

INNOVATION LAB FOR FOOD SECURITY POLICY

African Great Lakes Region Coffee Support Program (AGLC) Policy Advocacy Roundtable on Increasing the Proportion of Fully Washed Coffee

Backgrounder 2

May 2016

Guiding Question: How might we increase the proportion of coffee making it through the fully-washed channel?

The Challenge

Stakeholders throughout Rwanda's coffee value chain agree that the long-term success of the sector depends on growth in coffee production and productivity. Regrettably, Rwanda has seen a gradual decline and, more recently, stagnation in production over the past 25 years—a source of concern for virtually all in the coffee value chain. Seemingly, a paradox lies within: coffee productivity in Rwanda is among the lowest in the world, yet international buyers consistently rate its coffees among the very best in the world, easily on par, or even above, coffees produced elsewhere in the East Africa region.

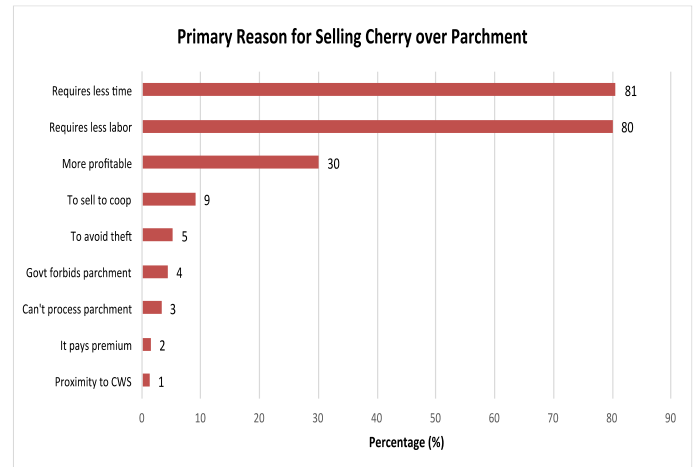
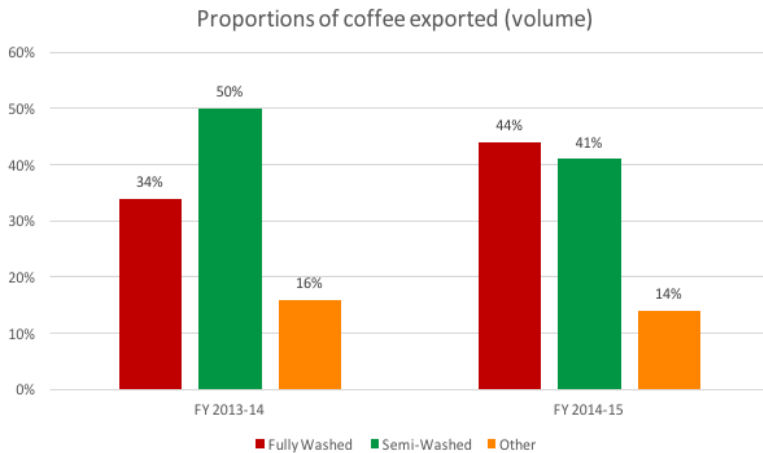
Rwanda's strategic objectives focus on increasing the productivity and quality of coffee, as well as on increasing the share of coffee produced through the fully-washed channel. This would greatly reduce the production of "ordinary" or "commodity" coffee in favor of higher quality and higher paying "specialty" coffee.

To increase the proportion of coffee moving through the fully-washed channel and improve traceability, the government has instituted a "zoning" policy in which farmers must sell coffee to coffee washing stations within their geographic zone. This policy partially results from perceived drawbacks of competition between CWS for coffee cherry (e.g., reduced trust between farmers and CWS, and an increasing role of middlemen selling to competing CWS). Implementing this policy, could improve traceability and reduce the role of middlemen, but it would reduce farmers' choice of where they sell their cherry.

Is this policy the best way to encourage farmers to sell fully washed coffee? Data from the baseline analysis have some implication for this policy (see page 2); however on a broader level, economic theory suggests a mixed picture. There is a possible reduction in prices paid to farmers, however also the potential for building greater trust between farmers and CWS through "relational contracts."

Key Issues

- 1- **Paradox: In theory, the higher prices paid for fully washed coffee . should incentivize farmers to fully wash their coffee. However, a high proportion of farmers semi wash their coffee or sell it to middlemen who sell into the semi-washed channel.**
- 2- **To increase the proportion of coffee moving through the fully-washed channel and improve traceability, the government has instituted a "zoning" policy in which farmers must sell their coffee to coffee washing stations within their geographic zone.**
- 3- **Is "zoning" the most effective way to encourage farmers to sell fully-washed coffee? There is evidence that zoning might not only constrain farmer choice, but also reduce well-being. However, zoning speaks to real challenges for which solutions are needed.**



Evidence from the Baseline, Qualitative Data, and the Literature

- Most farmers in the sample prefer to sell cherry; this is not surprising, as they were chosen because of their connection to CWS. Across Rwanda, however, 41% of coffee produced is processed as semi-washed.
- According to key informants, many farmers choose to process parchment coffee due to the ability to get up-front payment. Another factor may be a recognition that their coffee is not high enough quality to meet specialty standards.
- Zoning policy—which requires farmers to sell cherry to CWS within geographic zones—is designed (among other things) to increase the proportion of fully-washed coffee. It is popular among key informants, who believe it will increase quality and incentivize CWS to support farmers.
- Literature provides some support for this: “From a public policy perspective, the evidence [from Rwanda] rationalizes policies, such as zoning regulations, monopsony licensing and other entry restrictions, commonly observed in the developing world and emphasizes the importance of promoting contractual enforcement in agricultural value chains.” (Macchiavello & Morjaria 2015)
- However, reducing farmer choice regarding where they sell may reduce their well-being and result in deadweight loss.

Key data and quotes:

- Fully-washed coffee increased as a proportion of coffee produced in Rwanda from 34% in FY 2013–14 to 44% in FY 2014–15.
- Most people who sell cherry rather than processing parchment do so because processing parchment takes substantial time and labor, not because cherry is more profitable.
- Zoning quote from interviews: “...They are now talking of zoning, which would solve those issues if it’s implemented well. We used to go to the CWS and say “you understand that the more and better inputs you put the better results you get,” and they could say “that’s true but we can’t force the farmers at the end to sell us the cherries and for that reason I will never make that money back.”
– Key Informant

Background on AGLC:

International experts and consumers alike recognize Rwandan and Burundian specialty coffees for their exquisite flavor. With support from government, private sector, and international partners, specialty coffee in Rwanda and Burundi has seen substantial growth over the past decade. Coffee provides millions of smallholder families in Africa's Great Lakes region with their primary source of income. Despite this growth, the region's coffee yields remain low compared to those of international competitors; these yields are further threatened by a "potato taste defect" (PTD) caused by rampant antestia bug infestations. Low productivity and PTD greatly reduce the potential incomes of the smallholder families that grow coffee in Rwanda and Burundi.

To address this issue, USAID supported the African Great Lakes Region Coffee Support Program (AGLC), a collaborative initiative led by Michigan State University (MSU) that integrates applied research, farmer capacity building, and policy engagement. The program's goal is to dramatically reduce the effects of antestia/PTD and to raise farm-level productivity, both of which will improve smallholder farmer incomes and help to sustain the Africa Great Lakes region's reputation for producing some of the highest quality coffees in the world. This program will forge enduring ties between the public, private, and university sectors, all of which are necessary for building sustainable regional capacity in research, extension/ outreach, and policy analysis and formulation, ultimately equipping policy makers with the research necessary to develop informed policies that address PTD and low coffee yields.