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Rwandan coffee exports during COVID-19

Challenges and opportunities for increased resilience



- In brief:**
- The decade before the COVID-19 pandemic was characterised by significant improvement in the quality of Rwandan coffee and increased export revenues.
 - To understand the implications of the COVID-19 crisis for the Rwandan coffee sector, the IGC (in collaboration with NAEB and CEPAR) conducted a survey of exporters between June and December 2020.
 - The findings suggest that coffee was among the least affected exports during the COVID-19 crisis. Relatively stable coffee exports reflected the broader resilience of traditional exports in the immediate aftermath of the crisis.
 - However, exporters reported facing supply-side constraints like labour shortages and costly freight charges attributed to COVID-19 restrictions.
 - As one of Rwanda's principal exports, the findings underscore the need for supply side measures to secure stable coffee export inflows in the short to medium-term.

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Overview of the research

The COVID-19 health pandemic has impacted most dimensions of economic activity, particularly trade in goods and services. While global trade contracted substantially in the immediate aftermath of the pandemic, the global coffee industry was among those that were less affected. Data from the October 2020 ICO world coffee report show that global coffee exports fell by 4.9% while consumption fell by 0.9%.

“Before the pandemic, the quality of Rwandan coffee had undergone a decade of significant improvement.”

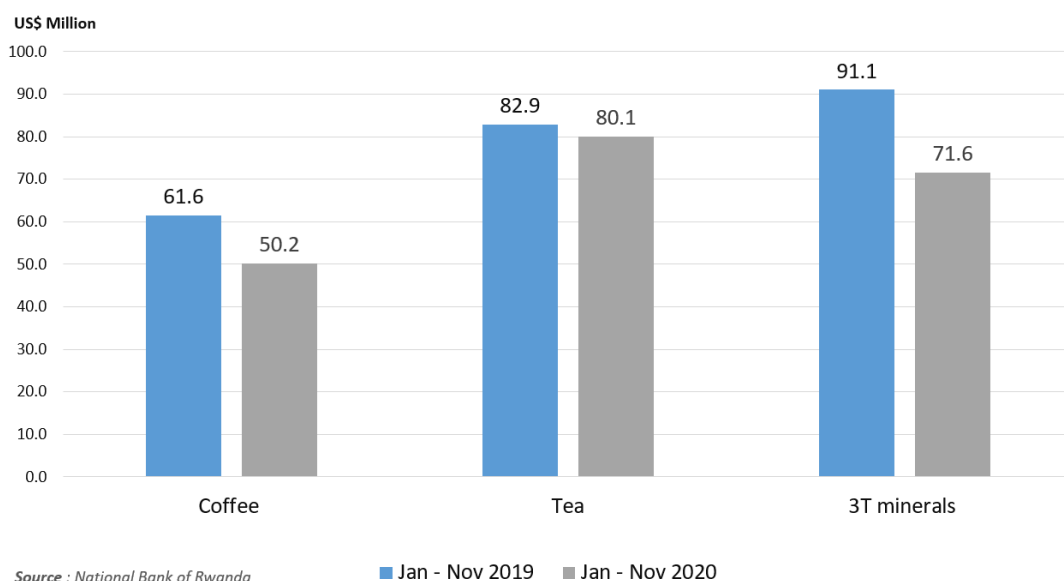
The potential implications of the COVID-19 pandemic for the Rwandan coffee sector are of great interest to the government. Before the pandemic, the quality of Rwandan coffee had undergone a decade of significant improvement, enabled by a strong and supporting regulatory agency and business friendly environment. These favourable policies helped to organise a formal supply chain and raise the number of washing stations from a handful in 2002 to over 300 to date. In turn, the share of the fully washed coffee exports rose from 30% of exports in 2010/11 to over 60% in 2018/19, generating higher revenues for the country³. The onset of the COVID-19 crisis followed a period of extremely low world coffee prices and threatened to put further pressure on the progress made in the coffee sector. To understand the implications of the COVID-19 pandemic for the Rwandan coffee sector the IGC conducted a survey of exporters between August and December 2020 addressing the following questions:

1. How have coffee exporting firms been affected by the COVID-19 pandemic?
2. What type of exporters (multinationals and domestic) have been more or less affected by the pandemic?
3. What are the major supply bottlenecks coffee exporters face as a result of the pandemic?
4. What are the government support measures for COVID-19 available to coffee exporters?
5. What is the medium-term outlook for the Rwandan coffee industry?

³ Fully washed coffee commands a higher premium in international markets due to value addition steps that are undertaken both by washing stations and exporters (Macchiavello & Morjaria, 2015) Additional data source: NAEB annual reports: <http://NAEB.gov.rw>, accessed December 2020.]

The survey was designed and executed by the authors in close collaboration with NAEB and the Association of Coffee Exporters and Processors. The research covered 74% of active firms that control roughly 45% of total exports. Survey data was collected on phone and was timed to coincide with the end of the harvest season and spanned duration of time when exporting orders are typically processed. This policy brief summarises findings from Apell & Morjaria (2021).

Figure 1: Rwandan principal exports during the COVID-19 pandemic



“Relatively stable coffee export revenue in 2020 reflects the broader resilience of traditional exports compared to other export categories.”

Impact of COVID-19 on Rwandan coffee firms

The data from the survey show that Rwandan coffee firms in 2020 exported less volumes by 35%, however multinational firms and older domestic firms were least affected. The unit price of coffee also rose during the same period, resulting in a smaller reduction in the aggregate value of exports by 18.5% (FIGURE 1).

The relatively stable coffee export revenue in the immediate aftermath of the COVID pandemic reflects a broader resilience of traditional exports compared to other export categories. Data from the National Bank of Rwanda show that the value non-traditional exports and services exports declined by 56.3% and 46.3% respectively⁴.

⁴ National Bank of Rwanda BOP statistics and monthly export statistics accessed from <http://www.bnr.gov.rw>

In addition to challenges with demand, several coffee exporters faced supply-side bottlenecks attributed to COVID-19 restrictions. In the month prior to being surveyed over half of Rwandan coffee firms faced labour shortages during lockdowns and costly international freight charges. Labour mobility within Rwanda was restored on 21 April 2020, following a month-long nationwide lockdown in which all non-essential travel was prohibited. Outside Rwanda, dwell times at border crossings and at Mombasa port dramatically increased between March and April 2020 due to heightened pandemic surveillance⁵. These challenges may have contributed to an increase of operating costs experienced by the majority of surveyed exporters. In turn, the combination of demand and supply side constraints in 2020 put pressure on operating capital of coffee firms with implications for cash-flow. Two thirds of surveyed exporters perceived a significant reduction in their ability to service their loans.

Government COVID-19 response for firms

The Rwandan government responded early to address the key challenges facing firms during the COVID-19 pandemic. Relevant interventions included⁶:

- Temporary waivers tariffs on bank transfers, PoS transactions, mobile money transfers
- Deferral of interest payments
- Temporary suspension of payments on outstanding tax liabilities, softened enforcement of tax arrears
- Extension of the VIT /CIT deadline.
- Travel clearance for designated essential workers.
- Subsidised loans for affected firms

At the regional level, TradeMark East Africa's Safe Trade Emergency Programme (STEF) that launched in June 2020 provided safety equipment to border staff, deployed tracking applications and e-health passports for transporters⁷.

⁵ Northern Corridor performance during COVID-19. Accessed from <http://www.ttcanc.org/reports.php>

⁶ The IGC COVID-19 policy response dashboard accessed from <https://www.theigc.org/covid-19/tracker/>

⁷ STEF programme. Accessed from <https://www.trademarkea.com/download/57589/>

At the time of the survey more than half of coffee exporters reported at least one form of support from the government. The majority of the surveyed exporters accessed travel clearance during the lockdowns to transport coffee from the countryside and process their coffee orders. Despite a significant number of exporters reporting reduced capacity to service existing credit noted previously, less than 20% had their interest payments deferred. One likely explanation for the low uptake of interest payment deferrals was an expressed concern over debt pressure that would arise at the end of the interest grace period. For the firms that did not take up any of the other support measures, the main reason given was a lack of awareness of the possibility.

When asked what additional forms of support they would wish to receive, the most widely cited policies included: continue to assist in outreach programs that promote the Rwandan national brand, tax reduction for variable inputs like packaging materials and long-term credit for to acquire capital equipment like coffee milling machines.

The way forward

When asked about their expectations for 2021, the majority surveyed coffee exporters expect improved orders at improved unit prices. Materialisation of this scenario will depend on effective containment of the global pandemic that would enable a return to regular economic activity. However, the downward world coffee price trend witnessed before the pandemic, attributed to market consolidation, is expected to continue (Sachs, 2019).

Policy recommendations

The Rwandan coffee sector has showed considerable resilience in face of an unprecedented global health pandemic and now economic crisis. As a price taker on the world coffee market, Rwanda cannot influence the world coffee market in its favour. However, it can continue to enhance supply-side measures to secure stable coffee export flows in the short to medium-term.

1. Implement a domestic SMS reporting system to help track the outstanding COVID-related trade bottlenecks so as to limit supply constraints. This system would complement the existing contact tracing

- infrastructure, helping to contain COVID-19 within identified hotspots.
2. Secure coffee production growth by encouraging crop diversification on coffee farms and by rehabilitating old coffee plantations.
 3. Continue capacity building programmes in coffee quality management.
 4. NAEB could further enhance their role in the sector by working with RRA and MINICOM to investigate exporters concerns regarding the high taxes on inputs and if additional financial relief can be provided during these unprecedented times.

References

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