MINEACOM Workshop on Trade & Export Development

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Session II

Understanding Constraints to Value Addition in Rwanda's Coffee Sector

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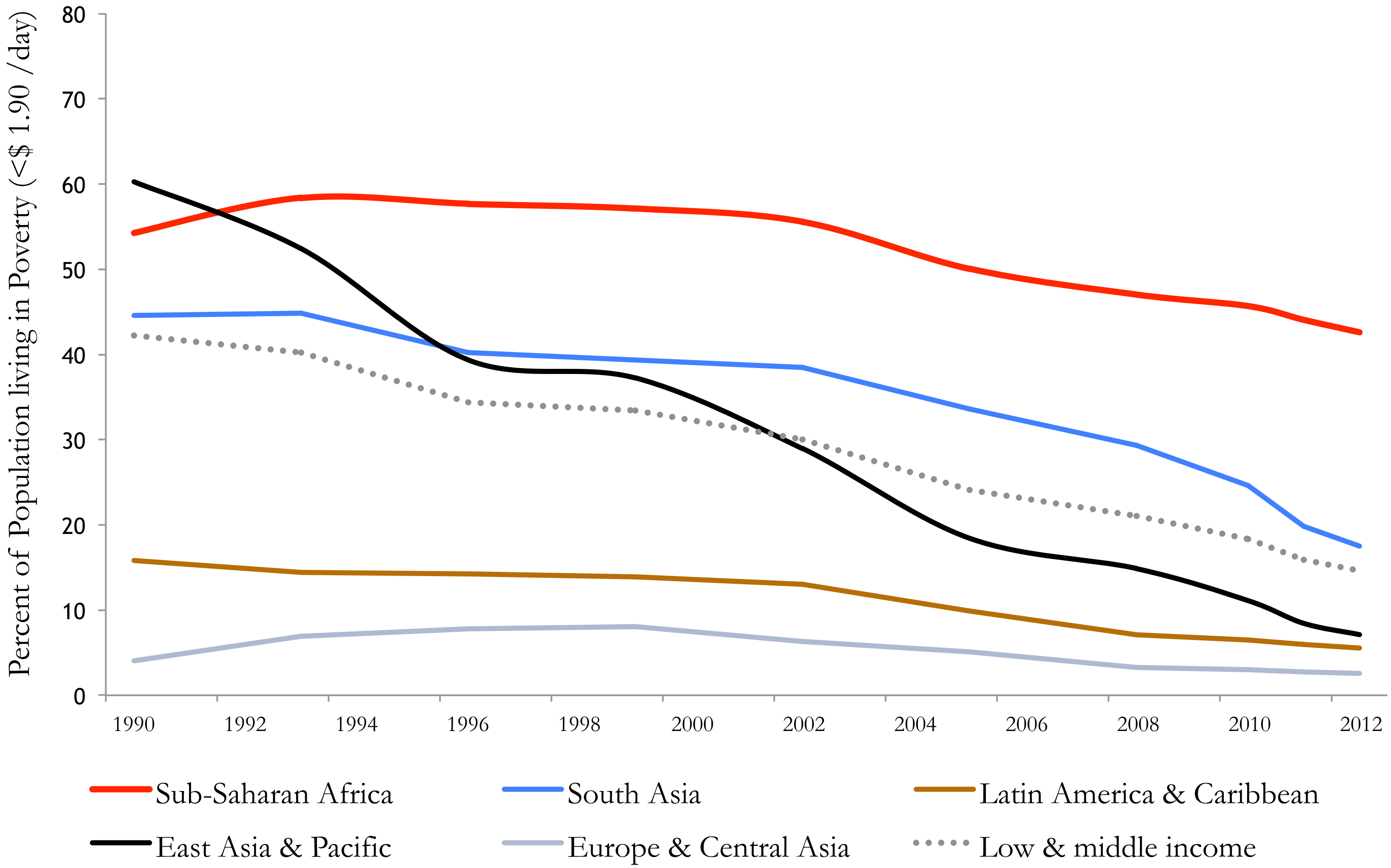
Outline

1. **Big picture:** why should we care?

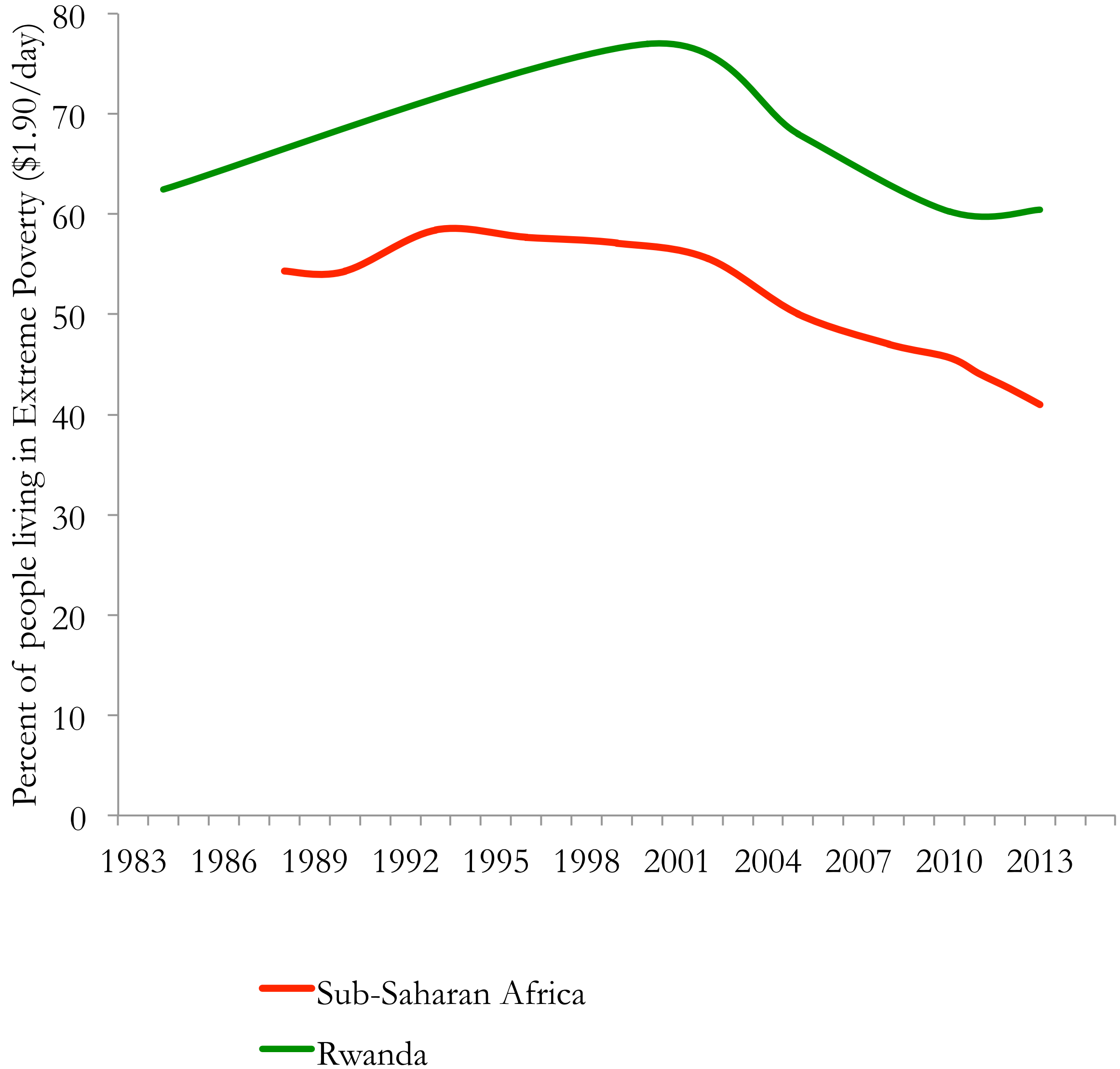
2. **Rwanda's Coffee Sector:**
   - quick re-cap on transformation of the sector
   - break down of the value chain
   - diagnosis of critical challenges and possible opportunities

Poverty reduction in Africa lags other regions



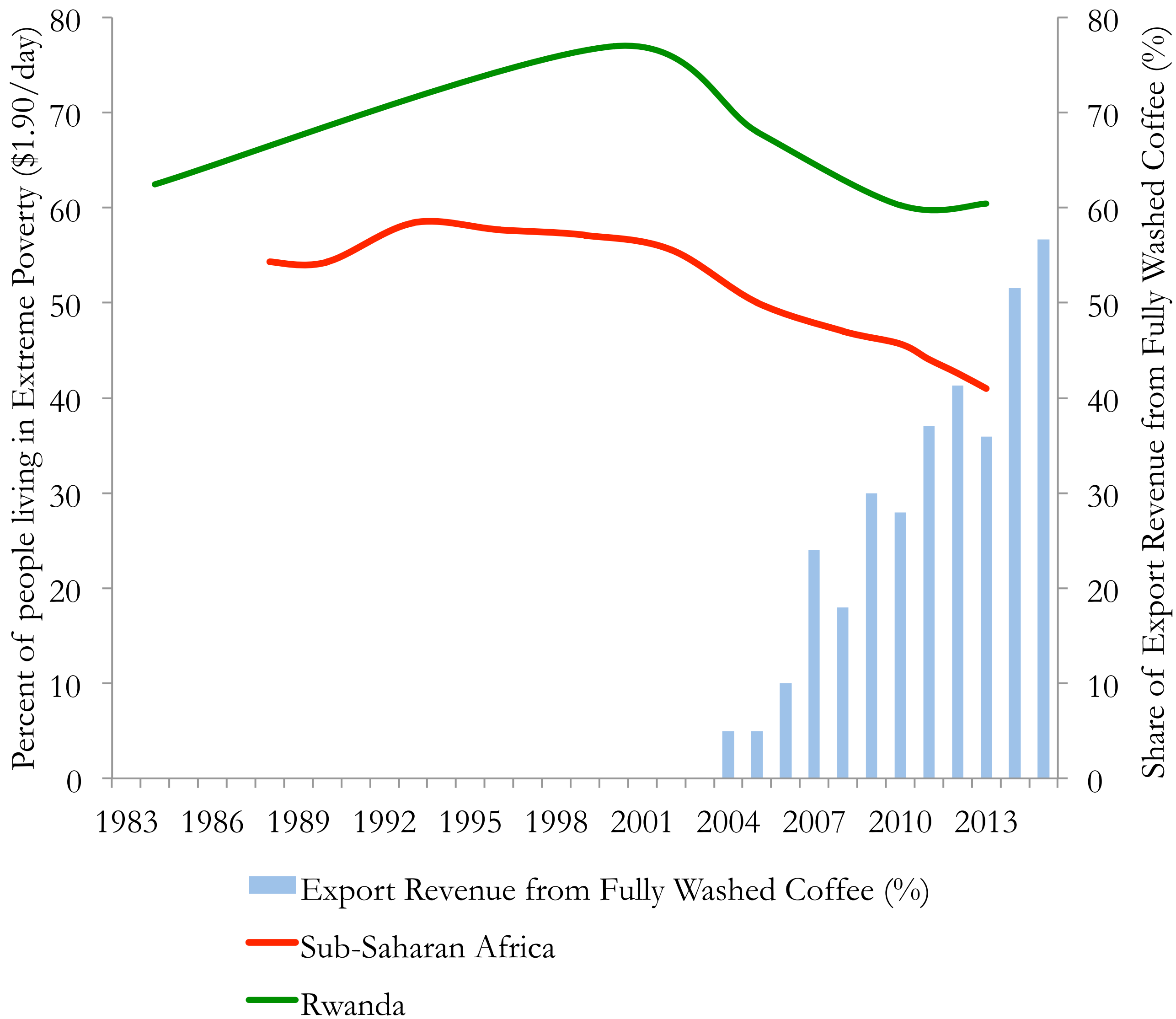
Source: WDI 2016

Rwanda: rapid progress



Source: WDI 2016

Rwanda: important transformation



Source: WDI 2016; National Bank of Rwanda Annual Reports (various)

Rwanda: important transformation

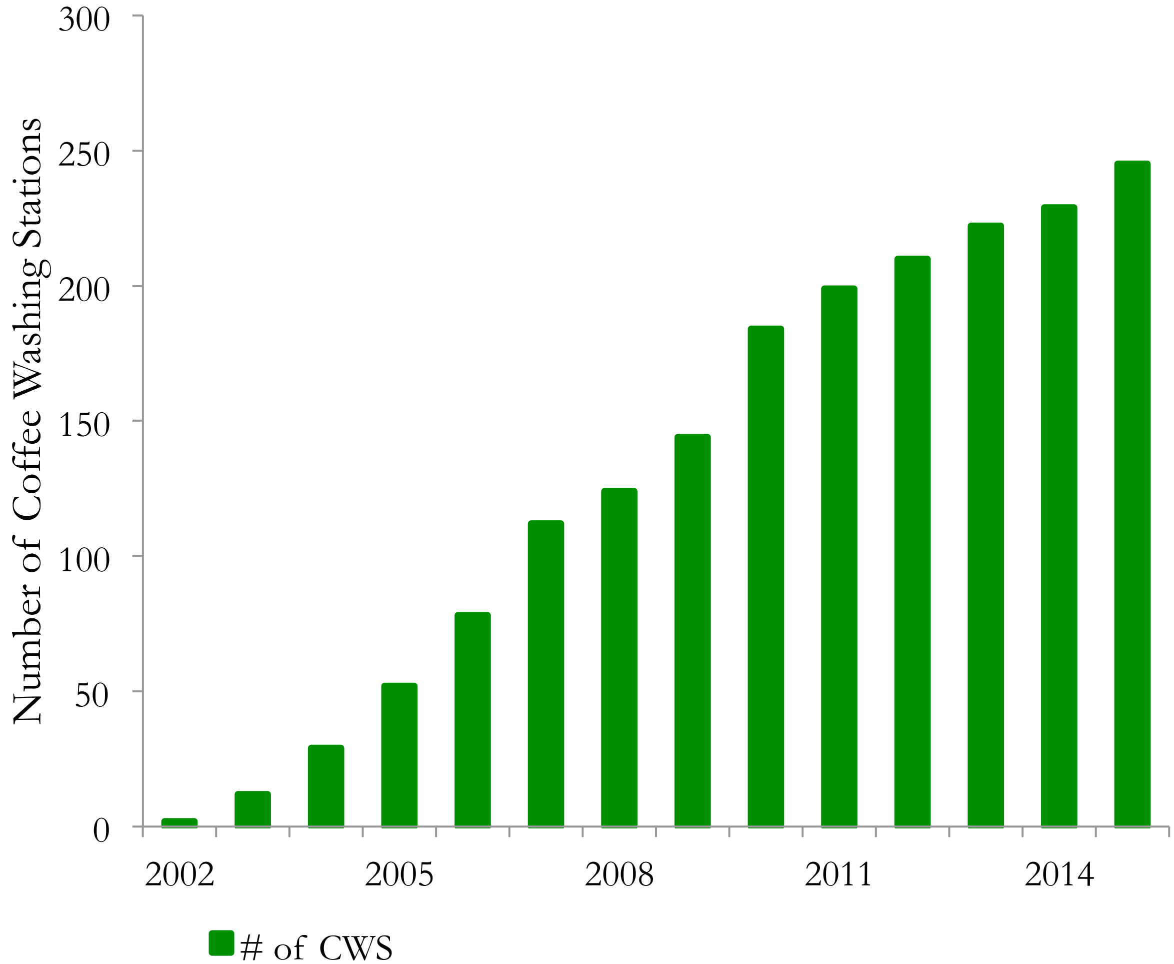
Rwanda Coffee Sector

Context

- In 2000s low-quality, low-volume cycle: commodity-grade coffee producer
- New GoR targeted coffee as a priority sector (after several strategy sessions), adopted *1999-2003 Coffee Strategy & Action Plan* (increase production, improve quality, promote greater equity in value distribution) and kept elaborating the plan *Horizon 2010 Coffee Action Plan*. Liberalization. Strategic realignment.
- Embraced assistance in cooperative formation and private sector advisory e.g. USAID (e.g. *ADAR, PEARL, SPREAD*…)
- Focus on *quality* e.g. Cup of Excellence competitions since 2008
- Pre-2002: quantity as only measure of performance, GoR controlled, vulnerable to price movement
- Post-2002: quality as only criterion for remuneration, role of private sector, potential for Rwandan coffee to become single-origin
- Fully washed (Arabica) exports: 1% in 2002; 21% in 2010 and 50% in 2015

Rwanda Coffee Sector

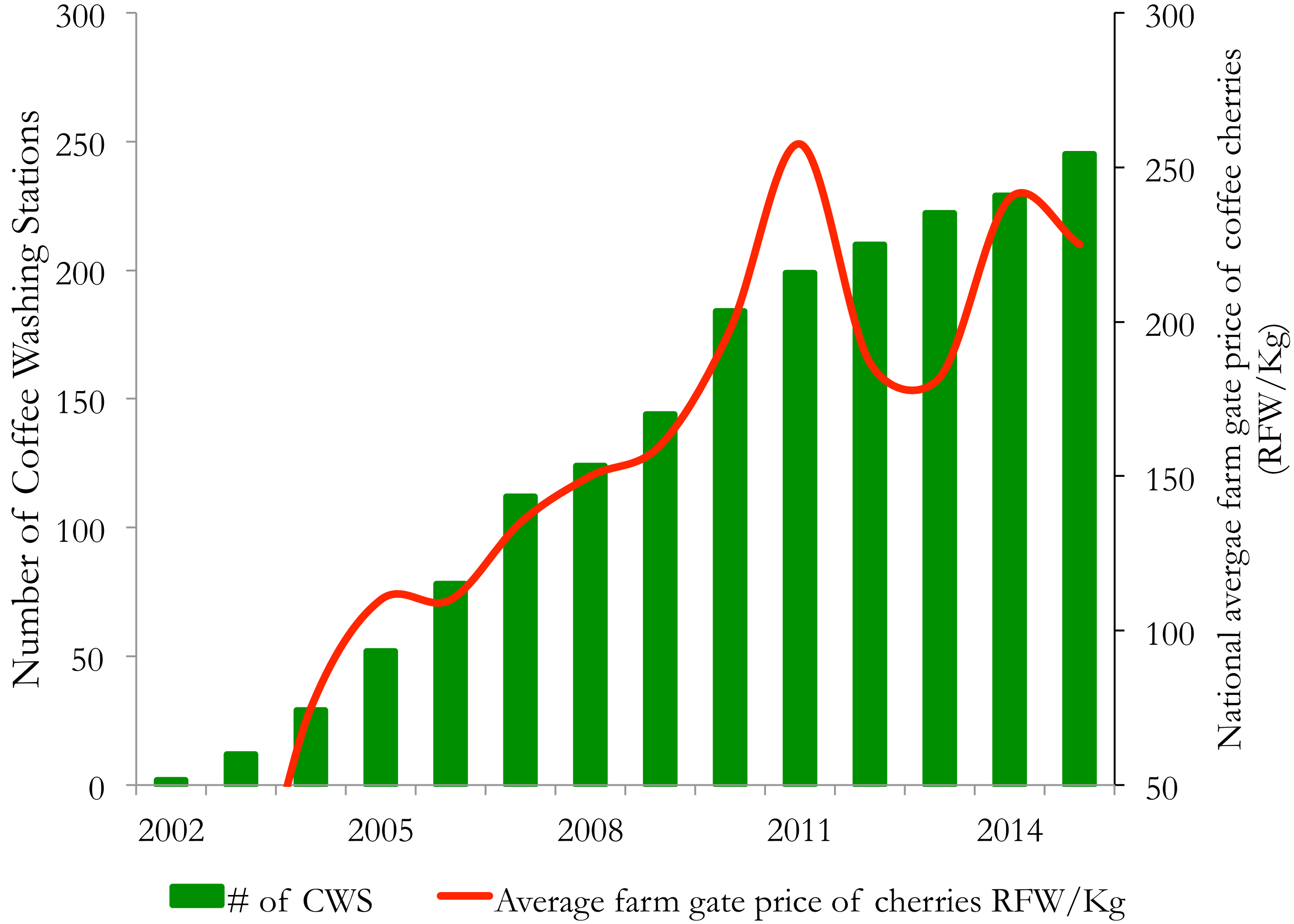
Explosion in entry of washing stations



Source: Authors calculation on NAEB annual report, OCIR-Café reports (various)

Rwanda Coffee Sector

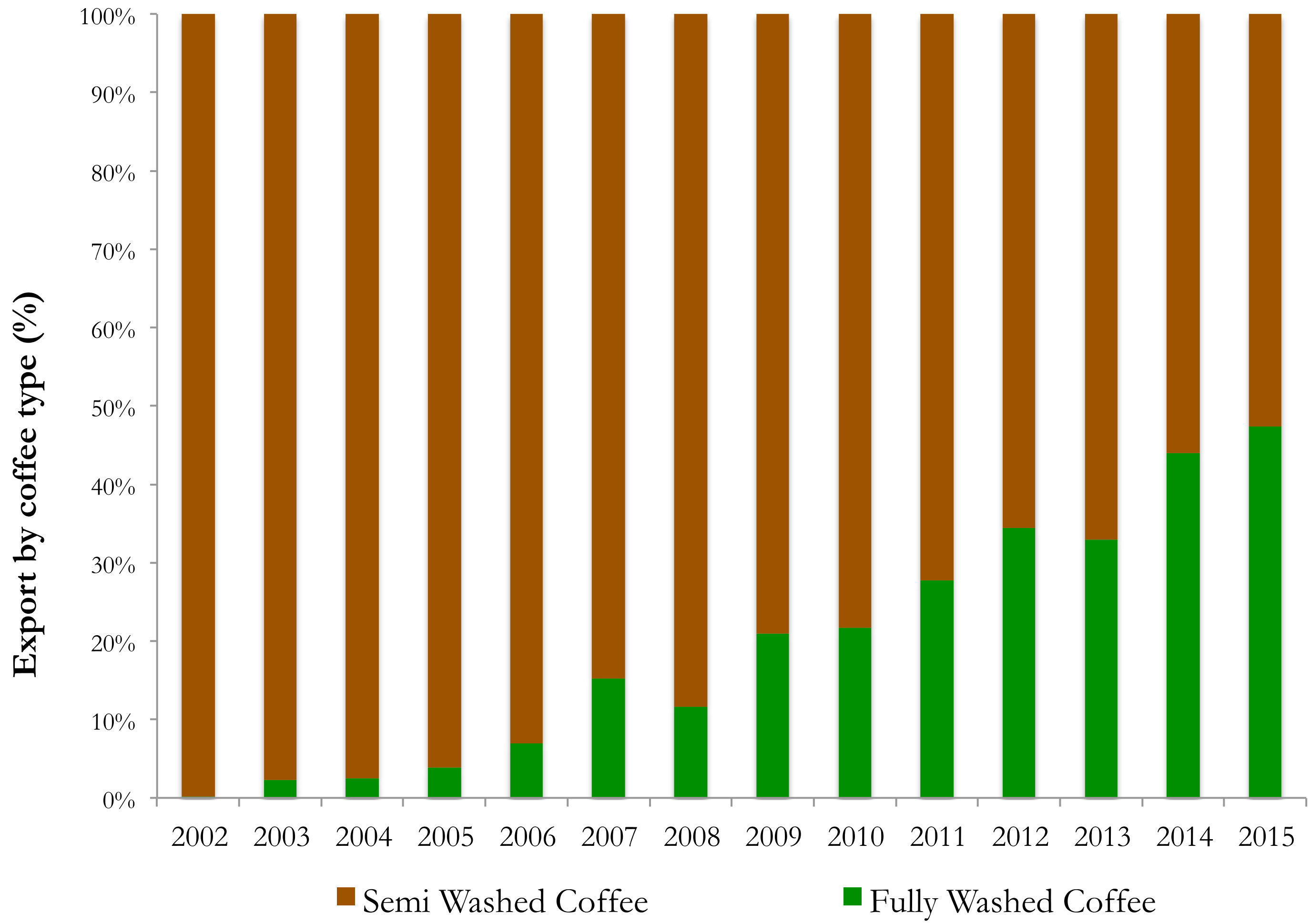
Explosion in entry of washing stations and increase in price of coffee cherries



Source: Authors calculation on NAEB annual report, OCIR-Café reports (various)

Rwanda Coffee Sector

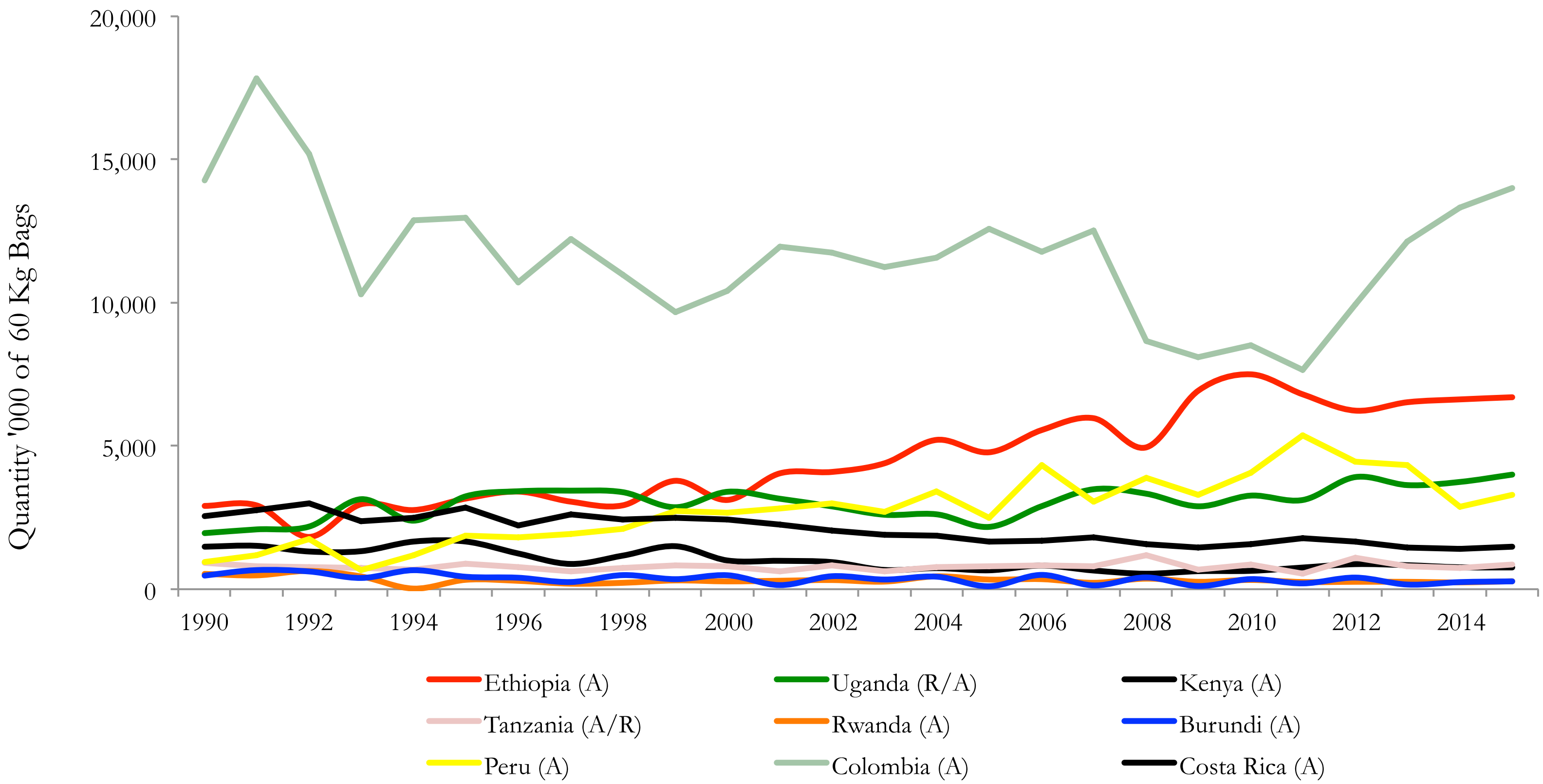
Export volume of washed coffee increasing



Source: Authors calculation on NAEB Annual Statistics, National Bank of Rwanda Annual Reports (various)

Rwanda Benchmarking

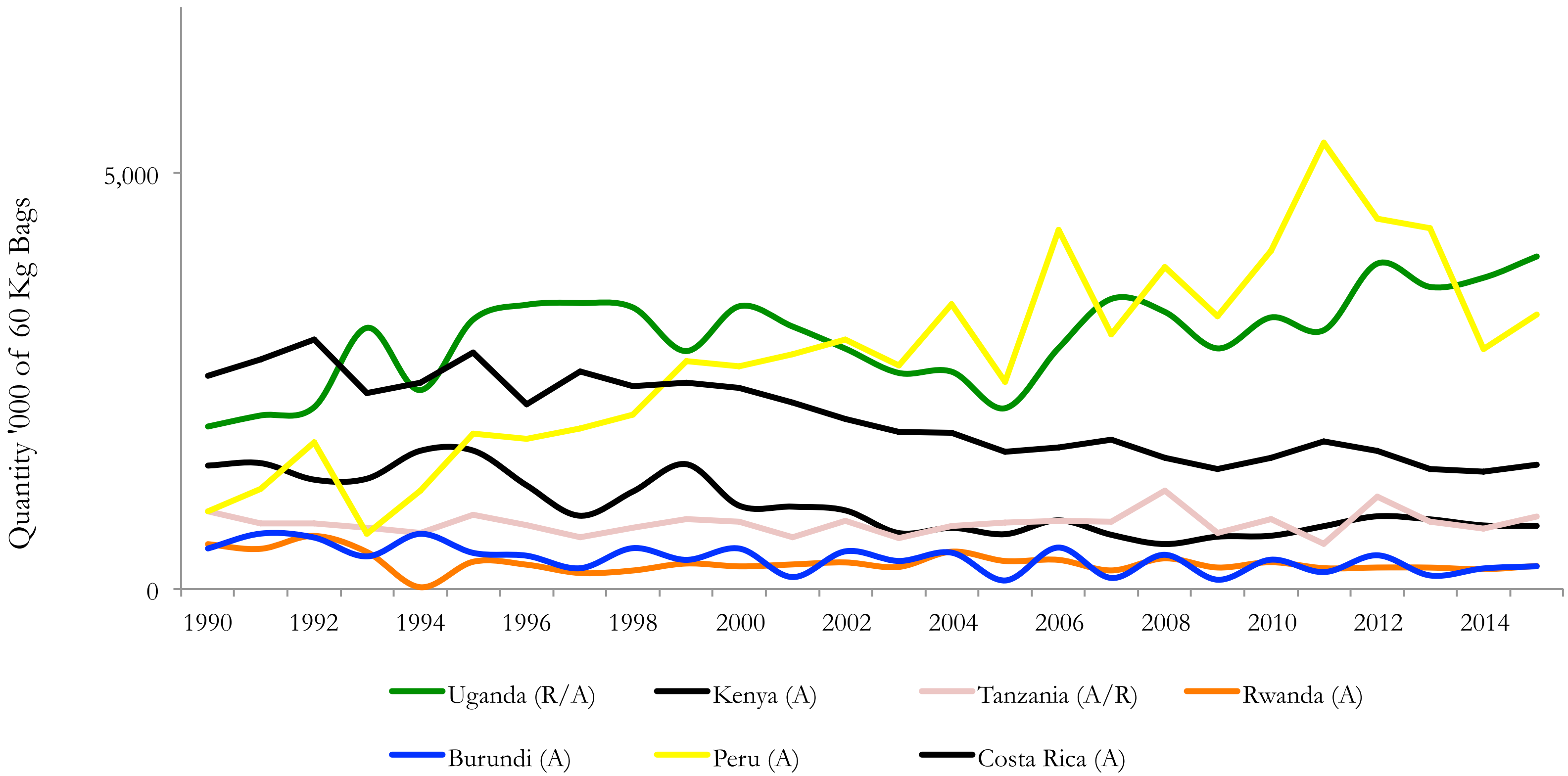
Volume produced



Source: International Coffee Organization 2016

Rwanda Benchmarking

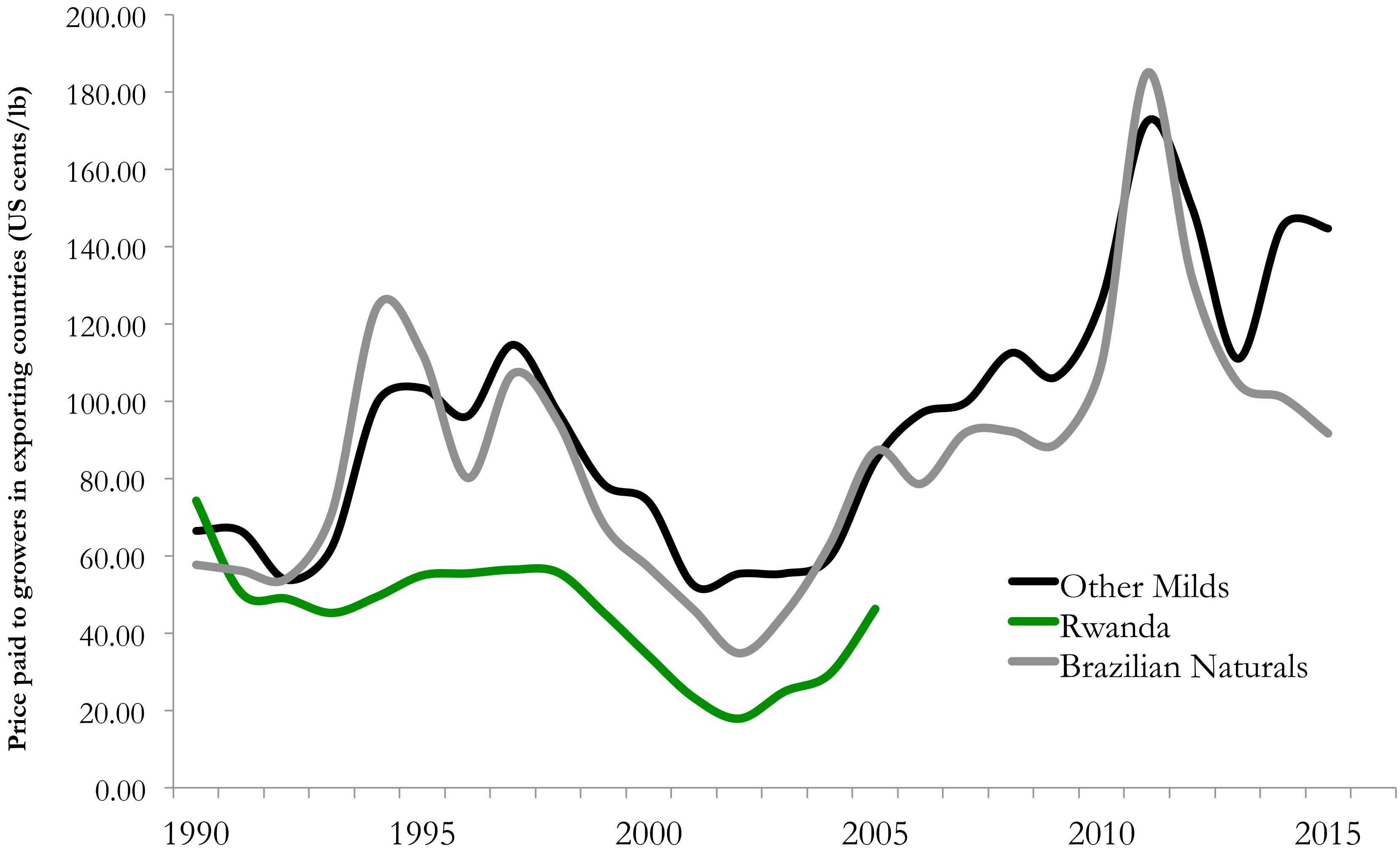
Volume produced



Source: International Coffee Organization 2016

Rwanda Benchmarking

Pricing



Source: International Coffee Organization 2016

Rwanda Value Chain

Rwanda Value Chain

Farmers

Rwanda Value Chain

Farmers, Washing Station

Rwanda Value Chain

Farmers, Washing Station, Exporters

Rwanda Value Chain

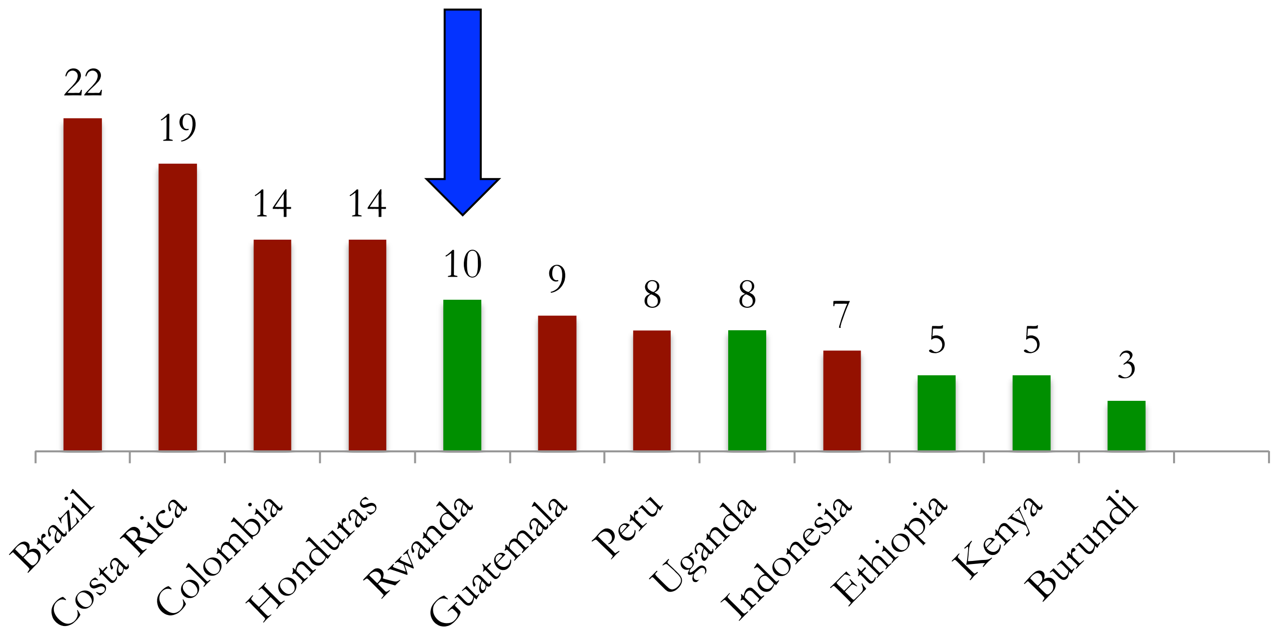
Farmers, Washing Station, Exporters, National issues

Constraints at Farm level

Yield

- Yield per tree is low: average 2.8 kg/tree – potential 5-7 kg/tree

- Implications for export: how many 60 kg bags can be produced from 1 ha?



Source: TNS, Conversations with NAEB, authors calculation

Constraints at Farm level

Investment and input usage

- **Investment limited between 2009-2015:**
  - Increase in new coffee trees 25%,
  - Currently 26% of coffee tree stock beyond productivity age (> 30 years)

- **Extremely low input usage:**
  - 40% of the coffee farmers use basic practices in their coffee husbandry
  - **BIG GAINS, no need of scientific breakthrough**
  - NAEB addressing this recent MOU with CEPFA – fertilizer and pesticide fund moved to CEPFA (30% funded by GoR, and levy on exports)
  - Under CEPFA they procure and distribute inputs
  - Improvement in application prior to 2015: 35%, recent figures 59%
  - Challenges remain: leakage, adequate warehouse facility, quantity of fertilizer, local level monitoring (1 district extension officer: 13,000 farmers, in UG 1:35,000 and Colombia 1:500)
  - Recent appointment of new service provider should help
  - This is crucial to get right. Multiplier effect

Source: discussion with NAEB technical staff

Constraints at Washing station

Utilization and relationship management with farmers

- Capacity utilization improving: 2011: 49%; 2015: 60%

- **Ruthless competition:** 2015: average CWS sourcing from 4 *sectors nearby* & facing *6 other CWS competing* in its sector

- **Hurts long term relationship with farmer**, private CWS have 35% of procurement from repeated farmers whereas cooperatives have 45% from repeated farmers

- **Financial implications:** when dealing with private CWS, 87% of the purchases from farmers are paid by cash at the time of delivery, whereas cooperatives 70%

- NAEB implementing zoning policy

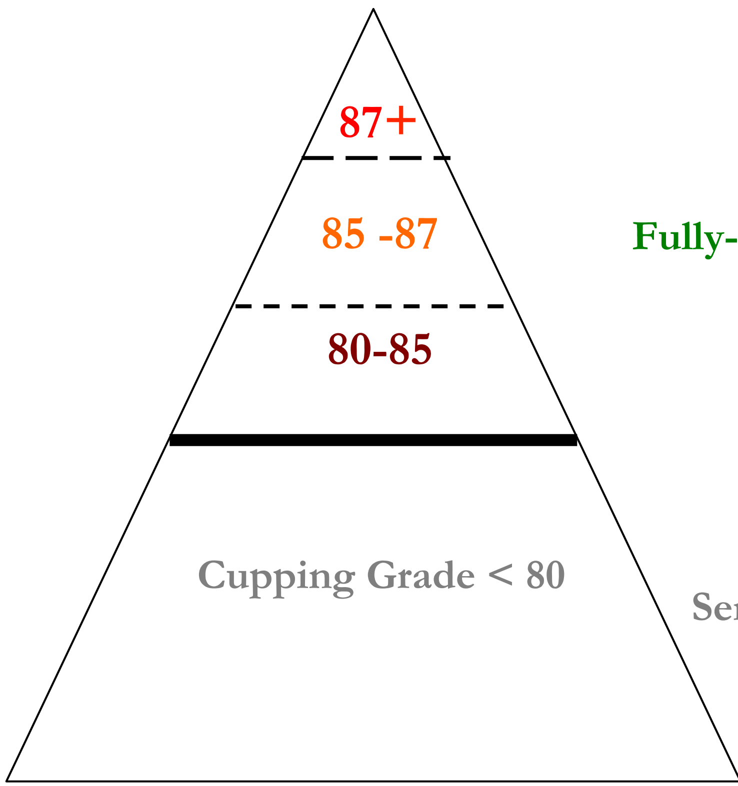
Constraints at Washing station

Operational challenges

OPERATIONAL CHALLENGE	PRIVATE 2012	PRIVATE 2015	COOPERATIVES 2012	COOPERATIVES 2015
Sourcing cherries from farmers around the CWS	**40%**	**27%**	**30%**	**16%**
Difficuilities in hiring workers	7%	3%	3%	4%
Access to finance for working capital	12%	7%	**38%**	**49%**
Difficuilities in taking decisions/governance	5%	3%	3%	2%
Lack of training in running the CWS	5%	7%	5%	2%
Infrastructure (e.g. access to roads, power failure etc)	**30%**	**54%**	**22%**	**25%**

Opportunity at Washing station

Large gains to small improvements in quality

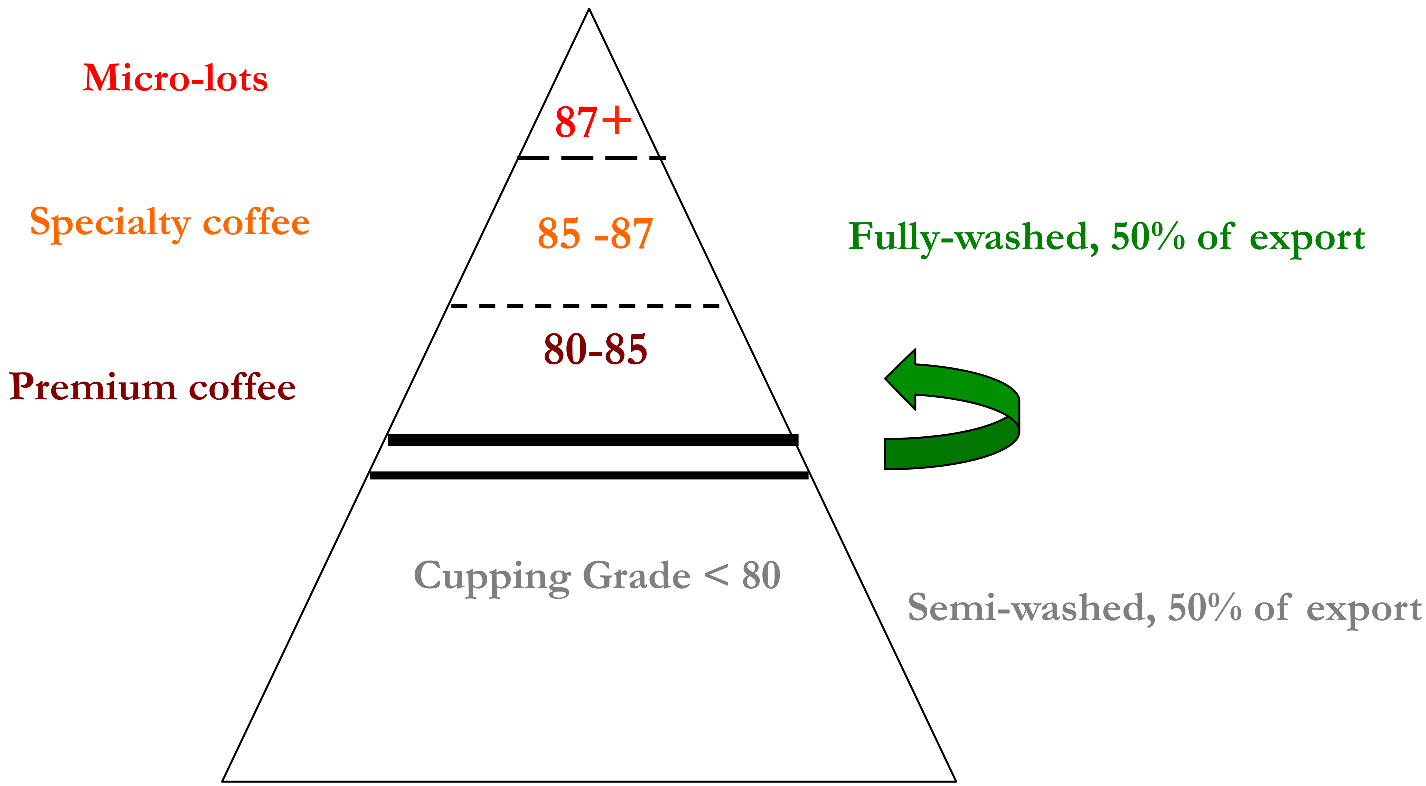


Fully-washed, 50% of export

Semi-washed, 50% of export

Opportunity at Washing station

Large gains to small improvements in quality



Opportunity at National level

Improving lending to washing stations

- Different financial implications of fully washed versus unwashed coffee
- FWC financial cycle very different from unwashed coffee
- Export contract execution and payments take place much much later in the season for washed compared to unwashed which can take a week
- Important to get financial organizations to work together with GoR, and coffee sector
- (related need patient capital for certification not commercial lending)

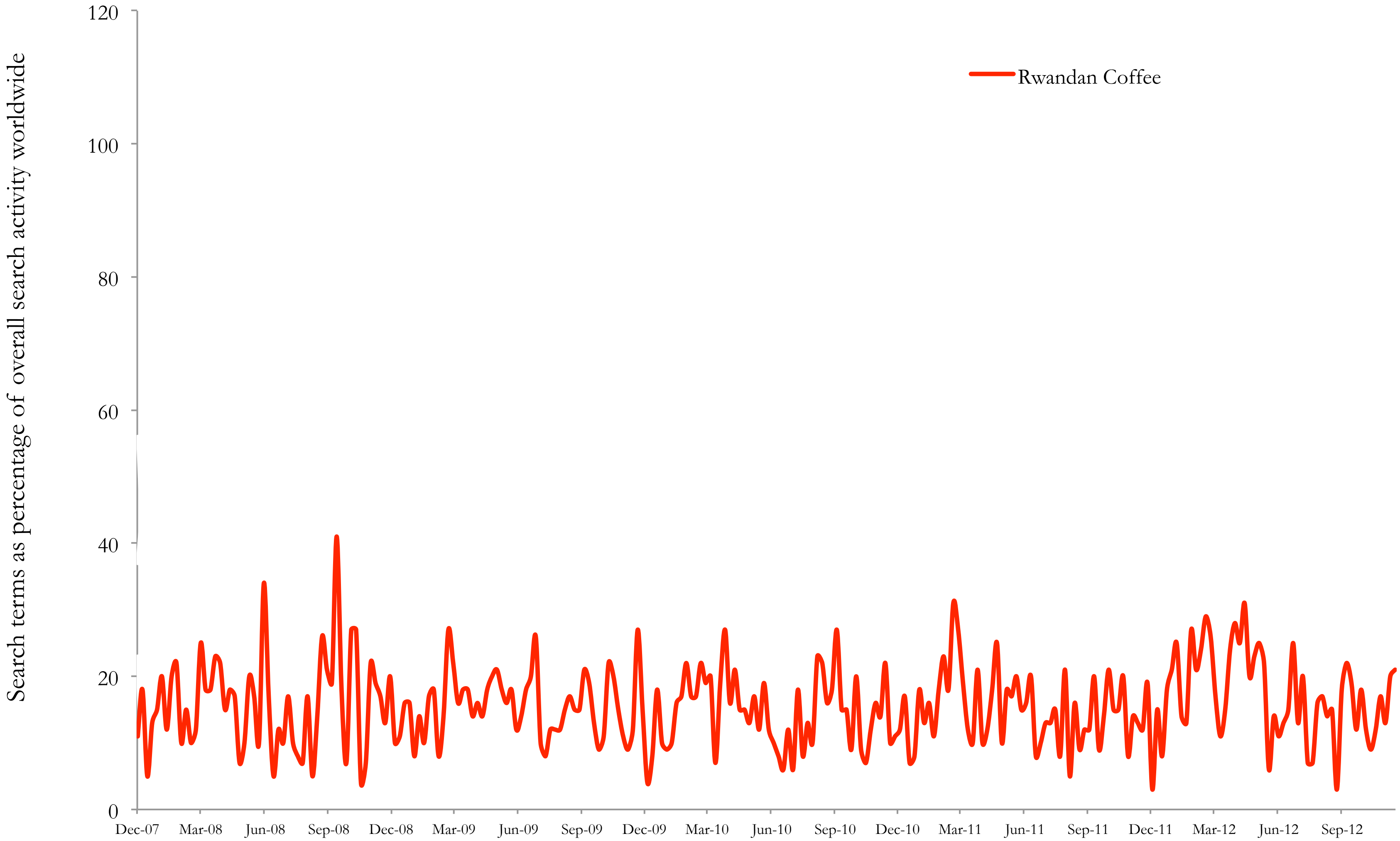
Opportunity at National level

Rwanda origin?

- Leading off-taker's of Rwanda Coffee: **Swiss** 56%**; EU** 40%, **ROW: 4%**
- Under Sustainable Coffee Program – major coffee roasters have set a goal of procuring sustainable coffee sales from 8% to **25%**
- Close to 50% exports to large traders hence limited impact of origin/ certification
- However for the other 50% of sales it would pay huge dividends if *Rwanda origin* is marketed

Opportunity at National level

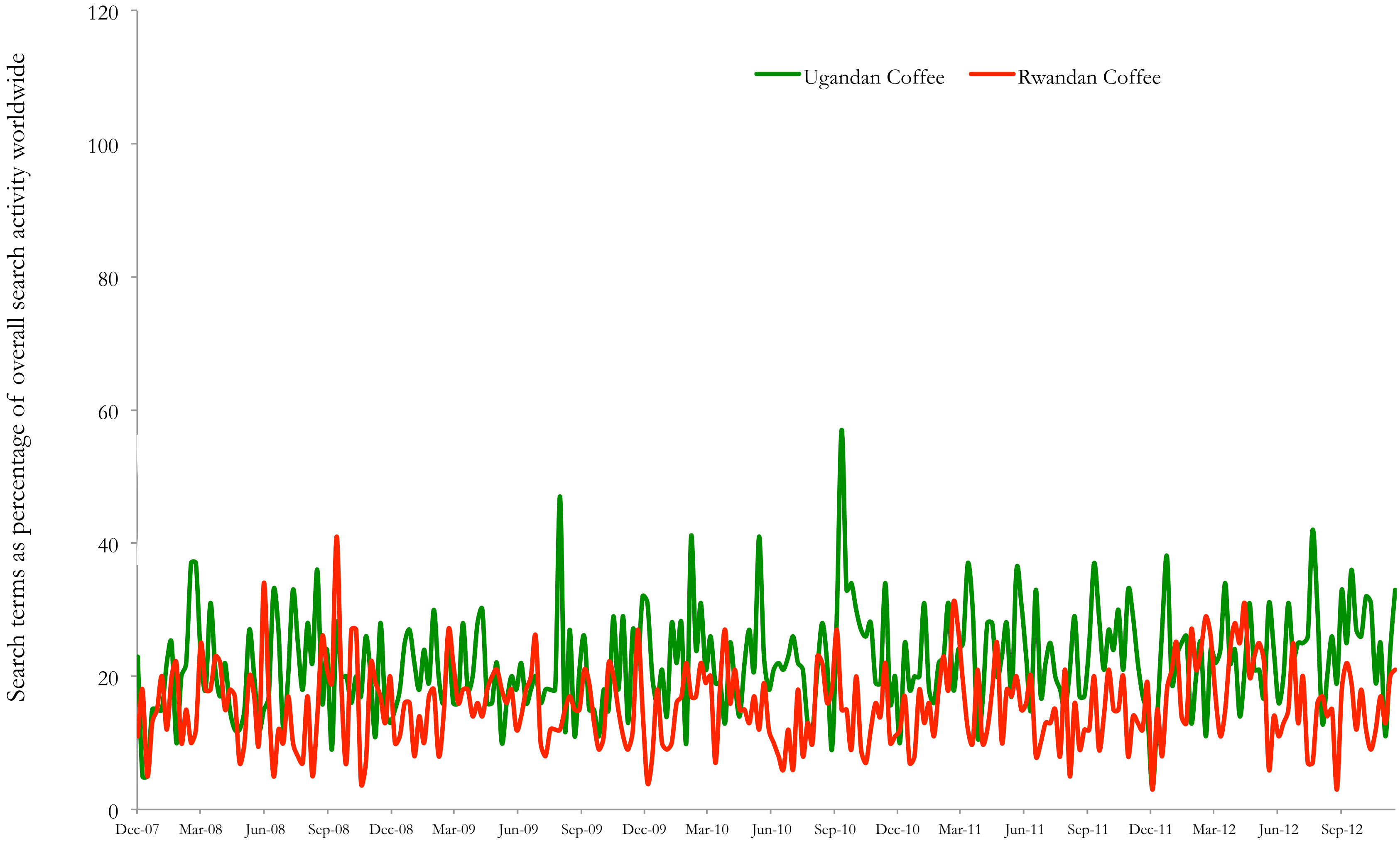
Rwanda origin?



Source: authors calculation on Google Trends, accessed Dec 12, 2016

Opportunity at National level

Rwanda origin?



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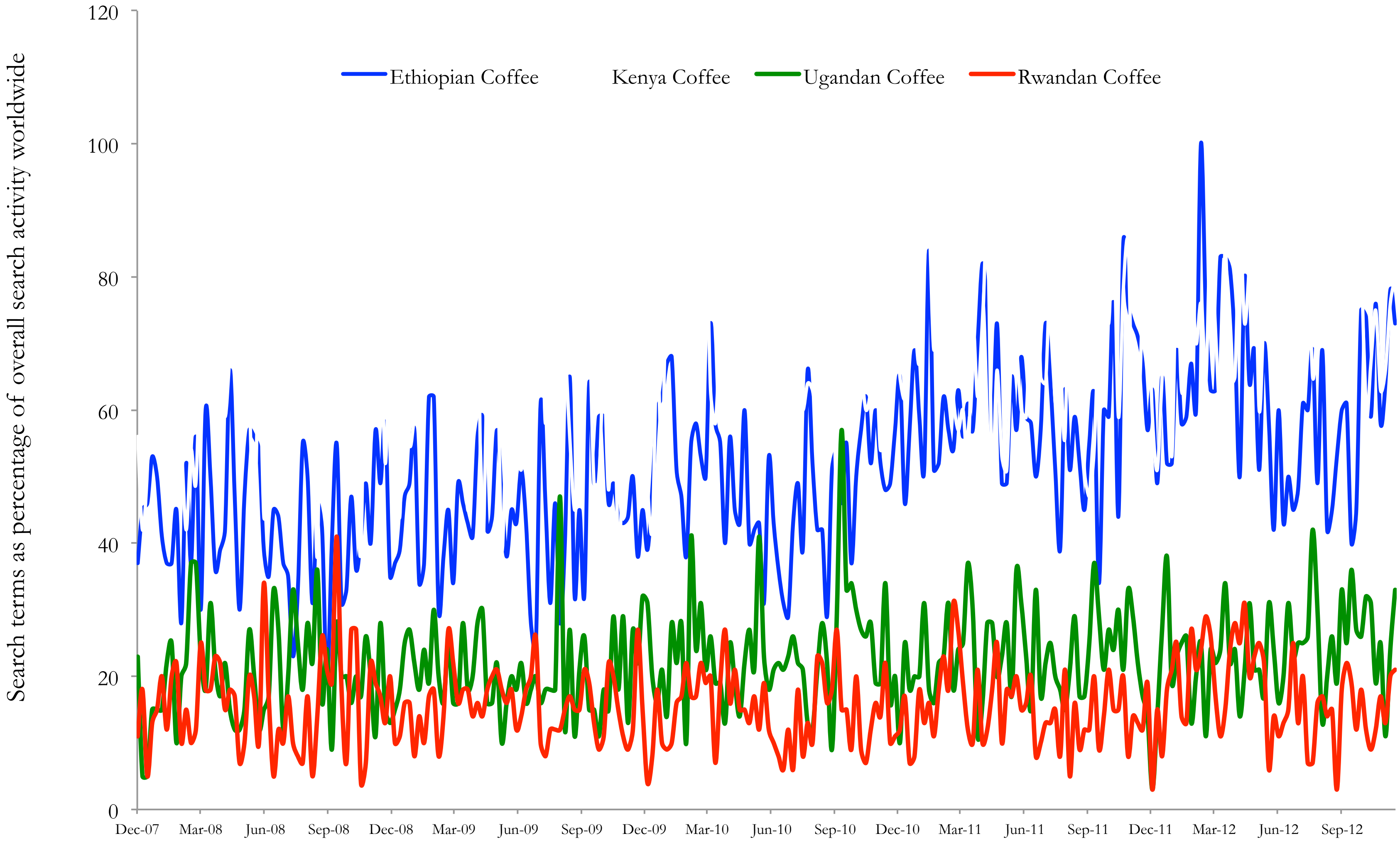
Opportunity at National level

Rwanda origin?



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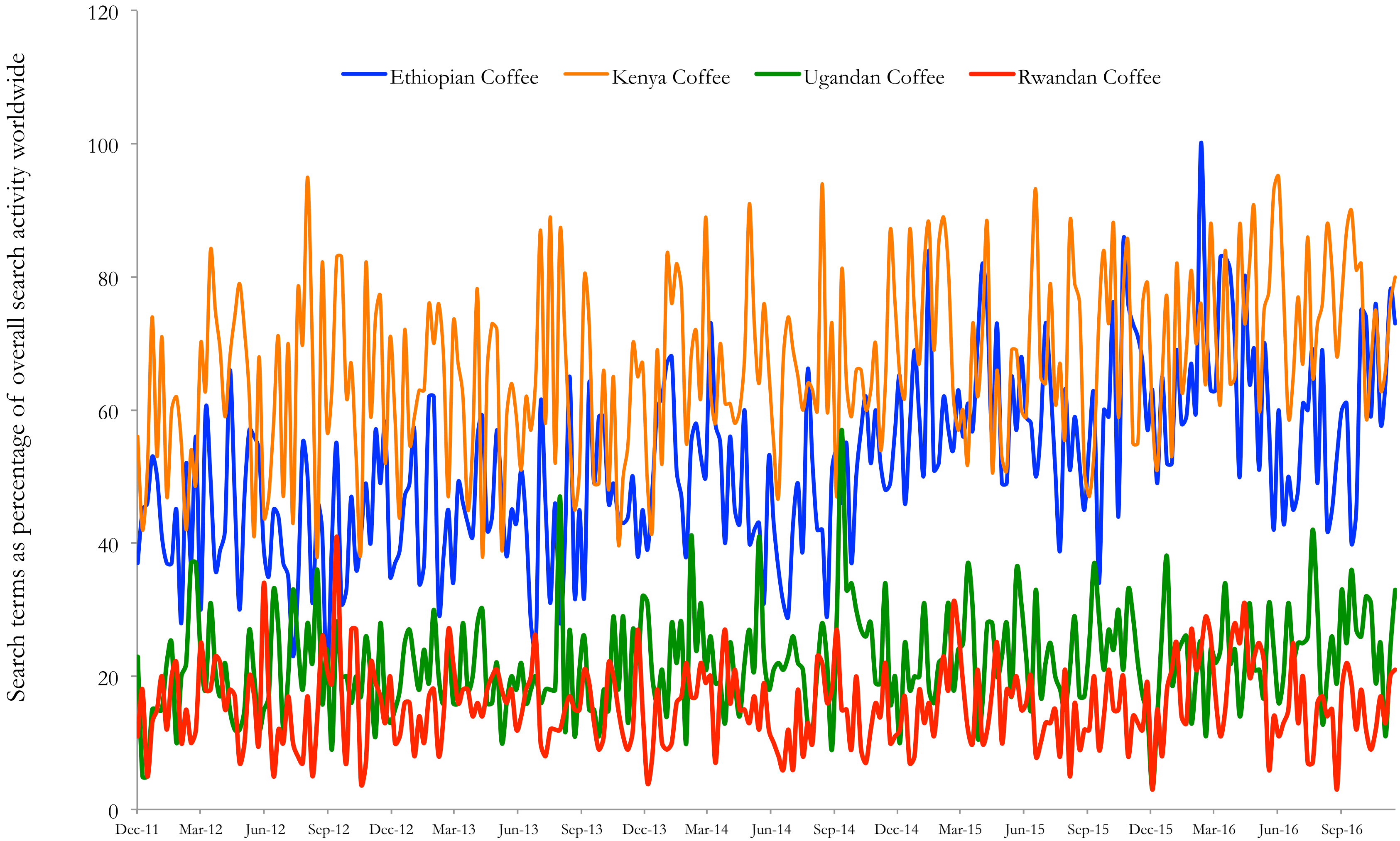
Opportunity at National level

Rwanda origin?



Source: authors calculation on Google Trends, accessed Dec 12, 2016

Opportunity at National level
Rwanda origin?

- Kenya's "*AA*" *washed* coffee branding

Opportunity at National level
Rwanda origin?

- Idea not completely new for Rwanda
- Rwanda's early success in 1999 was NGO (USAID-PEARL) support of *Abahuzamugambi Cooperative*
- Recall: in 2006 Starbucks selected CWS coffee for their ultra-premium "Black Apron". The coffee was sold for $13 per half-pound at 5,000 retail outlets in North America and sold out faster than any previous "Black Apron" coffee

Opportunity at National level
Appellation?

- geographical indication, whereby a product's given quality or reputation is linked to a geographical origin e.g. appellation in wine and cheese

- Ethiopia's experience (Sidamo, Harrar, Yiragacheffe), long road, recall the UN arbitration *(GoE* vs. *Starbucks*). Appropriate infrastructure and capacity is needed: GIS data, office of intellectual property, policy & enforcement, awareness at all levels of chain, monitoring and follow-up mechanism

- I understand this is back on the agenda at NAEB

Recap: several opportunities

Yield improvement

- Input usage
- Input access

CWS

- Small improvements in quality

Zoning policy

- monitoring
- enforcement

National level

- Financial implications of FWC
- Rwanda Origin

Thank You

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