FEED THE FUTURE
The U.S. Government's Global Hunger & Food Security Initiative

# Feed the Future Africa Great Lakes Region Coffee Support Program (AGLC) Policy Roundtable

## **Topic:** Improving access to pre-financing for cooperatives and coffee washing stations

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USAID FROM THE AMERICAN PEOPLE
MICHIGAN STATE UNIVERSITY
UNIVERSITY OF RWANDA
GLOBAL KNOWLEDGE INITIATIVE
Institute of Policy Analysis and Research - Rwanda

# Introduction to the Challenge

# AGLC Background

- AGLC is a 3-year USAID-funded initiative that addresses 2 major challenges in the coffee sector in Rwanda (and the Africa Great Lakes region)
  - Reduce antestia bug/potato taste defect (PTD)
  - Raise coffee productivity
- Partners
  - Rwanda: Inst. of Policy Analysis and Research (IPAR) and Univ. of Rwanda (UR)
  - USA: Michigan State University (MSU) and Global Knowledge Initiative (GKI)
  - Numerous public and private sector partners
- Components: • applied research • policy engagement • capacity building

# Applied research component

- AGLC draws upon a broad mix of quantitative and qualitative methodologies, including:
  - Coffee farmer/household surveys (and CWS survey)
  - Experimental field/plot level data collection
  - Key Informant Interviews
  - Focus Group Discussions
- Comprehensive coffee sector data base
  - Goal to integrate information from these four data collection activities
  - Provide empirical basis for policy engagement and farmer capacity building

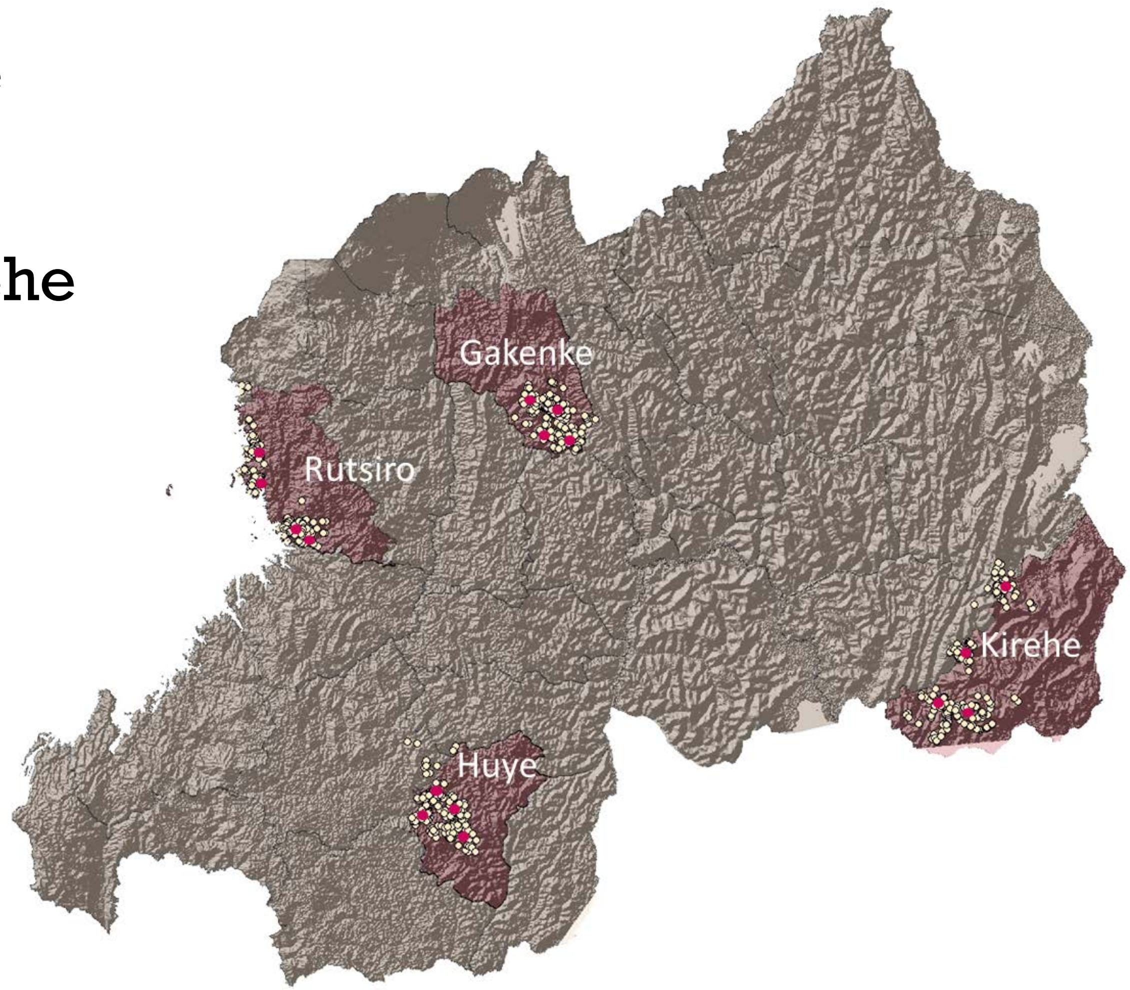
# Guiding question:

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

# Methodology

# Baseline survey of coffee growers

- Geographically dispersed sample across four coffee growing districts: Rutsiro, Huye, Kirehe and Gakanke.
- 4 CWSs in each District (2 cooperatives, 2 private)
- 64 HHs randomly selected from listings of each of the 16 CWSs
  - (64 x 16 = 1,024 HHs)



# Baseline survey, cont.

- Focus on fully-washed coffee. Sample does not include HHs not on CWS listings
  - Advantage: In depth focus on core of Rwanda's coffee sector strategy (FW)
  - Disadvantage: Ordinary coffee (parchment) producers underrepresented
- Survey instrument includes diversity of topics:
  - coffee growing practices • antestia control practices • cost of production • coffee field size • number of trees • slope • location (GPS) • cherry production & cherry sales • landholding • equipment & assets • household income • barriers to investment in coffee • basic household demographics
- Programmed (in *CSPro*) on 7" tablets for data collection
- 10 enumerators (working in 2 teams of 5)

# Qualitative Data

- Key informant interviews
  - Key coffee sector leaders including public sector representatives, farmer organizations, and private sector stakeholders.
  - Focused on challenges identified by stakeholders and provided insights into critical areas of convergence and disagreement among various specialty coffee sector stakeholder groups.
- Focus group discussions
  - Held with major coffee stakeholder groups including coffee farmers, washing station managers, coffee exporters, others.
  - Groups of 5-7 members of each stakeholder group

# Fieldwork

AGLC Baseline survey interview with farmer in Gakenke

Focus group discussion with farmers at Buf Café washing station

# Overview parameters of sample

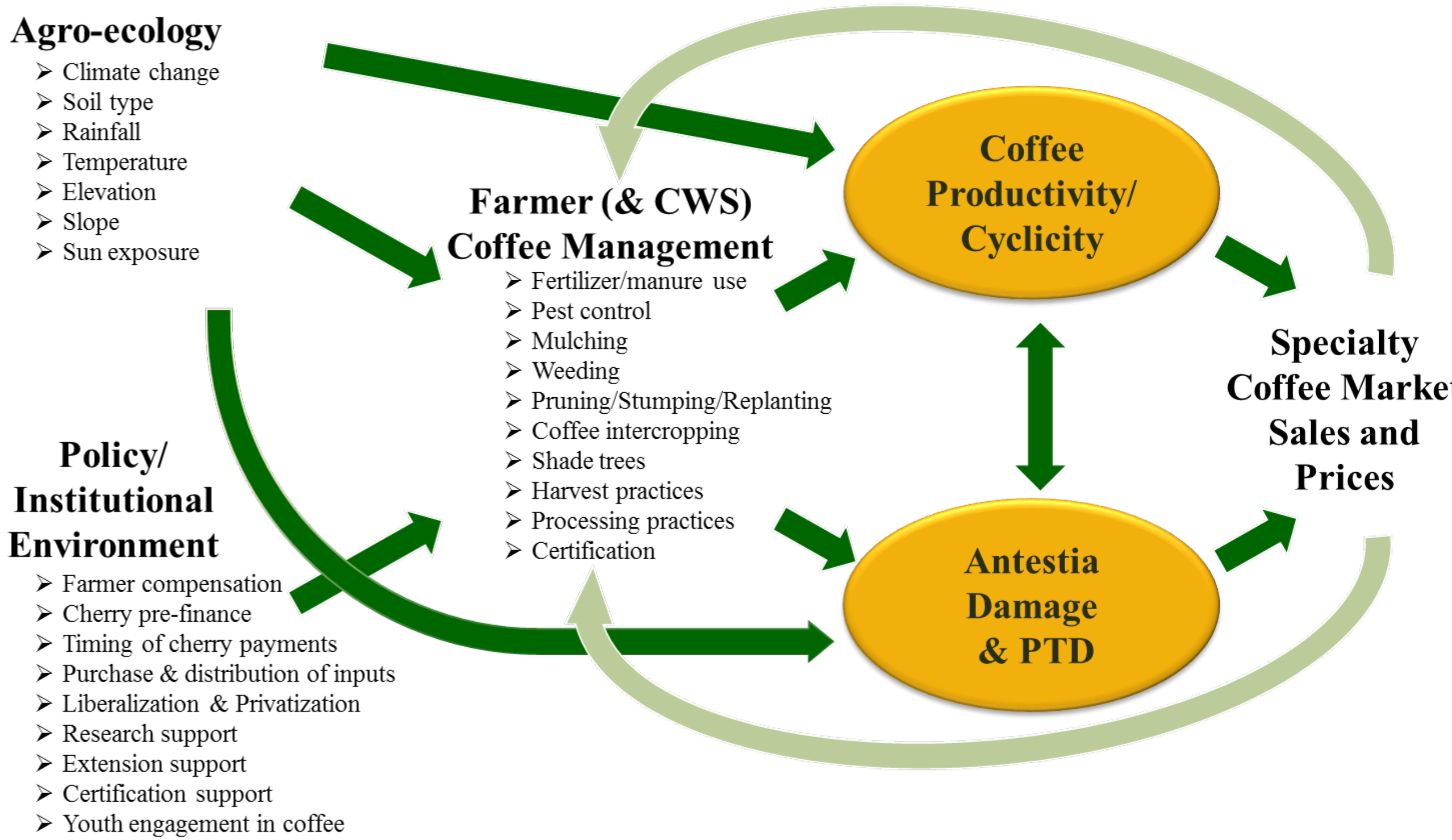
- Gender of Head of HH
  - 81.5% Male
  - 18.5% Female
- Head of HH completed primary school: 38.1%
- Mean age of head of HH: 51 years
- Median number coffee trees on farm: 400
- Head of HH member of cooperative: 55.4%
- Median cherry produced in 2015: 600 Kg
- Mean cherry price received in 2015: 198 RWF
- Median HH cash income: 340,000 RWF
- Share of total cash income from coffee: 44%
- Percent of coffee farmers reporting antestia: 55%

# Primary and Secondary Research Findings

# Sub-questions addressed in findings

1. Why are cooperatives beneficial to farmers and to the broader coffee sector?
2. What incentivizes farmers to sell to cooperative CWS versus private CWS?
3. Why do coffee washing stations need access to pre-financing?
4. Which CWS have access to pre-financing and which do not? Why?
5. What are the consequences (for the sector, CWS, and farmers) of a lack of pre-financing?

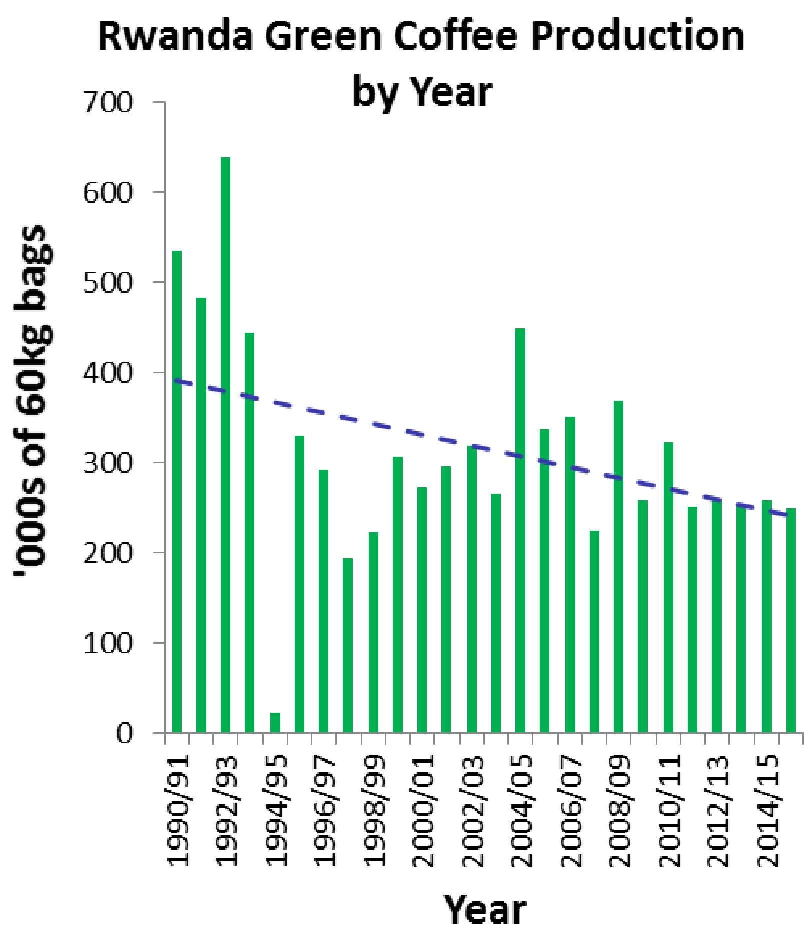
# AGLC Conceptual Framework for Coffee Productivity, Cyclicity and Potato Taste Defect



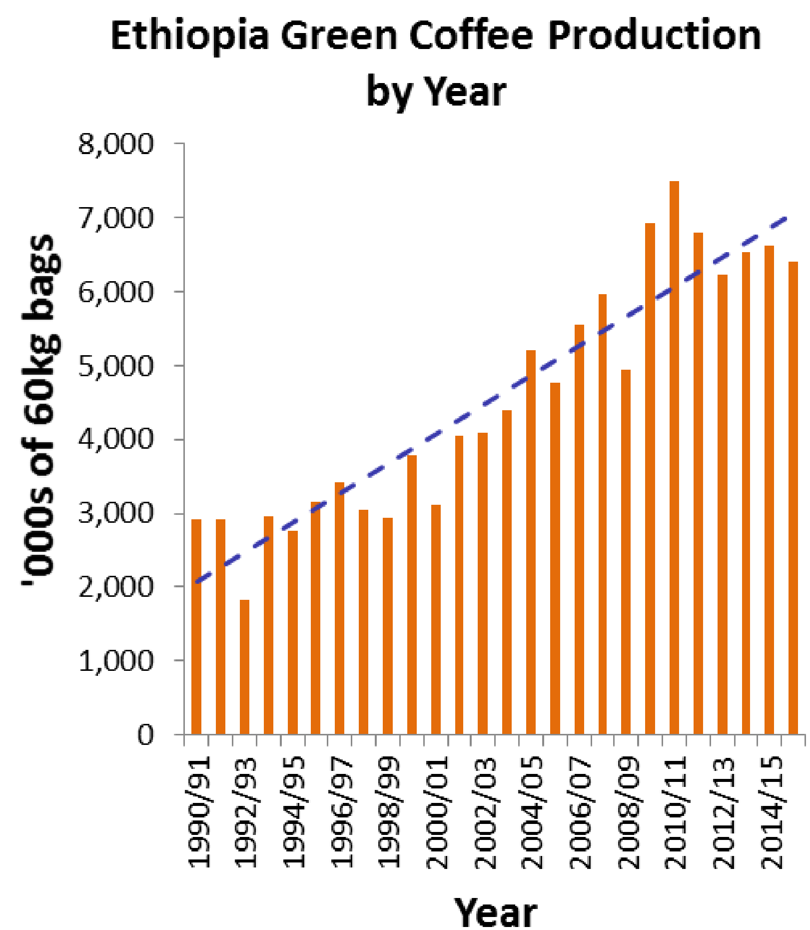
# Premises to challenge

1. Cooperatives can provide farmers with benefits not provided by private companies and are important to the growth of the specialty coffee sector
2. Coffee washing stations (CWS) often require pre-financing in order to pay farmers appropriately and on time
3. Cooperative-owned CWS often cannot access pre-financing
4. Because cooperatives often do not have the pre-financing required to pay farmers upfront, farmers may be incentivized to sell to either middlemen or private CWS

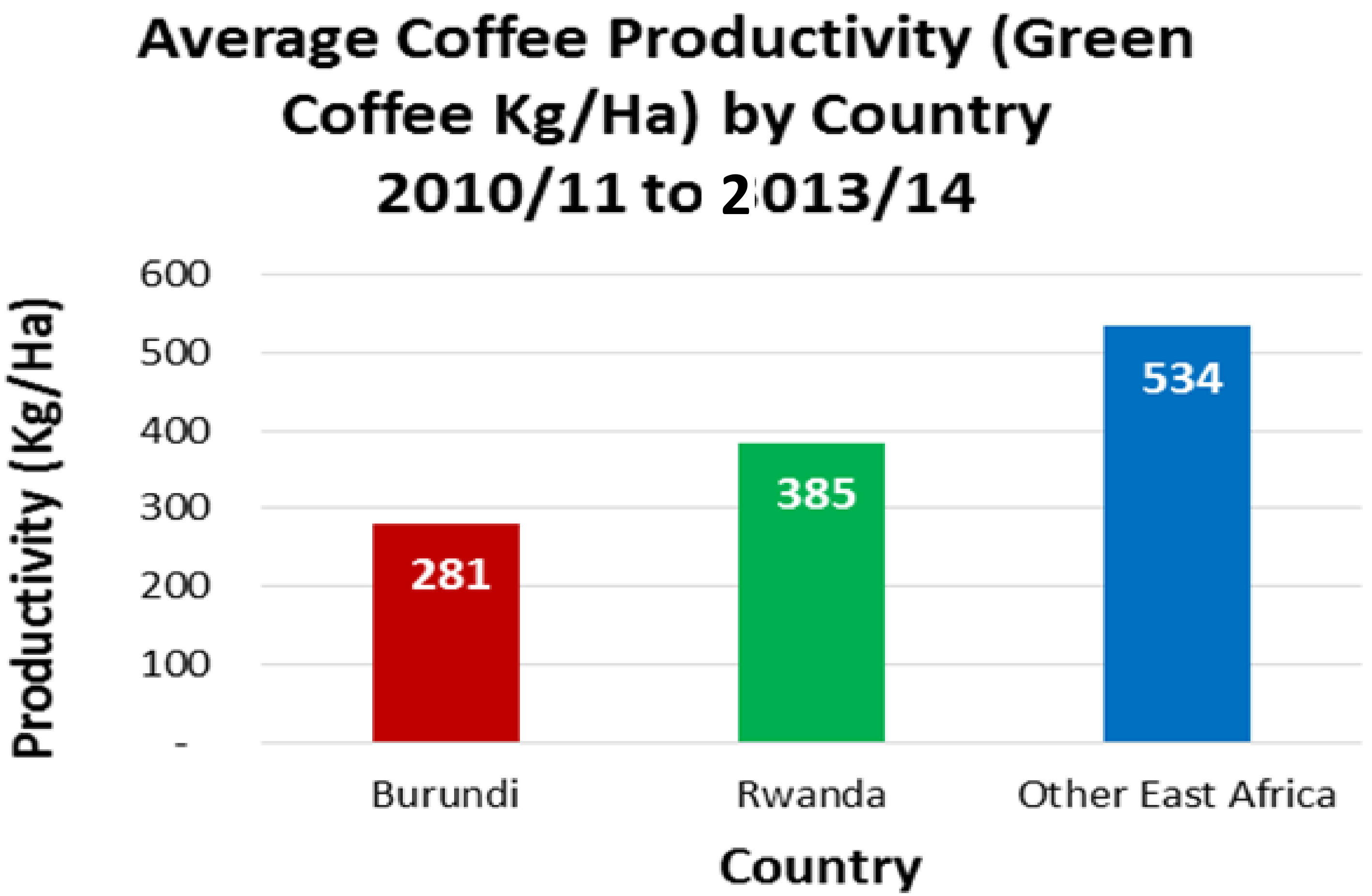
# Trends in coffee production




Source: International Coffee Organisation (ICO)

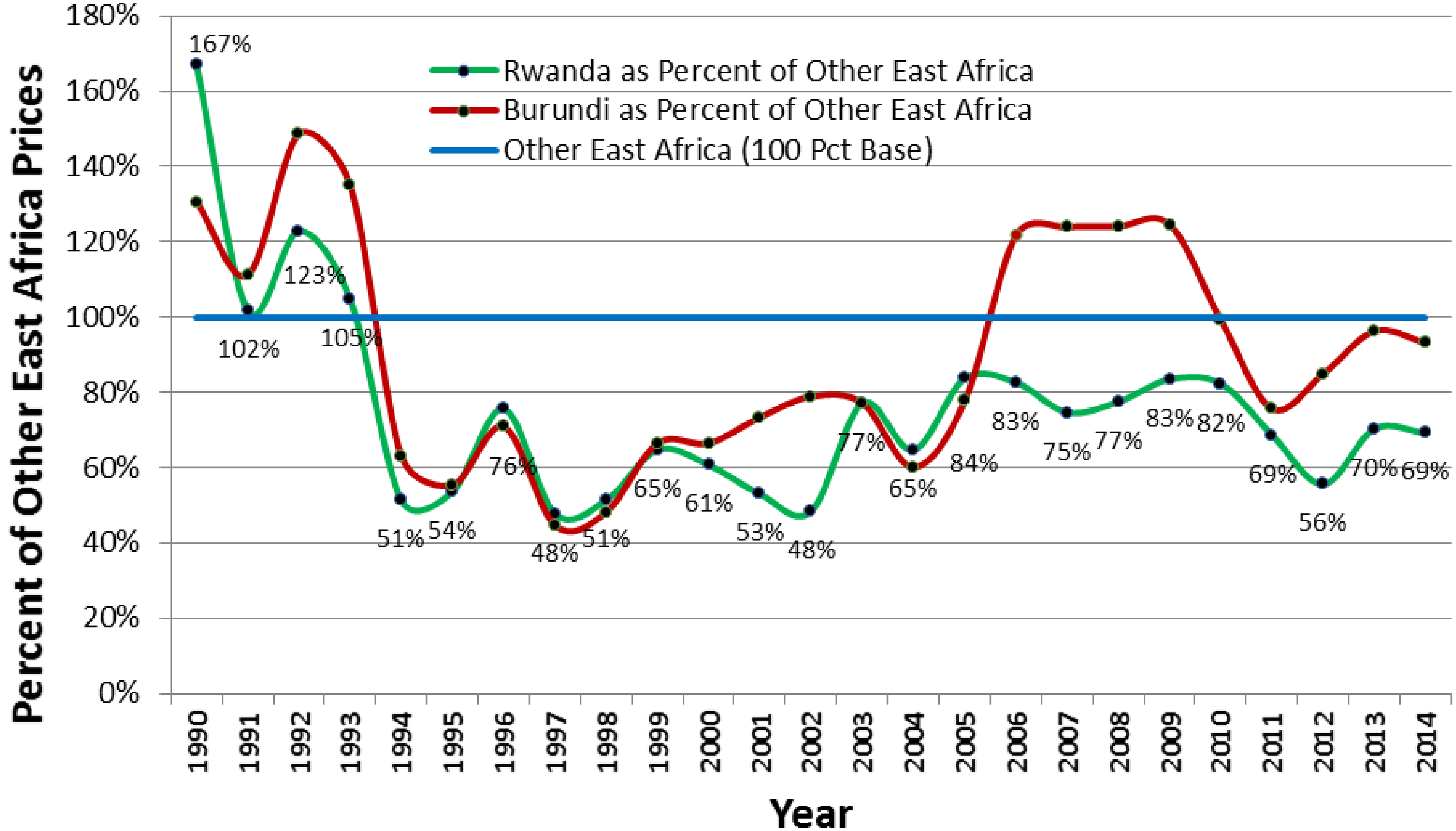



Source: International Coffee Organisation (ICO)



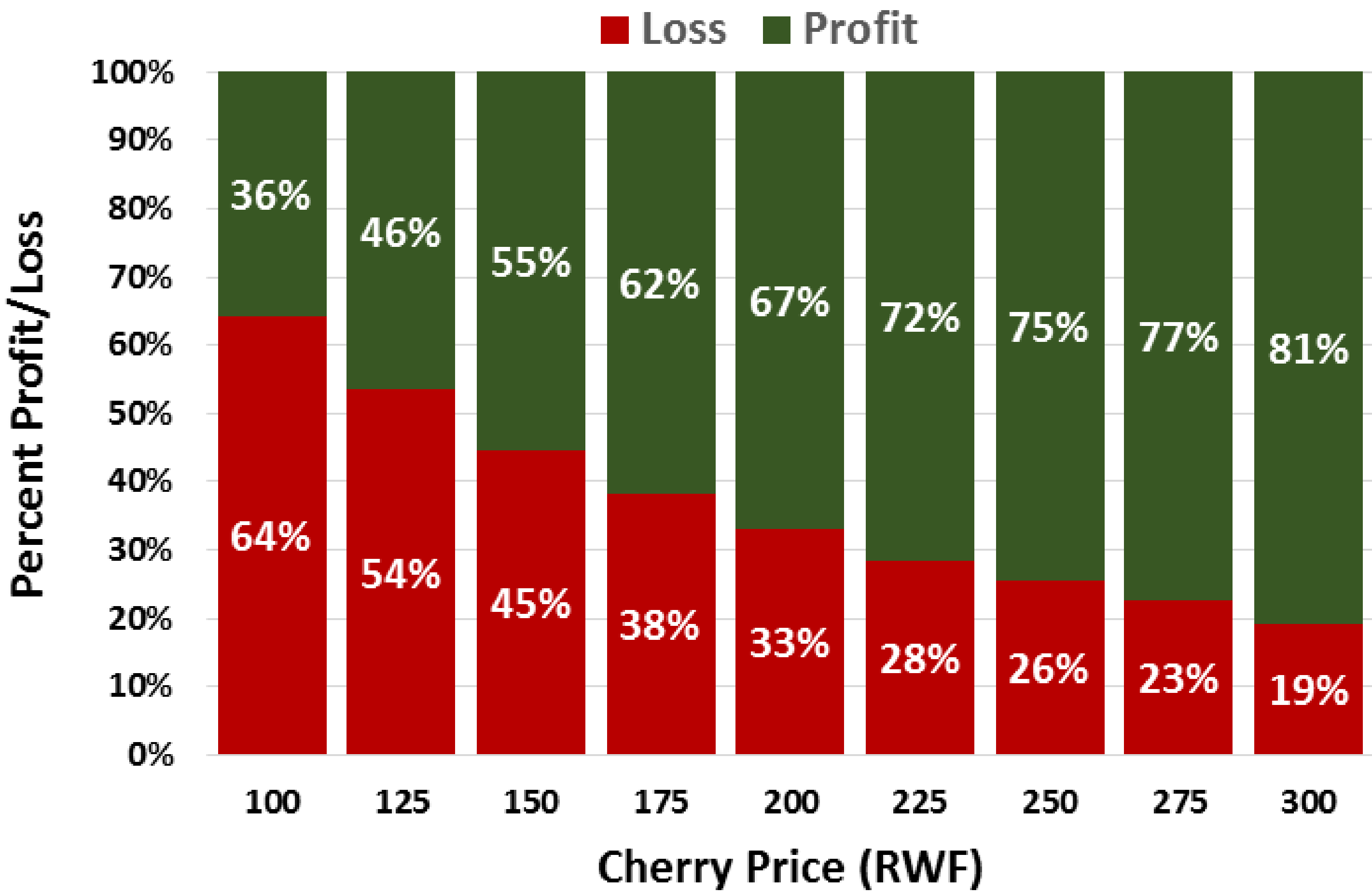

Source: International Coffee Organization (ICO)

# Rwanda, Burundi Average Arabica Coffee Grower Prices as a Percentage of Other East Africa Prices[1] by Year




[1] East Africa includes: Kenya, Tanzania, Ethiopia, and Uganda
Source: International Coffee Organisation (ICO) and other official sources

# Percent of Coffee Farmers Making Profit/Loss (Pos/Neg Gross Margins) Under Selected Hypothetical Cherry Prices



# Evidence from the Literature: Benefits of Cooperative Membership

"Farmers [selling to cooperatives] are more likely to make the necessary effort in the production of coffee that leads to the required quality of raw coffee because as stockholders, they have an incentive to make their organization more profitable. By doing so, they expect their cooperative to generate high profits, which will be repaid in the form of dividends." (Murekezi et. al., 2009)

# Evidence from the Literature: Benefits of Cooperative Membership

"Farmers who have no access to credit show a positive and significant decision to participate in cooperatives. Cooperatives are one of major source of credits for [smallholders]; therefore smallholder farmers are more likely to become members in order to have access to credit loan without collateral requirement and high interest rate …" (Issa et al, 2015)

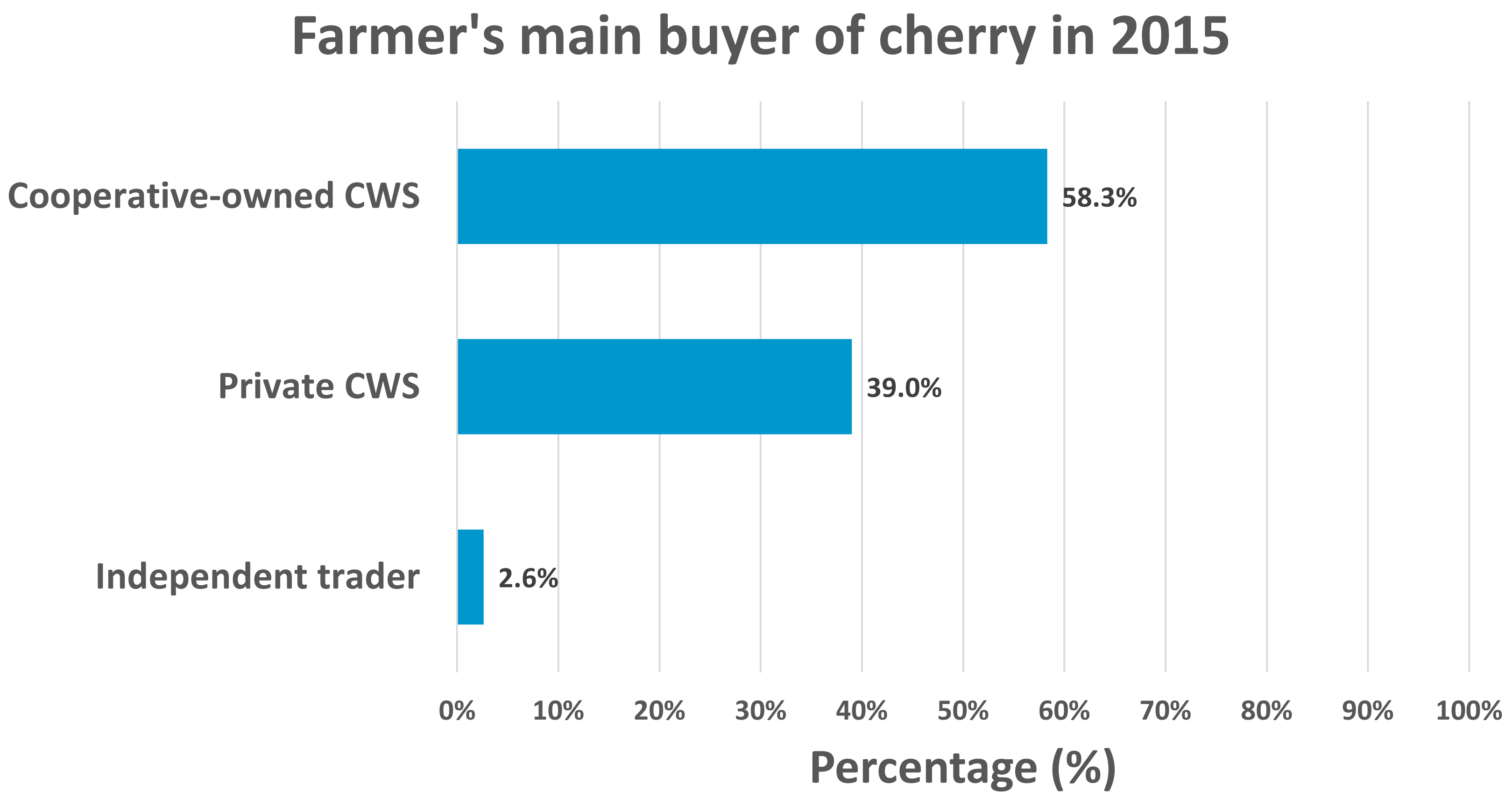
# Evidence from the Literature: Challenges facing cooperatives

"Private processors easily get loans at market rates because they have collateral. Coffee farmer cooperatives have less collateral. Banks are reluctant to give loans to cooperatives for fear of loan default." (Murekezi et. al., 2009)

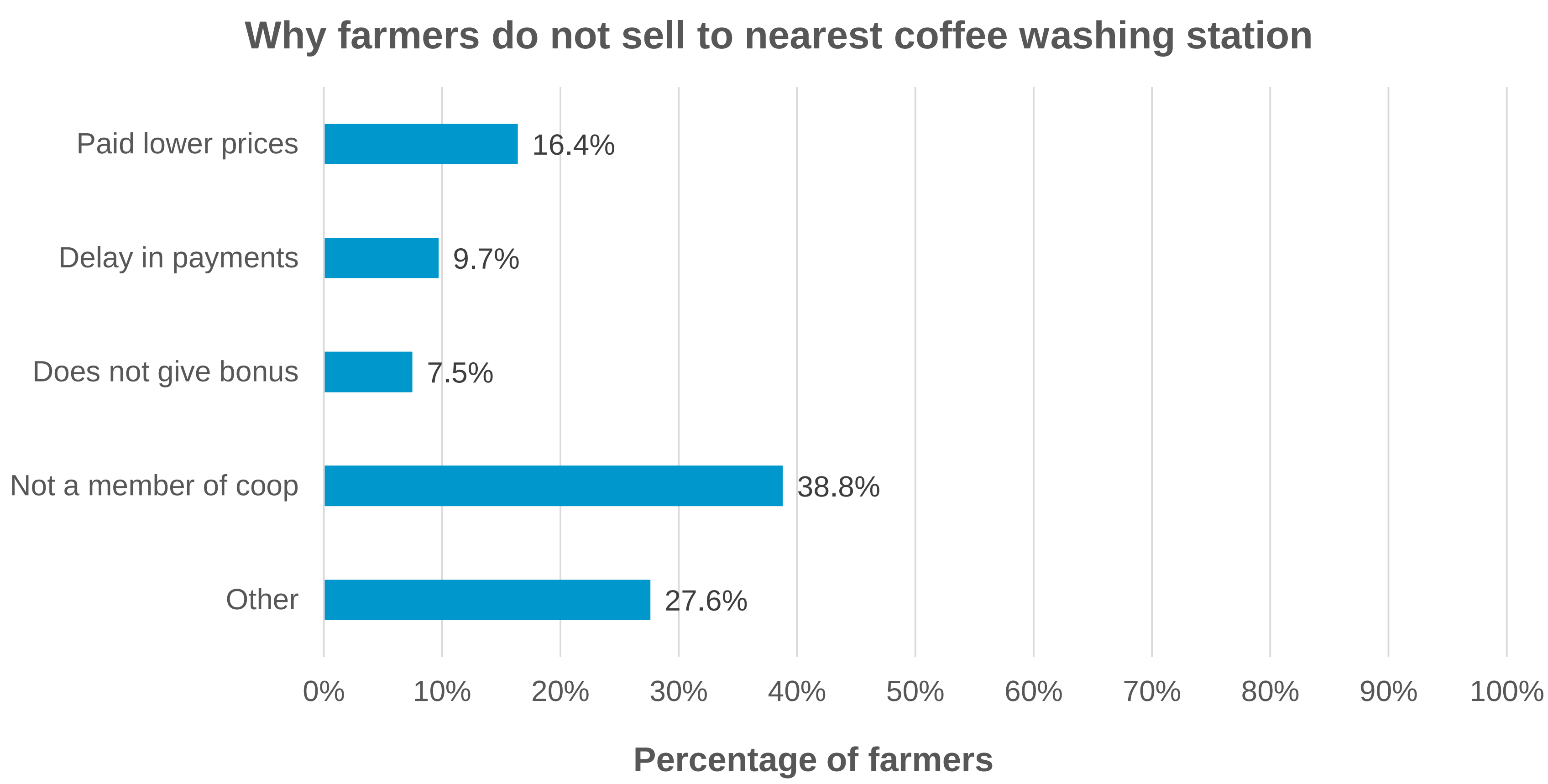
# Evidence from the Literature: Challenges facing cooperatives

"…there is no indication that farmers who sell to cooperative factories get more benefits than farmers selling to private processing plants. These findings suggest that, although the structure of some specialty coffee channels, such as the fair trade market, put cooperatives at a competitive advantage, private processors are able to compete with cooperatives and sometimes offer strong incentives to farmers."(Murekezi et. al., 2009)

# Evidence from baseline: Farmer behavior



# Evidence from baseline: Farmer behavior



# Evidence from Key Informant Interviews

1. Many cooperatives and cooperative-owned CWS face management challenges.
2. Banks trust private CWS owners more than cooperative-run CWS.
3. Even those cooperatives that do receive financing often receive it late because the bank loan cycle may be misaligned to coffee season.
4. Banks may have difficulty determining how best to pre-finance cooperatives.

# Evidence from Key Informant Interviews

Cooperative mismanagement:

"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 Key Informant Interviews

Loan cycle misaligned with coffee season:

"What's still lacking is a good understanding of the coffee business on the part of the finance agencies…Loans are being given due on December 31st and sometimes coffee is unsold until that date. We need banks to reconsider and give contracts that go beyond December 31st."

-Key Informant

# Evidence from Key Informant Interviews

## Bank understanding of sector:

"Banks should be more flexible in giving loans to agricultural projects in general, they should learn from how these international banks work. They should reduce the bureaucracy, like asking for a loan and you are asked to have more many requirements that may take more than a month to get and cause delay to start with the season and later they finally give you the money when it's too late. "

-Key Informant

# Summary and discussion points

# Recap of challenge and findings

1. CWS use pre-financing to pay for coffee cherry upfront.  Loans are then reimbursed from the proceeds of coffee sales.
2. Private CWS often receive pre-financing from banks because they have collateral.
3. Cooperative CWS often cannot obtain pre-financing because banks believe cooperatives are mismanaged, and that cooperatives will default on their loans.

# Recap of challenge and findings

4. Bank loan cycles often do not match up with the coffee season. As a result, even when CWS do receive financing, it may not be at the right time.
5. Since cooperative CWS often cannot receive the pre-financing necessary to pay farmers upfront, many farmers sell to private CWS, which do not (1) advocate for farmers' needs; (2) elicit trust from farmers; (3) incentivize farmers to produce high quality coffee; (4) increase traceability in the sector.

# Discussion questions

- What do we conclude from the data?
- How can we better articulate the challenge and what else do we need to know?
- What are the major policy levers that can help CWS and cooperatives access pre-financing?
- How might we encourage stakeholders to work together to ensure CWS and cooperatives have access to pre-financing?

# Thank You!