ASSESSMENT OF THE ECONOMIC EFFECTS OF LIBERALIZATION OF COFFEE SECTOR IN UGANDA

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Abstract: The paper assesses the economic effects of trade liberalization of coffee sector in Uganda as driver for rural development. Uganda for dacades been and is among the worlds most producers of coffee as well as the chief exporters on the world market. Coffee also plays an important role at the national level contributing close to 20% of the country's foreign exchange earnings.The study assessed time series data from 1960 to 2013 on Production, Trade and Marketing of coffee in Uganda and the recent trends. Exploratory design was used to study the data as well as Descriptive research method which helped to analyse the data. The study explored time series of coffee production, export, and consumption and describes the findings in detail. The study found out that trade liberalisation of the sector in 1991/1992 was followed by a boom in the sector, the participants have increased, competitiveness has equally increased and has since seen also many players on the world market and Ugandan coffee hit all corners of the globe but with biggest share in the EU.

Key Words: coffee production, export, trade liberalization, rural development

INTRODUCTION

Uganda is one among the world's foremost coffee producers and exporters (Baffes 2006). Since 1930, Uganda has been in coffee farming, although, serious coffee business picked in the 1960s, it is grown in the various highland areas of the country. Important to note, is that western, central and high lands in Eastern Uganda regions are the most participating districts. The paper therefore examines the economic the economic effects of trade liberalisation of coffee subsector in Uganda.

The economy has over time developed and improved, and coffee remains of vigorous importance earning an average of 60% of Agricultural annual export revenues for Uganda. It is projected that as much as 20% of the total population earn all or a large part of their cash income from coffee and its value chain activities. The impacts of sustainability-oriented values Fairtrade, and Organic processes and livelihoods of smallholder coffee farmers in Uganda for certified producers increased household living standards by 30% which decreased the incidence of poverty (Baffes 2006, Chiputwa et al. 2015). According to Bolwig et al. (2009), there is always a positive revenue effect for the participants in the coffee sector and particularly those in modest biological organic farming techniques, this is exactly what the small holder farmers in Uganda practice with in a mixed plantation of coffee and bananas for most times.

Dicum (1999), Barham (2011), Siqueira, Haloysio (2012) recognize the worth of coffee if well evaluated, it has the potential to increase household productivity hence rural development. The sector employs over five million people both at the farms, and post harvesting processes, and remains a key source of income for the rural poor households in over 30 Districts.

Gary (1989), Benedict et al. (2014), Manrique et al. (2014), noted that coffee production has the potential to improve the socioeconomic and welfare development at household level for the families involved the coffee farming and business.

MATERIAL AND METHODS

The study consulted trusted sources for materials, time series of data for the study were got from dependable sources such as Food and Agriculture Organization of the United Nations (FAO), International Coffee Organization (ICO), Organization for Economic Co-operation and Development (OECD), the Uganda Coffee Development Authority (UCDA), The World Trade Organization (WTO), and Uganda Bureau of Statistics (UBOS). However, for most of the information was obtained from noticeable academic journals and articles. Exploratory design was used to study the data as well as descriptive research method which helped to the study to analyse the data. Both qualitative and quantitative data was obtained and analysed, and the resulted are discussed below.

RESULTS AND DISCUSSION

Liberalization of coffee trade in Uganda – Global perspective of trade liberalization

Trade liberalization refers to opening markets to reasonable cooperation, i.e. less market falsehood and cheating so as to benefit consumers, workers and firms. It also leads to growth through opening of national markets to international trade i.e. investment and trade as defined by the OECD.

Trade liberalization in Agriculture is a subject of multilateral and global trade deliberations since the Uruguay Trade Round (1986 to 1994). Trade liberalization is a subset of international trade that deliberates on how the global market should operate without distortions i.e. Mutual benefit from both trading countries (Ricardo 1817). Agriculture remains one of the most critical issues of the negotiation due the distorted sector at international trade (Cornish, Fernandez 2005). Their study indicates that the main aim of trade liberalization was to develop policies on rural development, investment in Agriculture and development, and policies on price and market access which would help ease trade globally (WTO 2013).

The Uruguay Trade Round (UTR) is a continuous processes of the General Agreement on Tariffs and Trade (GATT) which begun in the 1947 in Geneva and whose main objective was arrangement of global negotiations and agreements, and trade rules of the international market as suggested by Smith (1776) in his book causes of the wealth of nations. This is because international trade requires a framework of polices that guide the trading nations to meet their mutual benefit and also to be successful in global trade.

The UTR led to the creation of the WTO in 1995, which led to prominent reduction in tariffs (close to 40%), agricultural subsidies, and an agreement to allow full access to agriculture products from least developed countries. This is because the Most Developed countries (MDCs) such as the European Union (EU) states had taken advantage of the market leading to distortions which worsen the economies of Low Developing Countries (LDCs). Oxfam (2005) suggested that the EU end export subsidy which appears to be the leading cause of market distortion for the LDCs by causing disastrous effects on small scale farmers. Therefore, trade liberalization most benefits from comparative and absolute advantages, which are greatly facilitated by these negotiations, which are still struggling to iron out exploitations to meet mutual benefit for the participating countries.

Coffee Sub sector Liberalisation in Uganda

After spans of complete state control of the sector, the coffee industry was fully liberalized in 1991/1992, and is currently entirely in private hands and run by market forces. However, export quality control remains the responsibility of the Uganda Coffee Development Authority (UCDA) that grades, and classifies all export shipments (UCDA 2011).

Both internal and export selling are regulated through the Coffee Regulations 1994, a statutory instrument (Uganda Gazette 1994), stipulates the requirements which have to be met including minimum standards of coffee traded at all post-harvest levels within the coffee supply chain (Uganda Gazette 1994). The law provides for registration of players dealing in internal and export marketing and trade of the coffee, inspection and quality control including issuing of quality certificates, grade analysis, mode of coffee export sales, and publication of suggestive prices of various grades of coffee to all stakeholders in coffee trade among others.

The government of Uganda under the UCDA and the local governments in 1998 entered into agreement to allow local councils to collect registration fees from coffee buying stores, which would be exploited to improve coffee at the farmer and grass root levels. This is because originally, it was the coffee co-operatives that licenced by the government to do both control and trade of the whole sector, thus determined favourable prices for themselves than the market forces hence limiting farmer and individual participation in decision making in the market and competition respectively (Baffes 2006, Musumba, Rajorshi 2013). Uganda abolished all tariffs on coffee trade, except 1% as a fee on all coffee exports to be paid to UCDA. Given this observation, it is vital to argue that exporters of Uganda's coffee trade are largely regulated by the importing countries for instance.

Coffee production, Consumption and Marketing in Uganda since Liberalisation in 1991

Uganda is led by the agricultural sector and the major employer and also earns foreign exchange. Nevertheless, other sectors have grown up rapidly. Among other sectors are services sector includes the public sector is fastest growing; it contributes substantially to the country's GDP. Coffee has continued to play a primary role in the agriculture sector and economy of Uganda, contributing over 18% of the export earnings over decades. The coffee subsector has grown through its value chain and employs over 5 million people accounting for over 500,000 households. Over 95% of the total annual coffee produced per year is exported as green beans.

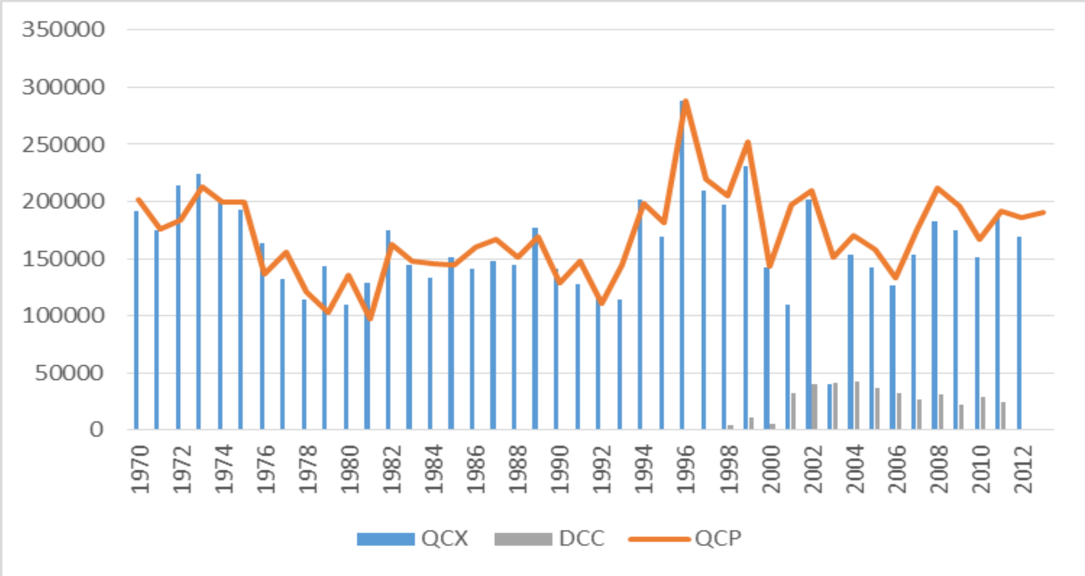
Agriculture remains the greatest sector at centre of the Ugandan economy (MAAIF 2010). It contributes up to nearly 26 percent of GDP (UBOS 2008) and is the stronghold of the downstream industries. Agro-processing industries alone accounts for 40 percent of total manufacturing. Agriculture plays a leading role in determining in the country's road map to reducing poverty in the previous years. However, low productivity persists due to limited inputs, un-organised value chains, and low public and poorly financed sector (Ssewanyana et al. 2011). The sector is not fully financed especially at the upstream where production and the quality would really need support such that farmers can be able to purchase inputs such as improved seeds, labour among others to boost production.

Uganda is among the largest producer of coffee ranking fourth after Brazil, Ethiopia and Honduras in terms of contribution of coffee exports in total export earnings for the last two decades with an average share of over 18%. The post 1997 coffee world price decline has had a negative effect on production and exports (Baffes 2006). Nevertheless, production kept declining even when prices recovered until 2006 and has recently been declining. Although there is a significant decline in quantity exported, coffee export earnings in 2010 went up by 13.1 percent as a result of higher global prices, there was an overall 14 percent decrease in the quantity of coffee produced in 2010 (Figure 1).

Over the years, there has been a an increase in consumption of coffee since the change of Regime and is reflected in the 1970s when dictatorial governments distorted the market as noted by Baffess (2006), Asiimwe (2013) which impacted on the whole coffee market but also the entire economy.

Uganda's coffee industry went through the typical ups and downs like many African commodity subsectors suffering price fluctuation, limited access to market and market information (Baffes 2006), but the situation worsened in the 1970's. The first coffee-regulatory institution, the Uganda Coffee Development Authority (UCDA), was started in 1991 to address quality control issues, sector development, price control, and market access. Kline (2014), asserts that policies play an important role in stabilising any economy, this has been reflected in Production, Exportation, Consumption (Figure 1), and Real Effective Exchange Rate (REER). Asiimwe (2013), assert that the recklessness and extractive policies of the then Amin's regime in 1970s, intensified the let-downs of the state coffee monopoly marketing structure whose results on the coffee market challenged farmers and traders throughout the period. This created economic war which deteriorated coffee trade in Uganda and the resource base got constricted. The regime was progressively more extractive of the coffee resource at the same time. The regime was subjected to tightening international embargoes that had adverse repercussions on the state marketing channel. Consequently, coffee marketing became a disputed arena between the state versus the differently positioned actors and producers. The period also experienced fluctuating global price trends and producer's response through deteriorating coffee production. With the dividend coffee booms, the differently positioned actors strove to sell the coffee through the illegal means, i.e. coffee smuggling termed as “magendo” to Rwanda, Kenya and Tazania, which became dominant for a stretch of time.

Figure 1 Time series production, Export and Consumption of coffee in Uganda in tonnes.



Source: FAOSTAT

QCX– Coffee Export, QCP–Coffee Production, DCC–Domestic Coffee Consumption, Axis Y– Amount of coffee in tones

However, with the liberalisation of the sector, the UCDA played a task to put coffee production and marketing back to the global market with the highest share in European Union (Fafchamps, Hill 2005, Baffes 2006, Hill 2007, Hill 2010). The study found out that Coffee plays an important role in the economy of Uganda, contributing over 18% of the export earnings since 1990‘s up to date. The coffee industry employs over 5 million people through coffee related activities and this has created a competitive environment for the coffee business and is basically attributed to the Liberalisation of the sector (Hill 2010).

Coffee is in most case grown in diverse stand where it is intercropped beside food crops mostly bananas and beans which has kept a number of households’ income and food security safe. It is also grown among shade trees that result into sustainable coffee production. Coffee farmers in Uganda use a low input system and producer households significantly rely on family labor for gardening and post-harvest activities.

CONCLUSION

Ceteris paribus, coffee remains high worth crop and commodity in Uganda and the region at a large, although with price and production un-certainty, do not seem to be excessive in most years. The levels of coffee production changes over the years are connected to policy and or regulatory constraints. This sector went through major reforms in the early 1990s; it has concentrated on price, and quality control at the expense of Quantity of produce. Although both quality and quantity are desirable.

The livelihood and Commercial activity improved enormously as the number of active growers, exporters and traders increased in the region considerably since the liberalization of the sector hence competitiveness as put forward by Hill (2010). Thousands of small traders have entered the industry and contributed to competition in the market, most importantly, the poverty reduction impact on Small hold farmers in the coffee-growing regions since 1990 (Baffes 2006, Hill 2010, Haloysio et al. 2012).

Bussolo et al. (2006), argue that coffee market liberalization followed by a price boom was associated with substantial reductions in poverty of most farmers and people in the coffee value chain in the Uganda but also the East African Region. Overall, the case of coffee in Uganda thus lends support to the view that agricultural trade liberalization is beneficial for the poor. Although, Lay et al. (2007), note that agriculture is equally response for poverty increase since most of the population that rely on it, yet the production quantity ratio is far smaller compared to the sharp increase in population over the years especially for the Developing countries.

There remain several concerns that need to be addressed to further improve the market efficiency and reduce the disincentives such as limited funding and research.

The Government of Uganda needs to purposefully prioritize the Agriculture sector and put a side distinctive dedicated funds which can be utilized by both small holder and household producers, and large scale farmers as loans or donations, which will help in the increase of acreage of coffee production as has been the case behind the success of liberalization of agriculture in the European Union and the US although Devinder et al. (2005), note that financial support should only stop at production level, and local market access to avoid market distortions as a case of export subsidies in the EU and other Developed Countries on foreign markets especially in the Developing countries.

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