

Uganda's coffee sector: raising quality for exports and growth

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Private Sector Development Unit
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Agenda

1. Uganda's Coffee Sector: *selected facts and COVID-19*

joint with Priya Manwaring (IGC)

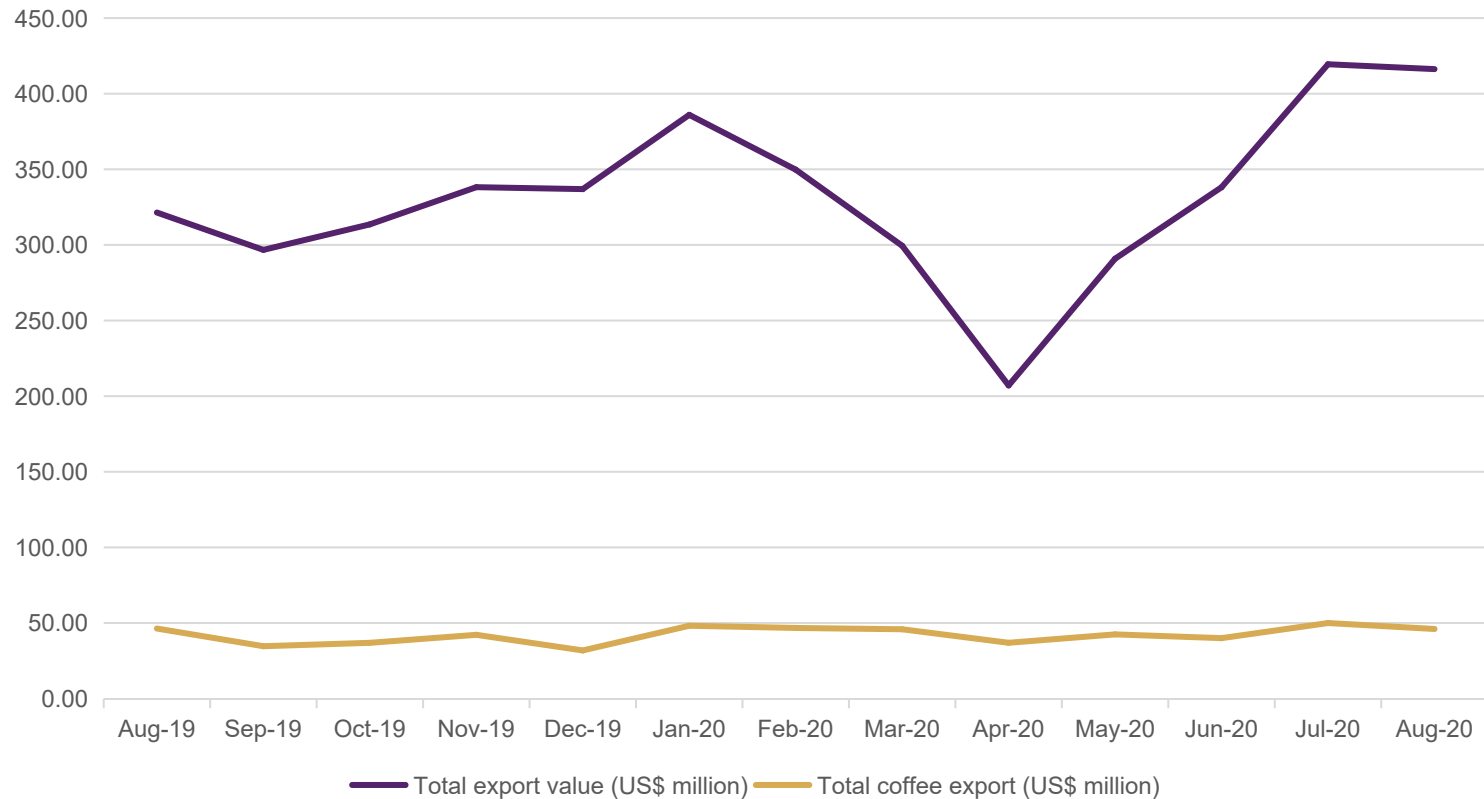
2. Challenges in raising quality and productivity in the coffee sector

based on ongoing work with Jie Bai (Harvard), Lauren Falcao Bergquist (Michigan) & Yulu Tang (Harvard)

3. Policy implications to maintain resilience and boost exports and growth

Uganda's Macroeconomics and Covid-19

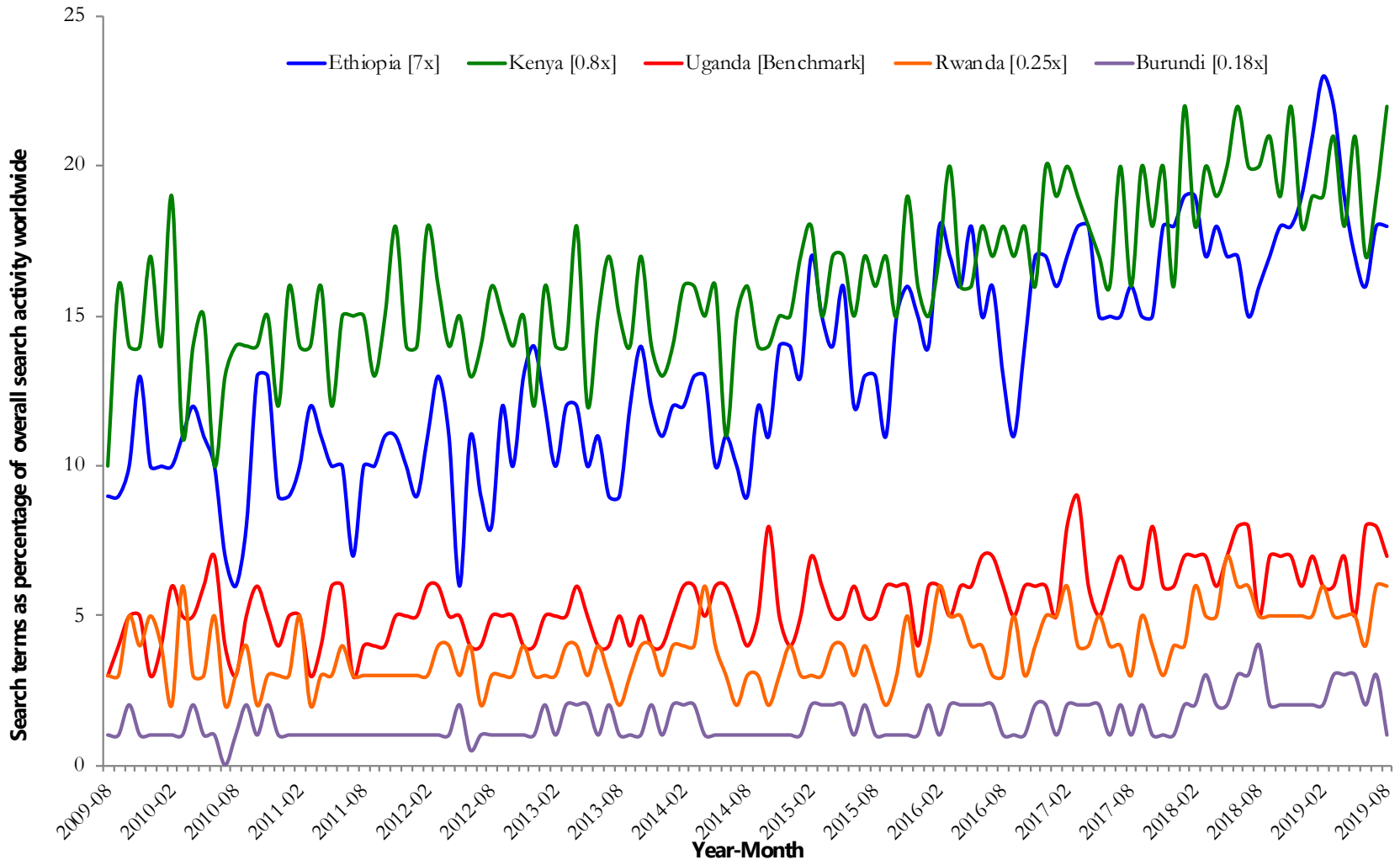
Coffee has remained stable despite general economic meltdown



Awareness of Ugandan Coffee

Google Search Activity and Quantity

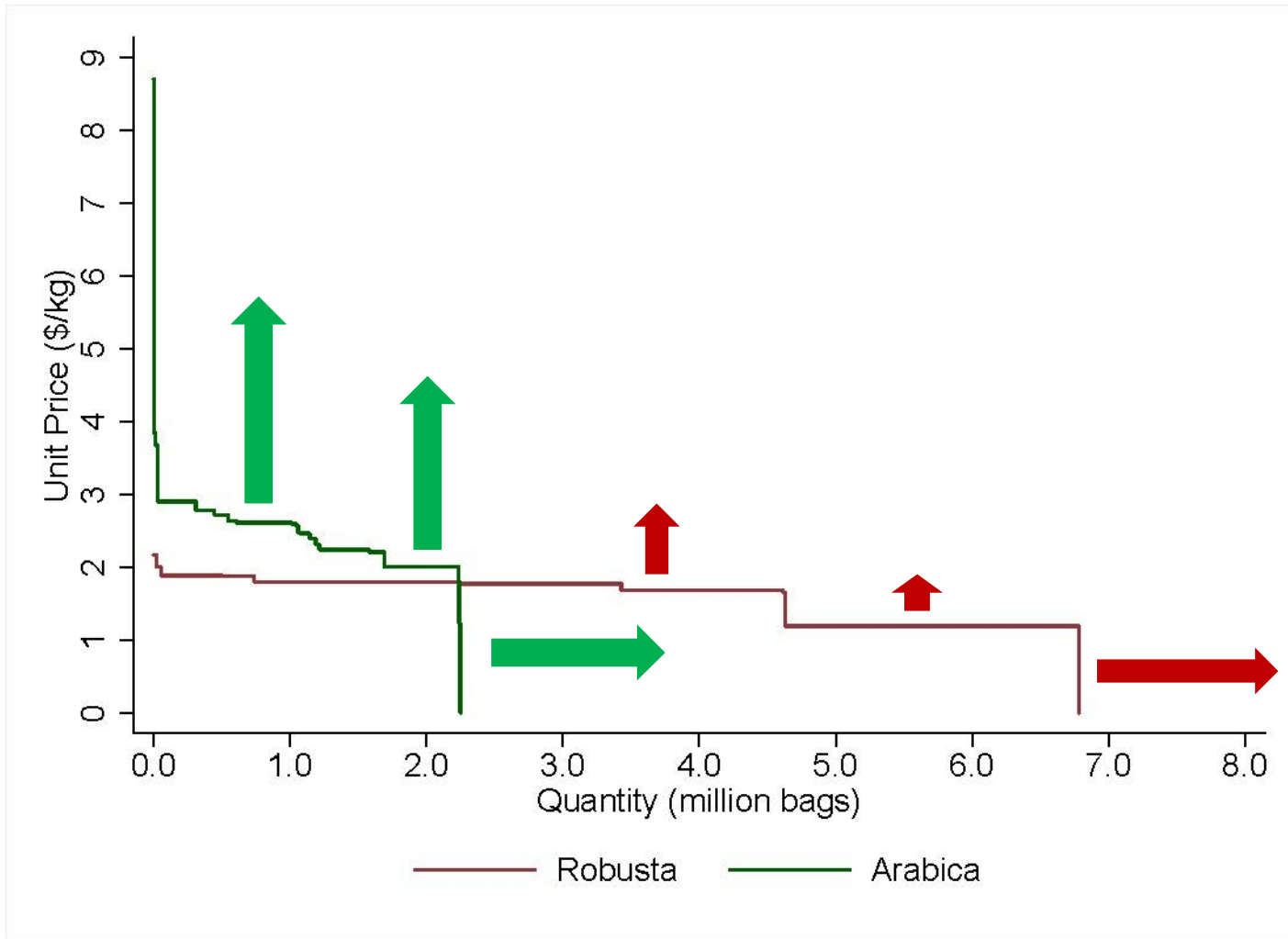
UPDATE



Uganda's Price Curves: Upgrade and Productivity

UPDATE

Arabica and Robusta varieties 2018/19



Coffee Exporters

Dominated by a few players

UPDATE

| 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, red indicates companies in sector for 10+ years, orange are newer entrants in the last 5 years in the top-10 category

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Mt Elgon Value Chain

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



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

Diagnosis of coffee supply chain reveals farmer incentive to produce high quality is limited:

“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

We study this by measuring pass-through of a *randomized* incentive for high quality coffee production to traders provided by a large coffee exporter.

- Do traders procure more high-quality coffee?
- Are premiums passed on to farmers?

Barriers to quality upgrading

Pilot Trader Survey, fly-crop season 2019, Kasese District, N=360

Causes of low 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?

- 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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Opportunities to raise quality?

Traders and hulling operators?

- Monitoring and enforcement at this level is **challenging to fix**
- new Bill brings punishments for violation (licensing and regulating already in 1994 regulation, **but weak enforcement of standards**)
- 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**

Opportunities to raise quality?

Exporters?

- When exporters purchase from traders a Form-5 is issued by UCDA officer, enforceability of standards can be improved.
- Here possibly the biggest opportunity to improve quality in finite time
 - farmers millions, traders '000s but exporters small in numbers
- National Coffee Bill, 2018 – emphasis on bottom-up approach. Simultaneously how about top-down approach?

Key: consistent and uniform adherence to export standards on ALL exports by UCDA

Ripple through the supply chain, intermediaries will react

Caveat: Bill gives power, but need capacity at UCDA

Final Remarks

1. **Remain liberalized** (lessons from Ethiopia, Kenya and now Tanzania), don't overregulate market
2. **National Coffee Bill, 2018** – an **opportunity to set a positive tone**
 - Farmers are liquidity constrained, and do not drive the market – tightening at farm gate limited impact if buyers for low-quality coffee continue to exist
 - Important to **communicate** goals of farmer registration
 - **Leverage on market structure**, focus on **exporter** [market driver]
 - 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**

Thank you



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