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# MERCATUS ON POLICY

PERKING UP  
THE ECONOMY:  
Coffee in Rwanda

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Long Rwanda's leading export and chief source of foreign income, coffee has played a pivotal role in the nation's economic development. Even today it accounts for 50 percent of Rwanda's export income and employs some 500,000 families.

Historically this industry has been highly regulated and politicized, but in the decade since Rwanda's disastrous genocide, the government has promoted coffee industry liberalization as a means of alleviating the country's poverty and addressing fiscal crises. The results have been promising: entrepreneurship is flourishing, international trade volume is increasing, human capital is developing, income and employment are increasing, and most surprisingly, grass-roots reconciliation is taking place.

## CHANGES FOR THE BEST

FROM COLONIZATION IN the 19th century to the 1994 genocide, Rwanda's rulers have controlled and exploited the coffee industry for their political and fiscal gain. Laws and regulation forced Rwandans to grow coffee and exploited farmers by creating a government monopoly that bought the country's entire coffee crop at well below market value.

After the genocide, the new government liberalized the coffee industry, allowing farmers to voluntarily contract with any buyer and join together in co-ops to share expenses and resources.<sup>1</sup> Rwandans are no longer required to grow coffee, but many voluntarily choose to, as they can now sell their beans to international buyers at prevailing world market prices. As a result, Rwandans are profiting from coffee production.

Although driven by homegrown entrepreneurs, the revitalization of Rwanda's coffee industry has been facilitated by many international organizations. For example, USAID funded coffee-related projects such as the Partnership for Enhancing Agriculture through Linkages (PEARL), which helps Rwanda's poorest coffee growers adopt more effective production and marketing practices.<sup>2</sup>

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#### THE SUCCESS OF LIBERALIZATION: THE RISE OF SPECIALTY COFFEE

SINCE 1999, RWANDANS have successfully focused on producing high quality, specialty coffee.<sup>3</sup> Rwanda possesses unique natural resources that enable some farmers to grow very high quality coffee of the *bourbon* variety. Under the highly regulated conditions of the past, farmers had few incentives to invest in producing a high-quality bean because the price paid for coffee was the same regardless of quality. In the newly liberalized economic environment, entrepreneurs recognize that they can put these environmental factors to good use and produce specialty coffees, which command much higher prices.

While the commodity price of coffee is less than a dollar per kilo, the price of specialty coffee is, at a minimum, twice as much. In September 2007, importers paid US\$55.00 per kilo for the best Rwandan coffee.<sup>4</sup>

#### BENEFITS OF LIBERALIZATION

##### Rising Incomes

RWANDA'S DEPOLITICIZED AND deregulated coffee industry is helping producers earn much higher incomes. A 2006 USAID report claims that 50,000 households have seen their incomes from coffee production double, and approximately

#### A LESSON IN ECONOMIC INCENTIVES

Successive Rwandan governments imposed strict controls on coffee farmers, giving them little reason to maximize the value of their crops. A government-run monopoly “export control board” determined the prices farmers received for their coffee. Since this government agency was the only legal purchaser of domestically produced Rwandan coffee beans, it paid farmers the same prices per kilo no matter how hard they worked to improve the quality of coffee. The results were predictable: farmers had no incentive to invest time and effort in their crop, so Rwandan coffee was of only marginal quality.

Now that market competition exists in nearly all aspects of Rwanda's coffee industry, farmers—not government officials—are rewarded for the time and effort they put into their crops. Rwandan farmers now negotiate directly with international wholesalers and sell their coffee on the world market, where high-quality coffee commands premium prices. Because they benefit directly from their efforts, farmers are willing to train, work hard, and invest in capital to improve their products: the better the coffee the farmers produce, the higher their income.

This connection between effort and reward has given Rwandan farmers an incentive to work together. In order to maximize their profits, Rwandan farmers are forming cooperatives to take advantage of economies of scale. Through this process, farmers can maintain high standards of quality while keeping costs down. Increased profits can be reinvested in farming supplies and equipment, lent to other enterprises, or used to support growing families. Additionally, increasing commercial exchange is bringing Hutus and Tutsis together for mutual benefit, allowing grassroots reconciliation to heal the wounds of the genocide.

2,000 jobs have been created at coffee washing stations.”<sup>5</sup> Though growth in worldwide coffee consumption remains modest, the consumption of high-quality specialty coffee is rising by 20 percent a year, which should favor Rwandan coffee farmers.<sup>6</sup>

##### New Skills and Opportunities

IN THE PROCESS of producing specialty coffee, farmers learn how to market their goods, negotiate contracts, navigate certification processes for fair-trade or rainforest-safe branding, and manage their cooperatives. Many of these skills are transferable to other economic sectors.

##### Opportunities for Entrepreneurs

COFFEE MARKET LIBERALIZATION provides opportunities for Rwandan entrepreneurs to invest in and create wealth within their own country. As demand for specialty coffee increases, opportunities for new firms and projects follow. For example, the country's first coffee house recently opened in Kigali. Additionally, profits from successful enterprise will provide the capital for entrepreneurs to bet on future endeavors.

## BARRIERS AND SOLUTIONS

### Doing Business in Rwanda

THE WORLD BANK'S 2008 *Doing Business* survey ranks Rwanda 150 out of 178 nations for ease of doing business.<sup>7</sup> To improve this ranking, Rwanda's government should increase protection for foreign investors by making contract enforcement more accessible and predictable, and reducing costly import and export barriers. Other beneficial reforms would include lowering licensing costs, reducing the cost of firing workers, reducing the cost of registering property, and simplifying the process for obtaining credit. Above all, the government should reduce or eliminate the 4 percent export tax on coffee, which funds the government coffee regulator (see below).

### The Role of OCIR-Café

MANY RWANDANS IN the coffee industry feel the greatest barrier to their prosperity is the government coffee regulator, OCIR-Café.<sup>8</sup> OCIR-Café reports to the minister of commerce and is responsible for "elaborating policies and strategies for the coffee sector," establishing "quality norms and classification systems," and "deliver[ing] origin certificates."<sup>9</sup> Of late, the agency has also taken on the role of official "brander" of Rwandan coffee. To fund these, and other services, OCIR-Café charges a 4 percent export tax on coffee.

It is in no way clear that the specialty coffee industry needs a regulatory agency to provide these services. Private-sector organizations can handle many of these functions, including conducting trade missions and creating linkages between producers and buyers.<sup>10</sup> Allowing private actors, including international buyers, to compete for the provision of these services encourages the development of best practices and promotes cost effectiveness.

### Land Policy

FOR MUCH OF Rwanda's history, the state has legally owned most of the country's land, stunting the development of private land markets and often leading to conflict. This ownership structure changed in 2003 and 2005, when the Rwandan Parliament approved laws which, for the first time, provided for widespread individual property rights.<sup>11</sup>

While a more open land market is desirable, these laws contain a number of dangerous provisions that could damage efforts to promote sustainable entrepreneurship. For example, one clause allows the government to bar people who own less than one hectare from registering their property.<sup>12</sup> This could prove disastrous for the numerous smallholder farmers throughout the country, as most of the country's farmers might not be able to register their familial land. Another clause states that "subsistence farmers can have their land confiscated should they fail to exploit it diligently and efficiently (Articles 62-65)."<sup>13</sup> A lack of case law or statutory definitions under which this provision could be triggered, leave the door open for local

politicians to extract bribes and other favors through threats of repossessing strategic properties. Women are also disproportionately affected by the new laws, which only recognize legal weddings—rather than the more common informal ones—impacting women's ability to inherit land.

Allowing individuals to freely use and voluntarily trade their rights in land would better encourage the consolidation of land under fair, voluntary, and economically efficient conditions.

**“Many Rwandans in the coffee industry feel the greatest barrier to their prosperity is the government coffee regulator, OCIR-Café.”**

### Transport Costs

Addressing the problems of poor infrastructure is essential to continued economic growth.<sup>14</sup> This is especially true for specialty coffee producers who must deliver their product to washing stations within eight hours of picking. For the benefit of all commercial activity in Rwanda, the government should implement policies to reduce transport costs. This might involve allowing the private sector or coffee co-ops to build and maintain roads. Savings related to lower transport costs would allow farmers to invest in productivity-enhancing improvements, hire more labor, purchase foodstuffs, or buy materials to improve their homes.

## ENDNOTES

1. 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): 8, available online at [www.minagri.gov.rw/IMG/pdf/USAID\\_Rwanda\\_Coffee\\_Assessment.pdf](http://www.minagri.gov.rw/IMG/pdf/USAID_Rwanda_Coffee_Assessment.pdf). In a summary report, USAID notes that "prior to the establishment of the COOPACABI coffee co-op in Bicumbi in 1996, no coffee co-op 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."

2. Chemonics, "Assessing USAID's Investments," 15–16. 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.

3. "Rwandan Co-operative Wins International Award," *New York Times*, Sept. 19, 2005.
4. 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. See Rwanda News Agency, "Coffee Sells at Record Prices," *Rwanda Development Gateway* (Author: Kigali, Rwanda, September 26, 2007), available online at [http://www.rwandagateway.org/article.php3?id\\_article=6848](http://www.rwandagateway.org/article.php3?id_article=6848).
5. Chemonics, "Assessing USAID's Investments," 6.
6. "Specialty Coffee Statistics," *E-Imports*, n.d., available online at [http://www.e-importz.com/Support/specialty\\_coffee.htm](http://www.e-importz.com/Support/specialty_coffee.htm).
7. World Bank, *Doing Business 2008* (Author: Washington, DC, 2007), available online at <http://www.doingbusiness.org>. Though this ranking is low, Rwanda's position is improving. In the summer of 2007, the Ibrahim Index, a study of African governance conducted by researchers at Harvard University, rated Rwanda Africa's most improved government. "Rwanda 'most improved' in Africa," *BBC News*, September 25, 2007, available online at <http://news.bbc.co.uk/2/hi/africa/7010846.stm>.
8. Interviews conducted in Rwanda by Enterprise Africa! team, spring 2006.
9. World Investment News, "Company Profile: OCIR-Café," <http://www.winne.com/rwanda/to13interview.html>. (Includes interview with Anastase Nzirasanaho, Director General, OCIR-Café.)
10. East African Fine Coffees Association, "About EAFCA," (Author: Kampala, Uganda, n.d.), available online at <http://www.eafca.org/docs/abouteafca.pdf>.
11. Shaun Williams, "Independent Review of Land Issues, 2004-05, Volume II, Number 2, (Eastern Africa)," (London: Oxfam, December 2005): 13, available online at [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).
12. Organic Law No. 08.2005 Determining the Use and Management of Land in Rwanda, Article 20, Republic of Rwanda, Kigali, Rwanda, July 14, 2005.
13. Johan Pottier, "Land Reform for Peace? Rwanda's 2005 Land Law in Context" *Journal of Agrarian Change* 6 (October 2005): 521.
14. Ndiame Diop, Paul Brenton, and Yakup Asarkaya "Trade Costs, Export Development, and Poverty in Rwanda," (World Bank Policy Research Working Paper, December 2005): 2, available online at [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).

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#### COFFEE AND RECONCILIATION

Many Rwandans find that commercial activities provide a depoliticized environment in which to work side by side with former enemies. Business in Rwanda has become a forum for victims and perpetrators to pursue a shared goal of making ends meet. For further information read "The Business of Reconciliation" Mercatus on Policy, No.7 and "State Power, Entrepreneurship, and Coffee: The Rwandan Experience," Policy Comment number 15 in the Mercatus Policy Series, available at [www.EnterpriseAfrica.org](http://www.EnterpriseAfrica.org) or [www.Mercatus.org](http://www.Mercatus.org) as well as the Institute of Economic Affairs's June 2007 issue of *Economic Affairs*, "Enterprise Solutions to Poverty in Africa" (Vol. 27, No. 2, available at <http://www.iea.org.uk>).

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