

A Better Brew for Success

Economic Liberalization in Rwanda's Coffee
Sector

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I. Introduction

In 2008, Solberg and Hansen, SA, a Norwegian importer of high-quality specialty coffee, bid just under \$40 per kilo for a lot of Rwandan coffee.¹ This bid, the equivalent of over 21,000 Rwandan francs, while exceptional, represents a real and positive transformation within Rwanda's coffee sector. In the not-too-distant past the country was known as a producer of mediocre grade coffee that attracted little attention from discriminating importers or consumers.² Today, Rwandan coffee is increasingly recognized as a high-quality product, one for which importers such as Solberg and Hansen and in turn, consumers, are willing to pay a premium. Although the Rwandan economy is diversifying, agriculture continues to be the primary source of livelihood for 90% of the population. The overwhelming majority of these are subsistence farmers. Just over 10% of these farmers planted coffee in 2008 and the crop remains a major source of export revenue, generating over 36% of total export revenue in 2009 with projections for this figure to be higher in 2010.

This paper analyzes the recent transformation of Rwanda's coffee sector. It begins with a brief discussion of the history of coffee production in Rwanda, then focuses on government efforts since the genocide to break a "low quality/low quantity trap" in the sector. The government's new policies were designed to shift incentives so that both the quality and the quantity of coffee produced in Rwanda would increase. To some extent

¹ "Coffee 'Cup of Excellence' Slated for next year, The New Times (Kigali), September 23, 2009. Specialty coffee will normally sell for somewhere between \$3 and \$4 per kilo.

² Traditionally Rwandan farmers removed the fruit of their cherries either with a hand-pulper or, perhaps, using rocks. Beans would then be dried and fermented in buckets, for varying lengths of time, in water of varied quality. As a result, coffee was of lower, industrial quality. This home-processed coffee still makes up the majority of coffee being sold from Rwanda.

these efforts have been successful however the sector faces a number of serious challenges, which are addressed. The paper examines the direct economic benefits of these policy changes. For smallholder farmers and other participants in the coffee value chain, producing higher quality specialty coffee means increased income and expanded connections to world markets. In addition to direct economic benefits, this paper considers the indirect benefits of liberalization in the coffee sector. Increased economic benefits and commercial cooperation at coffee washing stations and at cooperatives may be increasing trust levels among coffee farmers. Finally, the paper concludes by considering the lessons of Rwanda's policy initiatives in the coffee sector and offers suggestions to address continued concerns.

The evolution of coffee production in Rwanda

The transformation of Rwanda's coffee sector has happened relatively quickly. In 2000, Rwandan farmers were producing semi-processed coffee for sale on world markets. Farm gate prices paid to farmers were low (60 Rwandan francs per kilo) and the prospects for farmers and exporters to increase income or profits were limited. Since the late 1990s the government has liberalized the sector, removing a variety of barriers to trade, creating new incentives for groups and individuals to invest in coffee production and facilitating entrepreneurship in the coffee industry.

In a focused, decade-long effort the government, working with the private sector and with donors, has reshaped this important industry: the regulatory framework for coffee production has been modified, over 100 coffee washing stations have been built, donors have supported the development of market linkages between producers and

foreign buyers, cooperatives have formed, and smallholder farmers are working together in an effort to increase quality and improve marketing and branding.

These changes have important effects on the ground in Rwanda. Coffee continues to generate important export revenue for the country. While figures vary year-to-year, in 2008 coffee exports generated just over \$47 million in revenue, compared with \$35 million in 2007. Higher incomes benefit farmers, their families, and their communities in a variety of ways: farmers can improve a home, pay medical expenses or school fees, or better ensure food security. When cooperatives earn a profit this allows them to hire workers, purchase capital, and support community projects such as improved schools.

In addition, coffee farmers may be experiencing social as well as economic benefits from the transformation of the coffee sector. Working together at coffee washing stations, farmers have new opportunities to interact with other Rwandans. These repeated interactions may be helping to lessen the sense of ethnic distance among members of Rwandan society. As farmers and other workers at coffee washing stations experience increased economic satisfaction which comes from the higher incomes they earn from coffee, they may also feel greater levels of trust and conditional forgiveness towards others with whom they interact as well as more positive attitudes towards reconciliation. Because coffee in Rwanda is grown by poor smallholders who make up the vast majority of the population (90%), these positive changes have the potential to benefit a broad swathe of Rwandan society.

Challenges and concerns

Despite this good progress, the sector faces a number of serious challenges. As a landlocked country Rwanda's coffee producers face high transport costs. Moving coffee

cherries quickly over Rwandan roads is one concern; moving processed beans out of the country in a timely and cost effective way is a second concern. Other concerns are related to the costs in the industry. Production costs remain high – many newly built coffee washing stations are operating at much less than full capacity. Labor costs are higher than in neighboring countries. Rwandans farmers are also less productive than neighboring coffee farmers. Although some have received good support and training from NGOs, support in the form of regular visits from extension agents is limited.

A variety of management concerns have plagued the cooperatives that many coffee farmers join. One close observer of Rwanda’s cooperatives has said: “After 5 years of extensive cooperative capacity building, Rwanda’s coffee cooperatives remain surprisingly fragile, unorganized, and dysfunctional.”³ Some cooperatives have mishandled loans. Others have not fulfilled contracts in a timely manner. Some have trouble marketing their products. Some of these problems are the result of a lack of training or financial management skills.

Other challenges involve the broader institutional environment. As Rwanda implements a new land law some smallholder farmers may face uncertainty or insecurity. Women especially may be especially vulnerable. The government, NGOs, and the other stakeholders are attempting to deal with these various challenges. If capacity issues can be addressed, marketing and sales problems resolved, incentives strengthened to produce higher quality beans, and harmful government interference avoided, then the positive gains of the past several years should continue and Rwanda’s smallholder farmers can look forward to earning more from coffee production. These incomes should, in turn, filter through local economies to spread benefits to other Rwandans.

³ The SPREAD 2007 Annual Report, available at: http://www.spread.org.rw/spread_project.php,

II. Reforming a vital sector

Government control and limited markets

In many developing countries governments have been heavily involved in the agriculture sector. This pattern holds true in Rwanda as well where coffee has been a major export for decades. Both the Belgians and the two independent, pre-genocide governments controlled important aspects of the coffee trade for their political and financial gain. Through compulsory production, export taxes, and a monopsony export control agency, these regimes captured the profits of mostly poor coffee farmers and used these funds to help maintain political power.⁴ Producers had little incentive to invest in the production of high quality coffee, so for decades Rwandans produced a small volume of lower quality coffee.

Significant government involvement in Rwanda's coffee sector began in the 1930s when the Belgian colonial government launched a series of "coffee campaigns." Government authorities built nurseries and supplied seeds, but they also required Rwandan farmers to plant coffee trees.⁵ The colonial government introduced price restrictions, mandatory quality guidelines, and issued special licenses that allowed only some firms to purchase coffee. They imposed export taxes on coffee sales and individual income taxes on producers, most of whom were Hutu farmers. Tutsi chiefs collected these taxes, which helped support them and the colonial government.⁶

The post-independence Kayibanda government (1962-1973) retained most of these policies because it had limited alternatives for raising revenue. A government

⁴ Robert H. Bates, *Markets and States in Tropical Africa: The Political Basis of Agricultural Policies* (University of California Press, Berkeley, CA, 1981) pp. 11-29.

⁵ Learthen Dorsey, *The Rwandan Colonial Economy: 1916-1941*, (Michigan State University, unpublished PhD dissertation, 1983), p. 166-68.

⁶ *Ibid.*, 55-56.

marketing board (OCIR, subsequently OCIR-Café), together with a monopsony export company (Rwandex) purchased, and then sold on world markets, the vast majority of coffee grown in Rwanda. The farm gate price was set by the government.⁷ Middlemen bought beans from farmers and sold them to Rwandex, which in turn sold them to foreign buyers. The buying-up points where smallholders brought their beans for purchase acted as ‘the economic arm of the Gitarama (i.e. Kayibanda) regime.’⁸

Heavy government involvement in the coffee sector continued under the Habyarimana regime (1973-1994). During the 1970s and 1980s, as world coffee prices rose, coffee exports provided between 60 and 80 percent of Rwanda’s export revenue.⁹ President Habyarimana ensured control of these important rents by appointing relatives and supporters to positions of authority at OCIR-Café.¹⁰

Crisis and response

During the early and mid-1980s, rising coffee prices allowed the government to modestly increase the price it paid to farmers for their beans. However, according to Professor Philip Verwimp, high market prices for coffee had another effect—they “allowed the (Habyarimana) regime’s elite to increase both its personal consumption and

⁷ Prices were set by OCIR until 1994 and remained constant for the entire harvest season; price differences based on quality were not permitted. See, Edward Mutandwa, Nathan Taremwa Kanuma, Emmanuel Rusatira, Theophile Kwiringirimana, Patrice Mugenzi, Ignatius Govere, and Richard Foti, “Analysis of coffee export marketing in Rwanda Application of the Boston consulting group matrix,” 2 *African Journal of Business Management* 4 (May, 2009), p. 212. See also, Paul deLucco, ‘Raising the bar: Producing Quality Coffee in Rwanda,’ World Report Spring 2006: Specialty Coffee; Improved Market Linkages & Increased Profits, p. 14, available at: [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).

⁸ Philip Verwimp, ‘The political economy of coffee,’ 19 *European Journal of Political Economy*, 2, (2003), p. 163

⁹ Lode Berlage, Bart Capéau, and Philip Verwimp, ‘Dictatorship in a single export crop economy’ (Households in Conflict Network, October 2004) p. 14, available at <<http://www.hicn.org/papers/dicta.pdf>>

¹⁰ Ibid., p. 14. Under the Habyarimana regime, the powerful OCIR-Café agency was run by relatives of the dictator’s wife, members of the *clan de Madame*

its power over the population.”¹¹ The government used its additional revenue to buy loyalty in rural areas (through higher farm gate prices for coffee and through subsidized agricultural inputs) and to spend more on monitoring the population.¹²

Tumbling coffee prices in the late 1980s contributed to a fiscal crisis as the government rapidly lost revenue. For a few years it attempted to keep payments to farmers stable, but this proved an unsustainable policy especially as, from 1990 onwards, the government needed resources to fight the invading Rwandan Patriotic Front (RPF) forces. By the early 1990s the government was forced to lower prices paid for coffee cherries to smallholders. Price supports to coffee farmers ended in 1992.¹³

The fall in coffee prices, coupled with growing military expenditures, meant that the Habyarimana government faced severe fiscal constraints.¹⁴ Searching for a solution, the government looked for alternate sources of revenue. It confiscated property and raised taxes to supplement the budget and there was some reduction of consumption by elites. Foreign aid became an increasingly important part of Rwanda’s budget.¹⁵ However, the reliance upon, and competition for, foreign aid created serious problems among governing elites: “the various gentlemen’s agreements which had existed between the competing political clans since the end of the Kayibanda regime started to melt down

¹¹ Verwimp, “The political economy of coffee,” p. 172.

¹² *Ibid.*, pp. 172-73.

¹³ Andy Storey, “Economics and Ethnic Conflict: Structural Adjustment in Rwanda,” *17 Development Policy Review*, 1 (2002), p. 47.

¹⁴ Patrick Cannon, ‘Elusive Quest? The Political Economy of Reconciliation in Rwanda,’ (paper presented at the 14th Annual Africa/Diaspora Conference, Sacramento State Center for African Peace and Conflict Resolution, 2005) p. 6, available at <http://www.csus.edu/org/capcr/documents/archives/2005/ConferenceProceedings/Cannon-1.pdf>.

¹⁵ Andy Storey, “Structural Adjustment, State Power & Genocide: The World Bank and Rwanda,” *Review of African Political Economy*, 28 (2001), pp. 371-72.

as the resources shrank and internal power struggles intensified.”¹⁶ With its growing dependence on foreign aid, and in a bid to remain in power, the government agreed to an International Monetary Fund (IMF) structural adjustment program in 1990 that imposed further hardships on farmers.

To rebuild its popularity, the regime diverted attention from its own economic policies to the Tutsi/RPF threat and increased levels of repression within Rwandan society. The government demonized the invaders, argued that allowing Tutsis into the country would mean Hutus would have less of the extremely scarce resource of land, and used the media to foment ethnic hatred. Most repression was directed at the Tutsi minority, though some spilled over to Hutus. The ultimate results were, of course, disastrous. In the three months between April and June of 1994, approximately 800,000 people were murdered in Rwanda; mostly Tutsis but also moderate Hutus and Hutu opponents of the Habyarimana government.

Liberalization to open markets and increase opportunity

Today, the government is less directly involved in the coffee sector. Farmers have more choice about what to grow, whom to sell their beans to, and how to market their product. Private-sector investment in the sector is rising. This increased openness is part of a larger government effort to improve economic growth in the country. Rwanda’s VISION 2020 is a strategic plan for economic change. This plan has, since 2003, provided a guideline for sectoral policy setting with Rwanda’s ministries.¹⁷

¹⁶ Gerard Prunier, *The Rwanda Crisis: History of a Genocide* (New York: Columbia University Press 1995), p. 47.

¹⁷ “Rwanda Vision 2020,” Ministry of Finance and Economic Planning, July, 2000, available at: http://www.gesci.org/assets/files/Rwanda_Vision_2020.pdf. See also, ‘Enabling the rural poor to overcome poverty in Rwanda,’ *IFAD* (2006), http://www.ifad.org/operations/projects/regions/Pf/factsheets/rwanda_e.pdf.

The goals created by VISION 2020, together with Rwanda's Poverty Reduction Strategy Paper (PRSP) and the subsequent Economic Development and Poverty Reduction Strategy (EDPRS)¹⁸ include improving the institutional environment to allow for increased private-sector development and infrastructure improvements, focusing on good governance (including democratization, national reconciliation, political stability and security), improving productivity (especially of land), improving human capital through investments in health and education, creating a service-based economy with a focus on ICT (information communications and technology),¹⁹ reducing external support, relying more on exports, and promoting regional integration.²⁰

Results thus far have been mostly positive. Real GDP growth over the past decade has been strong (10.8% 1996-2000; 6.4% 2000-2006).²¹ With an emphasis on private-sector led growth and improvements in the environment for doing business the economy is diversifying. However most Rwandans—especially rural Rwandans—are still very poor. More than one third of the population is unable to meet their minimum food requirements and routinely go hungry.²² Although the British overseas development agency, DFID, reports that poverty levels dropped from 70% of the population in 1994 to under 57% in 2006,²³ the GDP *per capita* in 2007 was only \$353.²⁴ There is a long way to go to meet the VISION 2020 goal of transforming Rwanda from a low-income to a

¹⁸ "Economic Development and Poverty Reduction Strategy 2008-2012," Ministry of Finance and Economic Planning, September, 2007, available at: http://planipolis.iiep.unesco.org/upload/Rwanda/Rwanda_EDPRS_2008-2012.pdf. Hereafter EDPRS.

¹⁹ Xan Rice, "Poverty-stricken Rwanda puts its faith and future into the wide wired world," Guardian Unlimited, available at: <http://www.guardian.co.uk/rwanda/story/0,,1834621,00.html>.

²⁰ "An Approach to the Poverty Reduction Strategy Plan for Rwanda: The Interim PRSP," *International Monetary Fund* (2000), p. iii.

²¹ EDPRS, Table 2.1, p. 6.

²² EDPRS, p. 12.

²³ "Good taxes reduce poverty in Rwanda," DFID, January 10, 2008, available at:

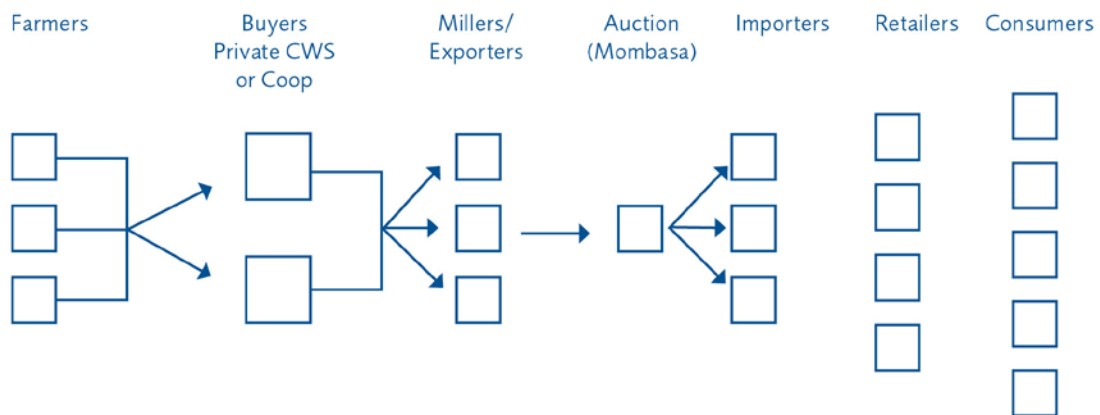
²⁴ UNdata, Rwanda, available at: <http://data.un.org/CountryProfile.aspx?crName=Rwanda>.

middle income society. Particularly for rural Rwandans, reform in the coffee sector is playing an important part in helping thousands of farmers increase their income. It is helping create jobs and provide opportunities for new skills training. It is strengthening human and social capital and, in the process may also be generating valuable social benefits.

Modest gains and encouraging signs

Changes in the coffee sector began shortly after the genocide, when the government opened the market for coffee export to increased competition. The method for pricing beans also changed. Rather than dictate a single price for the entire season OCIR-Café (now known as the Rwanda Coffee Development Authority), sets a minimum weekly reference price, in consultation with stakeholders, a basis from which a sales price per kilo may be negotiated.²⁵

CHART I
VALUE CHAIN FOR WASHED COFFEE



²⁵ Mutandwa et. al., 212. who note that: “[d]ue to the low level of production, the milling factories operate under capacity and exporters tend to lower the reference price in order to cover their relatively high milling costs.”

More substantial reform efforts began in 2000, when the government, working with consultants (the OTF Group has been the leader in these efforts) and donors, studied the potential to add value to Rwandan coffee through the production of higher quality, washed and fermented specialty coffee.²⁶ Prices for ordinary quality coffee had fallen to a historic low after the genocide (1997) and farmers were increasingly unwilling to invest in the crop. The quantity of coffee produced declined as tree stock aged and was not tended to properly, as soil fertility declined, and as farmers battled with insects and fungal diseases. At the same time, the quality of Rwanda's coffee crop fell: by 2000, 90% of Rwanda's crop was classified as low-quality "ordinary" coffee.²⁷

Rwanda's National Coffee Strategy

In 2002, the government issued a National Coffee Strategy that outlined a plan for capturing a larger share of the specialty-coffee sector. Production targets were set at 44,000 tons of fully washed coffee by 2010, 63% of which would be fully washed.²⁸ These production figures have, however, never been met.²⁹

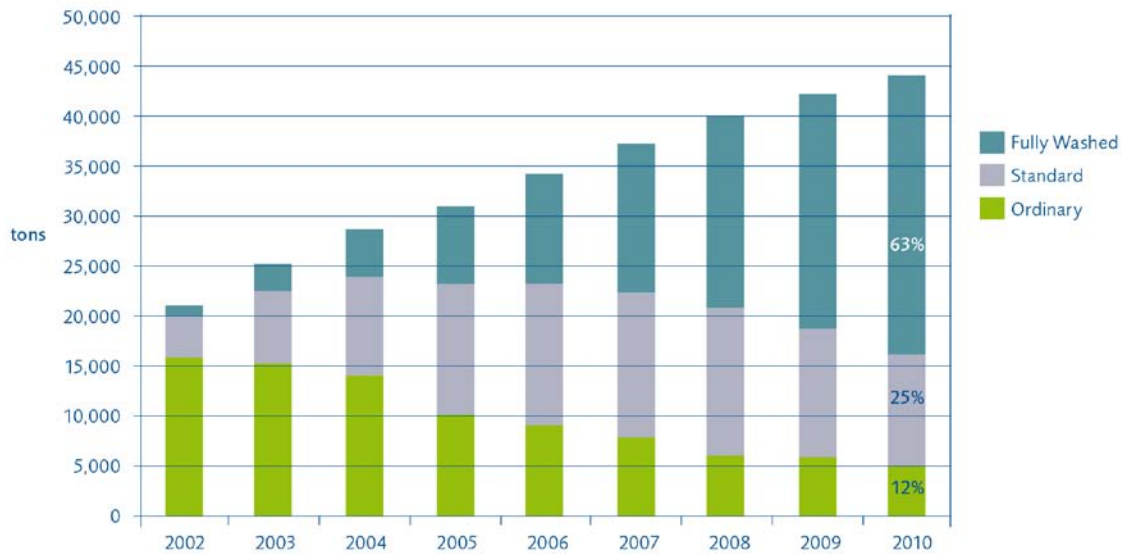
²⁶ "Rwandan Coffee Goes from Ordinary to Star(bucks)," interview with Philip Schluter, International Trade Forum, Issue1/2007, available at: http://www.tradeforum.org/news/fullstory.php/aid/1134/Rwandan_Coffee_Goes_from_Ordinary_to_Star_bucks_.html.

²⁷ "National Coffee Strategy Rwanda 2009-2012," Ministry of Agriculture & Animal Husbandry together with Ministry of Trade & Industry, (December, 2008), p. 8-9, available at: <http://amis.minagri.gov.rw/content/rwanda-national-coffee-strategies-2009-2012>. Hereafter NCSR 2009-2012.

²⁸ Note however, a conflicting statement may be found in the EDPRS which states that the "the proportion of fully washed coffee production will increase from 10% to 100% . . ." p. 38.

²⁹ NCSR 2009-2012, p. 22. Identifying precisely how much coffee is being produced in Rwanda is difficult. Government figures do not match figures from either the US Department of Agriculture or the FAO. According to a fact sheet from the government's trade statistics, 18,185 tons were traded in 2008. However, a different source quotes the figure as 22,000 tons. The USDA numbers are in 1000 60 kilogram bags, and that number is 300 for 2009/10 as opposed to 340 for 2008/09 and 240 for 2007/08. According to the FAO, in 2007 coffee was at 15,219 tons, worth 32,460,000 Rwandan francs, making coffee the number one import in value.

CHART II
 TARGETS SET OUT IN RWANDA'S FULLY WASHED COFFEE STRATEGY 2002



(Source: RNCS 2009-2012).

The shift away from low-quality coffee to high-quality specialty coffee was designed to break a perceived “low quality/low quantity trap.” As described above, Rwandan farmers were producing lower quality coffee which sold for a low price. Low sales prices meant that farmers lacked revenue to invest in improvements. Without income to invest farmers could not invest to improve the quality of their beans, hence the trap.

The National Coffee Strategy was designed to break this trap and increase income and revenue and improve price stability, as specialty coffee prices fluctuate less dramatically than does the price for semi-washed coffee. In an attempt to meet these targets, coffee-sector stakeholders focused on strengthening and supporting producer cooperatives, identifying sites for and supporting the building of coffee washing stations, replanting aging tree stock, improving quality control throughout the industry and strengthening the Rwanda brand. The coffee sector remains a high priority industry for

the government, one of four focal sectors identified in its recent Economic Development and Poverty Reduction Strategy.

III. Direct Economic Benefits of Liberalization

The liberalization of the coffee sector has had a number of effects. First, farmers now have incentives to shift some production from semi-washed to fully washed coffee in order to increase their income. Entrepreneurs are investing in building coffee washing stations where cherries are processed for sale. Rural people are joining together to form cooperatives, some of which also build washing stations and process cherries. Exporters are competing for an opportunity to sell Rwandan coffee to foreign buyers. Other entrepreneurs have established cafés that feature local coffee. In other words, along a value chain, Rwandans are benefiting from the opportunity to produce and sell specialty coffee.

At the production level, thousands of Rwanda's smallholders are benefiting from higher coffee prices for fully washed specialty coffee. NGOs such as PEARL and SPREAD have helped farmers establish cooperatives and have trained cooperative members in quality control, processing, and marketing efforts. Other projects have supported private-sector entrepreneurs build coffee washing stations. To date, more than 100 washing stations have been built around the country with the support of the government, donors, NGOs, and the private sector.³⁰ As a result, the country is producing more high quality coffee and demand for Rwanda's specialty coffee is increasing.

³⁰ 'Rwandan Goes from Ordinary to Star(bucks),' interview with Philip Schluter, *International Trade Forum*, 1 (2007).

TABLE I

GROWTH IN THE SPECIALTY COFFEE SECTOR								
	2002	2003	2004	2005	2006	2007	2008	2009
No. of washing stations	1	10	25	45	76	112	112	112
Tons of green specialty coffee exported	30	300	800	1200	3000	2300	2455	3045
No. Of specialty coffee buyers	2	8	16	25	30	30	-	-
Total value of specialty coffee exported (\$1000s)	90.00	720.00	1,850.00	3,168.00	8,000.00	7,800.00	8,060.00	11,600.00

(Source: http://www.usaid.gov/rw/our_work/programs/docs/factsheets/coffee.pdf)

Incomes are rising for farmers and for cooperatives

Perhaps the most important effect of liberalization Rwanda's coffee industry is that more of the approximately 500,000 farmers who grow coffee have an opportunity to sell their beans for higher prices. The price that cooperatives and non-cooperative (private sector) coffee washing stations are paying farmers for cherries has risen from 60 to 80 Rwandan francs in 2004 to between 160 and 180 Rwandan francs in 2008.³¹ Murekezi and Loveridge find that farmers who sell coffee cherries to washing stations increase their annual expenditures per adult equivalent by 17% as compared with farmers who sell lower quality parchment coffee.³² The authors find that post-reform, coffee farmers have increased their food consumption and their overall household expenditures. This leads to improved food security and to generally improving economic conditions for coffee farmers.

³¹ RNCS 2009-2012, p 18; and see also, Richard Swanson and Tom Bagaza, "SPREAD-Growers First Coffee Cooperative Assessment & 2008 Cooperative Development Work Plan," (Report prepared for the Texas A&M University System, Borlaug Institute of International Agriculture and Growers First, 2008), pp. 22-24, manuscript on file with author. Hereafter Swanson Report.

³² Abdoul Murekezi and Scott Loveridge, "Have coffee reforms and coffee supply chains affected farmers' income? The case of coffee growers in Rwanda," Selected paper for presentation at the Agricultural & Applied Economics Association's 2009 AAEA & ACCI Joint Annual Meeting, Milwaukee, WI, July 26-28, 2009.

In a survey of 239 farmers and coffee washing station workers conducted in 2008, Tobias and Boudreaux asked farmers to identify benefits they received as a result of being a member of a coffee cooperative.³³ Farmers listed a number of benefits, some directly financial such as increased prices paid to them for their cherries, employment opportunities, and better and easier access to loans, particularly access to credit to purchase inputs, such as fertilizer. Some farmers noted that their families are now better fed, that they are able to hire laborers, that they have help with marketing and sales, and that they receive some medicines for free. Other cooperative members benefited from access to coffee bicycles to transport cherries. Less directly, farmers stated that they benefit from socializing with others and learning from others. Some farmers felt their work was now easier (they no longer process at home) and this meant they could spend time on things other than coffee production.

A 2006 analysis for US AID reports 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.”³⁴ An NGO involved in the US AID project reports: “incomes (in the specialty coffee sector) have doubled or tripled, and business skills, labour conditions and community spirit have been enhanced.”³⁵ With more income,

³³ Jutta Tobias and Karol Boudreaux, “The Role of Entrepreneurship in Conflict Reduction in the Post-Genocide Rwandan Coffee Industry: Quantitative Evidence from a Field Study,” *Mercatus Center Working Paper*, No. 09/24 June, 2009, available at: <http://mercatus.org/publication/role-entrepreneurship-conflict-reduction-post-genocide-rwandan-coffee-industry>. Note these results are not reported in the study. Copies of the surveys are on file with the author.

³⁴ “Assessing USAID’s Investments in Rwanda’s Coffee Sector – Best Practices and Lesson Learned to Consolidate Results and Expand Impact,” USAID/Chemonics (2006), p .6. Hereafter Assessing USAID’s Investments.

³⁵ ‘Specialty Coffee: Increased Quality & Profits for Smallholders,’ ACIDI/VOCA, available at: [http://www.acdivoca.org/852571DC00681414/Lookup/coffeebrowelayout/\\$file/coffeebrowelayout.pdf](http://www.acdivoca.org/852571DC00681414/Lookup/coffeebrowelayout/$file/coffeebrowelayout.pdf).

farmers can repair their homes, buy clothes, pay school fees for their children, and get through the long months between harvests more easily than before.³⁶

Once cherries are washed, fermented, and dried, they are sold to buyers for an even higher price. In 2004, the Maraba cooperative sold washed coffee for \$3.26 per kilo; in 2007, the cooperative was able to charge \$4.08 per kilo. In 2007, the COOPAC cooperative was selling its cherries for \$4.00 per kilo, and the Rusenyi cooperative was selling in a range between \$4.40 and \$5.50 per kilo.³⁷ On average, in 2007, coffee washing stations sold their fully washed coffee for \$3.60/kilo. In a notable achievement, in September 2007, importers paid \$55.00 per kilo for the best Rwandan coffee.³⁸

Cooperatives use the income they generate to pay individual farmers for cherries, to repay loans taken build washing stations (or for other equipment), to pay salaries for washing station staff, and they may provide other benefits to members—short-term micro-loans and improvements to local schools would be just two examples.

Revenue increases for the government

The Rwandan government reports that coffee receipts rose an average of 30% per year between 2002 and 2006.³⁹ In a recent interview, the head of Rwanda's Coffee Development Agency said that he expects the country to produce 26,000 tons of coffee in

³⁶ Interviews, members of the COOPAC cooperative, Gisenyi, Rwanda, 16 March 2006.

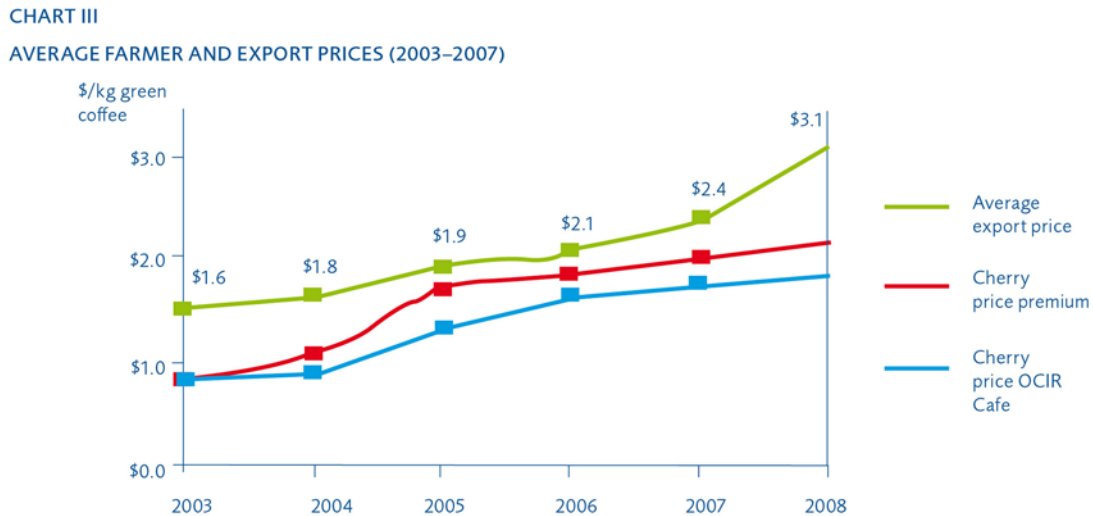
³⁷ Swanson Report, pp. 22-23.

³⁸ 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.

"Coffee Sells at Record Prices," Rwanda Development Gateway, available at: http://www.rwandagateway.org/article.php3?id_article=6848.

³⁹ RNCS 2009-2012, p. 18.

2010 with a significant jump in the value of coffee exports from \$38 million in 2009 to over \$69 million.⁴⁰



(Source: RNCS 2009-2012).

However, the amount of fully washed coffee being produced in Rwanda is still below targets. It now accounts for 20% of the annual crop, versus 1% in 2002. A greater concern is that washing stations and cooperatives need to do more improve technical capacities and operate profitably, creating incentives for more farmers to choose to sell cherries for washing rather than processing cherries themselves at home.

Identifying precisely how much coffee is being produced in Rwanda is difficult. Government figures do necessarily coincide and figures from the US Department of Agriculture and the FAO do not match figures produced by the Rwandan government. The government's trade statistics put the volume of coffee traded in 2008 at 18,185 tons,

⁴⁰ "Rwanda sees 2010 coffee crop rising 63 pct.," *Reuters*, Feb. 11, 2010.

though a more recent news story puts that figure at 22,000 tons.⁴¹ 2009 output was approximately 24,000 tons and the government projects that output will rise 13% in 2010 to 27,000 tons.⁴² In 2002 Rwanda produced 48 tons of fully washed coffee; in 2006 that figure was 3,000 tons.⁴³

In 2006, Rwanda's former Minister of Agriculture, Anastase Murekezi, said that the specialty coffee industry's most successful story to date, in terms of wealth being created for Rwandans, was with American companies.⁴⁴ Importers such as Starbucks and Green Mountain Coffee buy from Rwanda's producers, bringing much-needed income to smallholders. Other less well-known but highly discriminating American importers such as Intelligensia, Thanksgiving, and Counter Culture Coffee also routinely purchase Rwandan coffee.

Though American interest in Rwandan coffee is strong, Minister Murekezi noted that trainers and buyers from Europe, China, and Japan also routinely visit the country, bringing expertise that helps improve the local industry, as well as income to farmers.

The Minister 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.⁴⁵

Besides increased incomes for farmers, the benefits from specialty coffee extend beyond the cooperative. Goff notes:

[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).⁴⁶

⁴¹ "Coffee Output May Climb 13 Percent in 2010," *The New Times*, January 8, 2010.

⁴² *Ibid.* (coffee output may climb)

⁴³ EDPRS, p. 11.

⁴⁴ Interview, Anastase Murekezi, Rwandan Minister of Agriculture, Kigali, Rwanda, 14 March 2006.

⁴⁵ *Ibid.*

While growth worldwide in ordinary-grade coffee consumption remains modest, the consumption of high-quality specialty coffee (currently 7 percent of the coffee volume in the international market) is rising by 15 percent annually. Even with increased competition and somewhat lower prices, Rwanda's specialty coffees should continue to command a good price.⁴⁷

Increased entrepreneurship leads to more jobs in the coffee sector

Rwandans are experiencing other direct benefits from the liberalization of the coffee sector. As a result of investments in coffee washing stations, thousands of jobs have been created. As of 2006, 4,000 jobs had been created at coffee washing stations.⁴⁸ Many of these are part-time jobs during the harvest season; others are full-time jobs managing stations and cooperatives. Cooperative and washing station employees are learning valuable business skills: accounting, marketing, and negotiating skills. Some community members are learning to cup coffee.⁴⁹ At milling operations and at exporters, other Rwandans work sorting beans, operating milling equipment and preparing beans for shipment. And as the new coffee culture grows in Rwanda, a small number of jobs have been created in retail outlets such as the popular Bourbon Café in Kigali.

Rwandans have made good progress in the specialty-coffee sector. In 2000 the country produced no specialty coffee and had only 2 washing stations. Since then, the

⁴⁶ Samuel Neal Goff, *A Case Study of the Management of Cooperatives in Rwanda* (Texas A&M University, unpublished Master's thesis, 2006) p. 70.

⁴⁷ In its 2007 Country Report on Rwanda, the Economist Intelligence Unit notes: "Stagnation in many of the traditional coffee-drinking markets of North America and Western Europe will restrict growth in demand, although demand for high-quality specialty coffees, including Rwanda's finest fully washed Arabica, will remain more buoyant." "Country Report: Rwanda," *Economist Intelligence Unit*, (February 2007), p. 10.

⁴⁸ "Assessing USAID's Investments," p. 4.

⁴⁹ "Twenty-One Coffee Cuppers Trained on Quality," *The New Times*, August 29, 2009, pointing out that while Rwanda now has 100 coffee cuppers, less than half are trained and licensed to international standards.

country has developed a growing reputation for high quality coffee. But stakeholders recognize that more must be done to consolidate these gains and to direct attention to the most pressing problems in the sector. To refocus attention, the Rwandan government issued a revised National Coffee Strategy in 2009 with new production targets of 33,000 tons of coffee by 2012, 19,000 tons of which is to be fully washed. If this much coffee is produced, the government anticipates revenues of \$115 million.⁵⁰

The new policy identifies five target projects which include improving farming techniques, providing support to help more washing stations become profitable, help private exporters improve marketing and sales, conduct a census of all coffee growing areas, and partner to do toll roasting in China and the Middle East. In an effort to add more value locally, the RCDA has partnered with the Hunter Foundation to build a factory to roast and package coffee locally. The hope is that this effort will produce over 100 full-time jobs and another 2,000 indirect jobs.⁵¹

Farmers who grow specialty coffee are experiencing direct economic benefits from the liberalization of the sector. While coffee production cannot, by itself, solve the many problems these poor farmers face, changes in the industry are helping them better cope with poverty, these changes also seem to be generating positive social benefits.

IV. Indirect and Social Benefits of Liberalization

The liberalization of Rwanda's coffee sector may be distinguishable from other liberalizations that have tended to benefit elites, such as privatizations in Eastern Europe or Kenya land titling reforms in Kenya. Because the coffee-sector liberalization has helped to raise income for the rural poor—rather than imposing costs on them—this

⁵⁰ RNCS 2009-2012. “

⁵¹ “Two Million Invested in Coffee Value Addition,” *The New Times*, August 7, 2009.

liberalization may be less likely to promote conflict than would liberalizations where costs are spread widely (such as the removal of subsidies) and benefits are narrowly concentrated.⁵²

Coffee facilities as a locus of cooperation

Cooperatives and private washing stations may also serve as vehicles for increasing cooperation among members. Building on reports in the media of informal reconciliation at coffee cooperatives, Tobias and Boudreaux conducted an exploratory survey in 2008 to investigate possible social benefits associated with the liberalization of the sector.⁵³ Surveys were conducted at 10 coffee washing stations.⁵⁴ Some survey participants were farmers who have seasonal jobs at the washing stations; other participants were at the stations to sell cherries. Coffee washing stations are owned either by a cooperative or by a private investor. They are typically located in the rural, hilly, and relatively inaccessible areas where coffee grows and where little other commercial infrastructure exists. 239 completed surveys were obtained from a sub-section of rural Rwandans associated with these stations. A statistical analysis of the surveys showed significant correlations between economic satisfaction or general perceptions of life satisfaction and with more positive attitudes to reconciliation. This was particularly true the older a washing station was and the longer it had been a part of the local community.

⁵² Collier, *et. al.* argue that 'the key root cause of conflict is the failure of economic development. Countries with low, stagnant, and unequally distributed per capita incomes that have remained dependent on primary commodities for their exports face dangerously high risks of prolonged conflict.' See, Paul Collier, V.L. Elliott, Håvard Hegre, Anke Hoefler, Marta Reynal-Querol, and Nicholas Sambanis, *Breaking the Conflict Trap: Civil War and Development Policy* (World Bank/Oxford University Press, Oxford, 2003), p. 53.

⁵³ Tobias and Boudreaux.

⁵⁴ Surveys were conducted at 5 cooperatives and 5 privately owned coffee washing stations. Surveys were administered in Kinyarwanda by students from the National University of Rwanda over a two-week period. Surveys had been field tested in February, 2008.

TABLE II

MEAN AND STANDARD DEVIATION SCORES FOR SOCIAL FACTORS LINKED TO RECONCILIATION ATTITUDES		
Social factor	Mean	Standard deviation
Ethnic distance today	3.53	2.12
Ethnic distance reduction	.97	.164
Intergroup contact frequency (work)	3.81	.63
Intergroup contact frequency (socially)	3.83	.5
Contact frequency (computed score)	7.65	.96
Contact affect	2.01	.32
Deep contact	17.32	3.68

The survey drew on insights from inter-group contact theory.⁵⁵ There is extensive evidence that positive interactions between antagonistic groups can reduce levels of prejudice and hostility. Therefore, positive contact is considered one of the most effective strategies for reducing inter-group conflict.⁵⁶ When contact between groups in post-conflict societies is intense and deep, it can promote reconciliation and help prevent a renewal of violence.⁵⁷ If formerly antagonistic groups find ways to cooperate, they may develop a new shared identify that helps reduce prejudice and creates a sense that a more collaborative future is possible.⁵⁸

As noted above, farmers come to coffee washing stations either to sell beans or to do seasonal work. Seasonal employees are helping at drying tables, working side-by-side. During the harvest season, farmers may bring cherries to a washing station several

⁵⁵ Gordon W. Allport *The Nature of Prejudice* (Oxford, UK: Addison Wesley) 1954.

⁵⁶ T.F. Pettigrew, "Intergroup Contact: Theory, Research and New Perspectives," 49 *Annual Review of Psychology*, (1998), 65-85; and see also John F. Dovidio, Samuel L. Gaertner & K. Kawakami, "Intergroup Contact: the past, the present and the future," 6 *Group Processes and Intergroup Relations* (2003), 5-21.

⁵⁷ James L. Gibson, "Does Truth Lead to Reconciliation? Testing the Causal Assumptions of the South African Truth and Reconciliation Commission," 48 *American Journal of Political Science* 2 (2004), 201-17, and see Edwin Straub, "Reconciliation after genocide, mass killing or intractable conflict: understanding the roots of violence, psychological recovery and steps toward a general theory," 27 *Political Psychology* 6 (2006), 867-895.

⁵⁸ Samuel L. Gaertner, Jeffrey A. Mann, John L. Dovidio, Audrey J. Murrell & Marina Pomare, "How does cooperation reduce intergroup bias?" 59 *Journal of Personality and Social Psychology* 4 (1990), 692-704.

times a week. This means that farmers and seasonal workers are at the washing stations repeatedly from March/April through June/July. Given that this is a relatively new organizational structure in Rwanda (in 2000 there were only 2 coffee washing stations in all of Rwanda, today there are over 100) farmers may well be experiencing a new type of contact.

Perceptions of economic satisfaction

The survey explores the possible connection between perceptions of economic improvements in the lives of farmers and coffee washing station workers and improved inter-personal relations. Levels of current economic satisfaction were compared with levels of satisfaction in the past. A high “economic satisfaction change” score indicated an improvement in economic satisfaction in recent years. Only 3% of participants indicated that they were very satisfied with their economic situation 5 years before, whereas 40% reported that they are very satisfied with their economic situation in the present. 45% of participants reported a one-point improvement (on a 4-item scale) in economic satisfaction in recent years, 22% reported a two-point increase, and 10% reported a 3-point increase in economic satisfaction. 15% experienced no change in economic satisfaction while fewer than 5% (4.6%) indicated a decrease of one or two points.

Life satisfaction ratings today and in the past were also measured. 80% of participants reported a positive life satisfaction change; for 10% life satisfaction had remained unchanged over recent years. Only 7% indicated less life satisfaction today compared with the past. These figures, like the figures for economic satisfaction, indicate

that the overwhelming majority of the sample experienced positive life satisfaction gains in recent years.

More farmers and washing stations workers are happier with their economic and general life situation but how might this impact their sense of others? The survey explored possible linkages between perceptions of economic and life satisfaction and a willingness to engage in contact with people of other ethnic groups. People who are less willing to engage socially with members of another ethnic group have a greater degree of “ethnic distance” than do people who engage with others willingly and more frequently. In the survey, measures of ethnic distance were determined in the following manner: an “ethnic distance today” score was obtained by counting each of five possible interaction types from a classic social distance scale (high scores indicate low ethnic distance), and the “ethnic distance change” score was the difference between a positive answer today versus a statement that in the past the participant would not have engaged in these interactions. A high numeric score for “ethnic distance change” signaled less ethnic distance today than previously. In general, participants reported high degrees of ethnic distance reduction and highly frequent social and work-related contact.

Meaningful contact with members from the other group is significantly correlated with low distrust and conditional forgiveness. Those participants who expressed satisfaction with their economic and overall life situation had significantly correlated responses in terms of positive attitudes towards reconciliation. In particular, participants with greater economic security also reported low ethnic distance, low distrust towards the other group, and a tendency towards conditional forgiveness. Life satisfaction

significantly correlated with economic security variables, and those reporting greater satisfaction with life also expected a more positive, peaceful future in Rwanda.

The responses of participants at coffee washing stations that have been in operation for longer periods of time are significantly correlated with a reduction in ethnic distance over time. It is reasonable to assume that positive social change in the coffee sector takes time, and the survey data supports this reasoning. All of the washing stations in the study had been in operation for less than seven years, and most of them were created less than five years ago. If the observed pattern were to continue, however, the potential for positive social change associated with the creation of well over a hundred washing stations since 2000 is substantial.

Taken together, the study's findings suggest that the enhanced entrepreneurial activities in this particular sector of Rwanda's economy not only produces positive economic change among those individuals touched by this institutional change, but it may also be triggering a chain of mediating effects linked to positive social change among people working at or with coffee washing stations. The observed effects were not dependent on ethnicity or on the particular ethnic mix of participants in a given location. This suggests that forgiveness and increased levels of trust may be experienced broadly in this environment. Participants felt less ethnic distance than in the past and are now engaging in deeper social contact. These social exchanges may help create a kind of bridging social capital. It is possible that collaboration that this liberalization encourages, while difficult to quantify, is one of the most important benefits of the government's coffee sector policy reform.

V. Challenges and Concerns in the Coffee Sector

The specialty coffee industry is doing good things in Rwanda. However, the smallholder farmers and the entrepreneurs who work in this sector face several challenges. These include: implementing strategies to improve price incentives for farmers to improve quality and to improve washing station management so that more cherries are produced at lower cost. At the cooperative level, management needs to be improved so that costs are better controlled and members continue to benefit. The government also needs to avoid dislocations to poor Rwandans, particularly women, which may result from the 2005 Land Law. Finally, transportation costs remain high in Rwanda. These issues are discussed below.

Production capacity and pricing problems

One continuing concern in the coffee sector is that farmers are producing less high-quality coffee than they might in order to meet continuing demand for Rwandan specialty coffee. A number of factors may be contributing to this. First, prices paid to farmers are not providing sufficient incentives to them to focus on quality. Farmers continue to produce much more ordinary quality coffee than fully washed coffee. Second, farmers may lack knowledge of how best to manage their trees. Although there are over 100 coffee washing stations in the country, many farmers still do not have access to these processing facilities and so process cherries at home.

According to government reports, prices being paid to farmers by coffee washing stations are not currently providing sufficient incentives to focus on improving quality.⁵⁹ As noted above, OCIR sets weekly minimum prices for the purchase of cherries at washing stations. It seems that in some areas prices washing stations are paying farmers are fluctuating modestly to reflect changes in supply. However, washing stations do not

⁵⁹ RNCS, p. 26.

seem to be paying farmers different prices based on the quality of cherries they deliver. This means the current incentive structure is for farmers to concentrate quantity produced versus quality.

If there is continuing unmet demand for Rwanda's fully washed specialty coffee, washing station operators should be responding by demanding, and paying a premium for, higher quality cherries. Why is this not happening? One possibility may be that washing station personnel need additional technical training to ensure they consistently identify higher quality beans. If washing stations simply cannot distinguish a low-quality from a high quality cherry they will choose to pay a low rather than a high price.

Washing stations in Rwanda are often operating at much less than full capacity, so they are generating limited income. High labor and input costs make it difficult for washing stations to operate profitably. As a result, washing stations may lack sufficient working capital to pay farmers for higher quality beans. Competition among washing stations should resolve this problem however. At the moment, it is unclear how best to shift this pattern if there are no other legal impediments to paying higher prices for higher quality beans. Although the problem of pricing is identified in the National Coffee Strategy report the causes of this resistance are not identified which suggests additional research is needed to clarify this important issue.

The NRCS also notes that too few farmers are familiar with and able to implement good farming practices. Farmers need good quality inputs, such as seedlings and fertilizers, to increase their crop yields and quality, they also need knowledge. Farmers need to have better access to information about how they should handle seedlings, how to deal with pests and disease, and how to apply fertilizers. Although

RCDA/OCIR-Café does supply farmers with fertilizer and employ agronomists, but there are only a small number of these professionals and they have a difficult time reaching all the farmers who need assistance.⁶⁰ The NRCS also cites a lack of coordination among agencies that further limits the effectiveness of these extension services.⁶¹

Management and profitability at the country's 100 plus coffee washing stations is a growing concern. Stations are operating at partial capacity producing less fully washed coffee than anticipated. The government reports that operating costs are high: a result of high labor costs, transport costs, and high costs associated with electricity and water. In addition to these challenges, washing station personnel often lack needed technical skills and needed management skills, particularly in finance and accounting. These capacity problems can translate into difficulties securing financing and working with lenders, which in turn can translate into difficulties paying farmers in a timely fashion. The government recognizes the potential benefits of increasing coffee yields, particularly for fully washed coffee. Farmers who sell coffee as a cash crop are projected to see their incomes grow 4% a year more than that of other farmers, and so it is focusing funding efforts on improving productivity at washing stations.⁶²

Concerns with cooperative management

Shifting focus from washing station management to cooperative management (some cooperatives also manage washing stations, others do not), smallholders who voluntarily join together into cooperatives face the difficult task of creating a culture of entrepreneurship within the cooperatives so that they become more 'business minded.' A

⁶⁰ Farmers receive fertilizer from RCDA and the agency, in turn, imposes a fertilizer fee on exporters. Exporters then choose either to pass these costs along to cooperatives and washing stations in the form of lower prices paid per kilo or they absorb the costs themselves.

⁶¹ RNCS, p. 25.

⁶² RNCS 2009-2012, p. 56.

key problem identified by local NGO SPREAD is the need to attract and retain more professional managers in cooperatives and, at the same time, to reduce the influence of volunteer Boards of Directors (BOD). A 2007 assessment of a group of Rwandan cooperatives states '[a] professional, entrepreneurial General Manager is the most important individual to a cooperative's ultimate success.'⁶³ However, the report's authors find that no cooperatives in the group under investigation have such a manager. The reason for this seems to be that the BODs are reluctant to pay high enough salaries to attract a professional manager. Further, the BOD often prefers to have to have a local person, rather than an "outsider" fill this role. Local are less likely to have the skill set needed to manage the cooperative effectively. Cooperatives are capable of producing very high quality coffee, but they are experiencing real difficulties creating effective management structures

Rwanda's coffee producers, with support of donors, NGOs, and the government, have done an impressive job of generating interest in their products. Rwandan coffee is regularly available at such leading retailers as Starbucks and Whole Foods stores across the US and Marks & Spencer in the UK. But this good progress may stall if problems related to marketing and processing are not adequately addressed. Buyers have expressed concerns that contract terms for quality, quantity, and timely delivery are not being met.⁶⁴ Some buyers have reported long-long delays receiving shipments and many complained that samples did not match shipped product. These kinds of concerns, if not corrected, will lead to loss of business in this competitive market.

⁶³ Swanson Report, p. 12.

⁶⁴ RNCS 2009-2012, p. 32.

A related problem is that the BOD often interferes inappropriately in the daily management of the cooperative. The assessment notes that “BoD members, particularly Presidents, do not want to relinquish their authority to a strong General Manager.”⁶⁵ While it is essential that the BOD takes seriously its fiduciary duties to create general policies and oversee management activities, the assessment recommends that they give to managers increased decision-making authority and discretion.

Management of the cooperatives, BOD and professional managers, need to communicate more effectively with members so that members understand the ownership structure of the cooperative as well as the rights members hold.⁶⁶ To date, this has not been done effectively. Members report that they are unclear who “owns” the cooperative.⁶⁷ In addition, cooperatives need to develop and communicate effective business plans and to improve financial record keeping and documentation. There is a clear need for increased capacity in these areas. When members lack clear information about the financial state of the cooperative, and about likely prices for cherries and benefits to cooperative members, the possibility of corruption and conflict over resources rises. These are especially important issues to resolve because cooperatives are facing increasing competition from other coffee entrepreneurs and must find a way to meet this challenge.⁶⁸

Cooperatives have been an important asset for Rwanda’s smallholder farmers, allowing them to earn more money from coffee, develop additional skills, and work cooperatively with others in ways that may promote reconciliation. However,

⁶⁵ Ibid., 13.

⁶⁶ Ibid., 14-15.

⁶⁷ Ibid.

⁶⁸ Ibid. 10.

cooperatives must now address serious shortcomings in terms of management practices and capabilities if they hope to continue playing this role in the future. As cooperatives seem to provide a space for cooperative behavior and even informal reconciliation, further support efforts to help accomplish the goal of creating transparent and accountable management may well be justified.

Concerns with Rwanda's land law

A different challenge in Rwanda involved the use and control of land. Land is an extremely scarce and highly contested resource in the country. Approximately one half of the families working as farmers cultivate less than a half hectare of land; more than 60% cultivate less than 0.7 hectares and more than 25% cultivate less than 0.25 hectares.⁶⁹ The result is that:

'Land was a factor behind social tensions before every major open conflict. Even today more than 80% of all disputes in Rwanda are related to land.'⁷⁰

For much of its history, Rwanda's rulers have owned most of the land. With control of land in the hands of government, formal land markets did not develop. Transfers often took place 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.⁷¹

⁶⁹ EDPRS, p. 9.

⁷⁰ International Conference on Agrarian Reform and Rural Development, "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," (International Conference on Agrarian Reform and Rural Development, Porto Alegre, Brazil, March, 2006) p. 7. Available at <http://www.icarrd.org/en/icard_doc_down/case_Rwanda.pdf> And see, Saskia Van Hoyweghen, "The Urgency of Land and Agrarian Reform in Rwanda", *African Affairs*, 98 (1999).

⁷¹ Ibid. 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" *FAO/LEP Working Paper 7* (2006) p. 4.

In 2003, the Rwandan Parliament approved a Land Reform Decree that provides for individualized rights to property.⁷² This policy was followed, in 2005, by passage of the Organic Land Law.⁷³ The law is implemented by a series of decrees, many of which are just now going into effect. The Land Law abolishes all customary forms of tenure, and in their place, establishes government-issued titles for 99-year leases. Rural land will be registered locally, and urban, commercial property will be registered in a national cadastre in Kigali. The government maintains a role in the resettling of people and in devising land use and land planning policy.

The government “sees increased security of tenure or rights of access 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.”⁷⁴ Although the government says that it wants to increase tenure security, the new law is likely to create a host of problems.

The government hopes the land law will promote the consolidation of land holding. By allowing sales of property and increasing freedom within the land market, small parcels could be sold to commercial farmers who will consolidate the land and create viable agri-businesses. 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

⁷² *Independent Review of Land Issues*, 2, 2 (2004-5) (Oxfam, London, December 2005) p. 13.

⁷³ Johan Pottier, “Land reform for peace? Rwanda’s 2005 Land Law in context”, *Journal of Agrarian Change*, 6 (October 2005) p. 510.

⁷⁴ *Ibid.*, 511.

that the costs of consolidation in Rwanda may not exceed the benefits of using land fragmented over the years in adopting to land scarcity.⁷⁵

A more open land market is desirable, but the law contains provisions that allow the government to interfere in the market. The law allows the government to bar people who own less than one hectare from registering their property.⁷⁶ 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).”⁷⁷ The government is supposed to provide compensation for such confiscations, but it has not established clear standards for such payments.

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 only 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?).⁷⁸ 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 and to encourage increased investment in agriculture.

⁷⁵ Musahara, ‘Improving Tenure Security for the Rural Poor,’ p. 11.

⁷⁶ Organic Law No. 08.2005 Determining the Use and Management of Land in Rwanda, Article 20, Republic of Rwanda, Kigali, Rwanda, 14 July 2005.

⁷⁷ Pottier, “Land reform for peace?” p. 521.

⁷⁸ A 2007 presentation by DFIF notes that although Rwanda’s 1999 Inheritance Law gives women equal rights to men this has “yet to make any difference in practice.” Rodney Dyer, “Land Issues in Rwanda: drawn from DFID Technical Assistance for Land Tenure Reform, 2005-2008,” slide # 4, available at: <http://www.oxfam.org.uk/search?q=dyer&x=17&y=19>.

However, the Land Law raises serious concerns, especially for women and for uneducated farmers who might be dispossessed of their land. Surely, these risks are undesirable in a nation with such high levels of poverty and such strong dependence on agriculture as a livelihood.

Finally, as a land-locked country with limited paved roads in rural areas where most coffee is grown, transport costs in Rwanda are high. Diop, Brenton and Asarkaya argue that Rwanda's smallholder subsistence farmers are disconnected from markets as a result of these "extremely high" transport costs.⁷⁹ The authors estimated that transport costs from farm gates to the export port of Mombasa was 80% of the producer price.⁸⁰ Transport within Rwanda itself was estimated at 40% of the producer price. If transport costs were reduced, through the development of better rural infrastructure and, in particular, more effective rural transport routes, access to markets would improve and poverty levels would likely be reduced. The authors find that a 50% reduction in the transport costs in rural areas would lead to a 20% increase in producer prices for coffee, which in turn would reduce poverty levels among coffee farmers by over 6%.⁸¹ Given the continued emphasis on coffee production as a strategy to alleviate rural poverty, improving the rural transport system will be an important way to connect farmers to markets and to increase their household income.

Conclusion

Despite good economic growth and real benefits of liberalization coffee sector, more remains to be done to move Rwanda towards the VISION 2020 goal of becoming a

⁷⁹ Ndiame Diop, Paul Brenton and Yakup Asarkaya, "Trade Costs, Export Development, and Poverty in Rwanda," *World Bank Policy Research Working Paper* No. 3784 (December, 2005).

⁸⁰ Note these prices should now be lower as a result of Rwanda's accession to the East African Community.

⁸¹ Diop, Brenton and Asarkaya, p. 8.

stable, middle-income nation. Most Rwandans remain very poor and their rural communities provide few off-farm employment opportunities. Creating more employment opportunities for the millions of Rwandan smallholders remains a pressing challenge.

Rwanda's specialty coffee industry is helping to address some of these concerns. As a result of improvements in the sector the income of tens of thousands of farmers is rising. These farmers are better able to feed themselves and their family members, to send their children to school, to buy insurance, and to repair or improve their homes. These are some of the economic benefits of the government's policy of liberalizing the coffee sector, which allows smallholders to keep more of the value of the product they grow. By freeing the coffee sector from the heavy-handed involvement of the government, the post-genocide administrations have shifted incentives in the coffee sector and created greater scope for citizens to pursue entrepreneurial opportunities.

Though additional research needs to be done in this area, journalistic evidence suggests that people working together in the specialty coffee sector are finding an alternative path to reconciliation: joint efforts in commercial activities. Initial exploratory survey data provides some supports for these claims. By working together in cooperatives and at washing stations Rwandans are experiencing social as well as economic benefits from liberalization. They feel greater economic and life satisfaction which is correlated to lower levels of distrust, greater levels of forgiveness and reduced ethnic distance. Liberalization may have helped formerly antagonistic groups find a way to build extremely valuable social capital and move towards reconciliation.

Whether this kind of reconciliation is effective in the medium to long-term remains to be seen; however, the experiences of workers in the coffee sector strongly suggests that in post-conflict environments, governments should follow Rwanda's lead and promote broad-based trade liberalization that encourages commercial interaction between former enemies.

Although there are real concerns surrounding the economic viability of some coffee washing stations and some cooperatives, the growth of the specialty coffee industry in Rwanda remains an example of positive policy entrepreneurship. By liberalizing this important sector of the economy, the Rwanda government has created a wider and deeper space for positive entrepreneurship: a space being filled by thousands of Rwandans, from smallholder farmers to local exporters. Adding value to the coffee supply chain is adding direct economic benefits and important indirect social benefits to the lives of individuals and to the health of communities in Rwanda.