NUCAFE

ENHANCING COMPETITIVENESS OF UGANDAN COFFEE ON THE WORLD MARKET THROUGH GOOD POLICY AND REGULATORY FRAMEWORK

REPORT FROM THE
REVIEW OF THE UGANDA COFFEE POLICY AND REGULATORY FRAMEWORK
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By

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Executive Summary

This report is a product of field work and a review of literature including a review of the laws related to NARS, NAADS and UCDA carried out during the months of May and June 2008. The purpose of the assignment was to review the overall environment in which the coffee sub sector in Uganda operates and recommend ways for making Ugandan coffee more competitive on the world market. The report reveals that from the very start of commercialising coffee in Uganda, the industry has been guided by coffee laws to ensure ***production and post harvest processes that would guarantee the quality and reputation of Uganda's coffee.*** Since independence however, there has been some laxity on enforcing coffee laws which has affected the quality and prices of Uganda's coffee. Currently coffee exports are dominated by law quality coffee grades which are responsible for latent losses in value for both Robusta and Arabica coffee. Coffee exports have been on a downward trend, especially for Robusta coffee which has bee attacked by the CWD since 1993 causing a cumulative loss of 135,520 ha and an export loss of US$187,000,000. Presently, the industry faces the following challenges:

- Operating under an obsolete law that was enacted in 1991 and had had no comprehensive revision to cater for developments since its enactment. In particular the existing law concentrates on post farm operations leaving out research and production, which need to be incorporated in the law.
- The industry lacks a national coffee policy to guide development strategies
- Role demarcation and coordination between public and private sector institutions involved in the coffee sector is not clear.
- There are no national guidelines on coffee research, production and their funding. Funding of coffee research shows a steep downward trend since 2001.
- Lack of farmer ownership over coffee, policies and programmes that come with coffee puts the coffee sector in unsustainable situation.

Recommendations

Regulatory Framework

- There is a need to re-examine and review the UCDA Statute with a view to strengthening UCDA and enabling it to play the roles it is best suited while divesting it of the roles which are best played by other actors. Alongside the review of the Statute, there is need to establish a national coffee law encompassing all players along the value chains. The law should also recognize NUCAFE as a national farmers' umbrella organization.
- There should be stronger oversight mechanisms by MAAIF and MOFPED with regard to how UCDA deploys its revenues so that the bulk of the resources are spent on developing the sector, improving research and production as well as dealing with the issues around plant material and regeneration, (seedling multiplication and disease resistant varieties development and distribution). At present it appears as if the bulk of the resources are being spent on administrative costs for the UCDA.
- Review the regulatory framework for support institutions such as NARS/COREC, NAADS to make them responsive to the research and extension needs of the sector. Research should be demand driven.

Institutional Framework

There is need to facilitate the restructuring of public and service organizations that support the coffee sector to make them responsive to the needs of the sector and to work hand in hand with the private sector to deliver the expected development. There is therefore a need to consider the following issues:-

- Enact laws of strengthening the institutional framework of the UCDA to enable it play its role more effectively.
- Create a coffee desk within MAAIF to liaise with UCDA and coordinate public sector in-put into the Coffee sector.
- Revive and strengthen the institutional framework of the Coffee Research Centre (COREC) as an independent coffee research institute to become the only source of authentic plant material.
- Strengthen the role of MAAIF as the overall parent ministry for policy oversight of the sector working in conjunction with UCDA.
- Government should consider reviving the research outfits (COREC) and others to be dedicated to coffee and put them under the UCDA or ensure that there are dedicated coffee research institutes under the NARS arrangement which should work closely with the UCDA.
- NUCAFE should be recognised officially within the amended UCDA statute as the representative of coffee farmers in Uganda.

Policy framework

There is a need to have a definitive national coffee policy document that guides the strategy for the revival of the Coffee industry in Uganda in which the roles of the private and public actors in the sector are clearly set out; and all industry strategies are developed with a focus of fulfilling the set policy objectives.

Coffee Research

Establish a Coffee Specific Research Fund from cess to which the central government should add its budgetary resources. The funding agent should ensure that funds are put to their designed activities and the research agency should provide financial accountability to funding agency. The NARS Act should be amended to provide for the formation of dedicated coffee research instute to be placed in at least three of the major coffee growing regions in the country.

NUCAFE

All issues that require attention in the coffee sector require actions by the public sector: Parliament and the Central Government. Parliament for amending old laws (UCDA Statute) and enacting new ones (national coffee law, Coffee research law), and the Central Government for formulating a national coffee policy. NUCAFE needs to lobby for the proposed amendments and establishment on new laws and policies, especially through the parliamentary committee on agriculture. NUCAFE also has to sensitise industry stakeholders on the need for farmer ownership so that all stakeholders move along a similar path of developing the coffee industry sustainably.

ENHANCING COMPETITIVENESS OF UGANDAN COFFEE ON THE WORLD MARKET THROUGH GOOD POLICY AND REGULATORY FRAMEWORK

Introduction

This report is a product of field work and a review of literature including a review of the laws related to NARS, NAADS and UCDA carried out during the months of May and June 2008. The purpose of the assignment was to review the overall environment in which the coffee sub sector in Uganda operates and recommend ways for making Ugandan coffee more competitive on the world market. Specifically the assignment aimed at reviewing Uganda coffee policy with the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF); Uganda Coffee Development Authority (UCDA) statute, National Agricultural Research Systems (NARS) Act, National Agricultural Research Organization (NARO) Act with a focus on funding for coffee research and production and make recommendations on how to take forward the identified lobby and advocacy issues backed up with facts and figures. In the subsequent assignment, it will help NUCAFE to draw up a three year strategic advocacy agenda which is intended to strengthen the facilitating-regulatory role of UCDA for the entire Uganda coffee sector. It is envisaged that this will enable NUCAFE to carry out its advocacy tasks and meet its vision and mission. NUCAFE contracted Imani Development (EA) Ltd to carry out the assignment.

The consultant used two methodologies: interviews with various stakeholders and review of key documents relevant to the assignment. The documents reviewed included: UCDA Annual Report 2005/06 Uganda Coffee Development Authority Statute 1991; The Uganda Coffee Development Authority (Amendment) Statute, 1994; The Coffee Regulations 1994; National Union of Coffee Agribusiness and Farm Enterprises (NUCAFE) Strategic Plan 2008-2012 and the project proposal for “A farmer Driven Approach for Enhanced Enabling Environment in the Coffee Production for Increased Market Value Share.” Some other documents related to Uganda’s coffee sub sector were also reviewed as indicated in Annex 1, while a list of people interviewed is shown in annex 2. The findings of the reviews and interviews constitute this report. The report is divided into 5 chapters. Chapter one covers Uganda Coffee Sub sector, Chapter two, Review of the Policy, Legal and Regulatory Framework for the Coffee Sector in Uganda, Chapter three is the Recent Performance of the Coffee Sector in Uganda, Chapter Four covers Economic and Financial Losses in the Coffee Sector and Chapter Five gives Conclusions and Recommendations.

ONE

UGANDA'S COFFEE SUB SECTOR – AN OVERVIEW

1.1 Recapitulation

Uganda grows and exports both Robusta and Arabica Coffee with Robusta dominating production and exports in the ratio of 85:15 today, having fallen from 90:10 before the devastating effects of the Coffee Wilt Disease (CWD) on Robusta coffee which started attacking Uganda's Robusta in 1993. Robusta coffee is indigenous to Uganda. It was found growing naturally in the forests of Uganda's Lake Victoria Crescent - central region (Buganda) and was being used in the traditional blood brotherhood ritual. The colonial government tamed and commoditised Robusta coffee at the beginning of the 20th century following the establishment of the British Colonial Authority. Today Robusta Coffee is being grown in Central, Western and South Eastern Uganda with altitude of up to 1200m above sea level. Arabica coffee on the other hand was introduced from Ethiopia. It is grown in highlands in the areas of Mt Elgon in the east, Mt. Rwenzori and Mt. Muhabura in the South Western Region (1500 - 2,3000 m asl)[1]. Coffee quality is highly dependant on altitude which is more pronounced with Arabica. The altitude factor gives Ugandan Robusta intrinsic characteristics giving Uganda a competitive edge for Robusta coffee on the world market, as it is used to blend coffees sourced from other producing countries. From the very beginning of commercialising coffee, government regulated and intervened in the sector:

- initially to protect (mainly) European farmers from price fluctuations; and later on,
- to ensure production and post harvest processes that would guarantee the quality and reputation of Uganda's coffee.

The colonial Government created the Coffee Industry Board (CIB) as an institution for regulating the purchase, processing and export of Coffee (Zwanenberg and King 1975). As cultivation of the crop expanded and concerns for commercial reputation and export quality increased, more coffee regulations were introduced. In 1932, the Government introduced new Coffee Controls requiring all coffee buyers and processors to be licensed by government; and the 1935 Native Produce Marketing Ordnance gave the colonial government the authority to restrict the trade of any African produced commodity (Zwanenberg and King 1975)[2]. Husbandry and post harvest practices were harshly enforced by local chiefs and defaulters were often caned (Kiboko) a term that came to be associated with obtaining quality coffee, but today this term is used to mean unhulled dry coffee. More institutionalisation developed and in the 1960s, the Coffee Marketing Board (CMB) was established as a governmental parastatal responsible for regulating the coffee industry as well as being the only coffee exporter. In 1991 the Government of Uganda liberalised the coffee industry, allowing private firms to compete with CMB for export grading and coffee exporting business. The liberalisation saw CMB off the dominance of coffee processing and export and a new parastatal, the Uganda Coffee Development Authority (UCDA) was established to take over regulatory issues

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[1] http://www.ugandacoffee.org

[2] Zwanenberg, R. V. & King, A. 1975, *An Economic History of Kenya and Uganda 1800 1970,* Macmillan, London. (adopted from Anthony Kasozi, Institutions and the Commodification of coffee in Uganda, Centre of Research in Institutional Economics University of Hertfordshire (2006))

while the business of processing and exporting were left to the private sector. There was a rush immediately after the liberalisation, a lot of private firms registered as coffee processors and exporters, and by 1994/95, there were 117 coffee export companies registered in Uganda; but the number has been reducing and to day there are only 25 registered and active coffee exporting firms.

Since its inception as a commercial crop, coffee has been Uganda's chief commodity export till to date, having been almost Uganda's sole foreign exchange earner during the days of economic turmoil. With the NRM Government's drive for export diversification especially targeting non-traditional exports, coffee percentage contribution to Uganda's exchange earnings has decreased but remains the single most important export commodity for the country. In 2006 for example coffee earned Uganda US $ 189,830,000 compared to the next export commodity (fish and fish products that earned US $ 145,837,000). Tea was the next agricultural commodity and earned Uganda US$ 50,873,000. In terms of percentage contribution, all Uganda's major export commodities showed a decline of contribution to total exports over the period 2002-2006. Coffee declined from 20.7 - 19.7%[3], tea from 6.7 - 5.3% and fish and fish products from 18.8 - 15.2%. However in terms of volume, 201,591 tones of coffee were exported in 2002 with an export value of US$ 96,626,000 compared to 126,887 tones at US$189,830,000 in 2006[4]. The difference in value being attributed to higher coffee prices on the world market for the 2006 coffee year. On the other hand non-traditional exports[5] increased their contribution from 60.9% in 2002 to 70.1% in response to Government's efforts to diversify the export base. Uganda is second to Ethiopia among Africa coffee producing and exporting countries and occupies the 7th position as world coffee exporter, having declined from number one coffee producer and exporter on the African continent during the 1960s and 1970s.

The importance of coffee to Uganda's economy and peoples' livelihoods is further highlighted in the National House Survey 2005/006. Uganda has a total household of 5,233,000 million of which 4,151,000 depend directly on agriculture and 1,728,000 Households (41.6% of agricultural households and 33% of total households) grow coffee; with the Central and Eastern regions dominating production. Coffee production remains dominated by smallholder farmers with a national total acreage of 572,000ha[6] and an average plot size of 0.33ha per household (572,000/1,728,000). UCDA estimates total employment in the coffee sub sector to be about 5 million people of which farmers are estimated to be about 4 million.

Since 1993, Uganda's Robusta has been attacked by the Coffee Wilt Disease (CWD), which cumulatively has destroyed an estimated 56% of old Robusta coffee trees. New plantings which are also susceptible have been distributed to farmers in various Robusta growing areas to counteract the effect of the CWD. Coffee researchers believe that as the new coffee plantings age, they become more susceptible to the CWD and will be destroyed like the old Robusta trees. COREC has however developed resistant varieties but is unable to multiply them for farmers' use due to lack of funds. The planting of resistant varieties holds the future of Uganda's Robusta Coffee.

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[3] **Coffee's contribution in 2005 was 21.3%**
[4] **UBOS: Statistical Abstract 2007**
[5] **Major ones are cocoa beans, maize, vanilla, roses and cut flowers and fish products**
[6] **UBOS: Uganda National Household Survey 2005/06: Agricultural Module (April 2007)**

1.2 Public Institutional set up and Responsibilities

1.2.1 Institutions and Responsibilities

The coffee sub sector is under the Ministry of Agriculture Animal Industry and Fisheries (MAAIF). Within the ministry coffee activities are segmented between two parastatals: the Uganda Coffee Development Authority (UCDA) and the National Agricultural Research Organisation (NARO). The ministry is responsible for setting up overall sector and sub sector policy statements; UCDA is responsible for regulating the coffee sub sector, while NARO is responsible for research. In addition, Parliament passed the National Agricultural Advisory Services (NAADS) Act in 2001, which created the NAADS programme under the PMA framework. NAADS is responsible for all advisory services and technology adoption in the whole of the agricultural sector.

1.2.2 UCDA

UCDA was established by the Uganda Coffee Development Authority statute 1991. The preamble of the Statute states '***A Statute to establish a public Authority to provide and oversee the coffee industry as a whole by developing research and controlling the quality and improving the marketing of coffee and to provide for other matters connected therewith***.' Since the establishment of UCDA, more public institutions have been set up focussing at poverty eradication under Poverty Eradication Action Programme (PEAP). These include PMA, NAADS and recently the "Prosperity for All" programme (PAP. In some cases there appears to be duplication of activities since there are no clear demarcations where each of the agencies starts and ends.

1.2.3 NAADS

NAADS is responsible for agricultural advisory services (crops, fisheries and livestock). NAADS is a 25 year programme implemented through a decentralized government structure and farmer owned institutions (farmer groups and fora) at village (LCI), sub county and district levels. The sub-counties are the lead local government levels in planning, implementation, funding, monitoring and programme evaluation. The government policy is that NAADS as a MAAIF agency is responsible for advisory services and technology adoption and is the front runner for all planting materials irrespective of the crop. Recently the MFPED and MAAIF agreed that UCDA will continue to receive money from MFPED for coffee seedlings, as has been the case in the past, but will disburse this money through the NAADS structure.

The establishment of NAADS appears to have created conflicts between UCDA and NAADS and "***there have not been any extension services for coffee in recent years by government* since NAADS' inception**. The UCDA has put in place 32 District Coffee Coordinators out of 52 coffee growing districts. The coordinators are also responsible for the nursery development programme, in addition to their core function of regulation and mobilising farmers for UCDA programmes. The coordinators may also offer technical advice but have no role in extension services. However under the restructured NAADS, it has been agreed that NAADS should go back to the traditional extension service system, so that extension services can be continuous and more effective and where NAADS lacks internal capacity, it can outsource from private service providers. Currently, NAADS is having a partnership with NUCAFE aimed at organising and training farmers in good agronomic practices. NAADS also has been in partnership with Good African Coffee, producing speciality coffee in Kasese region.

1.2.4 NARO

NARO was set up under an Act of Parliament in 1992. Its preamble reads ‘An act to provide for the establishment of a National agricultural Research Organisation, its composition, objects, functions, administration and finances and other related matters.’ According to MAAIF, all agricultural research is a responsibility of NARO; however, MAAIF views coffee research to be a responsibility of UCDA. Thus, UCDA should reflect in its budget an item covering coffee research. UCDA’s budget line for coffee research should include a specific percentage of cess money going into coffee research. This position has been agreed between MAAIF, UCDA and MFPED. MAAIF will monitor the performance of UCDA in funding coffee research, and if there will be need, it will review the administration of NARO’s Coffee Research Centre (COREC). Under this new arrangement, it is only the coffee research programmes among the COREC programmes that will be funded by UCDA, while tea, cocoa and palm oil research programmes under COREC will remain under NARO’s budget. The position of MAAIF on coffee research is in agreement with what the private sector stakeholders would wish to see, in addition to having a single institution responsible for all coffee activities. A review of the policy, legal and regulatory framework for the coffee sector in Uganda is presented in chapter two of this report.

1.3 Coffee Research

1.3.1 Coffee research challenges

Since 1993, the challenge for coffee research has been developing Robusta varieties resistant to the CWD. The impact of the CWD started showing its economic importance after 1996/7 coffee year. According to NARO’s Coffee Research Centre, CWD reached its activity peak after 1996/7 and Robusta production started declining. In 2002 CWD had reached an incidence of 45% - destruction level, (i. e. 45% of Uganda’s Robusta coffee plantings died of the disease). Realising the seriousness of the disease Government started a replanting programme using 6 clones of clonal coffee with the best characteristics of:

- ✓ Pests and diseases resistance (of what was known then)
- ✓ High yielding

However, between 1993 and 2002 replanting programme was slow and could not meet the government target of producing 12 million bags. By 2005 the replanting program had distributed 134,000,000 plantings. Production has started rising again and Uganda is expecting an export volume of 3million bags during 2007. The increasing production is only temporally as the coffee clones used in the replanting programme are susceptible to the CWD. The more susceptible old Robusta plants have been wiped out, and the new plantings are showing resistance because of the vigour in their infancy years. With time the disease will once again reach a peak on the new plantings and they will also be wiped out. The plantings made so far, are not a solution to the CWD yet, and the increases in production is temporally.

The solution to the CWD is to produce and plant clones resistant to the CWD. COREC has so far produced resistant clones but a still confined to the station for lack of finance to multiply them out preferably by tissue culture. The new clones have been tested and for: Quality, Yields and resistance to diseases with very good results.

1.3.2 Possible propagation programme for the CWD resistant clones

There are three possible options:

1. "Exponential" multiplication through tissue culture, with funding by the public sector: Funding of at least US$1m for an initial 1,000,000 plantlets. The plantlets would be given to private nursery owners to produce plantlets on commercial basis for farmers. The cost per plantlet would be reduced if enough funds were available to target 2,000,000 plantlets instead of 1,000,000. 1,000,000 plantlets would establish about 2,000 mother gardens each with 500 plants. Each year every mother garden could produce at least 5 plantlets per mother plant making (5x500x2000) = 5 million plantlets.
2. Producing plants from nursery gardens by private sector which would initially require an investment into tissue culture
3. Seed from research station, but will always require going back to the research station for new seed because Robusta is an out "breeder." Robusta coffee is never self pollinated; pollen must cross from one plant to another, and every time there is breeding, there is a new variety.

1.3.3 Coffee research – Funding and its sources

COREC gets its funding from:

1. Central Government through NARO. NARO has 6 institutes of which the National Crops Resources Research Institute (NaCRRI) at Namulonge is responsible for Crops including coffee. Coffee Research Centre (COREC) is a centre under NaCRRI and receives its Central Government funding from NARO through NaCRRI. COREC is also responsible for Cocoa, Oil Palm and Tea Research and its share from NaCCRRI has to be apportioned between all the four crops.
2. UCDA – UCDA started funding coffee research during the 2006/07 financial year. In 2006/07 financial year COREC received Shs: 100,000,000 from UCDA and for 2007/08 UCDA promised Shs: 200,000,000 of which the final quarter remittance had not been received by the time of field visit (June 4th 2008). Previously there was no funding from UCDA. UCDA has promised funding of Shs: 450,000,000 from the next financial year (2008/09)
3. Competitive projects from donors, recently COREC received $380,000 from Common Fund for Commodities (CFC) for a five year period for research on coffee leaf rust.
4. Donor funded programmes like the just ending USAID-APEP.

Table 1.1 shows sources of funds for coffee research while figure 1.1 shows trends in funding for coffee research for the period 2002 -2008.

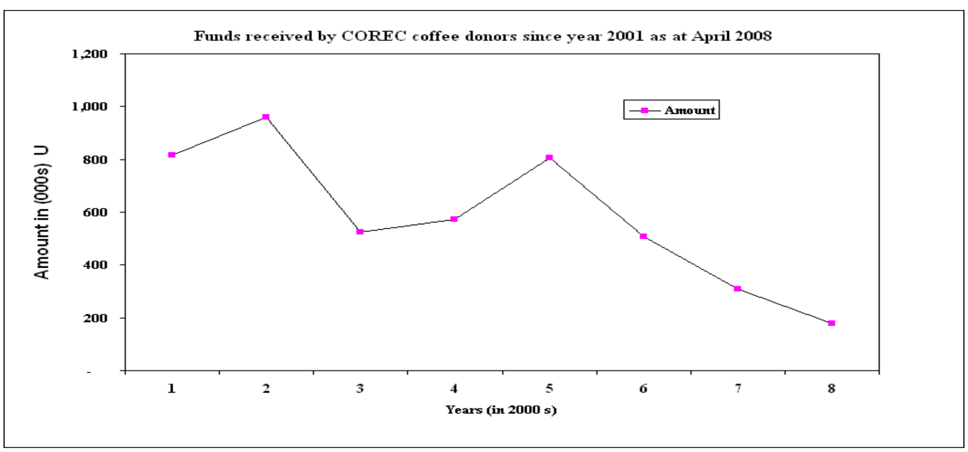
Table 1.1: Funding of Coffee research by source

YEAR	ARTP II (NARO)	UCDA	APEP	IPM/CRSP	GOU-COFFEE	CABI-CWD	EUR UNION	TOTAL
2001	-	-	-	17,000,000	800,000,000	-	-	817,000,000
2002	26,676,675	-	-	34,090,719	450,000,000	15,817,275	434,283,049	960,867,718
2003	10,000,000	-	-	37,895,231	208,095,000	95,264,600	172,845,942	524,100,773
2004	10,000,000	-	-	49,963,013	119,178,000	121,328,900	272,835,942	573,305,855
2005	65,562,000	-	-	-	131,654,000	234,686,410	375,598,172	807,500,582
2006	29,575,000	-	-	-	81,705,000	104,503,053	294,213,818	509,996,871
2007	18,000,000	77,668,000	41,417,000	-	148,363,603	22,555,750	-	308,004,353
2008	12,000,000	121,802,000	22,661,000	-	23,086,908	-	-	179,549,908
TOTAL	171,813,675	199,470,000	64,078,000	138,948,963	1,962,082,511	594,155,988	1,549,776,923	4,680,326,060

Source: COREC (June 2008). Funding for 2008 is up to the month of April

From table 1.1, government funding to COREC has reduced from Shs 800,000,000 in 2001 to Shs 148,363,603 in 2007. The 2007 funding was only 15% of the 2001 funding. The highest funding received by COREC during the period represented in the table was in 2002 at Shs: 960,867,718, compared to Shs: 308,004,353 of 2007 (32%) of 2001 funding. For the period 2002-2006, donor funding, (mostly contributed by the EU) dominated coffee research. This is a weakness on Uganda as country – making an important agricultural sub sector heavily rely on donors. The year 2007 was characterized by an absence of EU funding and this partially explains the low levels of overall COREC funding in that year. It should also be noted that UCDA started contributing to COREC funding in 2007, with a meager contribution of Shs: 77.7 million followed by 121.8 million in 2008.

Figure 1.1: Trends in Funding Coffee Research in Uganda (2001-2008[7])



Source: COREC (June 2006)

Figure 1.1 presents an overall downward trend of COREC funding with a steep slope. Since 2001, COREC funding has been dwindling to the detriment of farmers as the primary and unprivileged beneficiaries of the coffee sector. Due to constrained funding, COREC employs only 5 scientists including the head of the centre, who in addition to research work, has to attend to administrative issues which reduce his input into actual scientific work.

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[7] 2008 is up to the month of April.

1.4 Private Institutions in Uganda's Coffee sector

1.4.1 NUCAFE

The National Union of Coffee Agribusinesses and Farm Enterprises (NUCAFE) as a membership organization of 125 associations, covering all coffee growing districts of Uganda. NUCAFE's vision is "*coffee farmers profitably own their coffee along the value chain for sustainable coffee production and improved livelihoods,*" and its mission "*to establish a farmer owned and operated organization for the benefit of the farmers*."
Some of the member associations are already organized into farmer groups. All together, the associations represent over 100,000 farming households (about 6%) of the total households growing coffee in Uganda. NUCAFE has a national secretariat, but is thin in terms of staff for implementing its activities. NUCAFE subscribes to and is a member of Uganda National Farmers Federation (UNFFE) and the Private Sector Foundation Uganda (PSFU). NUCAFE works in partnership with the following public agencies: UCDA, NARO/COREC, NAADS and the UNBS. In the private sector, NUCAFE is in partnership with coffee buyers and processor exporters, with a focus at ways of improving farmers' incomes and livelihoods and the general contribution to the coffee sector stakeholders. NUCAFE has increasingly gained the confidence of coffee sector stakeholders, and is recognised as a true national representative of coffee farmers in Uganda.

NUCAFE: Constitution and strategic Plan

Vision of NUCAFE is "***coffee farmers profitably own their coffee along the value chain for sustainable coffee production and improved livelihoods***," and its mission "***to establish a farmer owned and operated organization for the benefit of the farmers"***.

The ownership mentioned in the vision statement does not refer to legal ownership, but the ability of farmers to have a more say on their coffee, especially in the primary stages of marketing and processing. The common practice in Uganda is for farmers to sell flowers, kiboko coffee, parchment to primary traders, who pass it on to primary processors. The farmer ownership model advocated by NUCAFE seeks to empower farmers to upgrade their functions along the value chain by meeting primary coffee processing costs and be able to sell to exporters a high value product at a higher price. This would also give farmers a chance to own a high value product and bargain for better prices.

NUCAFE is "adequately serving 20 associations." NUCAFE membership altogether represents a over 100,000 of coffee farming families out of 1,728,000 farming families in the coffee sector. This indicates that NUCAFE's current coverage is still small compared to what it has to cover. Also, NUCAFE still needs to empower its member association in governance issues and in delivering services to majority of the farmers. There is still need to support for farmer institutional development to strengthen the associations which are pre-requisites for revamping the smallholder coffee farming system.

NUCAFE has quite a detailed Strategic Plan covering the period 2008-2012 and including a range of issues from farmer ownership model development to be done through farmer mobilization and farmer institutional development, lobby and advocacy and financial sustainability of NUCAFE. The Strategic plan is intended to empower the coffee farmer to have ownership over coffee, policies and programmes that come with coffee. With the aim to improve the standard of living of the farmers, NUCAFE uses the "farmer ownership model" whereby farmers are encouraged to own their coffee along the various stages of the value chain. At the same time farmers organize themselves to assume as many roles as possible in the coffee value chain in order to increase their income from value added to the product.

The farmer ownership model is a response to a problem with the traditional cooperative model. The traditional cooperative assumes a role which is very similar to that of a middleman who maximizes profits through offering a low price to the farmer or by selling at the highest price possible. This alienating effect on the farmers kicks in especially when the cooperative grows and when farmers lose control and ownership to the employees.

According to the "farmer ownership model" the role of the farmer organization such as NUCAFE is different. Rather than buying coffee, NUCAFE focuses on being a process facilitator providing goods and services that empower farmers to upgrade and move up the coffee value chain. Also the roles of the middlemen and processors change. Instead of buying, trader-processors are simply paid processing or milling charges and then the processed product goes back to the farmer who is encouraged to continue adding value by sorting, grading, roasting, grinding, branding, joint ventures (share-holding) and etc. This way, farmers and farmer groups and associations are encouraged to assume as many functions as possible within the value chain in order to improve farmers' livelihoods sustainably. Of course it all depends on the capacity of the farmer through the farmer organization (group, association or cooperative) to assume some or all of these functions. NUCAFE builds the capacity of farmers and farmer organizations through training, coaching, and guiding farmers through a process of attitudinal change that is required, especially in the early stages of adopting the model. Furthermore, the farmer ownership model encourages farmers to diversify and integrate other enterprises on their farms to ensure stable incomes during the off-coffee seasons.

Trader processors are not members of NUCAFE but some subscribe to the NUCAFE Farmer ownership model because to some it is viewed as eliminating them from buying coffee. However, through education, some have realized that if their function of buying very raw coffee or even flowers does not change, there would be no coffee in some years to come because farmers' margins steadily continue to shrink to a point that volumes will cease to make economic sense not only to the farmers but also to the trader processors. Therefore, processing (milling) at a fee is seen as a win-win for them and the farmers.

NUCAFE has been developing the model since 2003 and progress has been made. In 2007, NUCAFE continued to expand in membership from 110 member associations and corporate companies in 2006 to 125. Through improved quality, value addition in form of minimal processing and negotiating directly with exporters combined with the favourable world coffee prices, NUCAFE moved more coffee from farmers directly to exporters and substantially increased their returns. The change was significant, from Uganda shillings 1200 for 2 kg of unprocessed dry coffee cherries (kiboko) in 2006 to as much as 2700 per kilogram of Fair Average Quality (F.A.Q) for robusta in 2007 and from Uganda shillings 1300 per kg of arabica parchment to as much as 2600 per kilogram of arabica parchment in 2007. Through its market linkage service, NUCAFE facilitated an increase in volume sold from 331 metric tonnes of F.A.Q coffee in 2006 to 630 metric tonnes in 2007. This achievement resulted into increased net incomes of farmers with an overall value added of Uganda shillings 413,360,457 out of the total of Uganda shillings 1,677,220,618 obtained from the sale of 630 metric tons. Consequently as part of this value, farmers from Erusi Coffee Farmers Association initiated what they called the Home Improvement Programme (HIP) in Nebbi district where 42 farmers who were staying in grass thatched houses for decades purchased 1005 iron sheets. Furthermore, 5 farmers from Buwama Coffee Farmers Association in Mpigi district bought 5 motor bikes to support them in transportation service.

Another interesting aspect of 2007 work was the realization by the farmers that time had come for them to contribute towards the sustainability of the services and goods provided by their associations and the NUCAFE system as a whole. Out of the total value per kilogram of Fair Average Quality that was added to the farmers because of the farmer ownership model, farmers paid their facilitating organizational structures over Uganda shillings 20 million.

NUCAFE's expansion of the programme is constraint by limited financial and human resources. Therefore, not all coffee farmers in Uganda or even NUCAFE as a whole are served adequately.

1.4.2 Uganda Coffee Trade federation (UCTF)

Uganda Coffee trade Federation is a grouping of coffee processors and exporters. Its functions include. UCTF collaborates with NUCAFE in advocacy and also represents exporters' interest on to UCDA. It has a representation on the UCDA Board.

1.4.3 NGOs/Farmer groups

There are also several NGOs and farmers groups participating in the coffee sector. The NGOs give services to farmers, like extension, and building capacity of farmer institutions (groups/cooperatives.) By far the coffee private sector is dominated by smallholder farmers constituted in the 1,728,000 households that grow coffee across the country. Among the private sector stakeholders of the coffee industry in Uganda, smallholder farmers are the poorest and receive a disproportionate share of the coffee value traded on the world market. For example, the global value of coffee for the year 2006/2007 was US$90bn; producing countries earned a combined value of less than US$9bn (about 22%). In Uganda, with a completely liberalised coffee industry, there was a combined coffee value of US$ 257 million, of which farmers earned US$ 151milion (58%), traders earned 82 (32%) and exporters earned 24 (9%)[8]. The disproportionate earnings explain why NUCAFE focuses at empowering farmers in the coffee value chain in terms of organisation, value addition and market access and overall ownership for improved earnings.

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[8] NUCAFE: Strategic Plan 2008-2012

TWO

REVIEW OF THE POLICY, LEGAL AND REGULATORY FRAMEWORK FOR THE COFFEE SECTOR IN UGANDA

The coffee sector has the potential to grow far beyond the current 3 million bags but it is constrained by insufficient and unreliable production levels, poor quality beans, coffee wilt disease and insufficient funding for the sector. In order for this growth to be achieved, a number of challenges within the policy, regulatory and institutional framework need to be addressed. The oversight and regulatory function for the sub-sector lies with the Uganda Coffee Development Authority since its establishment in 1991. The sector is also supported by a number of private sector trade associations and farmer organizations. Below is an analysis of the current situation, legal framework vis-à-vis the institutional framework together with recommendations on how to make it more responsive to the needs and demands of the sub – sector

2.1 Status of the Policy Framework

At present, there is no clear policy on coffee. There are instead annual policy statements scattered in a myriad of documents making it difficult to pin point what is Uganda's strategy for reviving the coffee industry to achieve the expected growth. As a result the policy guidelines being used right now are discerned from the annual broad policy statements of the Ministry of Agriculture Animal Industry and Fisheries (MAAIF) issued each year in support of budgetary requests from the Government. This does not auger very well for a sector which is the top foreign exchange earner for the country and on which 33% of the total households in Uganda depend for sustenance.

Uganda's broad framework for the development of the coffee sub-sector is driven by the Poverty Eradication Action (PEAP), the Plan for the Modernization of Agriculture (PMA) and coordinated by the Ministry of Agriculture Animal Industry and Fisheries and its agencies. The two documents particularly the PMA lack specifics on how this is to be done. One would have expected the PMA to have specific plans for modernizing key traditional and non traditional agricultural sectors as the centre of focus over the life of the project.

Uganda lacks a proper delegation of authority and statement of mandate for the different ministries that have been set up to manage the policy functions of the government. The proliferation of government agencies to replace the defunct government corporations, have also been slowly stripping the Ministries of their traditional roles and sometimes making it unclear as to who is responsible for what.

For example, during the liberalization of the coffee sector and setting up of the Uganda Coffee Development Authority (UCDA) there were no clear guidelines on whether the roles which are not specifically catered in the UCDA enabling law would be the reserve of the Ministry or not and how some of the residual roles for developing the sector would be divided between the Ministry and the UCDA. It is therefore not surprising that, initially the UCDA was under the parentage of the Minister for Cooperatives and Marketing which meant that the focus of the legislature was on the ***demand rather than the supply side of the equation yet most of the problems the country has been facing in the sub sector arise out of supply side constraints,*** (volumes, bean quality, after harvest handling, disease, seedlings/planting material, transportation and to a lesser extent packaging).

As a result, to date there is no policy that has been developed for the sub sector in the recent past and the Ministry has had a very minimal or virtually no role to play in the sector. While the UCDA Act mandates it ***to promote and oversee the coffee industry by developing research, controlling quality and improving the marketing of coffee, it is silent on the policy aspect***.

The nearest the coffee sector is to a strategic plan, is the Uganda Competitiveness Plan 2005 - 2010 developed by the private sector with the assistance of the USAID funded Strengthening Competitiveness of Private Enterprise (SCOPE) in 2006. However the plan was not adopted and owned by the Ministry and or the UCDA leaving the sector in an unclear position as far as the overall strategic plan for its rejuvenation is concerned.

Although a representative of the MAAIF sits on the UCDA Board of Directors, for quite sometime the Ministry has been divorced from the sector and coffee farmers have essentially not benefited as they should from its supporting organs especially the National Agricultural Advisory Services (NAADS). Meanwhile the UCDA has not been proactive in demanding for a policy from the Ministry despite being overall in charge for the sector as stated in the preamble to the enabling act.

Therefore there appears to be lack of clarity on who is responsible for what aspects of coffee development in the country despite the well intended objectives of creating the various institutions under which the sector is being managed.

Recommendation

There is a need to have a definitive national coffee policy document that guides the strategy for reviving of the Coffee industry in Uganda in which the roles of the private and public actors in the sector are clearly set out.

The policy document should also address the issues of the institutional framework for supporting research in the coffee sector and harmonize roles and responsibilities between the Ministry, the National Agriculture Research Services (NARS) which subsumed the National Agriculture Research Organization (NARO), the National Agriculture Advisory Services (NAADS) the Uganda Coffee Development Authority (UCDA) sector as a whole.

The policy document will among other things entail the following:-

- Consolidate all policy statements on the coffee industry and develop a comprehensive policy for the coffee sector.
- Propose strategies for removing weaknesses in current research structure,
- Strategies for reviewing existing mechanisms for development and distribution of planting materials by for example harmonizing overlapping government policies on decentralization and extension services, synchronizing extension services with research station work.
- Strategies for reviewing the existing mechanisms for controlling coffee disease, generating disease resistant varieties and distributing them.
- Propose strategies for farmer ownership within the coffee value chain

Finally there is need to determine who has the overall responsibility for developing the coffee policy, agree on the process which should be followed to ensure the effective and proactive participation of all stakeholders especially the coffee farmers, and the stakeholders who should be involved in the process.

2.2 Legal and Regulatory Framework

A strategic policy framework needs to be supported by a responsive regulatory framework that ensures that it is adequately and efficiently implemented. The regulatory framework currently governing the coffee sector attempts to make provision for its development, provides for sources of funding and overall oversight. The regulatory framework is however spread across a number of statutes some of which have a tendency to overlap or are not very clear. The statutes include the following:

1. The Uganda Coffee Development Authority Act, Chapter 325 of 1991.
2. The National Agricultural Research Services Act of 2005.
3. The National Agriculture Advisory Services Act 2001

2.2.1 The Uganda Coffee Development Authority Statute

Current Status

As mentioned above in the preamble to the UCDA statute currently mandates it to promote and oversee the coffee industry by ***developing research, controlling quality and improving the marketing of coffee***. The statute still refers to the ***Coffee Marketing Board*** which has since been dissolved. This presupposes that the marketing function for the coffee sector was supposed to be provided by a separate marketing entity. It provided further that the UCDA is charged with the responsibility of "**researching and making extension arrangements through the Ministry of Agriculture or any other organization in the country for the purpose**". It does not however provide for how this is supposed to be done and the regulations which came out four years later are silent on this important aspect. The UCDA statute also provides in section 9 that all government departments must cooperate with the UCDA but this is to the greatest extent possible and "shall afford the UCDA all reasonable opportunity for consultation" and "subject to any law provide such information that the Authority may require". This section is not specific and mandatory enough to warrant that government entities, which are essentially poor at coordinating with each other, would voluntarily offer the cooperation expected.

Section 13 of the UCDA Statute also provides for sources of funding which include the following:

1. Moneys appropriated by Parliament from the consolidated fund
2. A cess not exceeding 1% of the FOB/FOT price levied on exports of coffee
3. Moneys received by the authority for services provided under the act
4. Borrowings
5. Any other moneys made available to the authority

Unfortunately the statute is silent on how the cess and other funds should be used across the various functions of the UCDA and as a result, there have been a number of back and forth arguments about the use of the cess. There has been clamouring from various quarters for better accountability for the use of the cess by the UCDA and requests that the greater percentage be ploughed back to develop the crop. For example the private sector longs to see a greater part of the cess being used for research and production, combating the coffee wilt disease and plant regeneration.

The UCDA Act is also silent on how UCDA is to coordinate the research and extension arrangements with MAAIF and what percentage of the funding should be spent on this effort.

2.2.3 The National Agricultural Services Act 19, (2005)

Current Status

The National Agricultural Services (NARS) has subsumed and is now the overall in charge of the National Agricultural Organisation (NARO) which is its secretariat. The NARS preamble mandates it to establish NARO and to fund it.

The Act provides for the setting up of research institutes and Zonal Research and development institutes under NARO but is silent on a dedicated coffee research institute which was until now at Kituuza in Mukono under the auspices of the National Crops Resources Research Institute (NaCCRI) in Namulonge. This means that coffee research is no longer given priority within the broad research plan for the country.

There is also provision in section 41 for establishment of an Agricultural Research Fund whose objective is to fund agriculture research but as of now it is not clear how much has been collected and how it has been utilized. For example how much has been used to fund coffee research in light of the rampant coffee wilt disease and the aging trees?

Section 43 provides for sources of funding for the NARS and apart from the moneys from the consolidated fund other moneys are supposed to come from donors, functions of the organization, and interest on investment.

The Act goes further to provide for private sector and farmer participation in the delivery and articulation of the demand and supply of research services. The private sector is further expected to mobilize and provide funding for research purposes. **See sections 22, 27 and 38.** These provisions presuppose that the farmers fora and groups established under the NAADS act are functioning optimally when in actual fact they are not. As a result of this you find that the intervention and involvement of the private sector in the research process remains dismal.

Although the NARS was legally set up in 2005, it does not mention the UCDA anywhere. Therefore ***it is not clear how the UCDA is supposed to work with NARS in as far as ensuring that coffee related research is conducted and supported***. There is also very little mention of the relationship between the NARS institutional framework and the Ministry in charge of Agriculture. In fact MAAIF is not necessarily the parent Ministry because the parent ministry is supposed to be assigned by the President, which presupposes that it could be any other Ministry.

2.2.2 The National Agricultural Advisory Services (NAADS) Act 2001

The NAADS is an institution set up to provide agricultural extension services, promote food security and household incomes through increased productivity and market oriented farming. The NAADS act like the NARS act has no specific provisions on relationship with other existing institutions like the UCDA which are mandated to play a role in the fostering of extension services in specific sectors like coffee. As a result there has been very little relations between the NAADS and the UCDA a factor which has affected the development of the crop especially at the level of post harvest handling.

2.3 Proposals for Reform of the Regulatory Framework for the Coffee Sector

2.3.1 Regulatory Framework

- There is a need to re-examine and review the UCDA statute with a view to strengthening UCDA and enabling it to play the roles it is best suited while divesting it of the roles which are best played by other actors.
- Government should consider reviving the research outfits (COREC) and others to be dedicated to coffee and put them under the UCDA or ensure that there are dedicated coffee research institutes under the NARS arrangement which should work closely with the UCDA.
- There should be stronger oversight mechanisms by MAAIF and MOFPED with regard to how UCDA deploys its revenues so that the bulk of the resources are spent on developing the sector, improving research and production as well as dealing with the issues around plant material and regeneration, (seedling multiplication and disease resistant varieties development and distribution). At present it appears as if the bulk of the resources are being spent on administrative costs for the UCDA.
- The NARS Act should be amended to provide for the formation of dedicated coffee research centres under one coffee institute to be placed in at least three of the major coffee growing regions in the country.
- Review the regulatory framework for support institutions such as NARS/COREC, NAADS to make them responsive to the research and extension needs of the sector. Research should be demand driven.

2.3.2 Institutional Framework

There is need to facilitate the restructuring of public and service organizations that support the coffee sector to make them responsive to the needs of the sector and to work hand in hand with the private sector to deliver the expected development. There is therefore a need to consider the following issues:-

- Devise ways and means of strengthening the institutional framework of theUCDA to enable it play its role more effectively.
- Create a coffee desk within MAAIF to liaise with UCDA and coordinate public sector in-put into the Coffee sector.
- Revive and strengthen the institutional framework of the Coffee Research Centre (COREC) to become the only source of authentic plant material.
- Strengthen the role of MAAIF as the overall parent ministry for policy oversight of the sector working in conjunction with UCDA.

THREE

RECENT PERFORMANCE OF THE COFFEE INDUSTRY

1.1 Production and Export Levels

Coffee remains the single most important foreign exchange earning commodity for Uganda. There has been an overall decline in coffee production and exports by volume during the period 2002-2006. Coffee procurement declined from 209.476 tonnes in 2002 to 133.109 tonnes in 2006. Decline was particularly pronounced for Robusta coffee due to the impact of the Coffee Wilt Disease. Over the same period exports declined from 201.591 tonnes in 2002 to 126.887 tonnes in 2006, but with a higher value. In 2002 foreign exchange earnings from coffee were US$96.626 million and in 2006 it was US$189.830 million[9]. The higher volume to earning ratio for 2006 is attributed to higher coffee prices on the world market. The percentage contribution of coffee to total export earnings also showed an overall downward trend from 20.7% to 19.7% over the same period. Annexes 3 (a), 3(b) and 3(c) show Uganda's exports by quantity, value and percentage contribution for the period 2002 to 2006. In terms of percentages, tea the next agricultural commodity contributed only 5.3% to total export earnings in 2006. Table 2.1 shows coffee procurements for the period 2002-2006.

Table: 2.1 Procurement of main export cash crops (tonnes), 2002-2006

Year	Coffee			Tea	Tobacco
	Robusta	Arabica	Total		
2002	184,404	25,142	209,547	39,476	36,310
2003	121,955	28,916	150,871	36,895	34,250
2004	138,088	31,993	170,081	35,706	32,520
2005	122,489	35,611	158,100	37,734	31,413
2006	96,490	36,620	133,109	34,334	29,518*

Source: UBOS; Statistical Abstract (Table 3.2a pg 140)

From table 2.1, procurement of Robusta coffee has been on a downward trend. The 2006 procurement was 52% of the 2002 procurement. Over the same period, Arabica procurement showed an increase of 46%, but because Arabica's contribution to the total coffee exports is only 15%[10], its increase is not very much felt at national level. The following section looks at coffee exports for the period 2001/02 to 2005/06 and also indicated heavy drops in Robusta exports. Clearly, the Robusta segment of the coffee sector needs more attention to reverse the downward production trend.

[9] UBOS: Statistical Abstract, 2007

[10]Arabica's contribution had been 10% before the effect of the CWD on Robusta. Arabica's increased contribution is not necessarily attributed to increased production but rather to the decreased production Robusta due to CWD

2.2 Coffee exports by type and grade

Table 2.2 shows Uganda's coffee exports by type and grade for the period 2001/02-2005/06.

Table 2.2: Coffee exports by type and grade (2000/01-2005/06) – 60kg bags

COFFEE EXPORTS BY TYPE & GRADE: 2000/01- 2005/06

Year	2005/06	2004/05	2003/04	2002/03	2001/02	2000/01	Average	Six year % average	Av. 2005/06 price
GRAND TOTAL	2,OO2,324[11]	2,504,890	2,523,042	2,663,888	3,146,381	3,074,773	2,652,550		
ROBUSTA	**1,408,314**	**1,990,378**	**1,979,353**	**2,220,140**	**2,716,005**	**2,618,222**	**2,155,367**	**100.00**	**1.23**
Washed Rob	1,962	1,408	210	746	930	2,540	1,193	0.0554	1.07
Organic Rob	4,838	5,793	1,828	2,500	1,440	5,020	3,570	0.1656	1.48
Screen 18	118,533	138,309	203,814	196,102	240,546	236,797	188,959	8.7669	1.40
Screen 17	60,516	115,583	89,029	93,001	134,334	70,510	93,829	4.3533	1.40
Screen 15	717,924	1,005,955	1,182,974	1,242,441	1,637,448	1,560,548	1,224,548	56.8139	1.28
Screen 14	59,943	164,116	44,687	75,945	119,886	–	92,915	4.3109	1.25
Screen 12	285,833	377,213	308,145	432,095	428,879	591,936	404,017	18.7447	1.18
BHP 1199	60,460	90,413	62,394	89,303	72,214	52,277	73,084	3.3908	0.87
Other Rob.1	83,135	84,658	77,223	77,116	57,752	98,594	79,711	3.6983	0.92
ARABICA	594,010	514,512	543,689	443,748	430,376	456,551	498,683	100.00	1.87
Organic	22,028	10,185	5,104	4,380	3,505	620	7,042	1.4121	2.36
Bugisu AA	97,850	97,347	97,827	67,031	112,028	57,621	88,297	17.7060	2.56
Bugisu A	17,119	13,973	50,347	29,295	43,573	27,769	30,329	6.0818	2.17
Bugisu PB	11,437	7,642	13,230	9,263	11,240	7,514	10,049	2.0151	2.05
Bugisu B	1,420	3,365	6,884	7,831	15,572	17,725	9,156	1.8360	2.25
Bugisu C	1,250	973	960	1,260	2,345	2,645	1,572	0.3152	2.14
Bugisu E	320	–	20	–	22	320	114	0.0229	1.62
Arabica–AB	73,835	54,026	42,604	26,770	16,390	14,915	38,103	7.6407	0.66
Mixed Arabica	6,700	4,630	9,269	8,215	3,020	–	5,227	1.0482	2.21
Arabica–CPB	8,015	10,000	3,269	801	960	1,920	4,161	0.8344	2.15
Wugar	40,500	35,032	46,536	47,090	61,020	70,758	49,748	9.9759	1.49
Drugar	264,505	238,899	243,527	225,921	134,542	241,746	224,857	45.0902	2.18
Other Arabicas	51,974	38,440	24,112	15,891	26,159	E sector 12,998	28,227	5.6603	1.73

Source: UCDA Annual Report (APPENDIX IV, Page 44) and consultant's calculations

From table 2.2, Uganda's coffee exports are dominated by poor quality coffee grades as highlighted in red. Low quality coffee grades fetch low prices on the world market which affects the value of coffee exports. Low prices also affect:

1. Prices paid to farmers
2. Levels of coffee cess since the cess is charged on ad valorem basis
3. Margins and profitability levels of coffee exporters and traders
4. Most importantly, poor quality priced coffee affects the reputation of Uganda's coffee industry, which the country set out to guard against right from the inception of the coffee industry.

The following section discusses latent losses that accrue to Uganda's coffee sector through low quality coffee exports.

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[11] **2005/06 saw lowest exports of 2m bags**

3.3 Latent Losses in Uganda's Coffee exports

Using information in table 2.2, tables 2.3 (a) and 2.3(b) were derived. The latter two tables indicate hidden losses to Uganda's coffee industry through exports of low quality coffees.

Table 2.3 (a): Latent Loss from Robusta (screens 15 and 12) Exports at 2005/06 Screen 18 prices

YEAR	Screen 12			Screen 15		
	Value estimates at 2005/06 average prices (US$)			Value estimates at 2005/06 average prices (US$)		
	Screen 12	Screen 12 turned into screen 18	Differential (Latent Loss)	Screen 15	Screen 15 turned into 18	Differential (Latent loss)
2005/06	20,236,976.40	24,009,972.00	3,772,995.60	55,136,563.20	60,305,616.00	5,169,052.80
2004/05	26,706,680.40	31,685,892.00	4,979,211.60	77,257,344.00	84,500,220.00	7,242,876.00
2003/04	21,816,666.00	25,884,180.00	067,514.00	90,852,403.20	99,369,816.00	8,517,412.80
2002/03	30,592,326.00	36,295,980.00	5,703,654.00	95,419,468.80	104,365,044.00	8,945,575.20
2001/02	30,364,633.20	36,025,836.00	661,202.80	125,756,006.40	137,545,632.00	11,789,625.60
2000/01	41,909,068.80	49,722,624.00	7,813,555.20	119,850,086.40	131,086,032.00	11,235,945.60

Source: Consultant's calculations derived from table 2.2

Table 2.3 (b): Latent Losses from Drugar Arabicas Exports at 2005/06 Wugar average prices

Year	Value estimates (US$)		
	Drugar Values	Wugar Values	Differential (Latent Loss)
2005/06	27,455,619.00	35,073,363.00	7,617,744.00
2004/05	24,797,716.20	31,678,007.40	6,880,291.20
2003/04	25,278,102.60	32,291,680.20	7,013,577.60
2002/03	23,450,599.80	29,957,124.60	6,506,524.80
2001/02	13,965,459.60	17,840,269.20	3,874,809.60
2000/01	25,093,234.80	32,055,519.60	6,962,284.80

Source: Consultant's calculations derived from table 2.2

Tables 2.3(a) and 2.3(b), give comparisons, for both Robusta and Arabica coffee, if Uganda were to export low and high quality coffee grades at 2005/06 average prices. The values in the tables were derived from table 2.2 using average prices of 2005/06. The differential columns in tables 2.3(a) and 2.3(b) indicate values that Uganda would loose if it exported poor quality against high quality coffee at 2005/06 prices. It is appreciated that some of the factors that affect bean quality (husbandry practices, weather, age of tree) are beyond the control of coffee stakeholders, but ***Uganda should strategize to increase its share of good quality coffees and reduce poor quality coffee so as to realise better values from a given volume of coffee***. Latent losses also impact on the volume of cess, since cess is an ad valorem levy.

There are various causes of low quality coffee in Uganda and most of them are known to all stakeholders, but let us have a recap of them here:

- First, there has been a progressive deterioration of agronomic and post harvest handling practices at farm level. These include poor or complete lack of soil management, poor or lack of pruning, lack of fertiliser application (natural and artificial); harvesting immature coffee and drying it on bare ground thus mixing coffee with unpleasant foreign matter; and poor storage practices of heaping coffee in houses which enhances fungi growth;
- Second, coffee is poorly stored at primary and secondary trader levels with no strict enforcement by the regulator (UCDA) to ensure that only certified stores are used to store dry coffee. Entry into coffee trade at primary and secondary levels (below the large coffee processors), is least regulated, while at exporter level; UCDA satisfactorily regulates the coffee quality to retain the reputation of the country as good source of green coffee beans. However, at export level nothing much can be done to address coffee quality that had been neglected at farm and primary trader level. UCDA needs to move upstream to include all practitioners along the chain in its regulatory activities. In the 1960s and 1970s, coffee regulatory activities were

shared between the local governments and the districts departments of agriculture. To date the sharing of this responsibility is almost impossible, because local governments are more oriented to political patronage from their subjects and shy away from supervision and implementation of such regulatory activities, which would otherwise jeopardise their positions for the next round of elections as local council leaders at various levels of the Local Government structure. However in its 2005/06 annual report UCDA reports "*It was resolved that local authorities would enact and implement coffee by- laws to underpin the current Coffee Regulations.*" From interviews private sector stakeholders instead of local by laws, Uganda should enact a national Coffee law encompassing the whole value chain, with heavy penalties for defaulters.

- Third, UCDA as a regulator is thin in terms of staff to supervise and check on all practitioners along the various levels of the coffee production and market chain. At present UCDA has only 32 District Coffee Coordinators out of the 52 coffee growing districts. The basic job of the coordinators is to provide regulatory services and not the much needed farm level extension or advisory services. It is important to realise that since the inception of NAADS coffee has not been receiving any extension services, because it is regarded as "a UCDA crop" and yet UCDA does not have the capacity to provide extension services
- Fourth, Ugandan coffee farmers have not yet appreciated the importance of quality to their coffee incomes. This is aggravated by a lack of quality linked price mechanism in the industry and farmers do not see the need for extra effort in producing good quality that is not rewarded by the pricing mechanism of coffee traders.
- Fifth, low quality is also associated with the disconnected nature of existing "*coffee supply chains*". To a large extent, coffee farmers are not linked to particular coffee buyers or processors and keep switching from one buyer to another. Switching buyers does not create lasting business relationships, which would translate into market oriented production processes that guide quality. Processors are not keen in establishing such business relationship with farmers because of the latter's disloyalty to supplying coffee to established business relationships. Farmers are easily persuaded to sell coffee to any buyer with a slightly higher price. Strictly speaking, there are only limited value chain arrangements, mostly promoted by donor funding (APEP, speciality coffee promoters/buyers and some foundations associated with international coffee buyers) through some of the major coffee buyers. Such value chain arrangements have demonstrated possibilities of increasing productivity and also establishing business relationships between major coffee processors and farmers.
- Sixth, the proposed National Coffee law should recognise NUCAFE as a national umbrella organisation responsible for coffee Agribusinesses. Recognition of NUCASFE will enhance the law's effectiveness, since farmers are the majority of the coffee stakeholders.

From tables 2.1 through table 2.3(b), two challenges come out in the production to marketing processes:

- Increasing production especially for Robusta coffee and counteract downward production trend, and;
- Adding value to Ugandan coffee by improving its quality along the production/market chain

These two items will be discussed in the next chapter on economic losses.

FOUR

ECONOMIC AND FINANCIAL LOSSES IN THE COFFEE SECTOR

4.1 Coffee Wilt Disease (CWD)

Robusta coffee has been attacked by the Coffee Wilt Disease since 1993. Before then, Uganda had 300million Robusta trees planted on about 242,000 ha. Since 1993 56% of the old Robusta coffee trees have been lost through CWD. The destruction of more than 50% of the Uganda's old Robusta has reduced the contribution of Robusta coffee to Uganda's exports from 90% before the disease to the current, 85%. Robusta still faces a big threat from the CDW if the industry does not adopt planting resistant Robusta varieties. Table 4.1 presents an annual loss caused by CWD to the country at 2005/06 prices.

Table 4.1: Estimated annual loss from CWD

Area destroyed by CWD(Ha)	Yield (kg dry beans/ha/year	Quantity lost annually(ton)	2005/06 price (US$/ton)	Annual monetary loss (US$)
56% x 242,000ha (135,520)	600	(600x13552/1000) (81,312)	81,312	81,312x2,300 (187,017,600.

Source: consultant's calculations from UCDA data and interviews

From table, the industry has lost: 56% of 242,000 Ha, making a physical loss of (.56x242, 000) = 135,520 Ha. Each hectare yields 600kg of clean beans of coffee/year. The total loss from 135, 520 ha is (135,520x600) = 81,312,000 kg/ year. At 2005/06 prices of US$2,300/t, the annual monetary loss is US$ (81,312,000/1000 ton@$2,300) = $ 187,017,600.

Uganda is therefore not only facing the challenge of increasing production but most importantly the country is faced with eradicating the CWD from its Robusta coffee by replacing all existing coffee trees with resistant varieties. Uganda's coffee production remains unsustainable till a permanent solution to coffee policy linked with farmer ownership of coffee is put in place.

4.2 Leaf rust and coffee Berry Disease

There are only limited chemical sprays by farmers which cause a loss of about 25% of potential production. Prior to the liberalization of the coffee sector government was responsible for chemical sprays for the control of all known coffee diseases. Since liberalization, farmers are responsible for chemical sprays. There are two scenarios here:

1. Since liberalisation farmers receive market prices with market fluctuations as transmitted by coffee buyers. Prior to liberalisation, there was an export tax which took a larger share of world prices of coffee. Since farmers are now receiving market prices with no tax, they should then buy chemical sprays from their proceeds of sale so that the coffee industry functions on pure business considerations.
2. Coffee is dominated by smallholder farmers. There was no transition period, for example through a progressive cost sharing mechanism to make farmers adapt to privatization operations. The change from government controls and provision chemical sprays to farmers to farmers'- self provision of chemical sprays was abrupt and this distorted a smooth transformation. As a result a limited number of farmers spray, while the majority loose their coffee through diseases. Some of the stakeholders still think government should revert to its system of providing free chemical sprays as a subsidy for coffee and in recognition of the industry's contribution to the economy. The challenge to this option is its

sustainability. An alternative option is to use part of cess from coffee to provide free chemical sprays to farmers.

A middle way solution would be for government to provide a revolving credit fund, through grassroots farmer institutions to enable farmers access chemical sprays. The revolving fund could also be extended to cover other inputs like seeds and fertilisers. The administration and recovery mechanism for the fund would be worked out at the time of designing the fund. The advantage of the fund is that it would provide a sustainable source for funding the coffee sector and abolish ad hoc demands that look more for political patronage than business solutions.

4.3 Strategic Approaches to Steer the Coffee industry on an upward Trend

The end of chapter 3 mentioned two challenges, that of increasing production especially for Robusta coffee and counteract downward production trend, and adding value to Ugandan coffee by improving its quality along the production/market chain. The two challenges will be covered in this section.

4.3.1 Establish a national coffee law encompassing all players along the value chains

From section 1.1 of this report, coffee laws are as old as the commercial coffee sector. The central objective of the laws has been to maintain a good reputation Ugandan coffee. Similar laws are required today and should be embedded in an inspectorate system involving the nursery level to the processor-exporter level. Nursery operators should be licensed with approved seedlings. The objective at this level should be:

- to control diseases
- to ensure good agronomic practices of nursery beds (mulching, manure/fertiliser)

At farm level the law should provide for good crop husbandry with agronomic specifications to be observed by every coffee farmer. The law should specify:

- coffee picking (red cherries and not green)
- Drying on suspended trays, cemented floors, tarpaulins)
- Avoiding coffee fermentation during drying
- Inspection at grass root level should be decentralised to farmer groups or local governments. A small levy could be charged to meet the administrative cost associated with the inspection.

At processor/trader levels, the laws should provide for proper storage and equipment with moisture and temperature detectors and storage segmentation between clean and kiboko coffee. Properly designed and implemented the law would address the challenge of adding value to Ugandan coffee by improving practices along the value chain. It will also address the latent losses due to farmers' ***un-adherence to Good Agricultural and post-harvest handling practices***, which are responsible for the latent losses.

4.3.2 Promote planting of CWD resistant Robusta Varieties

This strategy is to reverse the effects of the CWD and establish a sustainable Robusta segment. NARO (COREC) has already bred varieties resistant to the CWD. The missing gap is the funding to enable COREC scientists multiply the varieties for distribution to farmers. Possible funding could be from the ***Prosperity for All*** or to interest private entrepreneurs to invest in commercial tissue culture to enhance multiplication of resistant varieties. Planting of resistant varieties is the only hope for sustainably rejuvenating production of Robusta coffee.

4.3.3 Establish a Coffee Specific Research Fund from cess

Presently coffee research is under NARO and generalised with other crops. The Central Government funds through NARO are shared between Coffee, Oil Palm, Cocoa and Tea that share the Coffee Research Centre at Kituza. ***To steer the coffee industry on an upward quality production trend,*** there is need for a **Coffee Specific Research Fund**. The fund should be administered under a national body responsible for coffee (UCDA). Its research activities would focus mainly on first maturing varieties/clones and bean size. Research activities should be decided between government and private stakeholders of the coffee industry and would be continuous and responsive to the existing challenges of the industry. The following possible sources for funding coffee research:

- Proceeds from coffee cess at its current levels or at an increased level. A cess is a levy imposed on the FOT value of coffee exports. In Uganda the cess is governed by the Uganda Coffee Development Authority Statute 1991 and administered by UCDA. Exporters collect the cess (built in the pricing mechanism) and pay it to UCDA at the time of registering their exports. Exporters factor the cess into their pricing mechanism and therefore in effect the cess is paid by farmers, and hence an increase in the cess would translate into lower prices to farmers. The UCDA Statute does not provide for the distribution of the cess, and the proposed national coffee law should clearly state how the cess should be used. Table 4.3 shows cess levels by various countries. The cess should be the major source for funding coffee research and other sources should supplement it.

Table 4.3: Use of coffee cess in selected countries

Country	Level of cess (%)	Application
Tanzania	0.75	All goes into Coffee research
Kenya	5	2 % For coffee Research and 1% for the coffee board[12]
Uganda	1	Administered by UCDA to its various budget lines
Rwanda	4	
Burundi	4	
ONC in DR Congo	3.5 Arabica	
	4.5 Robusta	

Source: Café Africa (www.cafeafrica.org) 2008

- Central government provisions. Table1.1 shows a drop in government funding to COREC from Shs: 800 million in 2001 to Shs: 148 million in 2007. The consultant could not get an explanation from NARO why there was such a drop in funding in a period of 6 years. The central government should shoulder the responsibility of ensuring that coffee research is funded irrespective of the source of funding. There is already, an agreement between MAAIF and MFPED that UCDA should have a budget line to cater for coffee research and NUCAFE should follow up on this decision with MAAIF to ensure that it is implemented. Government budgetary allocations for the development of the coffee industry should be commensurate with the industry's contribution to the GDP and export earnings, and donors should only supplement but should never be a major source of funding for coffee research.

[12] **There is an additional levy charged by the District Councils**

FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Since its inception as a commercial crop, coffee has dominated and continues to dominate as the most single important cash/export crop. Its contribution stands at around 20% of total exports, but is threatened by a number of issues:

- Lack of a national coffee policy
- Lack of farmer ownership in the coffee value chain
- Lack of a national law that addresses all industry issues from research, production, marketing, processing and exporting
- Lack of a law on coffee research and its funding
- Deteriorating funding for research
- Domination of coffee exports by poor grade coffees
- Absence of an industry specific advisory services to farmers
- Public and private institutions in the industry are not streamlined on their respective responsibilities and coordination of such responsibilities

5.2 Recommendations

Regulatory Framework

- There is a need to re-examine and review the UCDA Statute with a view to strengthening UCDA and enabling it to play the roles it is best suited while divesting it of the roles which are best played by other actors. Alongside the review of the Statute, there is need to establish a national coffee law encompassing all players along the value chains. The law should also recognize NUCAFE as a national farmers' umbrella organization.
- There should be stronger oversight mechanisms by MAAIF and MOFPED with regard to how UCDA deploys its revenues so that the bulk of the resources are spent on developing the sector, improving research and production as well as dealing with the issues around plant material and regeneration, (seedling multiplication and disease resistant varieties development and distribution). At present it appears as if the bulk of the resources are being spent on administrative costs for the UCDA.
- Review the regulatory framework for support institutions such as NARS/COREC, NAADS to make them responsive to the research and extension needs of the sector. Research should be demand driven.

Institutional Framework

There is need to facilitate the restructuring of public and service organizations that support the coffee sector to make them responsive to the needs of the sector and to work hand in hand with the private sector to deliver the expected development. There is therefore a need to consider the following issues:-

- Enact laws of strengthening the institutional framework of the UCDA to enable it play its role more effectively.

- Create a coffee desk within MAAIF to liaise with UCDA and coordinate public sector in-put into the Coffee sector.
- Revive and strengthen the institutional framework of the Coffee Research Centre (COREC) to become the an independent coffee research institute and only source of authentic plant material answerable to the farmers and the coffee sector.
- Strengthen the role of MAAIF as the overall parent ministry for policy oversight of the sector working in conjunction with UCDA.
- Government should consider reviving the research outfits (COREC) and others to be dedicated to coffee and put them under the UCDA or ensure that there are dedicated coffee research institutes under the NARS arrangement which should work closely with the UCDA.

Policy framework

There is a need to have a definitive national coffee policy document that guides the strategy for the revival of the Coffee industry in Uganda in which the roles of the private and public actors in the sector are clearly set out; and all industry strategies are developed wit a focus of fulfilling the set policy objectives.

Coffee Research

Establish a Coffee Specific Research Fund from cess to which the central government should add its budgetary resources. The funding agent should ensure that funds are put to their designed activities and the research agency should provide financial accountability to funding agency. The NARS Act should be amended to provide for the formation of dedicated coffee research centres to be placed in at least three of the major coffee growing regions in the country.

NUCAFE

All issues that require attention in the coffee sector require actions by the public sector: Parliament and the Central Government. Parliament for amending old laws (UCDA Statute) and enacting new ones (national coffee law, Coffee research law), and the Central Government for formulating a national coffee policy. NUCAFE needs to lobby for the proposed amendments and establishment on new laws and policies, especially through the parliamentary committee on agriculture. NUCAFE also has to sensitise industry stakeholders on the concept of farmer ownership in the coffee value chain so that all stakeholders move along a similar path of developing the coffee industry sustainably.

List of Annexes

Annex 1: Documents Reviewed

1. Zwanenberg, R. V. & King, A. 1975; An *Economic History of Kenya and Uganda 1800 1970*, Macmillan, London. (Adopted from **Anthony Kasozi**, Institutions and the Commodification of coffee in Uganda, Centre of Research in Institutional Economics University of Hertfordshire (2006))
2. MAAIF: The National Agricultural Research Policy, 2003.
3. UCDA: Annual report Vol. 15; October 1st, 2005 – September 30th, 2006.
4. UBOS: Statistical Abstract 2007
5. UBOS: Uganda National Household Survey 2005-2006. Report on the Agricultural Module April 2007
6. **http://www.ugandacoffee.org**
7. **NUCAFE:** Strategic Plan (2008-2012)
8. The Uganda Coffee Development Authority Act, Chapter 325 of 1991.
9. The National Agricultural Research Services Act of 2005.
10. The National Agriculture Advisory Services Act 2001

Annex 2: People met/interviewed

	Name of Person	**Organization**	**Contact**
1.	Emma Joynson-Hicks	Café Africa	0782-246621
2.	Betty Namwagala	UCTF	0712-879736
3.	Gerald Ssendaula	NUCAFE	0772-762111
4.	Ezra Munyambonera	UCDA	0777 -514533
5.	Africano Kangire	NARO/CORI	0772-467631
6.	James Joughin	MAAIF	0774-643173
7.	Joseph Oryokot	NAADS	0414- 345440
8.	Okasai	MAAIF	0772-589642
9.	Edmund Kananura	UCDA	**0772- 405373 / 0392-942180**
10.	Mark Otim	MAAIF	0772-643465
11.	Jaap Blom	ASPS	0312-351600/ 0712 -220816
12.	Ssemanda Samuel	MAAIF	
13.	Peter Ngategize	CICS	0772-824718
14.	Henry Ngabirano	UCDA	
15.	Joseph Nkandu	NUCAFE	0772595030

Annex 3 (a): Exports by Quantity, 2002 – 2006

Commodity	Unit	2002	2003	2004	2005	2006
Traditional Export Crops						
Coffee	Tonne	201,591	146,299	159,983	142,513	126,887
Cotton	Tonne	12,322	16,762	29,293	30,403	18,480
Tea	Tonne	30,400	36,669	36,874	36,532	30,584
Tobacco	Tonne	23,266	24,669	27,843	23,730	15,794
Non-Traditional Exports						
Maize	Tonne	59,642	60,298	90,576	92,794	115,259
Beans and other Legumes	Tonne	10,753	18,070	26,233	28,332	27,087
Fish and Fish products	Tonne	25,525	26,422	31,808	39,201	36,461
Cattle hides	Tonne	20,049	18,565	18,502	25,349	22,214
Sesame seeds	Tonne	1,380	4,108	4,283	7,412	7,568
Soya beans	Tonne	499	592	468	574	3,048
Soap	Tonne	7,594	11,402	16,281	17,072	11,681
Electric Current	‘000 Kwh	264,685	217,486	193,104	62,577	53,019
Cocoa beans	Tonne	1,626	4,328	5,155	7,600	7,632
Cobalt	Tonne	8,748	-	438	582	861
Hoes and hand tools	'000	169	407	180	466	68
Pepper	Tonne	128	103	394	817	218
Vanilla	Tonne	63	91	71	234	195
Live animals	'000	24	8	37	12	0
Fruits	Tonne	708	425	1,297	3,061	7,821
Groundnuts	Tonne	45	4	1	22	63
Bananas	Tonne	1,561	1,646	1,792	2,196	494
Roses and Cut flowers	Tonne	4,504	5,636	6,092	6,162	4,989
Ginger	Tonne	28	13	14	8	4
Gold and gold compounds	Kg.	7,117	3,478	5,465	4,241	6,937
Other Precious Compounds	Kg.	0	22	0	2	20
Petroleum products	Litre	25,090	63,645	65,277	74,380	81,977

Note ***: 2006 figures are provisional***

Source ***: UBOS, URA, UCDA, CDO and UMEME***

(Adopted from Statistical Abstract 2007)

Annex 3 (b): Exports by value ('000 US $), 2002 – 2006

Commodity	**2002**	**2003**	**2004**	**2005**	**2006**
Traditional Export Crops					
Coffee	96,626	100,233	124,237	172,942	189,830
Cotton	9,519	17,755	42,758	28,821	20,474
Tea	31,293	38,314	37,258	34,274	50,873
Tobacco	45,262	43,042	40,702	31,486	26,964
Non-Traditional Exports					
Maize	10,609	13,724	17,896	21,261	24,114
Beans and other Legumes	3,284	5,235	8,968	8,693	8,162
Fish and Fish products	87,945	88,113	103,309	142,691	145,837
Cattle hides	9,810	4,925	5,409	7,064	8,032
Sesame seeds	510	2,183	2,788	4,779	4,547
Soya beans	74	87	118	126	609
Soap	3,434	5,553	7,708	7,194	5,530
Electric Current	15,645	13,778	12,075	4,465	4,855
Cocoa beans	2,023	7,001	6,801	9,638	10,016
Cobalt	7,032	0	11,548	14,320	18,063
Hoes and hand tools	385	580	348	1,159	518
Pepper	111	176	368	594	189
Vanilla	6,898	13,546	6,120	6,135	4,808
Live animals	80	61	130	29	28
Fruits	670	436	917	1,158	1,167
Groundnuts	75	7	1	23	8
Bananas	225	110	850	806	127
Roses and Cut flowers	17,828	22,080	26,424	24,128	20,987
Ginger	462	15		78	12
Gold and gold compounds	60,342	38,446	61,233	73,072	122,579
Other Precious Compounds	0	13,612	4,713	6	117
Other products	46,714	77,193	114,507	183,935	257,345
Petroleum products	10,749	27,901	27,904	32,015	36,401
Traditional export	**182,700**	**199,344**	**244,955**	**267,522**	**288,142**
Non-traditional exports	**284,905**	**334,762**	**420,134**	**545,335**	**674,051**
Total	**467,605**	**534,106**	**665,090**	**812,857**	**962,193**

Note ***: 2006 figures are provisional***
Source : UBOS, URA, UCDA, CDO and UMEME

(Adopted from Statistical Abstract 2007)

Annex 3 (c): Contribution of exports to total export value, percentage, 2002 – 2006

Commodity	**2002**	**2003**	**2004**	**2005**	**2006**
Traditional Export Crops					
Coffee	20.7	18.8	18.7	21.3	19.7
Cotton	2.0	3.3	6.4	3.5	2.1
Tea	6.7	7.2	5.6	4.2	5.3
Tobacco	9.7	8.1	6.1	3.9	2.8
Non-Traditional Exports					
Maize	2.3	2.6	2.7	2.6	2.5
Beans and other Legumes	0.7	1.0	1.3	1.1	0.8
Fish and Fish products	18.8	16.5	15.5	17.6	15.2
Cattle hides	2.1	0.9	0.8	0.9	0.8
Sesame seeds	0.1	0.4	0.4	0.6	0.5
Soya beans	0.0	0.0	0.0	0.0	0.1
Soap	0.7	1.0	1.2	0.9	0.6
Electric Current	3.3	2.6	1.8	0.6	0.5
Cocoa beans	0.4	1.3	1.0	1.2	1.0
Cobalt	1.5	0.0	1.7	1.8	1.9
Hoes and hand tools	0.1	0.1	0.1	0.1	0.1
Pepper	0.0	0.0	0.1	0.1	0.0
Vanilla	1.5	2.5	0.9	0.8	0.5
Live animals	0.0	0.0	0.0	0.0	0.0
Fruits	0.1	0.1	0.1	0.1	0.1
Groundnuts	0.0	0.0	0.0	0.0	0.0
Bananas	0.0	0.0	0.1	0.1	0.0
Roses and Cut flowers	3.8	4.1	4.0	3.0	2.2
Ginger	0.1	0.0	0.0	0.0	0.0
Gold & Gold Compounds	12.9	7.2	9.2	9.0	12.7
Other Precious Metals	0.0	2.5	0.7	0.0	0.0
Other products (1)	10.0	14.5	17.2	22.7	26.7
Petroleum products	2.3	5.2	4.2	3.9	3.8
Traditional export crops	**39.1**	**37.3**	**36.8**	**32.9**	**29.9**
Non-traditional exports	**60.9**	**62.7**	**63.2**	**67.1**	**70.1**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note: 2006 figures are provisional
Source: UBOS, URA, UCDA, CDO and UMEME

(Adopted from Statistical Abstract 2007)