

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

**Ameet Morjaria**

Associate Professor of Managerial Economics & Decision Sciences  
Kellogg School of Management, Northwestern University

Agriculture and Agro-Industrialisation Evidence Session  
Ministry of Finance, Economic Planning and Development:  
Private Sector Development Unit  
21<sup>st</sup> October 2020



# Agenda

---

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

joint with Priya Manwaring (IGC)

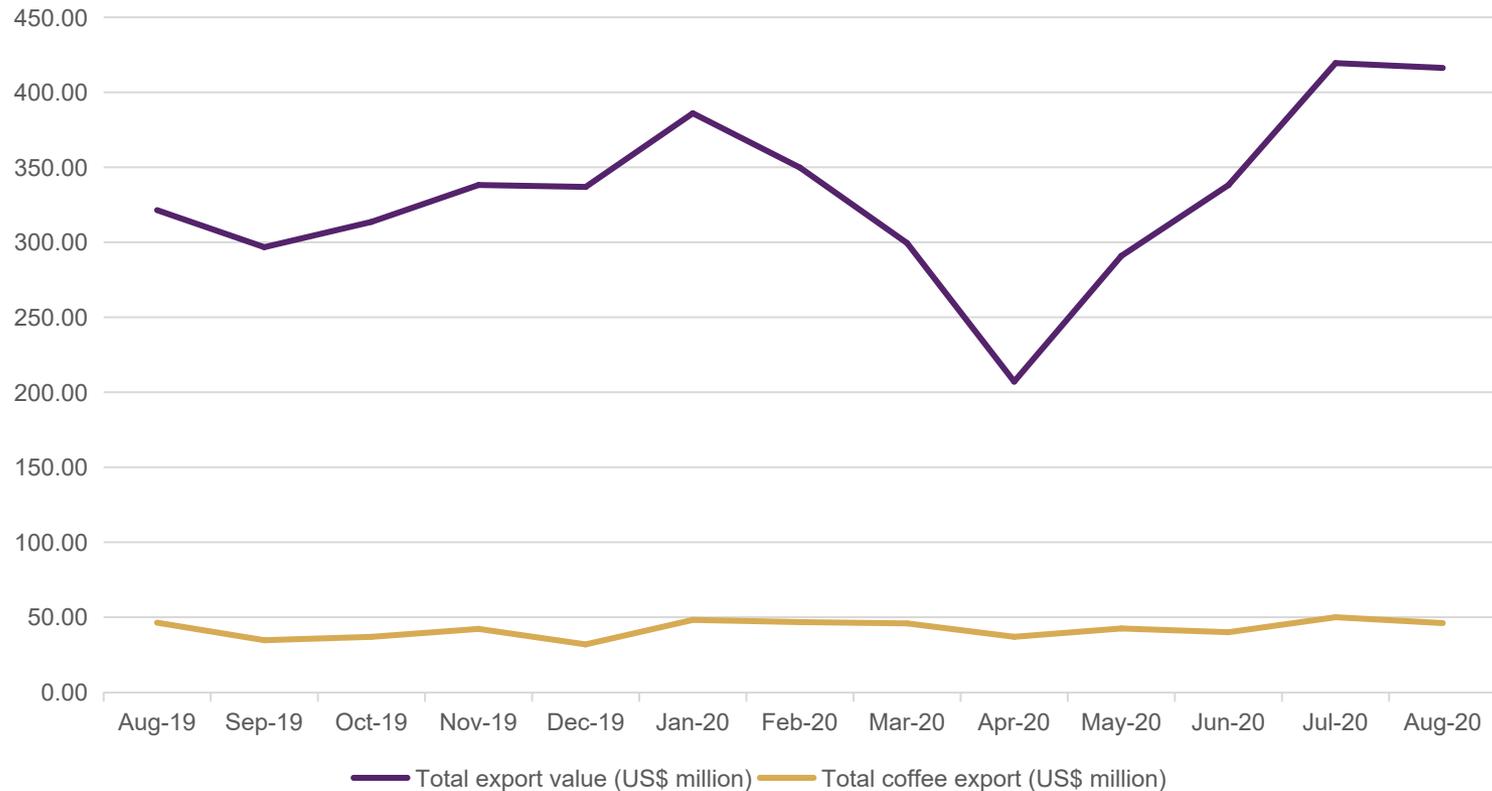
2. Challenges in raising quality and productivity in the coffee sector

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

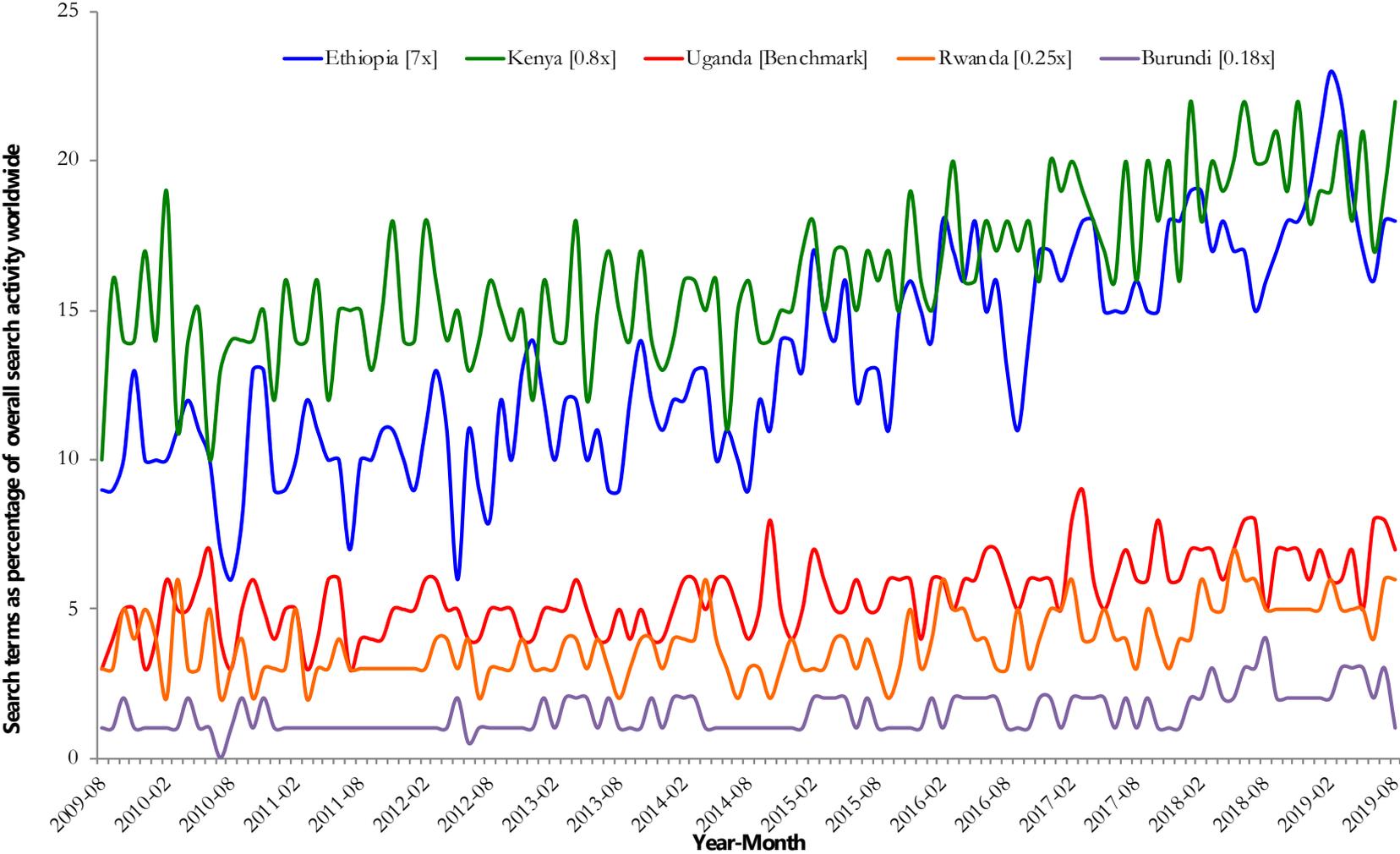
*Coffee has remained stable despite general economic meltdown*



# Awareness of Ugandan Coffee

## *Google Search Activity and Quantity*

**UPDATE**

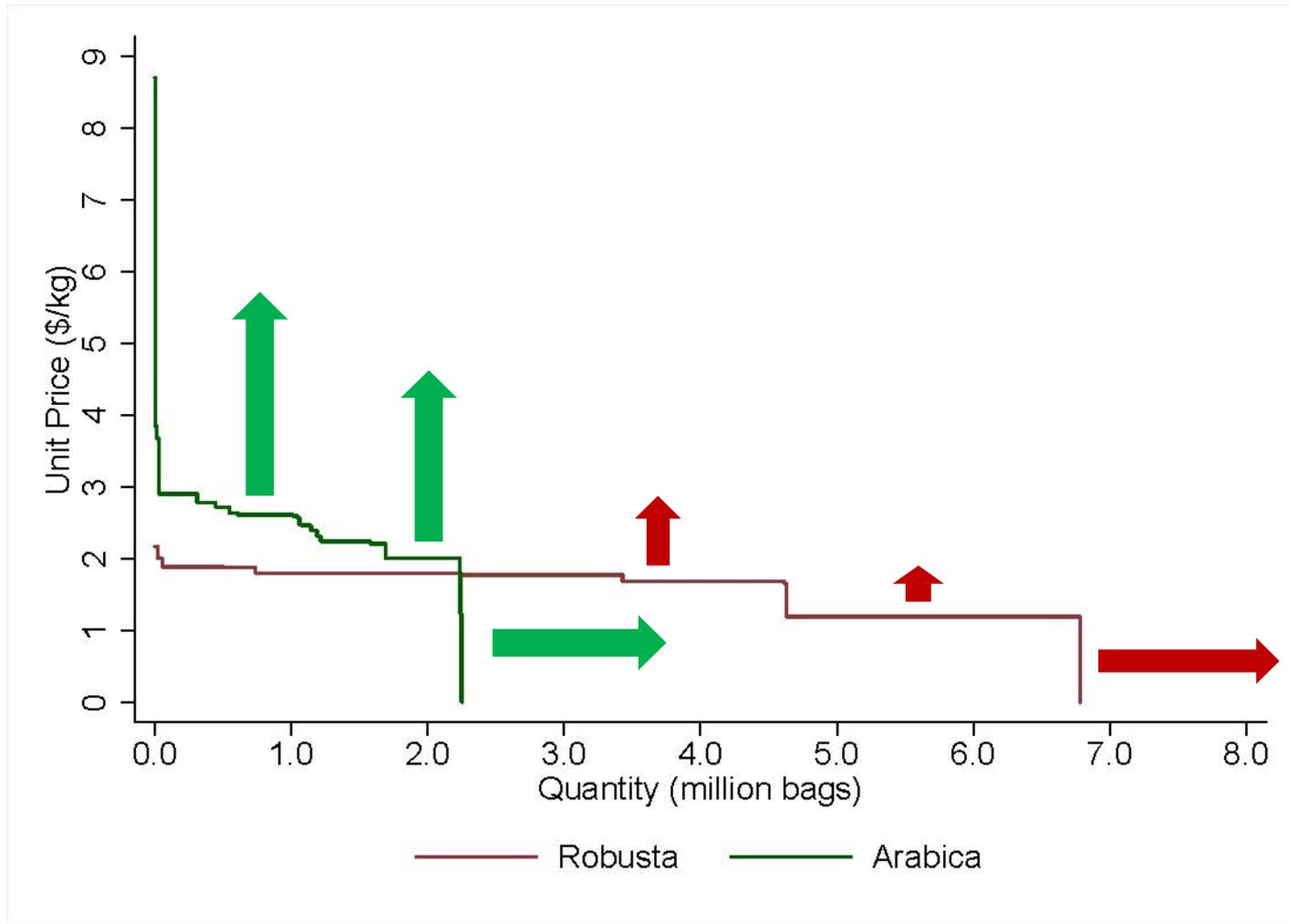


Source: author's calculation on Google Trends, accessed October 19, 2020; benchmark to production in []

# Uganda's Price Curves: Upgrade and Productivity

*Arabica and Robusta varieties 2018/19*

UPDATE



# 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

# 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

# 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

# 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

# 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

---



*a.morjaria@kellogg.northwestern.edu*