SOME ISSUES IN THE FULLY-WASHED COFFEE CHAIN IN RWANDA

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Questions

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- **Is FW coffee profitable for Rwanda?**
  - **YES**

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- **Is FW coffee profitable for Rwanda?**
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- **If yes, why only 35-40% of coffee is exported as such?**
  - **LOW CAPACITY UTILIZATION**

- **Why does this happens?**
  - **MKT FAILURES, ESPECIALLY IN SOURCING & FINANCE**

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- **Is FW coffee profitable for Rwanda?**
  - **YES**
- **If yes, why only 35-40% of coffee is exported as such?**
  - **LOW CAPACITY UTILIZATION**
- **Why does this happens?**
  - **MKT FAILURES, ESPECIALLY IN SOURCING & FINANCE**
- ***What can be done about it ?***
  - **TODAY’S CONFERENCE**

COFFEE WASHED CHAIN

COFFEE WASHED CHAIN

What is (and *isn't*) the subject of the study?

DATA

- Survey of 178 CWS
  - Managers
  - Workers
  - Farmers
  - Collectors

- Administrative datasets from NAEB
  - Export contracts
  - Sourcing and prices
  - Quality samples
  - Stations census
  - 2009 coffee census (at the farmer level)

- GIS data matched to all data above
  - Roads, rivers, rainfall, soil, drainage, …

AGENDA FOR TODAY

1. Comparison of FW and ORD value chains

2. Dispersion in Efficiency, Capacity Utilization and Management

   - Competition
   - Access to finance

3. Links to the conference agenda

VALUE ADDED ALONG THE CHAIN

Table 1: Profits along the Coffee Value Chain ($ per kg of Green Coffee)

		Value added (inputs for 1kg of green coffee)	
	Product 'Sold'	**FWC**	**ORD**
Farmer	Cherries	2.20	1.60
Labour	Labour	0.65	n/a
Financier	Capital	0.50	0.50*
Transport/procurement		0.25	0.25*
Other costs		0.15	n/a
CWS Profit	Green Coffee	0.40†	n/a
Exporter cost	Green Coffee	0.30	0.30
Additional Exporter profit from ORD		n/a	0.40
Export price, FOB		**4.45**	**3.05**

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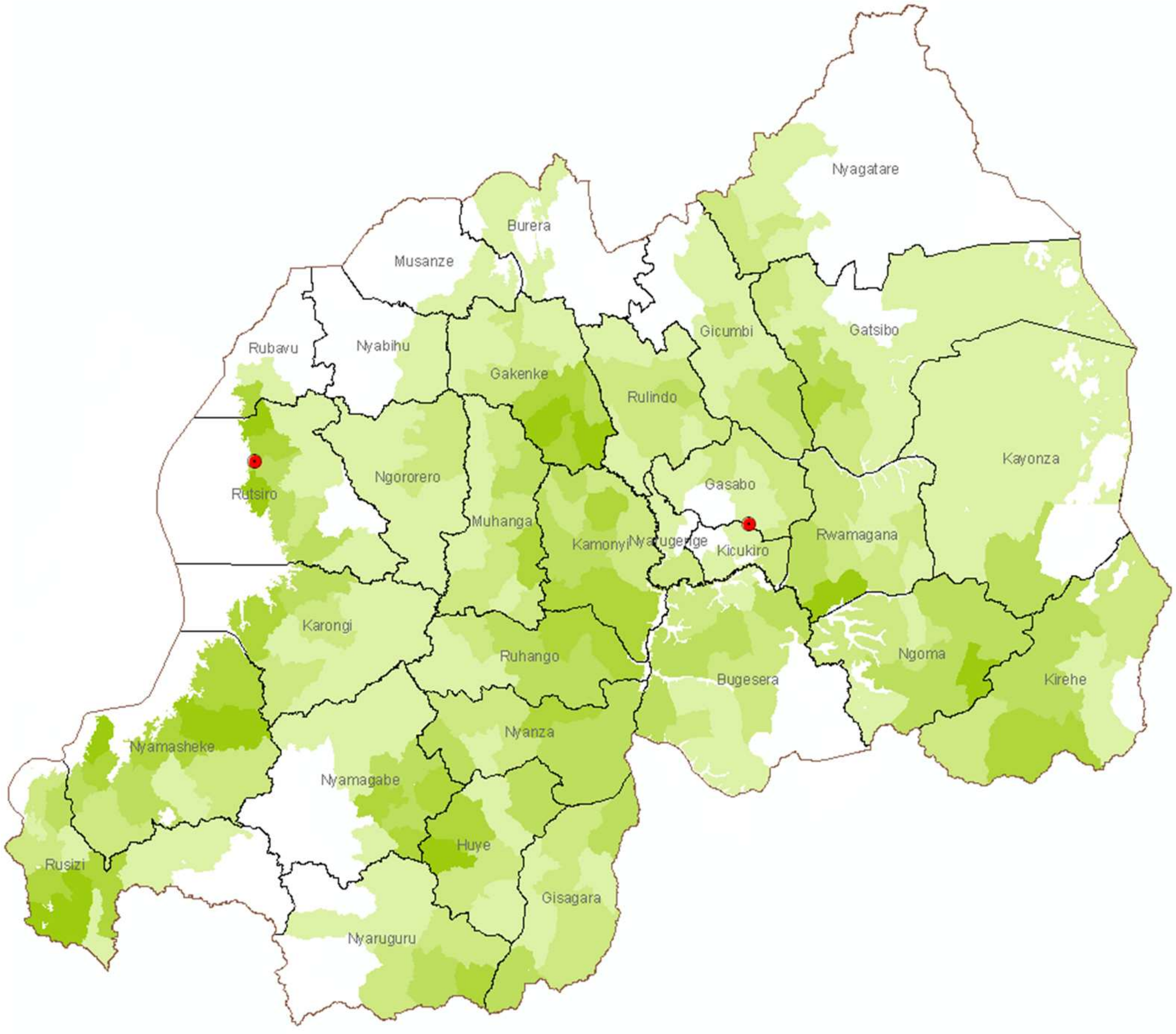
Yet, only 35-40% of coffee is sold as FW. Why ?

SECTOR EXPANSION

< 2002

Coffee Producing Sector: No. of Trees

- 0 No data
- 1 - 100000
- 100001 - 250000
- 250001 - 450000
- 450001 - 800000
- 800001 - 1392171
- CWS
- Country boundary
- District boundary



SECTOR EXPANSION

2006

Coffee Producing Sector: No. of Trees

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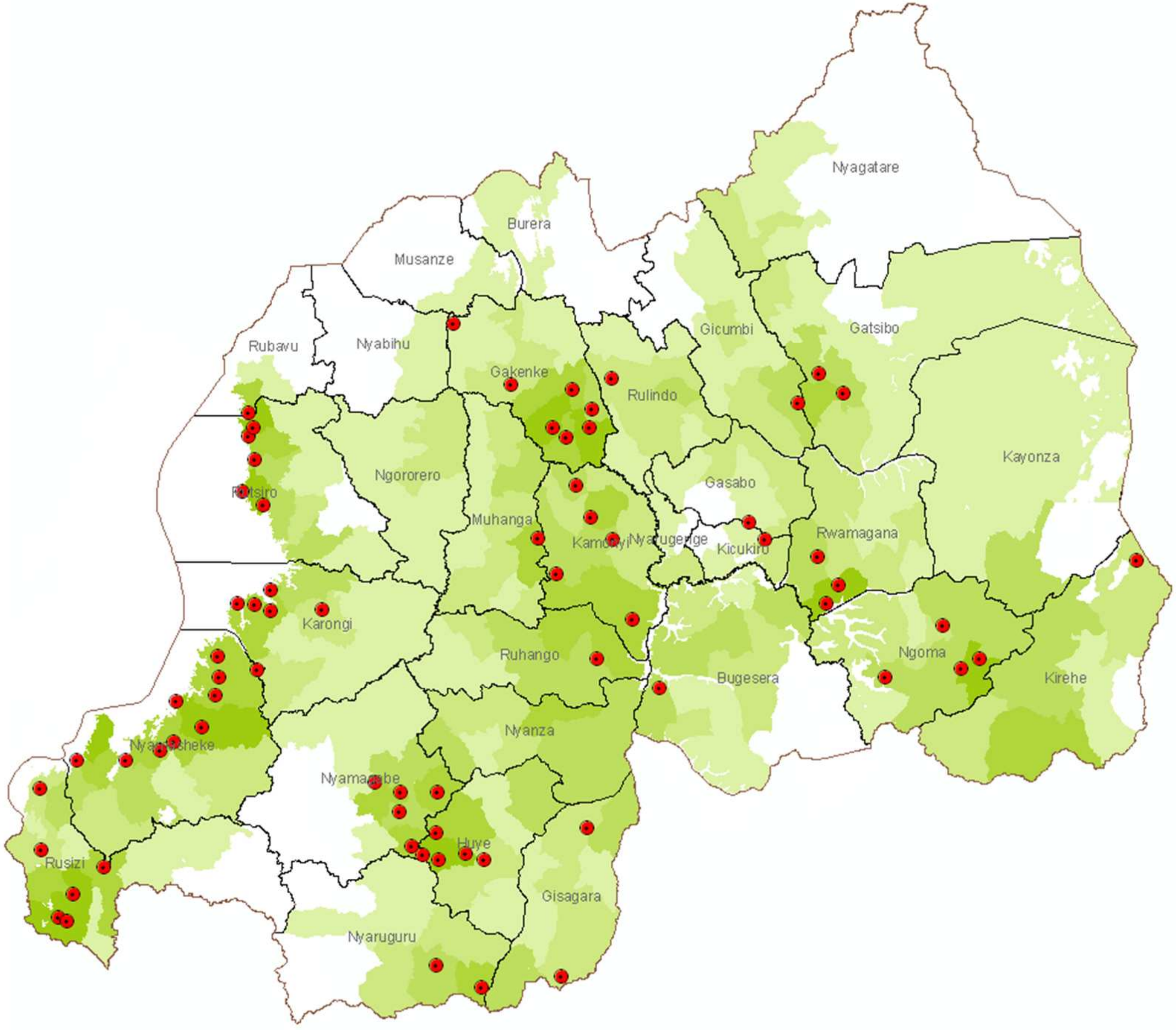
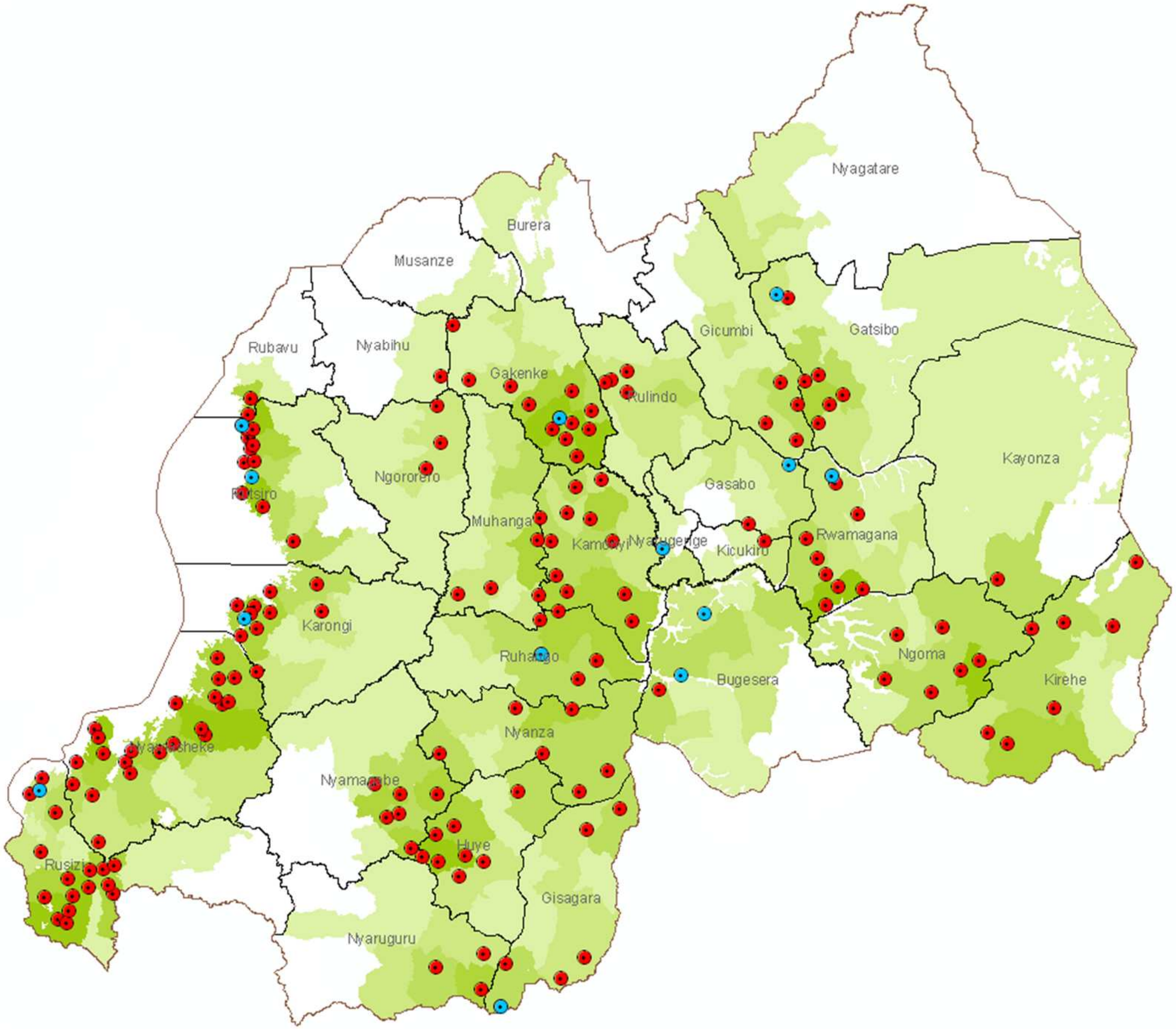


SECTOR EXPANSION

2011



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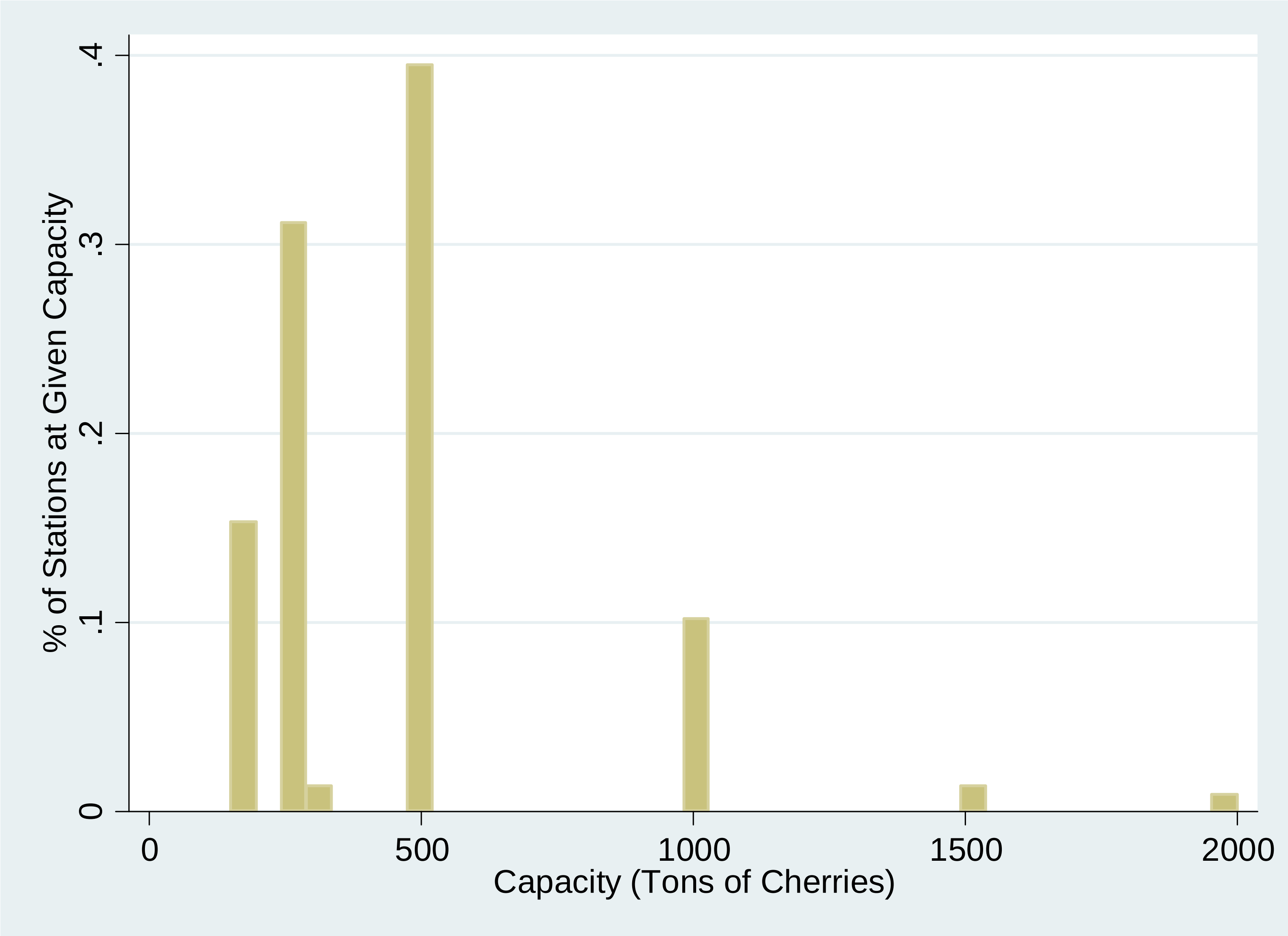
CAPACITY INSTALLED



15% < 150 Tons.; 15% => 150 Tons. ; 30% => 250 Tons. ;

30% => 500 Tons; 10% => 1000 Tons

Note: estimates from NAEB data.

Entry vs. Capacity Utilization

	Built Stations	Active Stations	Capacity Utilization
2012	214	197	60%
2013	222	202	55%
2014	229	199	50%

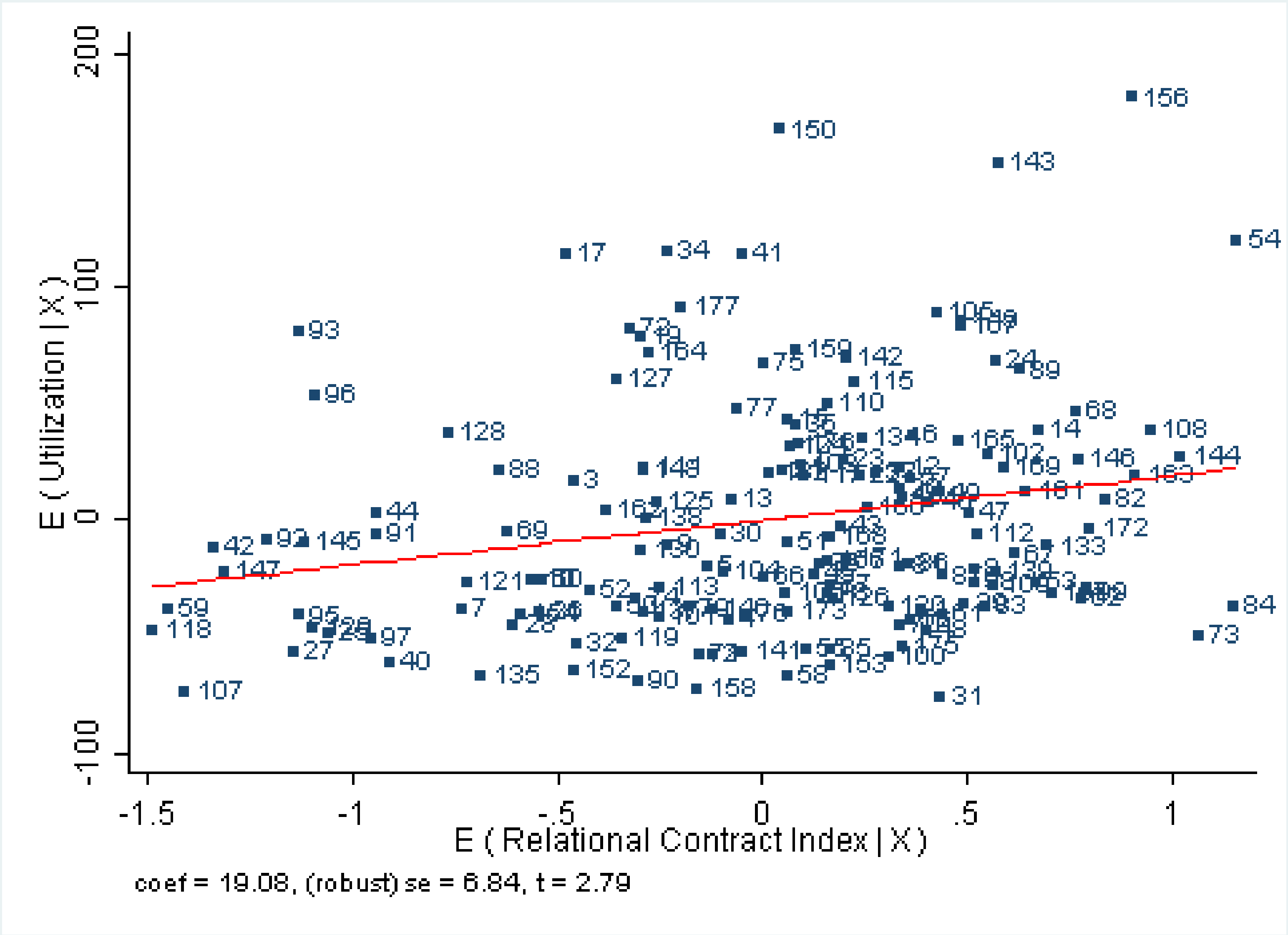
Dispersion in Efficiency (1 / Unit costs)

Variable:	*Unit Costs*	*Physical Efficiency*	*Cherry Prices*	*Other Unit Costs*
p75 - p25 Ratio	1.22	1.04	1.11	1.66
p90 - p10 Ratio	1.51	1.1	1.32	2.34
% Variation Explained by:				
Geography	27	34	41	30
Technology	8	6	7	4
Physical Efficiency	10	--	[4]	[3]
Cherry Prices	5	[4]	--	[7]
% Variation Unexplained:	**50**	**60**	**52**	**57**

For Cherry costs: R75/25=1.15; R90/10= 1.28. rho(Physical Efficiency, Cherry Prices)=0.33*

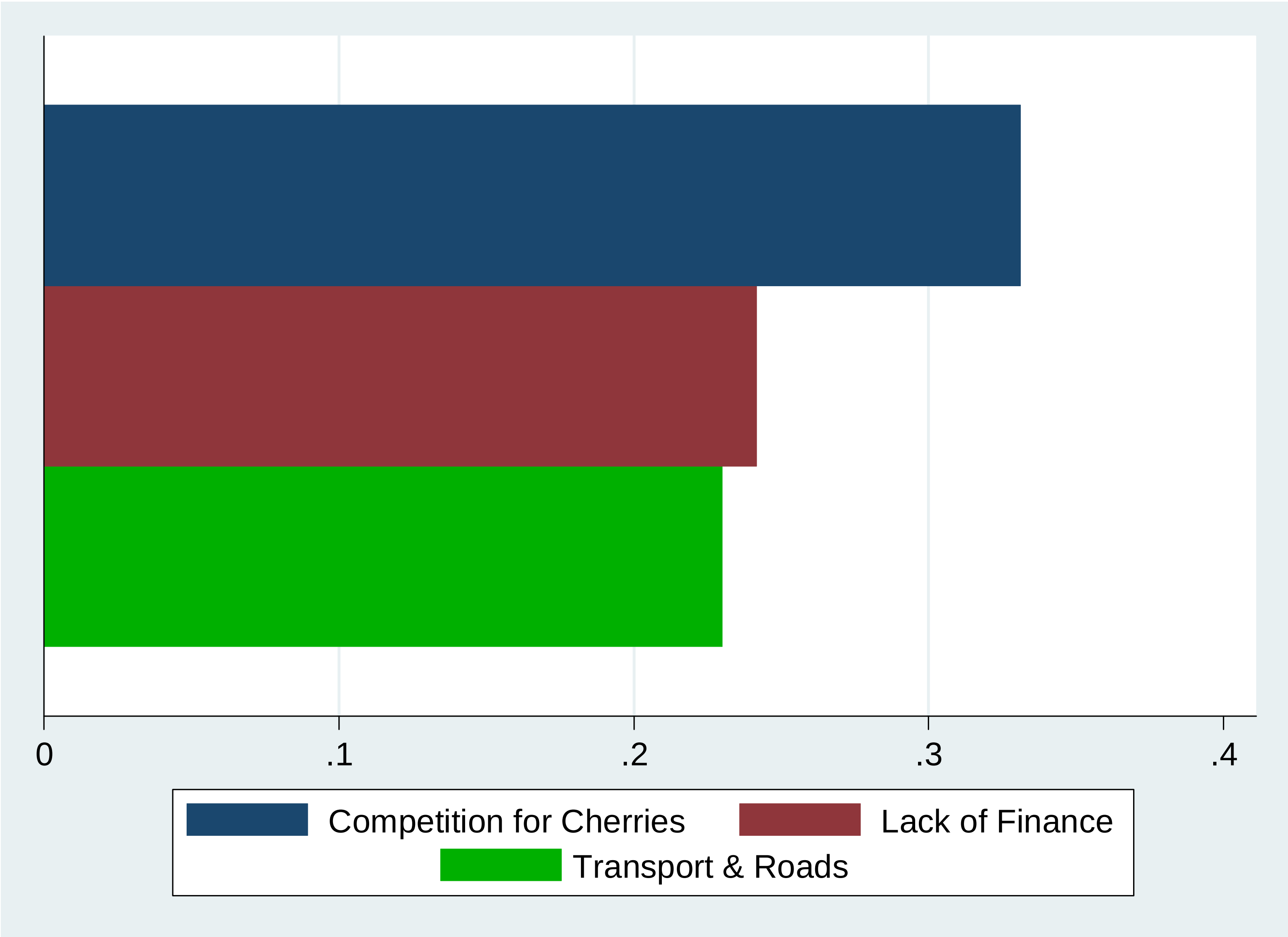
- **Significant dispersion in efficiency**
- **Management is key driver**

Utilization and Relationship with Farmers



Why ?

SELF-REPORTED CONSTRAINTS TO OPERATION



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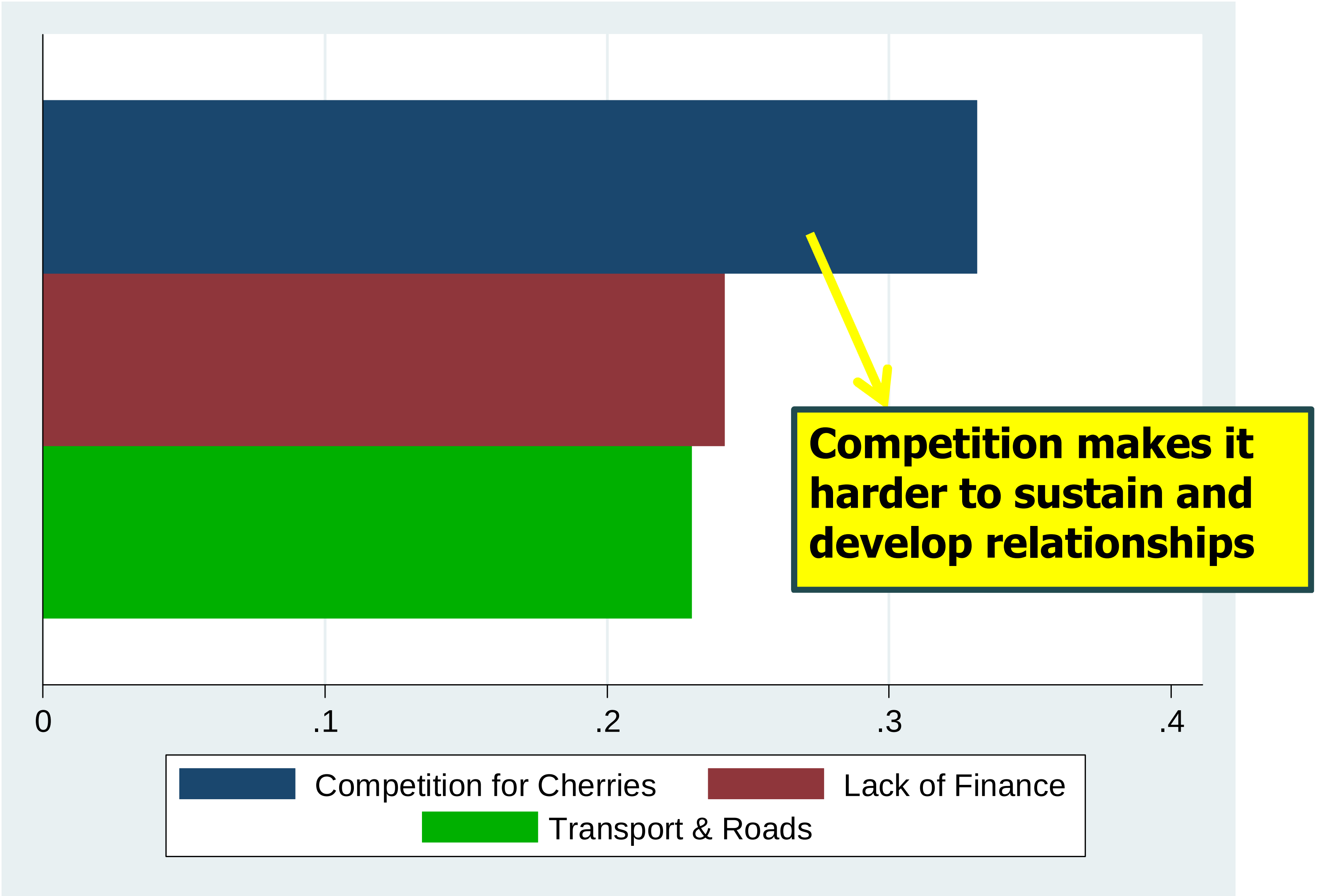
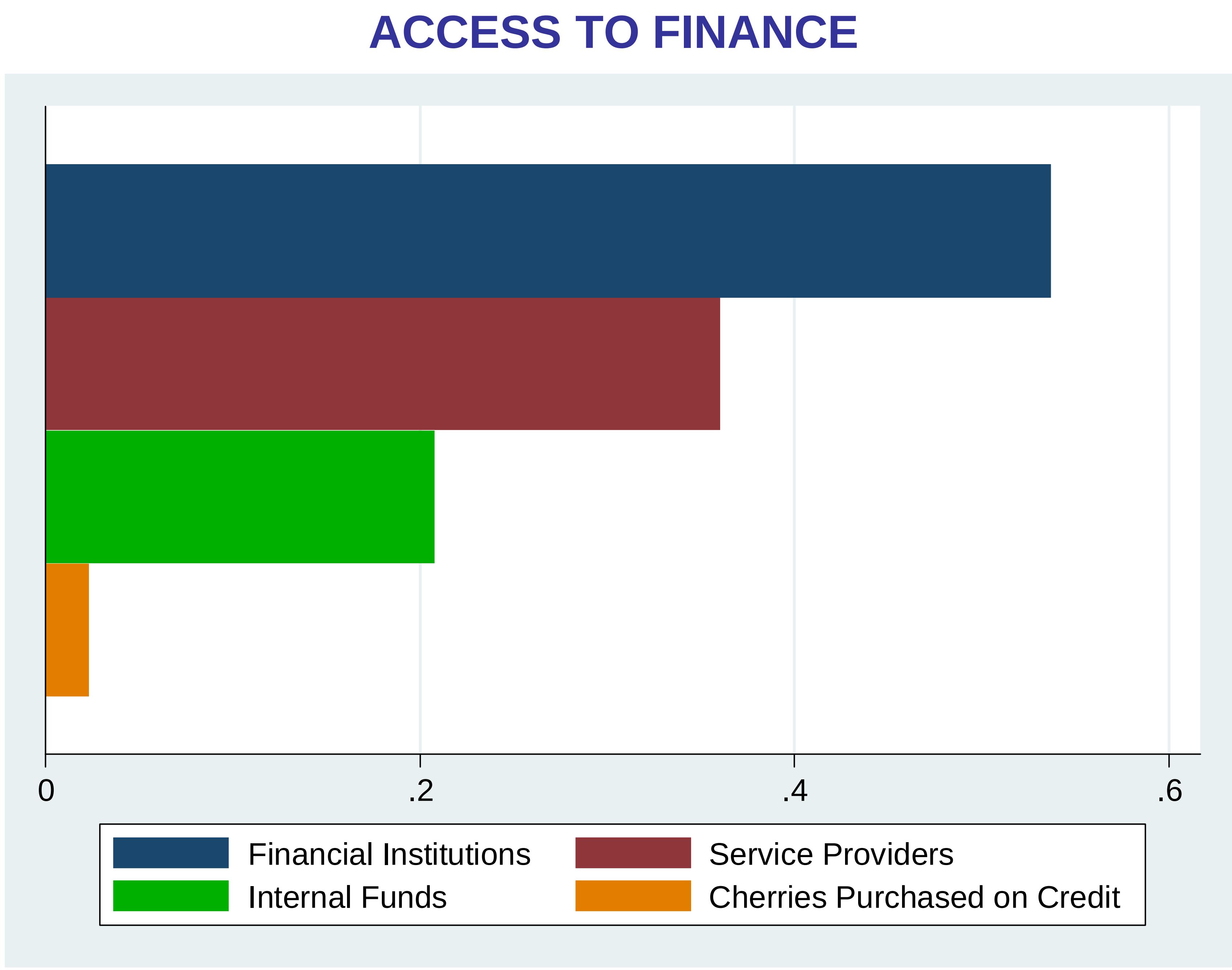


Financing Working Capital

- Working capital requirements = 70-80% of cash flows (against typical 20-40% for SMEs in manufacturing)

- Providing loans to CWS is also *difficult*, *costly* and *risky*

- **WHERE DO CWS IN RWANDA GET FINANCE FROM ?**


ACCESS TO FINANCE
0
.2
.4
.6
Financial Institutions
Service Providers
Internal Funds
Cherries Purchased on Credit

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- As a result, we estimate approx. 60% of CWS to be *credit constrained*

- **WHAT TO DO ?**

Expanding Supply → **Value Chain Financing**

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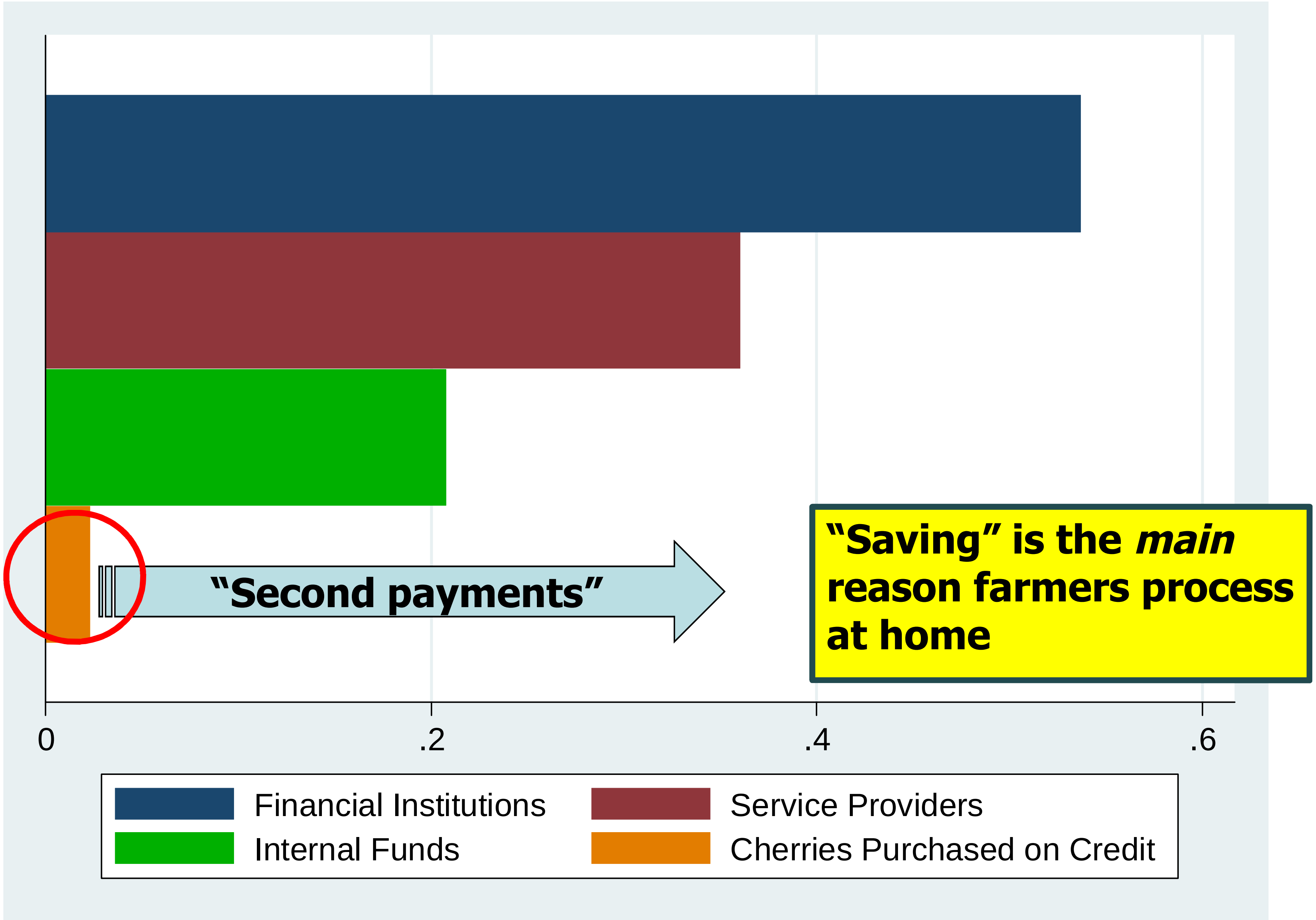
Expanding Supply → **Value Chain Financing**

Lowering Demand → **Buy on credit from farmers (strengthening relationships)**

ACCESS TO FINANCE



REGULATORY OPTIONS

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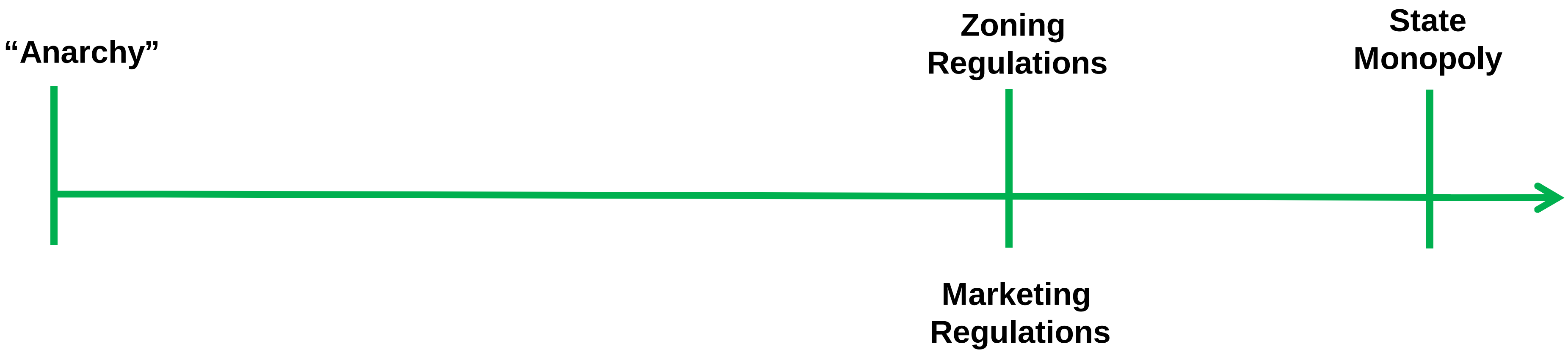

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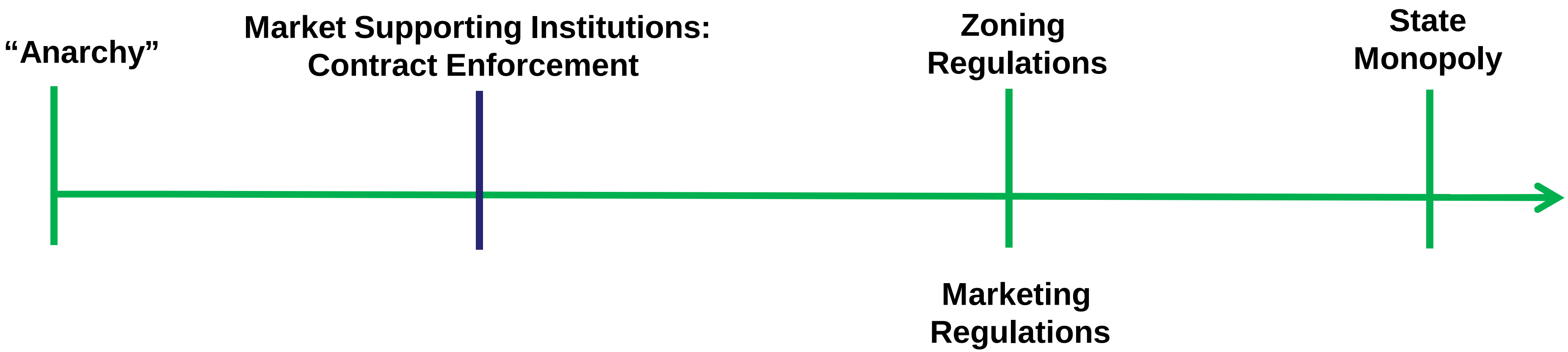

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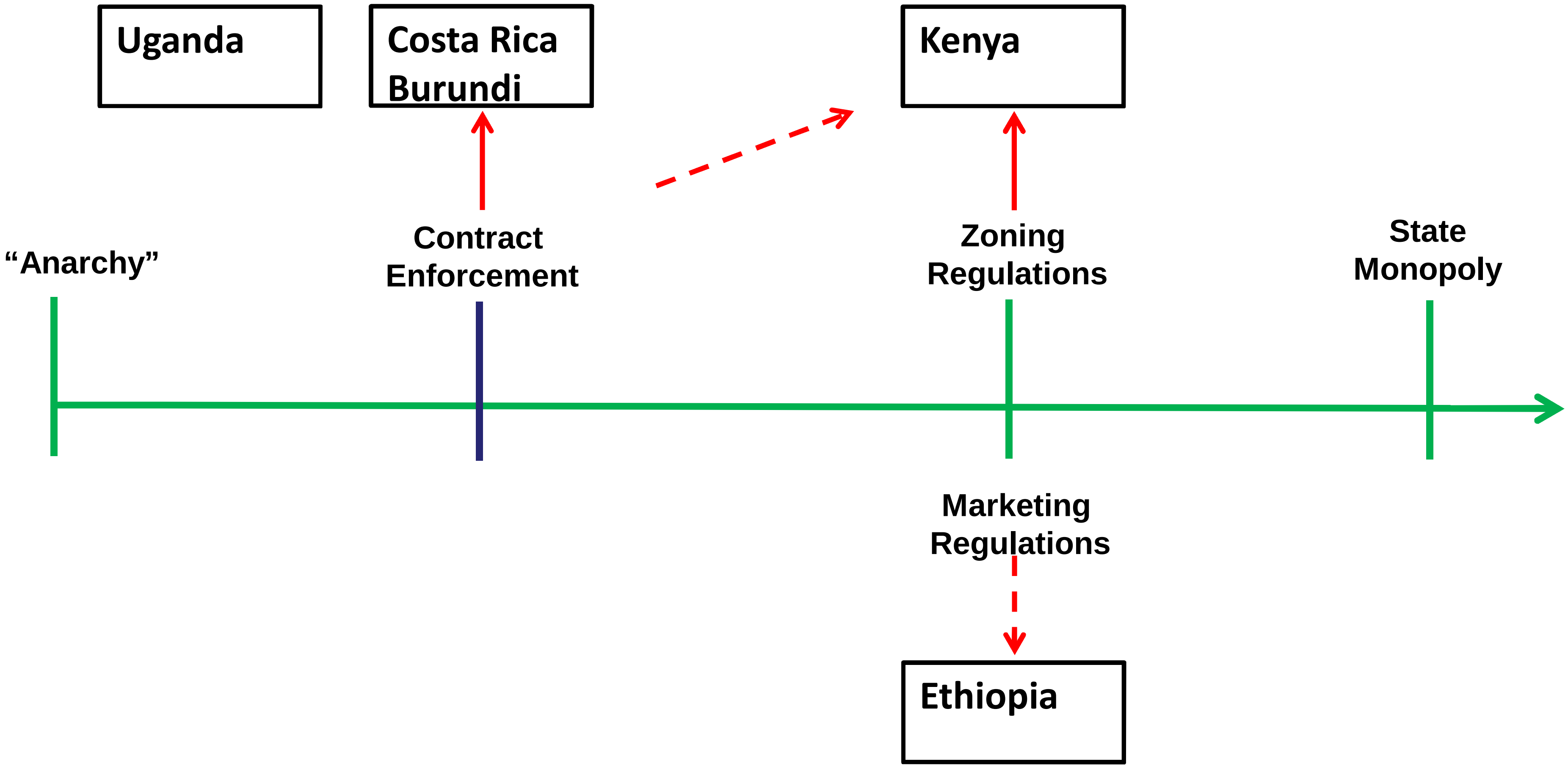

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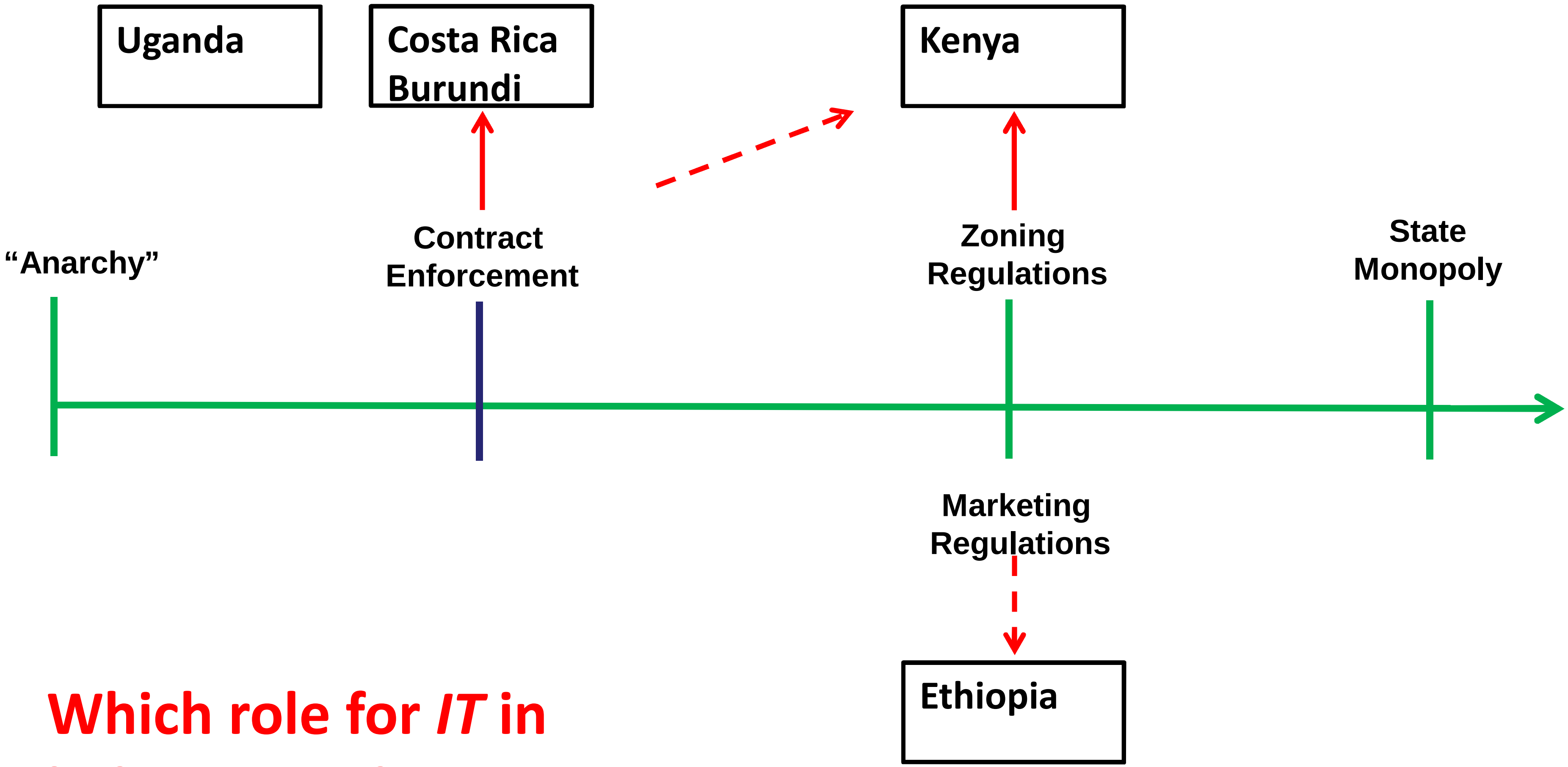

Which role for *IT* in helping regulation ?

WRAP - UP

Issues:

- **Washed coffee *is* profitable for Rwanda**
- **Strengthening relationships btw. farmers and stations**
  - Regulating competition and/or enforcing contracts
  - Access to finance

Session 2

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Session 2

- **Experience from other countries**:
  - Costa Rica,
  - Burundi, Uganda, Ethiopia, Kenya, …
- ***Way forward***

Session 3 & wrap-up

Few Final Words

1. **NAEB**

2. **IGC**

3. **Numerous stakeholders (private sectors, NGOs, financial institutions, …) and today's participants …**

THANKS !