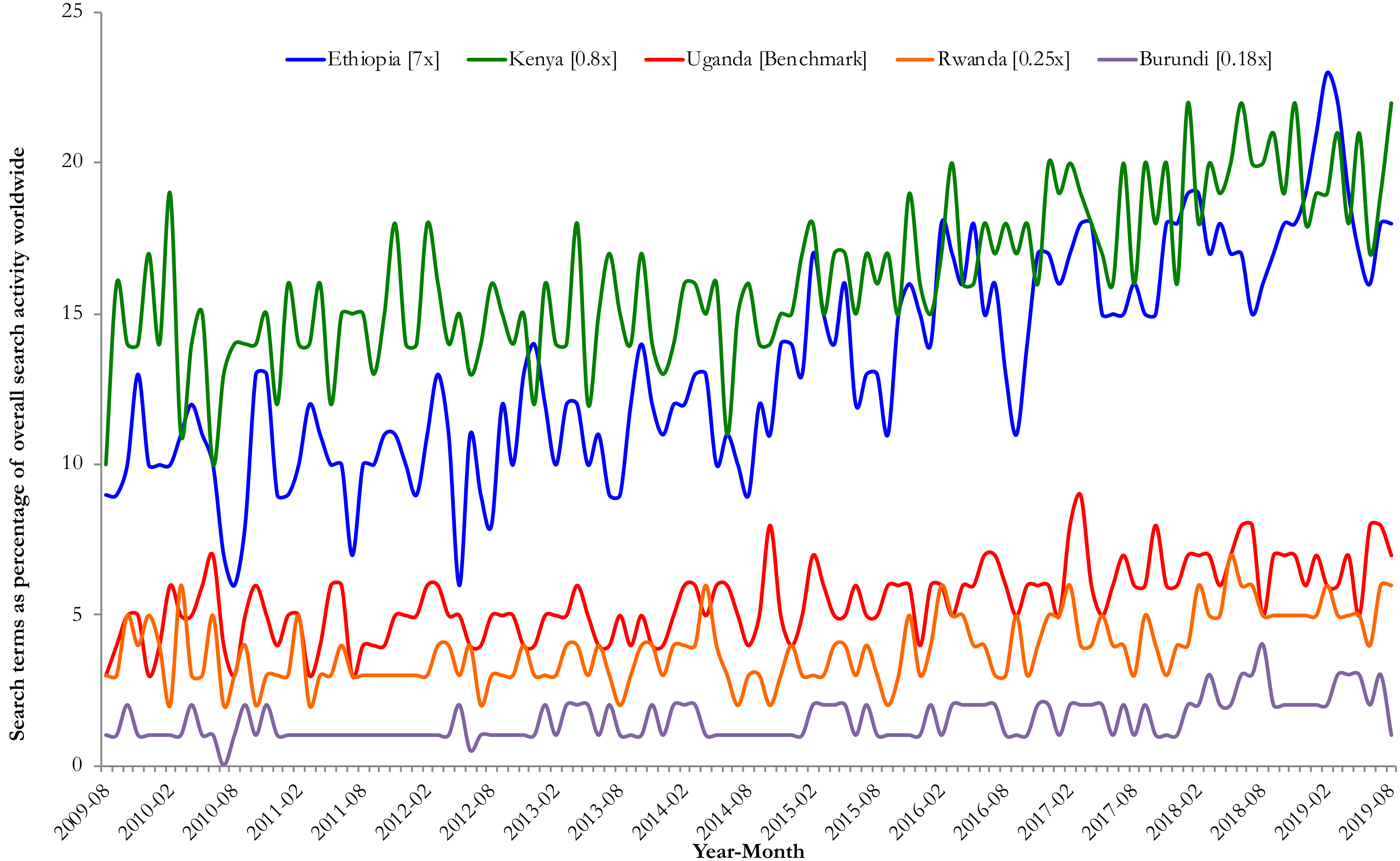
Most dynamic and liberal market in East Africa with growth potential



Source: ICO and UCDA Monthly Reports; y-axis is '000 of 60 kg bags

Awareness of Ugandan Coffee

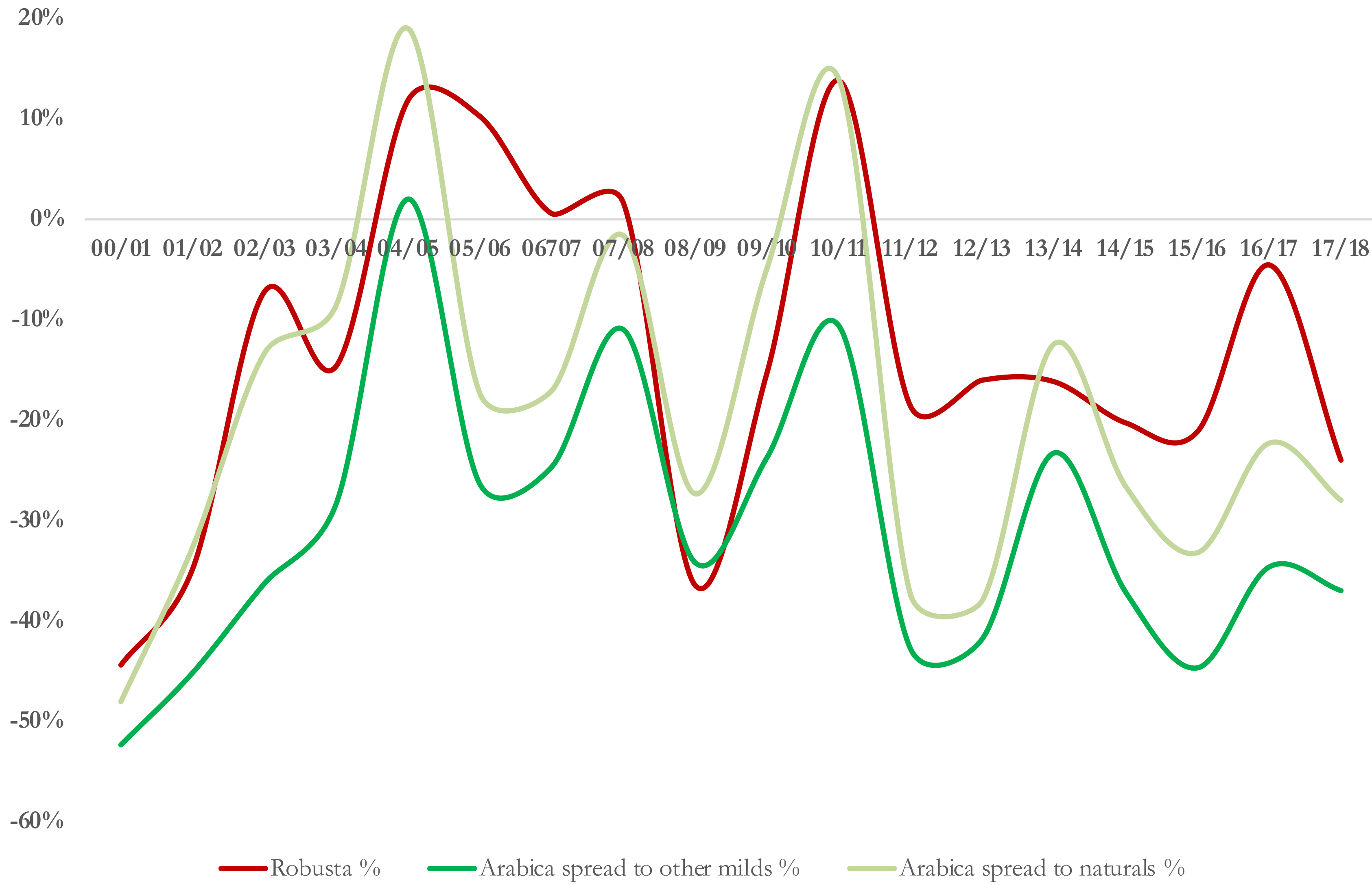
Google Search Activity



Source: author's calculation on Google Trends, accessed August 19, 2019

Ugandan Coffee Spreads discounted compared to ICO Index

Reflects some of the lack of the awareness and maybe quality of coffee



Source: authors calculation on ICO data, 2000/01 – 2017/18

Coffee Exporters

Dominated by a few players

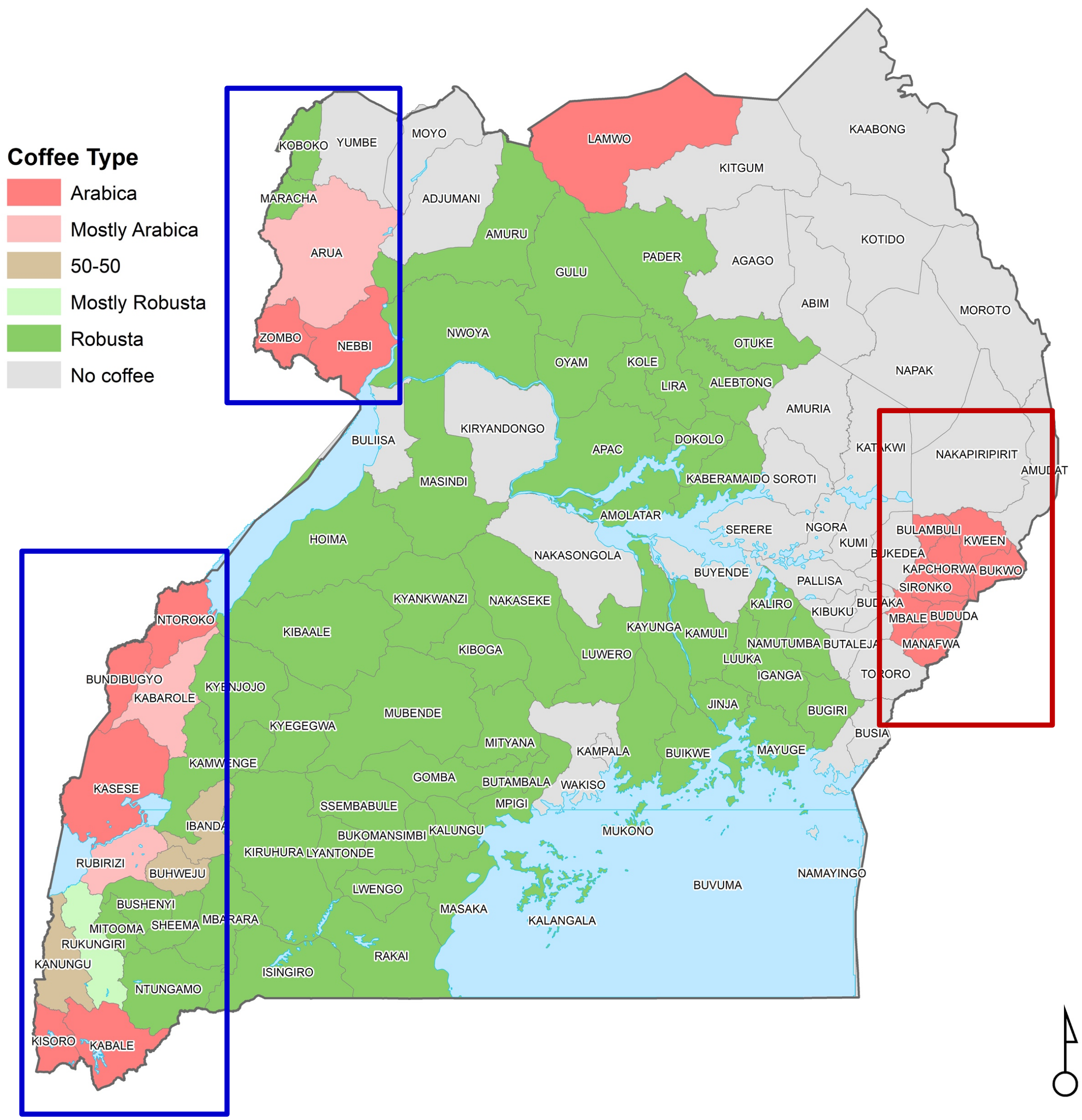
2009/10		2014/15		2016/17	
Kyagalanyi Coffee Ltd	401,404	Ugacof (U) Ltd	625,986	Kyagalanyi Coffee Ltd	624,400
Ugacof Ltd	336,554	Kyagalanyi Coffee Ltd	345,272	Ugacof (U) Ltd	542,040
Kawacom (U) Ltd	331,667	Kawacom (U) Ltd	314,285	Ideal Commodities	412,762
Savannah Commodities Ltd	206,321	Olam (U) Ltd	278,598	Olam (U) Ltd	366,476
Great Lakes Co Ltd	201,158	Ibero (U) Ltd	246,195	Export Trading Company (U) Ltd	253,859
Ibero (U) Ltd	186,406	Ideal Commodities	233,187	Kawacom (U) Ltd	249,230
Kampala Domestic Store	154,242	Export Trading Company	192,238	Ibero (U) Ltd	229,015
Olam (U) Ltd	153,548	Kampala Domestic Store	178,142	Kampala Domestic Store	221,551
Job Coffee	147,502	Besmark Coffee Co. Ltd	156,803	Besmark Coffee Co. Ltd	165,394
Pan Afric Impex	125,041	Ishaka Commodities	107,245	Commodity Solutions Company Ltd	151,504
Share of Top 10	84%	77%		77%	

- Concentration patterns similar across EA
- Mix of domestic and MNCs, many MNCs are vertically integrated with global buyers (who have signed up for traceability in the future)*
- **This market structure might be helpful for interventions and regulation**

Source: author's interviews and calculation on UCDA Annual Reports

Focus: Uganda Arabica Supply Chain

Broadly a Tale of Two Regions



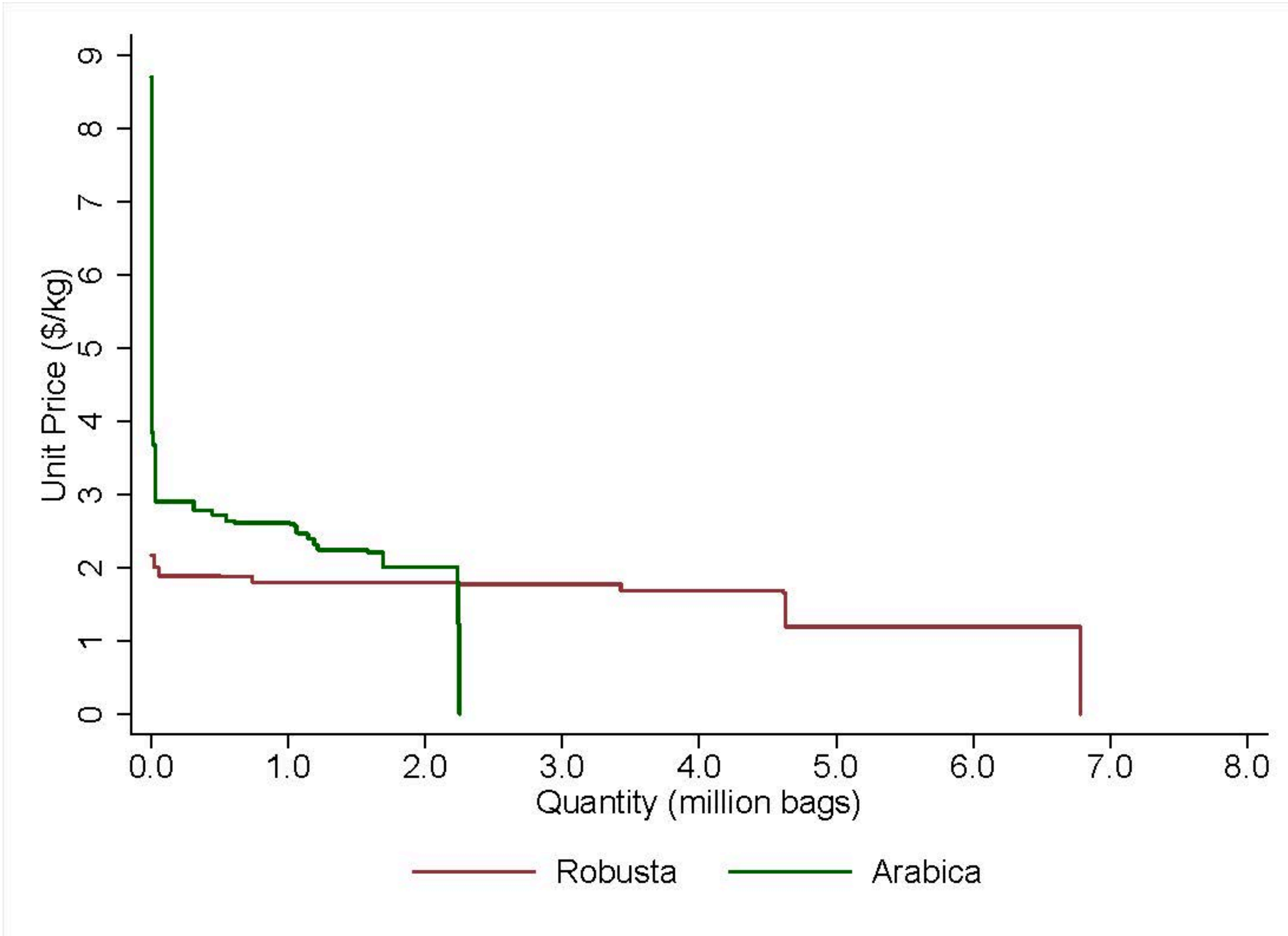
Mt Elgon Value Chain

Multiple actors and aligned incentives (circa 10 years, $10m +)

Source: Morjaria & Sprott, Project field notes, August 2017

Uganda's Price Curves

Arabica and Robusta varieties 2016/17 and 2017/18



Source: author's calculation on UCDA Monthly Reports and 2016/17 and 2017/18

Uganda's Price Curves: Upgrade

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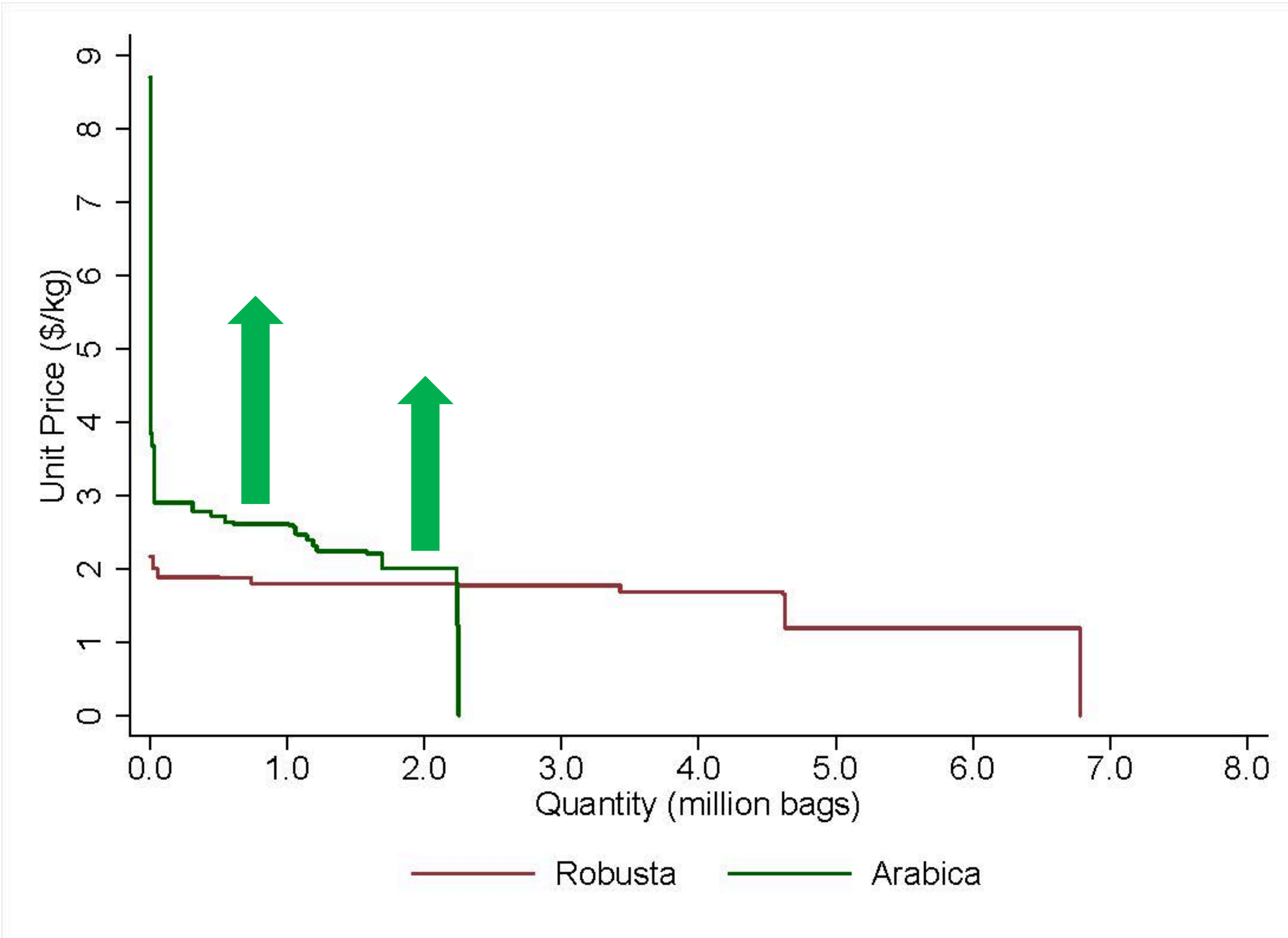

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Uganda's Price Curves: Upgrade and Productivity

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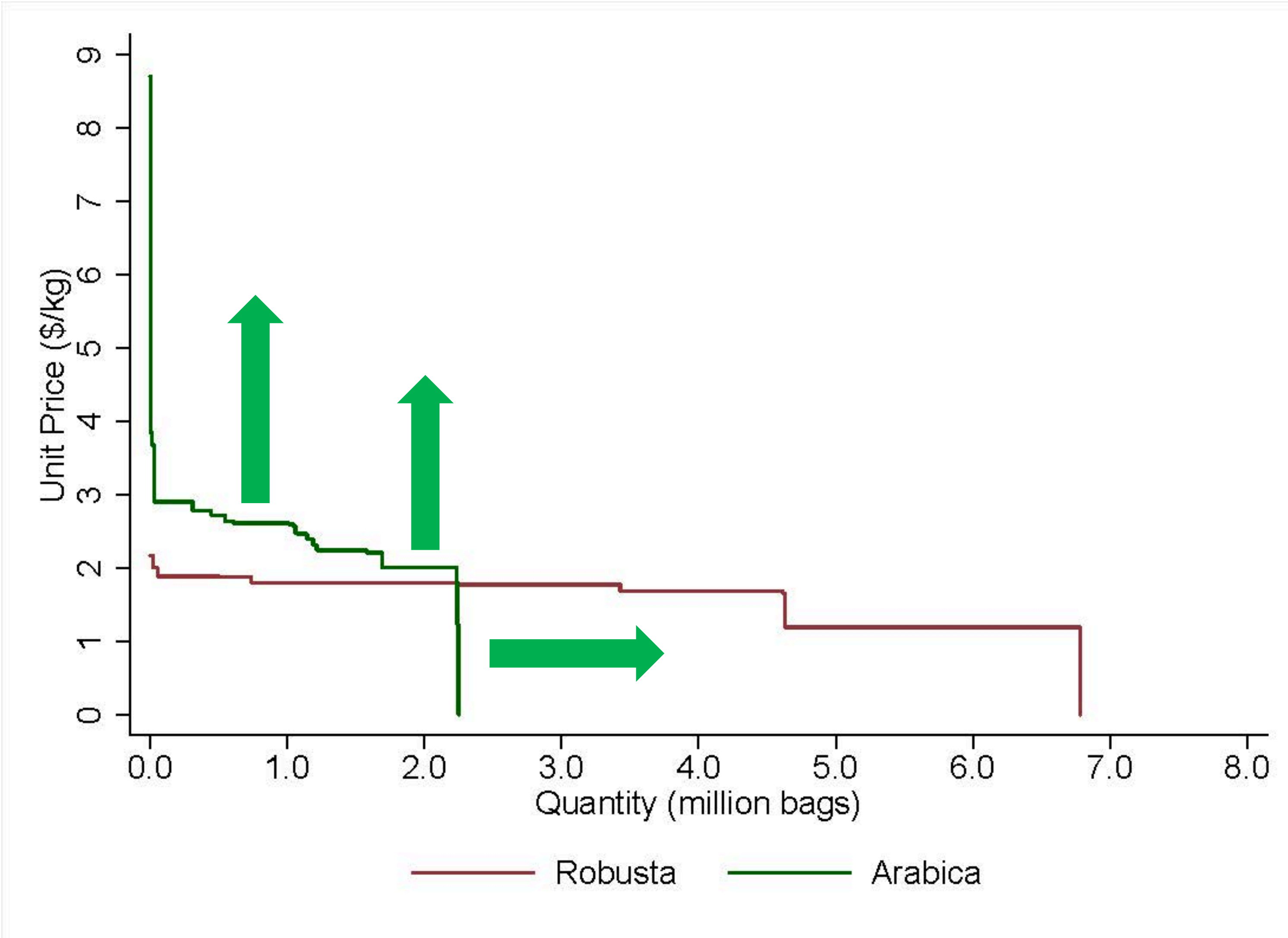

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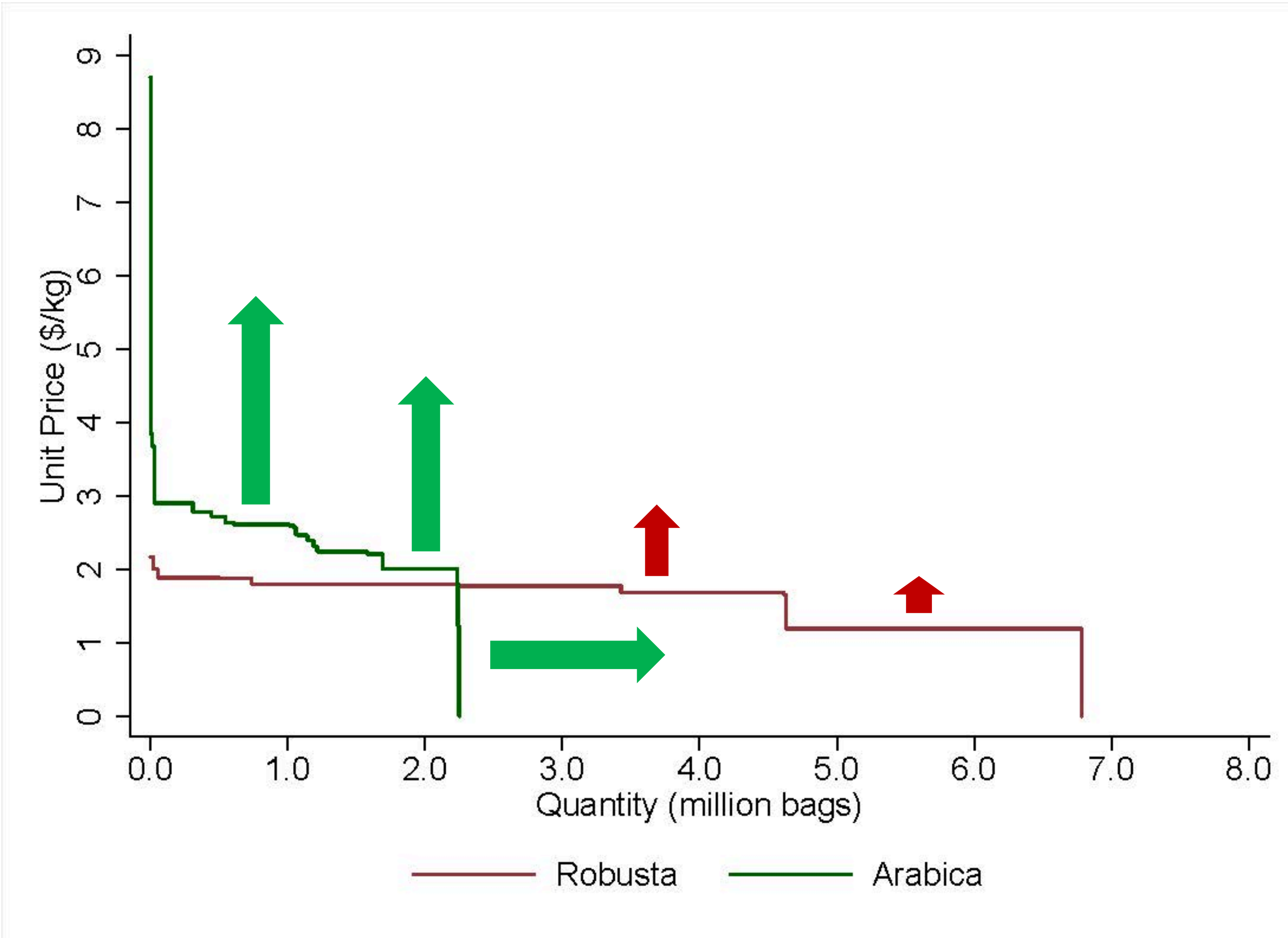

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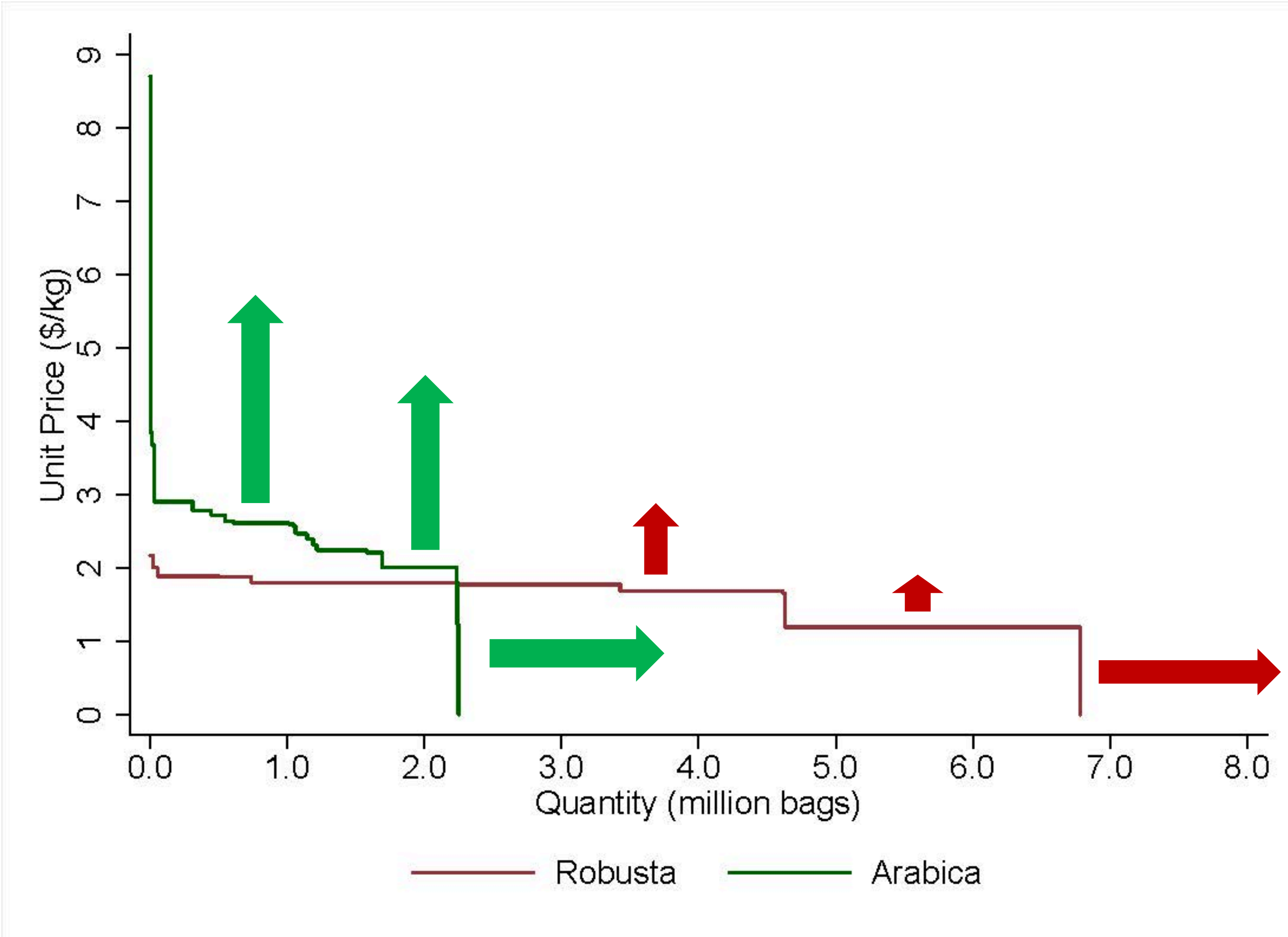

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How to enhance productivity and quality in agriculture to boost exports and growth?

Diagnosis of coffee supply chain reveals challenges at first point of interaction with market, at farm gate:

farmer incentive to produce high quality is limited

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"Why should I invest in producing high quality when there is always someone there to buy low quality?"

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"Why should I invest in producing high quality when there is always someone there to buy low quality?"

The answer should be you can receive a higher price for producing higher quality, but

it seems the price differences that farmers experience is not large enough to encourage them to exert effort to produce high-quality cherries, possibly due to intermediaries not passing the premium and/or thriving market for low quality

How to enhance productivity and quality in agriculture to boost exports and growth? *Hypothesis*

farmer incentive to produce high quality is limited

If farmers receive a smaller portion of the world price for high-quality coffee than they do for low-quality, this will depress the price-quality gradient they face (as compared to that prevailing on the world market)

And in turn, a dampened quality premium will discourage production of high quality, relative to incentives under an undistorted quality premium

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we want to investigate this

farmer incentive to produce high quality is limited

#1. **Map out supply chain** to understand prices traders pay to farmers on different qualities of coffee, and what prices traders onward sell those products, *what are the quality premiums?*

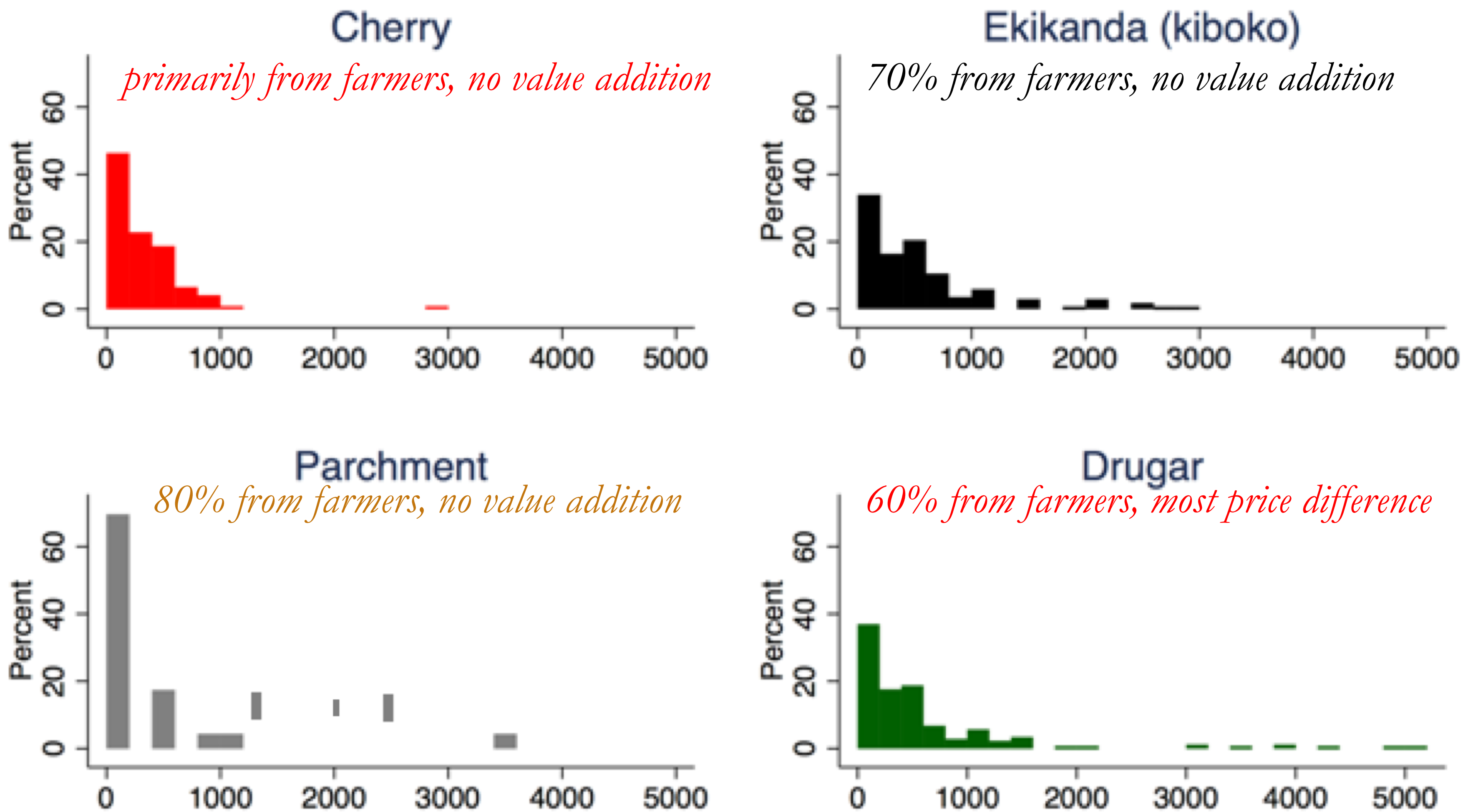
#2. A **pilot study** is under way to measure pass-through of a *randomized* incentive for high quality coffee production to traders provided by one of Uganda's largest coffee exporter

#3. **Investigate how trader responds** to incentive, procures more high-quality consistently?

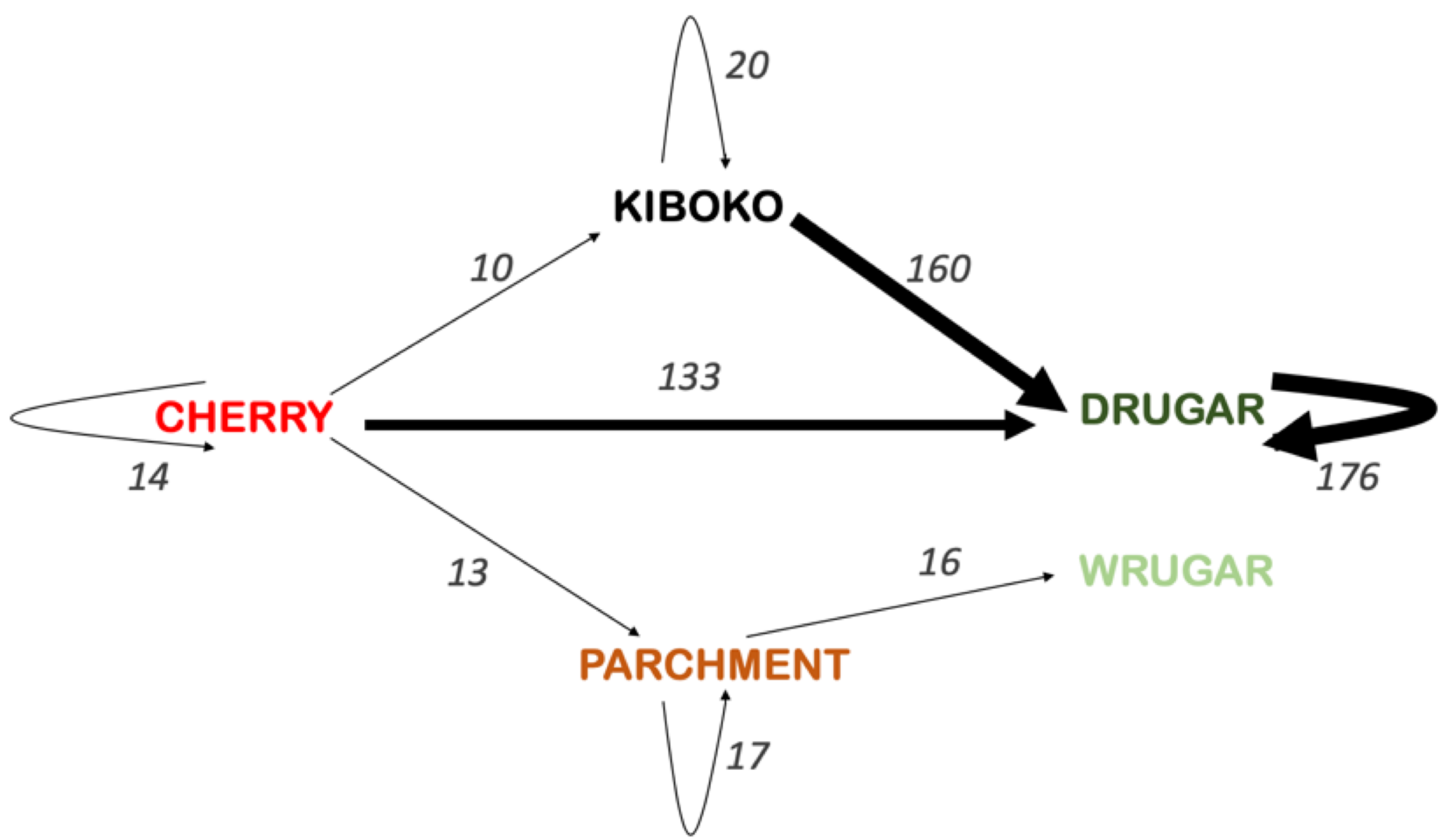
#4. Is this **premium passed to farmers**? If so, how much of it?

This will start giving us a sense, of is there "enough" reward for the required effort to produce high quality coffee?

#1. Traders pay different prices within product category



#2. Parallel supply chains, multiple-players, different products & same products changing hands



#3. Barriers to Quality Upgrading

- Biggest barriers to improving quality?
  - Harvesting unripe cherries (47%), poor drying (20%), storage and handling (12%)…
- *All* traders think it is worth spending time with farmers because can led to quality improvements

Traders understand importance of quality, so why not focusing on that?

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Traders understand importance of quality, so why not focusing on that?

- Rewards might not be enough.
- 86% think competition impacts quality – there is a thriving market for low quality coffee which is "choking" the opportunity for the market for high quality to emerge

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Regulation and Enforcement

Farm Gate

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National Coffee Bill, 2018

- Broaden UCDA scope, *on-farm (harvesting and drying, prior focus more on exports)*
- Register coffee farmers, *important for extension service delivery*
- Penalties on violation (fines, prison), *important to understand why farmers doing these in the first place, credit constraint so need complimentary institutional support outside coffee*
- *Voluntary* coffee auction system, *opportunity for reputation building and limit market power of some buyers*

Regulation and Enforcement

Downstream: Trader/Hulling Operators

traders arriving with *kiboko* and selling *FAQ*, don't have moisture meters, so push low prices to farmers – monitoring and enforcement at this level is **challenging to fix**, '000s micro-hullers and traders

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can consider training on quality standards to be part of the process of registration, **but key is consistent and equal enforcement of these standards to all participants, need a level playing field**

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Downstream: Exporter/UCDA-level

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- National Coffee Bill, 2018 – emphasis on bottom-up approach

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  - exporters small in numbers, whereas traders '000s, farmers millions
  - National Coffee Bill, 2018 – emphasis on bottom-up approach
  - **Why not try top-down approach? Focus on the exporters**
  - **Key**: consistent and uniform adherence to export standards on all exports by UCDA, **on ALL exporters**
  - Ripple through the supply chain, intermediaries will react
  - Bill gives power, but need capacity at UCDA

Final Remarks

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NATIONAL NEWS

Govt to restrict growing of coffee

By Moses Mulondo

The Government has drafted a the National Coffee Bill, which seeks to restrict and regulate coffee farming.

Through the Bill, which *New Vision* has seen, the Government intends to regulate all on-farm and off-farm activities in the coffee value chain.

The Bill seeks to repeal and replace the Uganda Coffee Development Authority Act, which was enacted in 1991 and only covered off-farm activities of marketing and processing, leaving on-farm activities, such as planting materials, nurseries, harvesting and post-harvest handling, outside the scope of the law.

The Government hopes that through restrictions and regulations, Uganda's coffee sub-sector, which is the leading earner of foreign exchange, will improve.

"There is need to regulate the coffee value chain as is done in other jurisdictions, especially to include the on-farm activities, alongside the off-farm ones in regard to generation of planting materials, harvesting and drying of coffee, to improve on the quality of coffee that goes to both the local and international market," the Bill states.

The Bill is also aimed at increasing the fees and penalties to make them more meaningful and more deterrent, to promote compliance.

Article 26 of the Bill gives powers to the Uganda Coffee Development Authority (UCDA) to register all coffee farmers.

A person shall be registered as a coffee farmer upon fulfilling two requirements, which include being a coffee farmer at the time of registration or showing proof of their intention to grow coffee within a period of six months from the date of registration.

Processed coffee beans

MP Okori-Moe said they willl start handling the Bill soon

The second requirement for someone to qualify to be registered as a coffee farmer is when the land, where the coffee is to be grown, or is grown, shall have been evaluated by the authority and deemed suitable for growing coffee.

In the course of UCDA registering, a coffee farmer will be required to submit detailed information, including their name, the acreage of the land on which it is grown, the variety and type of coffee grown, the earnings from the coffee, number of coffee trees and any other information, which may be deemed necessary for the purpose of registration.

UCDA shall upon successful registration, issue a coffee farmer with a registration number.

Coffee farmers' take on coffee Bill

Michael Ssali, a coffee farmer from Lwengo: The Bill has some good and bad aspects. I think it will not work. The Government should not restrict coffee farming. Let whoever wants to grow coffee do so, freely. Regarding imprisonment of someone for neglecting their coffee farm or drying coffee on bare ground, such standards may not be afforded by the poor. Some of us cannot afford to buy the necessary facilities to handle coffee, with the high standards they are setting.

Richard Kirabira, a coffee farmer at Busula in Luwero district: The law will improve the quality of our coffee in the entire value chain, from the farm to the factory. By formalising and professionalising the coffee business, it will improve revenue collection for the Government. However, setting high standards for engaging in coffee farming, trading and processing is likely to edge out the ordinary citizens.

Clause 27 (5) stipulates that UCDA shall not charge fees for the registration of farmers.

Government hopes to use the information contained in the farmers' register as a guide in the provision of services to coffee farmers individually or through farmer groups.

Clause 28 of the Bill states that the authority may, after being satisfied that a registered coffee farmer has failed to comply with the terms and conditions of registration, strike the name of the coffee farmer off the register.

Clause 28 (2) provides that a coffee farmer who will feel aggrieved by the decision of UCDA of being de-registered, may appeal to the minister to review the decision.

The Bill, in various clauses, gives powers to UCDA, to register all persons involved in the coffee chain, including traders, trade unions and processors.

It will be an offence for any person who will be found, operating an unregistered coffee nursery, selling or distributing substandard seedlings or seeds, harvesting or is found in possession of immature cherries, neglects a coffee farm, poorly stores wet cherries or heaps coffee, leading to mold formation, found with a store/warehouse that does not meet the requirements for storing coffee and dealing in coffee without a licence.

A person who commits any of the above offences will be liable, on conviction, to a fine not exceeding 48 currency points (sh960,000) or a term of imprisonment not exceeding two years or both.

Other offences, like engaging in coffee processing without a licence, processing without following standards, drying coffee on the bare ground around factory premises, will lead to a fine not exceeding 120 currency points (sh2.4m) or imprisonment not exceeding five years.

Parliament's agriculture committee chairperson, Janet Okori-Moe Akech, said they plan to start handling the Bill, including receiving views from the public as soon the committees are reconstituted. Sessional committees are set to be reconstituted tomorrow.

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    - Farmers are credit constrained, and they do not drive the market – tightening at farm gate limited impact if buyers for low-quality coffee exists

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   - Farmers are credit constrained, and they do not drive the market – tightening at farm gate limited impact if buyers for low-quality coffee exists
   - **Leverage on the market structure**, by focusing on the **market driver, the exporter**
   - There is a market for low quality, tighten enforcement on standards at export gate, **level the playing field for all exporters – consistent and uniform enforcement**

It is possible to move out of commodity-class category!!

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Thank you!