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Private Sector Position on the Rationalization of Government Agencies (Agriculture Sector) (Amendment) Bill, 2024

Implications of Amendment of National Coffee Act 2021 and Mainstreaming Uganda Coffee Development Authority into the Ministry of Agriculture, Animal Industry and Fisheries.

Presented to

Hon. Janet Okori-Moe

**The Chairperson- Committee on Agriculture, Animal Industry and
Fisheries, Parliament of the Republic of Uganda**

21st February 2024

Greetings from Private Sector Foundation Uganda (PSFU). We thank you for the work you are doing and appreciate the Parliament of Uganda for always listening to and considering the positions of the private sector while legislating on matters that affect them.

Private Sector Foundation Uganda (PSFU) is Uganda's umbrella body of the private sector made up of over 320 Business Associations, Corporate bodies and the major Public Sector Agencies that support private sector growth. Since its founding in 1995, PSFU has served as a focal point for private sector advocacy as well as capacity building and continues to sustain a positive dialogue with the government on behalf of the private sector. PSFU is also the government's implementation partner for several projects and programs aimed at strengthening the private sector as an engine of economic growth in Uganda. PSFU is a value-based and ethically driven entity premised on 12 sectors that drive Uganda's economic growth. These sectors include Agriculture, Agribusiness and Forestry; Construction and Real Estate; Financial Services; Professional Services; Tourism; Manufacturing; Human Resources (Skills, Health, and Education); Transport and Logistics; Trade and Commerce; ICT; Culture and Creative; and Energy, Mining, Oil and Gas.

1. BACKGROUND

Hon. Chairperson, Uganda Coffee Development Authority (UCDA) was established in 1991 following the reform and market liberalization programme launched by government in 1990 under the Agricultural Sector Adjustment Programme. The reforms resulted into the separation of the regulatory and trading functions and the monopoly by Coffee Marketing Board (CMB) in the export of coffee was removed to address inefficiencies of the then Coffee Marketing Board. UCDA was the first agency to be established during the liberalization programme. The UCDA Act 1991 has been repealed and replaced by National Coffee Act 2021 to provide for UCDA to regulate all on-farm and off-farm activities in the coffee value chain.

Hon. Chairperson, it is of paramount importance to note that coffee is a strategic commodity for Uganda. In the last 10 years, coffee has been contributing 17-19% of total export earnings. In FY2021/22, Uganda earned US\$ US\$862.28 million 496 million from 6.28 million bags of coffee exports compared to 6.08 million bags worth US\$559.16 million in 2020/21 representing an increase of 3% and 54% in both quantity and value respectively. This is opposed to potential earnings of US\$ 2 billion. By implication, this presents an untapped potential of US\$ 2 billion per year to help bridge the external trade gap; hence the classification as 'low hanging fruits' in the short- and medium-term transformative export strategy and the Agro-Industrialization Programme agenda of the National Development Plan III. With the current production drive, coffee is on track to deliver 20 million bags by 2025/30. However, the economy risks losing this contribution in the absence of a dedicated and private-sector responsive agency as opposed to a bureaucratic public service system.

Hon. Chairperson, coffee is grown in 126 out of 146 districts in Uganda while 12 million (26.4%) of Ugandan population of 45.7 million people are employed in the coffee sector. Hon.

Chairperson, over 1.7 million households are involved in coffee production. Coffee exports contribute 1.5% to Gross Domestic Product and in the last 10 years, coffee has accounted for 12% to 19% of the country's total exports value. Therefore, UCDA is very critical in terms of revenue generation, employment and incomes.

2. The importance of UCDA in the Coffee Value Chain

Hon. Chairperson, whereas the private sector appreciated the importance of the Ministry of Agriculture, Animal Industry and Fisheries in providing oversight and policy to regulate the coffee industry, it is important to note that stretching that mandate to operational matters shall be detrimental to the industry.

i) Regulation of Coffee Quality

Hon. Chairperson, because of UCDA's interventions in regulating coffee quality, Uganda coffee has been ranked in third position globally in terms of quality. Coffee quality involves physical grading of beans and sensory evaluation (cup tasting). It is a highly specialized area that has developed over many years of intensive training and certification at an international level. UCDA has a strategic partnership with the Coffee Quality Institute in United States to develop fine Robusta protocols with Uganda coffee as a reference. The protocols are currently applied to differentiate Robusta coffee quality across other Robusta coffee growing countries of the world. These interventions (among others) have led to the price of Robusta coffee up to \$4 per kg which is double the price of commercial grades.

ii) Promotion of value addition

UCDA is spearheading the branding of Ugandan coffee to drive demand and improve value, by supporting local coffee businesses for value addition through primary processing and establishment of soluble coffee in collaboration with Uganda Development Corporation (UDC). Value added coffee will fetch higher prices, increase export revenue and bring more foreign earnings to the country. UCDA had initiated profiling of coffees according to Ecological zones. This will enable Uganda to produce and market its coffee based on origin, and unique quality attributes and thereby attracting premium prices to farmers. These initiatives are likely to be lost if the functions of UCDA are mainstreamed into MAAIF.

iii) Market Information and Price mechanisms

Effective 1991, UCDA took over this mandate after the liberalization policy had removed the monopoly on the export of coffee by CMB, the controls on procedure prices, processing and export margins. One of the functions of the UCDA is to advise the Government on the mechanism for determining the indicative price for the sale of coffee. Daily, UCDA disseminates coffee prices to farmers and exporters to guide in negotiations with buyers. This has greatly reduced on price information asymmetry at farm level and improved farmers' negotiation powers that led to an increase in the farmers' share of the export price from 31% before liberalization to 70-80%.

iv) Promote domestic coffee consumption.

UCDA has constructed a Coffee Promotion Centre at Jinja Agricultural Show Grounds which will offer courses in Barista and coffee brewing skills to the catering industry in collaboration with Uganda Hotel and Tourism Training Institute and thereby creating jobs and employment opportunities for youths in the hospitality industry. UCDA is in the process of accreditation of the coffee training curricula in coffee brewing and barista with Business, Technical, Vocational Education and Training (BTVET). In addition, UCDA has secured land for Coffee Learning Hub at Kyambogo University for the University Coffee club to promote domestic coffee consumption among the university students. This will drive sensitization campaigns to increase domestic coffee consumption. Medical doctors will be involved to demystify the myths associated with coffee consumption during domestic coffee consumption. These initiatives have influenced the domestic coffee consumption trend to increase by 2.3% from 236,400 kg bags in 2015/16 to 533,000 kg bags in 2018/19. These initiatives are likely to be lost if the functions of UCDA are mainstreamed into MAAIF.

v) Support to Coffee Research

According to the NARS Act (2005), 10% of CESS generated by UCDA is transferred to the National Coffee Research Institute (NaCORI) to fund coffee research. It is important to note that UCDA funding to NaCORI is for applied research on coffee while funding through National Agricultural Research Organization (NARO) goes to basic research. The revenue generated by UCDA to support key research constraints in the coffee value chain is likely to be lost once UCDA is mainstreamed, and the National Coffee Act (2021) is abolished.

vi) Capacity Building of coffee Value Chain Actors

Hon. Chairperson, UCDA provides training to the Quality Assurance staff through an international accreditation of Robusta and Arabica graders. The accreditation allows the inspection and certification of coffee exports which are recognized by international market standards.

The National Coffee Act (2021) provides for traceability at the coffee origin in line with global trends. In addition, an auction system is provided as an alternative marketing system for transparency or price discovery mechanism. This will be possible if there is a dedicated agency with experience and competency to ensure that the capacity building is done according to the best practices. This arrangement is likely to be lost if UCDA is mainstreamed in MAAIF.

vii) Partnerships with Commodity Organizations.

UCDA represents Uganda at the International Coffee Organization (ICO) and the Inter African Coffee Organization (IACO) where global and regional issues are discussed and measures to address the constraints are identified in the coffee industry. The initiatives with IACO include the establishment of a coffee sector development fund known as the ‘Africa Coffee Facility’ to mobilize resources to bring sustainable solutions to unlock the potential of the African coffee

industry. These partnerships are likely to be lost if the functions of UCDA are mainstreamed into MAAIF.

viii) Regulation of Coffee and Cocoa under UCDA

In 2019, the Top Policy Management of MAAIF developed an institutional model of combining coffee and cocoa under UCDA, which would bring more efficiency in the development, research, and extension support of the two commodities. This was because all cocoa exporters in Uganda also export coffee. Hence the regulation of both sub-sectors would instead be easily handled by UCDA. Most countries which produce coffee and cocoa, have one institution which regulate both coffee and cocoa.

UCDA's expanded mandate at the same administrative costs would focus on supporting quality production and processing, enforcing quality standards, certifying exports and promoting regional and international market penetration. This institutional model could be adopted in Uganda instead of mainstreaming the functions of UCDA into MAAIF.

ix) Lessons from other coffee producers

The agency model as a semi-autonomous agency has proven to be an efficient regulatory model for the coffee industry in other coffee producing countries in the World. This enables to focus to coffee sector and to create a harmonized execution, and service provision. The top coffee producers in the world including Brazil, Vietnam, Columbia, India, Honduras, Mexico, Kenya and Ethiopia operate using agency model like UCDA.

In the past, Kenya and Ethiopia undertook similar reforms of abolishing coffee Boards and mainstreaming their functions into the respective Ministries of Agriculture. However, the reforms turned to be disastrous as explained below.

a) Ethiopia:

In 2008, the Ethiopian government undertook reforms whereby the Coffee and Tea Authority was disbanded, and its functions transferred to the Ministry of Agriculture. However, the sector started declining and on the 14th December 2015, the Ethiopian Coffee, Tea Development and Marketing Authority was re-established as per the proclamation endorsed by the House of People's Representatives. The re-establishment of the Authority came at the request of the Prime Minister at the end of April 2015. The major reason for the re-establishment of the separate entity was to give due focus to the sector and to create a harmonized execution, and service provision starting from the production of the goods to the transactions within a single body.

b) Kenya:

In 2013, the Kenyan government merged coffee with other 117 crops to form the Agriculture and Food Authority (AFA). However, after realizing a decline in the coffee sub-sector, with production falling from a high of about 130,000 MT in the 1988/89 to a low of about 40,000 MT in 2020. In 2021, the President signed an Executive Order No. 2 of 2021 for re-establishment of Coffee Board of Kenya under the Coffee Bill 2021 aimed to refocus the

coffee sector and re-introduce safeguards for coffee farmers against market exploitation and improve coffee productivity and increase competitiveness. The following were reasons for the failure by AFA:

- i) AFA become institutionally unfocused and unable to improve either the performance of the coffee sub-sector or those of the specific crop value chains such as sugar and tea. Therefore, in its entirety, the Foods Authority is unable to improve the performance of the crop value chains.
- ii) AFA through the Directorate of Coffee focused mainly on unnecessary regulations at expense of the farmers. Focus on right farming practices, quality, productivity, processing, and marketing were minimal. Farmers at the end of the day made no good money. Cartels and brokers controlled the entire coffee farming and marketing chain. Farmers needs were less of their concern, but they more concentrated regulations.
- iii) The Ministry of Agriculture and AFA failed to interrogate the entire coffee value chain, from production, processing and marketing, and identify areas that require interventions despite instituting various regulations.
- iv) AFA failed to frequently engage farmers and resulted in the collapse of 500 pulping stations (factories) in 31 coffee-growing counties across the country.
- v) Despite AFA ensuring coffee regulation, farmers could still not pocket 80 per cent of gross earnings instead Co-operative societies, millers and marketers shared most of the earnings.
- vi) Smallholder farmers who form the bulk of coffee producers were neglected by Government officials through AFA.
- vii) AFA could not effectively regulate the marketing chain is dominated by a cartel of multinational corporations. It licensed sister companies to handle the entire coffee trade chain.
- viii) AFA failed with the task of promoting the production, processing, and branding of Kenya coffee locally and internationally.
- ix) AFA failed to effectively regulate operations of millers, marketing agents, buyers, roasters, packers, management agents and warehouses hence pain to farmers.
- x) AFA was ineffective in resolving coffee disputes on issues raised by warring parties.
- xi) AFA failed to deliberately create Coffee Stabilisation Fund the monies to support income and price balance and any investments that help alleviate the prices paid to farmers.

3. PSFU Recommendation on the Rationalisation of UCDA

Hon. Chairperson, based on the above coupled with the government's vision and strategic plan to increase household income and grow our coffee exports, it is the private sectors' conviction that rationalisation of UCDA shall be detrimental to the coffee sector. Hon. Chairperson, the decision will create delays in service delivery, decline in coffee quality, decline in coffee production, productivity and exports, higher costs of doing business and reduced competitiveness globally. In the short and medium term, this will significantly reduce government's revenue collection.

Hon. Chairperson, it is also important to note that UCDA generate revenue for the government which is much higher than the cost of administration in the institution. Moreover, achieving the Coffee Roadmap target of 20 million bags of 60kgs by 2030 requires a sustainable and transformative approach under a lead agency.

We look forward to having a more detailed discussion with you on the same and hope that our recommendations will be considered by your Honourable Committee.

Sincerely,

Stephen Asiimwe

Chief Executive Officer

CC: Rt. Hon. Speaker of Parliament of the Republic of Uganda

Rt. Hon. Deputy Speaker of Parliament of the Republic of Uganda

Hon. Chairperson Committee on National Economy

Hon. Chairperson Committee on Committee on Trade, Tourism and Industry