Policy brief
43410 | August 2018

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Opportunities in Uganda's Arabica value chain

In brief

- Coffee is an important part of the Ugandan economy, stably generating around 15% of export earnings for the past 15 years, even as other exports have risen.
- Uganda produces 1% of the world's Arabica crop, but while its production is increasing and is highly competitive, it has been overlooked by trade and consumers.
- The project explored two policy options for developing the Arabica sector. Firstly, improving market positioning and pricing, and secondly, structural changes to upgrade the value chain in the west.
- The brief provides three specific policy recommendations that, if taken up, could generate an estimated additional value to the coffee sector of $45 million per year before any volume effects.

This project was funded by IGC Uganda

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FUNDED BY
UKaid
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Background and context

Uganda has one of the highest concentrations of coffee growers in the world with over one million coffee farmers. Coffee is an essential cash crop for subsistence farmers living in relatively highly populated rural areas. Coffee is an important part of the Ugandan economy, stably generating around 15% of export earnings for the past 15 years, even as other exports have risen. In its 2020 Roadmap, the Ugandan coffee sector has set itself the goal of producing 20 million 60 kg bags of coffee by 2025, up from 3.5 million in 2015.

This project focused solely on Arabica because of its high profile in end-consumer markets and its ability to raise both trade and consumer awareness to drive general coffee sector growth.

Uganda produces 1% of the world's Arabica crop. There has been a gradual increase in export volumes in the past decade. Arabica makes up around 20% of coffee exports by volume and 25% by value. It is Arabica that is traded as a single origin coffee and earns premiums in international markets. The higher the quality Arabica produced and successfully marketed, the greater the margin available throughout the value chain and the easier it is for farmers to increase their incomes. The relative importance of Uganda's Arabica crop is increasing as global demand continues to rise and other important coffee producing countries' production declines, for example Kenya.

While Ugandan Arabica production is increasing and is highly competitive, it has been overlooked by trade and consumers. Trade buyers have viewed Ugandan Arabica as low quality, unable to compete in international markets, mainly suitable for blending, and sellable as a 'regional product.' Furthermore, Ugandan coffee has not been marketed in a way to build end-consumer awareness and demand. Because of poor awareness, Ugandan Arabica is not earning the same export margins as coffee of comparable quality from similar countries. It trades at a discount of up to 30% compared to benchmark trading prices.

Policy options

The project explored two options for developing the Arabica sector. Firstly, improving market positioning and pricing, and secondly, structural changes to upgrade the value chain in the west.

Improving market positioning means increasing direct contracting with roasters and converting the sector to one that is pulled onto the world market by consumer and trader demand. Direct contracting with roasters will also help reduce Uganda's dependence upon coffee traders and further increase the value earned from Arabica through higher premiums. Large-scale marketing deals with roasters that have direct customer access whether

Nestle, Mondelez, Tchibo, or Starbucks can carry Uganda's name in coffee sales across the world.

An auction could be used to drive awareness and international market access for Ugandan coffee. This can take many forms from an open competition through to a complete marketing platform. Light, competition-based auctions have been most successful in similar countries in creating market demand.

Structural changes to upgrade the value chain in the west means converting dry, on-farm coffee handling to structured coffee washing processes. We estimate there to be around 200,000 farmers in the region who could benefit from establishing washing stations and more formal processing and trading. The benefit is to raise the consistency and quality of coffee with repeatable processes and systems from cherry screening on intake through to drying and roasting. There is a difference of up to $60 per 60kg bag between Uganda's dry-processed and washed coffees. We estimate the value from upgrading the Rwenzori region alone to be $20-30 million per year. There are waste water hazard issues with washing stations, but these are addressable through water waste reduction and proper residue treatment.

A requirement for both better market positioning and western upgrades is improved quality handling across the entire coffee value chain. Poor on-farm practices include stripping cherries and early harvesting. These are worsened by traders who provide finance, then pressure farmers to harvest early to avoid them side selling. Further quality failures happen in processing where hulling agents and dry mills process cherries at too high moistures and with admixture of green cherries. Quality management interventions are needed across the value chain from on-farm practices, local trader behaviours, and credit provision through to washing, milling, and transport.

Policy recommendations

Our recommendations are threefold:

- **Establish a market mediator between the local and international players in the coffee sector.**
  This unit would have the roles of connecting local producers with international roasters, ensuring production processes meet international standards, and supporting local players with the best possible contracting methods.
- **Accelerate the upgrade of the western Arabica value chain by supporting new washing stations and other methods of on-farm coffee washing.**
  We see this as an opportunity to involve farmers in co-ownership of processing assets, therefore opportunities should be found to involve farmers in the construction of these stations.
- **A series of interventions is needed across the Arabica value chain to**

control and raise quality.
These can range from alternative credit sources through quality certification to technology-enabled batch tracking. A set of pilots would enable players in the sector to decide which strategies are effective and guide both investments and regulatory planning.

If Uganda were to drive the activities in these recommendations, we conservatively estimate an additional value to the sector of $45 million per year before any volume effects. This would increase the value secured by Uganda in its Arabica crop by around 30%. We see this as entirely feasible. It has been done before in Colombia in the 1980s, in Vietnam in the 1990s, in Rwanda in the 2000s, and in the east of Uganda in the last ten years.

While our focus in Arabica is on quality management to raise value, it is expected that this will, in turn, drive yields and volumes and raise overall awareness of all coffee types including Robusta. These recommendations are aligned directly and indirectly to most of the nine Coffee Roadmap initiatives, addressing in particular 'Demand and Value Addition,' 'Production', and 'Enablers.'