

INNOVATION LAB FOR FOOD SECURITY POLICY

African Great Lakes Region Coffee Support Program (AGLC) Designing Mechanisms to Link Price and Quality Policy Advocacy Roundtable

Backgrounder 5

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Guiding Question: How might we improve access to pre-financing for cooperatives and coffee washing stations?

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. One of the ways the government of Rwanda has worked to increase production and improve quality is through the promotion of agricultural cooperatives. The rationale for such support is that cooperatives provide farmers with access to training and inputs; they increase traceability within the sector by tracking their members; and they advocate for farmers' interests—all of which should incentivize farmers to produce high quality/quantity coffee for the cooperative.

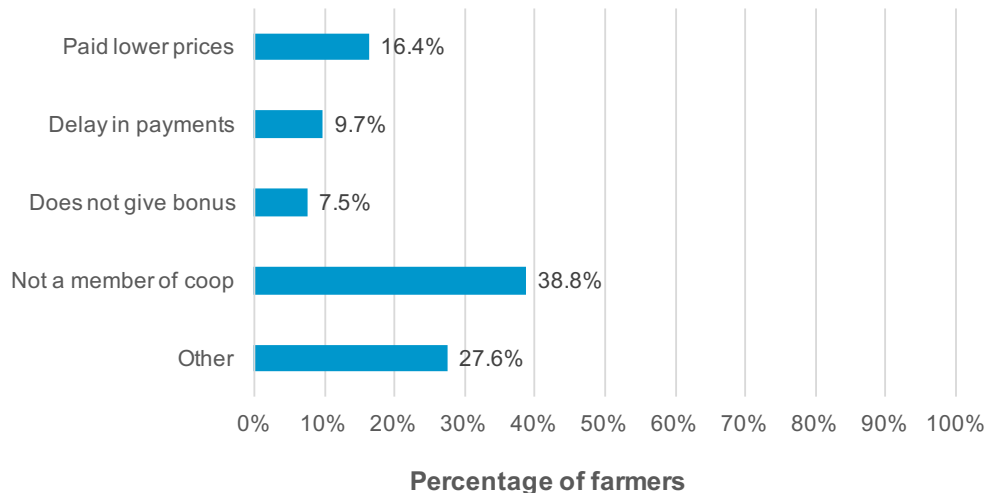
A limiting factor in increasing high-quality coffee productivity in Rwanda is the fact that cooperatives running coffee washing stations (CWS) often do not have access to pre-financing. Cooperatives have the potential to yield great benefits to farmers because the incentives of cooperatives are aimed at increasing member incomes and well-being. However, many cooperatives face difficulty in accessing up-front capital. While banks often trust private coffee washing station owners due to their collateral and longstanding relationships, they often do not trust cooperatives that lack experience with bank loans and have a perceived greater risk of default. Lacking access to pre-financing, farmers are forced to sell cherry to middlemen/traders or private CWS, which—though they can pay up front—lack the long-term incentives to support farmer capacity and well-being.

This raises a number of critical questions: How important is it that farmers sell coffee to cooperative-owned CWS? Is it possible to more effectively avail pre-financing to cooperatives? What would need to happen in terms of cooperative management and/or bank decision making?

Key Issues

- Many cooperatives and cooperative-owned coffee washing stations face management challenges. At the same time, Rwandan banks are cautious in making agricultural investments. Because of these factors, many cooperatives do not receive pre-financing.
- Since cooperatives often do not have the pre-financing required to pay farmers upfront, many farmers revert to selling to either middlemen or private coffee washing stations.
- Cooperatives can provide farmers with benefits not provided by private companies. For example, they can pay dividends / premiums to reward the production of high-quality coffee, and can provide inputs. However, the lack of pre-financing and thus the lack of upfront payments reduces the benefits of cooperative membership.

Why farmers do not sell to nearest coffee washing station



“There are many problems with pre-financing because there have been many defaulters in the past. It doesn’t mean that coffee doesn’t make profit, but it has been mismanaged at the cooperative level.”

–Key Informant

Evidence from the baseline, literature review, and key informant interviews

- As the graph above shows, a significant percentage of farmers who do not sell their cherry at the nearest CWS (13.2% of the sample) do so because their closest CWS either does not pay enough, or cannot pay upfront (at the point of sale). These factors may relate to a lack of access to pre-financing, a problem seen in large part among cooperatives.
- Murekezi et al (2011) note that “despite heavy investment in helping farmer cooperatives to access the specialty coffee market, private processors are able to compete and sometimes offer better services and benefits to coffee growers compared with cooperatives” because, unlike cooperatives, they have the collateral and trust necessary to access loans from banks.
- Beyond issues of cooperative mismanagement and loan default resulting in a lack of pre-financing, key informants noted that even those cooperatives that do receive financing often receive it late because the bank loan cycle is misaligned to the coffee season.

Key Statistics:

- In 2015, 58.3% of farmers sold cherry to a cooperative as their main buyer, while 39% sold to a private coffee washing station and 2.6% sold to independent traders.
- Over 25% of farmers do not sell to the nearest coffee washing station due to either lower payments or delays in payments, both of which may relate to a lack of pre-financing.

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.