COFFEE WASHING STATIONS IN RWANDA

INTRODUCTION

Rwanda aims to increase export revenues by 18% annually, the recent study by Macchiavello & Morjaria (2015)[1] highlights why targeting Fully Washed Coffee (FWC) is a good way to move towards this:

- In 2012, coffee accounted for almost 30% of Rwanda's total export revenue.
- If Rwanda were to double the amount of coffee exported as FWC, holding constant total coffee export volumes, it could expect a 10-20% increase in coffee export revenues (3-6% increase in total export revenues).
- Domestic value added is substantially higher for fully washed coffee, compared with ordinary coffee.
- Value added along the fully washed chain is also more equitably distributed.

Why isn't more coffee washed: a key paradox

Our recent survey of farmers and coffee washing stations highlights a key paradox. Coffee washing substantially reduces the risk of defects in coffee. However, despite the fact that actors along the value chain stand to gain financially from washing coffee, and despite rapid expansion of the capacity of coffee washing stations (CWSs) in recent years, only 30-40% of the exported coffee is washed.

Farmers stand to gain

Our survey found a difference of $1.40 per kg between the export price of fully washed and ordinary coffee. This export revenue is spread out along the value chain with benefits accrued to the farmer, labourers at the CWS, the CWS owner, and the financier. The only actor to lose out from FWC is the miller/exporter who loses $0.4kg, compared to the same amount of ordinary coffee.

There is ample supply of Coffee Washing Stations

The coffee washing sector has seen rapid expansion from a baseline of a handful of washing stations pre-2002. Figure 1 shows the number and location of coffee washing stations in 2002 (a), 2006 (b) and 2011 (c) (Green indicated the density of trees and red shows the presence of a washing station). According to data from NAEB, in 2002 Rwanda had two coffee washing stations, and by 2012 this had increased to 214 coffee washing stations.

According to the same source, in 2012 the median coffee washing station utilised just 53% of their installed capacity. One in four of stations processed less than 25 percent of what their installed capacity allowed, and 17 stations were not operating at all. Just 25 percent of stations were operating at 100 percent capacity.

However, export volumes are down

Since 2006, the coffee sector has been characterised by a gradual decline in export volumes offset by strong price increases. Figure 2 shows the annual export of coffee from Rwanda by volume (blue bars) and value (red line). By contrast, the value of exports has grown from RWF 25 billion in 2006 to RWF 45 billion in 2012. This is driven by upgrading in value and strong world prices.

[1] Full study available at theigc.org/rwanda

Figure 1: Sector Expansion in Coffee Washing Stations, 2002-2011

(a) Before 2002 (b) 2006 (c) 2012

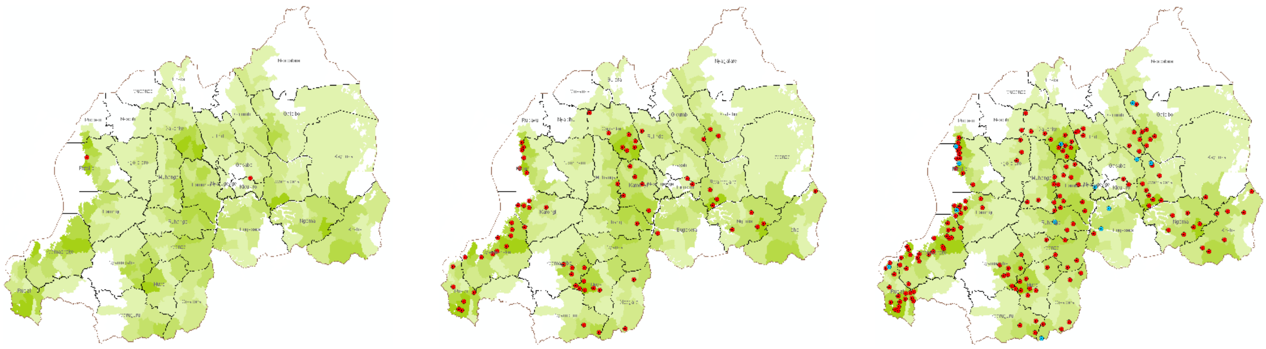
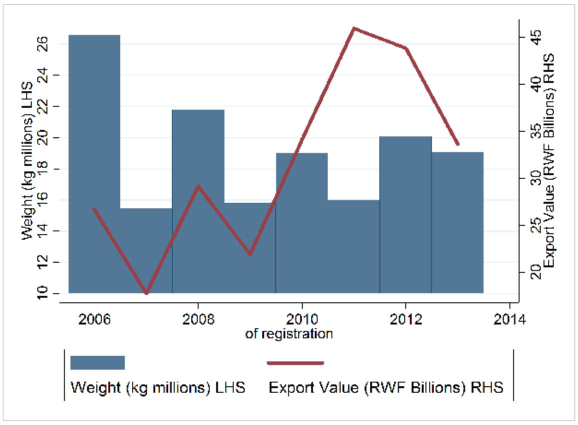
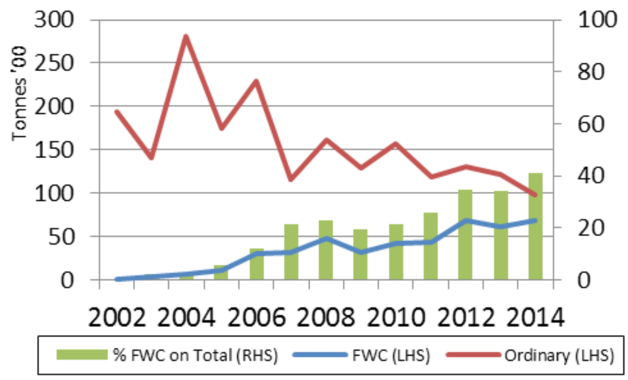


Figure 2. Export Value and Volume



Source: RRA ASYCUDA Customs Data

Figure 3. Production of FW and ORD Coffee



Source: NAEB, 2014

Constraints and solutions

To address the paradox of why more coffee isn't washed this study diagnoses four constraints and four solutions to boost the fully-washed sector:

Problem	Proposed Solution
Lack of contract enforcement mechanisms	Strengthen the relationship between stations and farmers by adopting new technology that allows for tracking of purchases, sales, and inventories with the goal of encouraging farmers to sell cherries on credit to Coffee Washing Stations (CWS).
Access to working capital	Establish a system of value chain finance. The financier should use "contracts" that stations have signed with buyers to disburse loans to stations. When the station delivers coffee to the buyer, the buyer repays the loans directly to the financier.
Poor managerial practices at CWSs	Explore new ways to raise the productivity of existing CWS, including encouraging private management firms and training
Few external coffee buyers	Conduct more research into why large exporters of Rwandan coffee are able to purchase coffee more cheaply, with a view to further diversifying buyers of Rwandan coffee.

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