Institute of Social Studies

AGRICULTURAL TRADE LIBERALISATION IN UGANDA: IMPLICATIONS FOR THE COFFEE INDUSTRY

A Research Paper presented by

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(Uganda)

In Partial Fulfilment of the Requirements for Obtaining the Degree of

MASTER OF ARTS IN ECONOMICS OF DEVELOPMENT

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The Hague, December 1998

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This piece of work is dedicated to my parents Madina and Ibrahim

Acknowledgement

The completion of this piece of work, and indeed the master's program depended on the support and assistance of many people. It is my great pleasure to acknowledge them here.

First and foremost, I wish to thank the Netherlands government for awarding me the fellowship that has enabled me to achieve Postgraduate training.

Secondly, I wish to sincerely thank my supervisor, Dr Lucia Hanmer for her valuable assistance and guidance, which helped me to conceptualise and write this paper. I also register my appreciation to my second leader examiner, Dr Peter de Valk for his useful comments on the draft of my paper. My thanks also go to the entire ECD teaching staff for the knowledge they imparted unto me throughout my study period at the ISS. I also wish to thank the ECD Program Administrator, Ms Annamarie Voorvelt for your smiles, administrative and friendly support made several of my days and the entire ECD program students for the moral and academic support.

To my parents Ibrahim and Madina, I wish to thank you for the sacrifices you made to enable me receive the earlier training.

I also wish to express my gratitude to my relatives and friends back in Uganda and friends in The Netherlands and the entire ISS Community for the moral support you gave me through out my stay in The Netherlands.

Thank you all.

Above all, I am grateful to the Almighty.

Sulaiman Kiggundu
ISS, The Hague,
The Netherlands

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List of Acronyms and Abbreviations

ARP Agriculture Rehabilitation Project

ASAC Agriculture Sector Adjustment Credit

BOU Bank of Uganda

CMB Coffee Marketing Board

CPSU Central Processing Storage Unit

ECD Economics of Development (MA)

ERP Economic Recovery Programme

ESAF Enhanced Structural Adjustment Facility

FAO Food and Agricultural Organisation

GDP Gross Domestic Product; also acronym for National Income

ICO International Coffee Organisation

IMF International Monetary Fund

ISS Institute of Social Studies

LMB Lint Marketing Board

MAAIF Ministry of Agriculture, Animal Industry and Fisheries

MFEP Ministry of Finance and Economic Planning

MT Metric Tons

SAF Structural Adjustment Facility

SAPs Structural Adjustment Policies/programs

UIA Uganda Investment Authority

WB World Bank

UNEX Union Export Services

WTO World Trade Organisation

Tables, Graphs Figures, boxes and Maps.

Graphs

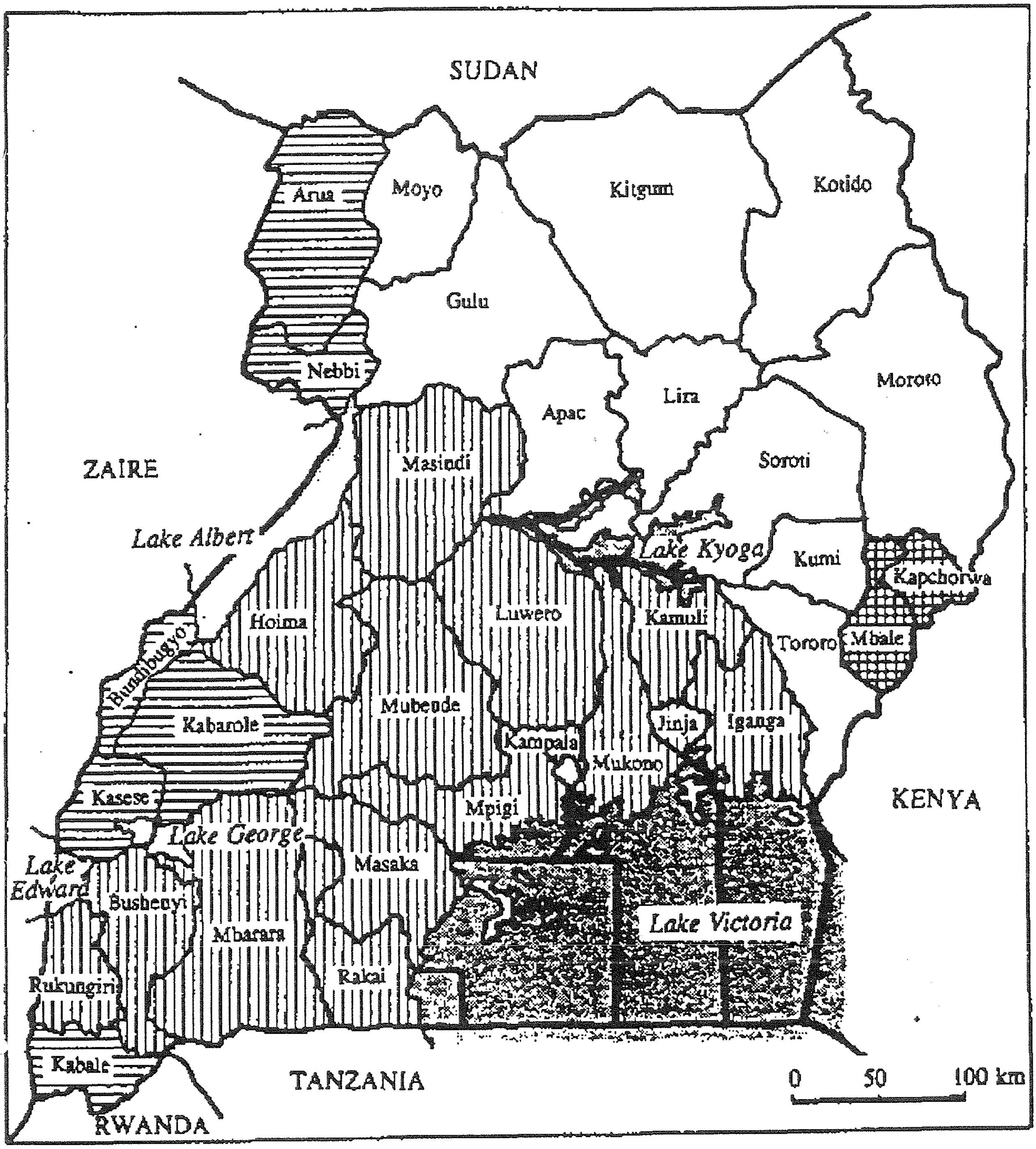
Figures

Boxes

Maps

Map 1

The geographical location of Ugandan coffee growing districts



Coffee varieties as a percentage of Uganda's total coffee growing area:

Robusta: 87%;

Western Arabica (Kasese-Arabica): 5%;

Eastern Arabica (Bugisu-Arabica): 8%.

Source:Rolf Uwe(1995:79)

ABSTRACT

The paper reviews the implications of agricultural trade liberalisation on performance of the coffee sector in Uganda. There has been considerable debate in the literature on the responsiveness of agriculture to price incentives in Africa. Proponents of liberalisation believe that control and involvement in the marketing and pricing of export crops has been responsible for a considerable share of the deterioration of producer incentives and thus affect the growth of agriculture sector.

The belief that government intervention in agriculture pricing and marketing affects agricultural growth partly holds for Uganda. Government policy can affect agriculture through: a) control over output and input prices, b) taxation or subsidies that affect those prices, c) institutional arrangements (e.g. access to credit. Inputs, information) and d) actions that affect productivity in other sectors.

Direct government policies, including price fixing for products or inputs, or the taxation of their trade, affect profitability and productivity of farming directly, and result in the shifting of resources between crops, or in moving resources out of agriculture into other sectors.

Regarding the negative effects of government involvement in agriculture, there was therefore a strong case for the liberalisation of agricultural trade, more especially for coffee, the largest foreign exchange earner for the country. Reducing these negative effects was not the only reason for liberalization in Uganda. Other objectives included, improving on the quality of coffee, increasing the volume of exports and making the marketing system efficient by introducing more elements of competition.

The study on Uganda aimed at evaluating the impact of liberalisation on the coffee sector. There exist both positive and negative effects and these are reviewed in the paper. In a nutshell, coffee exports increased following liberalisation which hastened competition in both the internal and export markets, production as well as productivity has also improved due too provision of better incentives, producer prices have increased, crop finance is no longer a perennial problem owing to the waiving of the restriction on pre-finance facility which allowed exporting traders to solicit finances from foreign sources as well as improvement in the quality of coffee. Compared to other rival export crops namely cotton and tea, the performance and response of coffee to these policy changes is far greater. On the other hand, the study also found out that coffee productivity in Uganda is higher compared to other African countries i.e. Côte d'Ivoire and Cameroon, which also liberalised their coffee marketing and pricing policies.

The period of liberalisation coincides with a period of commendable growth in Uganda. Other factors aside from liberalisation were also at play during the time of liberalisation. These included liberalisation of trade and the exchange rate and financial liberalisation. Improved infrastructure (road networking) and a relatively stable political environment in the country have also contributed to agricultural sector growth in general and the coffee sector in particular.

Conclusively, though agricultural liberalisation is necessary, it's far from being a sufficient policy instrument for generating agricultural growth. Agricultural market liberalisation and privatisation should be accompanied by sound government policies for its success. Government control and regulation of agriculture needs to be reduced, but this should be replaced by an increased government role in the areas of support to counter the market failures, which may retard agricultural development.

CHAPTER 1

Introduction

This study attempts to analyse the implications of liberalisation on the coffee industry in Uganda. It seeks to examine the performance of the coffee industry since 1990 when coffee marketing was liberalised. It aims at assessing the impact of liberalisation on coffee production and marketing, particularly in relation to the main objectives of liberalisation which include; improving prices paid to farmers, quality of coffee output, increasing the volume of exports and making the marketing system efficient by introducing more elements of competition. It compares the performance of coffee under the liberal regime in Uganda with other competing crops namely tea and cotton. It also compares the impact of liberalisation in Uganda, Cameroon and Côte d'Ivoire with the aim of establishing whether liberalisation of crop marketing can have similar effects when applied to different countries.

1.1 Background to the Problem.

Ravaged by long periods of political turbulence during the 1970s and mid-1980s, Uganda has spent much of the past decade rebuilding her economy. Like most developing countries, Uganda has been implementing Structural Adjustment policies (SAPs) in a bid to restructure her economy. Before 1970, Uganda had one of the most promising economies in sub-Saharan Africa with a Gross Domestic Product (GPD) growth rate of 5 per cent per annum.

Her economic power at the time hinged on the three Cs (coffee, cotton, and copper) and the three Ts (Tobacco, Tea, and Tin). Her export earnings not only financed the country's import requirements but also resulted into accumulated savings. Of all export products, coffee was the largest export earner, contributing almost 95 per cent of the total export earnings during the 1970s/80s.[1] In 1993 it accounted for about 55 percent of the total export receipts and by 1996, it contribution was 64 per cent.

However, coffee production dropped substantially in the 1970s and 1980s. For example the volume of coffee exports declined from 177,518 MT in 1969/70 to 107,308 MT in 1991[2]. This was partly a result of the difficulties the subsector has been facing (mainly the collapse of the international coffee prices and the domestic supply problems) and partly due to competition from the rising trend of non-traditional exports (Rolf:1995:37).

Uganda grows two varieties of coffee, Robusta and Arabica, predominantly on small farms with average holding ranging from two to five hectares, scattered in the regions around lake Victoria in the Buganda region for Robusta, while Arabica is grown around Mt Elgon areas in the eastern region (see map1). Coffee is often intercropped with other perennial crops like bananas and sometimes with annual food crops.

1.2 Marketing of Coffee in Uganda.

Like most African states, in Uganda, the state has both in colonial and post independence period, controlled commodity marketing and price via monopolies granted to parastatal marketing boards.

Since independence in 1962, coffee marketing was a monopoly of the state run Coffee Marketing Board (CMB). The government underlined the role of co-operatives as instruments of rural development and zealously promoted them at the expense of the private sector in the coffee industry. Co-operatives and the CMB were granted monopoly rights through a series of state regulations and Acts. Peasant producers were compelled to become members of, and to market their coffee through co-operatives and the CMB. This monopoly marketing structure operated from 1962 to around 1973, and from 1982 to 1992. This monopoly power of the CMB impacted negatively on the industry, for example incentives to improve quality and productivity deteriorated under this restrictive regime of monopoly exports, high taxation, and ineffective marketing and inefficient support services.[3]

The monopoly power of CMB was based on the assumption about the need to protect peasant coffee producers from the problems of being exploited by private buyers and price instability

[1] World Bank Report, 1995
[2] Source: Coffee Marketing Board, annual reports, Various issues.
MPED, Key Economic Indicators, January 1992

in the world market. However this objective was not achieved, as producer prices remained low. Between 1981 and 1990 for instance, producer price increased 15 times- that is a yearly average of over 100% from 20 to 1200 (Uwe Rolf 1995). However such nominal increases in producer prices have since 1985 not been able to keep pace with increases in the cost of living, i.e. since 1985 due to inflation, the chronic devaluation in producer prices has resulted in an annual real fall in incomes between 5% and 78%. In 1989 alone the real value of producer prices, that means their buying power, fell by 31% (See table 1.1)

Table 1.1

The annual growth rate of fixed producer prices (Robusta) and percentage inflation rates in Uganda Shillings.

Calendar years	1983	1984	1985	1986	1987	1988	1989	1990
Producer price	55	88	105	176	160	136	35	25
Inflation rates	24	41	125	181	238	184	66	34
Real alteration	+31	+41	-20	-5	-78	-48	-31	-9

Source: MPED Background to the Budget, various years

MPED Kampala Monthly Average Retail (consumer prices).

In order to redress this situation, the government launched a market liberalisation program in 1990 that saw the removing of CMB's monopoly in the export of coffee.

The government embarked on this comprehensive policy and institutional reform program to deregulate the economy, eliminate direct state involvement in all but essential public services, and improve institutional efficiency. Price control were first removed from industrial products, then in fiscal year 1992, from major crop prices,

Price deregulation was accompanied by removing entry barriers to markets and dismantling state marketing boards that controlled the internal trade and export marketing of produce, coffee, and cotton (World Bank 1995).

The government ended the monopoly of CMB by separating its regulatory and trading functions through the formation of the Coffee Marketing Board Limited (CMBL) and the Uganda Coffee Development Authority (UCDA. Crop finance was removed from the Central Bank, Bank of Uganda (BOU), producer prices were replaced by indicative prices and the export tax on coffee was removed. Other reforms included; reducing implicit taxation

[3] Source: World Bank Report, 1995.

of coffee exports, by exchanging coffee proceeds at the bureau exchange rates, removing export taxes and no longer requiring exporters to surrender proceeds to the BOU.

The major objectives of the reforms were; a) to improve prices paid to farmers, b) improving the quality and increasing the volume of coffee exports, and c) to make the marketing system efficient by introducing more elements of competition (UCDA 1992).

1.3 The Research Problem

Despite all the reforms, the coffee industry seem to be still engulfed with problems that have not been addressed by liberalisation as it was anticipated. It is important to consider the broader and international context, which influence and/ or affects the coffee industry in Uganda. For instance, there has been continuous decline of coffee prices in international market that affects domestic prices substantially. The rising trend of non-traditional exports as well traditional exports like tea and cotton also pause a threat to the coffee industry. It is equally important to understand that many non-price factors affect both production and marketing which liberalisation seem not to address.

Therefore, the implementation of liberalisation policies continue to be critical, the sustainable growth which such policies promised to bring about has not been achieved, and the World coffee prices which were expected to increase continue to fall.

The present study attempts to establish whether agricultural liberalisation policies in Uganda have benefited the coffee industry by removing the constraints to coffee production and marketing or it has not. It also seeks to establish whether liberalisation of crop marketing has succeeded in Cameroon and Côte d'Ivoire and if not establish causes for the variations/or the underlying factors.

1.4 Hypothesis and Research Questions

The major research question is to examine whether liberalisation of the coffee industry has brought about a transformation in the productive structure, improved the incentive structure thereby eliminating the constraints that have been hampering coffee productivity and marketing, or whether this transformation has resulted from other factors (such as an enabling political environment) or a combination of both. The research will be guided by the following hypotheses.

'The problems of coffee marketing in Uganda in the past have been due to state intervention. Liberalisation has improved coffee marketing system, therefore it has had a positive impact on the coffee industry.

In view of the above stated hypothesis the following questions are addressed by the study:

a) What changes have been implemented in the coffee marketing system in Uganda as a result of liberalisation?

b) Has the price/market liberalisation contributed to improvement in producer prices? improved the incentive structure?. Have farmers gained more access to agricultural credit and above all has the liberalisation improved the coffee quality for international competitiveness?

1.5 Justification of the Study

Proponents of liberalisation believe in the greater efficiency of open and competitive market and in the positive efficiency they produce. They argue that agriculture production will be stimulated and economic growth accelerated if markets are freer. But it still remains the question of weather changes in market incentives through improved operations of public and private markets and alternative policies for ensuring higher prices to producers can be achieved through the current policies.

Given that it is now six years since coffee marketing was liberalised in Uganda, the study to analyse the impact of these reforms on the coffee industry would be justified. The outcome would guide policy makers when formulating future strategies to improve the agriculture sector in Uganda, and the coffee industry in particular, the largest foreign exchange earner.

1.6 The Scope, Methodology and Limitations of the study

The study limits it self to only those reforms (both institutional and policy) that affect the agriculture sector, and more specifically the coffee sub-sector of Uganda. These include the pricing, crop financing, and marketing policies. It seeks to analyse the impact of liberalisation on the performance of the coffee industry.

The study reviews existing and relevant literature on agricultural pricing policy, the coffee marketing systems in Uganda, the position of coffee vis-à-vis other export products namely cotton and tea before and after the liberalisation process.

Owing to the duration of the period under review (1991-1996), when liberalisation begun, the study will not employ econometric analysis. Instead, the study will basically be comparative, and analytical. It employs the 'before and after' method. The study compares the period

1986-1991 as the period before and 1991-96 as the after period. This is mainly because before 1986, Uganda was engulfed in a civil war that had disrupted most economic activities including agriculture. It was only after 1986 that sanity was restored in the country's economic and political spheres. The study also employs a comparative approach by comparing the effects of liberalisation in two other African countries producing and exporting coffee. The comparative approach is used in order to establish whether liberalisation of marketing institutions especially for cash crops can bring about same desirable changes when applied in different countries as proponents of liberalisation often believe. On the other hand, the study also compares coffee with other competing exports in Uganda mainly tea and cotton which have also undergone liberalisation to establish their response to liberalisation.

The choice for these countries was based on the consideration that these countries, like Uganda are mainly Robusta Producing and exporting countries, which have also gone through the process of liberalisation, so the study examines the variations in responses among these countries to establish the possible explanations.

The study analyses the historical development of the coffee marketing institutions in Uganda and establishes reasons why the state took a bold policy decision to liberalise the marketing system in 1991.

The study examines the previous and current marketing system and their impact on the coffee sector performance. It analyses the extent to which liberalisation policy catered for increases in coffee producers' price, it examines whether there has been increases in the volume of exports, whether these policies have improved the incentive structure and increase in producer access to credit (crop finance). Trends of coffee production and exports for coffee, cotton and tea in Uganda as well as coffee exports and production in Cameroon and Côte d'Ivoire are examined using graphs, tables, and other necessary tools. The interpretation of data on coffee prices, productivity, export volumes and Uganda 's contribution to world coffee production and exports forms the conclusion of the study.

The major limitation of the study is to do with inadequate data i.e. the study mainly depended on secondary data since it has been conducted away from my country. Also data from Côte d'Ivoire and Cameroon was difficult to get since most of their Official documents are in French. Also due to the political turmoil and economic mismanagement which the country went through after the military coup in 1971 up to 1986, some data is lacking because of poor record keeping and some was destroyed during the war.

1.7 Organisation of the Paper

The paper is divided into five chapters. The first chapter is the introduction. It has statement of the problem under investigation, the research questions and hypothesis, the justification of the study, the methodology, scope and limitations of the study. The second chapter covers the conceptual/theoretical framework and literature reviews. The theoretical part deals with the role of agricultural prices and examines the case for government intervention. The case against government intervention in support of agricultural liberalisation is also presented in this chapter, as well as the theories of supply response. The last part of this chapter entails a brief review of relevant literature and the analytical framework.

The third chapter derives from the concepts and literature review developed in chapter Two. In this chapter the study gives an overview of the economy of Uganda since independence. The focus is mainly placed on major economic indicators like growth of Gross Domestic Product (GDP), per capita GDP and Investments. It also reviews the various agricultural reforms particularly the coffee sector reforms implemented since 1991.

Chapter four analyses the implications of the reforms on coffee sector. It compares the performance of the coffee sub-sector with other competing crops mainly cotton and tea. It also attempts to explore the other problems affecting the coffee industry. It also shows the position of Uganda in the international coffee market by comparing it with Cameroon and Ivory Coast.

The fifth chapter entails the summary of findings, conclusions and the policy recommendations.

CHAPTER 2

CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

There are few countries in the world where governments do not, in one way or another, intervene in the price-setting mechanism of agricultural products. Price intervention may take different forms. Export crops may be taxed, food imports may be subsidised, however the most crucial form of intervention is straightforward setting of producer and consumer price levels. In general, as (Meillink 1985:5) put it, there are three types of price settings:

a) Fixing producer price

b) Setting consumer (retail price)

c) Input subsidies, export levies or dispensations.

The conceptual/theoretical framework of this research paper mainly focus on agricultural pricing policies. It attempts to present the role of agricultural pricing (case for government intervention) and the neo-classical views against government intervention (case for liberalisation). Since pricing policies go hand in hand with marketing policies, this part also covers marketing policies. The theories of agricultural supply response will also form part of the theoretical framework. The last part of this chapter will be the review of the relevant previous studies.

The first part of this chapter covers the role of agricultural prices. It will also cover marketing policy in agriculture, giving its objectives and instruments.

The rationale for government intervention in both pricing and marketing is presented in the subsequent section. The neo-classical views against government intervention and in support of agricultural liberalisation is delt with as well. The analytical framework is given in the following section. The last part will be the review of the previous studies.

2.1 The Role of Agricultural Prices

Gills et al (1996: 451) note that prices at which agricultural produce are bought and sold play four roles; They determine:

1) What and how much farmers can produce.

2) Farmers' cash income.

3) The cost of living of urban residents in developing counties.

4) Profits for the government, when controlled by marketing boards.

Prices therefore have a profound impact on agricultural production because most farmers, even in the poor countries, are interested in raising their income. Like businesspersons, peasants' farmers respond positively to price changes.

2.2 Marketing Policy

When discussing pricing policy, one should keep in mind that prices are the only one (though an important) factor affecting production levels. They interact with a range of other variables which farmers take into account in their production decisions, notably among which is the operation of the marketing system. Ellis (1996: 96) takes marketing in two dimensions (a) to mean every activity that has to do with the physical movement of goods from the point of production to the point where they are consumed and (b) the transmission of price signals between consumers and producers.

Drawing on Ellis (1996), description we discuss below the major instruments of Marketing policy.

2.3 Instruments of Marketing Policy

Governments in developing countries have used many different instruments to influence the working of agricultural marketing channels. These range from attempts to replace private channels almost entirely by state institutions, through partial involvement of state bodies, licensing of approved traders and processors, and minor regulatory functions concerning quality standards, grading and hygiene (Ellis). The following are some of the various types of interventions enumerated by Ellis: monopoly parastatal, non-monopoly parastatal, farmers co-operatives and trader licensing.

2.4 The Rationale for Government Intervention

Most governments in both industrialised and developing countries intervene in agricultural markets to set prices both for the rural producer and urban consumer Gills et al (1996:451). According to Ahmed (1988), governments have often altered the structure of incentives in markets because of their involvement in almost all stages of agricultural commodities.

The rationale behind government intervention practices according to Meillink (1985: 5) is closely related to government development objectives. A government may wish to stabilise prices for export crop farmers by shielding them against excessive fluctuations in the world market. Alternatively it may wish to tax export crops in order to generate revenues for investment purposes in other sectors (industry) of the economy. Income redistributions considerations may be another justification for price intervention. Producer price may be supported in order to raise farm incomes and rural welfare or alternatively consumer (food) prices may be kept low with the aim of improving real income of the urban poor. Harvey (1988: 2) attributes this to the desire to reduce fluctuations in farmer incomes, the provision of cheap industrial inputs and the fear of exploitation by private traders. He further argues that government intervention is for obtaining revenue, either simply because the taxation of agricultural exports is administratively easy or as part of the deliberate attempt to obtain resources from agriculture for finance of industrialisation. Egulate et al (1993: 142) noted that the focal point of government intervention in agricultural markets, particularly in Africa, has been prices. Parastatal marketing agencies (Marketing boards and co-operative unions) are regulatory structures developed to strengthen government's ability to control prices and to offset unintended consequences of price intervention. Ellis, (1992:100-101), further points out that raising the quality of farm output especially for exports which confront rigorous quality norms in the international markets were some of the other reasons for government intervention in agricultural marketing.

Cook and Kirkpatrick (1988:6) enumerate various reasons why government involvement in agricultural markets is necessary. They contain that governments participate in productive activities as a response to private market imperfections or failure. Various forms of market failure prevent the economy from achieving an efficient resource allocation, and thus the need for public sector to correct these specific forms of market imperfections. Second they argue that state intervention is presumed to be relevant in stuations where private sector activities are constrained by high risk aversion, poorly developed financial markets or a paucity of information. And in economies characterised by limited integration between different sectors, public investment can ensure that conditions necessary to link the sectors are met. Third, public enterprises were used to pursue distributional goals, which include subsidising particular consumer groups and agricultural inputs and assisting certain regions.

2.5 A case Against Government Intervention

However, though some forms of intervention were moderately successful in improving production, they have been criticised by other scholars for they are claimed to have exercised control rather than increasing efficiency of distribution based on record of government intervention. For instance, Mou et al (1993) argued that 'marketing boards did not lead to producer price stabilisation as their major goal of state intervention, rather multiple taxes charged by boards on export crops worked against the interest and welfare of peasantry. In practice marketing boards became agents of the state for continued exploitation of the peasantry' Mou et al, (1993:226).

Bates's work in the 1980's also recognised that sub-Saharan African economic policies had a strong bias against agriculture and frustrated export agriculture in particular. He further argued that the power of urban interest group led to cheap food policies and implicit taxation of agriculture to finance urban services and industrial investment, and that government intervention favoured administrative control and public ownership rather than markets mechanism, Bates (1993).

Ann Krueger (1992: 2) in her 18-country study of agricultural pricing policy in developing countries concluded that intervention usually reduced agricultural share of GNP and led to slower growth in agricultural production and agricultural exports. She further noted that the administrative complexity of intervention increased, and so did illegal activities such as smuggling, as producers and traders sought to evade the costs imposed by price intervention.

Berg Report (World Bank 1981), on the other hand condemned government intervention in agriculture and the resulting poor producer incentives to be the main reason for sub-Saharan Africa's poor overall economic performance compared to other countries. This called for major reforms in agricultural marketing and pricing in Sub-Saharan Africa.

2.6 Agricultural Liberalisation

Since the early eighties, current debate on agricultural markets have resulted in a trend towards reduced state control and intervention in economic activities and focus on liberalisation and reform of agricultural marketing and pricing. Originally, agricultural policies in many developing countries subsidised agricultural inputs and credit while supported agricultural output prices. However, with the current reforms, agricultural subsidies and price support were withdrawn and much emphasis has been put on market forces. Liberalisation is one of the components of Structural Adjustment program advocated by the Word Bank and the IMF (Neo-classical economists) since it is believed it would reduce distortions in Agriculture markets.

The term 'structural adjustment' has been applied to most radical programmes of macro-economic policy reform undertaken during the 1980s by developing countries using external financial assistance from the World Bank and the IMF.(FAO 1996:169).

Structural adjustment programmes consist of policies aimed at stabilising the macroeconomy and reforming the structure of incentives in various sectors of the economy and generally emphasise outward-oriented trade strategies. The stabilisation component of the adjustment programs which work mainly on the demand side is aimed at controlling inflation and correcting temporary imbalances in the balance of payments via expenditure reducing policies. However, structural (supply side) policies which are aimed at improving the efficiency of resource use and creating more appropriate incentives, emphasise the following: liberalising the trade regime; deregulating the domestic goods market; reforming the public sector; enhancing agricultural price incentives; removing obstacles to saving and investment; and strengthening of institutions, Jaeger (1992).

For the purposes of this paper emphasis will be laid on the supply side policies. The following grouping of the policies involved in adjustment program can be made; supply side policies and policies aimed at improving international competitiveness.

The aim of supply side policies is to enable the economy raise production for any given level of resources. Two types of supply-side policies exist. First, there are policies designed to improve the efficiency in the use of scarce resources such as capital and labour by reducing domestic distortions caused by government interventions like price controls, taxes and subsidies, and trade restrictions. Second, there are policies designed to improve the capacity of the economy to raise long-run output growth (World Bank 1992:18)

The purpose of these policy reforms is to induce a significant overhaul in the economic environment of the countries concerned in order to boost the structure of incentives and raise the profitability of the tradables sector. It is expected that economic agents will react favourably to such incentives and improved economic environment by investing in the tradable sector of the economy, thus providing the connection between adjustment and growth.

Scholars contend that agricultural liberalisation policies (both pricing and marketing), emphasise the need to move towards market-determined prices, and initiate measures to promote an efficient private sector. They also argue for the removal of restrictions on private marketing, and reduction of the role of government through diversture and closing inefficient organisations (Smith and Spooner quoted in Duncan et al, 1993:1503).
Liberalisation thus involves admission of private buyer, processors and marketers into the market with in the cash crop sector. It also involves liberalisation of the traffic in currency, the licensing of private exchange offices and introduction of market rates.

From the review of the literature, it can be concluded that government intervention is to some extent essential in view of protecting producers from exploitation. However, too much of it is undesirable because it breeds inefficiency and distortion of markets. Thus there is need for a policy mix to minimise both price distortions (associated with government intervention) to correct market failures and market imperfections associated with liberalisation.

2.7 Structural Reforms and Agriculture

The general thrust of adjustment reforms designed to promote growth and improvements in efficiency according to (FAO 1996:109) can be summarised as:

a) Exchange rate policy to correct overvalued exchange rate

b) Reform of the trade regime, namely, low and more uniform tariff protection for industry and reduced use of direct import controls

c) Price reforms to improve price incentives for export, particularly primary commodities

a) market and institutional reform to reduce the public sector's role, particularly agricultural marketing, in the belief that the private sector is more efficient and hence can offer higher price incentives to producers;

2.8 Theories of Agricultural Supply Response

Current liberalisation strategies place emphasis on the augmentation of producer prices in belief that supply response is functional and will stimulate market-led growth in a country's economy through export-expansion. The implicit argument is that the argumentation of producer prices leads to a positive supply response and improvement in living conditions of producers.

2.8.1 Determinants of Supply Response

The Nerlovian Model builds on statistical analysis to output changes. In his study of dynamic supply response he restricted his attention to the two more common responses: Short and Long run responses to changes in prices in price expectations, and to the problems of distinguishing empirically between the two (Askari and Cummings, 1976:25). In his seminal study of dynamic supply response, he proposed three types of output changes; (1) those in response to changes in current price which do not portend any particular changes in expectations about future prices;(2)immediate response to changes in expected future prices; and (3) response to changes in expected and actual prices after sufficient time has passed to allow for full adjustment (ibid:25).

Much of the recent literature on the supply response, however, criticises some of Nerlovian's model for it only emphasised price factors. For example, Askari and Cummings have advanced an analytical framework based on the yardstick for measuring farmer's responses to economic incentives. On the basis of their analytical framework, they argue that farmers response to economic incentives depend on:

- the price of the crop received by farmers;
- the ratio of the price of the crop received by farmers to some consumer price index;
- the ratio of the price of the crop received by farmers to some index of the price of the farmer's inputs;
- the ratio of the prices of the crop received by farmers to some index of competitive crops (or the price of the most competitive crop) (Askari &Cummings 1976:39)

Askari and Cummings go on by asking why would farmers desire to alter his production in response to economic incentives. For the case of perennial crops (such as coffee, cocoa and others), they suggest that farmers may produce more in order to increase purchase of other goods; and that he may produce more in order to maintain consumption level of other goods, non agricultural commodities, in the face of rising costs. If this is the case, crop prices deflated by some index of consumer prices would be reasonable measure of price, as would be crop price relative to that of alternative crops (Askari & Cummings 1976: 40).

Frederic (1965) applied Nerlovian supply model for coffee in Uganda and he found that price alone explains little about acreage variations in coffee production. Thus, non-price factors like government policy should also be considered. He said this is because coffee acreage was found growing despite its declining price in the 1960s and early 1970s in Uganda.
Wickens and Greenfield (1973) also criticised the use of Nerlove model for estimating perennial crop supply by saying that Nerlove model put earlier, blurs the important distinction between investment and harvesting decisions. According to them, the supply of tree crops are long lags of gestation between planting and harvesting. The production of coffee may be potential and the proportion of coffee may be potential production and the proportion of potential production that is harvested. Decisions relating to the former are primarily long run where as the harvesting decisions is short run. The principal factors that determine potential production are the level of past investment in trees. Moreover, both the investment and harvesting decisions are mainly determined by expected prices.

2.8.2 Other Determinants of Supply Response

Different authors argue different factors that affect the supply response other than price. Also the degree of responsiveness of these agricultural products to a change in price depends on the type and the gestation period of crops. These crops include both annual and perennial crops. As the focus of this study is perennial crop-coffee, arguments about the supply response of perennial re stressed below.

Batman (1965) using Nerlovian model states that decisions to plant cocoa are not only based on the expected price of the crop will bring at the conclusion of single growing season but also on the expectation of income streams spread over the life of the tree. He also argues that the income expectation of alternative crop of cocoa in Ghana (i.e., coffee), similar to cocoa, affected by producer by the producer price.
Arak (1967) studied about coffee cultivation in Brazil and she found out that the onset of a frost causes a period of discouragement, during which planters, having become more sensitive to the risks of coffee cultivation, do not fully respond to price changes, or else need greater price changes. For Arak , changes in the number of trees depends upon new planting,

abandonment, and elimination decisions of farmers in which planting decisions are motivated by the expectation of income streams continuing over several years and by differing yields of the trees over their life spans. According to Arak's statement future incomes must be weighted against planting, maintenance and harvesting costs.

Bond (1983: 707) enumerates other non-price factors that affect supply response which include; poor transportation networks, inadequate research and extension facilities, unavailability of credit, shortages of fertilizers and other inputs, and lack of consumer goods on which the farmer can spend his income. Bond also identified a farmer's perception of risk as another factor that affects cropping decision. In particular, risks related to weather patterns and dependency on markets affect agricultural output. For example, the risk of drought may lead a farmer to plant drought-resistant crops that could be marketed easily Bond (1983:707).

For purposes of this paper, its important to understand that both price and non-price factors influence the supply response for coffee in Uganda. In the short run, the prices offered to producers determine their immediate response, while in the long run, other non-price factors like transport, research and extension services as well as provision of adequate farm inputs influence the farmers investment decision given the time lag for changing output.

Therefore, all this suggests the need for a more multidimensional analysis, which can be achieved if different factors are analysed. This also requires to consider the causes of changes in the agricultural sector, the complex of forces set by technological and scientific advancements, public investments in infrastructure, the development of markets and the differential abilities of economic agents to deal with the resulting disequilibria. Thus, supply response occurs in a complex and interrelated system of diverse factors. Prices and other factors affect not only farmers but also institutions related to agricultural development.

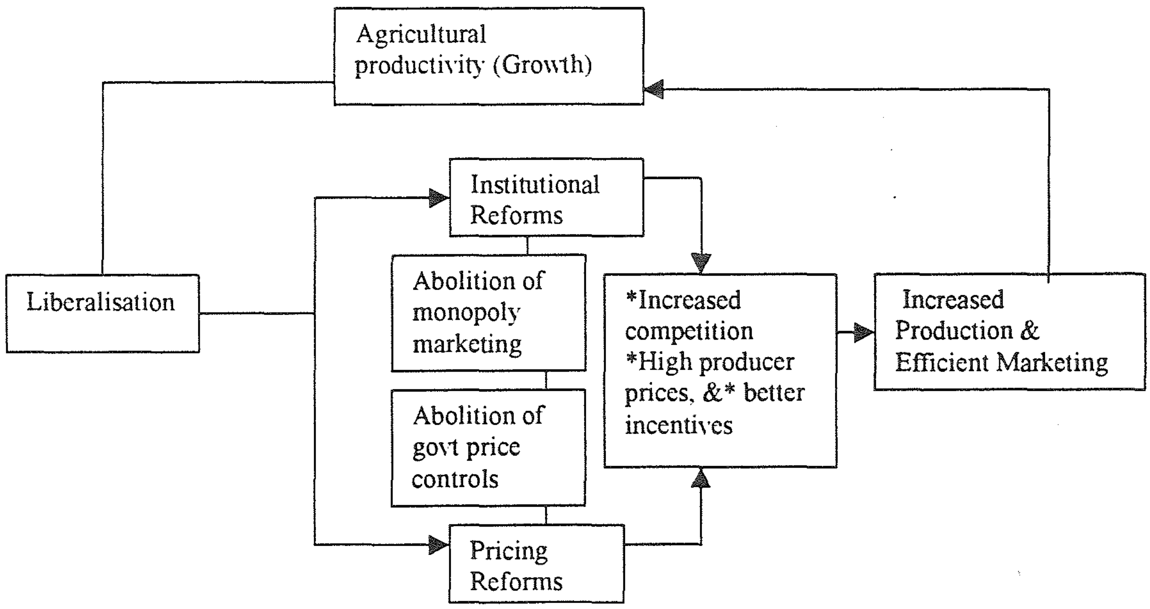
2.9 Theoretical Link between Liberalisation and Agricultural Growth/ Productivity

Proponents of liberalisation believe in the greater efficiency of open and competitive market and in the positive efficacy they produce. They argue that production will be stimulated and economic growth accelerated if markets are freer. The mechanisms through which this can be achieved are; the abolition of price controls for agricultural products and abolition of state/monopoly marketing institutions to allow private sector involvement and competition. This is expected to evoke a positive supply response to the agricultural sector.

2.9.1 Analytical Framework

The analytical framework shows the mechanism through which liberalisation leads to improved agricultural (coffee) productivity and efficiency in the marketing system. The bottom-up (in this case;left-right) logical framework for the relationship runs as follows. The INPUT is liberalisation, the OUTPUT *is* increased coffee productivity and efficient marketing, the OBJECTIVES are increased producer prices, better incentives, high quality and the GOAL is growth of agricultural (coffee) sector. In between these casual links are tools namely institutional and policy reform measures. There are important assumptions underpinning the relationship. For instance the assumptions that non-price factors like lack of extension services and farm implements do not exist.

Figure 2.1 Relationship between liberalisation and agricultural productivity (growth).



2.10 Review of Previous Studies

The impact of agricultural reforms (liberalisation) on agricultural sector has been done by many researchers. Various studies have also been carried out about the degree of responsiveness of agricultural products to government policies in developing countries.

This literature review can not exhaust all these studies but attempt will be made to review some studies about agricultural liberalisation and studies about supply response.

Dercon (1993) made an attempt on the peasant responses and macroeconomic policies towards cotton in Tanzania since 1950s. According to his study cotton producer prices have been adversely affected by government policies towards marketing, export taxation and exchange rate. These prices have in turn affected cotton production through a significant supply response. Moreover, he took the relative price of the competing crops with cotton so as to know their impact the production of cotton. These competing crops for land and labour in cotton growing regions of Tanzania are rice and maize. The relative price elasticities of cotton/rice and cotton/maize are 0.30 and 0.35 at percent level of significance. Finally his empirical evidence supported that the bias against export crops did not only affect production through prices but also the technological progress.

Cleaver (1988) tested the hypothesis to find out the whether relative prices for agriculture led to higher growth rates in the reforming African countries. He tested this proposition by comparing sixteen adjusting countries with non-adjusting countries. While the agricultural growth rates for the two groups were about the same in 1970-80, the reforming countries experienced a higher annual growth rate following the reforms, with the difference in growth rates being 0.9 percentage points in 1980-85 and 2.6 percentage points in 1987.

In his review paper Binswanger (1989) states that the difference in growth rates between the two groups clearly increases overtime and shows the high degree of responsiveness of African agriculture to policy changes which raise agriculture's terms of trade

Interestingly, Cleaver found out that most of the increase in growth was for exportables rather than food crops.

In case of exportables, Balassa (1986) also found a high elasticity with respect to incentives. He found that the elasticity of the share of exports in total out put with respect to real exchange rate was 0.68 for LDC's as a whole and about double (1.35) for Sub-Saharan Africa. In contradiction to the belief by many economists that the supply response in Africa is extremely low, the results of both Cleaver and Balassa imply a significant response in Sub-

Saharan Africa. Jarger (1990) also supports these findings for the period 1982-88. He states that countries which adopted or maintained favorable policy environments (FPE) experienced higher agricultural output and export growth and higher overall economic growth than countries with unfavorable policy environment (UPE)[4] Maurice and Montenegro (1995:7).

In their study about the effects of government policies on agriculture prices and out put in Ghana, Baffoe and Ashong (1995:106) concluded that the agricultural sector experienced positive growth after the reforms (adjustment) and that this growth was reflected in increased export earnings and improved producer prices.

Harvey (1988) in his four country case studies[5] about pricing policy found out that although maintaining of adequate price incentives for farmers is (almost invariably) a necessary condition for growth in agricultural output, price incentive alone are not sufficient condition for increased agricultural output. That other factors like insufficient access to land, credit and marketing services should be addressed. Though his study was critical of government intervention he however concluded that 'reliance on private traders for agricultural marketing should not, though, be seen as an 'easy' solution to the problems created by public sector marketing' Harvey (1988:241).

Conclusion

In view of the above literature review, and given the importance of agricultural sector, governments need to determine what policies are best suited to stimulate agricultural production. In particular, a crucial question is the extent to which pricing policy can be used to encourage agricultural growth. Many economists maintain that inadequate government-administered prices were the principal causes of the poor performance of African agriculture in the 1970s (World Bank 1981).

This chapter has however established that supply response and indeed growth in agricultural production is not only a function of price alone, that a realistic pricing policy is only one element in a comprehensive package of government action that would be required to ensure a sound agriculture base. Government action would also require policy decisions in order to improve extension services; infrastructure, input and availability of consumer goods, and credit services also need to become part of government action. Both price and non-price factors have a complimentary effect in improving the productive efficiency.

[4] Unfavourable Policy Environment refer to those countries that did not carry out reforms i.e. countries where the government intervention was still strong

[5] The four countries refered to here are; Mozambique, Tanzania, Zambia and Zimbabwe.

CHAPTER 3

OVERVIEW OF THE UGANDAN ECONOMY AND AGRICULTURE/ COFFEE SECTOR REFORMS

This chapter gives background information and an overview of the Ugandan economy since 1960. Particular attention is focused on the major economic indicators like growth of Gross Domestic Product (GDP), Per capita GDP and investments. It reviews the various agricultural reforms especially coffee sector reforms that have been implemented in Uganda since 1991 to 1996. It also shows other agricultural exports namely tea and cotton, which are undergoing major structural reforms.

3.1 Overview of the Ugandan Economy and Growth Trends 1960-1996

Uganda's economic growth history can be distinctly divided into three periods.

- The period 1960-70 (Period One) is Uganda's pre- and post-independence period. This was a period before economic decline set in. In this period, the average annual agricultural growth rate was 2.7 per cent, a rate above the average for sub-Saharan Africa then[6]. Also in this period, average per capita GDP growth was 5.48 per annum and average inflation was minimal at 3.9 % (World Bank, 1993:8) (See table 3.1) and (Graph 3.1)

- The period 1971-1986 (Period Two) is the period of dire economic decline. Economic development in this period has been hostage to the effects of armed conflicts, the disintegration of public infrastructure and services, the collapse of government regulation, and uncertainties of high inflation and scarcities of foreign exchange. The economy declined rapidly due to a conjunction of poor economic policies and severe

[6] World Bank (1993) Agriculture Sector Report, 8

social disturbances (IMF 1997:32) (see also graph 3.1). The Museveni government, which came into power in 1986, inherited a devastated economy with a number of distinctive features. For instance, per capita income was among the lowest in the world, public revenue base had collapsed, with coffee taxation accounting to close to half of revenue, and high inflation had eroded the demand for money. (See table 3.1).

The private sector had retreated into subsistence activities, and exports and investments had declined. (see Graph 3.2). By 1986, government expenditure, exports and investment were each only 9% of GDP.

- The period 1987-1996 (Period Three) is Uganda's period of reconstruction and adjustment. The government began implementation of Structural Adjustment under the Structural Adjustment facility (SAF). Among the many objectives of this programme was to restore exports. For it was seen as necessary to shift from dependence upon export taxation. This has been also a period of re-establishment of peace and security, combined with release of the foreign exchange constraint, rehabilitation of key infrastructure and adoption of free market policies-including the decontrol of food prices and trade.

This was a period characterised by growth in GDP as well as per capita GDP and a fall in inflation. (See table 3.1 below).

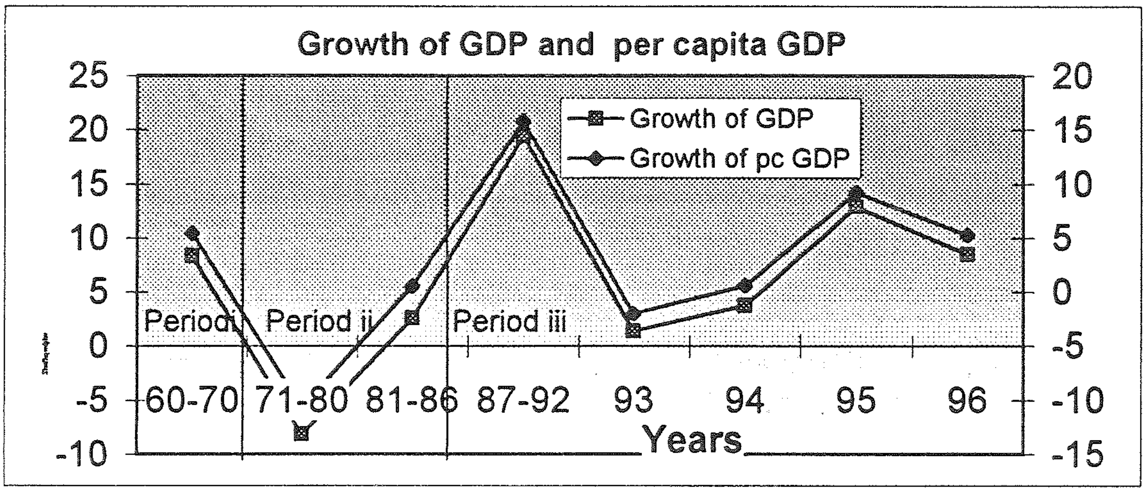
Table 3.1:Growth of GDP and per capita GDP

Average annual percentages

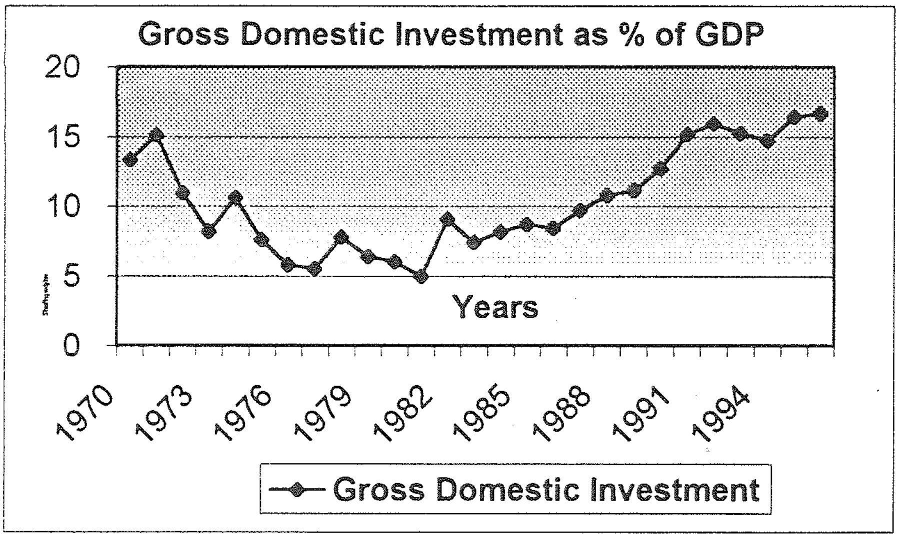
	60-70	71-80	81-86	87-92	93	94	95	96
Growth of GDP	8.32	-8.17	2.59	19.44	1.40	3.79	12.88	8.48
Growth of p.c GDP	5.48	-10.6	0.54	15.78	-2.0	0.6	9.2	5.3
Inflation	3.9	61.8	109.2	72.8	6.1	9.6	8.6	7.3

Source: Background to the Budget (Various issues)

Graph 3.1 Uganda's Gross Domestic Product (GDP) and Per Capita GDP Growth (1960-96)



Graph 3.2 Uganda's Gross Domestic Investment as % of GDP



The two graphs show the trends in Uganda's growth history as described above. Graph 3.1 shows that both GDP and per capita GDP as being positive in period one (1960-70), becoming negative in period two mainly due to the economic disruptions and political problems the economy and country faced. Positive growth rates are seen again in period three (1987-96) due to the implementation of economic reforms and the relative political stability that has restored economic hope.

In summary, this section has described Uganda growth trends from 1960-96. The period has been divided into three major phases with each described by some economic indicators more specifically, growth of GDP and GDP per capita, inflation and investment levels. What can be adduced from this section is that, the Ugandan economy since 1960 has experienced economic fluctuations. This was because of upheavals and wars, which have been mainly caused by the different political regimes, whose economic policies differed significantly.

3.2 Agrarian Structure of Uganda's Economy

Agriculture, and coffee in particular is the mainstay of the Ugandan economy. Eighty nine percent of the population is rural. The sector accounts for 51per cent of GDP and over 90 per cent of the exports, and employs 80 per cent of the employed household population (BOU: 1996). Agricultural output comes almost exclusively from about 2.5 million smallholders- 80 percent of who have less than 2 hectares each. Only tea and sugar are grown on large estates, which total 40,000ha. Food crop production carries the agricultural sector in Uganda-totalling 71per cent of agriculture GDP, with livestock products another 17 per cent. Export crop production is only 5 per cent of agriculture GDP, the fisheries subsector accounts for 4 per cent and forestry for 3 per cent.

3.2.1Agriculture Exports

Coffee

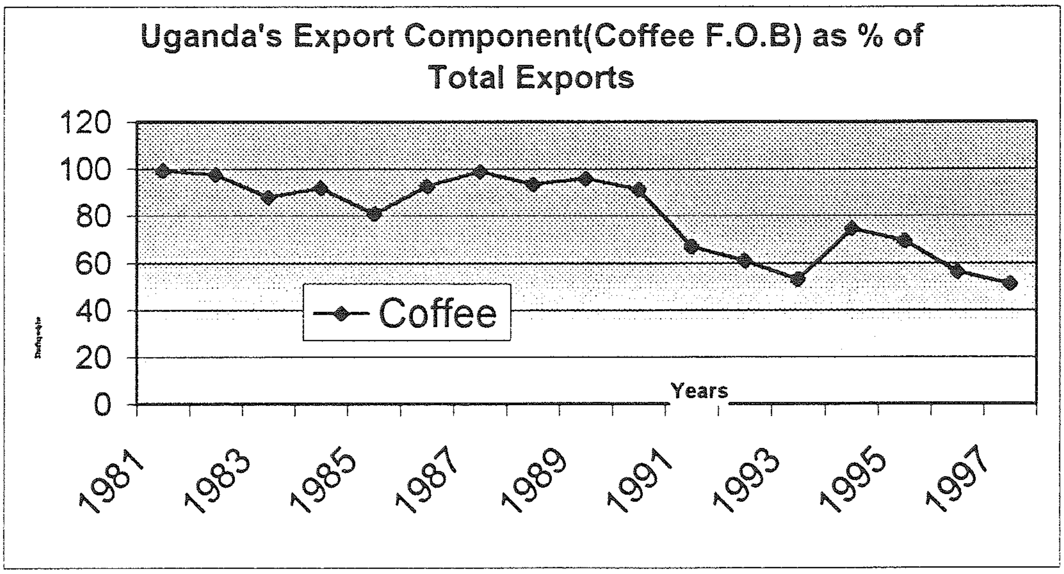
Coffee is the largest source of export revenue for Uganda, although its share has declined to around 65 per cent of merchandise exports in recent years. Agricultural statistics and reports show that coffee subsector is based entirely on smallholder production, occupying an estimated area of 272,000 hectares, with Robusta at 250,000 ha and Arabica at 22,000, it has remained the main cash crop over time and played a leading role as the main foreign exchange earner of the country.

3.2.2 Coffee Growing Areas in Uganda

Coffee is mainly grown in areas around Lake Victoria for Robusta and Mt Elgon areas for Arabica (see map1). More specifically, the central part of the country is famous for Robusta which include districts like Mukono, Masaka, Mpigi, Luwero, Rakai and Mubende. In the Western region, coffee is found in the districts of Hoima, Masindi, Bundibugyo, Kabalore and Kasese. In the Eastern, it is grown in Iganga, Jinja, Kamuli, Tororo, Mbale and Kapchorwa. While in the north there are only two districts and these are Nebbi and Arua. It should be noted that where as the northern part of the country has the ecological conditions and requirements for coffee growing, this potential has been greatly undermined by the existence of civil wars since independence. Therefore because of this coffee has remained confined in the central and Western part of the country for these areas have been relatively stable since the 60s except for the period 1981 to 1986 when the area was affected by the civil war.

In the early 1960s there was a steady growth of coffee production and the share of coffee in the country's foreign exchange earnings grew from 38% in 1961 to 58 per cent in 1970. After mid-1970 and during most of the 1980s coffee remained the dominant export crop accounting for over 90% of total export receipts. (Agricultural Report, MAAIF: 45, see also Graph 3.3). This was mainly attributed to the problems the country experienced during the period of the mid-1970s to early 1980s. The insecurity and civil strife, over valued exchange rate, inefficient marketing systems and general economic mismanagement led to decline in production of other export crops such as cotton, tea, tobacco and others that could not withstand the local problems of production.
This stuation left coffee as the major export crop although it remained confined to the poor tendared 'shambas'(areas planted with coffee).

Graph 3.3 Uganda's Export Component (Coffee) as a Total Exports



The graph shows through out the 80's coffee counted substantially to total export earnings but in the 90's the sectors share begun falling, for instance in 1993 it dropped even to 55.4. In 1995, the sectors share rose due to rise in world coffee prices. Coffee export share has however recently declined due both to an increase in alternate exports, and a drop in the international price of coffee. These fluctuations are caused by swings in the international price movements and also because the increasing diversification efforts that has seen the emergence of non-traditional exports (UCDA 1996:1, World Bank 1995:41). Nevertheless, coffee still plays a central role as the main foreign exchange earner and in the development of the economy as a whole. The next chapter gives a detailed comparison of coffee vis-à-vis other competing cash crops.

3.2.3 Problems faced by the Coffee sector in Uganda.

The coffee sector in Uganda is confronted by a number of problems, which have affected its growth and expansion. These can be outlined below as follows;

(i) Inadequate supply of farm inputs like fertilisers and insect sides to improve productivity.

(ii) Poor transport network especially in the remote areas where most farmers are found.

(iii) Lack of research and extension services to improve on the quality of coffee for international competitiveness.

(iv) Lack of incentives which has disabled farmers to replace the ageing coffee trees.

3.2.4 Tea

Prior to the Amin Regime and the nationalisation of tea plantations in 1972, Uganda was second only to Kenya among African producers. However production each year declined through out the 1980s due to economic mismanagement. Nevertheless, tea exports have rebounded dramatically in the recent years. According to a World Bank Report, exports have risen from 2,000 to 3000 MT of made tea per annum in the late 1980s to 10,000 MT in 1993 (World Bank 1995:42). This increase has been attributed to repossession of tea estates by their former owners[7] and the putting in place of incentives for further investment and rehabilitation (World Bank. 1995:42). All the same tea exports do not compete favourably with coffee as it was in the 60's.(This will be further examined in the next chapter).

[7] The former owners refereed to here are mainly the returning Asian Businessmen who were expelled by Idi Amin way back in 1972.

3.2.5 Cotton

This is another important export crop for Uganda. In the early 1970s Uganda ranked third among African cotton producers. The cotton sector in Uganda like other sectors collapsed in the early 1970s, due to the disruption of the ginning industry by Amin government. From 470,000 bales of lint, production declined to some 30,000 bales in 1980, increased and the declined again, before picking up to its current level of around 40,000 bales. Many cotton farmers shifted to growing food crops. The analysis of the cotton performance vis-avis other main cash crops will be covered in details in the next chapter.

This section examined the agrarian structure of Uganda's economy, with particular emphasis on the major agricultural exports namely coffee, tea, cotton and tobacco. It describes the major trends and performance for each of the crops and analyses the underlying causes for the trends. From these developments, it can be seen that Uganda's economy is not only heavily dependent on agriculture but also it has a narrow export base dominated by coffee. Thus more diversification is required especially to increase the share of other exports if the economy is to regain her performance levels of the 60's.

3.3 Economic Recovery in Uganda/ Structural Adjustment in Agriculture

Although most economic crises in most countries are caused by external factors, Uganda's economic decline prior to adjustment was mainly a result of internal policies. Political instability and inappropriate incentive structures in the 1970s, as well as structural weaknesses (World Bank 1995:37)

The structural adjustment programmes in Uganda can be grouped into two phases. The first phase between 1981-1984 and the second phase since 1987. The implementation of SAPs was prompted by several factors. First, the war to oust Amin in 1979/80 compounded the decline of Uganda's economy and ruined it completely. It is for instance estimated that between 1970-78 real monetary GDP growth fell to less than two per cent per annum (Loxely, 1980). In order to orient the economy from decline to recovery, the Uganda government under Obote undertook to implement structural adjustment programmes (SAPs). Although the SAPs have several aspects to them, in this paper we shall deal mainly with the marketing and price reforms. In agriculture, it was premised on the following strategies: dismantling of price controls, constant upward revision of prices and reforms of marketing structure; rehabilitating the transport system through provision of high tonnage carriers, and rehabilitation of the road network.

3.3.1 Agriculture Rehabilitation Project

Government effort to reform the production and marketing arrangements in Agriculture since 1980 have received support from IDA funded projects supporting sectoral adjustment:

a) The Agriculture Rehabilitation Project (ARP) Cr 133-UG of February 1983, and

b) The Agriculture Sector Adjustment Credit, (ASAC), Cr2190-UG of December 1990.

Under the ARP the physical rehabilitation of export processing facilities in the cotton, coffee and tea sectors was successfully financed. The ARP also financed a large share of agricultural imports between 1983 and 1992, when it closed. The most important contribution was the support of the Interminsterial Agricultural Policy Committee and its executive arm, the Agricultural Secretariat in the Bank of Uganda.

Through this structure, government kept in touch with production and incentive problems facing farms and processing industries and was able to implement ARP conditionality which required that farm gate prices for export crops be adjusted to maintain production incentives.

The SAPs however, were heavily biased towards export crops such as coffee, cotton and tobacco, the so-called 'traditional' cash crops. Secondly, prices remained administered by the state and never exceeded 25.5 percent of the export parity price. It is for instance reported that up to 1987 the average producer's share of the export price for coffee remained between 14.0% and 22.2%. Thirdly, during the first phase, the reforms in marketing system to allow private entrepreneurs a share of the marketed cash crops output were not implemented. Most export marketing remained under the monopoly of the state agencies and the collection and processing remained dominated by the co-operatives. Co-operative Unions and other private coffee processors and foreign buyers were only allowed to export coffee directly in 1990 when the international price of coffee was no longer attractive to do so[8]. And in a bid to limit public expenditure, the credits and incentives in form of agricultural inputs and implements that were available to coffee and cotton growers during the 1960s were not re-introduced. Agricultural in-put supply in the economy remained low and as an agricultural sector survey noted: 'the use of agricultural inputs especially during the last two decades of civil strife in

[8] Even when the agency created by co-operative unions was created and authorised to export coffee, all foreign exchange earnings were surrendered to the central bank at the official exchange rate. This was despite the operation of a legal parallel exchange rate at the forex bureaus.

Uganda has been irregular, minimal and restricted to the large farms e.g. sugar and tea estates (Bank of Uganda 1990:16)

Despite the provision of crop finance to co-operatives to pay promptly for producer's crop, the problems of delayed payment and unpurchased crops remained a bottleneck to improved crop sales thus affecting incomes for small-holders producers. Walugembe (1987: 9) has for instance noted that:

Funds earmarked for crop finance normally found their way into other channels rather than crop purchasing.... The producers therefore contented themselves with accepting 'chits'for deliveries or accepted lower prices for cash payments from various categories of the co-operative movement officials who had withdrawn the crop financing from the bank'[9]

3.3.2 Agriculture Sector Adjustment Credit (ASAC)

ASAC was designed in 1990 to address the salient issues in adjustment of agriculture and their macroeconomic ramifications. ASAC's main focus was to control credit expansion for crop finance and improve export marketing efficiency and production incentives for coffee-which in 1990 provided over 90 per cent of export revenue. Its share has since declined, due to the growth of non-traditional exports, and the drop in coffee prices. In addition, funds were provided to improve policy making in the agricultural sector and strengthen agricultural research and extension capacity. Control of credit expansion to finance the purchase of the coffee crop, the largest single source of demand for funds in the financial system has been achieved by shifting the responsibility for providing this credit to the commercial banks, thus removing the Bank of Uganda from its position as financier of the last resort and improving government capacity to monitor developments in the subsector (UCDA, 1996: 12). This has resulted in an expansion in both food and cash crop production as production and marketing costs fell.

Since 1986, growth in agricultural demand has been led by the urban demand for food. The rapid rise in urban incomes- and demand resulted in part from the refurbishment of industries, services and government implementation of the economic recovery programme (IMF 1997:33).

The section above has described the structural adjustment measures in Uganda especially those related to the agricultural sector. The SAPs in Uganda were in two phases, but as seen

[9] A.W Walugembe-Musoke and J. Ddumba- Sentamu (1987), 'The macro-Economic Stabilisation Programme in Uganda, 1981-1984: An Evaluation', Kampala, Uganda: Unpublished paper presented to an IDRC workshop, Nairobi, Kenya, December 7 to 11.

above, the first phase (1981-84) was not successful. However, the second and on going phase seems to bear fruits for the response has been positive. This is manifested in increased volumes of production of cash crops as well as tremendous growth in food crop production.

3.4 Coffee Marketing before Liberalisation

Coffee processing and marketing under colonialism was done by private traders, Asians and Europeans on open competitive basis. Very low and unstable prices were offered to coffee farmers compared to the profits that went to the middlemen (Wiebe and Dorge, 1987:36). Moreover, neither promotional, research nor extension services were provided to improve the quality and hence lower prices offered for Ugandan coffee. In 1929, a supervision and inspection scheme introduced to maintain quality and regulate standards and to regulate purchasing, processing and marketing of coffee (UCDA Report, 1992), but private companies continued with the export marketing. In 1943, this scheme was replaced by Coffee Industry Board (CIB), whose main functions included buying, processing and selling of coffee abroad.

In the 1950s the CIB was restructured and given additional functions, and these included, regulating marketing of coffee, recommending the price payable to growers and processors, and advising government on the reorganisation of the whole coffee industry.

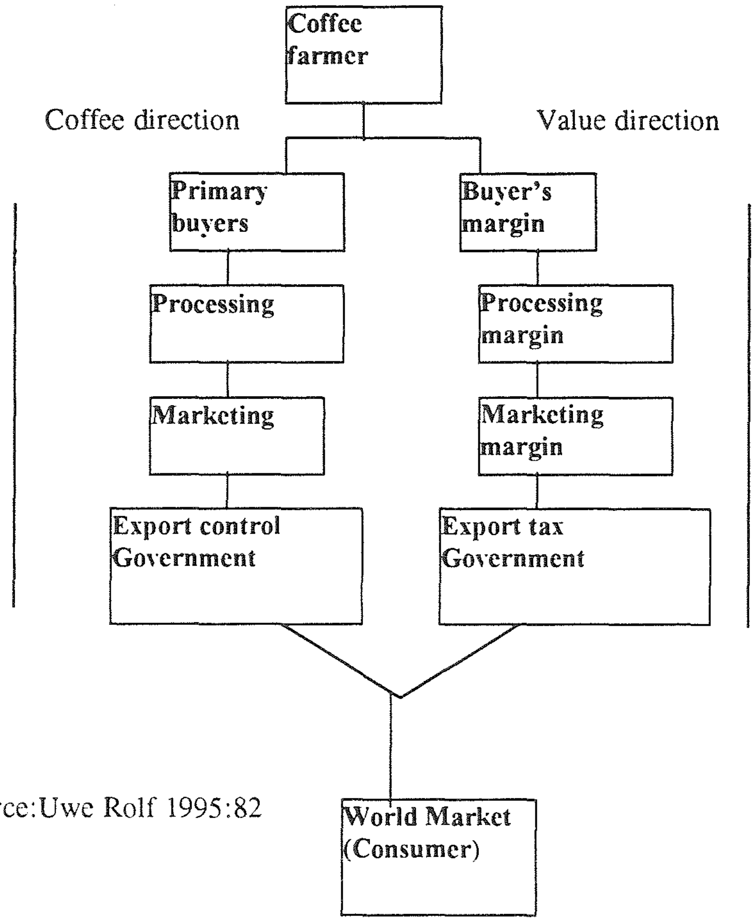
After independence in 1962, the Coffee Marketing Board whose functions expanded to include fixing prices for producers replaced the Coffee Industry Board.

In 1969, a Coffee Marketing Act was enacted which established that the coffee marketing system compring the final processing, marketing and export of Ugandan Coffee as a whole and the powers to carry out this were vested in the CMB hence assuming a monopoly position.

However since political independence, the marketing system has been subjected to rigorous alterations and amendment. For instance between 1969 and 1990, all Ugandan coffee was marketed by the CMB as a single state purchaser. Before 1969 and since the 1990/91-coffee season, licensed direct-exporting co-operatives were and have been included in the coffee marketing process. The marketing system that existed during colonial times has however fundamentally been taken over. The government-owned CMB, which obtained a monopoly position in 1969, buys, stores and sorts in terms of quality. Washes and packs all coffee at the central processing storage unit (CPSU) in Kampala (Bugolobi). The CMB also transports the coffee to the port of shipment and sells the produce to the international export concerns. By centralising the final marketing process, along with quality control and marketing, the greatest level of control over all the stages in the coffee circulation is secured and maintained by government (See Figure3.1) for the circulatory stages.

Figure 3.1 Circulatory Stages in the Coffee Sector

Substantial and Monetary Survey 1991



Source:Uwe Rolf 1995:82

Even with liberalisation, as we shall see late in this paper, exporters must be registered, and shipments are subject to indicative prices and quality controls. The Government has reserved the right to restrain export volumes in line with the demands of international obligations and in particular the Coffee Retention Scheme agreed to by major producing countries in 1993.

3.4.1 The Liberalisation of Coffee Marketing System in Uganda (the 1990s)

The Liberalisation of coffee marketing falls generally under SAPS whose overall aims range from restoration of price stability and bring about sustainable balance of payments position, improved public sector resource use through increased revenue mobilisation and improved resource allocation, to stimulate economic growth through improved producer incentives and marketing in agriculture and increased capacity utilisation in agro-processing and industry (IMF 1997: 32).

In agriculture sector, liberalisation and deregulation of markets are expected to raise prices of agricultural products to stimulate increased production for exports and self-sufficiency of markets and to create more efficient state and private institutions through increased competition (UCB, Quarterly Report, 1994:2). These measures are assumed to lead to high and stable prices, improving producer (peasant's) income and welfare and to achieve high levels of coffee output.

3.4.2 Objectives of Liberalisation of the Coffee Sub-sector

Under the Economic Recovery Programme, government undertook the comprehensive liberalisation of both internal and exports marketing of coffee. The specific measures included the removal of the procurement monopoly of CMB by restructuring it to create Coffee Marketing Board Ltd (CMBL) and allowing co-operatives and private exporters access to export markets. The regulatory functions of CMB were transferred to UCDA. The administered prices were replaced by indicative prices in order to allow market forces to determine prices (See Box 1 for chronological order of reforms)

The liberalisation of the coffee marketing in Uganda in 1991 marked the end of CMB'S monopoly over coffee marketing. The CMB, which was the sole purchaser and exporter of coffee during the 1980s, had persistent problems with crop finance, which adversely affected deliveries from farmers. As a way to pave for competition in the coffee industry, five coffee co-operatives joined forces to form Union Export Services (UNEX), and by mid 1992 UNEX was handling 20% of coffee sales with the CMB handling the remaining 80%. By mid 1993, there were 12 coffee-marketing co-co-operatives.

The objectives of liberalisation of the coffee marketing system in Uganda, as outlined by the Coffee Development Authority Report (1992) were: Firstly, to improve prices payable for Uganda's coffee by making the pricing system transparent. Secondly, to make the marketing system efficient by introducing more element of competition. Thirdly, to improve quality of Uganda's coffee exports through competition and price incentives to both farmers and exporters. Fourthly, to improve on the problems of crop finance availability, acquisition and utilisation in the coffee sub-sector. (UCDA, 1992:1). According to Katorobo (1995), the government took a policy decision to change the marketing system from one 'which is driven mainly by government direction and prescription into a fully commercial system, free of government control, and capable of responding autonomously, efficiently and flexibly to international market incentives' (Katorobo, 1995:7). Other objectives included; arresting the present decline in output, lowering the unit cost of production at farm level by increasing yield to improve comparative advantage and competitiveness and improving the quality of coffee (MFEP 1993:37).

3.4.3 The Strategies for Achieving these Objectives included;

a) Strengthening extension services so that coffee husbandry is improved.

b) Replacement over five years of 20 percent of unproductive robusta coffee trees by new robusta clonal varieties

b) Developing high yield and disease resistant arabica varieties and to strengthen the ongoing research in clonal robusta coffee.

3.4.4 The Process of Liberalisation of the Coffee Subsector

During the 1990s after phase two of the recovery Programme was implemented, the coffee season of 1990/91 saw government initiating sectoral policy for institutional reforms. These reforms included a number of significant changes (See Box 3.1)

Box 3.1 Reforms in the coffee Sector

1990/91	Separating the regulatory and trading functions of the CMB deviding it into two new institutions, Uganda Coffee Development Authority(UCDA) and Coffee Marketing Board Limited, and removing CMB's monopoly in the Export of coffee. At present there are well over 100-coffee exporter in Uganda.
1991	Transferring crop finance functions for the coffee sector from the Bank of Uganda. Removing controls on producer prices, processing and export margins , allowing farmers' price and other margins to be determined by market forces. A floor price remained for exports.
1992	Reducing implicit taxation of coffee exports, by exchanging coffee proceeds at bureau exchange rates, removing export taxes.
1993	No longer requiring exporters to surrender proceeds to the Bank of Uganda.
1994	An export tax was reimposed in the wake of coffee boom
1995	Abolition of the export floor price for coffee.
1996	Abolition of the Coffee stabilisation tax.

a) Institutional Reforms

As noted earlier in this paper, the most important institutional reform was the dismantling of the coffee marketing Board which culminated into the formation of two institutions i.e. the Coffee Marketing Board Limited and the Uganda Coffee Development Authority (See Box 3.1) Other institutional measures included the formation of the Uganda Coffee Federation The federation was created in 1994 as a pressure group to pursue the interests of the coffee industry. But it has evolved into an entity providing vital services and information to its members. It brings together Uganda's growing band of coffee exporters and others associated with the industry. It is guiding the transition from the industry from a system of ad-hoc trade.

b) Marketing Policy Reform

The first step towards the implementation of reforms was the repeal of Coffee marketing Board Act of 1969. Subsequently, CMB was restructured/split into a private company- CMBL wholly owned by government, and establishment of a new regulatory body, the Uganda Coffee Development Authority (UCDA). The role of UCDA is to control the quality and the price at which coffee is being sold. The new policy permitted competition with CMBL in the coffee export market.

Secondly, the major co-operative Unions who used to purchase coffee from growers and sell processed coffee to the CMB were allowed to join the export trade. These were, Masaka, Bugisu, Banyankole Kweterana, and Busoga Union. The unions were joined by two others, Okolo and Sebei, and formed an association (Union Export Services, UNEX) to carry out the export services together. Another step was to license several private firms to undertake coffee exports (World Bank, 1993a:78 Babingambar, 1992:6; UCDA Report, 1992:4), by 1994, a total of 169 exporters had obtained licenses.

c) Policy Reforms

Up to 1991, the government continued to tax coffee exports both explicitly and implicitly, and with all the margins fixed by the government. Coffee export earnings also continued to be converted to a shilling at the official exchange rate. This implicit tax seriously affected the subsector profitability.

In March 1992, the situation was improved when the government removed the implicit tax, and allowed coffee earnings to be converted at the market exchange rate (referred to as forex bureau rates). The tax on coffee was also removed in July 1992 and replaced by a withholding tax of 2 percent at the processor level (World Bank, 1993:60-70). However due to the coffee boom that resulted from frost that hit Brazil, the coffee tax was reimposed to avoid repercussions of the Dutch Disease. This boom did not last long because Brazil resumed her production thus being able to meet her quota. In the wake of this the 25 per cent coffee stabilisation tax was abolished in June 1996 during the National Budget Speech. The removal of the tax according to UCDA was a result of the following factors;

(I) The continuous decline of the prices on the international market over the periods, such that export realised prices were moving below the set threshold of Shs 1,500(approx.$1.5) per kilo;

ii) The tax was adversely affecting farm gate prices as its incidence was directly absorbed by the farmers; and

iii) It had brought about some distortions with in the sub-sector since Uganda's neighbours did not levy any tax on coffee exports

Thus the removal of the tax on coffee increased the level of coffee procurement and reduced closing stocks as will be seen in chapter four.

d) Pricing Policy

Another policy reform was the price policy. Government control on producer prices, processors and export margins were removed by the end 1992, so that farmers' price and other margins are determined by market forces. However, although the abolition of the floor/minimum prices has remained in force, UCDA continued to provide daily indicative prices to farmers and exporters through local media (Radio and Newspapers) and direct contact to UCDA (UCDA, 1996:2). Accordingly these indicative prices greatly assisted farmers and traders in their transactions.

Conclusion

This chapter has first and foremost given a historical background and development e Ugandan economy which was divided into three distinctive periods i.e. 1960-70 as a period of relative growth, 1970-86 as a period of dire economic decline and 1986-96 as a period economic recovery. Key economic indicators like GDP, per capita GDP and investments have been used to explain the trends. It has also reviewed the agrarian structure of the economy especially in the export sector by giving a comparative analysis of the major agriculture exports namely tea and cotton. It has described the historical development and evolution of coffee marketing systems since independence. It has gone on to describe the economic reforms in the agricultural sector in general and liberalisation of coffee marketing in particular. It has shown that the SAPs in 1980 (first phase) failed to accomplish its main since they failed to remove the export monopoly of CMB. This partly explains why government had to liberalise coffee marketing. And that the on going SAPs are likely to be more successful in transforming the agricultural sector. The chapter has also shown how the other competing crops with coffee namely tea and cotton, have undergone through similar reforms to restore their productive capacities.

From this it can be observed that the liberalisation of agricultural marketing in Uganda was necessary to overhaul the productive structures and restore the economy to its glorious past of the 60's. For the coffee sector in particular, the structural adjustment reforms were long over due given the problems it experienced during the monopoly regime and owing to its important contribution to total foreign exchange earnings for the country.

CHAPTER 4

IMPACT OF LIBERALIZATION ON THE COFFEE SECTOR IN UGANDA: THE COMPARATIVE ANALYSIS

This chapter attempts to analyse the implications of the reforms on coffee production, exports performance, producer prices, access to crop finance and quality control. It compares the performance of the coffee sub-sector with other competing crops mainly cotton and tea in the period before and after liberalisation. It also attempts to compare the performance of the coffee sector in Uganda under SAPs with that of Cameroon and Côte d'Ivoire, which also liberalised their marketing systems. However due to data limitations the comparison will focus on two major variables i.e exports performance and productivity. The rest of the analysis will focus on the impact of coffee liberalisation in Uganda only.

The rationale for using this comparative method is to establish whether the changes in the coffee industry in Uganda have been due to liberalisation or because of other factors, and whether similar policies can bring about the same changes when applied to other crops and to different countries notably tea and cotton and Cameroon and Côte d'Ivoire respectively.

The first part of this chapter gives an overview of the changing structure of the export sector of the economy in the awake of the reform process i.e. shows how coffee is dominant despite attempts by government to achieve export diversification. The next section gives a comparison of coffee with other export crops namely tea and cotton. This is followed by the analysis of the comparison between Uganda and Côte d'Ivoire in exports and productivity. The other implications of liberalisation on Uganda's coffee sector are then presented, followed by a section that shows other factors affecting the coffee industry. The last section entails the analytical framework and conclusion.

4.1 The Changing Structure of Uganda's Exports.

Uganda's exports are largely composed of agriculture products. However, over years, there has been a move towards export diversification and improving non-traditional exports, which include manufactured exports. This has led to a reduction of reliance on coffee. For instance, in 1989, 90.9% of export revenue was all from traditional agriculture exports with the contribution of manufactured exports appearing only as 1.3 per cent (See Table 4.1) below). The contribution of manufactured exports though positively improving, is less than 18%.

Table 4.1 Composition of Merchandise Exports in Percentages

Share of Total Exports			Share of Manufactured Exports				
	Trad. Agric	Non Trad	Manuf	Chemical	Basic Manuf	Machinery	Misc
1989	90.90	7.60	1.30	2.3	7.6	85.3	4.8
1990	85.90	11.68	2.42	9.8	27.7	52.4	10.3
1991	76.40	19.22	4.38	8.5	25.3	54.4	11.8
1992	78.70	13.37	7.93	9.5	21.1	46.3	23.2
1993	64.82	25.47	9.71	**			
1994	79.76	13.57	6.67	**			
1995	73.13	7.2	17.67	**			

Source: Background to the Budget 1996-97

NB: Traditional exports are coffee, cotton, tea, and tobacco

Non traditional exports include:sim sim, flowers. Electric power etc.

** Further desegregation of these years not available.

The introduction of non-traditional exports like beans, maize, simsim, fresh fruits vanilla, fresh fruits, cashew nuts, cut flowers, pyrethrum, vegetables, spices and to supplement the staple export crops of coffee, tea and cotton, and the development of the manufactured export sector since 1991 has improved Uganda's export capacity. Also, the establishment of export finance schemes in the Central Bank of Uganda (BOU), the liberalisation of trade and foreign exchange system which started in 1987 also had a positive impact on exports.

Though the economy has improved during the last few years including some diversification of exports as seen above, coffee is still the motor of development. Although the overwhelming dependence on coffee for the earning of foreign exchange has been moderately reduced, it still contributes the majority of export revenues (refer to chapter three, section 3.3.1).

4.2 Coffee Sector Performance as Compared to other Competing Export Crops

4.2.1 Cotton.

The cotton industry in Uganda has also undergone a major change since 1986. As indicated in chapter three of this paper, cotton was one of the principal exports for Uganda and the country ranked third in Africa during the 1960s and early 70s. However cotton production shrunk in the 80s due to; the disruption caused by the civil war, the take over of the ginnerries (mostly private owned) by co-operative unions which encountered difficulties in financing and managing these enterprises and the centralised management of pricing and export activities by the monopoly Lint Marketing Board (LMB). Farmers' incentives for production were eroded by predatory pricing policies, and delays in making payments[10]

In a series of adjustments, which parallel the efforts in the coffee sector, the government removed the LMB's monopoly on export marketing, and established a Cotton Development Organisation to monitor developments in the sector, and promote its interests. These changes have transformed the cotton industry, which had been written off for some years. Cotton production and exports have increased since the liberalisation of cotton marketing though the sector has regained the levels of output of the 1960s and its share to total exports is still low compared to that of coffee.(see graph 4.1 and graph 4.2).

4.2.2 Tea

The tea industry has also been liberalised. In an effort to improve the tea industry, the government divested its interests in The Toro and Mityana Tea Company (TAMTECO)[11] and was fully privatised in 1995.The government also privatised the Uganda Tea Corporation. Estates that were nationalised in 1970 and put under the Custodian Board have been repossessed by their former owners.

As a result of these changes, output and exports of tea have improved (see graph 4.1) Production for example, increased from 12.2 million metric tons in 1993 to 19.57 Million metric tons in 1997 which explains the increase in exports. Despite this, the market share of tea is still low compared to coffee. (See graph 4.2). As for coffee's share refer to section 3.2.1 of chapter three.

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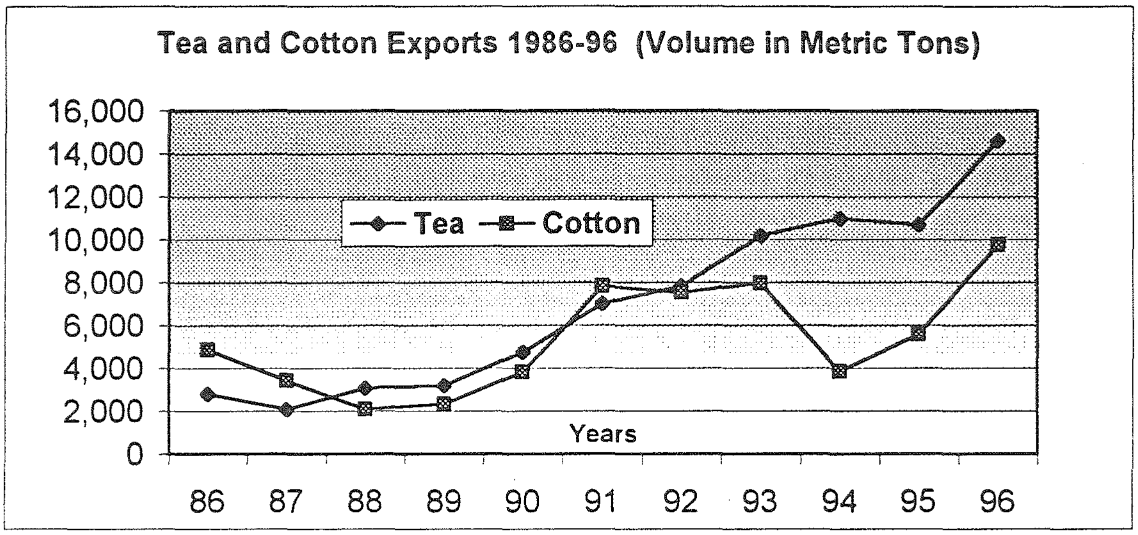
[10] World Bank, 1995:41

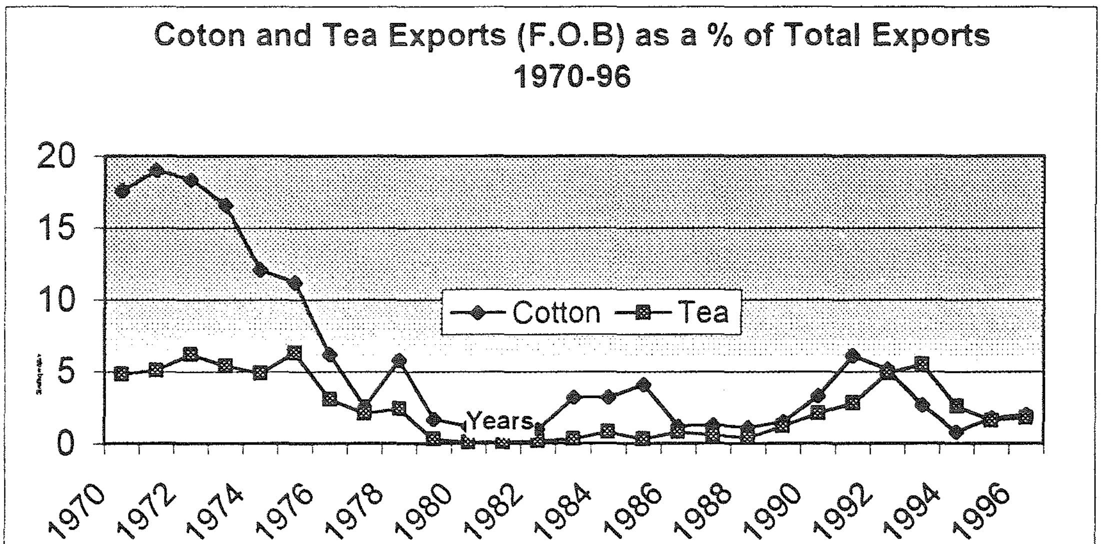
[11] TAMTECO was formed in 1980 and the government owned 51% shares.

As with cotton, the tea industry has also not yet regained the levels of output of the past. This is due to the fact that the tea estates that were destroyed during the war have not been fully rehabilitated by the returning Asian businessmen who controlled them in the past.

Graph 4.1 Tea and Cotton Exports 1986-96 (Volume in Metric Tons)



Graph 4.2 Cotton and Tea Exports (F.O.B) as of Total Exports (1970-96)



Graph 4.1 shows that both cotton and tea exports have been rising since the liberalisation of their marketing, which is a result of increased production. The graph further shows that tea is performing relatively better than cotton. Apart from the liberalisation process which is still on going, this can be attributed to two other factors namely;

(i) the repossession of tea estates by the former owners and

(ii) the improved extension services provided to the outgrowers (Background to the Budget, 1998/99:6). However despite the increases in production for both cotton and tea, their share to total exports is still low compared to that of coffee (see graph 4.2)[12]. This leaves coffee as the dominant export crop (also refer to section 3.2.1 of chapter three)

4.3 Coffee Procurement and Exports

Coffee procurement refers to the amount of coffee farmers' put on the market and the level of competitiveness with in the internal market. The aggressiveness of the exporters is determined by a number of factors most importantly the prevailing international prices, the availability of coffee and crop finance. Prior to the liberalisation of the coffee industry, crop finance was a perennial problem of the sub-sector and farmers would remain with large stocks of coffee unsold. With the sub-sector fully liberalised, crop finance is now a responsibility of the industry participants. The ability to mobilise the required finances either locally or otherwise determines the share of the market.

Table 4.2 below reflects the trend of the market share in the internal market and exports for the last five years since the commencement of liberalisation.

Table 4.2:A Five-Year Comparative Export Performance (1991-96) 60-kilo bags

Year	CMBL	Unex	Privates[13]	Total
1991/92	1,700,578 (83.7%)	240,943 (11.9%)	89,308 (4.4%)	2,030,829 (100%)
1992/93	821,252 (39.4%)	333,113 (15.9%)	934,273 (44.7%)	2,088,642 (100%)
1993/94	484,696 (16.2%)	342,773 (11.4%)	2,1777,736 (72.4%)	3,005,205 (100%)
1994/95	263,583 (9.4%)	312,082 (11.2%)	2,217,088 (79.4%)	2,792,753 (100%)
1995/96	152,215 (3.7%)	97,241 (2.3%)	3,899,347 (94.0%)	4,148,803 (100%)

Source: UCDA Annual Report 1996: 11

[12] For coffee's share refer to the earlier graph 3.3 in chapter three.

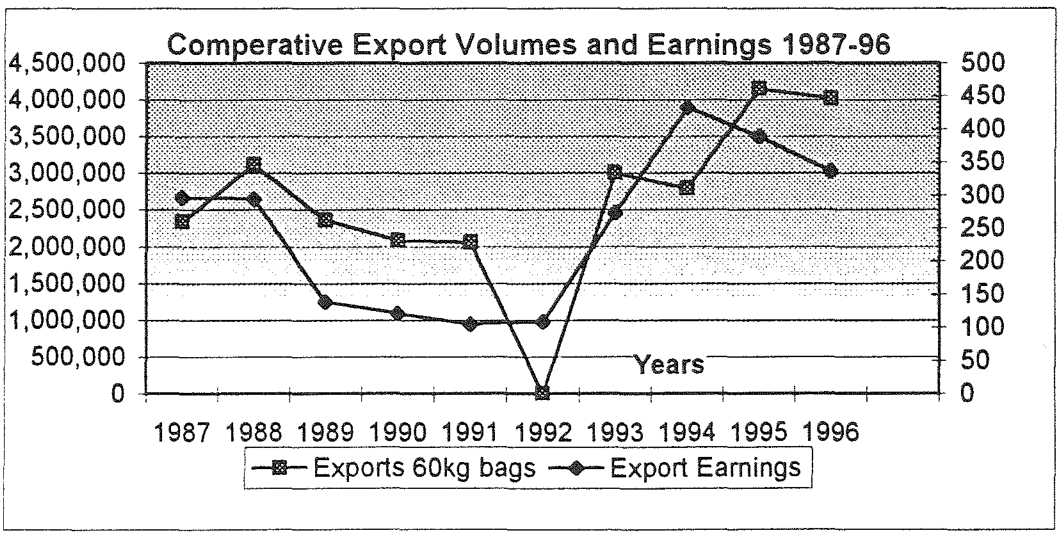
[13] By privates, I refer to those private exporters who joined the coffee industry and were duly licensed after liberalisation. These are mostly the exporters who have access to pre-finance arrangement with foreign companies.

Table 4.2 shows that the market share of once the monopoly CMBL in both the internal and export market declined from 83.7 per cent in 1991/92 to a staggering 3.7 in 1995/96. This shows how the liberalisation has hastened the internal competition with in the coffee industry, which never existed previously. This substantial drop in CMBL share has been due to stiff competition in the coffee market and since farmers all along had been frustrated by the CMBL, they now find it more profitable to deal directly with the private exporters who were licensed after the beginning of the reform process.

On the other hand, since the beginning of the liberalisation program in 1992, there has been tremendous growth in coffee exports. This success has been observed with the increasing number of exporting agents from one CMB in 1990 to 163 in 1998 (WTO 1998) and also in the decline of CMB marketing share from 100% in 1990 to 3.7 in 1996. The other proportion of the share has been gained by UNEX 2.3 and the private sector 94. Per cent (See table 4.2). This decline in the CMBL share is mainly due to competition and the aggressiveness of the private sector in the trade. The rise in the private exporter's share could be explained by the liquidity position arising from pre-finance arrangements with overseas buyers. Currently, pre-finance arrangements account for nearly 90 percent of total exports and have enhanced the procurement level.

As a result of this cut-throat competition in the coffee industry between and among exporters, Uganda exported a total of 4.15 million 60-kilo bags in 1995/96. This, according to coffee authorities, marked a tremendous recovery of the coffee industry, and were the highest ever recorded in the history of the industry, nearly 25 years after a high of 3.7 million bags in the 1972/73 coffee seasons (UCDA Annual Report 1996:2) (See graph 4.3)

Graph 4.3 Uganda Coffee exports, volume 60kg bags and Earnings in Millions of US $.



Graph 4.3 clearly depicts that coffee exports increased drastically since the beginning of the liberalisation compared to the period before. For example during the 1995/96 coffee year, 4.2 million bags which resulted into huge foreign exchange earnings amounting than 4 million US dollars.

The high volume of export realised, is a reflection of UCDA's effort to encourage internal competition and efficiency in the marketing system. The effective government liberalisation policy initiated in 1991 improved the marketing system. This enabled farmers to receive competitive and remunerative prices compared to other cash crops, sometimes farmers were paid in advance[14]. Higher prices and prompter payments are encouraging farmers to increase production enthusiastically. It has also ensured that all coffee put on market was readily bought. This encouraged farmers to tend to their coffee shambas. However other non-price factors have also contributed to this coffee export growth. These relate to the pre-liberalisation conditions which include;

(i) **General Economic Recovery:** Since the inception of Museveni's government in 1986, there was an overhaul of the economy. The government begun implementing an economic reform program supported by a large number of donors. The program aimed at promoting prudent fiscal and monetary management, improve incentives to the private sector, reform the regulatory framework, and develop human capital through investment in health and education. This saw among other things the rehabilitation of infrastructures, which included feeder roads, establishment of law and order in the country and above all restoring the country's international image that had been badly damaged by the previous governments. This did not only lead to economic recovery, but also led to investor confidence that attracted foreign investment in all sectors including agriculture, more specifically the coffee export sector.

(ii) **The Return of the Departed Asian Properties**: The Asian businessmen and investors who formed the biggest number of investors in Uganda at the time of independence had been expelled from Uganda and their property confiscated in 1972. The new government on the advice of the IMF and World Bank saw the need to return the properties as a means improving the investment climate and restoring investor's confidence. The return of their property, which started in 1991, was completed in 1996 with over 3,300 properties, which ranged from small retail shops to coffee ginneries and factories. This too improved the coffee

[14] This perhaps explains why coffee still dominates the export sector compared to other competing crops, tea and cotton.

sector since the returnees had the capital to restore machinery and equipment to the coffee factories that had ceased operations for a long time. This also boosted the export market since most of these Asian business men with their huge capital base established joint ventures with the indigenous traders, further solving the problem of crop finance.

(iii) **Establishment of the Uganda Investment Authority**: Recognising the need to restructure investment incentives for foreign investors so as to create a radically new investment regime capable of attracting foreign investment the Museveni government enacted the investment code and subsequently established the Uganda Investment Authority (UIA). The main objective of the Code was to promote, facilitate and monitor both foreign and domestic investment in Uganda by rationalising the various procedures for investment approval and introducing additional incentives for investors. On the other hand the UIA was designed to provide a ' one stop' service to investors. The Authority issues; investment licences, certificates of incentives, certificates of registration of agreements for transfer of foreign technology or expertise and certificates of approval for externalisation of funds. The UIA compiles profiles of selected potential projects for marketing to investors. One of the priority areas for investment according to UIA is Crop processing[15]. With this in place, much foreign capital has found its way in the country, part of which has benefited the coffee industry especially the export processing sector.

(v) **The Stable political environment**

Ever since the military coup in 1971 that led Idi Amin into power, Uganda's political scene has remained turbulent. During the brutal dictatorship of Amin there was a lot of economic mismanagement since military officers took over parastatals as bureaucrats. This wrecked the economy that remained in ruins. The overthrow of Amin in 1979 did not solve Uganda's political problems for the elections that took place in 1980 were allegedly rigged in favour of Obote. This led to a section of disgruntled Ugandans with no option other than waging a war against Obote. So the civil war that begun in 1981 up to 1985 greatly affected coffee production since it took place in the heart of coffee growing areas (Central and Western Regions, also see map1).

Therefore the restoration of peace and political stability in the country since 1986 has created an enabling environment for agricultural production, for the war greatly affected the coffee industry. Therefore this has been the other factor that made liberalisation of coffee marketing a success.

[15] This is based on the Uganda Investment Authority Report of 1993.

Having analysed the internal factors that boosted the coffee sector, its important now to focus attention on the external factors as well. At the international level, UCDA reports that, intermittent strikes in Colombia paralysed the coffee industry which created supply tightness thus affecting world supply and hence pushing up world coffee prices. The report further implicates the weather-related happenings that either damaged coffee trees or affected harvest like the hurricane Caesar in Costa Rica. This also had an effect on world supply. Above all, Brazil, the biggest World supplier was affected by frost that significantly reduced World supply hence a dramatic rise in global coffee prices. This benefited other coffee producing countries especially Robusta coffee exporters of which Uganda belongs.

4.4 Uganda 's Position in the World Coffee Market in Comparison to Two African Countries, Cameroon and Côte d'Ivoire.

4.4.1 Uganda's Position

The central importance of coffee in a monstructured export sector in no way confirms a major position on the world market. On the whole Uganda's coffee exports retain no real importance in the world market. The country produces and exports up to 90% Robusta coffee. In the world Market, Robusta retains a 25.5 per cent market share whilst the major share is held by Arabica. Uganda's 5.6 per cent world market share at the beginning of the 1970's fell by more than 50% to 2.7 in 1990. In this respect, a country's importance clearly relates to the main strain of coffee produced. The share held by Uganda's major coffee strain (Robusta) sank from 20% to 8 5, whilst the export share in the Arabica sector lost 0.3 % points. (See table 4.3).

Table 4.3 Uganda's Coffee Exports as a Percentage of World Coffee Exports

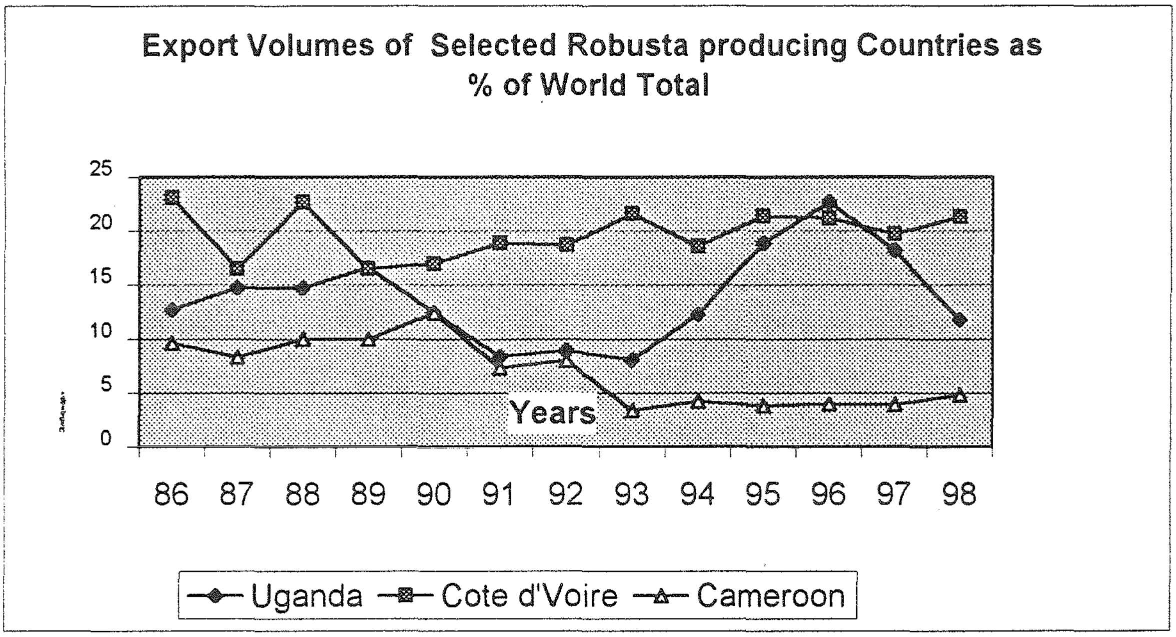
Annual Average	Robusta Market %	Arabica market %	World market %
1965/66-1969/70	19.84	0.50	5.38
1970/71-1974/75	19.84	0.68	5.56
1975/76-1979/80	14.42	0.28	3.88
1980/81-1984/85	14.44	0.38	3.64
1985/86-1988/90	14.24	0.28	3.56
1990/91-1992/93	8.44	0.38	2.71
1996/97	18.25	0.68	5.98
1997/98	11.83	0.38	3.37

Source: 1)UCDA Second Quarterly Report 1997/97

2) International Coffee Organisation (ICO) June 1998.

Uganda's share has gone up from 8.44 in 1992/93 to 18.25 for Robusta and from 0.38 to 0.68 in case of Arabica in 1996. In the coffee year 1995/95, Uganda for the first time surpassed Côte d'Ivoire to become African's leading coffee producer. (See graph 4.4 and table 4.5). The drop in the 1997/98 is according to UCDA a result of El Nino weather patterns that caused supply shortages in some origins. (UCDA Second Quarterly Report 1997/98: 1). Therefore it can be argued that though liberalisation has improved coffee sector performance, other factors like weather may can not be .It should also be understood that supply response especially at world market level is most cases determined by the international price movements, in which case the increase in Uganda coffee exports can be attributed to increase in world coffee prices. Though this does not exonerate the inefficiency of the CMB which had devastated the coffee sector in the past.

Graph 4.4



The graph shows that Uganda's coffee exports increased drastically after 1993 and in 1995/96 as indicated earlier, Uganda exported more coffee than any other country in Africa[16]. Aside from the liberalisation of coffee marketing, there are however a number of other factors that have contributed to improved performance of the coffee sector, that are peculiar to Uganda and not to Côte d'Ivoire or Cameroon (refer to section 4.3).

[16] After all Côte d'Ivoire has always been the largest producer and exporter.

4.4.2 Cameroon

Cameroon like Uganda and Côte d'Ivoire is another country that depends mainly on agriculture for most of her export earnings. This sector contributes over 30 per cent to total GDP, employs an estimated 70 per cent of the labour force and accounts over for 40 per cent of total export earnings.

Coffee is one the major export crop for Cameroon. It is cultivated on 400,00 ha, predominantly in the West and South Provinces of the country. Four-fifth of the coffee crop is Robusta, the remainder being Arabica. Coffee output has been fluctuating over the years owing to climatic, vegetative circumstances and trends in producer prices.

The marketing of coffee in Cameroon was done by co-operatives that acted on behalf of the Board, Office Nationale de Commercilisation des Produits de Base (ONCPB). The Board takes care of the export of all the coffee from the Northwest as well as the Southwest Province (Anglophone Cameroon). For the marketing of Robusta in the Francophone areas, the Government (ONCPB) every year establishes a list of exporters and the proportion of expected production these exporters are entitled to purchase.

However at the beginning of the 1990s coffee marketing was liberalised. The liberalisation resulted into the abandonment of the producer price system, which were replaced by market determined prices. This was expected to stimulate higher production and to increase coffee exports.

However, despite the liberalisation of coffee marketing, both coffee production and exports have not significantly improved compared to Uganda (see table 4.5, &graphs 4.4 &4.5). This is attributed to; failure of replanting programmes to keep pace with the ageing of plantations, lack of incetives improve on production among individual producers, and the fact that private buyers tended to form cartels and forced prices down. The other reason being the increased smuggling of coffee to Nigeria and the stiff competition with cocoa exports[17]. In Uganda the strong regulatory measures instituted by the UCDA do not allow the formation of Cartels for, UCDA has ensured continued competitiveness with in the domestic market. This in addition to the factors mentioned in section 4.3 above have made liberalisation sucessful in Uganda compared to Cameroon.

[17] This is based on the Report of the International Coffee Organisation, 1998.

4.4.3 Côte d'Ivoire

The Ivorian economy though diversified, remains dependent on agriculture, which contributes about one-third of GDP and employs some 60-80 per cent of the economically active population. Agriculture provides about three-quarters of export earnings[18].

The principal cash crops are coffee and cocoa. The cultivation of coffee is the main source of income for about one-half of the Ivorians, and it employs more than 2.5 million people. Côte d'Ivoire is now the largest African producer.

The marketing of coffee before market liberalisation was traditionally the responsibility of the state marketing agency, the Caisse de stabilisation et de soutien des prix des productions agrocoles (Caistab). It has been reported that this agency bought the crops from producers at prices that were significantly below world prices.[19]

However in 1991/92 coffee season, the government fully liberalised coffee and cocoa marketing by opening up the Caistab to participation by private interests and its quality-control function was eliminated. The agency now operates essentially as a consultative body. Though it set producer prices at the beginning of each season, these only serve as guidelines as market forces determine the prices. Despite the liberalisation of the Caistab, coffee production and exports like in the Cameroonian case have not changed drastically. This is due to the ageing of coffee trees, the stiff competition between coffee and cocoa, where most farmers having a preference for the later because of high prices and above all the decline in the world coffee prices[20]. In Uganda unlike Cameroon and Côte d'Ivoire, the pre-liberalisation conditions discussed in section 4.3 paved the way the success of liberalisation as farmers started planting new coffee trees especially clonal coffee that started full production sometime after liberalisation. Also in Uganda unlike Côte d'Ivoire, there is lack strong competition for coffee. The rival crops i.e. cotton and tea are unable to compete with coffee both in production and exports (see section 4.3). On other coffee competes strongly with cocoa in both production and exports in the other two countries. And to make matters worse for coffee, cocoa prices are always higher yet the two grow in the same ecological conditions and have similar life span. So farmers have a preference for cocoa to coffee which has affected the success of the liberalisation policy. Despite all this her (Côte d'Ivoire's) share has gone up and is still Africa's largest producer, and

[18] Africa South of the Sahara 27th

[19] Africa South of the Sahara 27th Europa Publications Limited 1997.

[20] Societe Nouvelle International De Café-Cacao, Prioritie Agriculture, December 1997.

her contribution to world total production has increased from 2.5 per cent in 1992 to 3.6 in 1997 (see table 4.5)

4.5 Coffee Production in Uganda in Comparison with Cameroon and Côte d'Ivoire

The impact of liberalisation policy can further be analysed by looking at production levels and the productivity for the period before and after liberalisation in Uganda compared to Cameroon and Côte d'Ivoire.

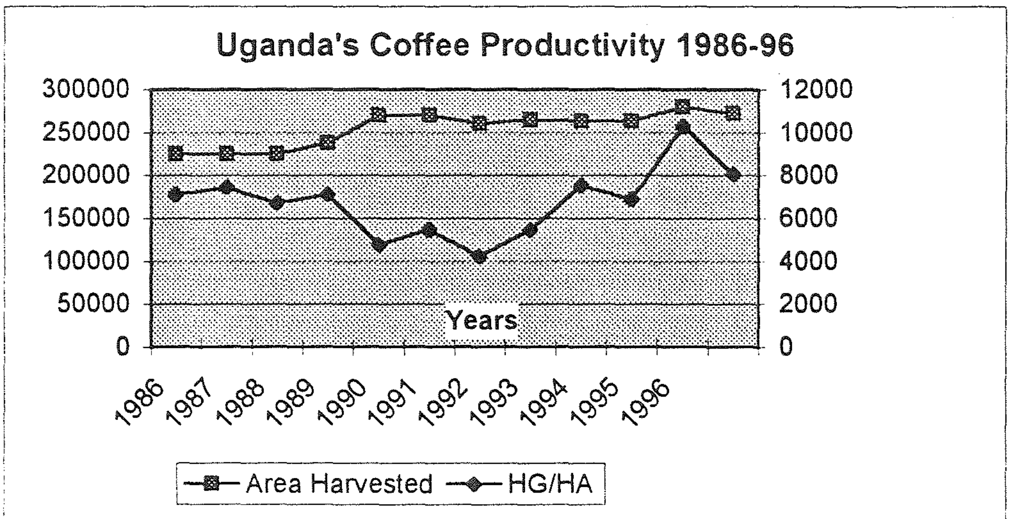
Table 4.4 gives a summary of total coffee production and export volume in millions of 60 kilo bags for the period 1991/92 to 1995/96 in Uganda, while table 4.5 gives the World coffee production of the three countries. On the other hand, graph 4.5 shows the trend in yields per hectare for the period before and after liberalisation in Uganda, while graph 4.6 shows the comparative productivity for the three countries.

Table 4.4 Coffee Production in Million 60kg bags and Exports

Type of coffee	1991/92	1992/93	1993/94	1994/95	1995/96
Robusta	2.5	2.6	2.9	2.9	3.5
Arabica	0.2	0.2	0.3	0.4	0.4
Production	2.7	2.8	3.2	3.3	3.9
Exports	2.1	2.1	3.01	2.8	4.1

Source: UCDA Annual Report 1996: 26

Graph 4.5 Coffee Productivity in Uganda 1986-96 (Volume in Metric Tons)



HG/HA, Hectograms per hectare. One hectogram is equivalent to 100 gramms. Source: FAO Statistics, 1998

Table 4.4 shows the production of coffee in millions of 60kg bags increased from 2.5 in 1991/92 to 3.5 for Robusta coffee, and from 2.7 in 1991/92 to 3.9 in 1995/96 for Arabica coffee.

On the other hand, graph 4.5 depict increases in coffee productivity in Uganda. Particularly the graph shows that given the same land and labour i.e. area harvested having remained almost constant from 1990, the yield per hectare has been increasing in the years after liberalisation compared to the years before. There are quite a number of factors to explain this trend which include;

(i) The increased efforts of UCDA to improve the incentives and provision of agricultural inputs especially agro-chemical (fertilisers and pesticides) and implements that are useful in improving farm yields.

(ii) As stated in the theoretical framework, Bond (1983) argues that the supply response, (in this case coffee production) is not only affected by price factors, but also non-price factors. For example the relative political stability in the country has also reduced uncertainties and made farmers tend to their crops, for the political uncertainties that hit Uganda between 1973 and 1981 and between 1981 and 85 devastated the whole economy including the coffee sector. For instance the civil war between 1981 and 85 that brought Museveni into power took place in the heart of coffee growing areas Buganda(Central Region and Western Region).This had made most farmers refuges from with in the country thus unable to concentrate for agriculture.

Despite the presence of favourable conditions for coffee cultivation in Northen Uganda especially in the districts of Arua and Nebbi (Refer to Map1), the civil wars that have raged on since the early 80s has hampered this potential so much so that coffee production is only restricted to the few areas that are relatively stable. Therefore given opportunity coffee production would more than double if all the coffee growing areas can be utilised. All the same, with regard to increases in production and productivity, Uganda competes favourably with other African countries (see table 4.5 graph 4.6).

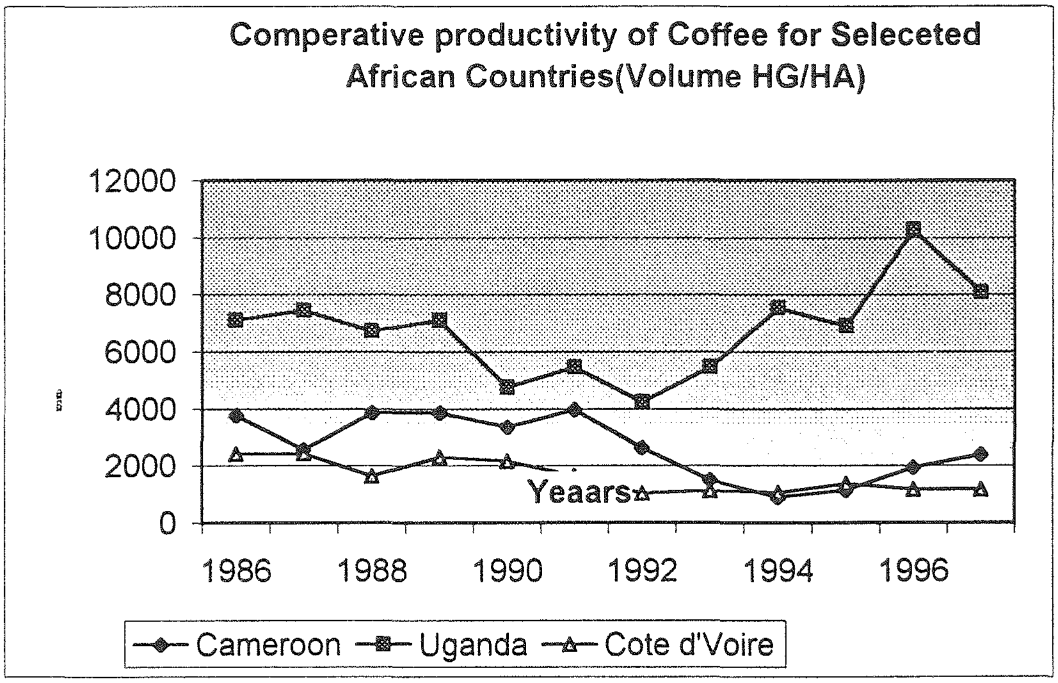
Table 4.5 Coffee Production of Selected African Countries Uganda, Cameroon &Côte d'Ivoire as % of World Total

World Total Coffee Production of Selected Countries						
Years	1992	1993	1994	1995	1996	1997
Total Pdn	88188	90076	95445	85874	101601	92896
Uganda	2185	3142	2393	3244	4297	3000
% share	2.5	3.5	2.5	3.8	4.2	3.2
Cameroon	260	676	401	518	1432	1417
% share	0.3	0.8	0.4	0.6	1.4	1.5
Cote d'V	2246.0	2293.0	3007.0	2532.0	3811.0	3300.0
%	2.5	2.5	3.2	2.9	3.8	3.6

Source: International Coffee Organisation 1998

Table 4.5 shows the position of Uganda in World as having followed rising trends i.e. Uganda's contribution to world production increased from 2.5 percent in 1992 to 4.2 per cent in 1996 as compared to Cameroon. The table also reveals how Uganda competes favourably with Côte d'Ivoire. Worth to note, for the first time Uganda surpassed Côte d'Ivoire to become Africa's leading producer in the coffee year 1995/96.Uganda's productivity is also higher compared to other two countries as seen below.

Graph 4.6



Source: FAO Statistics. 1998

Note HG/HA is Hectogram per hactare 1HG=100 Grams.

Graph 4.6 shows that Uganda's productivity measured by hectogrames per hectare is higher as compared to Cameroon and Cote d'Voire. In Uganda, the graph shows that after the inception of the reforms in 1991/92 coffee productivity increased tremendously. On the hand, in Côte d'Ivoire, despite the liberalisation of coffee marketing, production did not rise dramatically, while in Cameroon coffee production has remained almost constant even after liberalisation . The reasons for the variations are to do with differences in other factors that influence or/and affect production presented in section 4.3 of this paper.

Its interesting to note that, all the three countries under comparison liberalised their marketing systems almost at the same time. Though a comparison of the impact of liberalisation may limited given the lack of uniformity in political and economic conditions prevalent in liberalising countries, it is nevertheless important to note that in all the countries under review, the international price movements often affect coffee production and exports. It can further be emphasised that the instability of world coffee prices affect production and exports not only in Uganda, but also in other countries since coffee farmers tend to respond to the decline in international market by switching to other crops. This implies that liberalisation alone cannot lead to increased productivity and exports if the international coffee prices remain unstable and if other economic policies are not harmonised.

4.6 Coffee Producer Prices in Uganda.

Studies have revealed that: "Since colonial times the coffee farmers have received hardly more than 50 per cent of the national economy's coffee value and less than 5 per cent of the industrial nations consumer's purchasing prices" (Rolf 1995:135). Rolf further points out that the post-colonial state of Uganda continued extracting a large valuable potential return (in form of export taxes) from coffee farmers. This was through the state intermediaries including the Coffee Marketing Board (See table4.6) on the development of producer and export price.

Table 4. 6

Producer and Export Price Development for Ugandan Coffee (1970-1991) US-$/kg

Coffee Year	Producer price[1]		f.o.b Price[2]		Share in%[3]	
	Robusta	Arabica	Robusta	Arabica	Robusta	Arabica
1970/71	0.17	0.63	0.70	0.91	24	69
1971/72	0.17	0.63	0.76	0.95	22	66
1972/73	0.17	0.63	0.77	1.19	22	53
1973/74	0.17	0.63	1.14	1.41	15	45
1974/75	0.17	0.61	1.01	1.26	17	48
1975/76	0.17	0.54	1.64	2.28	10	24
1976/77	0.30	0.65	3.82	3.93	8	17
1977/78	0.46	0.99	2.97	3.80	15	26
1978/79	0.47	1.02	2.76	2.78	17	37
1979/80[4]	0.94	1.77	3.27	2.61	29	68
1980/81	0.40	0.70	1.81	2.19	22	32
1981/82	0.53	0.84	1.84	2.47	29	34
1982/83	0.52	0.62	2.18	2.51	24	25
1983/84	0.36	0.42	2.57	2.98	14	14
1984/85	0.40	0.62	2.37	2.91	17	21
1985/86	0.61	1.10	2.66	3.94	23	28
1986/87	0.40	0.67	2.17	2.45	18	27
1987/88	0.49	0.84	1.86	2.69	26	31
1988/89	0.18	0.29	1.55	2.02	12	14
1989/90	0.17	0.41	0.94	1.63	18	25
1990/91	0.16	0.46	0.92	1.74	17	26

Notes: 1 fixed minimum price paid to growers

2 averages per season for Robusta and Arabica

3 producer price as apercentage of f.o.b prices;

4 in 1979/80 the Ush was strongly over-valued against the US-$ so that the relationship of converted producer prices to the f.o.b price is not comparable to other years.

Source: Rolf 1995:136.

The relationship between producer and export prices shows that the Robusta farmer, in comparison to his colleagues involved in Arabica cultivation, receive a smaller share of the export value. As can be seen from the table producer prices's share for both types have been falling since 1970.The lowest prices as indicated on the table were for years 1989 to 91. This fall in the share can be attributed to government reliance on export taxation as a major source of revenue. For instance, in financial year 1985/86 around 67 per cent of the government earnings were based on export tax receipts generated by a mere one product, coffee. Coffee farmers were not helped by the marketing system, which was inefficient and monopolized by the state run CMB, which exploited this position to offer low prices.

Liberalisation has allowed farmers to receive a greater proportion of export prices-some three times greater than in many years during the 1980s. Farmers now obtain a premium for quality, and quality aspects are carefully monitored at each part of the marketing chain.

Farmers share of the international price have increased to over 65% from 20% at the Market exchange rate , due to the upward adjustment of the farmgate price (World Bank, 1995) See also table 4.7 and graph 4.7.

Table 4.7 Farmers share in the World Market price.

Year	Robusta		Arabica	
	%share with OER	%share With MER	%share with OER	%share With MER
1987	34	12	35	12
1988	44	18	39	16
1989	27	14	22	12
1990	26	18	31	22
1991	58	43	49	29
1992	-	55	-	39
1993	-	58	-	47
1994	-	65	-	55
1995	-	70	-	65
1996	-	-	-	-

Source: UCDA Annual Reports, Various Issues.

Note: OER is Official Exchange Rate, MER is the Market Exchange rate

Graph 4.7 Real and Nominal Coffee Prices in Uganda Shilling (1984-95)

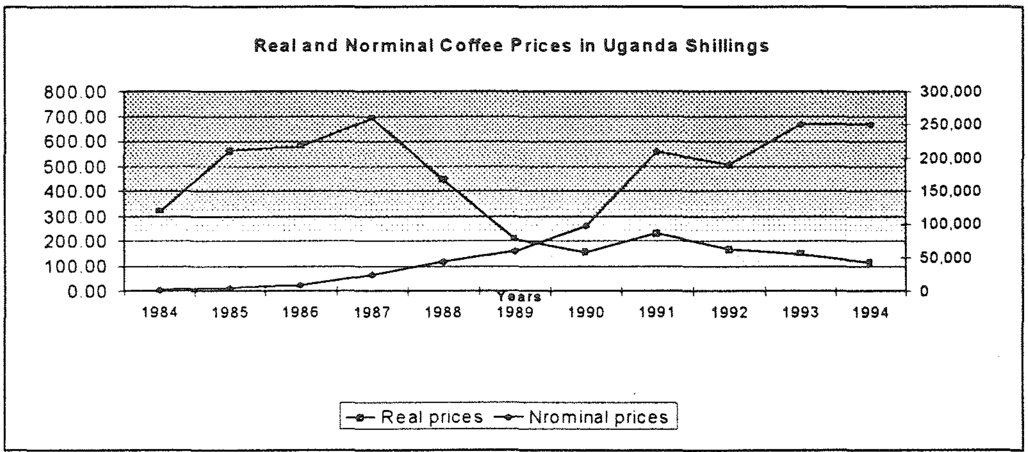


Table 4.7 farmer's share in world prices has consistently increased in the period after liberalisation. These prices given to farmers moved in tandem with global prices though there were times when local prices exceeded the world prices in real terms as a result of cut-throat competition prevalent in the internal market. For example farmers now get over 65 per cent share of the world price at the market exchange rate compared to the pre-liberalisation period.

On the hand graph 4.7 shows that producers' real prices declined sharply from 1987 to 1990. This was largely because of the decline in world coffee prices, which subsequently resulted into low producer prices. The prices increased in 1992 owing to the liberalisation of coffee marketing, and increase in world coffee prices. This was also partly due to the liberalisation of foreign exchange markets (financial liberalisation). Since 1993 prices have remained stable due to low inflationary rates. On the other hand producer nominal price has consistently risen from the beginning of the liberalisation, that is 1991 and fell slightly in 1993 due to the decline in world prices. Since then producer nominal prices have gone up following the global market prices.

4.7 Crop Finance

Due to liberalisation, the coffee industry is increasingly being dominated by companies with access to pre-finance arrangements abroad and / or in joint partnership with international trading houses. These arrangements have greatly continued to ease the industry of the once perennial problem of crop finance. Thus benefiting farmers through competitive prices and prompt cash payments.

However, liberalisation has reduced the small indigenous traders due to competition. They are dependent on local banks charging high interest rates, and have difficulties competing with foreigners who have access to cheaper overseas funding. Since 1994, this has created a lopsided industry: almost 50% of production and trade is in the hands of five major companies with access to foreign capital, and the rest is managed by small co-operatives (WTO, 1998).

Table 4.8 Major Coffee Exporters During the 1995/96 Coffee Year 60Kg Bags.

Category	Exporters	Quantity	Percentage Share	
			Individual	Cumulative
1	Kyagalanyi C/factory	702,587	16.9	
	Ugacof Ltd	410,973	9.9	
	H.M. Nsamba & Sons Ltd	33,886	8.0	
	Quality Commodities Ltd	297,598	7.2	
	Zigoti Coffee Works	263,306	6.3	48.3
2	Wakatayi C/factory	182,109	4.4	
	CMB Ltd	152,215	3.7	
	UNEX	142,076	3.4	
	Zinunula C/factory	129,256	3.1	
	Rakai Coffee Works	119,703	2.9	
	Give &Take	106,456	2.6	
	Joan Coffee Dealers Ltd	103,102	2.5	
	IBERO (U) Ltd	102,410	2.5	25.0%
3	Others (59) Exporters)	1,206,495	26.7	26.7%
Total		4,148,803	100%	100%

Source: UCDA Annual Report 1996: 13

Table 4.8 gives the major exporters during the 1995/96-coffee year. From the table its evident that nearly 50 per cent of the exports were handled by five exporters shown under category 1.Categories 1 and 2, comprising 13 exporters, accounted for over 70% of export market with the remaining 26.7 per cent relegated to 59 exporters.

Its important to note from the table that the share of the state owned CMB went down to 3.7. This shows how the stiff competition due to availability of crop finance determines the exporters share. The decline in CMB'S Share was due to undercapitalisation by government and the producer's lack of confidence in its operation. Gone were the days when farmers had to wait for several months to get paid. Liberalisation has therefore transformed the coffee marketing to a reasonable degree of competition, which directly or indirectly benefits the farmers.

However, government's decision to cut subsidies to farmers had some negative repercussions for coffee planters. Local co-operatives could no longer supply inputs like fungicides and farm inputs like sprayers to farmers because they (the farmers) were no longer obliged to sell to the union as a result of liberalisation (International Coffee Organisation, 1998). Hence some of the farmers gains have been undermined by this. However compared to the stuation before liberalisation, farmers still enjoy the fruits of liberalisation both in terms of high prices and prompter payments.

4.8 Quality and Regulation

There has been a vigorous campaign by UCDA to improve on the quality of Uganda's coffee since the liberalisation. To this end, pre-shipment inspection and evaluation of all coffee lots prior to export are normally carried out. Coffee lots that do not meet the export requirements are rejected until remedial action is taken.

Table 4.9 below for example shows the total monthly rejections during pre-shipment inspection of export lots during the second quarter in 1998.

Table 4.9 Coffee Rejection Jan-Mar 1998

Attributes	January	February	March	Total	%-Age
Low retention	3,234	636	2,885	6,755	4.6
Wetness	42,787	8,634	1,400	53,821	35.9
Discoloured Blacks	40,007	21,275	4,292	65,574	44.6
Pods	9,117	5,428	750	15,295	10.4
ChalkyWhite&Floats	2,091	343	310	2,744	1.9
Extraneous Matter	1,693	2,067	-	3,760	2.6
Total	98,929	38,383	9,637	147,949	-

Note: %-Age- represents the percentage of total defects

Source: UCDA Second Quarterly Report 1997/98.

The major causes of for the rejection were the presence of discoloured, blacks and pods, which were collected through colour or hand sorting. The rejected coffee however was reprocessed to export standards before being allowed for shipment. This show how the dismantling of CMBs monopoly in coffee marketing is bringing about positive changes because prior to liberalisation Uganda's coffee faced stiff competition from other exporting countries due its poor quality. Though the competition still prevails, this pre-shipment inspection opened up a new chapter in Uganda's coffee industry as this never happened before liberalisation.

Other quality considerations include, the introduction and development of new cultivors that are resistant to coffee leaf rust disease, the replacement of many existing trees and a fuller distinction between grades. Uganda intends to compete vigorously in the gourmet market[21]

[21] Gourmet or Speciality coffee refers to coffee beans of very high quality from a single origin. Such beans, because of their unique characteristics, attract a reasonable premium at the specialty Market. Participating countries designate areas within their countries to be referred to as 'gourmet denomination'

and has developed profiles that will allow overseas buyers to select their preferred coffee. It also intends to invest in washed processing facilities for presently dry processed Arabica and some Robusta.

As a result of the quality control measures some exporters are unable to withstand the competition which often leaves them out of business. For instance, it's reported that by the end of 1995/96 coffee season, out of 169 registered exporters, only 78 were able to export during the season thus a total of 91 did not perform.

4.9 Other Factors Affecting the Coffee industry in Uganda.

Though the coffee industry has greatly improved since the liberalisation of coffee marketing, this cannot be attributed to the changes in marketing system alone. Liberalisation took place together with other structural adjustment policies whose implementation begun in 1987. These policies included, financial liberalisation, exchange-rate and trade liberalisation as well as devaluation. All these impacted on the coffee industry given its importance as not major exports crop, but also as the main source of foreign exchange earnings for the country. For example financial liberalisation enabled the exporters to freely convert their proceeds to forex bureau rates, which increased availability of crop finance which was a perennial problem to the coffee industry.

Further this period of liberalisation coincides with improved political stability which had greatly reduced coffee production in the past. For example the political uncertainties that hit Uganda between 1973 and 1981 and between 1981 and 85 devastated the whole economy including the coffee sector.

Aside from programs undertaken under the ARP and ASAC, the government has undertaken a strong stand in developing her infrastructure especially the road network linking the rural agricultural areas to the urban markets to support market integration. Good infrastructure attracts financial infrastructure and stimulates economic activity.

Therefore apart from fluctuations in the international coffee prices that affects domestic production, and the inefficient marketing system, the coffee industry is vulnerable to natural causes that affect productivity. These include drought, diseases (coffee leaf rust) and of recent the El Nino rain that greatly reduced coffee production.

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where cultivation of such coffee is developed.

The other underdeveloped non-price factors are lack of agriculture inputs and farm implements and other supporting materials, adequate extension services, inadequate transportation system(to bring in agricultural inputs and implements, and bring access to consumer goods), poor access to improved coffee varieties lack of enough cultivatable land, which makes coffee to be intercropped with other food crops and poor electricity supply to enable farmers add value to their coffee before selling it to potential exporters.

4.10 Analytical Framework and Conclusion

The analytical framework developed in chapter two showed that liberalisation lead to increased agricultural productivity and growth through 'getting prices right' ie ensuring that prices are determined by market forces rather than government, abolition of export taxes and floor price for coffee. This was assumed would lead to higher producer prices, better incentives to farmers thereby increasing productivity and efficiency in marketing. Another positive contribution of liberalisation was through abolition of monopoly marketing that would lead to more competition with n the domestic and export markets.

This analytical framework can now be filled with the findings about the impact of liberalisation on the coffee industry, the summery of which is presented in the figure below.

Figure 4.1 Analytical Framework

<u>**Objectives of Liberalisation**</u>

Objectives of Liberalisation	Achieved	Other Contributors
Increase in Coffee Exports	YES	Pre-liberalisation conditions e.g. Establishment of UIA, External factors E.g. frost in Brazil and Strikes in Columbia
Improved Quality	YES	- Introduction of new varieties before liberalisation e.g. clonal coffee
Increase in Production	YES	Return of Asian businessmen and stable Political Environment.
Competitiveness in Internal and External Market	YES	- Availability of crop finance

Increase in Producer Prices	YES	- Movements in International coffee prices. -Financial reforms e.g foreign exchange liberalisation -Low rates of inflation
Availability of Crop Finance	YES	Pre-finance arrangements with foreign sources
International competitiveness in Productivity and exports Performance: Comparison with Cameroon & Côte d'Ivoire	YES/NO	-Differences in internal dynamics e.g. the - division in Cameroon- Anglo&Francafone - Existence of competition with other export Crops like Cocoa in Côte d'Ivoire -Lack of strong competition in Uganda's cash crop exports sector

The analytical framework shows that most of the objectives of liberalising coffee marketing in Uganda have been achieved. For instance, export have increased, producer price improved, crop finance made more available, increased productivity among other. However it also reveals that these changes are not entirely due to liberalisation, but a combination of other factors both internal and external. On the hand it shows that liberalisation has not had similar effects in Cameroon and Côte d'Ivoire owing to differences in the internal environments prevalent in the counties under comparison.

Conclusion

This chapter has shown the impact of liberalisation on the coffee sector in Uganda in comparison with tea and cotton exports. It has attempted to compare the impact of liberalisation in Cameroon and Côte d'Ivoire with the aim of establishing whether the three countries had similar effects. For Uganda's case, agricultural liberalisation has had a positive impact on the coffee industry especially in relation to coffee productivity, export growth, quality improvement and marketing efficiency. As compared to other competing crops, tea and cotton, coffee is still takes a lead both in volume exported and percentage share in total exports. On the other hand, liberalisation seems to have had less significant impacts in Cameroon and Côte d'Ivoire both in terms export increments and productivity, owing to the different internal factors.

As for the international comparison, it has been found out that the period of liberalisation coincided with the period of decline in global coffee prices so much so that little could be done to reverse the trend. And that these world price changes have similar effects to all coffee exporting countries especially in terms of affecting producer prices and hence production. The exception with Uganda is that liberalisation coincided with the implementation of other favourable macroeconomic policies as well as political reforms which offset the fluctuations in world prices. This chapter also underlined the other factors both economic and non-economic that may affect coffee production apart from price factors as most proponents of liberalisation tend to emphasise. The last part entails the analytical framework that established linkages/ and or mechanism through liberalisation leads to agricultural growth.

What can be concluded from this chapter is that liberalisation, if proceeded or is accompanied by other favourable factors can lead to improved agricultural growth.

CHAPTER 5

CONCLUSIONS AND POLICY RECOMMENDATIONS

The study was undertaken with the main objective of analysing the implications of liberalisation of coffee marketing in Uganda. The study attempted to examine the performance of the coffee sector since market liberalisation policies were instituted in 1991. The study also entailed a comparative analysis of the effects of liberalisation in Cameroon and Côte d'Ivoire with the aim of establishing whether policy changes in coffee marketing has had similar effects, as believed by proponents of liberalisation.

This chapter gives a summary of findings about the implications of liberalisation on the coffee industry as well as policy recommendations based on the research questions and the theoretical/conceptual framework developed in chapter two. Considering that liberalisation has already been implemented, my recommendations will be in the line of making the current implementation more efficient and less detrimental to the sector.

5.1 The Reforms and Their Impact

With the introduction of the WB and IMF supported marketing reforms in the early 1990s, the coffee sector experienced a departure in the direction of private competitive marketing, which transformed the former Coffee Marketing Board into a private company, and transferred its regulatory functions to the new agency, the Uganda Coffee Development Authority (UCDA), whose role is to control quality and the prices at which coffee is sold. The new marketing policy permitted competition with CMB in the coffee export market. The former co-operative Unions and several private sector firms were also licensed to undertake coffee exports.

The analysis of the objectives of market liberalisation policies in terms of their impact on the

coffee sector has revealed that some positive results have been achieved as a result of liberalisation. These include:
Owing to the elimination of export monopoly of coffee together with the removal of government policy induced distortions, competition has been created in the coffee industry. This is demonstrated by the increasing number of export competitors and the diversification of the share of export volumes culminating into a drastic fall in the share of the state owned CMB. It has also been noted the free competition environment eliminated delayed payments to peasant farmers since now coffee transactions are effected with prompt and cash payments.

More so, liberalisation policy has eliminated the problem of inadequate crop finance when government waived the restriction on pre-finance facility, which allowed exporting traders to solicit finances from foreign sources. This also contributes to timely payments to peasant farmers. However, the negative aspect of this arrangement is that it has alienated domestic exporters in favour of foreigners and also it has reduced the number of competing exporters to a handful of few but because of the strong regulatory measures enforced by the UCDA, there still exists strong competition among the coffee exporting firms.

Coffee exports have also increased both in volume and value in the years after liberalisation. The study found out that this increase was due to the stiff internal competition among private traders, which leaves no produce unbought as it was in the past. However the study also found that the increase in coffee exports couldn't be attributed to the liberalisation alone, other factors too were responsible especially those related to the pre-liberalisation conditions like the return of Asian businessmen, the establishment of the UIA and internationally related factors like frost in Brazil which affected world supply and hence increase in world coffee price.

On coffee production the study found out that there has been tremendous rise in both production and productivity. This has been mainly due to the improved incentives in form farm inputs that had deteriorated in the past and the relatively stable political atmosphere.
About the comparison between coffee and other competing crops, the study found out that where as the liberalisation of tea and cotton sector has revived their productive capacities, they are far less competitive with coffee. This leaves coffee as the most dominant export crop.

On the hand, the international comparison was rather interesting. The study found out that though, both Cameroon and Côte d'Ivoire liberalised the marketing systems, liberalisation has had less significant effects compared to Uganda in terms of coffee productivity and export performance. Nevertheless the study was also able to establish that different impacts are due to internal factors prevalent in liberalising countries.

Furthermore, the study has pointed out that agricultural liberalisation policy emphasises the need of 'getting prices right' in order to provoke a positive supply response. However, as Streeten (1989) warned, price incentives can be counter productive in absence of non-price factors (inputs, innovation, infrastructure, information and institutions) which are needed by producers for efficient resource allocation and production, and which make markets work more efficiently. In Uganda the study has found that the positive supply response has been a result of not only higher prices paid to producers but also because of the favourable pre-liberalisation environment created since 1987.

On quality of coffee produced and exported, it was found out dismantling of the state rum Coffee Marketing Board and the creation of the UCDA has greatly improved on the coffee quality. This has been achieved through a vigorous preshipment inspections and sensitisation of farmers about the need for quality improvement.

5.2 Recommendations

Following the above findings I recommend the following;

(i) Less reliance should be placed on price policy, which is a necessary but far from sufficient policy instrument for generating agricultural growth. There should be greater attention to the non-price factors like an enabling political environment that also affect agricultural growth. In Uganda, this did not only affect coffee and other agricultural exports, but devastated the whole economy. Therefore for liberalisation to succeed, the non-price factors need to be attended to.

(ii) Agricultural market liberalisation and privatisation should be accompanied by increased government support for public good provisioning. Government regulation and control of agriculture needs to be reduced, but this should be replaced by an increased government role in the areas of support and promotion the private sector. Therefore, directed government intervention is still needed to lay the foundation for markets to function more efficiently and to ensure that the coffee industry is not threatened by the current policies. The withdraw of the state from forms of intervention is desirable but the complete withdraw of the state from the whole agricultural marketing system mail fail to bring about desirable results.

(iii) The sequencing of agricultural reform requires greater attention; for example favourable pre-liberalisation conditions for example exchange rate liberalisation, ought to be in place for the success of market liberalisation.

Conclusion

All said and done, the liberalisation of agricultural marketing has in no doubt contributed immensely to improved coffee production and marketing in Uganda. It has reduced inefficiencies and distortions associated with monopoly marketing which characterised the coffee industry before the reforms. The study has however reviewed both the negative and positive implications of liberalisation of the coffee sector. On the positive side, the study reveals that increases have been registered in both coffee production and exports over the years. It has also showed that producer prices have gone up and that producers are now paid promptly owing to the availability of crop finance and the internal competitiveness in the industry ushered in by liberalisation. However on the negative side, this has negated the small traders who are unable to withstand this competitive environment as they lack the necessary finances. Improvements in the coffee quality is also worthy mentioning though much more is needed especially to meet international competitive standards. Its important to note that Uganda's coffee is slowly gaining her lost position in the world market after the reform though her share is still low. The future of Uganda's coffee industry therefore lies in the commitment of all stakeholders i.e. government, exporters, and producers who need to strive towards transforming not only the marketing and productive structures, but also look for ways of diversifying to reduce the overall dependence on coffee for foreign exchange.

The lessons to learn from the experience of Uganda are; a) that liberalisation is essential though not sufficient condition to improve the agriculture sector i.e. it does not address the non-price factors like an enabling political stuation that often affect the productive environment. b) That government intervention is necessary in some instances to counter the market failures especially in relation to provision of public goods like infrastructure that are essential for agricultural development.

c) Finally that liberalisation is necessary for agricultural growth not only through increasing prices but also through improving the marketing structure and efficiency in the coffee industry.

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