

Priya Manwaring¹ and Ameet Morjaria²

Understanding the impact of COVID-19 on coffee exports in Uganda



In brief:

- The recent COVID-19 pandemic has come at an overwhelming cost to the Ugandan economy. However, Uganda's coffee sector appears to have been relatively resilient to the recent crisis to date.
- As a 'necessity' product based on futures contracts, commercial coffee is likely to be less subject to huge demand shocks in the short run. At the same time, the onset of the crisis has coincided with higher than usual yields from the latest harvest and adaptation by the coffee authority (Uganda Coffee Development Agency, UCDA) has ensured continued (if slower) flow of exports. Significant increases of Robusta coffee seemed to have boosted supply, while rising and relatively stable prices and demand for Arabica coffee have ensured stable demand for higher value exports.
- Exporters still face significant additional costs and delays associated with transporting goods to and across borders as a result of stringent testing measures at the Kenya-Uganda border crossing.
- It is crucial for policymakers to proactively address supply side constraints while ensuring farmers do not divest from quality coffee. Market and quality control can help exporters to diversify markets and take advantage of reopening of restaurants and cafes globally to promote Arabica coffee, which attracts higher prices and greater potential for value addition.

*This project was funded
by IGC Uganda*

¹ Country Economist, Uganda, International Growth Centre; priya.manwaring@theigc.org

² Kellogg School of Management, Northwestern University; a.morjaria@kellogg.northwestern.edu

We thank participants at the National Coffee Platform for their comments. We benefited from discussions with Samson Emong, Martin Fowler, Jonny Rowland and John Schluter. Views expressed in this document are of the authors alone and not of the any organizations that have shared data or provided comments.

The economic costs of COVID-19 in Uganda

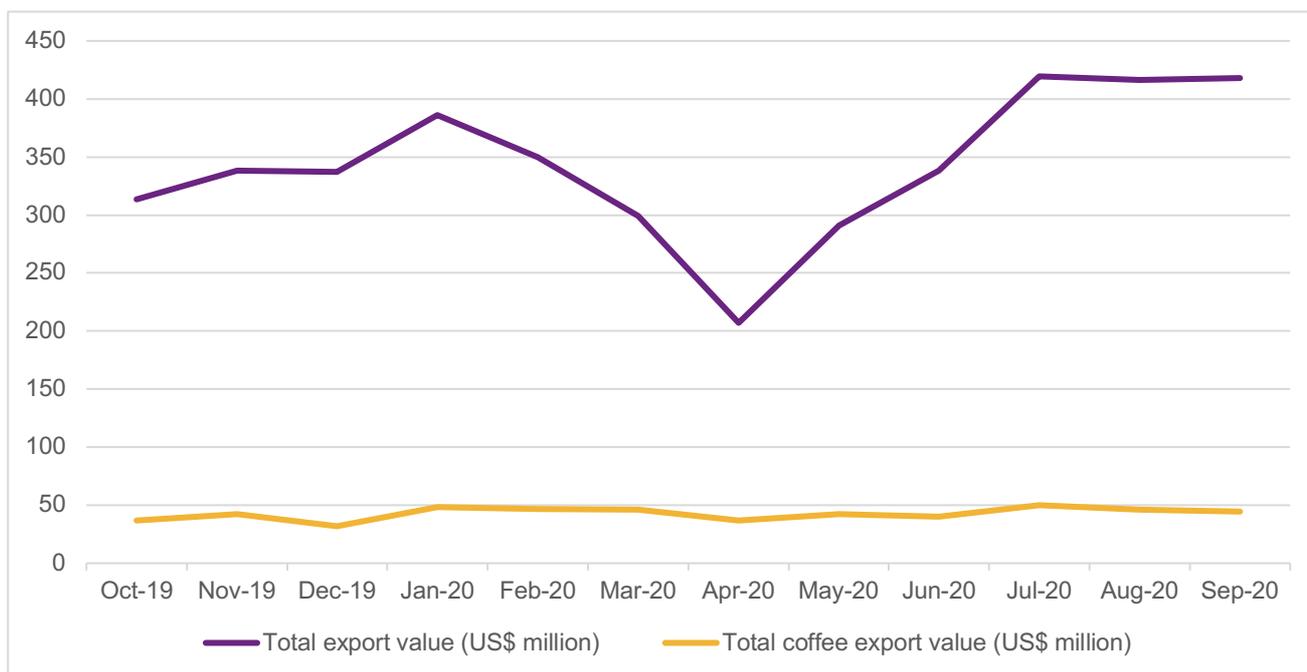
The recent COVID-19 pandemic has come at an overwhelming cost to the Ugandan economy. As a result of the rapid spread of COVID-19 and the resultant control measures implemented across a number of countries, the global economy is projected to contract by 3 percent in 2020,³ and growth in sub-Saharan Africa is projected at -1.6%, the lowest level on record.⁴ Falling international demand and disruption of supply chains have already had significant impacts on economic activity in Uganda.

At the same time, containment and mitigation measures themselves have restricted economic activity involving face-to-face interaction.⁵ While lockdown measures have been lifted for most business operations (with social distancing operating procedures now in place), by disrupting production and reducing demand these have come at a cost to firms and households in terms of additional expenditures as well as revenue and income forgone over this period. As a result, growth projections have fallen dramatically to 3.1% in 2019/20⁶, export revenues are expected to almost halve in the coming year,⁷ and informal employment is expected to reduce by as much as 42%.⁸

Limited impact of COVID-19 on the Uganda's coffee exports

Uganda is a leading exporter of coffee globally, with exports of coffee accounting for 10.7% of foreign exchange earnings in 2019. Given the dramatic effects of COVID-19 on the rest of the economy, it is plausible to expect the sector to have experienced a similar downturn.

Figure 1: Total value of Uganda's exports, and coffee in particular, Coffee Year 2019/20



Coffee exports were relatively shielded from the dramatic decline in exports since January 2020 (Source: Bank of Uganda, 2020)

³ IMF (2020) World Economic Outlook, April 2020: The Great Lockdown

⁴ IMF (2020) Regional Economic Outlook: Sub-Saharan Africa

⁵ From the 20th March – 26th May, the Government of Uganda implemented a nation-wide lockdown on all non-essential business activities and public gatherings in the country. Motorized travel was banned with the exception of transport for cargo, and a national curfew was put in place. While a two-week quarantine for international travelers was already in place, airports were subsequently closed for all travel.

⁶ Minister of Finance, Planning and Economic Development (2020) Budget Speech Financial Year 2020/21

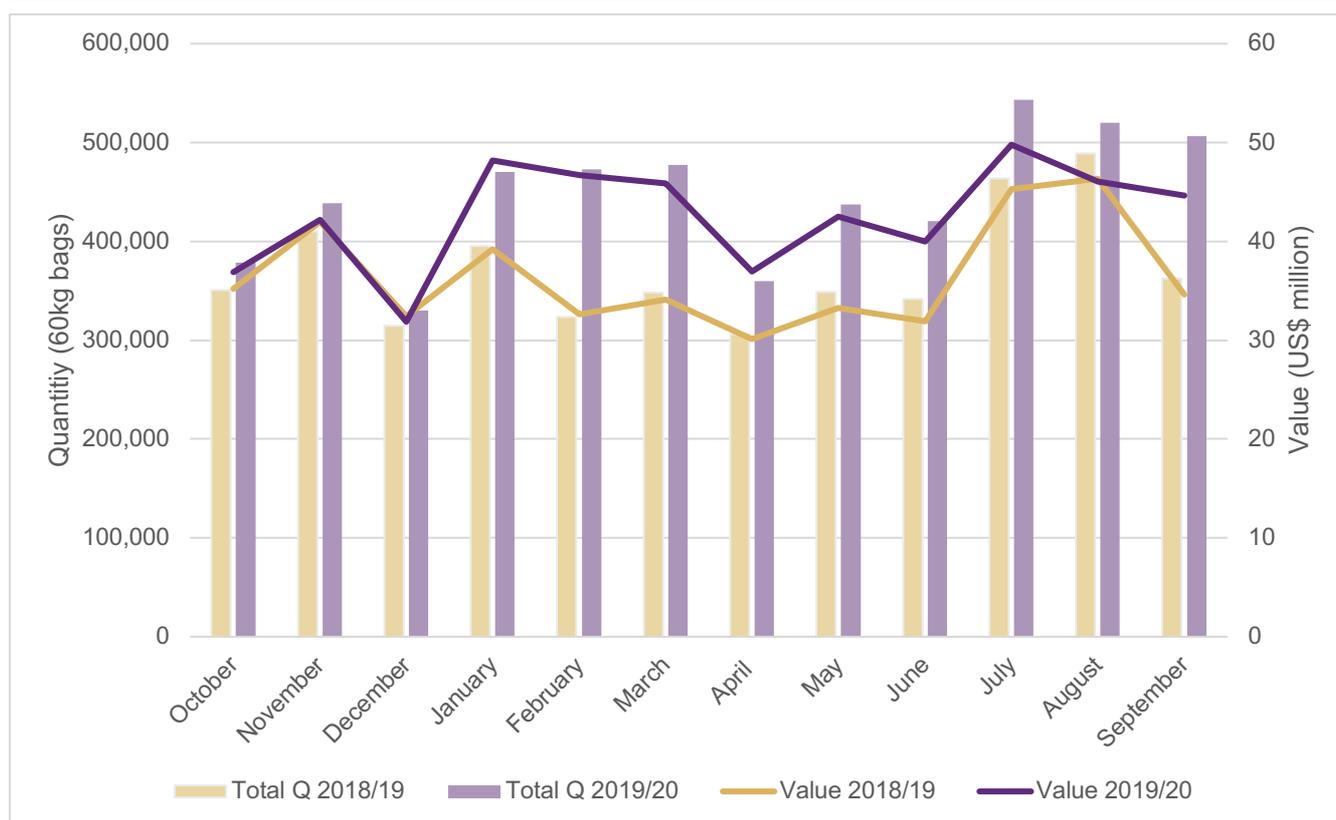
⁷ Bank of Uganda statistics department: <https://www.bou.or.ug/bouwebsite/Statistics/Statistics.html>

⁸ EPRC (2020) 'How has the COVID-19 pandemic impacted Ugandan businesses? Results from a business climate survey'

However, Uganda’s coffee sector appears to have been relatively resilient to the recent crisis. While export earnings from coffee saw a sharp decline of 19.5% between March and April 2020, overall there appears to have been a relatively limited impact on the value and quantity of exports when compared to previous years. Since the onset of the crisis, coffee export quantities and values have remained consistently higher than the previous financial year.

In May 2020, for example, coffee exports amounted to 437,597 bags worth US\$ 42.48 million, made up of 340,830 bags (US\$ 29.54 million) of Robusta and 96,767 bags (US\$12.94 million) of Arabica. Compared to May 2019, this was an increase of 27% and 29% in quantity and value respectively.⁹

Figure 2: Total value and quantity of coffee exports, coffee years 2018/9 vs 2019/20



(Source: Authors calculation on UCDA Monthly Reports¹⁰)

Uganda is one of the few countries to experience an increase in exports of coffee compared to previous years. Ethiopia has also reported growth in export quantities and earnings from coffee over the pandemic period,¹¹ though both Ethiopia and Kenya have experienced dramatic declines in earning from specialty coffee due to the closure of cafes and restaurants globally.¹²

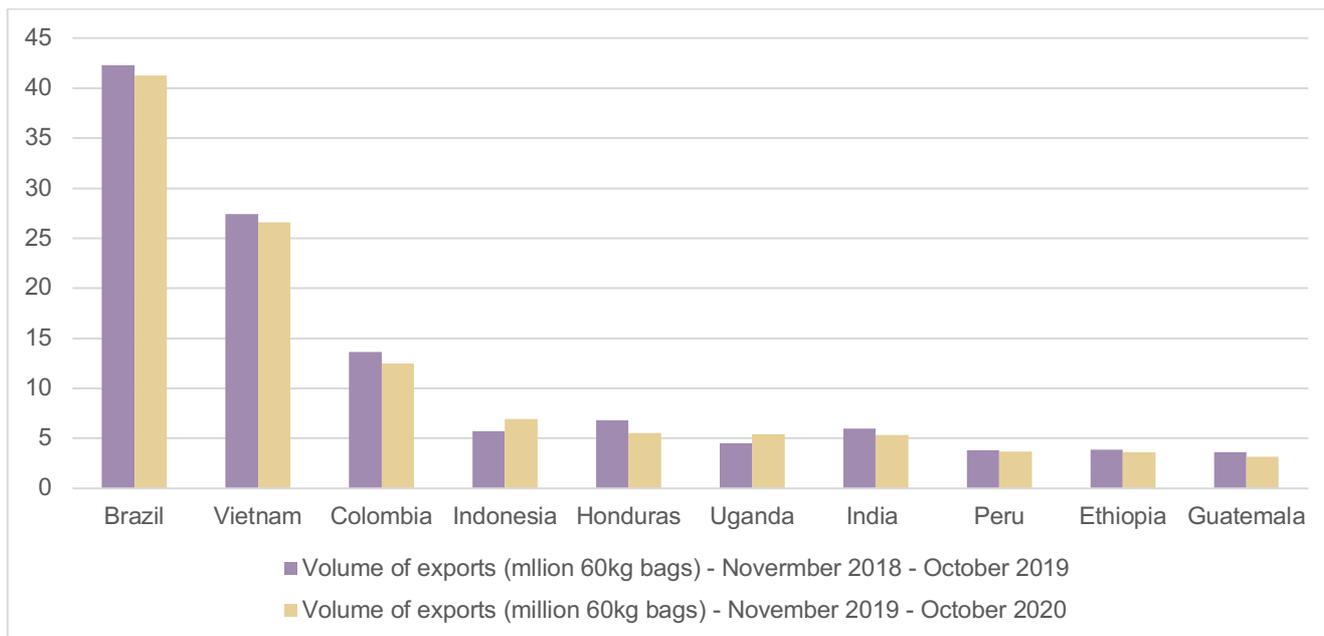
⁹ UCDA monthly report May 2020

¹⁰ It is important to note that this data likely refers not to actual exports i.e. out of the port in Mombasa, but to products for export at the point of loading in Uganda, and as such does not take into account delays in transporting goods to their final destination due to COVID-19.

¹¹ <https://www.ena.et/en/?p=14317>

¹² <https://uk.reuters.com/article/uk-health-coronavirus-coffee/kenyas-specialty-coffee-growers-hit-as-lockdowns-close-global-coffee-shops-idUKKCN21R1M8>; <https://gcrmag.com/covid-19-wipes-out-nearly-a-quarter-of-us-coffee-shop-market-value-report/>

Figure 3: Shipment volumes of top 10 coffee exporting countries



(Source: Authors calculation on ICO data, 2020)

What explains the resilience of the sector?

There are reasons both on the demand and supply side for the resilience of this sector in Uganda.

Demand for coffee is relatively inelastic in the short to medium run to shocks to income. As a ‘necessity’ product, it is likely to be less subject to the huge demand shocks affecting other products. At the same time, coffee contracts are largely signed 3-6 months in advance of sales, and so we may only now be starting to see the effect of COVID-19 on prices and quantities sold. In addition, in the first few weeks of the crisis we saw panic buying in supermarkets¹³ and stockpiling by importers to avoid supply shortages in future, *raising* demand for some coffee products.¹⁴ This is particularly true of Ugandan coffee exports, with limited specialty coffee beans being exported for use in cafes and restaurants.

On the supply side, the onset of the crisis reduced the price of Ugandan exports through currency depreciation and coincided with higher than usual yields from the latest harvest, in part the result of additional investment in yields by farmers as well as greater supply of household members who could work on the farm due to lockdown measures.¹⁵ At the same time, while national lockdown measures have disrupted supply chains for exporters to some extent, allowing continued movement of cargo has been particularly important for maintaining supply and export flows in Uganda. UCDA has also adapted quickly to ensure continued (if slower) flow of exports; providing stickers to export vehicles for movement, carrying out preliminary analysis of coffee at exporter labs despite office closures, and delivering necessary documentation to exporters in person. The presence of adequate storage systems has also meant that many exporters were able to draw down on stock to continue supplying to export markets.

Overall, the sector has been shielded from the worst demand and supply effects of the crisis so far. But is this likely to last? And what is the role of policy in maintaining a resilient coffee industry in Uganda? Decomposing trends in the sector by type of coffee can shed some light on this.

¹³ Financial Times (2020) Coffee climbs as locked-down consumers seek caffeine fix

¹⁴ Hernandez et al. (2020) Volatile coffee prices: COVID-19 and market fundamentals; IRI (2020)

¹⁵ UCDA Monthly Report, April 2020

Decomposing resilience: Robusta vs Arabica

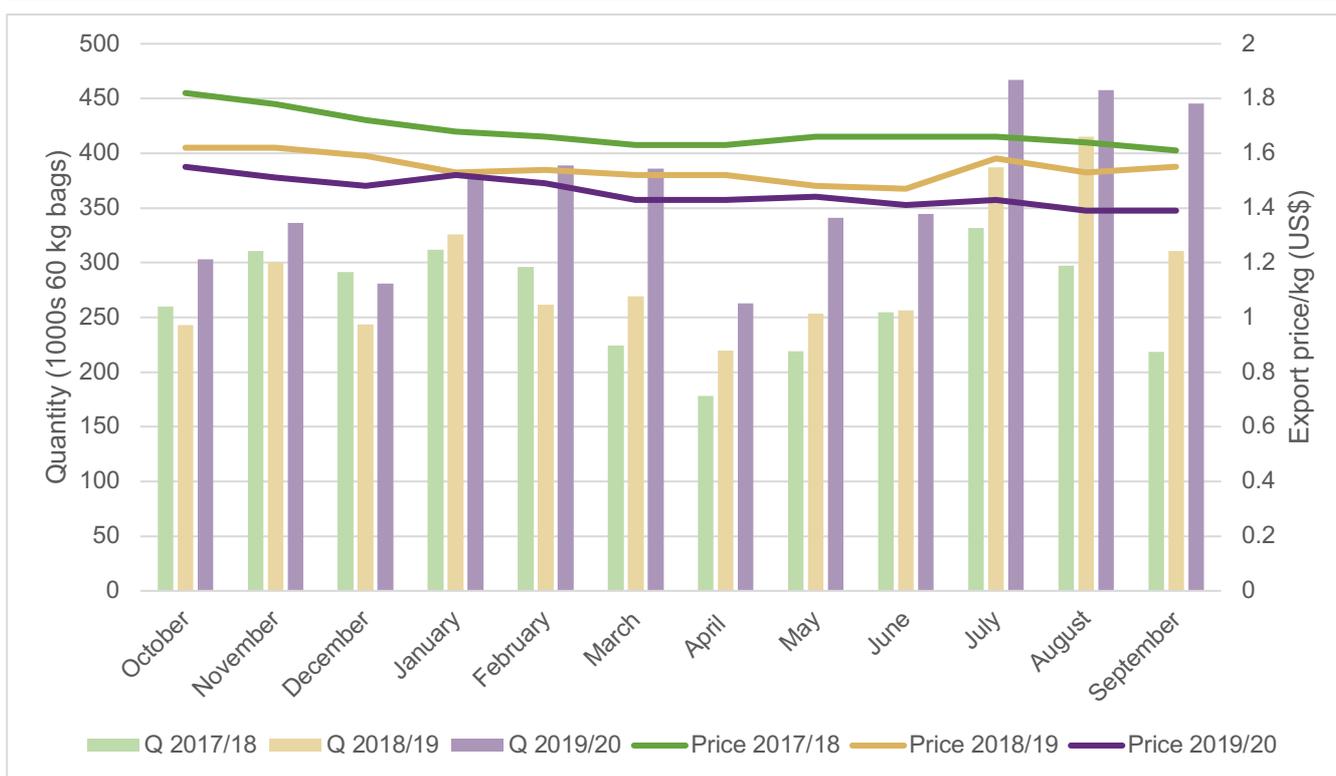
Significant increases in production of Robusta coffee

Looking at monthly data on coffee exports from the coffee regulator, we can see that higher export revenues from Robusta coffee have been driven largely by significantly higher export quantities as a result of the recent bumper harvest. Prices of Robusta coffee have continued to fall year on year due to rising global production and increasing stocks of Robusta coffee. Prices may have fallen further due to falling demand from the recent pandemic and closures of cafes and restaurants in countries such as Spain, Italy and the UK, but these effects have been muted to date due to the lagged effects of coffee contracts signed in advance.

Rising and relatively stable prices and demand for Arabica coffee.

By contrast, Figure 5 below highlights that, in addition to the higher quantity of exports of Arabica coffee resulting from bumper main and fly crops, the resilience of Arabica exports is largely due to stable and/or rising prices for this coffee year on year. This stability of prices is in part due to the fact that 43% of the value of coffee exports are exported by exporters that are subsidiaries of three large MNCs who are vertically integrated with their suppliers.¹⁶

Figure 4: Uganda's Robusta coffee exports



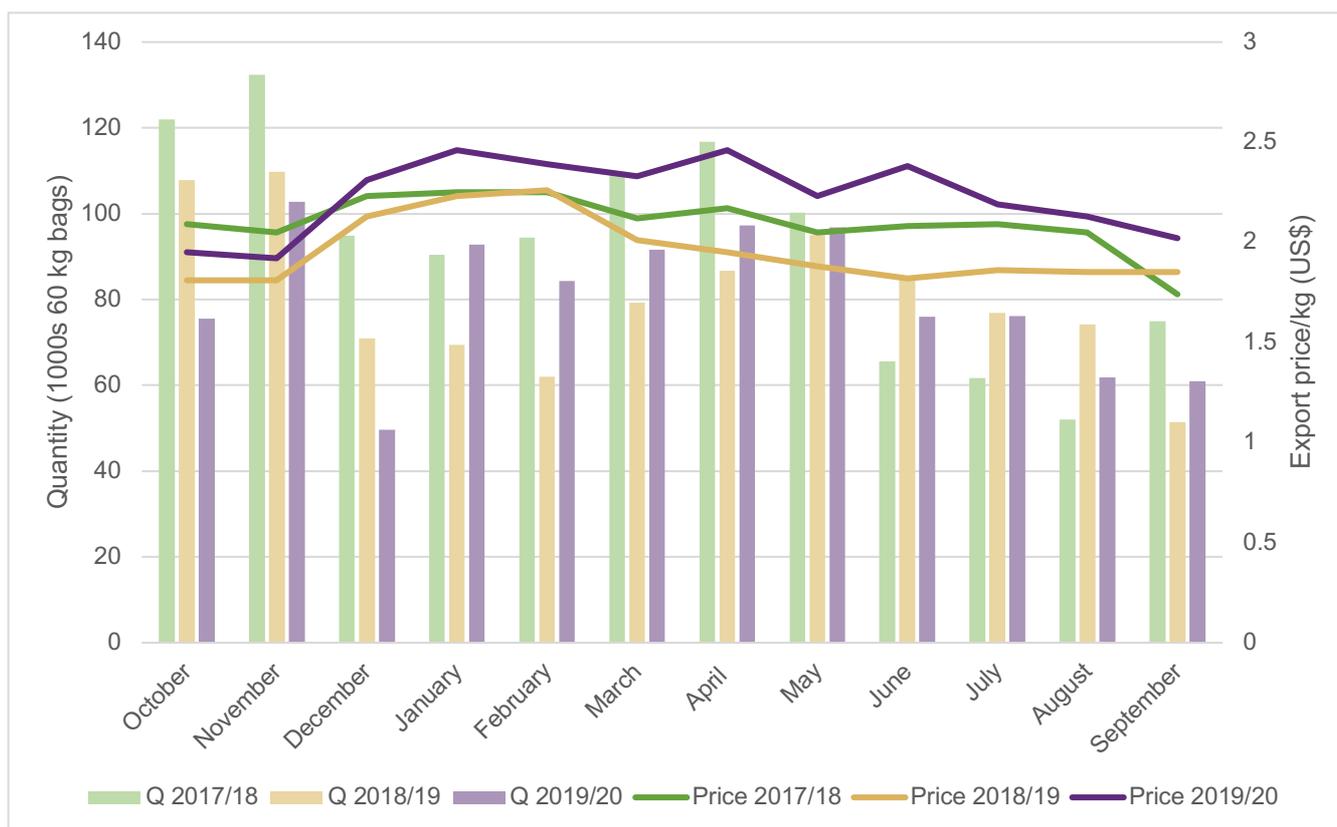
(Source: Authors calculations on UCDA Monthly Reports).

It is interesting to note that global prices for Arabica rose over this period due to stockpiling of Arabica coffee to avoid shortages due to predicted supply chain disruptions from the crisis.¹⁷

¹⁶ Author's calculations based on UCDA May 2020 report

¹⁷ ICO (2020) Volatile coffee prices: COVID-19 and market fundamentals

Figure 5: Uganda's Arabica coffee exports



(Source: Authors calculations on UCDA Monthly Reports)

A crucial caveat on ‘resilience’

So far, we have explored why the coffee sector in Uganda appears to have been so resilient to the recent pandemic – but it is important to note that the data on exports above refers not to coffee crossing the border, reaching the port in Mombasa or reaching their final destination, but to produce at the point of loading in Uganda.

As such, this picture obscures a key challenge for coffee exporters of the significant additional costs and delays associated with transporting goods during the pandemic and its resultant lockdowns. Limited availability of trucks (due to some of the trucks being stuck in transit) and long delays at borders due to stringent testing measures have meant that shipments that previously took 2-3 weeks to get from Uganda to the port in Mombasa now can take up to 2-3 months. This is likely to have resulted in significant liquidity constraints for exporters.

Future prospects

Looking forward, there is reason to believe that the **current resilience of the sector may not be long lasting**.

On the supply side, the **current fly crop has ended, and the upcoming main crop is off cycle**. At the same time, it is possible that we may see further negative shocks to supply resulting from a rise in the number of COVID-19 infections and/or resulting restrictions.¹⁸

¹⁸ According to phone surveys conducted by Enveritas in June 2020, farmers in Uganda reported major disruptions to the workforce resulting from the crisis. One coffee exporter in Uganda noted higher prices of FAQ and Arabica parchment as a result of the coronavirus outbreak and related restrictions, resulting in a 30% increase in the costs of doing business.

On the demand side, demand for coffee is beginning to contract in consuming countries, with home consumption met by previous purchases/stockpiling as well as large supplies of competitive Brazilian Robusta crops due to the depreciation of the Brazilian Real.¹⁹ Faced with uncertain demand and liquidity constraints, global buyers are unlikely to contract (in advance) significant quantities of higher quality coffee from the next harvest. This again is likely to have long run implications for farmers who may revert to production of lower quality coffee and/or diversify out of coffee.

These effects can already be seen in the most recent data we have access to, the November monthly figures, which show lower overall value (down by 10%) and quantity (down by 2%) of Uganda's coffee exports compared to the same month in 2019. This is driven both by falling prices of Robusta and significantly reduced quantities of Arabica exports (down by 44% compared to in Nov 2019/20).

Policy implications

The above discussion highlights some key policy considerations:

- 1) Throughout the 2020 COVID-19 pandemic and global recession, coffee exports have remained a stable source of export earnings for Uganda. While tourism earnings took a nosedive,²⁰ and remittances from abroad are estimated to have fallen by 40 percent²¹, demand for this cash crop remained consistent and helped to maintain crucial access to foreign exchange earnings. This highlights a subtle but important policy for developing economies as they embrace structural transformation. While there was been a push to diversify away from cash crops such as coffee as a core source of earnings for Uganda, the COVID-19 pandemic highlights how important it is to be in product spaces that are either necessities or being part of important global supply chains. As such, there is a need pursue structural transformation alongside improved efficiency of agricultural production to ensure a diverse portfolio of competitive production.
- 2) While there have been active efforts to limit disruptions to the supply chain for coffee export, it will be crucial to continue to preemptively **address any supply side constraints to coffee production and export** faced by farmers and traders through:
 - a. Implementing effective social distancing measures and investments in mechanization when/as this becomes necessary in containing local transmission of COVID-19 among labourers.
 - b. Reducing national and international trade and transport costs through provision of requisite PPE to transport workers, digitization of customs procedures, and rapid testing facilities at critical trade borders.
- 3) At the same time, there is a need to ensure farmers do not divest from coffee and instead use this opportunity to invest in trees, rehabilitation and mulching. This can be done by providing necessary cash transfers to smooth consumption, and/or by supporting investors through conditional tax breaks, loans for capital expenditures, business development training, and extension services. Efforts to register farmers as outlined in the recent National Coffee Bill (2018) may provide a valuable resource for targeting support in particular areas. This is particularly important for Arabica farmers in Western Uganda, where markets are more fragmented and supply chains less structured than in Eastern Uganda.
- 4) The recent crisis has highlighted the vulnerability of coffee exports to particular markets/buyers. It is therefore crucial for the government (and NGOs) to support the sector in diversifying and accessing new markets, through the marketing and promotion of a 'Uganda' brand of high-quality coffee. This could be

¹⁹ Stakeholder interviews Oct 2020.

²⁰ IMF (2020) Uganda: Request for disbursement under the rapid credit facility

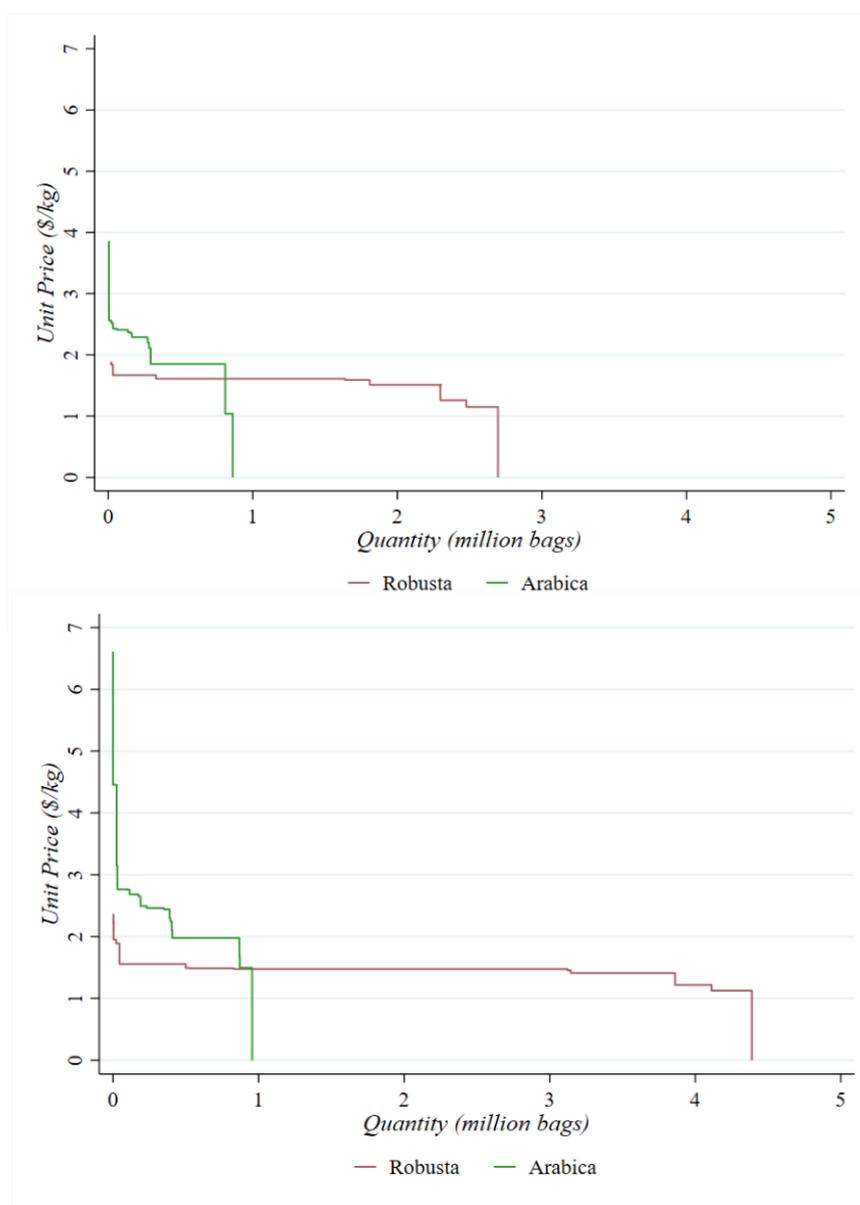
²¹ Younger et al. (2020) *Estimating income losses and consequences of the COVID-19 crisis in Uganda*. IGC

done, for example, through Ugandan diplomatic missions in new markets such as South Korea and Japan, and by facilitating online linkages with buyers (e.g. through AliExpress).

- 5) Related to this, the government can use opportunity of restaurants and cafes reopening in many countries to continue to promote **trade of Arabica coffee that attracts higher and less volatile prices and offers greater potential for value addition.**

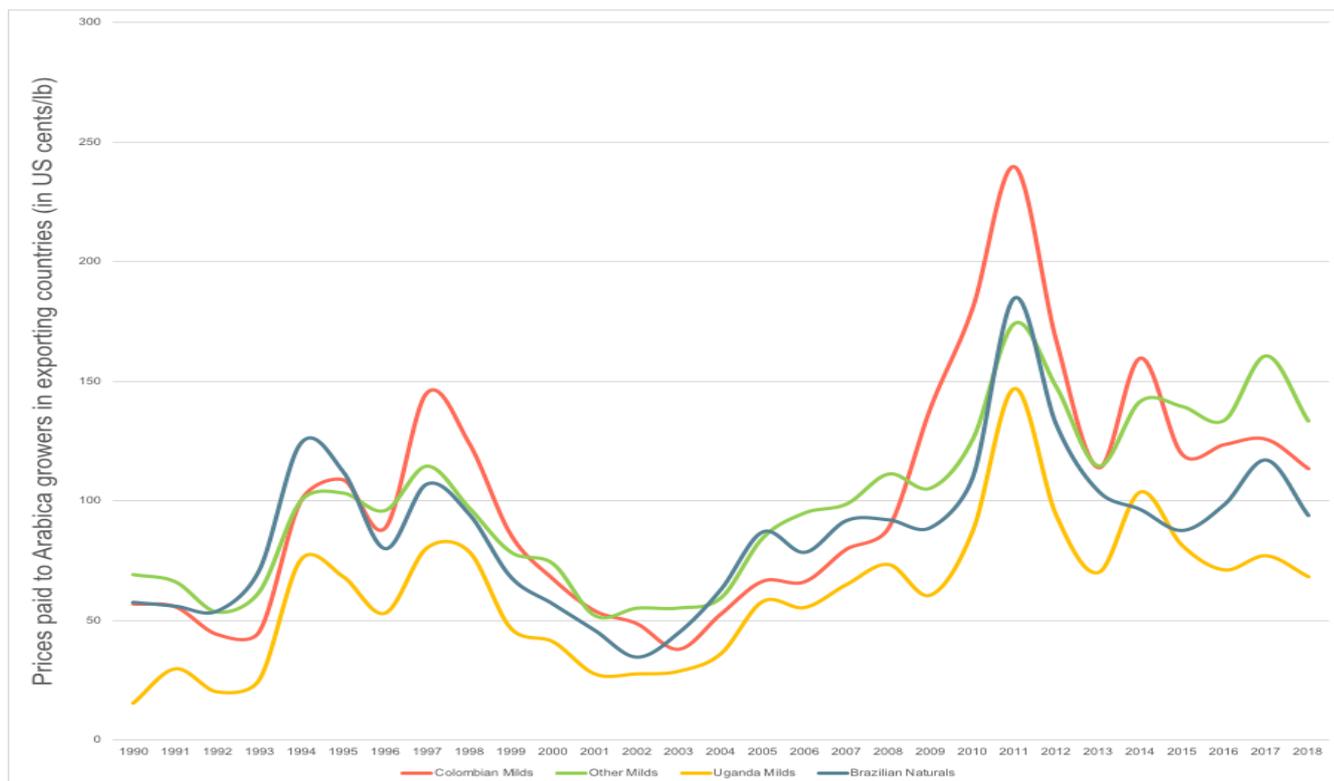
The graphs below highlight the progress Uganda has made in production of Robusta and Arabica coffee in the last 5 years. While production of Robusta has significantly increased, Arabica production still trails behind, despite the higher price it attracts. This largely reflects an untapped opportunity for quality upgrading in Western Uganda (Morjaria and Sprott, 2018). Unlike the Eastern Uganda supply chain, which is able to obtain higher prices in international markets, the lower quality of Arabica from Western Uganda reflects in prices in global markets (Figure 7 below).

Figure 6: Progress in Arabia and Robusta production in Uganda



(Source: Authors calculations on Trade Statistics and UCDA Monthly Reports).

Figure 7: Arabica prices paid to different exporters

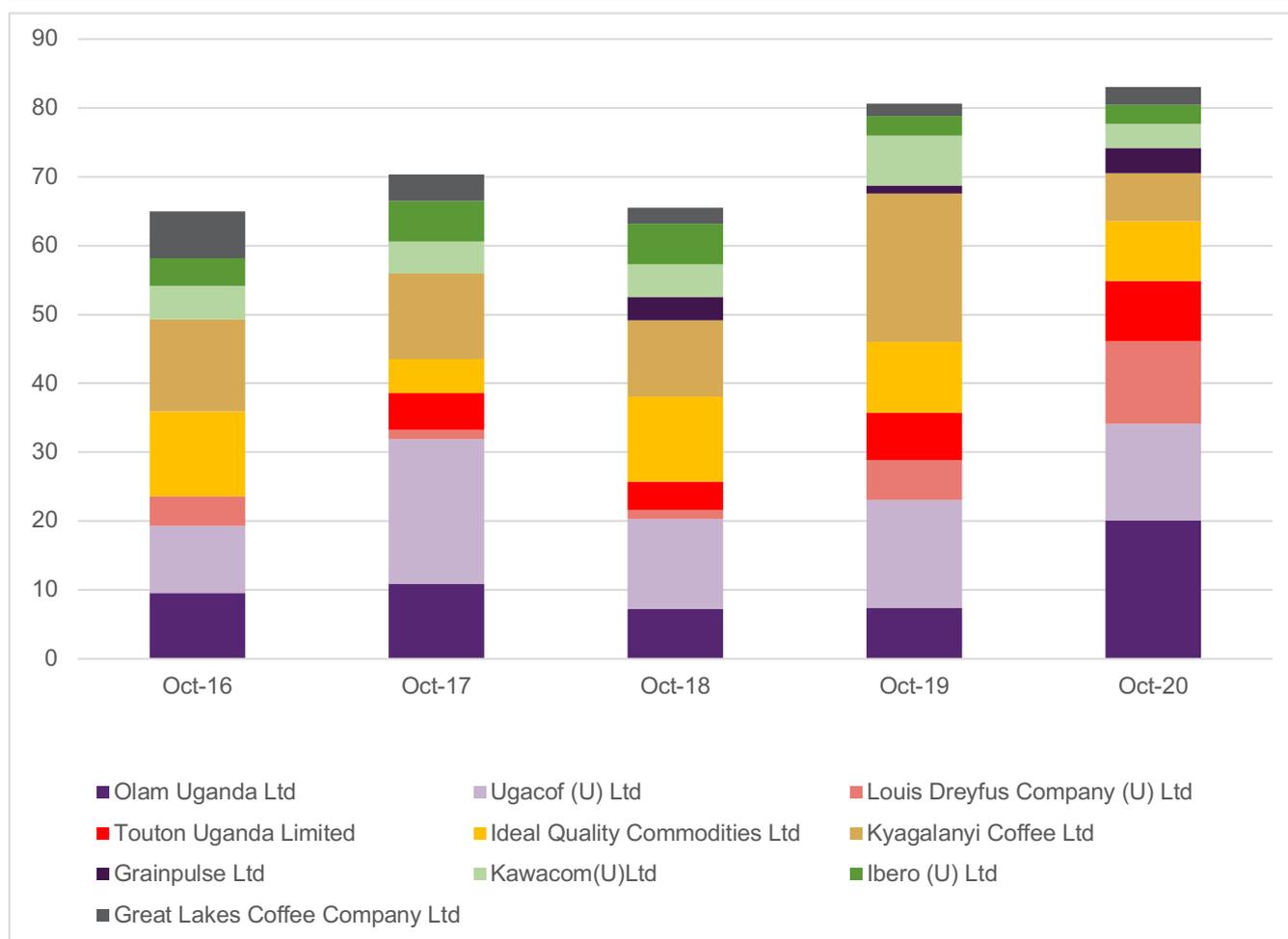


(Source: Authors calculations on ICO, 2020)

Additional investment in quality assurance can offer higher prices and greater potential for value addition, benefitting margins for exporters, traders and farmers.²² While the recent National Coffee Bill is in the direction and highlights the important role of government in regulating on-farm activities to improve quality coffee production, ongoing work in Uganda suggests that it may be most viable to regulate quality of coffee through effective enforcement of standards on exporters, who can then in turn offer higher prices to farmers and traders who offer higher quality cherries and sun-dried coffee. This is particularly promising in Uganda, where the industry structure and participants has remained relatively stable, and the top 10 exporters regularly account for over 75% of all exports from the country.

²² Morjaria and Sprott (2018) *Ugandan Arabica coffee value chain opportunities*. IGC

Figure 8: A few major exporters dominate the market in Uganda



(Source: Authors calculations on UCDA Monthly Reports).

Further reading

- International Coffee Organisation (2020) *Volatile coffee prices: COVID-19 and market fundamentals*
- Morjaria and Sprott (2018) *Ugandan Arabica coffee value chain opportunities*. IGC