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STATE POWER,  
ENTREPRENEURSHIP, AND COFFEE:  
THE RWANDAN EXPERIENCE

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### **About Enterprise Africa!**

Enterprise Africa! is a research project that investigates, analyzes, and reports on enterprise-based solutions to poverty in Africa. The project is uncovering some of the hidden success stories in Africa—stories of people and policies that make a difference in the lives of Africa's people today. In essence, it documents African solutions to Africa's problems. These success stories involve intrepid, committed entrepreneurs across the continent who are developing an amazing array of businesses—from small-scale shops to multinational corporations—and the institutions that support them. These entrepreneurs are promoting economic growth and are an unheralded key to poverty alleviation. Enterprise Africa! is a joint initiative with the Free Market Foundation of Southern Africa and the Institute of Economic Affairs of London, England and is supported by a generous grant from the John Templeton Foundation.

## STATE POWER, ENTREPRENEURSHIP, AND COFFEE: The Rwandan Experience

KAROL BOUDREAUX

### EXECUTIVE SUMMARY

In the aftermath of the 1994 Rwandan genocide, Paul Kagame's new government embarked upon a revolutionary restructuring of the economy. It lifted tight government controls on the production, sale, and distribution of a variety of goods, liberalized many sectors of the economy, and gave people the freedom to trade openly.

Perhaps the biggest success story of Rwanda's liberalization is the revitalization of the country's coffee sector, particularly the development of a new niche product—specialty coffee. A mainstay of the Rwandan economy since the 1930s when Belgian colonial officials encouraged coffee production, coffee remains a key export crop for Rwandans, generating millions of dollars of export revenue and garnering international attention for the high quality of the local beans.

This study highlights two positive results flowing from Rwandan coffee production:

- Liberalization strategies alleviate poverty and develop human capital. By removing pervasive and oppressive government controls over coffee production and sale, the Rwandan government has created space for smallholder farmers to be entrepreneurial, create new ties with foreign buyers, develop valuable skills, and increase their incomes.
- Liberalization has had the unanticipated benefit of reconciliation. Liberalization in the coffee sector creates new incentives for smallholder farmers in Rwanda to work together for a common goal: improving their lives through the production of high quality specialty coffee. Working together toward this common goal has helped Rwandans to reconcile with each other in the aftermath of the 1994 genocide.

Economic liberalization has improved the lives of thousands of Rwandans. With increasing income and new opportunities for entrepreneurship, Rwandans are better able to care for themselves and their families. Surprisingly, economic liberalization also seems to be playing a role in reconciliation. These positive outcomes suggest that a focus on economic liberalization in post-conflict environments may pay large dividends in terms of both economic development and peace.

## ENTERPRISE AFRICA! RESEARCH APPROACH

### Local Solutions from Local Knowledge

THIS STUDY, as with all studies conducted by the *Enterprise Africa!* research team, is based largely on information gathered in Africa from Africans. The Mercatus Center's Karol Boudreaux and the South Africa-based Free Market Foundation's Eustace Davie, Temba Nolutshungu, and Jasson Urbach comprise the core of our research team. The unique approach of the *Enterprise Africa!* team helps ensure that our studies reflect what is actually happening in the communities in which we work, rather than an outside view of how things might be.

For *State Power, Entrepreneurship, and Coffee: The Rwandan Experience*, Karol Boudreaux and Jasson Urbach traveled to Rwanda to meet with a wide variety of stakeholders in the coffee industry: farmers, entrepreneurs, NGO representatives, and government officials.



Jasson Urbach in the field.

Our trip was facilitated in many valuable ways by Eric Kacou and Fayelle Ouane of the OTF Group. Eric and Fayelle have deep knowledge of Rwanda and its people and are eloquent advocates of the positive changes oc-

curing in the country. Their skills, intelligent directions, and insights made this study possible. We are extremely grateful to have worked with them and to have learned so much from them. We are also grateful to have had the opportunity to meet with Rwanda's impressive coffee entrepreneurs as well as with the government officials who are facilitating improvements in the sector.

Our fieldwork was cross-referenced with appropriate economic and political science literature and other relevant data. Colleagues in South Africa and the United States captured and peer reviewed the picture that emerged.



Karol Boudreaux and Apollinaire Kigara  
(head of Abakundakawa Cooperative)

The goal of our study is to provide a unique view of how the institutional environment created by local policy enables or inhibits productive enterprise-based solutions to poverty and ultimately affects the well-being of members of the community in question. Our research approach relies substantially on local experience and knowledge, ensuring that the picture we paint is tied to the world it intends to depict.

# STATE POWER, ENTREPRENEURSHIP, AND COFFEE: The Rwandan Experience

## INTRODUCTION

IN SOME COUNTRIES, particular industries play significant roles. In the United States, for example, the automotive industry has provided hundreds of thousands of manufacturing jobs and helped shape America's image as "the land of the automobile." More recently, the computer industry has helped create a newer image of America as a high-tech, well-connected service economy. Entrepreneurial efforts in both industries have created a variety of benefits for consumers in both the United States and other nations.

In Rwanda, the coffee industry has played a particularly important role in the country's development. For many years, coffee was Rwanda's top export and chief source of foreign exchange income. In the twenty-first century the industry remains important. It provides a livelihood for some 500,000 Rwandan families, many of whom work in cooperatives and grow coffee on the country's small, hillside plots.

In the past two decades, this important sector of the Rwandan economy has been transformed from a highly controlled, politicized industry to a liberalized sector that is quickly developing a prized niche product: specialty coffee. While the industry is benefiting from increased entrepreneurship and freer trade, the people who work in the coffee industry also benefit. They are developing wider trade relations, improving skills, and raising their standard of living—all thanks to increased opportunities to sell their product.

Beyond providing Rwandan smallholder farmers and other entrepreneurs with expanded economic opportunities, the liberalized coffee sector appears to be providing an unexpected benefit. Liberalized coffee policies

give Rwandans new incentives to work together. Because smallholders are now free to sell their coffee on world markets at prices they negotiate, they have incentives to form cooperatives (in order to benefit from economies of scale). They also have incentives to work together to improve the quality of their product because they retain profits from coffee sales. While formal research on this point remains to be done, a body of journalistic evidence suggests that these joint efforts are providing Rwandans with valuable space for informal reconciliation.

By expanding opportunities for entrepreneurship, the Rwandan government created opportunities for people to meet and work together in a depoliticized environment. Before 1994, Rwanda's official coffee policies created disincentives for smallholders to cooperate with other smallholders in the coffee production process. Today, this incentive has shifted and people cooperate and work together in a variety of new ways. They form and manage cooperatives; they jointly create strategies to market and sell coffee; and, if they make a profit, they work together on projects such as building new schools. The result is expanded interactions that may provide a path towards reconciliation.

The rise of the Rwandan specialty coffee market presents an intriguing research opportunity, because it developed in the aftermath of the Rwandan genocide. The specialty coffee market is providing the means for individuals, whose lives were devastated by conflict, to improve conditions for themselves, their families, and their communities. Rwandan coffee growers are competing with other coffee producers to improve their product, expand their knowledge of the worldwide coffee market, and increase demand for their goods.

In this case study we will examine how Rwanda's specialty coffee industry is helping to improve the lives

We thank the coffee farmers and their families who met with us.  
We also extend thanks to Mauro de Lorenzo for helpful comments.

of coffee producers and of other Rwandans. We will identify and analyze the ways in which:

- the specialty coffee industry aids in local poverty alleviation and job creation;
- the specialty coffee industry provides opportunities to develop business and management skills;
- the actions of specific coffee entrepreneurs have affected the lives of ordinary Rwandans; and
- the entrepreneurial activities within the Rwandan specialty coffee industry provide opportunities to interact in ways that may promote post-conflict reconciliation.

## I A Brief History of Rwanda

RWANDA IS A small, land-locked nation that hugs the equator. Over eight million people live in this densely populated country. The vast majority of the population remains quite poor, lives in rural areas, and earns a meager living from subsistence farming.

Its citizens are a mix of Hutu, Tutsi, and Twa people. *Mix* is an important word, as the people in Rwanda speak the same language and share the same culture. Gérard Prunier writes:

The first explorers who reached Rwanda and Burundi were immediately struck by the fact that the population though linguistically and culturally homogeneous, was divided into three groups, the Hutu, the Tutsi and the Twa. . . . They shared the same Bantu language, lived side by side with each other without any 'Hutuland' or 'Tutsiland' and often intermarried. But they were neither similar nor equal.<sup>1</sup>

These differences made strong impressions on early European colonists who wrote histories of the region that

identified the Tutsis as superior outsiders who, in the relatively recent past, brought a sophisticated kingship system to Rwanda.<sup>2</sup> In his 1998 work on the Great Lakes region, a region of East Africa that includes Rwanda, David Schoenbrun traces the development of language, culture, and politics there.<sup>3</sup> Based on archeological evidence, he finds that there were Early Iron Age settlements in Rwanda as early as 800 B.C.<sup>4</sup> He finds that Great Lakes Bantu speakers have been in the area just as long—much longer than Western scholars of Rwanda have thought.

Beginning sometime around 500 B.C., these settlers adopted farming as a supplement to fishing and foraging. Somewhat later they raised cattle (maybe acquired via trade with other groups), calling into serious question the idea that one group of invaders brought a cattle culture to the region. Schoenbrun notes that people in the western part of the Great Lakes region (near Lake Kivu in western Rwanda) focused on farming rather than herding but nonetheless, they were grazing and breeding and milking cattle more than 2,000 years ago.<sup>5</sup>

Schoenbrun's work points to the long-term development of Great Lakes societies, including that in Rwanda. This is a more nuanced approach than previous work, which believed Bantu-speaking farmers arrived in the area in the middle ages and that cattle-herding Tutsis arrived in the area and took political control sometime later. However, it is the case that by the nineteenth century, a Tutsi elite had taken political control of the area and had created a strong, centralized kingdom.<sup>6</sup>

In the late nineteenth century, Germans colonized the Tutsi kingdom, incorporating it into German East Africa in 1890. Following the end of World War I, a League of Nations mandate transferred control of Rwanda and Burundi (Ruanda-Urundi) to the Belgians.

Of the Belgian colonial experience Prunier writes:

The Belgian reforms of 1926–31 had created “modern” Rwanda: centralized, efficient, neo-traditionalist and Catholic—but also brutal. Between 1920 and 1940, the burden of taxation and forced labour by the native population increased considerably.

1. Gérard Prunier, *The Rwanda Crisis: History of a Genocide* (New York: Columbia University Press, 1995), 5.

2. Prunier, *Rwanda Crisis*, 9–16.

3. David Lee Schoenbrun, *A Green Place, A Good Place: Agrarian Change, Gender, and Social Identity in the Great Lakes Region to the 15th Century* (Portsmouth, NH: Heinemann, 1998).

4. Schoenbrun, *A Green Place*, 32–33.

5. Schoenbrun, *A Green Place*, 74.

6. Prunier, *The Rwanda Crisis*, 16–23.

Men were almost constantly under mobilization to build permanent structures, to dig anti-erosion terraces, to grow compulsory crops (coffee for export, manioc and sweet potatoes for food security), to plant trees or to build and maintain roads. These various activities could swallow up to 50–60 percent of a man's time. Those who did not comply were abused and brutally beaten. The result was a manpower exodus towards the British colonies, especially Uganda where there was plenty of work.<sup>7</sup>

Under Belgian rule, the government issued citizens identity cards that specified their ethnicity as Hutu, Tutsi, or Twa. These distinctions enabled Belgian administrators to fill civil service jobs and school positions with Tutsis, leaving Hutus with little education and political power.<sup>8</sup>

In the 1950s, the colonial government introduced some reforms aimed at improving the lot of Hutus. This may have been an attempt, on the part of the colonial power, to lessen ethnic tensions or it may be viewed as a means of creating a politically empowered class that would favor a continued Belgian presence. Tutsis resisted these changes, seeing them as a threat to their privileged status.<sup>9</sup> From this resistance, an independence movement emerged, and the Tutsi king called for the Belgians to leave.

At the same time, Hutus issued a manifesto that called for greater voice and political power. In 1959, after the Tutsi king died under mysterious conditions, Hutus staged a revolution that targeted Tutsis for violent retribution. As a result, thousands of Tutsis were killed and close to 100,000 were dislocated into neighboring countries.

The Hutu revolution lasted until the country gained its independence from Belgium in July, 1962. Grégoire Kayibanda, a Hutu from southern Rwanda, became the president and prime minister of the new country. Michael Porter notes:

Rwanda quickly became a single-party state with

a highly centralized and authoritarian administration under the control of Hutu elite from south-central Rwanda . . . Following independence, the state took ownership over all land. An ethnic quota system determined access to education and employment in the civil service, and it was virtually impossible for Tutsis to attain high-level positions in government or the military.<sup>10</sup>

In 1963, exiled Tutsis unsuccessfully invaded the country. This led to further retaliatory attacks against Tutsis, in which ten thousand Tutsis were killed. Another round of retaliatory killings against Tutsis took place in the early 1970s, in response to Hutu deaths in neighboring Burundi.

In 1973, General Juvenal Habyarimana led a *coup d'état* and took control of the country. Habyarimana was from northwest Rwanda, and under his leadership Hutus from this area quickly gained control of important government offices. Habyarimana controlled the levers of a single-party state in which the government became extraordinarily powerful and sought control over "every aspect of Rwandan society."<sup>11</sup> Verwimp describes the political shifts:

From 1974 to 1976, Habyarimana consolidated his political power. He outlawed political parties and created his own Revolutionary Movement for Development (MRND) . . . the MRND was a truly totalitarian party: every Rwandan had to be a member of the MRND . . . Habyarimana institutionalized *Umuganda*, the compulsory communal labour, and had peasants participate in village animation sessions to honour him. . . . All citizens were under tight administrative control. Every 5 years the president was re-elected with 99 percent of the vote.<sup>12</sup>

In 1990 exiled Tutsis, under the banner of the Rwanda Patriotic Front (RPF), once again invaded the country. Clashes between the RPF and the government continued for the next three years. Although the 1990 invasion was not successful, in what has become known as the Arusha Accords, the Habyarimana government agreed to

7. Prunier, *The Rwanda Crisis*, 35.

8. Peter Uvin, "Prejudice, Crisis, and Genocide," *African Studies Review* 40 (September 1997): 95. Prunier, *The Rwanda Crisis*, 33.

9. Prunier, *The Rwanda Crisis*, 46.

10. Michael E. Porter, "Rwanda: National Economic Transformation," (Cambridge, MA: Harvard Business School, May 2006), 3, [http://harvardbusinessonline.hbsp.harvard.edu/b01/en/common/item\\_detail.jhtml;jsessionid=33RYDAIKZOAWUAKRGWDSLEQBKE0YIISW?id=706491&referral=8636&\\_requestid=7565](http://harvardbusinessonline.hbsp.harvard.edu/b01/en/common/item_detail.jhtml;jsessionid=33RYDAIKZOAWUAKRGWDSLEQBKE0YIISW?id=706491&referral=8636&_requestid=7565).

11. Porter, "Rwanda: National Economic Transformation," 4.

12. Philip Verwimp, "The Political Economy of Coffee, Dictatorship, and Genocide," *European Journal of Political Economy* 19 (2003): 163.



Drying tables at COOPAC's washing station (left). Cossilde Musanabera can pay school fees with her extra income (right).

rewrite the constitution, integrate the RPF and Rwandan armies, and enter into a power-sharing agreement with the Tutsis.

Despite these efforts to lessen tensions, violence erupted again in 1993, in the capital city of Kigali; and the RPF launched a new assault. The United Nations began peacekeeping operations in August 1993, but these proved disastrously inadequate. In April 1994, President Habyarimana's plane was shot down by a rocket launched near the Kigali airport. Hutu extremists, fearful that the president was on the verge of enforcing the Arusha Accords, have been blamed for the assassination.<sup>13</sup> This act provided the spark that lit the genocidal conflagration.

Local media played an important role in goading Hutus into a murderous frenzy against their neighbors. While the Hutu military—both the Rwandan Armed Forces and the Hutu *Interahamwe* militia—was involved in the killing, many perpetrators were civilians acting against civilians. The RPF finally brought the killing to a halt and drove the Hutu government into exile. By the time the violence stopped, close to one million people were dead, nearly two million had left the country, and close to one million were internally displaced. Nearly 40 percent of

the pre-war population was missing and the country was devastated.

In July 1994, the RPF created a coalition national unity government, whose president, Pasteur Bizimunga, was a Hutu. Following the genocide, the international community responded with a humanitarian effort, directed by the United Nations but largely focused on providing help in Congo and Tanzania. This lasted until 1996. In late 1996, hundreds of thousands of refugees from Zaire (Democratic Republic of Congo) and Tanzania returned to the country. War crimes trials began in Tanzania in 1997. In 2003, multi-party elections were held. Paul Kagame's RPF won a landslide, and a new constitution was adopted. The RPF remains in power today.

## 2

## Coffee and Power in Rwanda

MISSIONARIES MAY HAVE first introduced coffee into Rwanda in the early part of the twentieth century, but it was not until the 1930s that colonial authorities actually required Rwandan farmers to plant at least one-fourth of

13. In November 2006, a French magistrate issued arrest warrants for nine senior RPF officers for the shooting down of President Juvenal Habyarimana's plane. The magistrate also called for President Paul Kagame to stand trial before the International Criminal Tribunal for Rwanda for his part in the shooting. In response, the Rwandan government expelled the French ambassador from the country and suspended French aid projects. Anti-French riots followed. The French government was a strong supporter of the Habyarimana government.

their land with coffee trees. The Belgians imposed individual taxes on the local people and export taxes on coffee sales. Tutsi chiefs collected these taxes, which were used to support the colonial government. Thus began an unfortunate history of government oversight of, and involvement in, the industry.

After independence, the Kayibanda government continued the policy of requiring farmers to grow coffee—even if they might have preferred growing other crops, such as beer bananas, sweet potatoes, or beans. The government also forbade farmers to interplant other crops with coffee. A government agency purchased all coffee grown in Rwanda and a monopsony export company sold it.<sup>14</sup> Before the 1990s, such export agencies were common in African nations. Many were created during World War II, and newly created governments kept them in operation after independence. Discussing the impact of export boards in West Africa, the economist Peter Bauer writes:

The system, which implies direct state control over the incomes of producers, has become an effective instrument of exceedingly severe taxation of the producers subject to it. . . . This extension of state power over people's livelihood has been instrumental (among other results of its operation) in greatly increasing the stakes in the fight for political power and in enhancing the intensity of the struggle for political control.<sup>15</sup>

Export control agencies sold commodities at the world market price and would typically pay producers a set price that was lower than the world market price. This meant there was a difference between the price paid to producers and the price received from buyers. Because

all sales passed through these agencies, export control agencies were able to retain a substantial price difference. Export control agencies provided an involuntary service for farmers—they did mediate between buyers and sellers, so the agency incurred costs. However, agencies typically retained a good deal more than would have been necessary to recoup these costs. Politicians could use these earnings to pursue favored policies or to reward favored individuals and groups. As we shall see, Bauer's arguments seem to hold for Rwanda as well.

A state agency managed 70 “buying up” points around the country where smallholders brought their coffee beans to sell. Throughout the 1960s and into the 1970s, this agency “was the economic arm of the Gitarama (i.e. Kayibanda) regime.” It was “accused of running a monopoly and diverting benefits to leading politicians in the Kayibanda government.”<sup>16</sup>

High prices throughout the 1970s and 1980s allowed the government to pay smallholder coffee producers well—although always at the government-dictated price that was below the international price for coffee. The Rwandan government captured the difference between the international price and the price it paid to farmers. The government used this difference to fund its activities. In addition, the government imposed export taxes on coffee sales (and on other exports) that also helped to support the government.<sup>17</sup>

Under the Habyarimana government, coffee production became a means to support a repressive dictatorship. By the 1970s, coffee exports generated between 60 and 80 percent of the country's export revenue, and the law required smallholder producers to cultivate coffee.<sup>18</sup> The government paid coffee producers a fixed rate per kilo

14. The Offices des Cultures Industrielles du Rwanda (OCIR) was responsible for both the coffee and tea sectors. OCIR-Café was created in 1978 to “promote the sector on local and international markets.” Before the liberalization of the sector in the 1990s, OCIR-Café managed approximately 30 percent of the export volume. The remainder of the exports flowed through Rwandex S.A., a company that was partially government owned. Rwandex was created in 1964. World Investment News, “Company Profile: OCIR-Café,” (includes interview with Anastase Nzirasanaho, Director General, OCIR-Café), <http://www.winne.com/rwanda/to13interview.html>.

15. P.T. Bauer, *Dissent on Development: Studies and Debates in Development Economics* (London: Weidenfeld and Nicolson, 1972): 387–88; Robert H. Bates, *Open-Economy Politics* (Princeton, NJ: Princeton University Press, 1997). Bates provides a detailed discussion of the development of the International Coffee Organization, its pricing strategies, and relationships between producers and cartel members, roasters, and importing nation governments such as the United States.

16. Verwimp, *European Journal of Political Economy*, 19:163.

17. Robert H. Bates, *Markets and States in Tropical Africa: The Political Basis of Agricultural Policies* (Berkeley, CA: University of California Press, 1981), 11–29. Bates discusses a variety of African experiences with export agencies.

18. Lode Berlage, Bart Capéau, and Philip Verwimp, “Dictatorship in a Single Export Crop Economy,” (Center for Economic Studies discussion paper, Households in Conflict Network, Institute for Development Studies, University of Sussex, revised version, October 2004), <http://www.hicn.org/papers/dicta.pdf>.

for coffee. These rates rose from 45 Rwandan Francs in 1974 to 120 Rwandan Francs in 1977.<sup>19</sup> Verwimp notes:

The regime raised the producer price for coffee, giving farmers an incentive to produce more, and at the same time it strengthened monitoring of coffee cultivation. Elements of the latter policy were to make the neglect of coffee trees punishable by law and to provide every commune with a monitor to advise and control farmers' coffee cultivation.<sup>20</sup>

In the early 1980s, although the producers received less compensation than they might have in an open and free market, they received more than they had in the 1960s and mid-1970s from the export agency. For its part, the government retained the difference between the world market price and the price it paid to consumers. This revenue helped Habyarimana to consolidate his hold on the government and the economy. Verwimp states: "The very high world market coffee prices allowed the regime's elite to increase both its personal consumption and its power over the population."<sup>21</sup> In addition, Habyarimana placed relatives and supporters in positions of authority at the powerful and lucrative state-run coffee agency, OCIR-Café.<sup>22</sup> For this government, so long as worldwide coffee prices were high, coffee production provided much-needed government revenue. Moreover, Verwimp argues, this revenue provided money that the regime could use to buy loyalty and fund the import of goods for urban elites.

Verwimp posits that under a dictatorship, "[i]f the rents from political exchange (i.e., subsidized purchase price of coffee) are high, the average citizen will be more inclined to cooperate with the regime. Moreover, a dictator who is able to distribute the rents of a well-performing economy can buy off even the worst opposition."<sup>23</sup> However, if these rents were to diminish, so too would popular support. Diminishing popular support threatens a dictator's hold on power. The dictator either needs to find an alternate source of revenue with which to purchase additional

support, or he needs to reduce spending, or he needs to use an alternative strategy to ensure support.

In Rwanda, such a crisis began when worldwide coffee prices tumbled in the late 1980s. The International Coffee Agreement was terminated, and the international coffee market was liberalized.<sup>24</sup> The Habyarimana government rapidly lost revenue. For a few years it subsidized producers, paying above-market prices for coffee, but this was an unsustainable policy—especially as the government needed resources to fight against the invading RPF forces from 1990 onward.

As the government began to lower the purchase price it paid for coffee, farmers wanted to shift into production of another cash crop, notably beer bananas, but the law forbade this. It may be that the government refused to modify the law because coffee was the major source of export revenue and there were few other readily available, viable substitutes for coffee as a source of income. With the extensive system of local monitors, farmers found it difficult to ignore this law. Despite these pressures, however, farmers did begin to uproot their coffee trees as their income, already low, began to fall. Coffee trees took up space and used resources that the farmers could devote to food and other more attractive cash crops.

Verwimp argues that, as a dictator, Habyarimana faced a dilemma. He could no longer buy as much support from the majority agrarian population because he lacked the revenue from coffee to do so. How was he to stay in power if he had fewer rents (that is, less money) to distribute? One option was to find other sources of revenue. Thus, Habyarimana confiscated property and raised taxes to supplement his budget and reduced consumption by elites. Nonetheless, an unstable economy led to political instability.

Faced with a significant loss of support from the agrarian sector, Verwimp suggests that Habyarimana turned to repression and violence as alternatives to purchasing

19. Inflation adjusted, the rate in 1977 would have been 106.7 Rwf (in 1974 Rwf).

20. Verwimp, *European Journal of Political Economy*, 19:171. Berlage, Capéau, and Verwimp, "Dictatorship in a Single Export Crop Economy."

Berlage, Capéau, and Verwimp note the policy was contained in a 1978 coffee cultivation law.

21. Verwimp, *European Journal of Political Economy* 19:172. Under the Habyarimana regime, the powerful OCIR-Café agency was run by relatives

of the dictator's wife, members of the *clan de Madame*.

22. Berlage, Capéau, and Verwimp, "Dictatorship in a Single Export Crop Economy."

23. *Ibid.*

24. The International Commodity Agreement (ICA) evolved as a means to stabilize the chronic price cycles and endemic instability of the coffee

industry using a quota system which limited the amount of coffee that could be exported to consumer countries, thereby artificially increasing the price level.

loyalty.<sup>25</sup> Evidence indicates rising numbers of arbitrary arrests, massacres of Tutsi, confiscations of property, and rapes in the early 1990s. The Habyarimana regime made opposition to its policies more costly for Rwandan citizens.

Also at this time, foreign aid became an increasingly important part of the budget as foreign exchange revenue shrank. Prunier argues that, in the 1980s, Rwanda's elite relied on three sources of "enrichment": coffee and tea exports, tin exports for a brief time, and foreign aid. Because commodity revenues were allocated to running the government and because these revenues shrank as the decade wore on, "there was an increase in competition for access to that very specialized resource (foreign aid), which could only be appropriated through direct control of the government at high levels."<sup>26</sup> However, reliance on foreign aid created serious problems within this elite group: "the various gentlemen's agreements which had existed between the competing political clans since the end of the Kayibanda regime started to melt down as the resources shrank and internal power struggles intensified."<sup>27</sup> With its growing dependence on foreign aid, the government agreed to an International Monetary Fund (IMF) restructuring program in 1990 that led to further hardships for farmers—and further hardships meant decreased loyalty.

During this period of economic chaos, the Tutsi-led RPF invasion contributed to the rising level of repression, providing the regime an opportunity to rebuild its popularity by shifting attention from domestic economic woes to the Tutsi threat. The government demonized the invaders and used the media to spread an ideology of ethnic hatred. Most repression was directed at the Tutsi minority, though some spilled over to Hutus. The results were, of course, disastrous.

Discussing the profound changes in Rwandan society and economy, Uvin notes, "From 1985 on, food production per capita decreased, international coffee prices collapsed and so did farm cash incomes. . . . After 1990, food production fell even more in the areas affected by civil war and hundreds of thousands of people lost their livelihoods . . . millions of Rwandans saw their misery

increase dramatically, while their prospects for the future disintegrated."<sup>28</sup>

Verwimp sums up the Habyarimana regime's decision to use genocide as a path to political survival.

- The earnings from the export of coffee had been in decline for the last couple of years. Coffee was no longer an interesting crop to the farmer. Together with decreased earnings, especially in real income terms, the loyalty of the farmer to the regime dissipated.
- The regime tried to hold onto power by using ethnic ideology to legitimize its reign. It was able to increase farmer loyalty by frightening them and depicting the rebels as devils and enemies. The regime substituted other rewards for the share of the coffee price to buy loyalty. In this way, the regime was able to hide its own failures . . . and put the blame on one group of people (Tutsis). . . . The ideology became more extreme as the war and the negotiation process went on (1992–1993), and as the world coffee price continued to decline. At the same time, we notice a sharp increase in the level of repression used by the regime.<sup>29</sup>

This is certainly *not* to say that government control of the coffee sector caused the genocide directly. It is to say that the Hutu governments of Kayibanda and Habyarimana deeply politicized the coffee sector. This politicization empowered some elites and enabled some to use a portion of the coffee revenue to perpetrate violence. The consequences of extensive government involvement in this key sector were not simply economic. They were deeply political and, ultimately, catastrophic for many.

The politicization of coffee production limited farmers' freedom to grow what they wished and how they wished. By imposing price caps for the product and by limiting freedom of contract, the government created a situation that led to frustration and resentment among the country's many farmers. They may have directed this frustration and resentment against Tutsis. However,

25. Berlage, Capéau, and Verwimp, "Dictatorship in a Single Export Crop Economy."

26. Prunier, *The Rwanda Crisis*, 84.

27. *Ibid.*

28. Uvin, *African Studies Review*, 40:108.

29. Verwimp, *European Journal of Political Economy*, 19:178.

other factors—such as prejudice, resentment over land shortages, a severe refugee problem, resentment over rising prices that resulted from the IMF-directed economic restructuring, and resentment and fear generated by the RPF incursions—also played an important part in creating the conditions for genocide.<sup>30</sup>

From the early days of coffee production in Rwanda, the colonial government limited freedom of exchange in the sector and used coercive measures to ensure production. The level of government involvement in the industry remained high through the early 1990s, when falling worldwide coffee prices led the Habyarimana government to seek other sources of revenue. Once again, the government resorted to coercion as it outlawed the destruction of coffee trees, confiscated property, and increased taxation. Most notoriously, it turned to massive violence against its Tutsi minority and against members of the invading RPF in an effort to distract attention from a deteriorating economic situation.

Rather than allowing coffee farmers to freely contract with purchasers and rather than allowing farmers to freely choose what to plant or invest in and when, the government created a monopsony purchaser/monopolistic exporter arrangement and forced people to grow coffee even when famine threatened. A long history of government interference in and mismanagement of the coffee sector had catastrophic consequences for the people of Rwanda.

Happily, the situation today is quite different. Rwanda has liberalized its coffee industry, along with other sectors of its economy.<sup>31</sup> There is no longer a monopsony purchaser of coffee. Producers can freely contract with buyers from around the world. The government no longer forces producers to grow coffee. The hills are planted with bananas, tomatoes, potatoes, and even some coffee. Several exporters mill coffee, not just one. Entrepreneurs have more incentives to invest in efforts to improve the quality of their coffee. And the government, in some cases

with help from nongovernmental organizations (NGOs) and international donors, has committed to building washing stations across the country in an effort to add value to the Bourbon beans—a high-value arabica coffee variety that grows in Rwanda.

In a freer trading environment the coffee industry is generating increased income for some producers, particularly those who turn to the niche specialty coffee market. This increased income allows smallholder farmers to pay school fees for children, buy clothing, and fix homes. But another benefit, perhaps incalculable, of this improved trading environment in Rwanda is that the people of Rwanda are working together. Hutus and Tutsis are joining together, often in cooperatives, to produce coffee for world markets. This reconciliation is a byproduct of newly liberalized markets in Rwanda. In the past, elites—the Belgians and Tutsis before 1959 and the Hutus until 1994—hijacked economic activity for their personal benefit. Today both Hutus and Tutsis can benefit from increased entrepreneurial activity in Rwanda. Where the formerly hijacked commerce was a divisive force, peaceful commerce has become a unifying activity.

### 3

## The Coffee Production Process in Rwanda

THE ROAD TO producing specialty coffee appears to involve a combination of improved farm level and washing/processing quality and better marketing, especially direct marketing to importers where trust can be established.<sup>32</sup>

Across Rwanda, smallholder coffee farmers are connecting their efforts with the worldwide market for specialty coffee. In order to capture more of this market, Rwandans must learn how to care for their coffee trees, how to process their cherries, how best to store and transport beans, how to cup coffee, and how to market it.<sup>33</sup> At cooperatives across the country, Rwandans are learning

30. Uvin, *African Studies Review*, 40:96.

31. Chemonics International, Inc., "Assessing USAID's Investments in Rwanda's Coffee Sector," (report produced for the United States Agency for International Development by Chemonics International, April 2006) [www.minagri.gov.rw/IMG/pdf/USAID\\_Rwanda\\_Coffee\\_Assessment.pdf](http://www.minagri.gov.rw/IMG/pdf/USAID_Rwanda_Coffee_Assessment.pdf). The government of Rwanda adopted a "1999–2003 Coffee Strategy and Action Plan" that focused on increasing production through use of improved coffee varieties and improving husbandry, improving quality through producer education and investment in washing stations, and promoting equity in value distribution by increasing producer participation in marketing. This plan was supplemented with a "Horizon 2010 Coffee Action Plan" that "calls for investing nearly \$60 million during the period 2005–2010 to develop and support the quality coffee sector."

32. Scott Loveridge, Edson Mpyisi, and Michael T. Weber, "Farm-Level Perspectives in Rwanda's Coffee Supply Chain Coordination Challenge," Rwanda Food Security Research Project/MINAGRI 2E (March, 2002): 2, <http://www.aec.msu.edu/agecon/fs2/rwanda/index.htm>.

33. As explained below, *cupping* is a technique similar to wine tasting in which participants identify different characteristics and qualities of brewed coffee.



Picking through coffee beans (left). Washing coffee beans is a multi-step process (right).

these and other skills, such as branding, negotiating, and languages (English particularly), all in the hopes of selling coffee at high prices to importers from the United States, Europe, and Asia.

The coffee season in Rwanda runs from April through July. The coffee cherries ripen and farmers go to their fields every few days to pick the pretty, red fruit. The coffee bean, with which most people are familiar, is the seed of this fruit.

To get to the bean, the fruit must be removed in a multistep process. Growers bring their cherries to a washing station to be weighed and de-pulped. The cherries are presorted, by floating them in water to separate the heavier cherries from the lighter ones. The cherries are run through pulping machines that remove much of the fruit from the bean. The fruit from the pulping is retained to use as fertilizer, but the beans ferment in holding tanks, as fermentation makes it easier to remove the remaining mucilage.

After the fermentation process is complete, the beans are washed four to five times. The beans are sorted again and left to float for 24 hours. After this 24-hour period, the beans are laid out on sorting tables, and workers pick out damaged or irregular beans. The beans are dried in the sun until they reach a desired moisture level, which may

take between ten days to two weeks depending upon the weather. This “parchment” coffee is then packed in burlap bags and stored for shipment to an exporter.<sup>34</sup>

We toured the Kigali factory of Rwandex (a Rwandan company) to learn how this major exporter processes its coffee. During the April to July coffee season, the company employs up to 800 women, who pick and sort beans by hand according to quality. According to Olivier Okenge of Rwandex, a good picker can work through one and a half bags each day.<sup>35</sup> Workers are paid 600 Rwandan francs (Rwf) per bag. At the time of our visit, the exchange rate was approximately 530 Rwf to US\$1, meaning that wages were approximately US\$1.50 per day. When the coffee arrives from producers, it is weighed, then put through a de-parchment machine that removes the parch (an outer covering on the bean). The coffee is sorted into first-, second-, and third-quality beans. The second-quality beans are run through the machine again, the first-quality beans go to the women for hand picking, and the third-quality beans are sold for blending or for instant coffee.

If the coffee arriving from the producer has a moisture level above 12 percent, Rwandex uses a drier to lower this level. Olivier told us that Rwandex now roasts some coffee, primarily for local consumption. It roasts three types. Arabica, a first-quality coffee, is roasted into espresso. Some coffee is roasted as arabusta, a coffee blend mixture

34. Charles Angebault of COOPAC Cooperative, interviewed by Karol Boudreaux and Jasson Urbach, March 2006, Gisenyi, Rwanda.

35. Olivier Okenge of Rwandex, S.A., interviewed by Karol Boudreaux and Jasson Urbach, March 15, 2006, Kigali, Rwanda.

in which 80 percent of the beans are arabica beans from Rwanda and 20 percent are robusta beans, mostly from Burundi. Some is prepared as a dessert mix, which is roasted like espresso but with added sugar. In addition, Rwandex is roasting some coffee for sale under the brand name “1,000 Hills Coffee.”

In the past, Rwandex worked with one or two cooperatives. By 2006, it had signed agreements with ten cooperatives located across the country. Olivier told us that Rwandex wants to work with the co-ops to help them reinvest in projects in their regions, to build schools and shops, and to support the development of local businesses by providing advice.<sup>36</sup> The company also donates \$1 per 500 gram bag of the roasted “1,000 Hills” coffee to support the gorilla conservation efforts of the ORTPN (Rwandan Office of Parks and Tourism).

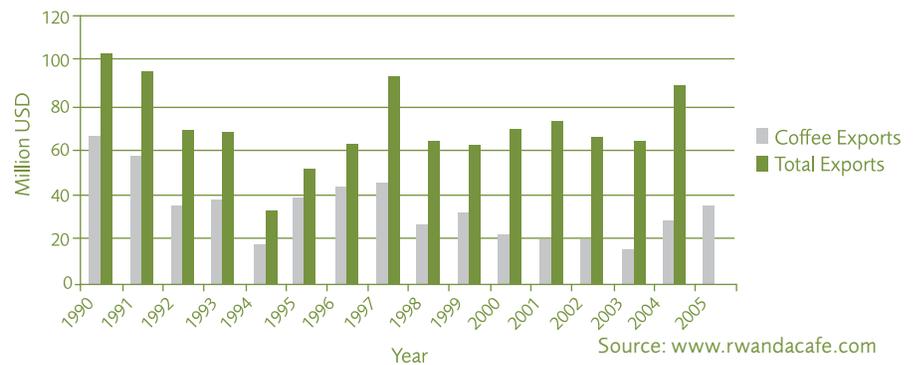
#### 4

### Coffee and Poverty Alleviation in Post-Genocide Rwanda

FARMERS INVOLVED IN the production of commercial crops, primarily tea and coffee, tend to be less poor and have a high propensity to spend on other products produced in rural areas. Given its small domestic market, it is trade that offers the best prospect of sustained growth and poverty reduction [in Rwanda].<sup>37</sup>

In 1990, Rwanda exported 45,000 metric tons of coffee. At that time, just over half of all Rwandans produced some coffee. The Rwandan genocide left the nation, its people, and its economy in shambles. Even before the hostilities ended, the coffee industry faced tumbling world prices. After the genocide, things were much worse. Fields

FIGURE 1: COFFEE AS A PROPORTION OF TOTAL EXPORTS (RWANDA)



had been abandoned, producers had been murdered or maimed, people had no resources with which to maintain their trees. The industry was near ruin. With few resources at their disposal, Rwandan coffee growers were not able to contribute much to post-conflict poverty alleviation or to the economic growth of the country.

While economic growth rates have been good for some time, Rwanda remains a very poor country, and most people continue to work in the agriculture sector. According to the World Bank, “agriculture currently accounts for 41 percent of GDP and provides jobs to 90 percent of the population.”<sup>38</sup> The country’s 2005 Gross National Income (GNI) *per capita* was only \$230, as compared with \$580 for other low-income countries.<sup>39</sup> The country has averaged 8 percent inflation from 2004 to 2007.<sup>40</sup> Sixty percent of the population lives below the poverty line. Life expectancy at birth is only 44 years, compared to 59 years on average for low-income countries. Not surprisingly, child mortality rates are high—118 deaths per 1,000 live births. On the positive side, literacy rates in Rwanda, which stand at 65 percent, are slightly higher than the low-income-country average of 62 percent. As a result of the genocide, Rwanda has the highest percentage of women in the labor force (50.2 percent) among African countries. As noted by McKay and Loveridge:

War and genocide affected all ages and genders, but one outcome was substantially more female-

36. Olivier Okenge of Rwandex S.A., interviewed by Karol Boudreaux and Jasson Urbach, March 15, 2006, Kigali, Rwanda.

37. Ndiame Diop, Paul Brenton, and Yakup Asarkaya “Trade Costs, Export Development, and Poverty in Rwanda,” (World Bank Policy Research Working Paper, December 2005), 2, [http://www-wds.worldbank.org/servlet/WDSContentServer/WDS/IB/2005/12/02/000016406\\_20051202101612/Rendered/PDF/wps3784.pdf](http://www-wds.worldbank.org/servlet/WDSContentServer/WDS/IB/2005/12/02/000016406_20051202101612/Rendered/PDF/wps3784.pdf).

38. World Bank, “Rwanda: Country Brief,” last updated April 2007, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/RWANDAEXTN/0,,menuPK:368714~pagePK:141132~piPK:141107~theSitePK:368651,00.html>.

39. World Bank, “Rwanda at a Glance,” [http://devdata.worldbank.org/AAG/rwa\\_aag.pdf](http://devdata.worldbank.org/AAG/rwa_aag.pdf).

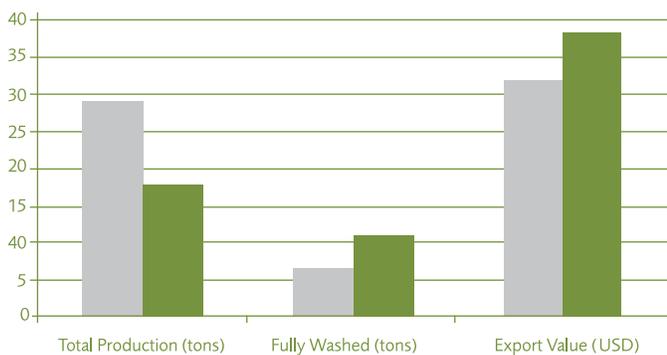
40. International Monetary Fund, “World Economic Outlook Database,” April 2007 edition, <http://www.imf.org/external/pubs/ft/weo/2007/01/data/index.aspx>.

headed households (especially widows). Female-headed households remain overrepresented in the poorest group [of agriculturalists] and underrepresented in the richest group, continuing a pattern evident in 1990.<sup>41</sup>

Over time, economic reforms should help improve the economic and social well-being of Rwanda's citizens. In the short term, improvements in household income that come from the sale of specialty coffee will also make an important difference in the well-being of small-holder farmers.

Today, although there are fewer coffee producers, coffee remains Rwanda's major export crop, and close to 500,000 families are involved in the coffee sector.<sup>42</sup> Only

**FIGURE 2: RWANDAN COFFEE PRODUCTION (TOTAL PRODUCTION, FULLY WASHED, AND EXPORT VALUE): 2004 AND 2005**

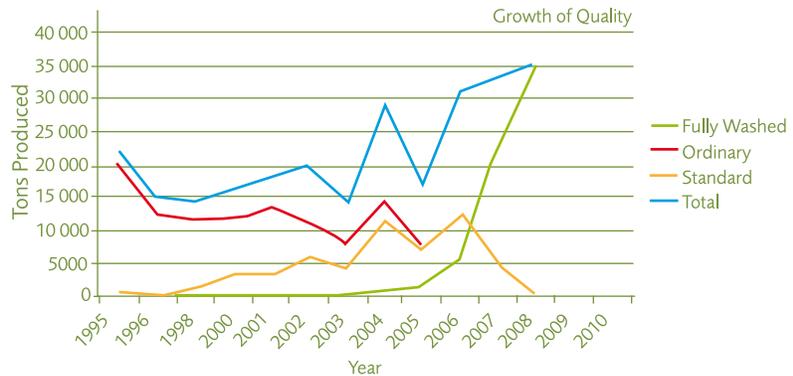


Source: www.rwandacafe.com

arabica coffee is grown in Rwanda, primarily the Bourbon variety, a particularly good quality coffee.

Coffee exports represent more than 50 percent of Rwandan export income. In 2006, coffee exports grew from 17,000 to 21,000 metric tons—a 23.5 percent increase—

**FIGURE 3: IMPROVEMENTS IN THE QUALITY OF RWANDAN COFFEE**



Source: www.rwandacafe.com  
 Years 1997 and 1999 are not available in original source.  
 Years 2006, 2007, and 2008 are projected.

and they generated \$46 million in revenue—a 21 percent increase from 2005 figures (see figure 2).<sup>43</sup> As figure 2 points out, the amount of fully washed coffee is also rising as the number of washing stations increases. In spring 2006, there were 46 washing stations in Rwanda. In 2000, there were only two washing stations in the country, neither of which worked.<sup>44</sup> The government-controlled coffee agency, OCIR-Café, notes, “Reflecting the push toward higher quality, the production of fully washed coffee rose to 1,100 tons, an increase of 400 tons from 2004. In 2005, 46 washing stations were producing, up from 12 stations in 2004.”<sup>45</sup>

In the past, Rwanda exported most of its higher-grade coffee to Europe; little made its way to the United States. Today, more Rwandan coffee is available in the US. In fact, U.S. importers and roasters have expressed strong interest in the product and in supporting improvements in Rwandan coffee. U.S. importers are particularly interested in specialty Rwandan coffee, coffee of

high quality that meets the demands of sophisticated coffee drinkers. As figure 3 points demonstrates, the quality of Rwandan coffee is increasing to meet this strong demand.

One importer, Sweetmarias.com, points out, “Rwandan

41. Andrew McKay and Scott Loveridge, “Exploring the Paradox of Rwandan Agricultural Household Income and Nutritional Outcomes in 1990 and 2000,” (Staff Paper 2005-06, Department of Agricultural Economics, Michigan State University, March, 2005).

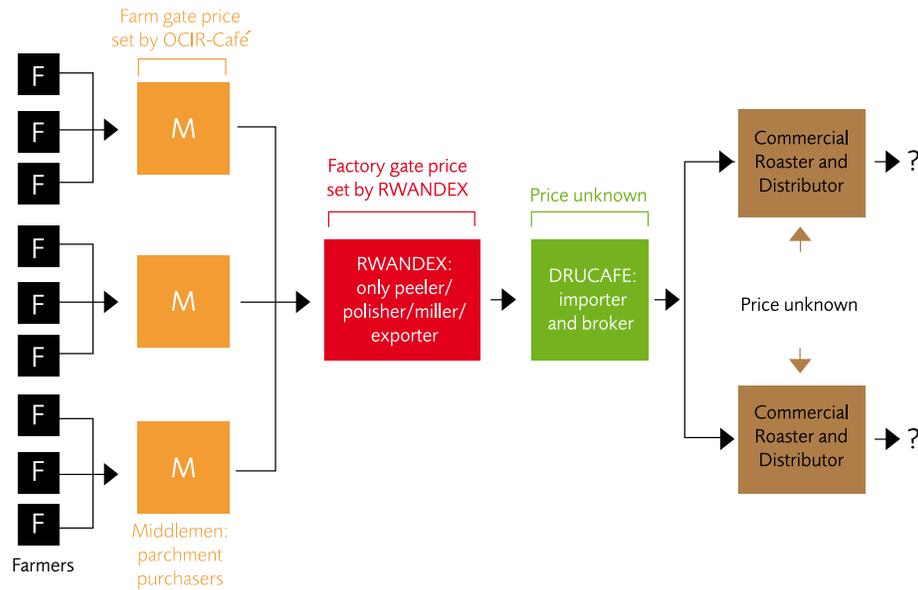
42. Economist Intelligence Unit, “Country Report: Rwanda,” (London, UK: The Economist Intelligence Unit, February 2007): 5. In 2004, coffee exports topped other exports in Rwanda, generating \$27.5 million. Second in terms of export revenue was tea at \$25.6 million.

43. Reuters, “Rwanda 2006 Coffee Output Seen at 21,000 T,” October 19, 2006, [http://www.flexnews.com/pages/5321/Africa/Coffee/rwanda\\_2006\\_coffee\\_output\\_seen\\_21000\\_t.html](http://www.flexnews.com/pages/5321/Africa/Coffee/rwanda_2006_coffee_output_seen_21000_t.html).

44. Chemonics International, “Assessing USAID’s Investments in Rwanda’s Coffee Sector.”

45. OCIR-Café, Café du Rwanda, “Production: 2005 Summary”, www.rwandacafe.com.

FIGURE 4 : ADMINISTERED MARKET (COLONIAL MARKET–1995)



Source: Paul DeLucco, "Raising the Bar: Producing Quality Coffee in Rwanda" in *World Report Spring 2006: Specialty Coffee; Improved Market Linkages & Increased Profits* (Washington, DC: ACDI/VOCA, 2006): 13-14, [http://www.acdivoca.org/852571DC00681414/Lookup/WRSpring06-Page13-14-RaisingtheBar/\\$file/WRSpring06-Page13-14-RaisingtheBar.pdf](http://www.acdivoca.org/852571DC00681414/Lookup/WRSpring06-Page13-14-RaisingtheBar/$file/WRSpring06-Page13-14-RaisingtheBar.pdf)

coffee was rarely seen in the United States as either a specialty grade or low-end commercial coffee.” This was due to the low volume of coffee produced and political instability in East Africa. Now, however, small amounts of excellent quality coffee are arriving in the US.

Since 1999, Rwandans have focused on producing high-quality specialty coffee. To date, the results are encouraging. Rwandan coffee growers are generating international attention for their excellent products. Given that 12 years ago genocide racked the nation, this is a wonderful turn of events.<sup>46</sup>

Several factors brought about important changes in the Rwandan coffee industry:

- The RPF government targeted the coffee industry for support and liberalization.
- Bilateral and multilateral development assistance have provided funding to revitalize the coffee sector.

- NGOs provide support to help establish coffee cooperatives and also train cooperative members to improve quality, processing, and marketing efforts.
- The government, donors, NGOs, and the private sector have built more than 40 washing stations around the country to help improve quality.

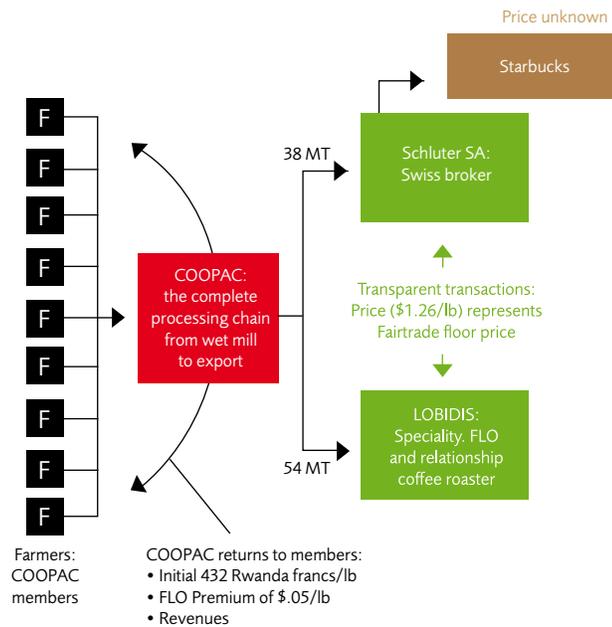
Since 1995, the post-genocide governments have enacted a series of economic reforms that include liberalizing trade in coffee. Liberalization reforms have freed farmers from the legal obligation to grow coffee. Farmers are now free to interplant coffee with other, desirable crops. The government eliminated legal mulching requirements and now allows coffee producers to freely contract with buyers. In addition, farmers are now able to join together in cooperatives and take advantage of economies of scale that eluded them in the past.<sup>47</sup>

However, the government coffee agency, OCIR-Café, reviews the contracts. This review process could potentially

46. *New York Times*, "Rwandan Cooperative Wins International Award," September 19, 2005.

47. Chemonics International, "Assessing USAID's Investments in Rwanda's Coffee Industry." The report notes that "[p]rior to the establishment of the COOPACABI coffee cooperative in Bicumbi in 1996, no coffee cooperatives existed in Rwanda. Farmers sold semi-washed coffee directly to Rwandex agents, at prices pre-determined by the GOR (Government of Rwanda). However, coffee producer associations did exist, but served the limited function of input distribution (and eventual reimbursement) of products supplied by OCIR-Café."

FIGURE 5: COOPAC 2004 SEASON



Source: Paul DeLucco, "Raising the Bar: Producing Quality Coffee in Rwanda" in *World Report Spring 2006: Specialty Coffee; Improved Market Linkages & Increased Profits* (Washington, DC: ACIDI/VOCA, 2006): 13-14, [http://www.acdivoca.org/852571DC00681414/Lookup/WRSpring06-Page13-14-RaisingtheBar/\\$file/WRSpring06-Page13-14-RaisingtheBar.pdf](http://www.acdivoca.org/852571DC00681414/Lookup/WRSpring06-Page13-14-RaisingtheBar/$file/WRSpring06-Page13-14-RaisingtheBar.pdf)

lead to problems if the coffee bureaucracy unnecessarily interferes with or delays the contracting process. Rwandex S.A., the old monopoly exporter, now competes with five other exporters. In addition, in 2005 the government decided to begin the process of privatizing Rwandex S.A., in which it had held a 51 percent stake.<sup>48</sup> As noted below, this process was completed in 2007 as the government's stake in Rwandex was sold to a private investor.

To see how coffee production works post-liberalization, we visited cooperatives in Rwanda, including Coopérative Pour La Promotion Des Activités-Café (COOPAC), a large

cooperative in northwest Rwanda. Figures 4 and 5 outline how coffee production in Rwanda operated before liberalization and operates now after liberalization.

Cooperatives contract directly with purchasers, European buyers in COOPAC's case. COOPAC negotiates its sales price directly with these buyers and does not have to take a price offered by the monopsony purchaser. The elimination of middlemen allows COOPAC's members to retain more of their earnings. This liberalized environment empowers COOPAC's members, allowing them to keep more of the value they add to their coffee.

By liberalizing trade in coffee, the Rwandan government has played a vital role in increasing economic opportunities for its citizens. In addition, NGOs, supported by international donors, have helped some Rwandans take advantage of this liberalized environment by helping build relationships with foreign importers and by providing training and technical assistance.

In Rwanda, the U.S. government helped to fund the revitalization of the coffee industry through the U.S. Agency for International Development (USAID). USAID has used its relatively small budget for supporting rural economic growth to support three coffee-related projects in Rwanda: the Partnership for Enhancing Agriculture through Linkages or PEARL, the Agricultural Cooperative Development International/Volunteers Overseas Cooperative Assistance or ACIDI-VOCA, and the Agribusiness Development Assistance Project in Rwanda or ADAR.<sup>49</sup> These three programs provide technical assistance, training, and some financial support to different sectors of the new specialty coffee sector. PEARL helps organize rural cooperatives and helps cooperative members improve the quality of their product.<sup>50</sup> ACIDI-VOCA also works with cooperatives, helping them develop business plans, obtain credit where needed, navigate the Fair Trade certification process, and develop new and ex-

48. Rwandan News Agency, "Rwandex sale to delay over tax negotiations," August 6, 2006, [http://www.rwandagateway.org/article.php?id\\_article=2493](http://www.rwandagateway.org/article.php?id_article=2493).

49. See Chemonics, "Assessing USAID's Investments in Rwanda's Coffee Industry." Budgets for these projects have been relatively small: ACIDI-VOCA's budget was approximately \$600,000 from 2001 to 2003; ADAR and PEARL had annual budgets of approximately \$1.5 million. ADAR and PEARL were six-year projects.

50. For more information on the PEARL project, see Michigan State University's Partnership for Enhancing Agriculture in Rwanda Through Linkages, <http://www.ii.msu.edu/pearl/index.htm>. The newest phase of the PEARL project is known as Sustaining Partnerships to enhance Rural Enterprise and Agribusiness Development or SPREAD.

#### RWANDA COFFEE COMPANY PRIVATIZED: VALUE-ADDITION INVESTMENTS AS OF MARCH 2007

Robert Hasson, a Belgian businessman, has acquired 100 percent ownership of Rwandex, the biggest coffee processor and exporter in Rwanda. He had previously owned 29.38 percent, making him the second-largest shareholder after the government, which held 51 percent. Other shares had been divided among seven shareholders, whom Hasson bought out.

Manessah Twahira, an official of the country's privatization body . . . said, "We are happy that Rwandex privatization is concluded and that the new investor is stabilizing the financial position of the company." . . . He (Twahira) underscored that the move is a result of the government's decision to detach itself from commercial activities in a bid to effectively regulate the private sector.

Source: <http://africanagriculture.blogspot.com/search/label/coffee>

panded market connections.<sup>51</sup> ADAR works with private-sector investors who are interested in building washing stations, and it assists them in carrying out feasibility studies, creating business plans, developing supervisory services, and training in coffee processing.

The group that is often credited with helping enact critical improvements in the production and marketing processes for Rwanda's poorest coffee producers is the PEARL project, which works closely with the National University of Rwanda in Butare. This NGO, led by Dan Clay of Michigan State University and Tim Schilling of Texas A&M University, was not initially focused on developing a specialty coffee industry in Rwanda. The project was concerned, more broadly, with improving agricultural production processes in the country.

Since October 2000, though, PEARL has focused on helping rural coffee producers form cooperatives, create business plans, negotiate credit, receive Fair Trade certification, improve quality control, and build relations with foreign importers.<sup>52</sup> With cooperatives in place, PEARL team members taught local growers how to improve their quality control, develop effective market-

ing strategies, and create beneficial relationships with specialty coffee importers. These efforts have been very successful: PEARL has helped 13 cooperatives win government approval. They have helped cooperative members learn techniques to improve quality, manage processing effectively, and market their product to overseas purchasers. In conjunction with the efforts of ACDI-VOCA, ADAR, and private entrepreneurs, the specialty coffee industry in Rwanda is taking off. There are more than 45 washing stations across Rwanda.

More washed coffee means higher incomes for cooperative members and other coffee producers. Producers are learning new skills and taking advantage of increased commercial opportunities. We discuss some of these results below.

### A. Incomes Rising

THE SPECIALTY COFFEE industry in Rwanda is helping to change lives. By growing better-quality coffee, producers are earning more. Ordinary grade Rwandan coffee sold for approximately US\$1.30 per kilo in 2005, but fully washed higher quality coffee was already selling for US\$2.50 per kilo in 2003.<sup>53</sup> In a truly remarkable achievement, in September, 2007, importers paid as much as US\$55.00 per kilo for the best Rwandan coffee.<sup>54</sup> A 2006 report to USAID notes that "[a]pproximately 50,000 households have seen their incomes from coffee production double, and some 2,000 jobs have been created at coffee washing stations."<sup>55</sup>

We spoke with several members of the COOPAC cooperative about their experiences with COOPAC growing

51. Some cooperatives in Rwanda become certified to Fair Trade standards. This is an elaborate and costly process. For some cooperatives this certification may be worthwhile as Fair Trade certification ensures a price floor for their product that is above the price paid for commodity-grade coffee. However, for cooperatives that are able to produce very high quality specialty coffee, the Fair Trade certification process may be seen as an unnecessary cost: they can command a high price for their beans and so do not need to expend the time and resources necessary to be in compliance with Fair Trade regulations. For more on Fair Trade coffee, see Colleen Berndt, *Does Fair Trade Coffee Help the Poor? Evidence from Costa Rica and Guatemala*, Mercatus Policy Series (Arlington, VA: Mercatus Center at George Mason University, 2007).

52. Chemonics International, "Assessing USAID's Investments in Rwanda's Coffee Industry."

53. Prices come from "OCIR-Café New Action Plan 2006-2008 For The Development of the Rwandan Coffee Sector", Republic of Rwanda, November 2005, [http://ocir.vrsrv.com/OCIRActionPlan06\\_08.doc](http://ocir.vrsrv.com/OCIRActionPlan06_08.doc)

54. At the Golden Cup coffee auction and competition in Kigali, in September of 2007, Rwandan coffee was bought by U.S. coffee importers for as much as \$55 per kilo (approximately \$25 per pound), a Rwandan record price comparable to the world's most expensive coffees. Rwanda Development Gateway, "Coffee Sells at Record Prices," [http://www.rwandagateway.org/article.php?id\\_article=6848](http://www.rwandagateway.org/article.php?id_article=6848).

55. Chemonics International, "Assessing USAID's Investments in Rwanda's Coffee Industry," 6.

specialty coffee and earning money by sorting coffee at a washing station. Cossilde Musanabera and Verdianne Nirambaru Shimana have worked at COOPAC since 2003. Verdianne said that she is “very happy with COOPAC because now [she has] a good job.” As a member of the cooperative, she is able to get a better price for her coffee than she did in the past. Before joining COOPAC, she was a farmer and sold some coffee, but these sales generated little income. Now, with more money, she is better able to meet her needs, to buy shoes, pay school fees, and buy some clothing for her two children. “Now,” she told us, “life is better.”<sup>56</sup> Cossilde said that since joining COOPAC, she is quite happy with this job. She also is a farmer and makes more money now from her coffee and from working at the washing station. She too is able to buy shoes and clothes, and this makes her happier.<sup>57</sup>

In addition to Verdianne and Cossilde, we spoke with Joseph Dusengimana, Lazare Ngrumpatse, and Claudine Nyirahabimana.<sup>58</sup> Claudine has worked at COOPAC for three years—longer than anyone else in the group. She said that, in the past, she was a farmer. It was difficult to live as she did. Now, her life is easier: she has some money that she can use to eat and to buy clothes. Joseph and Lazare have been working at COOPAC for two years. Lazare said that for him, working at the washing station has not really made much difference. The job does provide income, but he has seven children and a wife, so he has big needs. Before coming to COOPAC, he was a farmer and his life was difficult, and it continues to be difficult to make ends meet. Joseph, who is younger than Lazare, is also a farmer. Before this work, his life was hard. But, he told us, now his life has changed completely and he is happy. He is saving money so that he can have a wife and a house. While life remains difficult for all five of these cooperative members, having some additional income is helping most to meet basic needs and to provide for their families.

Forecasts predict coffee prices on the international market will fall. But while increases in consumption of commodity-grade coffee should remain modest, the consumption of high-quality specialty coffee (currently 7 percent

of the coffee volume in the international market) is rising by 15 percent a year. Even with increased competition and somewhat lower prices, specialty coffee remains a strong niche market.

As Bob Geldof’s Live 8 organization noted in its case study on Rwanda’s washing stations:

While Rwandan coffee once garnered 10–15 percent below average market price, it now earns solid market prices as a specialty high-quality variety. . . . The industry response has been exceptional. Green Mountain Coffee Roasters recently introduced a line of “Special Reserve” coffees, the first of which was the Rwandan Karaba Bourbon; it sold out within days of going on the market. Starting in mid-March 2006, Starbucks showcased a Rwandan coffee—Blue Bourbon—for two months in its ‘Black Apron Exclusives’ line, a category of coffee reserved for the “best of the best” coffees, in 5,000 retail outlets across the United States. . . . *Today, some 430,000 families produce coffee in Rwanda for whom an expanded, competitive coffee market has already made a perceptible difference in economic development and livelihood.*<sup>59</sup>

Rwanda’s Minister of Agriculture, Anastase Murekezi, told us that the specialty coffee industry’s most successful story to date is with American companies.<sup>60</sup> Importers such as Starbucks and Green Mountain are buying Rwandan coffee, but so too are less well-known but highly discriminating importers like Intelligensia, Thanksgiving, and Counter Culture Coffee.

But it is not only Americans who are interested in Rwandan coffee. Minister Murekezi noted that trainers and buyers from Europe, China, and Japan are routinely visiting the country, bringing expertise that helps improve the local industry. So far, the results are quite positive. Minister Murekezi said, “You see richness growing and poverty decreasing. You see people happier, more children at school, more homes being improved, more people in savings schemes for health. And people say they want to continue to improve their lives through coffee.”<sup>61</sup>

56. Verdianne Nirambaru Shimana, interviewed by Karol Boudreaux and Jasson Urbach, March 17, 2006, near Gisenyi, Rwanda.

57. Cossilde Musanabera, interviewed by Karol Boudreaux and Jasson Urbach, March 17, 2006, near Gisenyi, Rwanda.

58. Joseph Dusengimana, Lazare Ngrumpatse, and Claudine Nyirahabimana, interviewed by Karol Boudreaux and Jasson Urbach, March 17, 2006, near Gisenyi, Rwanda.

59. Live 8 Media Center/Case Studies, “Ndera Coffee Washing Station,” <http://www.live8live.com/media/#>, (emphasis added).

60. Rwandan Minister of Agriculture Anastase Murekezi, interviewed by Karol Boudreaux and Jasson Urbach, March 14, 2006, Kigali, Rwanda.

61. Rwandan Minister of Agriculture Anastase Murekezi, interviewed by Karol Boudreaux and Jasson Urbach, March 14, 2006, Kigali, Rwanda.

He also noted that around the washing stations, both employment and revenues are increasing.

When cooperatives are able to organize effectively, attract funding, and learn the skills necessary to properly process coffee cherries, the results can be impressive. In one of many stories describing the results the PEARL project has achieved in Rwanda, *Time* magazine reported:

The co-ops' income [for 11 cooperatives] has jumped from \$650,000 in 2004 to \$1.2 million in 2005 and is expected to reach \$3 million in 2006. That's just a drip in the \$11.4 billion world coffee market, but to farmers like Triphine Mukamyasiro, 23, whose family was killed in the genocide, it's huge. She made \$30 annually when she started selling coffee in 1993. After joining a PEARL co-op, she began earning some \$400 a year, about twice as much as the typical Rwandan takes home. Christian Ruzigama, 41, returned to find his plantation in tatters. Now, with his profits, he has built a house and sends his children to school.<sup>62</sup>

In an August 2006 *New York Times* article, Laura Fraser described what has happened to Gemima Mukashyaka—a young woman who was orphaned during the genocide—after she joined the Abahuzamugambi Bakawa cooperative near Butare.

Over the last dozen years, the view from Gemima Mukashyaka's small coffee garden in the lush emerald-green hills of southwestern Rwanda has changed. In 1994, after the genocide that killed 800,000 people, it was a site of devastation, chaos, and abandonment. Five years ago, when worldwide coffee prices spiraled downward, her neighbors in the densely populated region near Butare were uprooting their coffee trees and planting quick-growing food crops to survive. But today, there's a clean coffee processing station nearby, and sprouted around it are two restaurants, a pharmacy, a bank, six hair salons, and just last week, the village's first Internet cafe. "My coffee gave me hope for a better future," Ms. Mukashyaka, 29, said. At last harvest, her coffee, sold through a farmers' cooperative to a gourmet coffee roaster in the United States, fetched three times the price it did five years ago.<sup>63</sup>

Being a part of a successful cooperative has had many benefits for Gemima.

After joining the co-op, Ms. Mukashyaka doubled her coffee earnings in one year. She also grew less isolated and less distrustful of her neighbors, since she had people to talk to at the washing station and in co-op meetings. With the co-op's support, she borrowed money from a bank to help maintain the rest of the plantation, replacing some old trees. She was able to send her child to school, buy fertilizer for next year's crop and replace rags with second-hand clothing. A job at the coffee processing station helped her repay her loan; now she is one of the directors of the co-op, which has more than 2,000 members. "I am very proud of my coffee," she said.<sup>64</sup>

Union Hand-Roasted (formerly Union Coffee Roasters) of London, England, buys washed coffee beans from Gemima's cooperative, the Abahuzamugambi Bakawa Cooperative. Union has developed a close commercial relationship with the cooperative and has entered into a minimum purchasing commitment to buy Maraba Bourbon coffee from it. This contractual arrangement helps to provide stability to smallholder farmers. With this increased stability, the cooperative members have decided to invest locally in schools, hospitals, and a washing station to clean their beans. The cooperative has also focused on providing more running water for members. This commercial relationship benefits both the importers and the growers.

As François Habimana, executive director of the Maraba Grower's Association, explains:

People have been able to solve social problems, pay medical bills and school fees, and repair their houses. The [coffee washing] station has also supplied clean water to farmsteads. Coffee prices are now higher, and jobs have been created in the running of the station. People have learned to take care of their plantations and produce better quality coffee. The station is gender sensitive and especially helps widows and orphans to take care of their plantation and increase their harvests.<sup>65</sup>

For members of a cooperative, the higher income that

62. Deidre van Dyk, "The Coffee Widows," *Time*, August 25, 2006.

63. Laura Fraser, "Coffee, and Hope, Grow in Rwanda," *New York Times*, August 6, 2006.

64. *Ibid.*

65. Partnership for Enhancing Agriculture in Rwanda Through Linkages, "Specialty Coffee," <http://www.iaa.msu.edu/pearl/coffeestory1.htm>.



Students in COOPAC's new school (left). Sorting coffee beans in Rwanda (right).

results from specialty coffee means they are better able to feed their families, pay for schooling, and care for medical needs. But the benefits from specialty coffee extend beyond the cooperative. Samuel Goff points out that “[a]s income levels of the cooperative members have increased so has the flow of money in the community . . . The positive feelings among community members are a reflection of increased incomes in the area (of the cooperatives).”<sup>66</sup> While other coffee growers who are not in a cooperative may dislike the competition cooperatives represent, people who are not cooperative members and who do not grow coffee appreciate having cooperatives in their area.

## B. New Skills and New Opportunities

In producing specialty coffee, farmers learn new skills. As members of cooperatives, they learn other important skills such as how to:

- market their goods;
- negotiate contracts;
- deal with foreign buyers;
- navigate the ins and outs of Fair Trade certification;
- improve communication skills (some learn English); and

- exercise self-governance by deciding how to run the co-op and distribute or use any profit.

Many of these skills are transferable to other sectors. A person who learns how to manage a coffee washing station will acquire skills that can be put to good use in other managerial positions. A person who learns how to negotiate and come to an agreement on profit use is learning skills that can be applied in many other situations.

With help from visitors and volunteers, farmers learn other technical skills related to the coffee industry. In 2004, PEARL negotiated with the Coffee Quality Institute (CQI) to provide smallholder coffee producers in Rwanda with more information on how the coffee industry operates and what different consumers look for in a cup of coffee.<sup>67</sup> Through its “Coffee Corps” volunteer program, CQI arranges for coffee experts to travel to different parts of the world, where they train local growers to cup and market their coffee and to manage quality-control issues.

Rwandan growers have been part of the Coffee Corps program. Members from 14 different cooperatives have taken Coffee Corps cupping courses. This kind of training helps farmers better understand characteristics of coffee and identify possible defects in their products. They also

66. Samuel Neal Goff, “A Case Study of the Management of Cooperatives in Rwanda,” (master’s thesis, Texas A&M University, May 2006), 70.

67. Coffee Quality Institute, “Coffee Corps,” [http://www.coffeeinstitute.org/coffee\\_corps.asp](http://www.coffeeinstitute.org/coffee_corps.asp).

learn about harvesting and how best to process beans for superior flavor. With this training, Rwandans will be able to pass on their knowledge to other local growers and, thanks to the specialty coffee industry, the country's skill level will increase. Here is just one example of how the program is working:

Bob Stephenson was in awe of how eager the normally shy Rwandans were to learn. He had people from the town and local university approach him to be a part of the process. He relayed the story of one woman who was hired part time to sweep and clean the glassware but she desperately wanted to learn how to cup coffee. It turns out that she was a genocide survivor. Her family members, who were all killed in the conflict, were coffee growers; however, she had never seen roasted coffee—much less tasted it. In one week, she went from no knowledge to becoming a fairly accomplished roaster and her cup scoring was virtually identical to Bob's. In fact, the overall standard deviation was under 1.0 for every single score on the cupping form, and the trainers were left with a great sense of accomplishment.<sup>68</sup>

### C. Opportunities for Entrepreneurs

THESE CHANGES PROVIDED incentives for some Rwandan entrepreneurs to invest in coffee and in the efforts needed to produce higher-quality “specialty” coffee for sale on world markets. These entrepreneurs recognized that developed-world tastes in coffee were shifting and that there was increasing demand for higher-quality coffee. For example, the Director of OCIR-Café recently noted:

Trading companies such as SICAF that used to buy and export [are] only now investing upstream at the production level. Some private investors also start creating great plantation fields up to 50 hectares (approximately 100 acres). So, those new invest-

ment initiatives from the private sector encourage small producers to invest as well. Investors are now building new washing stations for better processing and production of “specialty” coffee of high quality. As a result we can feel that international financial institutions are sensitised by this initiative and start helping us develop the sector. USAID is highly involved in helping producers' associations. It even helps them to place their production on the U.S. market.<sup>69</sup>

Entrepreneurs are developing strategies to produce a small amount of a consistently high-quality product, rather than a large amount of a low-quality product. While Rwanda's production volume remains low, there seems to be more demand than producers can currently meet.<sup>70</sup> One such entrepreneur is the founder and managing director of the COOPAC cooperative, Emmanuel Rwakagara Nzungize.

Emmanuel's family left Rwanda in the 1959 exodus.<sup>71</sup> He grew up in Congo, where he started several businesses and developed a strong entrepreneurial talent. In 2000 he returned to Rwanda, hoping to revitalize his father's coffee land and the coffee cooperative his father had started but which had been inactive for decades.

This proved quite a challenge. High production costs coupled with the challenge of organizing farmers into the cooperative made his first two years difficult. But, by April 2001, the COOPAC cooperative was formed.<sup>72</sup> Today, the cooperative has over 2,000 members.

Between 2000 and 2002, Emmanuel sold his coffee to the main coffee exporter, Rwandex SA. He soon realized that if he were able to process and wash the coffee himself, he would capture more of the value of the coffee—value that would otherwise go to Rwandex.

Emmanuel began a lengthy search for the financing necessary to build a washing station and to install deparchement machinery at COOPAC's Gisenyi facilities. With

68. Tracy Ging, “The Healing Effect of Coffee in Rwanda,” Coffee Quality Institute News and Resources, <http://www.coffeeinstitute.org/news.asp?id=15>.

69. World Investment News, “Company Profile: OCIR-Café,” (includes interview with Anastase Nzirasanaho, Director General, OCIR-Café), <http://www.winne.com/rwanda/to13interview.html>.

70. “Rwandan coffee on demand, no supply,” *New Times On-Line*, February 2, 2007, [http://www.newtimes.co.rw/index.php?option=com\\_content&task=view&id=730&Itemid=1](http://www.newtimes.co.rw/index.php?option=com_content&task=view&id=730&Itemid=1). In this article Dieudonne Itegli, director general of Rwandex, the country's largest exporter, states that “The local supply by farmers is still low. We have the capacity to process and export more coffee beans per year but because of the small supply of coffee in the country, we only get 11,000 tonnes.”

71. Emmanuel Rwakagara Nzungize, interviewed by Karol Boudreaux and Jasson Urbach, March 16, 2006, Gisenyi, Rwanda.

72. For more information on the COOPAC cooperative, see <http://www.coopac.com/coopac.htm>.

little to offer in terms of collateral, he went to the local USAID offices for advice. USAID pointed him towards a project managed by ACDI-VOCA that was designed to help spur private investment in the coffee sector. It took a good deal of negotiating, but after developing a three-year business plan, Emmanuel was able to secure a funding commitment. Subsequently, he arranged for funding from the Development Bank of Rwanda.

The amount of coffee COOPAC produces varies from year to year, though Mr. Rwakagaraa hopes to increase production over time. The variation is due, primarily, to differences in weather. In a year with good rains they will produce more than in a drought year. Also, as more entrepreneurs recognize the profit opportunities in the Gisenyi region, they come to the area to buy good quality beans directly from farmers, some of whom are cooperative members. This means the cooperative has less to sell to its foreign buyers.

In 2003, Emmanuel secured Fair Trade certification, and the co-op sold one container of coffee to Starbucks and one container to the French company, Lobodis, which sells to Carrefour supermarkets. This is the most expensive coffee that Lobodis sells. COOPAC also sells to the U.S. importers, Thanksgiving Coffee, and BD Imports.

Before COOPAC was formed, Emmanuel told us, farmers received approximately 100 Rwf per kilo of coffee. Today, they receive a minimum of 600 Rwf per kilo (non-inflation adjusted). This means that the coffee-related income of COOPAC members has increased six fold in seven years.

Cooperative members also receive other benefits. Because it has been able to generate good revenue, COOPAC has invested in the local communities. Some members have built schools. Other members try to build community spirit by providing prizes each year for the best quality coffee and the largest quantity produced. The prize winners receive goats, cows, and hoes.

Emmanuel continues to face challenges in finding financing, developing appropriate partnerships with importers, building capacity to manage facilities, and marketing. But, in each case, he keeps pushing forward. For example, to address marketing issues COOPAC is working with

other producers to create a system of appellations (like French wine) through the French agricultural research organization CIRAD and with assistance from the Nairobi-headquartered International Center for Research in Agroforestry.<sup>73</sup> COOPAC is the only cooperative in Rwanda that has been invited to participate in this project.

Although he has achieved his immediate objectives for coffee production, Emmanuel would like to strengthen COOPAC's management infrastructure and to provide microfinance to the farmers "for things to happen in their lives." (Presently, farmers have no access to credit.) The success of COOPAC has had an unexpected side-effect: Congolese coffee producers and cooperative personnel are asking for advice, which COOPAC provides. These producers want to replicate Emmanuel's success. He would like to invest and help because they have the same climate and soil, as well as good land. When asked if it is risky to invest in Congo, he replied, "In business, if you don't take a risk, you don't gain."

Having risked a great deal to start and build COOPAC, Emmanuel and all the cooperative members are now gaining. They are gaining greater financial stability, enhanced skills, and greater opportunities for themselves and their families.

However, not all cooperatives function quite as effectively as COOPAC. We also visited with Apollinaire Kagara, president of the 600-plus-member Abakundakawa Cooperative, located along Rwanda's southern border. Abakundakawa means "people who like coffee."

Compared to Emmanuel, Apollinaire has had a more difficult time getting his cooperative up and running. For one thing, he lives in Kigali, and the cooperative is three hours' travel away. He contends that it is important to live in the capital because he often needs to go to the bank, or to government offices, or to meetings, and the offices for all these things are in Kigali.<sup>74</sup>

Although the cooperative got a loan to build a washing station, arranging for financing was difficult, and it has had trouble repaying this loan because production has not been high enough. Because the station was new when we visited in 2006, some members said that people are not sure what to expect from it.<sup>75</sup> Members expressed

73. For more information on CIRAD's work, see [http://www.cirad.fr/fr/le\\_cirad/index.php](http://www.cirad.fr/fr/le_cirad/index.php); for more on IFAD, see <http://www.ciesin.org/IC/icraf/ICRAF.html>.

74. Apollinaire Kagara, interviewed by Karol Boudreaux and Jasson Urbach, March 14, 2006, Kigali, Rwanda.

75. Abakundakawa cooperative members (group meeting at the cooperative), interviewed by Karol Boudreaux and Jasson Urbach, March 21, 2006, Rushashi region, Rwanda.

concern that growing coffee was difficult and that they need good prices to meet their needs. So far, the cooperative had not been a better alternative for some of them: in order to pay bills that are pressing, some of the members are selling dry-processed beans (as opposed the wet-processed beans the cooperative will produce) to buying agents who travel the country, purchasing directly from individuals, and not from the cooperative. This means that the cooperative, as a whole, produces less washed coffee, has less to sell, and so is short of money. It is the daily financial problems (how to pay for school fees, for a visit to a clinic, or for shoes) faced by of millions smallholder farmers all across Africa that make it difficult for this group to succeed.

While many cooperatives have been able to work effectively with the PEARL project, Abakundakawa did not have this experience. Because of difficulties in the relationship, Apollinaire has taken on some of the tasks with which PEARL normally helps. He has arranged for some of his members to visit with other cooperatives. He has also arranged to send the cooperative's vice president to Tanzania for training in coffee processing. Not having a partnership with an NGO has imposed additional costs on the cooperative. Time will tell if the trade-offs involved were worthwhile.

Apollinaire identified several reasons for Abakundakawa Cooperative's present difficulties. Because the price for commodity-grade ordinary coffee was relatively high in 2005, the price differential between ordinary and specialty coffee had narrowed. For his producers, this price difference was small enough that it was not worthwhile for them to expend extra time and resources growing specialty coffee. Thus, they produced ordinary coffee. Moreover, the cooperative is located in an area with poor soil conditions. As a result, producers get fewer coffee beans per tree. He feels it is essential to increase productivity by planting grasses and other natural material around the coffee trees to help put nutrients back into the soil. The members may need cows to provide a natural fertilizer. Apollinaire said that chemical fertilizers are simply too expensive, and he worried that they may not be good for the soil.<sup>76</sup>

Until soil conditions improve, or the price difference between ordinary and specialty coffee widens, it is likely that Apollinaire's cooperative will continue to experi-

ence financial difficulties. Given this, he recognizes the importance of diversifying growers' livelihoods. Having goats or cows would permit cooperative members to have both milk and fertilizers. He is working to help his cooperatives create other income-earning opportunities, such as charcoal, honey, or lumber. Both Emmanuel and Apollinaire are entrepreneurs and have more scope to pursue opportunities than they did before the liberalization of the coffee sector. However, not all entrepreneurial efforts succeed. Time will tell if both COOPAC and Abakundakawa can compete successfully in the specialty coffee sector in Rwanda.

## 5

### Barriers and Constraints

THE SPECIALTY COFFEE industry in Rwanda is helping to improve lives. People such as Verdianne Nirambaru Shimana, Joseph Dusengimana, and Gemima Mukashyaka have higher incomes and are learning new and useful skills. Other people in communities near cooperatives benefit as well, using the higher incomes from the sale of specialty coffee to buy clothing or food or supplies to improve a home. With a freer trading environment in the coffee sector, Rwanda's farmers and entrepreneurs, people like Emmanuel Rwakagara Ngunzige, are benefiting from opportunities to build businesses. Cooperative members, such as Christian Ruzigama, are learning new skills that they can transfer to other business ventures.

The specialty coffee industry is doing good things in Rwanda, but the smallholder farmers and the entrepreneurs who work in this sector do face a number of barriers and constraints that can make it difficult to grow a business, and growing more businesses is essential for the people of Rwanda to increase standards of living. As the World Bank notes, "A vibrant private sector—with firms investing, creating jobs, and improving productivity—promotes growth and expands opportunities for poor people."<sup>77</sup>

#### A. Doing Business in Rwanda

DURING OUR DISCUSSION with Agriculture Minister Anastase Murekezi, he outlined some of the challenges

76. Abakundakawa cooperative members (group meeting at the cooperative), interviewed by Karol Boudreaux and Jasson Urbach, March 21, 2006, Rushashi region, Rwanda.

77. "Doing Business in 2006: Creating Jobs, Sub-Saharan Africa Region" (Washington, DC: International Bank for Reconstruction and Development/World Bank, 2005): 4, [http://www.doingbusiness.org/documents/2006-Sub\\_Saharan.pdf](http://www.doingbusiness.org/documents/2006-Sub_Saharan.pdf).

the Rwandan coffee industry faces. These include bridging a knowledge gap, overcoming limits to financing, and creating appropriate linkages and partnerships with roasters at final destination points. To overcome these barriers, Rwanda will have to ensure an adequate number of technicians to train coffee farmers in best practices and techniques. Further, it will need to encourage local and foreign investors to continue taking a greater interest in the industry.<sup>78</sup>

Fortunately, some of Minister Murekezi's concerns are being addressed. PEARL has provided a good deal of training in management, quality control, and production-related issues. Further, it has worked to create linkages and partnerships between farmers and importers. As a result, importers have developed valuable relationships with Rwandan coffee producers. This is evident, for example, in the way Union Hand-Roasted deals with the Abahuzamugambi Bakawa Cooperative. Union values this relationship, visits the cooperative, works with the farmers, and supports them through contracting efforts.

Other importers and volunteers, such as Coffee Corps, travel to Rwanda and are involved in teaching farmers how to produce a product that people in distant markets will want to buy. While these efforts help to close the knowledge gap, it will be necessary in the short term to import skilled workers from other East African nations. People who have the talent to manage a specialty coffee business can come from Ethiopia, Kenya, and Tanzania, so long as the Rwandan government makes the movement of labor into the country relatively easy.

Minister Murekezi should be more concerned when it comes to promoting investment in the coffee sector. In a report issued in late 2005, the Ministry of Justice said:

The Government of Rwanda recognizes the private sector as the engine of economic growth. In order to promote investment confidence, an enabling legal environment through an effective and efficient system of commercial justice must exist. To achieve this goal, the system should ensure that:

- Business contracts are enforced;
- There are mechanisms for fair and speedy resolution of commercial disputes;
- There are modern and well-enforced commercial laws;

There is a paucity of the above essential elements in the commercial justice system in Rwanda. The business community feels that the legal environment does not adequately address their needs.<sup>79</sup>

The report is correct: entrepreneurs and investors need assurances that contracts will be enforced in an impartial and efficient manner. They need to be able to create business associations with relative ease and in a cost effective manner.<sup>80</sup> Property rights must be respected so that both entrepreneurs and investors feel secure and have incentives to maintain and improve properties. Investors' rights must be clearly articulated and protected by judges who operate in an independent manner. Entrepreneurs will benefit from fewer and less complex registration and licensing requirements. The report specifically highlights many of these issues as areas for legal reform. By enacting such reforms the government would go a long way towards meeting the institutional needs of the private commercial sectors.

One particular area of concern for the coffee sector is the 4 percent tax imposed on all exports for "handling and warehousing services" provided by the government agency OCIR-Café. As the report argues: "[t]his is heavy a (sic) burden and costly for importers and exporters." The report's recommendation that the government introduce a handling fee "commensurate with the services provided" is a step in the right direction. However, as people are widely dissatisfied with the services provided by OCIR-Café, a superior strategy would be to liberalize the handling and warehousing of coffee.

Another guide for potential reform is the World Bank's annual *Doing Business* report. This publication highlights

78. Rwandan Minister of Agriculture Anastase Murekezi, interviewed by Karol Boudreaux and Jasson Urbach, March 14, 2006, Kigali, Rwanda.

79. Rwandan Ministry of Justice, "Report on the Reform of the Business Regulatory Framework in Rwanda," Business Law Reform Cell, (Kigali, Rwanda: 2005), 5, <http://www.minijust.gov.rw/Pdf/Report%20on%20the%20Reform%20of%20the%20Business%20Regulatory%20Framework%20in%20Rwanda.pdf>.

80. The need to revise the climate for doing business in Rwanda is addressed in the government's VISION 2020 document, which focuses on the need promote economic diversification and private-sector led growth. The government's commitment to these reforms would go a long way towards meeting the institutional needs of investors and small-scale entrepreneurs alike. Rwanda VISION 2020, Republic of Rwanda, Ministry of Finance and Economic Planning (Kigali, July, 2000), [www.devpartners.gov.rw/docs/H%20&%20A/H%20&%20A%20Local/?dir=&download=Rwanda\\_Vision\\_2020.pdf](http://www.devpartners.gov.rw/docs/H%20&%20A/H%20&%20A%20Local/?dir=&download=Rwanda_Vision_2020.pdf).

problem areas in a country's institutional environment. Such rankings should not be viewed as an end in themselves—rather, they may serve as a tool for countries to use in the development of pro-growth policies. And while the Rwandan government has enacted some beneficial policies, generally speaking, the country's environment for doing business is not strong. The country scores very poorly on the World Bank's *Doing Business* rankings, scoring, for example, last among sub-Saharan countries in legal rights.<sup>81</sup> Rwanda also scores poorly in terms of protecting foreign investors.<sup>82</sup> This mirrors concerns in the government of Rwanda's "Report on the Reform of the Business and Regulatory Framework in Rwanda."

For example, the country has a more rigid labor index than other countries in the region. Moreover, although it takes only five steps to register property, the procedure is quite drawn out. On average, it takes approximately three-and-a-half times as long (371 days) to register property in Rwanda as it does in sub-Saharan Africa as a whole (109 days). This is not surprising, given the complexity of the land situation in Rwanda.

The government needs to make further improvements in the legal and regulatory environment in Rwanda if the country is going to support and grow both its new specialty coffee industry and other entrepreneurial efforts. Investors need to feel confident that their investments will be protected, that contracts will be enforced fairly and relatively expeditiously, and that they will be able to import and export products in a cost-effective manner. In each of these areas, the Rwandan government needs to make improvements that will make it easier and less costly to do business.<sup>83</sup>

## B. The Role of OCIR-Café

THE SINGLE BIGGEST barrier that the specialty coffee industry in Rwanda faces is the government agency, OCIR-Café. OCIR-Café is a regulatory body that reports to the minister of commerce. Although this agency's role

has been modified over time, it still plays a large role in the sector. OCIR-Café continues "to participate in the process of elaborating policies and strategies for the coffee sector, and follow up their implementation; to set up quality norms and classification systems, quality control and delivery of Origin Certificates." It also provides extension services, research, and training. OCIR-Café continues to supply some inputs and subsidized rates to coffee producers. However, it is the agency's new role as the official "brander" of Rwandan coffee that raises concerns.<sup>84</sup>

In repeated interviews, we learned that OCIR-Café delivers little in terms of value for farmers. The agency does provide subsidized fertilizer, but this arrives late on many occasions. The agency has few extension officers to help farmers, and it continues to charge a 4 percent export tax on coffee to raise revenue to fund the services the agency supplies. However, the private sector could provide many of these services at a lower cost.

For example, the agency claims to play a key role in creating "quality norms and classification systems," including issuance of origin certificates. OCIR-Café Director General Laurien Ngirabanzi told us that OCIR-Café plays an important role in quality control. Mr. Ngirabanzi suggested that Rwandan producers should follow International Coffee Organization standards. OCIR-Café would help train producers to meet these quality standards. However, if farmers do not comply, the agency would then consider fining farmers or seizing crops. Mr. Ngirabanzi said the government should start with education and not focus on punishment. However, even the suggestion that the agency might consider seizing crops due to quality-control issues should raise questions as to the proper role and scope of this agency.<sup>85</sup>

There is no reason why a government agency needs to oversee quality control functions and certifications of origin. Private-sector organizations, such as the East African Fine Coffees Association (EAFCA), could handle these functions. EAFCA "is an association of coffee

81. Rwandan Ministry of Justice, "Report on the Reform of the Business Regulatory Framework in Rwanda," Business Law Reform Cell, (Kigali, Rwanda: 2005), 21, <http://www.minijust.gov.rw/Pdf/Report%20on%20the%20Reform%20of%20the%20Business%20Regulatory%20Framework%20in%20Rwanda.pdf>.

82. World Bank/IFC, "Explore Economies: Rwanda," *Doing Business* (Washington, DC: 2006), <http://www.doingbusiness.org/ExploreEconomies/?economyid=160>.

83. World Bank/IFC, "Explore Economies: Rwanda," *Doing Business* (Washington, DC: 2006), <http://www.doingbusiness.org/ExploreEconomies/?economyid=160>.

84. World Investment News "Company Profile: OCIR-Café" (includes interview with Anastase Nzirasano, Director General, OCIR-Café), <http://www.winne.com/rwanda/to13interview.html>.

85. Laurien Ngirabanzi, director general of OCIR-Café, interviewed by Karol Boudreaux and Jason Urbach, March 22, 2006, Kigali, Rwanda.

producers, processors, marketing people and organisations in the ten Eastern and Southern African countries of Burundi, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, Uganda, Zambia, Zimbabwe, and the Democratic Republic of Congo as well as others from outside Africa. Membership thus includes processors, associations, roasters, dealers, retailers, and coffee professionals from all over the world.”<sup>86</sup> The association conducts trade missions and creates linkages between producers and buyers. It holds national cupping competitions to help improve quality and sponsors an annual African Taste of Harvest competition in which producers across East Africa compete. Not subject to the kinds of pressures that a public institution faces, EAFCA could function as a source of training, quality-control information, and marketing help.

Of course, importers themselves have strong incentives to work with farmers to ensure the quality level that the importers desire. The Thanksgiving Coffee Company explains:

Earlier this spring, a group of Rwandan coffee farmers traveled to Nicaragua to study the Nicaraguan coffee quality improvement laboratories built by nine coffee cooperatives in 2001 with the help of Thanksgiving Coffee Company expertise and USAID funding. . . . Thanksgiving Coffee has long worked with the small-scale farmers of Nicaragua and their cooperatives. This trip was a chance to introduce our new business partners from Rwanda to our old allies in Nicaragua, and to let the experts do the teaching. Focused on the work we’ve done to improve the quality of coffee, we spent a week touring cooperatives and studying the ways that they use cupping laboratories to convert knowledge into power.<sup>87</sup>

Contractual relationships between buyers and sellers can manage quality-control issues. Both parties must, of course, identify an acceptable forum for the resolution of disputes, but this is not an insurmountable problem. Green Mountain Coffee importers express a similar mo-

tivation to encourage a quality product:

Over the course of one year, Rwanda has made the dramatic transformation from “intriguing new discovery,” to the hottest emerging origin in specialty coffee. Coffee companies compete fiercely for access to the small lots of extraordinary beans being produced in this once war-ravaged African nation. Coffee enthusiasts are anxious to try the lush cherry, sweet honey, and fragrant floral notes they’ve heard so much about.<sup>88</sup>

Such competition bodes well for the coffee producers of Rwanda and should lead to higher prices for Rwandan specialty coffee. Producers will benefit from these higher prices and will, in turn, be better able to invest in their businesses. Buyers will have incentives to create strong relationships with growers. Strong relationships lower transaction costs between parties, who—through repeated interactions—build trust and learn what each party values. In such a scenario, government agencies have little role to play in assuring quality.

### C. Land Issues

LAND IS, AND has been, a highly contested resource in Rwanda. As noted in a recent study:

[L]and has been closely related to politics and conflict for four decades. . . . Conflicts in 1959, 1963, 1973, 1980, 1990, and the genocide of 1994 were all politically motivated by politicians. However evidence has shown that in all of these, land was a factor behind social tensions before every major open conflict. Even today more than 80 percent of all disputes in Rwanda are related to land.<sup>89</sup>

In 2003, the Rwandan Parliament approved a land reform decree that provides for individualized rights to property.<sup>90</sup> This policy was followed, in 2005, by passage of

86. East African Fine Coffees Association, “About EAFCA,” <http://www.eafca.org/docs/abouteafca.pdf>.

87. Paul Katzeff, “Nicaraguan Coffee Farmers Host Rwandan Coffee Farmers,” Thanksgiving Coffee Company, [http://www.thanksgivingcoffee.com/projects/exchange\\_rwanda\\_nicaragua/](http://www.thanksgivingcoffee.com/projects/exchange_rwanda_nicaragua/).

88. Green Mountain Coffee Roasters, “Special Reserve Coffees,” [http://www.greenmountaincoffee.com/CSTM\\_Reserve.aspx](http://www.greenmountaincoffee.com/CSTM_Reserve.aspx).

89. Food and Agriculture Organization of the United Nations, “A Case Study on the Implications of the Ongoing Land Reform on Sustainable Rural Development and Poverty Reduction in Rwanda and the Outcome Report of the Thematic Dialogue Held on the 20th January 2006,” (paper presented at International Conference on Agrarian Reform and Rural Development (ICARRD), Porto Alegre, Brazil, March 7-10, 2006), 7, [http://www.icarrd.org/en/icard\\_doc\\_down/case\\_Rwanda.pdf](http://www.icarrd.org/en/icard_doc_down/case_Rwanda.pdf).

90. Oxfam, *Independent Review of Land Issues*, 2004–05, Volume II, no. 2, (London: Oxfam, December 2005), 13, [http://www.oxfam.org.uk/what\\_we\\_do/issues/livelihoods/landrights/downloads/independent\\_review\\_land\\_issues\\_2004\\_5\\_vol\\_2\\_number\\_2\\_eastern\\_africa\\_dec\\_2005\\_final.pdf](http://www.oxfam.org.uk/what_we_do/issues/livelihoods/landrights/downloads/independent_review_land_issues_2004_5_vol_2_number_2_eastern_africa_dec_2005_final.pdf)

the Land Law.<sup>91</sup> The Land Law abolishes all customary forms of tenure. In their place, the government issues titles for 99-year leases of land. The government “sees increased security of tenure or rights of address to land, and more effective land management, as important factors for the improvement of the agricultural sector and the economy as a whole, helping to create the resources needed to reduce poverty and to consolidate peace and social cohesion.”<sup>92</sup>

For much of Rwanda’s history, the state—either the pre-colonial Tutsi kings or the colonial and postcolonial governments—has owned the vast majority of the land. With control of land in the hands of government, formal land markets did not develop. Transfers were often done informally, and confusion and insecurity were common. Local officials had great discretion over land allocation and could favor politically powerful individuals over marginalized people who may have held traditional use rights.<sup>93</sup>

The new law hopes to resolve these problems, and yet provisions of the law are likely to create a host of problems. As noted, the law allows for the issuance of 99-year leases. Such a lengthy lease may promote increased tenure security, but this depends entirely on how the government interprets and enforces leasehold rights. The government also hopes the law will promote the consolidation of land holding. The idea is that small parcels will be sold to commercial farmers who will consolidate land and create viable agri-businesses. A freer market in land sales should, the government believes, promote this consolidation process. However, as Musahara notes:

Land fragmentation in Rwanda serv[es] as a coping mechanism in smallholder agriculture, the typical Rwandan household farms an average of five plots. Some are in the valleys, others are upland and some near the household. In some parts of southern Rwanda, a household may have up to 14 crops growing in different fragments at different seasons. . . . Recently, Blarel, *et al.*, noted that the

costs of consolidation in Rwanda may not exceed the benefits of using land fragmented over the years in adapting to land scarcity.<sup>94</sup>

Creating the conditions for a more open land market is desirable, but the law allows the government to bar people who own less than one hectare from registering their property.<sup>95</sup> An even more troubling provision of the law states that “subsistence farmers can have their land confiscated should they fail to exploit it diligently and efficiently (Articles 62-65).”<sup>96</sup> The government is supposed to compensate for such confiscations, but it has not established clear standards for compensation. Rural land will be registered locally, and urban, commercial property will be registered in a national cadastre in Kigali. The government will maintain a role in the resettling of people and in devising land use and land planning policy.

These prohibitions and potentially vague use requirements place undesirable limits on individual liberties. Further, they may well lead to serious problems with corruption as individuals seek to skirt these artificially imposed constraints and demands. Such requirements are likely to benefit educated elites who may try to dispossess uneducated farmers.

The new law may pose a special problem for women smallholders and their children. Under the 2005 law, the government is supposed to register all parcels of land in the country; however, women will face particular difficulties registering land. Only legally married women and their children (not women married under customary norms and their children or poor women who do not formally marry because of the associated costs) can register and inherit land. There is uncertainty in the law regarding inheritance (do women inherit via the inheritance law or via the land law?). Also of concern is the fact that custom still bars women from exercising their legal rights under the Land Law.

Security and clarity of tenure rights, whether customary or leasehold, are essential both to avoid future conflicts

91. Johan Pottier, “Land Reform for Peace? Rwanda’s 2005 Land Law in Context,” *Journal of Agrarian Change* 6 (October 2005): 510.

92. Pottier, *Journal of Agrarian Change*, 6:511.

93. Pottier, *Journal of Agrarian Change*, 6:511. For example, according to the 1962 Constitution all gifts of land or land sales must be approved by the minister of agriculture. The 1976 Land Law required land sales to be approved by the minister responsible for lands and by the appropriate communal council, if the council expressed an opinion on the sale. Sales were restricted according to the size of the buyer and seller’s total land holdings. Herman Musahara, “Improving Tenure Security for the Rural Poor: Rwanda—Country Case Study,” (LEP Working Paper #7, Rome: FAO, 2006), 4.

94. Herman Musahara, “Improving Tenure Security for the Rural Poor: Rwanda—Country Case Study,” (LEP Working Paper #7, Rome: FAO, 2006), 11.

95. Organic Law No. 08.2005 Determining the Use and Management of Land in Rwanda, Article 20, *Republic of Rwanda*, Kigali, Rwanda, July 14, 2005.

96. Pottier, *Journal of Agrarian Change*, 6:521.

and to encourage increased investment in agriculture. However, there is reason to believe that the government's 2005 Land Law will lead to serious problems, especially for women and for uneducated farmers who may be dispossessed of their land. Surely, this is undesirable in a nation with such high levels of poverty and such strong dependence on agriculture as a livelihood.

## D. Transport Costs

TRANSPORT COSTS IN Rwanda are high.<sup>97</sup> Addressing the problems of poor infrastructure, bad roads, and associated high transport costs will be an important focus for the Rwandan government over the coming years. For coffee producers, especially specialty coffee producers, getting cherries to washing stations quickly is essential since, to ensure the best quality, cherries should be processed within eight hours of picking. For many Rwandans, this is quite difficult. Around Lake Kivu, farmers transport cherries by boat. In other areas, people travel by cart, bicycle, or other vehicles on paths or roads. It can be difficult to get cherries to washing stations within the eight-hour time window.

At the end of the processing cycle, deparched beans must be transported to either Dar es Salaam, Tanzania or Mombasa, Kenya for shipment. Traveling through Rwanda can be a difficult and time-consuming process that is very costly. As Diop, Brenton, and Asarkaya note:

Transport costs incurred by exporters [of coffee] both within Rwanda and on the main corridor routes to ports in neighboring countries are very high. It is estimated that the transport cost from the farm-gate in Rwanda to the port in Mombasa

is about 80 percent of the producer price. Rural transport costs alone, that is, of transport from the farm gate to the capital, Kigali, is estimated at 40 percent of the farm gate price!<sup>98</sup>

A reduction in these costs would clearly benefit coffee producers, helping them ship their goods from their farms.<sup>99</sup> Cost reductions could come from additional kilometers of paved roads, which would help reduce the costs of vehicle maintenance and speed transit times. Part of the surplus generated as the country grows economically should be devoted to meeting transport needs. This could be done over time by the government, which could dedicate a line in the budget for road infrastructure. However, the government should also allow for the development of private solutions to these problems, as private infrastructure would be better adapted to the needs of business and would be more sheltered from the vagaries of public decision making.

Reducing transport costs over time will help farmers benefit from higher coffee-related incomes. Savings related to lower transport costs would likely encourage farmers to use additional income for investing in productivity-enhancing improvements, hiring labor, purchasing foodstuffs, or buying materials to improve their homes.

## 6 Policy Implications

THE BARRIERS AND constraints outlined above suggest that the Rwandan government, which has done a great deal to promote the development of the specialty coffee industry, could do even more to support the farmers and entrepreneurs who are involved, both directly and

97. Ndiame Diop, Paul Brenton, and Yakup Asarkaya, "Trade Costs, Export Development, and Poverty in Rwanda," (World Bank Policy Research Working Paper, December 2005), 2, [http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2005/12/02/000016406\\_20051202101612/Rendered/PDF/wps3784.pdf](http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2005/12/02/000016406_20051202101612/Rendered/PDF/wps3784.pdf).

98. Ndiame Diop, Paul Brenton, and Yakup Asarkaya "Trade Costs, Export Development, and Poverty in Rwanda," (World Bank Policy Research Working Paper, December 2005), 6, [http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2005/12/02/000016406\\_20051202101612/Rendered/PDF/wps3784.pdf](http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2005/12/02/000016406_20051202101612/Rendered/PDF/wps3784.pdf).

99. Simon Johnson, Jonathan D. Ostry and Arvind Subramanian, "The Prospects for Sustained Growth in Africa: Benchmarking the Constraints," (NBER Working Paper No. 13120, May 2007), 35-36. The authors compare those African nations that have experienced relatively high levels of economic growth over the past decade with those countries that were poor in the recent past but have sustained economic growth rates over time (China, Indonesia, Malaysia, Singapore, South Korea, Taiwan, Thailand, Vietnam, Tunisia, and the Dominican Republic). The authors briefly consider what role infrastructure plays in impeding development. They point out that "roads are harder to compare, because we would need to adjust for mountainous or desert terrain." They further point out that such data are lacking before 1990. However, what data exist "indicate[s] that roads per surface area in the Sustained Growth [i.e., China, Malaysia, etc.] cases were not generally much more developed that (sic) in the Group 1 [i.e., high growth] African countries . . . road infrastructure in Indonesia and Thailand (in 1990) was quite comparable to many African countries (today) . . ." Overall, while more infrastructures are presumably better than less, there is no evidence that the Sustained Growth countries took off after a massive push in terms of public investment (including health).

indirectly, in this sector. Liberalization efforts have led to important changes in the coffee industry. With more freedom to act, farmers and entrepreneurs are pursuing a variety of opportunities that can help improve their lives: they are interplanting crops, contracting directly with foreign purchasers, and learning the skills needed to grow specialty coffee. The current government is to be commended for taking actions that depoliticize the industry. These efforts directly benefit the coffee farmers in Rwanda, allowing them to keep more of the value of their product.

However, there is more that the government could do to address problems related to doing business in Rwanda, to land tenure and security concerns, and to lower transport costs. Implementing policy changes in these areas would promote poverty alleviation and may lessen conflicts across the country. If changes were made in these areas, all Rwandans, not just coffee farmers, would benefit.

Currently, Rwanda ranks 158 out of 175 countries in the World Bank's *Doing Business* study.<sup>101</sup> This ranking is far below the levels of Africa's most successful economies: Botswana (48), Mauritius (32), Namibia (42), and South Africa (29). While the government has made important progress in liberalizing the economy and in supporting efforts to streamline the process for starting a business, it needs to undertake reforms to address several weak points.

Reforms should focus on increasing protections for foreign investors, improving corporate transparency, improving the less-than-satisfactory contracting environment by making contract enforcement more predictable and less costly, and reducing costly barriers to the import and export of goods. In particular, the government should preferably eliminate or reduce the 4 percent export tax on coffee. The new Land Law is problematic and will impact doing business in the country, as addressed in more detail below.

Although it is a rough guide, the World Bank's *Doing Business Ranking Simulator* provides some insights into just how beneficial certain regulatory and legal reforms could be in Rwanda. For example, if the government were to improve the country's "Investor Protection Index" from its current rating of 2.67 to a rating of 5.00 (the same rating as Mozambique) while also improving its "Strength of Protecting Investors" rating from its current 0.97 to 0.26 (the same rating as Romania and Poland), with every other rating being held constant, the country's *Doing Business* ranking would rise 20 points from 158 to 138.<sup>102</sup> If the country were to reduce by half (from 14 to 7) the number of documents needed to export a good, reduce by half the number of documents needed to import a good (from 20 to 10), reduce by half the time required to export a good (from 60 to 30 days), reduce by half the time required to import a good (from 95 to 47 days), and reduce by half the costs associated with importing and exporting, its ranking would rise from 158 to 151.

Such changes should be quite feasible. Other targets should include lowering the costs associated with licensing, reducing the costs of firing workers, reducing the time and cost required to register property, and simplifying the process for obtaining credit. If it were to

With more freedom to act, farmers and entrepreneurs are pursuing a variety of opportunities that can help improve their lives.

## A. Improve the climate for entrepreneurship and doing business

THE CLIMATE FOR entrepreneurship and for doing business in Rwanda leaves much to be desired. As noted by the Government of Rwanda:

Businesses have to confront difficulties arising from [the] legal framework as they go about their day to day affairs, notably during the formation of business association, hiring and firing of employees, the enforcement of contracts, the registration of securities, transactions and the resolution of commercial disputes etc . . . Business law reform is therefore important and if successful is expected to remove all legal constraints, which impede the development of the private sector.<sup>100</sup>

100. Rwandan Ministry of Justice, "Report on the Reform of the Business Regulatory Framework," 41.

101. World Bank, "Rankings," *Doing Business* 2007, <http://www.doingbusiness.org/economyrankings/>.

102. The World Bank's "Doing Business Ranking Simulator" can be found at: <http://www.doingbusiness.org/features/rankingsimulator.aspx> The Bank notes the following: "all calculations in this file assume that the data for all other countries remains constant . . . assessing the impact of a reform in the "Doing Business" indicators may not be straightforward."

address these problems and make changes in these areas, the government of Rwanda could expand economic opportunities for its citizens.

## B. Limit the role of OCIR-Café

AS THE COFFEE sector has been liberalized, the need for a public-sector agency devoted to supplying inputs, marketing help, and quality-control management has shrunk. As discussed above, producers can work directly with buyers to better manage quality-control issues. These issues should be left to buyers and sellers to negotiate. OCIR-Café should not have oversight responsibility in this area, as such oversight expressly threatens freedom of contract in the coffee sector.

As noted, Rwandans already have experience with buyers and Coffee Corps volunteers working with producers to improve the quality of Rwandan coffee. Green Mountain Coffee, for example, helped to fund a new cupping laboratory near Butare. At this lab, we met eight young women who were learning cupping techniques so that they could better identify the quality and characteristics of the beans grown in their cooperatives.

Such private efforts are not surprising. Buyers and sellers have incentives to meet each others' needs. Buyers have strong incentives to carefully monitor the quality of coffee beans they buy. Sellers have strong incentives to meet the buyers' needs and to fulfill contractual obligations. In addition, private organizations, such as the Rwanda Fine Coffee Association and the East African Fine Coffees Association, play an important role in connecting potential buyers with sellers. These organizations are specifically focused on improving market linkages between producers and sellers, and they offer help with marketing products and building brand name. Given this, there is little need for a public-sector agency to oversee private contracting.

Because many coffee producers are quite poor, there may be an argument in favor of OCIR-Café continuing to provide some short-term financial assistance for marketing efforts. However, as more and more importers become familiar with the high quality of Rwandan specialty coffee, the justification for public spending on these efforts will shrink. Market signals will send more and more buyers to Rwanda. These buyers will compete with each other to purchase coffee, and this competition should continue to bring up the price of washed, specialty coffee. Moreover, the government is engaged in a massive replanting effort

of millions of coffee tree seedlings. Perhaps the government should fund this effort. If the sector is succeeding, however, then private-sector funding should be available to underwrite these efforts.

There is no question that Rwandan coffee producers and cooperative members have many needs. They need to improve a variety of skills, improve the quality of their product, and get more of their product to market in a cost-effective manner. The question is not whether there are continuing needs; the question is, rather, what is the best way to meet these needs. Are these needs best met through expanded public-sector oversight or through private-sector efforts? With growing positive international attention being paid to Rwandan specialty coffee, there are opportunities for producers to partner with importers, raise capital, and improve production processes. By directing more public-sector funding to the coffee sector—through its Horizon 2010 Coffee Action Plan—the government will encourage an agency that is widely regarded as ineffective and heavy-handed. Surely, this sends the wrong signal about the government's commitment to private-sector-led growth.

## C. Revise the 2005 Land Law

THE GOVERNMENT OF Rwanda needs to resolve controversies and uncertainties involving land if it wishes to:

- lessen the likelihood of future conflict;
- aid rural genocide widows;
- increase legal security, which in turn should help promote investment; and
- address environmental concerns related to soil erosion and other environmental harms.

The 2005 Land Law partially addresses some of these concerns. However, the law also creates new opportunities for conflict, corruption, and abuse. Of special concern is Article 20 of the law, an ambiguous provision that requires people who hold less than one hectare of land (approximately two acres) to show that they are using the land appropriately. If they cannot, they can be barred from registering their property and the government can expropriate it. Given that most people in rural Rwanda hold less than one hectare of land, this clause seems destined to promote conflict and controversy. A preferable approach would be to allow individuals to freely and voluntarily trade their rights in land. This would lead to some consolidation of holdings but would not force consolidations.

In addition, the provisions of the law dealing with women should be amended to recognize the rights of women married according to customary principles, not only the few women whose marriages are legally recognized. These women should be allowed to register property, as should their children. Limiting land registration to only a small subset of women will lead to unnecessary hardship for these women and their children.

#### D. Improve roads and infrastructure to reduce transport costs

FOR THE BENEFIT of all commercial activity in Rwanda, the government should identify policy options designed to reduce transport costs. This might involve creating increased space for entrepreneurship in the transport sector, such as allowing the private sector to build and maintain roads and supporting infrastructure. The private sector may be able to supply needed improvements in a cost-effective manner. Allowing for increased liberalization in the transport sector, particularly with regards to roads, may benefit coffee producers by reducing the shipping cost they bear from their farms to Kigali and then on to Mombasa or Dar es Salaam.

The government should look for options that will reduce overall transport costs. Many options exist. Private contractors could be used to pave roads, a toll system could be used to build or maintain paved roads, etc. These efforts would improve transit times, reduce damage to goods associated with lengthy and difficult transport, and help reduce the costs of vehicle maintenance. Reducing transport costs would translate into lower costs for all commercial activity in Rwanda, not just for costs associated with the coffee industry. These savings would allow Rwandans to use additional income in other ways, and such spillover effects would help improve the economic well-being of many rural Rwandans.

These policy implications suggest that the government must still undertake important efforts to further improve the future prospects of smallholder coffee farmers in Rwanda. Efforts to liberalize the sector have led to important, positive changes for the lives of thousands of Rwandans. However, there is more the government could

do to build on these successes. It could free the market for coffee production even further, focus on improving the climate for doing business, work to resolve problems associated with its land law, and identify ways to improve transport. By creating a broader space for entrepreneurial activity, the government will go a long way toward accelerating poverty alleviation in Rwanda.

## 7 Coffee and Reconciliation

WHILE POVERTY ALLEVIATION is a vital concern, in Rwanda the rise of the specialty coffee industry has another, even more important, benefit. Hutus and Tutsis are working together on many cooperatives to improve their lives through a shared commercial effort. This suggests that an important element of the post-conflict reconciliation may be informal contacts and relationships developed in entrepreneurial and business ventures.

Of course, there are formal institutions designed to promote reconciliation between Hutus and Tutsis. The key international institution is the International Criminal Tribunal for Rwanda (ICTR).<sup>103</sup> The ICTR's purpose is to prosecute those who committed genocide according to terms of international-law prohibitions on genocide and crimes against humanity. To date, the ICTR has worked slowly, and fewer than 30 people have been prosecuted. However, more than 100,000 people were accused of having participated in the genocide, and prosecuting even a fraction of such a staggering number is a daunting task.

Given this reality, the Rwandan government has created a special set of courts—called the Gacaca Courts—in an attempt to bring more people to justice more quickly.<sup>104</sup> These courts draw on the heritage of community-based dispute resolution in African societies. Victims and the accused, along with witnesses and other local people, come together at the location where the crime was committed to debate what happened. The aim is to find the truth, or some approximation thereof, through open discussion. Decision makers are local leaders, not professional judges, and Gacaca Courts are a local solution to the problem of apportioning responsibility and healing

103. See "About the Tribunal," International Criminal Tribunal for Rwanda, <http://69.94.11.53/default.htm>.

104. For information from the Rwandan government on the Gacaca Courts, see "Genocide and Justice," <http://www.gov.rw/government/genocidedef.html>. See also Allison Corey and Sandra F. Joireman, "Retributive Justice: The Gacaca Courts in Rwanda," *African Affairs* 103 (2004): 73-89; Phil Clark, "When the Killers Go Home," *Dissent* (Summer, 2005), <http://www.dissentmagazine.org/article/?article=205>.

post-conflict trauma. It allows for decisions to be made more quickly and with less expense than those at the much more formal ICTR.

In addition to these more traditional approaches to reconciliation, many Rwandans find that commercial activities—whether in the newly expanding specialty coffee industry, in horticulture, or in rice cooperatives—are providing a depoliticized, relatively neutral environment in which they can work side by side with former enemies. Business in Rwanda has become a forum for victims and perpetrators throughout the country to voluntarily come together, out of necessity, to pursue a common goal: making ends meet. Working together to achieve a goal that both victims and perpetrators desire—earning a living—seems to help people to overcome animosities and heal deep wounds.

Earlier this year, a news report from the United Nations High Commission on Refugees discussed the relationship between the coffee industry and reconciliation in Rwanda. The president of Abahuzamugambi Cooperative, a woman named Joyeuse—who lost her husband during the genocide—said, “The association has given to those women affected in one way or another by the war new reasons to live. I have three teenagers at home whose studies I can afford now, even if the money is still very little.”<sup>105</sup>

Having greater access to the international specialty coffee market makes a big difference for these farmers. When we spoke with members of the COOPAC cooperative, they told us that they can now fix their homes, buy clothes, pay school fees for their children, and get through the long months between coffee harvests more easily than before.<sup>106</sup>

This commercial success should not overshadow another success. Approximately 20 percent of Rwanda’s coffee farmers are genocide widows and orphans. The women and children left behind after the genocide had to find ways to survive, and coffee was one way available. But because most coffee farmers are smallholders, with an average of 175 trees each, they have difficulty commanding a decent price for the coffee they grow and sell as individuals. Economies of scale make it sensible for

smallholders to band together into cooperatives, to share expenses and knowledge and spread risks.

This economic imperative has real benefits in terms of reconciliation. Neighbors, many of whom are genocide widows (women whose husbands were killed, as well as the women whose husbands are imprisoned for perpetrating the genocide), now work together to build effective cooperatives, develop stronger governance and management skills, and find common ground as they all work to improve their product and, by extension, their lives.

As discussed above, before 1994 smallholders were paid a set price for their coffee and they sold beans to an export control agency, not directly to foreign buyers. This means that smallholders had few incentives to join together into cooperatives. There were no economies of scale to be gained by working together because farmers rarely washed their coffee (a capital intensive process), they did not need to market their product, and they did not need to find a buyer—there was a guaranteed purchaser. They had few if any incentives to work together to improve the quality of their coffee. Farmers did not receive a higher price for higher quality coffee. This means that the illiberal policies of the past gave Rwandans incentives to work as solitary producers, relying on family labor. As coffee growers they had no incentives to improve quality, to identify and develop relationships with foreign buyers, or to market their product. They did not share commercial goals or costs of business, and they did not have jointly created profits to distribute. Rather, they worked alone and any monies they made stayed in the family.

Now, however, Rwandans have these incentives and they do work together in cooperatives to improve their coffee, their lives, and their communities. This change suggests that an important aspect of post-conflict reconciliation may be the extent to which informal contacts and relationships are free to develop in entrepreneurial and commercial activities.

People in Rwanda recognize that commercial activities generally, and the coffee industry specifically, are a valuable path to reconciliation. Dr. Timothy Schilling of PEARL has said that “[b]y bringing villagers together to work toward a common economic goal . . . co-ops have

105. UNHCR News, “Rwandan cooperative shows reconciliation needed to draw refugees home,” February 8, 2006, <http://www.unhcr.org/cgi-bin/texis/vtx/news/opendoc.htm?tbl=NEWS&id=43ea0ced4&page=news>.

106. Interviews with members of the COOPAC cooperative, interviewed by Karol Boudreaux and Jasson Urbach, March 16, 2006, Gisenyi, Rwanda.

helped Rwandans with the monumental task of reconciliation, since genocide widows work side by side with women whose husbands are in jail for participating in the killing. . . . ‘What’s reconciliation if it’s not people who have conflict getting together and talking?’”<sup>107</sup>

And, during an interview in his Kigali offices, Rwandan Minister of Agriculture Anastase Murekezi, told us:

Industry has certainly contributed to reconciliation . . . . In every village we’ve had this very bad experience with genocide. Coffee producers were both victims and killers. Afterwards, the killers were imprisoned. Their wives and their children were at home. Close by were the survivors of the genocide. The victims were living next to the families of those killed. But now we have the experience of people working together. We have seen coffee producers working together.

“Now, we can value each family based on [its] real achievements in improving quality and quantity of coffee, not on ethnicity.”

Minister Anastase Murekezi

I believe the secret is increasing income through washing coffee. This is the same concern for all the families. They are working together now through co-ops. The co-ops are friendly associations. These farmers are getting more income now than in the past, and they are happy to get more because they are working together. Now, we can value each family based on [its] real achievements in improving quality and quantity of coffee, not on ethnicity. This is a new value: a focus on work and results.<sup>108</sup>

In this interview, Minister Murekezi suggested that people are working together precisely because of the market signals associated with specialty coffee produc-

tion. Because they derive a higher income/price from carefully washed specialty coffee, people work together to make their cooperatives as successful as possible. Interestingly, Murekezi suggests that the sense of what is valuable in Rwandan society may be modifying somewhat. Whereas in the past a person might have been valued based on his or her ethnicity, the Minister suggests that people are now valued based on their ability to contribute to the commercial success of a cooperative. This is an interesting view, and only time will tell whether the development of commerce and coffee production is transforming Rwandan society.

In her August 2006 article, *New York Times* reporter Laura Fraser quotes two smallholder coffee farmers, one a genocide “widow” and the other a man whose farm was destroyed during the war:

“After the genocide, I feared other people’s reaction when they got to know that my husband is in jail, so it was not easy to join the co-op,” said Gemma Uwera, a 53-year-old mother of eight whose husband is accused of a genocide crime. “Now I have friends, I meet regularly with widows of genocide, and we plan how we can help each other if someone has a problem.” . . . Christian Ruzigama, 43, left his 300-tree coffee plantation in 1994 and returned to find his house destroyed and the plantation in shambles. At the co-op’s washing station, he has become an expert in fermenting the beans. He has earned enough money to send his children to school, buy health insurance, a cow and two goats, and is planning on building a new house. At the co-op, he said, no one is focused on the past any more. “I think the Rwandan future will be bright,” he said. “Coffee is our new source of life.”

A BBC article quotes another coffee farmer, Beatrice Karigirwa, whose husband and relatives were killed in the genocide. “My job has given me hope for a better future and enables me to live peacefully with other women. . . . Coffee has played a big role in the progress of this country. We live in harmony with Rwandans from different areas. If we all stayed at home we would all be

107. Laura Fraser, “Coffee, and Hope, Grow in Rwanda,” *New York Times*, August 6, 2006.

108. Murekezi interview, March 14, 2006.



Weighing coffee beans in Kigali (left). Ripe cherries in the field (right).

thinking in the same way as before but coming to work in the coffee industry has taught us a lot.”<sup>109</sup>

Another young woman, Aimee, is quoted in the same article as saying that while the pay is low, the coffee plantation plays an important role in uniting people. “I can’t hate. . . . Even those who killed my parents later died so why should I create more enmity by sowing hatred. Here, we are friends because we have the same problems. Even the women whose husbands have been in prison as genocide suspects, or children like me whose father are genocide suspects, we understand each other, we don’t have any quarrels.”<sup>110</sup>

Much remains to be done in Rwanda. Most Rwandans are still desperately poor. Many will bear the physical and psychological wounds of genocide to their graves. The ICTR and the Gacaca Courts are two means Rwandans have used to try and heal these wounds. But, as Rwandans and others recognize, commercial activity—particularly in the coffee industry—is another, perhaps unexpected, salve for these wounds.

109. BBC News, “Coffee Key to Reconciling Rwandans,” August 30, 2006, <http://news.bbc.co.uk/2/hi/africa/5299286.stm>.

110. Ibid.



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