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**Programme pour la Promotion de l'Agro-Industrie
Et des Entreprises Rurales (PAIR)**

Coffee Value Chain Study

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ABBREVIATIONS AND ACRONYMS

%	: Percent
ABEC	: Association Burundaise des Exportateurs du Café
ACE	: Alliance for Coffee Excellence
avg	: Average
BAP	: Burundi Agribusiness Program
BCC	: Burundi Coffee Company
BRB	: Banque de la République du Burundi
CDM	: Centre de Dépulpage Manuel
CEO	: Chief Executive Officer
CNAC	: Confédération Nationale des Associations des Caféculteurs
COPROTRA	: Compagnie pour la Production et la Transformation du Café
CQC	: Coffee Quality Center
CWS	: Coffee Washing Station
CoE	: Cup of Excellence
DAI	: Development Alternatives Inc
DVD	: Digital Video Disc
DPAE	: Direction Provinciale de l’Agriculture et de l’Elevage
EAFCA	: Eastern African Fine Coffees Association
Etc.	: Etcetera
EU	: European Union
Fbu	: Francs Burundais
ft.	: Feet
GDA	: Global Development Alliance
GOB	: Government of Burundi
ha	: Hectares
ICO	: International Coffee Organisation
ICT	: Information Technology Communications
INADES	: Institut Africaine pour le Développement Economique et Sociale
ISABU	: Institut Agronomique de Burundi
IT	: Information Technology

Kg	: Kilogram
km	: Kilometers
lb.	:Pounds
MFI	: Micro-Finance Institution
MSU	: Michigan State University
NGO	: Non-Governmental Organization
OCIBU	: Office des Cultures Industrielles de Burundi
OTF	: On the Frontier Group
p.	: page
PAGE	: Programme d'Appui à la Gestion Economique
PAIR	: Programme pour la Promotion de l'Agro-Industrie et des Entreprises Rurales
PEARL	: Partnership to Enhance Agriculture trough Linkages
PO	: Producer Organization
QC	: Quality Control
SA	: Société Anonyme
SCAA	: Specialty Coffee Association of America
SDL	: Station de Lavage
SH	: Sustainable Harvest
SIVCA	: Société Industrielle pour la Valorisation du Cafe
SODECO	: Société de Déparchage et de Conditionnement
SOGESTAL	: Sociétés de Gestion des Stations de Lavage
SONICOFF	: Source of Nile Coffee
SRD	: Société Régionale de Développement
STTA	: Short Term Technical Assistance
TBD	: To be Determined
UK	: United Kingdom
U.S.A	: United States of America
USAID	: US Agency for Intenational Development
US\$: American Dollar
VC	:Value Chain
vs.	: Versus
yr	: Year

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1. Introduction

The Burundi Agribusiness Program (BAP) will place a high priority on support to Burundi's coffee sector and strengthening the coffee value chain. This need has been identified in the program's initial design and is founded on a set five driving factors. First, coffee is Burundi's principal export crop, averaging nearly 26,700 tons annually over the past 25 years, and it is the country's main source of foreign exchange at approximately 80% of total earnings. Second, there are an estimated 800,000 coffee producers in the subsector and coffee is the principal source of cash income for many of them. Third, the extent of coffee infrastructure is remarkable, with 150 washing stations and five dry mills dispersed throughout the coffee growing areas of the country. Fourth, the country's East African highland agro-ecology is ideally suited to produce one of the finest coffees in the world. Fifth, and finally, the government of Burundi is committed to making the changes necessary to unleash growth in the subsector by liberalizing economic policy and privatizing state-owned coffee infrastructure.

Thus, the purpose of this study is not so much to justify the importance of the coffee subsector to Burundi's economic future as it is to provide an analysis of the coffee value chain, with due attention to how coffee reform conditions this value chain, and to identify the main constraints to, and opportunities for, growth. On the latter point, the study will also set out a five year action plan and propose targets for how BAP will help to ensure that coffee will provide expanded employment and higher incomes to all stakeholders in the future.

The study is organized in the following manner. We begin with a summary of the study methodology for compiling data and stakeholder input. In Sections 3 and 4 we briefly describe the most relevant features of the subsector's historical context and new opportunities presented by changes in global coffee markets and industry trends. A focused analysis of the coffee value chain follows in Section 5, including review of the subsector profile and map, estimates of costs and value added at key stages of the value chain, and constraints to and opportunities for adding value through privatization, production, processing (wet and dry) and market development. The study concludes with a BAP proposed five-year action plan including a summary of levels of intervention required, the anchor project stepwise approach, primary and crosscutting components, and estimated growth potential and targets for improved coffee quality, specialty coffee market access, direct sales, higher prices and increased revenues to producers and other coffee stakeholders.

2. Methodology

The methodology employed in the development of this study involved several distinctive steps (summarized here below) including an initial background document review and analysis of the Burundi coffee subsector, a review of data both on global coffee exports trends and Burundi-specific trends, and extensive discussions and formal workshops with stakeholders in the coffee subsector including producers, wet and dry processors, government officials, exporters and specialty coffee buyers.

Background Review and Analysis. Our review and analysis draws on our accumulated knowledge acquired over the past 12 months through a series of stakeholder workshops, and the presentations and synthesis documents associated with these workshops in Burundi, largely in the context of the Sources of Growth initiative of the World Bank. Background

materials focused principally on Burundi coffee processing, marketing, structure/organization and operations. Also included are a set of documents prepared on the coffee subsector reform process being supported by the World Bank. Several members of the BAP coffee team were instrumental to the development of this initiative. Their engagement in this process is reflected in the present value chain analysis and action plan. Documents reviewed were supplied by the World Bank initiative. Others were obtained from sources such as the Eastern African Fine Coffees Association (EAFCA), OCIBU, SODECO, private sector exporters, and other individuals, projects and institutions in the coffee subsector. Insights into the Burundi coffee value chain are gleaned from a recent World Bank study of the Kenya coffee subsector, particularly those observations pertaining to Kenya's smallholder producers (as opposed to commercial plantations which have no parallel in Burundi).¹

Fieldwork. This study also draws on an intensive periods of fieldwork in Burundi conducted in December 2006, February 2007, May 2007, and December 2007. During these periods selected members of the Coffee Sector Reform Committee provided support as sources of technical information, a sounding board for observations and ideas, and in arranging a full program of meetings and field visits as needed. Key stakeholder in-country contacts included the Coffee Sector Reform Committee, Société de Déparcharge et de Conditionnement (SODECO), Coffee Washing Station Management Company (SOGESTAL), Office des Cultures Industrielles du Burundi (OCIBU), the East Africa Fine Coffees Association (EAFCA-Burundi), Interbank, the Coffee Business Export Association (ABEC) and the Confederation of Coffee Producers. Multiple visits have also been made to coffee washing stations, two private dry mills (SONICOFF and SIVCA), warehouses, numerous private coffee exporters and washing station owners, a coffee tender event at OCIBU, the Burundi Institute of Agricultural Sciences (ISABU), the Faculty of Agriculture at the University of Burundi, and other relevant coffee stakeholder sites/institutions.

The focus of these numerous stakeholder meetings and site visits was on the perceived constraints and opportunities for the transformation of Burundi's coffee subsector. In the interest of working toward a common vision and strategy for the future, stakeholders were also invited to share their aspirations for where the subsector could be in the medium term (10 years or so).

3. Analysis of Burundi Coffee Context

Burundi is among the smallest coffee producing countries in East Africa with a population of 7.6 million. Endowed with some of the most ideal conditions for coffee production, including elevations of 1500-2000 meters (5000-6600 ft.), arabica bourbon trees and abundant rainfall, approximately 800,000 households cultivate an average of 150-200 coffee trees as an integral part of their livelihoods. Arabica coffee now represents virtually 100 percent of Burundi's national production and is characterized by its naturally mild flavor profile prized by coffee consumers around the world. Over the past 25 years coffee production has averaged 26,700 tons.

In its history, the coffee subsector of Burundi has been managed under four different organizational structures: coercive under the Belgians until independence in 1962; completely

¹ *Growth and Competitiveness in Kenya*. World Bank Africa Region Private Sector Development Division. 2004.

private from 1962 to 1976; completely public from 1976 to 1991; and, undergoing privatization since 1991 (OCIBU, p.1).

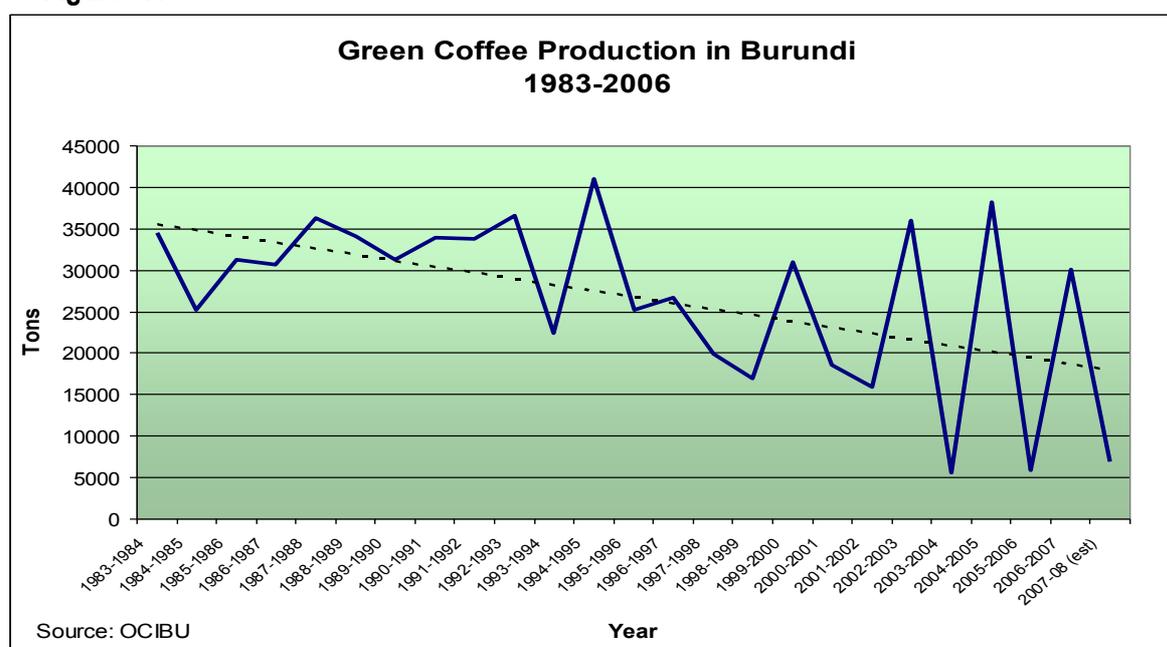
3.1 Infrastructure Expansion

From 1980 to 1993, Burundi invested heavily in the coffee subsector, engaging in an ambitious program, funded in part by the World Bank, of coffee washing station (CWS) construction and tree planting. The number of coffee trees increased from 90 million to, reportedly, over 220 million and Burundi constructed and equipped 133 strategically placed washing stations capable of producing consistently high quality fully washed coffee (Cochet, p.23). In recent years, SOGESTALS and private investors have built another 17 stations, bringing the total to 150 as of January 2008.

3.2 Trends in Coffee Production

The expansion of coffee cultivation to more than 4 percent of Burundi's land area, and investments in CWS construction did not, however, translate into the expected increases in production. (As the 220 million coffee tree figure does not equate with any of the other

Figure 3.1



production figures, it must be assumed that either the correct number of trees planted nationwide is much lower, but still significant, or the feeble production of trees planted in marginal and sub-marginal areas has not been factored into account.) Between 1983 and 2007, however, Burundi produced on average only 26,700 metric tons of green coffee annually – virtually the same as it was in 1959 and considerably less than the anticipated 60,000 tons per year. Equally noteworthy is the finding that coffee production in Burundi has actually declined over the 25 year period as shown in the trend line in Figure 3.1. Moreover, production levels have become increasingly variable over time, especially in the last 10 years, with 6:1 ratios from one year to the next (a problem addressed later in this study).

Initial Reforms

In 1992, the government of Burundi committed to undertake a limited privatization of the coffee subsector which included government withdrawal from direct management. Operational responsibility for the 133 government-owned CWSs was transferred to five regional public-private management companies, *Sociétés de Gestion des Stations de Lavage* (SOGESTALs), each one responsible for an average of 27 CWSs in one of the five coffee producing areas, Ngozi, Kayanza, Kirimiro, Kirundo-Muyinga, and Mumirwa. Since that time, coffee has been dry processed mainly by two large government owned dry mills managed by the *Société de Déparchage et de Conditionnement* (SODECO); each has the capacity to mill 30,000 tons from parchment. More recently, two smaller, privately and cooperatively owned companies have (SIVCA and SONICOFF) have come into operation with capacities to mill respectively 10,000 tons and 8,000 tons of green coffee. For the 2006-07 agricultural campaign SODECO milled 66.3% of Burundi's coffee, while SIVCA and SONICOFF milled 23.2% and 10.5%, respectively.

Also, starting in 1992, the coffee industry in Burundi was organized by OCIBU (Office du Café du Burundi) with a Board of Directors comprised of government officials, growers, processors and exporters. OCIBU is responsible for regulation, development and coordination of industry, coffee subsector policy and strategy. Prices paid to coffee producers for cherry are fixed and managed by OCIBU. Technically, this is the floor price for cherry but as a practical matter it tends to be a de facto ceiling price.

As these prices are deregulated through the reform process, the disappearance of a price guarantee starting in 2007-2008 has been accompanied by an increased risk associated with price variation. Increased risk to producers is one of the factors identified in recent official meetings as one of the factors contributing to farmer uncertainty about their future in a reformed subsector.

3.3 Auction/Tender System

The development of the open outcry auction system was implemented in 1991 as another early step in the coffee subsector reform process. The system replaced the state export monopoly and responsibility for the auction was given to OCIBU along with the charge of overall industry coordination and marketing. This evolved in 1991 into a weekly closed-bid auction or "tender" for only those exporters belonging to the Association of Burundi Exporters of Coffee (ABEC). Approximately 15 days before, coffee samples were sent to coffee buyers (exporters) for evaluation. All coffee was sold on stock lot samples, usually one container per load.

Then in 2005, as a reaction to a build-up of unsold coffee stocks at the time, the weekly export auction was modified to accelerate sales and to reduce finance charges. These changes also resulted in the legitimizing of direct sales outside of the tender system, however OCIBU retained regulatory control over such sales and if the proposed sale price was below a composite average tender price for that week OCIBU held authority to prohibit the sale. OCIBU managed the schedule for when coffees were sent to auction and set minimum asking prices predicated upon: 1) NY Stock Exchange C price at the close of business on Tuesday preceding tender, 2) quality and grade of coffee, and 3) interest/demand of various

buyers/exporters. When coffee is held back or bids are rejected then the owners of the coffee, normally SODECO or other dry mills absorbed any related costs (Burundi 2003). Through the weekly tenders coffee was sold in 300 bag lots (18,000 kg -1x20' container). Exporters received bids from their buyers prior to the tender. If an exporter won the lot for a buyer, a confirmation was sent to the buyer and a sales contract was executed. Upon receipt of signed contracts, a maximum of 20 days was permitted for OCIBU to deliver the coffee to Dar es Salaam for loading and shipment pursuant to the buyer's instructions.

3.4 Recent Reforms and Recovery

The following actions were taken in early 2005 in the context of deregulation and privatization of the industry:

- ❖ January 14, 2005 □ Presidential decree deregulates access to the coffee subsector;
- ❖ January 19, 2005 — Enlargement of the Consultative Committee on the Commercialization of Coffee to include representatives from OCIBU, SOGESTALs, farmers, Ministries of Agriculture, Finance, and Commerce and Industry, dry mills, exporters, the BRB, and the Association of Commercial Banks.
- ❖ March 2005 — Suppression of government guarantee to banks for lending to OCIBU for coffee cherry purchasing
- ❖ June 8, 2005 — Ministerial decree stipulates that OCIBU will be coordinating and regulating agency from that point forward.
- ❖ June 16, 2005 — Decree opens coffee subsector to any business interest, deregulates prices for cherries and washed parchment, authorizes direct export sales without prior authorization, i.e., sales need not go through OCIBU.
- ❖ Suppression of plantation tax, long imposed on producers not providing the matching/corresponding services (Draft Int'l Alert, p.4; OCIBU, p. 5).
- ❖ May 1, 2007 □ Presidential political policy statement which is not yet translated into a binding legal document. Presidential declaration confirms that coffee producers are the owners of the coffee they produce.

Some of these decrees are landmark decisions, notably for the inclusion of producers in the enlarged Consultative Committee and the liberalizing of direct export sales. But little has happened on the ground in the past year in terms of transferring coffee infrastructure to the private sector.

There are several new and encouraging developments in recent months suggesting that the GOB remains committed to coffee reform. These changes include:

- ❖ Termination of the OCIBU auction system in 2007 for coffee sales in favor of a “transitional” contract with a U.S.-based marketing agent (Mushinski). This contract has resulted in direct sales to companies such as the Hamburg Coffee Company in Germany. While this has raised a great deal of concern among some stakeholders (who see it as a “back room” deal), it also represents a significant step forward in terms of removing OCIBU from the established marketing system.
- ❖ Several direct sales contracts have been executed in recent months without interference from OCIBU.
- ❖ SOGESTALs have developed their own auction systems for 2006-2007 sales of some portion of their coffee. This has occurred outside of the Mushinski contract.

4. Summary of Global Market Trends, Growth in Specialty Coffee and Regional Producer Prices

This section summarizes some of the challenges and opportunities faced by Burundi with respect to recent global market trends, development of the specialty coffee industry and producers and producer prices in Burundi.

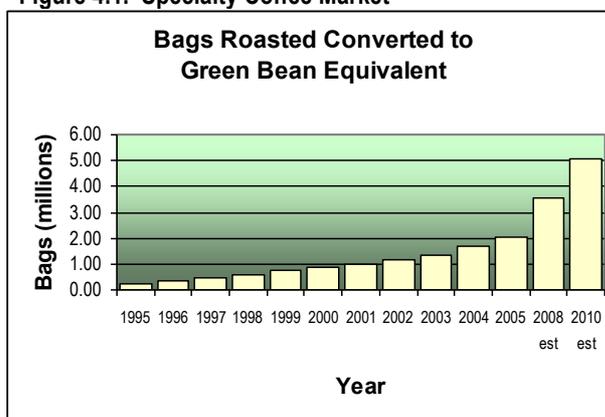
4.1 Global Market Trends

Coffee is the most heavily traded agricultural commodity in the world. It fuels the economies dozens of producing countries. Traditional markets for lower grade “commodity” coffees (mostly robusta coffees) that are used to make soluble coffee (<10%) or are blended and marketed as fresh coffee by the major coffee roasters such as Maxwell House and Folgers continue to grow, albeit at a slow pace, 1-2% per year. By contrast, specialty coffee markets dominated by high quality arabicas, are dynamic and growing rapidly. In the U.S., specialty coffee is a \$20 billion per year industry and is growing at 9 percent annually. Globally, consumption of specialty coffee is on the rise, climbing both in producing countries, as well as in the expanding markets of China, Russia and Japan. For example, between 1998 and 2003 specialty coffee sales in China grew 90 percent. The fresh market in Russia is predicted to grow by 36 percent in volume by 2009. In direct response to domestic and global growth opportunities, Starbucks, the world’s largest specialty coffee roaster/retailer, estimates its roasted coffee volume to grow from 2.05 million bags in 2005 to 5.1 million bags in 2010 (see Figure 4.1). Projecting today’s growth rates into the medium term future we can estimate that the growth of specialty markets will double over the next seven years.

What is unique about the specialty coffee market is that prices are closely tied to quality. Higher quality arabicas from East Africa often fetch a premium of 25% to 100% or more over commodity coffees sold on the New York “C” market (based on recent experience from Rwanda). Exemplary single origin specialty coffees are known to sell for 4-5 times the going “C” price as seen in the Rwanda “Golden Cup” competition and auction in August 2007. What is important for the present study, is for us to recognize

that specialty coffee has the potential to provide a major source of economic growth for Burundi, just as it has for Kenya, Costa Rica, Guatemala and, more recently, Nicaragua and Rwanda. Further, the global trends in specialty coffee consumption and sales look promising.

Figure 4.1. Specialty Coffee Market



4.2 Specialty Coffee Industry Focus on Quality

Origins of specialty coffee range broadly from South America (43%), Central America (36%), Africa (14%) and Asia (7%). In all producing countries within these origins, the primary trend is toward increased focus on the quality of specialty coffee. For all coffee

producing countries, Burundi included, producing a high quality coffee is the starting point for accessing specialty coffee markets.

As an industry, specialty coffee includes a wide range of coffee □ from exemplary coffee or supremely good single origin coffee at the top, to standard specialty offerings retailed as straight origins or blends. At either end, quality means producing coffees that generate both financial reward (premia) and repeat business, thereby enhancing the market security of the seller. The trademark of an exemplary coffee is its stand-alone reputation. It is retailed under a straight estate or origin name and is designed for knowledgeable customers prepared to pay very high prices for the “right” coffee. Often characterized by its limited availability and usually cosmetically perfect beans, exemplary coffees are often accompanied by background farm stories and an authentic traceable origin. Examples of such coffees are Costa Rica Tarrazu, Nicaragua Las Hermanas and Guatemala Antigua El Valle. At the opposite end of the spectrum, standard specialty coffees may also refer to medium quality coffees, well presented but not necessarily cosmetically perfect and often purchased less for its unique identity and more for their capacity to enhance a coffee blend.

Differentiating coffee quality can be accomplished at various stages during production and processing. Indeed, quality differentiation of fully washed arabica coffees from pre-season field preparation to container delivery is increasingly recognized as the single most important ingredient in adding value in specialty coffee markets. As discussed in Section 5 of this study, opportunities to improve quality may be found to exist in agronomic practices such as organic production, mulching/pruning, picking and selecting cherries, transport time to washing stations, and integrated pest management. They may also be found in dry processing procedures such as parchment/testing, hulling methods/heat convection, polishing methods, density vs. catador grading, green coffee classification/sorting, storage temperature/humidity cupping capabilities, sampling techniques, traceability systems, cupping training, and so forth.

As will be shown in our value chain analysis in the following section, coffee production and processing in Burundi is currently not placing an emphasis on meeting the demands of specialty coffee markets for high quality coffees. The absence of needed incentives for improving coffee quality as well as quantity (tied to continuing state ownership of coffee infrastructure) and a lack of specialty coffee market development are the two major reasons for Burundi’s inability to produce and market high quality coffees.

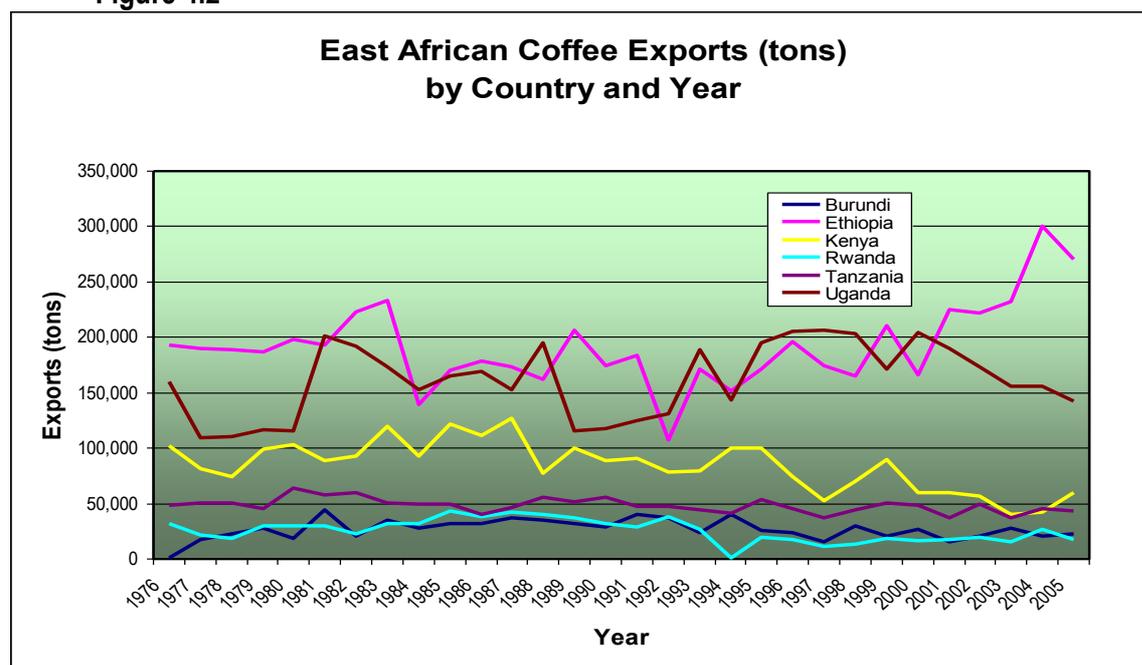
4.3 Regional Comparison of Coffee Production and Producer Prices over Time

Understanding the coffee value chain is enhanced through a regional comparison of coffee production and producer prices over time. The International Coffee Organization (ICO) maintains data on coffee exports and other variables for most coffee producing nations around the world. Collectively, East Africa coffee producing countries now produce approximately 9.5 million bags of coffee per year, or 8.6 percent of the world’s total 106 million bags, based on 2005 data.

In general, all of the East African countries compared had similar policies from the 1963 inception of floor and ceiling price fixing by the International Coffee Agreement up until its suspension in 1989. All of the countries, except for Uganda, which produces primarily *robusta*, a lowland coffee, produce and market *arabica* coffee.

From the ICO data base we have, in Figure 4.2, compiled a regional comparison of coffee exports from neighboring East African countries from 1978 to 2005 (most recent year available). While these data are helpful in understanding the broader context of coffee exports in the region we are careful to recognize potential shortcomings in how they are collected and reported. Presumably they are the figures reported by the coffee authorities in each country but there is much room for inconsistencies in how they are defined and measures used from one country to the next. Are these the factory gate prices? Farm gate prices? Are they derived from prices paid for cherries? For artisanally-prepared parchment? For sun-dried naturals?

Figure 4.2



There is considerable variation in East African countries in the volume of coffee exported, but overall we conclude that coffee producers of East Africa have struggled to meet expectations. Of the five countries, Uganda is the only one whose primary export is *robusta coffee*, a variety high in caffeine and low in acidity. In general, *robusta* is considered inferior to *arabica* and not usually sold as a specialty coffee although good quality *robusta* finds a ready market, at low prices, with espresso producers in the Mediterranean. Uganda is currently planting more *arabica* in its western highlands but it will be some time before the quality of the new production becomes a factor in the world market.

Ethiopia, the largest volume producer of coffee in the region, is slowly liberalizing its coffee market, long characterized by the very strictest of government controls. Individual cooperatives are now permitted to sell outside of the government auction system. While much of the production is fully-washed, the coffee washing stations suffered during the later years of the DERG regime, particularly the 1984-1992 period, and are now receiving the necessary investments to make them more competitive. Ethiopians consume about half of their country's production which helps to stabilize the market.

Kenya was respected as the producer of the highest quality coffees in the 1980s and 1990s but due to corruption, the large cooperatives that controlled production and processing went broke and fell apart at the end of the Moi era. Production fell from an average of about 2 million bags in the mid 1980s to less than 1 million bags in 2002-2005. Production by small-holders fell from about 70 percent of the market to 40 percent while production by large private plantations rose to about 60 percent of the market. Although the coffee subsector has been officially liberalized, the government has continued to intervene, most recently in requiring that a certain percentage of coffee exports had to be shipped roasted and packaged. It will be difficult for Kenya to regain its former prominence as the specialty market has moved on and identified and sourced other coffees with similar flavor profiles (von Zastrow as quoted in Annex to Rapport de l'Atelier de Haut-Niveau sur Café Burundais, March 2005.)

Tanzania has also seen fluctuation in coffee production since independence. The government still plays an important role in production and marketing but has officially proclaimed a program of liberalization. Farmers complain about late payment and lack of inputs but some Tanzanian coffees are selling very well in the specialty market; this success is encouraging to new investors.

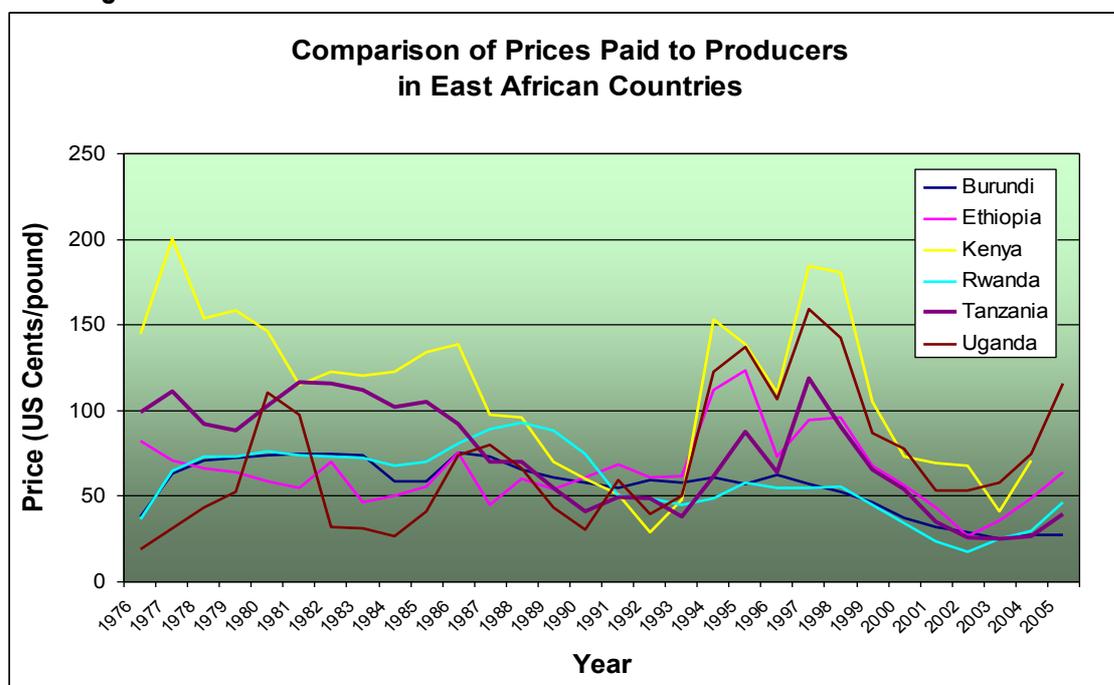
Rwanda is the most prominent success story in the region. In 2001, the government proclaimed a completely liberalized coffee subsector. Several programs funded by USAID began promoting the construction of washing stations and the production of specialty coffee, meticulously hand-sorted and cupped. A number of the coffees produced by small-holder cooperatives have established relationships with small, specialty roasters in the U.S. and Europe and have been receiving relatively high prices for their production. In 2006, close to a thousand metric tons of fully-washed coffee was sold into the U.S. specialty and gourmet markets at prices averaging \$2.00/lb. In spite of the liberalization program, however, the government coffee authority continues to intervene in the system by setting floor prices for cherries and supplying inputs to farmers. Both activities have distorted the coffee market. The banking system is weak and the government has been forced to intervene with the commercial banks to guarantee marketing loans to cooperatives for cherry purchases.

It is especially revealing to follow the trends, post-1989, in Figure 4.3, which provides a comparison of prices paid to producers in East African countries. While the five producers all bottomed out in the four years after the end of the International Coffee Agreement in 1989, Kenya, Uganda, Ethiopia and Tanzania all showed improvements in producer prices that correspond with the Brazilian frost of 1994 that saw increases in coffee prices in all of the commodity markets. Rwanda and Burundi, plagued by serious political difficulties, showed no change in producer prices over the same period of time. In 1999, the producer prices in all five countries went into free-fall again and did not show signs of recovery until 2004. Rwanda and Burundi seem to have the lowest producer prices in the region from 1994 to 2004. That distinction is now held exclusively by Burundi as Rwanda's new found success in coffee has been visible in a jump in prices paid to farmers starting in 2003. We expect that 2006 prices in Rwanda will contain a significant rise again as a result of the subsector's continuing transformation.

We note that the prices reported do not fully correspond to our understanding of the Burundi situation in which OCIBU sets a producer floor price every two years for cherries delivered to the CWSs. The price for 2003 and 2004 was FBu 120/kg. In mid-season 2004, OCIBU paid a further return of FBu 30/Kg due to a big jump in New York "C" prices—this was the

first time such a supplementary payment had been made since 1994. In 2005 and 2006, the producer price for cherries was set at FBU 200/Kg but this is not yet reflected in the ICO data. In 2007 it has been set at 250FBU/Kg. Despite these recent improvements in producer prices it is clear that, historically, and in particular since the early 1990's, Burundi's producers have been among the lowest paid in all of East Africa. This translates into low incentives for farmers to improve the quality and quantity of the coffee they produce.

Figure 4.3



5 Coffee Value Chain Analysis

In this section we look closely at the players and steps in the coffee value chain with an eye to identifying key constraints and opportunities for development of the value chain. We begin the analysis with the current profile of the coffee subsector in Burundi, followed by a series of “value chain maps” that document the flow of coffee from production to sales, accounting for differences in processing (fully washed vs. washed), degree of vertical integration, destination markets, among others. We add to our understanding of the value chain with an analysis of the estimated costs at each stage. We finish with a discussion of the constraints and opportunities identified at each stage for adding value and to achieving growth and sustainability to the value chain.

5.1 Profile of the Burundi Coffee Subsector

Table 5.1 provides us with an overview profile of the coffee subsector through each stage of the value chain plus a summary of coffee producer organization in Burundi.

Production. Based on reports received from the various stakeholders in the coffee sector over the five year period 2002 - 2006, Burundi has more or over 800,000 growers maintaining more or less 200 million coffee trees on an approximate area of 70,000 hectares.

Producers manage small plots typically not exceeding 150 to 200 coffee trees. Arabica coffee, grown an average altitude of approximately 1700 meters is found in three main varieties: Bourbon, Mibirizi and Jackson. Average cherry production is estimated at estimated at 128,200 tons, or 20,000 tons of green coffee.

Wet Processing. The majority of Burundi's coffee (roughly 80 percent) cherry harvest is processed through coffee washing stations that produced higher quality, "fully washed" coffee. The remaining 20% is processed manually by producers through local the "manual pulping centers" to produce what is known as "washed" coffee. Fully washed coffee is processed at the country's 150 washing stations including: 133 owned by the state and managed by the SOGESTALs, 8 stations recently built and independently owned by the SOGESTALs, and 9 stations also recently built and operated by private operators. All of these stations spread across Burundi's coffee growing areas; they are located an average of about 17 km from a paved road and are typically located within 3-5 km (by foot) from the producers that use them

Dry Milling. Fully washed and washed parchment is processed at two public (SODECO) mills, one in Bujumbura and the other in Gitega, as well as by two private milling companies: SONICOFF in Bujumbura and Gitega and SIVCA in Ngozi. All of these mills operate in collaboration with the OCIBU's quality control laboratory in Bujumbura. The total dry milling capacity of these mills is approximately 78,000 tons, though only 20,000 tons are processed in an average year.

Coffee Sales. Up until 2006 coffee sales were organized almost exclusively by OCIBU through its weekly auction. However, since the 2007-2008 production year, 99% of Burundi's fully washed coffee has been sold through contract with a US based importer, with less than one percent finding a direct sales outlet. By contrast, washed coffee is now sold through an open bid system run by the dry mills. On average annual coffee sales generate approximately \$US 38 million. Markets for Burundi coffee in recent years include Switzerland (50%), UK (20%), Belgium (15%), and various other countries (15%).

Producer Organizations. Over the past four years producer associations have begun to reinforce their level of organization around their respective coffee washing stations under SOGESTAL management. This has been, in part, the result of actions by OCIBU and INADES in the creation of a united producer movement since 1996. Today, more than 120,000 producers (17% of all coffee growers) are grouped in producers' Unions linked to the 133 state owned washing stations. These unions are organized into five regional federations coincident with the SOGESTALs. These, in turn are organized under a national level confederation, the *Confédération Nationale des Associations des Producteurs Café*, CNAC.

Table 5.1. Burundi Coffee Sector Profile

Producers and Production		
Number of households growing coffee	800,000	producers
Estimated coffee cherry production (5 yr avg, 2002-2006)	128,200	tons
Current green coffee production (5 yr avg, 2002-2006)	20,000	tons
Current land in coffee	70,000	ha
Average yield	286	tons/ha
Coffee varieties: arabica (Bourbon, Jackson, Mibirizi)	100	%
	1,200-	
Altitude range	2,000	m
Altitude average (est from CWS elevation)	1,670	m
Wet Processing (fully washed and washed parchment coffee)		
Estimated avg parchment coffee production (5 yr avg, 2002-2006)	25,640	tons
Washed parchment coffee (depulped and dried on farm)	22	% of total parchment
Fully Washed parchment coffee (processed at washing station)	78	% of total parchment
Total number of washing stations	150	
State owned	133	
SOGESTAL owned	8	
Privately owned	9	
Estimated capacity of CWSs (tons of cherry)	150,000	tons
Storage Capacity (30-250 tons)	88	tons avg
Distance to paved road	17.58	km
Estimated avg distance traveled by producers to CWS	3-5	km
Dry Processing		
State owned		
SODECO (Bujumbura, 30,000 tons capacity)	5,783	tons/year average
SODECO (Gitega, 30,000 tons capacity)	7,478	tons/year average
Privately owned		
SIVCA (Ngozi, 10,000 tons capacity)	4,643	tons/year average
SONICOFF (Bujumbura and Gitega, 8,000 tons capacity)	2,095	tons/year average
Marketing Channels and Sales		
Total Revenue from coffee sales (5 yr avg)	38,000,000	\$US/year
Auctions/contracts	99	%
Direct Sales	1	%
Principal markets (approximate over past 5 years)		
Itzerland	50	%
UK	20	%
Belgium	15	%
Netherlands	4	%
Germany	3	%
North America	3	%
Other	5	%
Total	100	%
Coffee Producer Organizations (CNAC)		
Number of producers with formal assoc membership	120,000	(~17% of coffee producers)
Number of producer associations (colline)	2,136	(sur les collines)
Number of producer unions (CWS level)	133	(1 par CWS de l'etat)
Number of producer federations (SOGESTAL level)	5	(1 par SOGESTAL)
Number of producer confederations (National level)	1	(based in Bujumbura)
Coffee Research Facilities		
ISABU	100,000	\$US/year

5.2 Coffee Value Chain Map

This section of the analysis presents three value chain maps for fully washed coffee in Burundi, according to their chronological sequence. We begin with the value chain as it was prior to the start of the liberalization process, notably the system in place through the 1980s. Our second map presents that coffee value chain as it was through the early stages of liberalization, starting in 1990 through 2006. Third, we include a map that demonstrates the present value chain, as it begins to emerge in recent years, including direct sales to coffee buyers and a changing role played by OCIBU. It is important to recognize that the coffee sector continues to change rapidly as the privatization process plays out and direct specialty coffee market access becomes a reality. Taken together these three maps help to show the evolution of the value chain over time and the direction it is heading into the future.

5.2.1 Value Chain Map Before the Liberalization

The Burundi value chain as it was before liberalization is mapped in Figure 5.1. Major characteristics of the value chain at during that period are as follows:

Production. OCIBU assured the training/extension in support of all aspects of production at the grassroots level through country development projects (*Projects and Societes Regionales de Developpement (SRD)*).

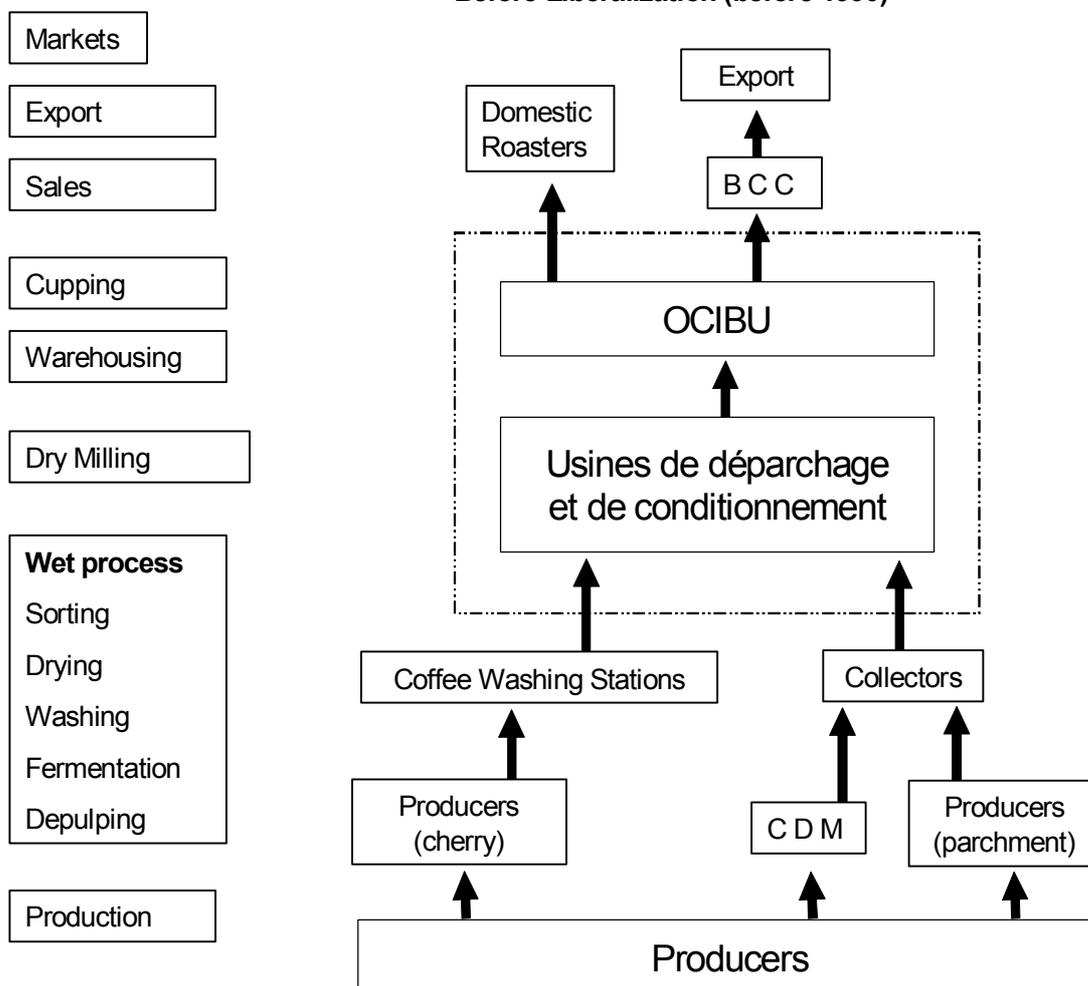
Wet Processing. Fully washed coffee was processed in state owned washing stations under management of projects and the SRD. Washed coffee was wet processed by the Centres de Depulpage Manuel (CDM), particularly in areas where there were no washing stations. Parchment from washed coffee, including that from coffee refused by the washing stations for not meeting standards, was sold to rural collectors at designated trading centers.

Dry Processing. All parchment was dry milled by the state owned facilities under the coordination of OCIBU.

Quality Control. OCIBU ensured quality control through its laboratory in Bujumbura.

Sales. A state run coffee company, the Burundi Coffee Company (BCC), held a monopoly on *arabica* coffee sales. OCIBU roasted coffee for domestic sales at its Bujumbura facility.

Figure 5.1. Burundi Coffee Value Chain Map
Before Liberalization (before 1990)



5.2.2 Value Chain Map at the Start of Liberalization

The Burundi value chain as it was at the start of liberalization is mapped in Figure 5.2. Major characteristics of the value chain at during that period are as follows:

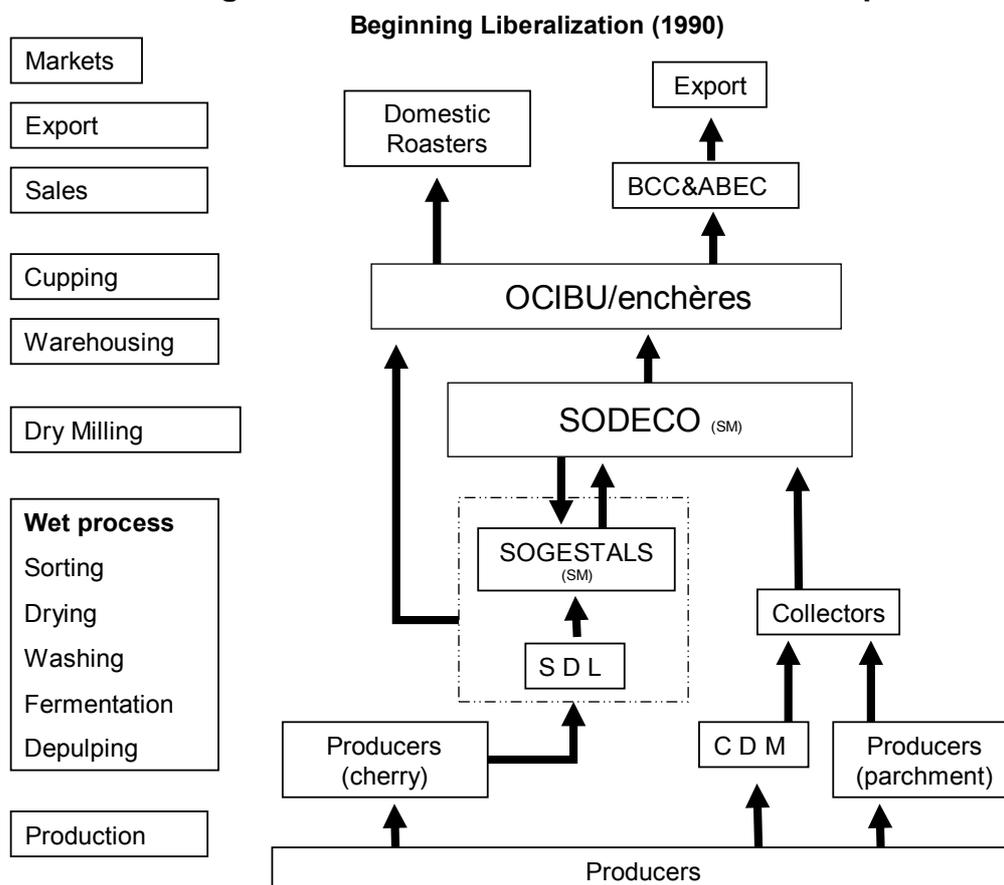
Production. OCIBU assured the training/extension in support of all aspects of production at the grassroots level in collaboration with the DPAE (Direction Provinciale de l'Agriculture et de l'Elevage).

Wet Processing. Fully washed coffee was processed in state owned washing stations under management of the Sociétés de Gestion des Stations de Lavage (SOGESTALs) which are mixed public-private companies. Washed coffee was wet processed by the Centres de Depulpage Manuel (CDM), particularly in areas where there were no washing stations.

Parchment from washed coffee, including that from coffee refused by the washing stations for not meeting standards, was sold to rural collectors at designated trading centers.

Dry Processing. All parchment (fully washed and washed) was dry milled by the state owned facilities managed by the Société de Déparçage et de Conditionnement (SODECO).

Figure 5.2. Burundi Coffee Value Chain Map



Quality Control. OCIBU ensured quality control through its laboratory in Bujumbura and a satellite installation in Gitega.

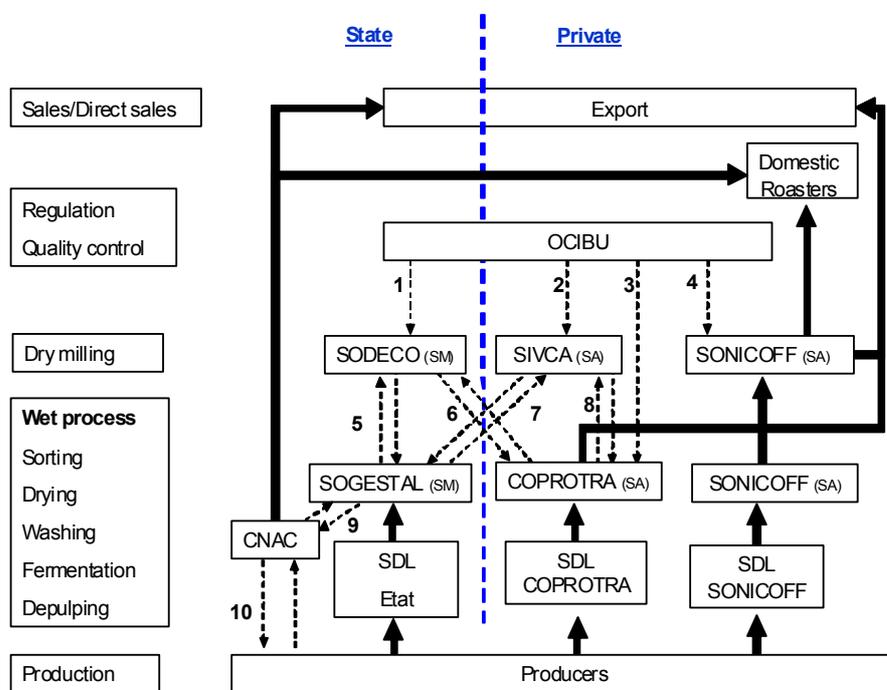
Sales. Green coffee was sold through an auction system organized by OCIBU. It was purchased by ABEC (Association Burundaise des Exportateurs du Café) and the BCC. OCIBU roasted coffee for domestic sales at its Bujumbura facility. Other local roasters emerged.

5.2.3 Value Chain Map “Current Situation”

The Burundi value chain after liberalization is mapped in Figure 5.3. Major characteristics of the value chain at during that period are as follows:

Production. OCIBU assures the training/extension in support of all aspects of production at the grassroots level in collaboration with the DPAE (Direction Provinciale de l’Agriculture et de l’Elevage) and the Confédération Nationale des Caféculteurs (CNAC).

Figure 5.3. Burundi Fully Washed Coffee Value Chain Map: Current Situation



Notes sur les rôles des différents acteurs de la chaîne de valeur et leurs relations	
1. Contrôle de qualité entretien du patrimoine aval pour le financement	9. CNAC confie la gestion du crédit de campagne à la SOGESTAL pour achat de cerise et sa transformation SOGESTAL organise la réception de cerises et leur transformation
2. Contrôle de qualité aval pour le financement	10. Représentation des producteurs plaidoyer sensibilisation, encadrement des producteurs gestion des intrants (engrais, produits phytosanitaires et du matériel...) contribution à l'organisation de campagne de taille et de traitement phytosanitaire négociation de crédit de campagne pour compte des producteurs avec l'aval de l'OCIBU.
3. Contrôle de qualité aval pour le financement	- Négociation de contrat de vente du café
4. Contrôle de qualité aval pour le financement	
5. SOGESTAL apporte la parche SODECO preste le service de départage et de conditionnement	
6. COPROTRA apporte la parche SODECO preste le service de départage et de conditionnement	
7. SOGESTAL apporte la parche SIVCA preste le service de départage et de conditionnement	
8. COPROTRA apporte la parche SIVCA preste le service de départage et de conditionnement	

Wet Processing. Fully washed coffee is processed under SOGESTAL management in 133 state owned washing stations and nine SOGESTAL-owned washing stations. Eight privately owned washing stations are also in operation including those of Source of the Nile Coffee (SONICOFF) and the *Compagnie pour la Production et la Transformation du Café* (COPROTRA).

Dry Processing. Parchment (fully washed) from the SOGESTALS and (washed) from the CDM and other sources is dry milled by the SODECO plants in Bujumbura and Gitega. Private dry mills, notably the Company for Industrial Exploitation Coffee (SIVCA) in Ngozi and SONICOFF in Gitega and Bujumbura now mill all of the coffee from the private washing stations and even some produced by the SOGESTALS.

Quality Control. OCIBU ensures quality control through its laboratory in Bujumbura and a satellite installation in Gitega.

Sales. Coffee is sold successively a range of mechanisms but still primarily to commodity markets. This includes commodity market contracts, SOGESTAL organized auctions under contract with CNAC with full participation from ABEC, and a small but growing volume sold directly to specialty coffee buyers/roasters, particularly from the private coffee companies. SONICOFF has become increasingly vertically integrated with ownership of wet mills, dry mills and direct marketing channels in European and US specialty markets.

5.3 Estimates of Coffee Value Chain Costs

Estimates of the costs associated with each stage in the coffee value chain are not easy to determine for Burundi. The coffee subsector has for so long been managed by the government of Burundi (OCIBU, SOGESTALS, etc.) that the true costs are not reflected in the revenues provided by the state at each stage. For example, the prices paid to producers for their cherry is fixed more or less arbitrarily by OCIBU each year. Historically, as we saw in Section 3, this price has been set as one of the lowest in all of East Africa, and has only recently been increased due to pressures from international donors and to curb the “leakage” of coffee to Rwanda where prices are higher. The government-set prices do not reflect the actual cost of production to farmers. Another example is the price set for dry processing at 115 FBu/kg. This is reported to be vastly higher than in other countries and is undoubtedly based on the cost of dry milling determined by SODECO, an extremely inefficient operation due to the fact that its two mills operate vastly under capacity every year.

Thus, there is a need to for an accurate empirical accounting of the true costs of production, processing and marketing of coffee in Burundi. Short of this, we are able to make a reasonably good estimate of costs based on available documents and focused interviews with informants in the SOGESTALS, OCIBU, SODECO and other value chain actors, as well as individuals in the competing private sector wet and dry processing companies. One important document is the World Bank Growth and Competitiveness in Kenya value chain report cited earlier. The other is the recent (August 2007) coffee sector cost of production analysis/audit conducted by AD Experts-Conseil.

Based on these diverse sources and materials we have estimated the costs of each of the steps in Burundi’s coffee value chain. These costs, summarized in Table 5.2, correspond to coffee produced, processed and marketed through the country’s predominant (>90%) value chain (producers → SOGESTALS → SODECO → OCIBU) which accounts for over 90% of the coffee produced in Burundi. We focus on this chain not only because it is the highest volume, but because it is the chain that is the target of our privatization efforts under BAP. Discussions with some of the players in the smaller, private sector controlled value chains are also useful for estimating what some of the costs “could be” once the privatization process has been completed.

Overall, the estimated costs of key stages of the coffee value chain are tied to the specific activities and technologies applied at each stage. Our estimates, as shown in the table are as follows: production (74%), wet processing (13%), dry processing (10%) and marketing (3%). More specifically, costs associated with each of these major value chain stages are described as follows.

Nearly three-fourths of the costs incurred throughout the coffee value chain are found in the production stage, comprised roughly of the following activities and costs:

- ❖ Plant production (nursery), planting (25%);
- ❖ Maintenance of coffee plantations including plant disease control through fertilizer use (45%);
- ❖ Harvest (15%);
- ❖ Transport to the washing station or depulping center (10%);
- ❖ Technical assistance and training paid from OCIBU budget (4%);
- ❖ ISABU coffee research activities paid by OCIBU (1%).

Wet processing activities include:

- ❖ Depulping, washing and fermentation (48%);
- ❖ Drying and sorting of parchment (28%);
- ❖ Maintenance of infrastructure (12%);
- ❖ Warehousing, property/equipment rental (patrimoine paid by OCIBU) and transport to dry mill (12%);
- ❖ Interest on presales financing paid by SOGESTALS to purchase cherry from producers.

Major dry milling activities and costs include:

- ❖ Deparching, grading and polishing (60%);
- ❖ Hand sorting of green coffee (33%);
- ❖ Warehousing, SODECO property/equipment rental (patrimoine paid by OCIBU) and transport to dry mill (7%).

Finally sales of coffee constitute a set of costs for marketing/auction, warehousing, port fees, communications, quality control/regulation, port and shipping fees and statistical documentation.

Table 5.2. Burundi Coffee Value Chain (fully Washed)*

(FBU/lb green coffee)

TOTAL	100.0%	1100
Production	74.0%	814
↳ 25% Planting and mulching		↳ 204
↳ 90% Labor		↳ 183
↳ 10% Inputs		↳ 20
↳ 10% Spraying and fertilizing		↳ 81
↳ 15% Labor		↳ 12
↳ 85% Inputs		↳ 69
↳ 35% Plant maintenance		↳ 285
↳ 15% Harvesting		↳ 122
↳ 10% Transport		↳ 81
↳ 4% Training/extension (paid by OCIBU)		↳ 33
↳ 1% Research (paid by OCIBU to ISABU)		↳ 8
Wet Processing	13.0%	143
↳ 47% Pulping, fermentation, soaking)		↳ 67
↳ 50% Labor		↳ 34
↳ 45% Electricity, Fuel, Water		↳ 30
↳ 5% Equipment (pulpers, pumps, etc.)		↳ 3
↳ 27% Drying & Sorting		↳ 39
↳ 90% Labor		↳ 35
↳ 10% Equipment (drying tables, netting, plastic, etc.)		↳ 4
↳ 11% Maintenance		↳ 16
↳ 42% Buildings/tanks/canals		↳ 7
↳ 32% Machinery (depulper, pumps, etc.)		↳ 5
↳ 26% Drying tables		↳ 4
↳ 5% Property Lease (patrimoine CWSs paid by OCIBU)		↳ 7
↳ 1% Warehousing		↳ 1
↳ 5% Transport to dry mill		↳ 7
↳ 4% Interest on presales financing (paid by SOGESTALS)		↳ 6
Dry Milling	10.0%	110
↳ 60% Deparching/grading/polishing		↳ 66
↳ 33% Handling		↳ 36
↳ 5% Property Lease (patrimoine SODECO paid by OCIBU)		↳ 6
↳ 2% Transport to warehouse		↳ 2
Sales	3.0%	33
↳ 33% Handling/warehousing		↳ 11
↳ 5% Auction		↳ 2
↳ 2% Port fees		↳ 1
↳ 60% Other (QC, sampling, regulation, statistical reporting, etc.)		↳ 20

*Assumes average production year of 16,000 tons fully washed green coffee

5.4 Constraints and Opportunities for Adding Value

5.4.1 Privatization of Coffee Value Chain

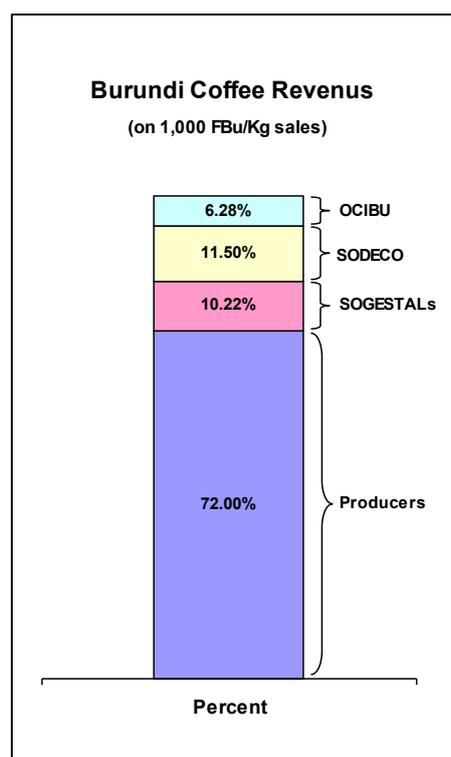
One of the more revealing conclusions emerging from our analyses of the Burundi coffee subsector and value chain presented above is that despite the extraordinary investment in coffee washing stations and dry mills in Burundi through the 1980s there was no appreciable growth in the volume of coffee produced. Increased production was one of the most important justifications for the intensive coffee infrastructure investments made at the time. Our interpretation is that the investments resulted in significant increases in coffee sales prices as it enabled Burundi to offer to the market “fully washed” coffee instead of only

washed coffee, resulting in an average price differential at the weekly OCIBU tender in the range of 15-20 percent. We note that in Rwanda the differential is similar for average quality coffees and up to 100% or more for high quality coffees sold directly to buyers.

But clearly the value added in shifting to fully washed coffee has historically been captured entirely by intermediaries in the value chain, notably the SOGESTALS, the dry mills (SODECO), and OCIBU. None of the value added in the fully washed process has ended up in the hands of the producers. The figure to the right shows the typical percentage of coffee revenues (based on sales at 1000 FBU/Kg) that has gone to producers and each of the major intermediaries in the value chain. This

allocation of coffee revenues is largely fixed by Government of Burundi as the manager of the subsector. By not including farmers as beneficiaries of the investments in coffee infrastructure there has been little incentive for to produce either more coffee or coffee of higher quality. Indeed their production has shown an overall gradual decline over the past years. This is one of the first things that must be in the future if Burundi hopes to produce more higher quality coffee for the specialty market. placing coffee washing stations in the hands of producer cooperatives, thereby enabling them to capture the value added by wet processing is way to improve returns to the producers.

Another is simply to pay competitive prices for coffee cherry, which is what can be done by privately owned CWSs. Reforming the process setting cherry prices or allowing prices to be set open market competition will be required before producers will consider investing their labor, and cash for inputs into higher quality and higher volume coffee production.



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Steps toward liberalization and privatization of the subsector represent a precondition for the development of a modern coffee subsector, one that emphasizes high quality coffee for direct sales to buyers/roasters. Other regional coffee producing countries (Tanzania, Kenya, Uganda, Ethiopia, and most recently Rwanda) have surpassed Burundi in accessing these markets as Burundi remains mired in a traditional system developed around the conventional concept of “coffee commodity trading.” This is the overwhelming experience of many of the key stakeholders in Burundi’s coffee value chain.

While the reform process has been slow to take shape over the years of civil strife, Burundi is now committed and moving forward with some of the most important steps of the liberalization and privatization, most notably the sale of the subsector’s major assets. We believe that the delay may have a “silver lining” in that privatization now will occur in a way that will take account of new developments in the coffee industry, most notably the rapid ascent of specialty coffees and direct sales opportunities □ developments that are only now becoming fully recognized and integrated into the subsector strategies of some of the worlds oldest and most respected coffee producers (Brazil, Columbia, and others).

At the same time, the delay may be fortuitous in that Burundi has in recent years, starting in 1996, seen the growth of local coffee producer organizations. There are now over 120,000 coffee growers organized into 2,136 producer associations, associated with 133 coffee producer unions (directly linked to washing stations), and coordinated by five federations (paralleling to the SOGESTALs) under the umbrella of a Coffee Producer Confederation. What is especially important about this coffee cooperative movement in Burundi is that it plays directly into the new developments in the global specialty coffee industry. In short, this is an industry that, increasingly by consumer demand, requires high quality coffees and looks to “put a face on coffee,” moving it from commodity status to a traceable, personalized status that gives the producers and their communities a fair price and broader recognition for their success in producing quality coffees.

Coffee cooperatives in neighboring Rwanda, the Maraba Cooperative for example, provide Burundi’s farmer associations with some important lessons for how to use the power of their newly found status and growing inertia to mobilize and secure a place in these specialty coffee markets. Moreover, as described in the International Alert (2006, p. 13), Burundi’s coffee associations have over time split into progressively smaller associations of “hillside neighbors.” From the perspective of specialty coffee traceability these smaller associations will offer Burundi an important opportunity for producing smaller, high value lots of coffee with distinct flavor profiles and a highly “marketable face.”

We discuss below the challenges and opportunities for making specialty coffee markets more accessible, but one of the most important steps to this developing these markets is the establishment of a reformed, privatized system for wet and dry processing. Currently, the SOGESTALs control the vast majority of the country’s washing stations. They draw a profit from the more or less “fixed” share they receive from the sales of coffee through the state auction system. SOGESTALs blend their coffees across washing stations and have little incentive to produce higher quality coffees as the incremental, C-based price premiums do not offer incentives to do more. Privatization will open the door for direct sales to coffee buyers in major markets around the world provided the appropriate steps can be taken in the wet and dry mills to improve coffee quality, to accurately assess coffee quality through cupping capacity, and to set into motion a verifiable and reliable system for coffee traceability.

5.4.2 Production

Current status of coffee production in Burundi

The importance of coffee to Burundi is well established.

- ❖ It is the principal source of foreign exchange for Burundi.
- ❖ For producers, coffee constitutes a significant source of income for improving living standards.
- ❖ Coffee has been identified as a potential source of growth for the national economy but only if the value chain is well managed.

Figure 5.4 . Coffee Growing Regions of Burundi

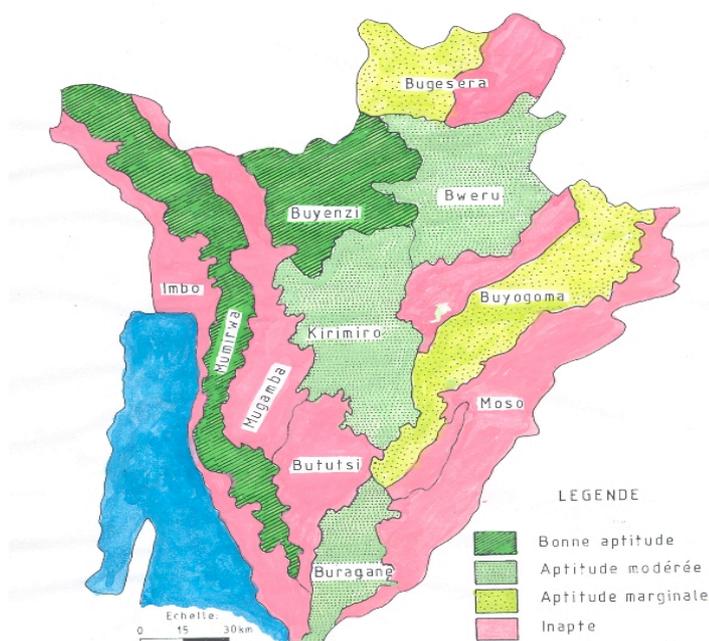


Fig. 3.10: Carte d'aptitude des terres du Burundi à la culture du caféier arabica en relation avec les régions naturelles

Regions with high coffee production potential are characterized by:

- ❖ Elevation: 1200 to 1800 meters
- ❖ Rainfall: 1400 to 1600 mm
- ❖ Temperature: 12 to 22 degrees C
- ❖ Soils: acidic, ph between 4.5 and 6, fertile and permeable soils.
- ❖ The agroecology of the Burundi highlands is favorable to the production of high quality mild arabica coffees.
- ❖ Area under coffee: 70,000 ha
- ❖ Coffee is grown by an estimated 800,000 producers with an average of 150-200 coffee trees.

Extreme Variability in Coffee Production

Extreme variability in coffee production has become one of the major constraints to development of the value chain. It has become increasingly problematic over the past ten years as shown in Table 5.3. During this recent period production has fluctuated dramatically from approximately 5,000 to 38,000 tons in alternating fashion from year to year, and has become more extreme over time. Discussions with agronomists, growers and others reveal the following factors believed to have contributed to this extreme variability.

- ❖ Aging coffee trees, resulting in weakened plant physiology.
- ❖ Parasitic pressure.
- ❖ Low tolerance of the old trees to disease, especially anthracnose.
- ❖ Abandonment of the tree maintenance due to insecurity resulting from the war.
- ❖ Poor cultivation practices due to absence of technical support.
- ❖ Insufficient and inefficient technical supervision.
- ❖ Depletion of soils, reducing their fertility.
- ❖ The lack of organic and mineral fertilizers.

- ❖ Pressure on farmland; coffee growing regions have very high population density.
- ❖ Coffee cultivation on marginal lands.
- ❖ Low prices paid to producers, reducing farmer incentives to invest in improved production practices. Some farmers shift to other crops in absence of incentives.
- ❖ Vicious cycle is created in recent years where reduced maintenance and inputs on coffee causes a drop in revenues to the producer. In turn, lower revenues results in increasingly less motivation to invest labor and other resources in coffee.

Table 5.3. Coffee Production in Burundi by Year

Year	Total Green Coffee Production
1992-1993	37,215
1993-1994	22,991
1994-1995	41,293
1995-1996	25,565
1996-1997	26,875
1997-1998	20,195
1998-1999	17,035
1999-2000	31,317
2000-2001	19,275
2001-2002	16,122
2002-2003	36,000
2003-2004	5,073
2004-2005	38,273
2005-2006	5,883
2006-2007	30,081
2007-08 (est)	7,000

Source : Rapport BRB, 2006

Public investment in coffee production

It should be noted that a small amount of resources are made available on an annual basis from OCIBU in support of improved coffee production through research, inputs and training. The following figures represent the amount that OCIBU has budgeted in fiscal 2007 for these items.

Line Items	Funding (FBU)
Research	
ISABU	100,000,000
Total Research	100,000,000
Inputs	
Sprayers	120,000,000
Fertilizers	700,000,000
Pesticides	400,000,000
Maintenance of Manual Depulping Centers	40,000,000
Total Inputs	1,260,000,000
Training and Monitoring	
Provincial Ministry of Agriculture and Livestock	297,291,200
Coffee Producers Federations (CNAC)	169,871,000
Communal Development Committee	54,080,000
Total Training and Monitoring	521,242,200
TOTAL	1,881,242,200
It is noted that the amount allocated for the purchase of fertilizers is small relative to the amounts needed.	

5.4.3 Processing

Fully washed coffee processing is conducted at the country's 150 washing stations and washed coffee is processed mainly at manual depulping centers for washed coffee.

Over 90% of the washing stations are managed by the SOGESTALs who hold years of experience and technical knowledge in coffee processing. Based on the analysis presented in this study a summary of the major constraints encountered at this of the value chain are as follows:

- ❖ Old and dilapidated physical infrastructure at the washing stations.
- ❖ Fixed floor price for the purchase of coffee cherry.
- ❖ Low level coffee production means that washing stations and dry mills operate well below potential capacity, resulting in inefficient operation.
- ❖ High level of fixed costs for management, equipment, and operations. This results in highly inefficient processing particularly in low production years.
- ❖ Management compensation that does not reflect actual costs.

Together, these constraints result in an absence of incentives and capacity to improve coffee quality as required by specialty coffee markets.

5.4.4 Market Development

Other coffee producing countries in the region, notably, Uganda, Kenya, Ethiopia, Tanzania and Rwanda have largely moved through the liberalization process starting in the early 1990s. Burundi has seen 13 years of conflict and is just now looking to catch up. But the market is not the same today as it was a decade or more ago. It is a highly differentiated market driven by an obsession with quality and other consumer preferences. High value specialty coffee has taken off, along with its own set of market requirements (direct marketing relationships, differentiated product, an emphasis on certification, and higher and higher levels of quality, etc.), and today represents the best opportunity for coffee producing countries like Burundi that have the potential for producing top-shelf mild arabicas.

A major aspect of Burundi's challenge lies in its serious lack of understanding of, and experience with, these specialty coffee markets and how important they are to raising the level of coffee quality in the country, establishing an image of quality coffee and the mechanics of how to develop these markets. Even the very recent report on the August 2006 workshop, *Atelier de réflexion sur les acquis et les perspectives du mouvement associatif des producteurs du café*, focusing on the liberalization and privatization of the coffee subsector, fails to mention the importance of these new specialty coffee markets as a goal and driver of Burundi's reform process.

Overcoming this challenge will require that Burundi develop a coffee marketing strategy and take on many of the "best marketing practices" that have catapulted Rwanda and other coffee producing countries in the region into a high profile and "preferred supplier" status. Opportunities for Burundi, particularly with the weight of the BAP program behind it, are many and exciting. We place considerable emphasis on the marketing aspect of coffee value chain development as this is the area where Burundi holds the least experience and where the potential for adding value is especially high. Based on our value chain analysis the following

needs and investments are judged to be essential steps for specialty coffee market development in Burundi.

Differentiation among Quality Coffees. In planning for Burundi’s entry into the world of specialty coffee production and marketing it is important to understand that not all specialty coffees are the same. There is a range of levels and grades of specialty coffees, differentiated primarily in terms of quality but also certification (Fair trade, etc.). Quality is determined largely on the basis of taste profiles, especially for those at the higher end (i.e., “exemplary and “specialty grades”) as opposed to physical characteristics (size, density, defects, color uniformity, etc.) that tend to differentiate bulk coffees. It must be said that these physical characteristics are important to green specialty coffees too, mostly because they are an assumed prerequisite for entry into the specialty market. In other words, specialty coffees tend to start with high marks on the key physical characteristics and then differentiate further on the basis of taste. In Annex 1 we identify the main categories of green specialty coffee as they are differentiated in the market. We include examples of the kinds of buyers/roasters that tend to buy coffees of each type and some of the entry barriers associated with each class.

Initially it is expected that Burundi will find the greatest opportunity trading in the medium specialty grades. However with quality interventions through BAP in coffee production and processing, tied to a highly organized marketing strategy, Burundi will be capable of capturing more of the exemplary coffee market and the attendant quality premiums that accrue more direct financial benefit to farmers. Production and sales of exemplary coffees will help to build image and name recognition for all Burundi coffees in the specialty coffee industry.

Relationship Coffee Model. The emphasis on sustainability among quality conscious members of the specialty coffee industry is more pronounced as increasing numbers of roasters and importers develop their businesses through direct linkages with growers at origin for the purpose of creating long-term trading relationships. The “relationship model” shows great promise for development in Burundi, particularly for its higher end AA, A and B grade coffees, just as it has for coffee growing communities in neighboring Rwanda.

Under this new and growing model there is open communication between grower, miller, exporter, importer and roaster. Producers work in partnership with industry, and at all points in the value chain, forming direct linkages with buyers. This results in the empowerment of producers, higher revenues and sustainability. Relationship coffee seeks to put a “human face” on coffee, and roasters are committed to connecting producers to the consumers they serve. The essential elements of a relationship coffee model are captured in the “5 Ts” as expressed by industry leader, and BAP partner, Sustainable Harvest Importers of Portland, Oregon:

- ❖ *Transparency.* All communication and information is shared along the entire value chain.
- ❖ *Training.* Working closely with growers and cooperatives to support their commercial success, importers and roaster/buyers provide quality control training in the form of technical assistance and business management.
- ❖ *Trade Credit.* Affordable financing to small holder farmers frees up the resources of importers to develop reliable relationships at existing origins.

- ❖ *Traceability.* Coffee is traced back to geographically distinct zones in a country of origin and to the individual producer (or local association). This puts a “human face” on coffee and creates the opportunity for identity for individual growers in the specialty coffee marketplace. Infrastructure constraints to traceability are formidable in Burundi with the current methods of merging coffees by grade at dry process mills. There exists no mechanism for traceability beyond the SOGESTAL level. Opportunities to define quality attributes and command price premiums exist in establishing coffee profiles by relating unique characteristics to distinct coffee appellations in Burundi.
- ❖ *Total Quality.* In support of farmer knowledge of how quality is achieved, cupping calibrations between roaster and grower are conducted to mutually determine coffee profiles.

Each of the five T’s of relationship coffee serves to reduce the level of risk for both buyers and sellers in their trading relationship. The best examples of this model are seen at Sustainable Harvest Importers, whose founder is credited with pioneering relationship coffee. Among their many success stories is one in nearby Rwanda at the Karaba Cooperative. Sustainable Harvest is a partner on BAP and will be heavily engaged in developing the relationship coffee model in Burundi.

For a small country like Burundi with demonstrated capabilities to produce high quality coffee, the relationship model offers excellent potential for development. As Burundi moves toward privatization, the organizational structure of SOGESTALs/producer federations and their member washing stations/producer unions define coffee within clearly delineated geographical regions, an important first step to meeting traceability standards as described above. The training and total quality elements of the model are also achievable at a grassroots level once the private ownership condition has been met.

Constraints to the relationship coffee model surface, however, when examining opportunities for affordable trade credit. During a meeting with Interbank Burundi it was revealed that annual interest rates to private washing station owners hover around 16.5%, backed by a GOB repayment guarantee. As privatization progresses in Burundi it will be critical to strengthen credit markets and allow outside credit organizations such as Ecologic Finance, a green loan fund offering affordable credit to coffee producers typically in the relationship model, to extend their services freely in Burundi’s coffee subsector.

Alternative Buying Groups. Gaining momentum in Central America, South America and East Africa are various auction platforms from which growers can reach a broad based audience of specialty coffee buyers. These platforms offer a mechanism for greater competitiveness, while maximizing brandability and increasing specialty coffee sales. In varying degrees, auction platforms may also offer opportunities to build producer-buyer relations.

The most distinguished and successful auction consistently commanding the highest prices for specialty coffee farmers is *Cup of Excellence*. A highly organized professional and prestigious program that works on a national level with public and private organizations, *Cup of Excellence* evaluates hundreds of different coffees in a pyramid manner. *Cup of Excellence* advances specialty coffee in 3 ways: 1) instituting a juried competition to evaluate and reward quality coffee traced to individual producers; 2) utilizing an auction platform and internet

database of *CoE* members as well as the *Cup of Excellence* website to obtain the most competitive prices and to build roaster-farmer direct relationships; 3) enhancing the overall premium potential of the participating country by introducing origin labeled, farm identified, top quality coffees to the international marketplace.

Recognition and reward to individual smallholder farmers create a powerful incentive across the industry to focus on increasing production of quality coffees to the growing demand of the specialty marketplace. This “contagious effect” of *Cup of Excellence* auctions is best illustrated in El Salvador where, since the inception of the *Cup of Excellence* program in 2001, specialty coffee exports have expanded by a factor of five, and now represent 24 percent of the country’s exports.

We expect that if Burundi were able to establish an annual *Cup of Excellence* program of its own the event would likely result in a broad-based improvement in coffee quality, higher prices, the development of full traceability, ultimately to the “hillside farmer association” level, and opportunities for expanding the relationship coffee model for direct market access and industry sponsored capacity building.

The buying groups characterized earlier in the discussion of the relationship coffee model also have become more prevalent among those roasters who desire to move from selling undifferentiated blends of mediocre to poor quality coffee to focusing more on high quality. Joining together in groups, roaster/buyers view this arrangement as one that offers distinct opportunities to differentiate their marketplace offerings and corresponding price differentials.

The case of Rwanda is particularly instructive in this regard. Based primarily on its quality, demand for Rwanda specialty coffee has outpaced the supply, and with an assortment of buying groups participating in the development of this coffee quality initiative in Rwanda, the list of partner buyers now consists of more than 25 roasters and importers in the U.S., the UK and Japan.

The growth of specialty coffee production and marketing in Rwanda already seems to have attracted the attention of coffee traders in Burundi. One Burundi exporter is in the process of establishing three washing stations in Rwanda and it has been (anecdotally) reported by many in the industry that significant volumes of Burundi coffee are finding ways to cross the border into Rwanda destined for the higher priced export markets there due, at least in part, to the specialty coffee revolution that has occurred there.

Thus we conclude that alternative trading mechanisms hold promise for Burundi once the coffee subsector becomes privatized. In discussion with several exporters in Burundi they describe the current system as one that has large amounts of coffee going to very few export destinations. They resoundingly support privatization as a way of diversifying export marketing.

Consumer Demand for Certification/Social Responsibility. Sales of certified coffees have been bolstered by effective marketing to consumers regarding their benefits to both producer and the environment. Spurred by the 2005 decision by McDonald’s Corporation to serve organic coffee in selected U.S. markets, several multinational companies began roasting organic coffee for sale in supermarkets, making organic coffee the fastest growing market

segment in the entire specialty coffee subsector. Predictions of consumer trends in the U.S. indicate that the demand for coffees that are certified Fairtrade, organic or dually certified will continue to grow an estimated 10 percent annually. As a rule, coffee producers look to such certifications to help ensure better prices.

The costs associated with acquiring and maintain certifications are among the biggest challenges faced by producers who seek to add these premiums. In the case of organic certification, there is a three year conversion process during which time coffee production typically declines. Producers must be sure that the investment in the certification will be recouped in the long run, and that the market demand will be sustained.

Currently Burundi has no certified Fairtrade or organic coffees, and in our interviews with various private sector washing station owners we identified only one with a certification from Utz Kapeh. Under privatization, owners of washing stations in Burundi will need to consider cost benefit ratios of various certifications, keeping in mind that while the premiums paid for such certifications shrink proportionally as C prices rise, they can offer protection when coffee prices are low.

In Burundi, we expect that it will be initially inefficient and cost prohibitive for farmer associations to acquire and maintain these kinds of certifications individually. Understanding the certification process, making the contacts, covering the costs of flying certifiers to Burundi and monitoring certification status are investments that can be made and capacity built at a higher level. This is an important consideration as Burundi divests from public ownership and involvement in the subsector. One option to consider is to assign the development of certification services regionally, either to the five coffee grower federations in Burundi or their corresponding SOGESTALs, should they be in a position to take up this responsibility in a reasonably cost effective manner. In the medium term we can expect to see third-party certifiers open offices in Burundi, as they have in Kenya, Uganda and other countries with more mature coffee industries, thereby lowering the cost and complication of obtaining certification.

Image Building. To create a unique image for specialty coffees from Burundi the process begins by defining what is “different,” “special” or “better” about its coffee. Seizing upon the elements that distinguish an origin coffee separates it from other coffees and provides a framework for developing a distinct image and corresponding price differential. Creation of marketing materials (i.e., sales kits, maps, logos, as well as photos and DVD’s to illustrate country people, culture and coffee processing) is a vital first step in conveying and maintaining clear and consistent origin information to the wholesale and retail trade.

In East Africa a good recent illustration of effective image building can be seen in Rwanda where there has been a successful campaign in the industry around the efforts of coffee growers, many being “coffee widows” who are re-building their lives and communities following the 1994 war and genocide. Development of specialty coffee in Rwanda has been portrayed as a catalyst for reconciliation and a viable avenue out of poverty. Coming at a time when the struggles of millions of African smallholders to establish their livelihoods in the face of drought, violence, political upheaval and other hardships have captured the hearts and minds of a worldwide audience, Rwanda has created its own unique distinction. News articles appearing in TIME Magazine, the New York Times, USA Today and many others

have been published about Rwanda's coffee renaissance and how the country's entry into specialty coffee markets has contributed to its reconstruction and stability.

It is obvious to all that Burundi has its own story to tell and image to build as it emerges from a period of protracted civil war. As a good indicator, the launch of Ngoma Mild in 2000 included all the elements of effective image building and clearly demonstrates Burundi's potential for greater success in this area in a liberalized/privatized environment.

Market Intelligence. An effective market strategy for Burundi will need to take into account the overarching movements of markets, including the understanding of market direction, corporate responsibility and consumer preferences. Effective market intelligence will guide Burundi in the steps its coffee industry must take to achieve market success. We find little evidence that Burundi has developed the kind of market intelligence capacity it will require to elevate its position and guide its investments in global specialty coffee markets.

In general, coffee marketing suggests a move away from the "commodity" view of the product. In the U.S., differentiation has occurred through identification of coffee meeting organic, Fairtrade and other environmental requirements for certification. Consumer awareness of product certification in these areas has increased to a level where mainstream markets are buying and offering a variety of certified coffees. At the same time industrial roasters are moving toward upgrading their image by offering certified quality coffee blends.

In Japan, by contrast, there exist no specialty coffee importers, per se. Rather, most Japanese importers handle some proportion of specialty coffee imports. As such, coffee prices in Japan tend to fluctuate more with the New York Futures Market's C Contract despite the reality that the quality is superior to that which the C Contract represents. Furthermore, origin names of specialty coffees are less important in Japan than the names of Japanese roaster's brands under which coffee is most often sold. On a positive note for Burundi, its typically smaller bean grades are more easily accepted in Japan, meaning that a significantly larger proportion of Burundi's total parchment production can potentially command premium prices in that market.

As Burundi's coffee subsector liberalizes and evolves in the years ahead, market intelligence will be an essential part of the new configuration. In the near term, a close watch on where certification can and should be applied should be front and center on the agenda, taking into account and balancing benefits to growers and the environment and the demands of the marketplace. As discussed earlier, the efforts of large corporate roasters to satisfy consumer demands for living wages for farmers and protection of the environment have largely been accomplished outside the realm of third party certification.

Market Information. For countries supplying high value specialty coffee markets, market information is the basis for transparent trading relationships between roasters and producers. This includes the more immediate prices and volumes of coffee traded around the world and has to do with understanding shortages, oversupply, where coffee stocks low and the direction of coffee futures. Relevant market information is not limited to the major movements in commodity coffee. Broken down to reveal costs at all points in the value chain, this kind of market information serves to advance the notion of partnership between the producer/supplier and roaster/buyer. In "opening their books" roaster/retailers demonstrate their commitment to creating win-win sustainable business relationships with their suppliers.

Burundi currently has no official mechanism for providing producers and other value chain stakeholders with market information except for the weekly market reports sent by OCIBU to exporters reflecting market prices for various grades of coffee. Until very recently these provisional prices were fixed by OCIBU prior to the weekly tenders and following the New York Commodity Exchange closing coffee price each Tuesday. Price differentials are ascribed to each grade of washed and fully-washed coffee. Under a liberalized system where direct trading relationships between roaster/buyers and coffee growers are allowed to flourish, market information can flow more freely and will have greater meaning as coffee prices will have more direct correlation to quality.

Cupping. Cupping involves the application of sensory characteristics to describe the flavor profile of coffee. Its practice in supporting marketing goals is best appreciated when together, growers and roaster buyers join to calibrate the flavor profile of a coffee so that there is complete understanding of the product attributes by both buyer and seller. To advance this capacity among growers, members of the specialty coffee roaster community have liberally volunteered as cupper trainers in many settings.

Access to cupping labs and capacity in Burundi is currently a major constraint to building market relationships and to assessing the quality and value of its coffees. The only cupping lab in Burundi is located in Bujumbura and is operated by OCIBU. It is used to assess the relative quality of major lots of coffee (containers) prior to auction. It is not practical for individual coffee washing stations or even the SOGESTALs on a regional level to make serious use of this lab.

Installing cupping labs at a regional level and training cuppers at these regional labs will constitute a major step forward in bringing buyers closer to the producers of the coffee and will enable washing stations to set and negotiate realistic prices based on coffee quality, the most important determinant of price in the specialty coffee market.

Information Technology. Effective use of information technology is fast becoming one of the most important ingredients in successful specialty coffee marketing. In addition to creating and sustaining business linkages through access to the internet, information and communication technology such as video podcasts, video streaming of cupping and coffee processing, farmer stories and “terroir” information, all offer buyers a valuable marketing platform/instrument for promoting and selling higher volumes of differentiated coffee. In its most basic application buyers and sellers are able to communicate quickly and directly with internet access. Respective websites provide information to growers and buyers and serve to support the market linkages between them.

In Burundi there is an absence of communication technology at the washing station or dry mill level as so little of it is required under the present marketing system. In a reformed coffee subsector Burundi will be in a position to develop greater capacity and application of available information technology with diversification of export markets and more direct involvement in the marketplace. This is an area that is evolving rapidly and can be expected to play an increasingly important role in coffee marketing in the future.

As roles and responsibilities are defined in a restructured coffee subsector, special attention must be given to the role in facilitating the development of information technology in Burundi at all stages of the value chain. Certainly this is an area where BAP can make a

significant contribution on the market development front. As quality interventions are instituted information technology becomes the marketing mechanism for disseminating their application. While all washing stations will ultimately have internet access, facilitation of IT systems for the coffee subsector should be considered at a centralized level.

Coffee Appellation. Coffee appellation is another practice that supports traceability by offering a system of identification for the geographic origin of coffee. This system provides buyers the opportunity to relate territorial identity to quality attributes. Traceability analyses promote regional and country level recognition, in turn reinforcing consumer trust and loyalty.

The privatization of washing stations will offer Burundi the opportunity to attach unique qualities of its coffees to precise geographic locations, initially to the level of groups of washing stations and in the longer term at the level of individual washing stations or even to the level smaller “hillside” producer associations. Due to the current marketing system, buyers have been prevented from identifying and purchasing individual authenticated coffees from specific washing stations or even groups of washing stations comprising a “terroir” with uniqueness defined by agroecology, taste profiles, shared history and other attributes that will help their coffees stand out in the market.

Reorganization of the value chain in Burundi creates an opportunity for classifying lots of coffee through verification and authentication of coffee origins and by issuing certificates of quality and authenticity to specialty coffee buyers. By way of market support and assistance Burundi will also be in a position to create appellation maps, encouraging trade among current and prospective specialty coffee buyers. While appellation is inherently about the region and the local uniqueness of the coffee and its context, there are important steps that can be taken centrally to promote appellation development. First and foremost would be a study organized at multiple levels and in cooperation with ISABU to map in a GIS system Burundi’s coffee growing areas in terms of soils, elevation, cupping profiles and other variables relevant to unique identification of coffee “terroirs.” BAP is in a position to provide needed support to this activity.

Strategic Buyer Tours. Another proven practice in effective coffee marketing is the systematic organization of buyer tours. This involves careful coordination of sophisticated visits to coffee origins for those importers and roasters who represent markets demanding both the quality and production of the specialty coffee to be introduced. In Rwanda the growth of specialty coffee awareness is a direct result of such tours, where discriminating roasters and buyers with special interest in creating niche markets for emerging origins are invited to tour washing stations, dry mills, and government organizations supporting the coffee trade. Washing station “fact sheets” reflecting all pertinent data regarding coffee region, production capacity, character of coffee, processing, ownership harvest season, etc., are presented to buyers together with general information about the coffee subsector. While in country, samples of all coffees are cupped by first time buyers (ideally in the regions where they are produced) who then presented their findings to growers. Additional samples are appropriately labeled and given to buyers for further cupping in the U.S. Combined with regular follow up communication and contact, well-organized buyers tours have proven to result in sales of coffee at an extremely high rate (nearly 100 percent of the time in the personal experience of the diagnostic team).

As a way to introduce Burundi to this important marketing practice during the past year, several strategic buyer tours have been coordinated by members of the BAP Coffee team through the World Bank PAGE project. Both visits were a tremendous success and have begun to give OCIBU and the washing stations involved a good sense for how buyer relationships are begun and established.

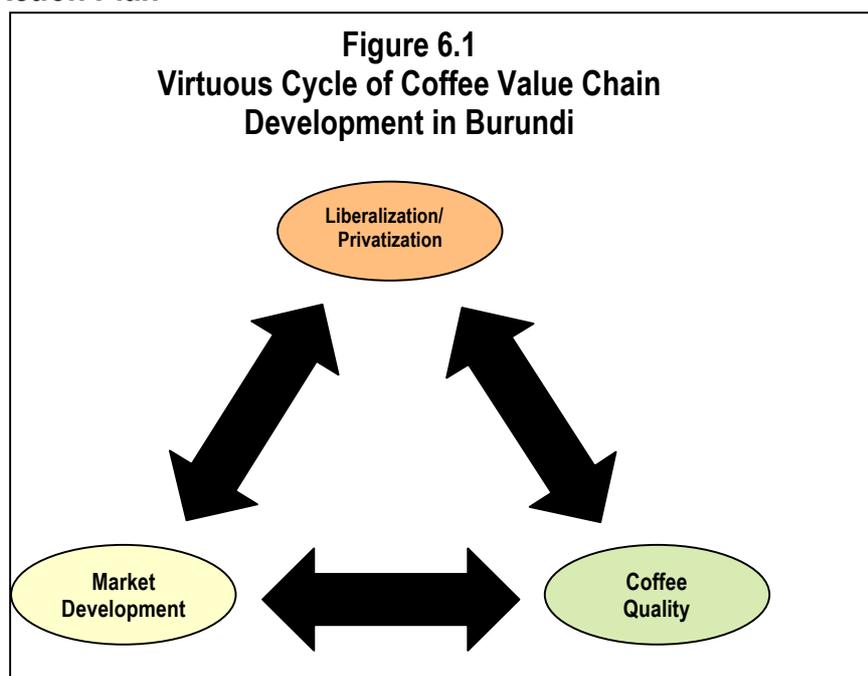
Trade Shows, Workshops and Tastings. Regular attendance at industry trade shows continues to be one of the fundamental marketing practices in specialty coffee. In North America, Europe and Japan specialty coffee trade shows offer the opportunity for face-to-face meetings among representatives from all facets of the supply chain □ from growers to importers to roasters and retailers. As a forum for dialog and exchange of ideas as well as to develop interpersonal relationships and trust, trade shows serve as valuable opportunities for building sustainable trading relationships.

Moreover, educational sessions and workshops offered in connection with trade shows give valuable insight and knowledge to producers about the workings of the coffee industry. Marketing advice is presented to help producers understand the particular needs of potential buyers of their coffee, and often representatives from producing countries are invited to join panel discussions, giving greater recognition to an origin.

As Burundi proceeds to establish its identity as a key member of the East African coffee community the investment in trade show exhibit booths merits consideration. While this undertaking requires considerable coordination of fixtures, signage graphics, brochures, coffee samples, booth furniture, “take-aways” and a knowledgeable staff, when managed effectively the investment can yield a verifiable increase in interest for a coffee origin. With systematic follow up and supply of samples, significant coffee sales can be expected. The Director General of OCIBU acknowledged the need for these and other marketing activities to develop and add value to Burundi’s specialty coffee trade.

6 BAP Five-Year Action Plan

The present coffee value chain study has underscored the importance of three major challenges that must be met before Burundi’s coffee producers, processors and exporters will be in a position to access growing specialty coffee markets and improve returns to all players in the subsector. First, they must improve coffee quality through “best practices”



investments in the field, at the washing station and at the dry mill. Second, they must invest in marketing their coffees to the “new consumer” and establishing the many tools of the trade needed for effective specialty coffee marketing. Third, Burundi must complete the process of economic liberalization and privatization at all stages of the coffee value chain: production, processing and marketing. Until the subsector is privatized there will be little incentive for producers, washing stations and dry mills to make the changes necessary for improving coffee quality or accessing specialty coffee markets. It is also important to recognize that coffee subsector reform, along with higher market prices linked to improved coffee quality, will provide incentives for farmers to make the necessary investments in the field that will lead to higher volumes of production through improved yields and expanded area under coffee. In short, there is a virtuous cycle that can be created in which meeting each of these three challenges will spur the development of the others as illustrated in Figure 6.1.

Our approach and action plan squarely addresses all three of these challenges, quality improvement, market engagement and privatization. Presented in this section below are the major features of our approach, levels of intervention and the specific components and actions that BAP will initiate over the next five years.

6.1 Anchor Project Approach

BAP will develop a focused coffee “anchor” or pilot program that will spearhead our activities across all components of the program (quality, markets and privatization). It will borrow from the most effective aspects of a similar program (PEARL) implemented in Rwanda, one that has succeeded in transforming Rwanda’s coffee sector over the past 6 years.² The BAP coffee anchor program will be the catalyst for raising Burundi’s coffee value chain to a similar or higher level than that achieved in Rwanda. It will serve as a model of development for hundreds of other washing station cooperatives and private owners alike. More specifically the pilot will provide:

- ❖ An experimental model for how to work through the process of privatizing Burundi’s state-owned washing stations and dry mills.
- ❖ A source for improving capacity in production and processing improvements in the field, at the washing station and in the dry mill.
- ❖ A guide for how to access specialty coffee markets through the relationship model for high end coffees and other channels for mid-level specialty grades.
- ❖ A lesson in how to “raise the bar” across the board in value chain development. This is a lesson that will benefit high value exports in horticulture, tea, essential oils and other areas where Burundi holds a comparative advantage.

A crucial dimension to the coffee anchor project is that it will constitute Burundi coffee’s spearhead for the development of external markets. It will represent the global coffee industry’s first serious look into Burundi’s potential for producing high quality specialty coffee—into what the country has to offer. Buyers know that Burundi has a long tradition in coffee production and that its highland agroecology is capable of producing exceptional coffees. They also know that Burundi’s neighbors Kenya, Tanzania, Ethiopia, Uganda and, more recently, Rwanda already produce some of the world’s finest coffees. So their expectations for Burundi are high. And based on recent industry exploratory buyer visits organized by members of the BAP coffee team and the latest “buzz” at the 2007 Specialty

² Partnership to Enhance Agriculture in Rwanda through Linkages (PEARL) is a USAID funded project, 2000-2006.

Coffee Association of America (SCAA) annual meetings in Long Beach, California, U.S. specialty coffee buyers are closely following the country's efforts to privatize its subsector, and more, how Burundi will invest in producing coffees of suitably high quality for their customers. Once the quality can be demonstrated, these buyers will be looking for ways to make the direct connections with producer cooperatives. The stage will be set for expansion into an increasingly larger share of the market. One of the most important contributions that a well executed anchor program will make is to ensure that specialty coffee buyers are introduced to the best of what Burundi's coffee growers have to offer. This is what will sustain their interest for the long term.

6.1.1 Levels of Intervention

To maximize impact we will take a multi-level approach involving interventions at three closely interrelated levels: at the coffee washing station, the regional (or dry mill) level, and the national level. Year 1 will have actions at all three levels.

- ❖ *Washing Station Level.* The success of the program will come first and foremost from the accomplishments made at the washing stations and the producer associations and private enterprises that run them. What this means is that the core of our BAP anchor program interventions will be oriented to making activities and investments at the selected washing stations a resounding success. The selection of leader and training stations is described in the following section.
- ❖ *Regional/Dry Mill Level.* Improvements at the regional level are also vital to Burundi's coffee transformation. They provide higher order services that cannot realistically be provided initially at the washing station or farmer association level. There are economies of scale in many areas, such as cupping laboratories, the provision of inputs and most important, the dry milling of the coffee. The BAP pilot program will be organized regionally around SIVCA and potentially SONICOFF dry mills.

Year 1 regional activities will focus on developing a partnership with SIVCA (the private dry mill operating in Ngozi and serving the as the primary dry mill for many of the washing stations in Ngozi, Kayanza and Kirundo-Muyinga. The owners of SIVCA have made a commitment to the DAI team to build a regional coffee quality center (CQC) on its grounds to serve as a cupping laboratory, centre d'accueil for international buyers, and classroom for coffee quality training. In Year 1, we will finalize a GDA proposal formalizing this arrangement with SIVCA and pursue the same concept with SONICOFF. Once approved, we will work to have fully functional CQCs in each mill established in Year 2.

- ❖ *National Level.* The same concept holds true of program investments made at the national level. These developments will "serve the public good," providing higher level institutional and business services as well as in helping to establish a policy and regulatory environment conducive to growth in the coffee subsector. One very important difference from current organization of the subsector is that the national level services and structures will no longer "lead the industry" as they do now. The privatization process and market access will require extensive national level project investment from BAP. These investments will include actions aimed at establishing a strategic roadmap for privatization and marketing, energizing the public dialogue

required for privatization, enhancing public awareness and confidence that coffee privatization will benefit producers and other stakeholders, and working with banks on providing financing for privatization.

6.1.2 Leader and Training Hub Approach

For this anchor project, we have selected three “leader” and eight “training hub” coffee washing stations (CWSs) using the objective criteria developed previously with the Government of Burundi’s Coffee Reform Committee in the context of the World Bank’s PAGE project. Most of these CWSs will be located in the north and north-central interior, including the highland areas of Kayanza, Ngozi, Kirundo, and Kirimiro. The three leaders will be targeted for intensive pilot program efforts, working with their member producer associations and SOGESTAL management teams (as they take on private sector status). After initial testing, we will extend the materials and approaches developed with the leader CWSs to the eight other CWSs more broadly distributed across Burundi’s coffee-growing areas. In subsequent years (2-5) we will further extend the training program to all 150 CWSs.

Selection of Target CWSs. Working with Burundi Coffee Reform Committee an objective process based on a broad set of criteria was established for selecting first and second tier washing stations for targeted activities of the specialty coffee pilot program. It was agreed that only an unbiased process developed collectively and based on as much empirical information as possible would lead to the most appropriate candidate washing stations for the proposed program.

Criteria were established for selecting as small set of washing stations that show the greatest promise for achieving the goals of the program in terms of improved coffee quality, market development and as models for privatization. The 16 criteria included CWS elevation, source of water, distance from paved road, coffee quality and among others. Information on the 16 key criteria was then obtained for each of the 141 SOGESTAL-operated washing stations through direct interviews, completion of a data collection instrument and through secondary data sources. Using the full coffee washing station data base a composite index was developed and analyzed together with the data from individual criterion variables to identify the most promising candidate stations for the pilot. Finally, a set of first and second tier stations was selected by integrating the composite index with the geographical/spatial distribution of mapped washing stations in a way that optimizes suitability across the major criteria and the need to disseminate the results of the anchor activities to all of Burundi’s coffee washing stations (maximum geographical coverage).

Bwayi, Teka and Ngogoma are the three washing stations selected for the first tier activities of the pilot program. They constitute a broad regional distribution in Burundi’s very strongest coffee growing areas in the north and north-central interior. Looking to Ngozi city as the seat of the anchor program, these three sites can be easily accessed by project personnel based in Ngozi as well as by industry visitors, OCIBU and other governmental agencies based in Bujumbura and Gitega.

Second tier or “regional hubs” have also been identified as sites for training regional CWS managers and staff and for other dissemination and activities as the regional frontrunners. There are eight second tier sites selected to achieve an “optimal balance” between composite index scores on the key criteria and extensive geographic distribution, both across the country

and relative to the primary sites. They are: Kibungo, Butemba, Buhoro, Murambi, Rugerero, Rugabo, Kivyuka and Ruhora.

The proposed broad distribution of second tier sites coincidentally results in a total of at least two stations (either first or second tier) being selected from each SOGESTAL region, the one exception being Kayanza with three. Locations of first and second tier washing stations are displayed on the map of Burundi in Annex 2.

Ngozi as Home of BAP Satellite Office for Coffee. While Bujumbura will remain as the BAP programmatic center we believe that the coffee anchor program will be better served with regional “satellite office” in the heart of Burundi’s coffee producing region. Ngozi is recommended as the seat of the program because of its centrality in the region, extent of support services, proximity to the SIVCA dry mill, quality of hotel and other facilities for training programs, buyer tour hospitality, close proximity to Rwanda where many buyers and other coffee industry specialists can easily cross over to contribute to Burundi’s coffee industry development, potential ties to the University of Ngozi, generally lower costs (compared to Bujumbura), and other factors. Starting in Year 2 we will establish the Ngozi satellite office. We also plan to develop a GDA for a Coffee Quality Center at the SIVCA dry mill in Ngozi. In the context of these discussions, we plan to raise the question of a satellite office with SIVCA management to see whether there may be interest in setting up this regional office as part of the CQC.

6.1.3 Industry Engagement

Essential to the success of the pilot initiative is the engagement of influential specialty coffee industry representatives. These are the CEOs, buyers and others who guide the direction of specialty coffee sales, investment and growth in the world’s major markets. They buy “exemplary coffees” as well as high volume second tier specialty coffees. They are connected to hundreds of buyers. They are on the cutting edge of new relationship models that put emphasis on corporate responsibility and the importance of raising growers’ incomes and ownership. They have contracts with producer groups in South America, Central America, Southeast Asia and East Africa. They are the industry trailblazers and they are very often keen to support development efforts in producer nations around the world. Burundi’s emergence on the specialty coffee scene represents an exciting window of opportunity for engaging these industry leaders in the subsector’s growth. Our action plan described below engages and mobilizes critical mass of industry knowledge, commitment and creativity.

Support through industry partners for everything from technical assistance in cupping to establishing markets and developing the institutional structures that will help Burundi to benefit from industry support well into the future. As an additional step, BAP has entered into agreements with two key industry partners in the implementation of the program. The first is *Sustainable Harvest (SH)*, a private specialty coffee importer with broad based experience in supporting coffee producer cooperatives and with a reputation for working with other industry partners in developing specialty coffee capacity in the field. The second is the *Alliance for Coffee Excellence (ACE)* which is responsible for the Cup of Excellence competition and auction, the industry’s leading international coffee quality competition.

6.2 Components, Actions, Indicators and Targets

This section of the study builds on the background and approach presented above and maps out a set of actions, indicators and targets in each of the three major component areas of BAP: 1) subsector reform and privatization, 2) coffee quality improvement in production/processing, and 3) specialty coffee market development. We also note three important elements that cross-cut two or more of the major components. They are: cupping labs and training in support of quality and marketing, dissemination to other producer groups and CWSs, and information technology and communications (ICT). The overall action plan for each of the three BAP program components is presented in the following sections.

6.2.1 Subsector Reform and Privatization

Pushing forward the privatization process so that it happens with a minimum of disruption will require clear inputs from BAP at the national level, particularly in the areas of policy development and a broad-based public awareness campaign. BAP will focus on assisting the government and other stakeholders to implement the coffee sector privatization strategy.

BAP's public policy development and reform program will focus on key questions related to privatization including the potential need to modify or update legislation concerning associations and cooperatives, the role of OCIBU, the framework and conditions for State transfer of coffee washing station assets to cooperatives or private sector enterprises, the disengagement of the State from the SOGESTALS, alternative frameworks and private sector mechanisms for providing key management, logistical, input supply and support services to coffee washing stations and coffee producers, and clarification of the concept of coffee "ownership."

BAP's public awareness/media campaign includes both radio broadcasts and news articles to be published in local newspapers/news magazines. It is designed to improve the transparency of the privatization process and to describe different perspectives and on-going debates surrounding the process. Partnerships will be developed with radio Isanganiro and other interested private radio stations, interested members of the written press, PAGE and the coffee reform committee. We anticipate significant partnerships initially with radio Isanganiro which has previous experience with International Alert and with the coffee reform committee which has already set out a communication strategy and have received limited funds from PAGE to implement a campaign. PAIR can support this initiative through grants and paid broadcast time, providing content for programs as well as subsidizing the dissemination of the information more widely.

At the same time, there will be a focus of activity in the field, particularly at the coffee washing station level. This will involve training, technical assistance, and financial engineering directed at coffee cooperatives and private enterprises that are the main beneficiaries of privatization.

Support the formulation of privatization policy at the national level. BAP will work closely with the Coffee Reform Committee to help it develop clear guidelines and recommendations to the Government of Burundi on steps that need to be taken and capacities that need to be strengthened. Key initiatives at this level include:

- ❖ Conduct workshops and produce short action-oriented policy syntheses to move the dialog and action forward and address constraints to the process (see detail in following section);
- ❖ Broadcast radio information campaigns to enhance public awareness of the privatization process including;
 - Interviews with key government officials and private sector operators, farmers, farmer association representatives and washing station managers;
 - Debates and question & answer sessions concerning burning issues related to privatization; and
 - Results of BAP’s baseline producer survey concerning privatization and how producers and associations perceive privatization will affect their livelihoods
- ❖ Work with banks, microfinance institutions, NGOs and donors to facilitate financing for producer group CWS purchase;
- ❖ Conduct a survey at the end of Year 1, using models developed by OTF, to assess the larger attitudinal climate for privatization and competitiveness in the coffee sector among different segments of Burundian society in order to fine-tune subsequent BAP implementation and communication strategies.

Policy Workshops and Syntheses.

There are several key policy areas in need of attention in connection with coffee reform and where BAP can have an impact through focused stakeholder workshops and policy syntheses, including the following in Year 1:

1. *OCIBU’s official functional role and authorities.* OCIBU is in transition, though for now it continues to act as the “manager” of the coffee sector. This means controlling prices paid to growers for their cherry, gatekeeper for coffee sales and marketing, establishing costs and payments to SODECO and the SOGESTALS. BAP will work collaboratively with the Coffee Reform Committee and GOB ministries (Finance and Agriculture) to redefine OCIBU’s authorities. This will ultimately require a change in laws and parliamentary approval.

Led by the BAP Coffee Policy Specialist (TBD) the team will work to move the dialogue forward, through the Year 1 policy workshop and follow on meetings, on OCIBU’s authorities and to promote a legislative revision in support of the new authorities. A policy synthesis documenting the debate and project recommendations for OCIBU’s functional roles will be developed and promoted. It is expected that OCIBU (or other public body) will be needed to serve multiple needs during the transition period. This may involve the following responsibilities:

- Coffee marketing strategy, coordination and promotion.
- Promotion of uniform quality standards for exports
- Representation at EAFCA, SCAA and other important specialty coffee.
- Specialty coffee ICT development in support of cooperatives and private coffee washing stations.
- Continuing to provide marketing services for lower grade coffees in cases where there are no direct sales options.
- Support for and protection of appellation/“terroir” development as Burundi’s intellectual property
- Coordination and support for the development of certification systems that bring a premium to producers (Fairtrade, organic, etc.)

- Engagement with donor agencies in developing and providing technical assistance programs in support of producers in meeting quality standards and in establishing an aggressive coffee marketing campaign.
- Establishing standards for coffee traceability to the “terroir,” washing station, producer group and (ultimately) individual producer.
- Coordination of producer technical training in support of meeting quality standards.
- Promotion of direct sales relationships between producers and buyers.
- Representation in international coffee trade organizations.
- Funding support for agronomic, processing and marketing research for improved coffee quality, volume, consistency and sales.

Once OCIBU’s national level responsibilities have been redefined and made official (an outcome of BAP Year 1 investments), national level activities for Years 2-5 will include building capacity to carry out these responsibilities.

2. *Pre-sales financing of coffee producers.* A difficult policy issue tied to liberalization and privatization of the coffee subsector lies in the uncertainty tied to replacing the established system of state guaranteed presales financing to producers. For the past 15 years farmers have been paid a floor price for their cherry at the time of processing (May-June), though most recently this has slipped to as late as August. This financing has come from local banks that have organized behind the state guarantee (eliminating risk on their part) and charging an interest rate that in 2007 was 16.5%. With the government removing itself from the sector there is great uncertainty about how, or whether, this financing will be provided.

In our discussions with farmer associations we learned that for a coffee season that begins in March and requires twice weekly picking, many producers find the work too hard for the return, especially when the return is delayed for months. A significant fraction of producers have shown that they would rather sell their cherry at a discount to rural assemblers and others for immediate cash on the spot. This is an important factor that will affect the ability of cooperatives and small enterprises as they assume control of the washing stations. From the point of view of the SOGESTALs, they have been in a difficult situation thanks to the burden of interest costs which weigh heavily on their accounts and which are exacerbated by delays between the purchase of the cherries and the sale of the coffee.

This is an issue that will require attention and a focused workshop around the problem and in search of solutions will be an important BAP initiative in Year 1. Producers, banks, private enterprises and SOGESTALs should be at the table. Drawing from the prefinancing experiences of other countries will be especially informative, as will the views of external banks such as Ecologic Finance, an innovative lending institution based in the US and committed to assisting producer cooperatives with pre-sales financing triangulated with buyers. It is expected that liberalization will ultimately foster internationally competitive lending rates.

3. *Stakeholder workshop on SOGESTAL proposal and other potential privatization models.* BAP can make a significant contribution to the privatization process by creating opportunities for open debate among coffee subsector stakeholders vis-à-vis the various models for selling off publicly owned coffee infrastructure and public interest in the SOGESTALs. A workshop will be organized in collaboration with the government of

Burundi aimed at vetting the SOGESTAL proposal along with other potential models for privatization. Implications of these models for producers, processors, enterprises, banks and coffee buyers will be reviewed and discussed and a synthesis paper will be developed that captures the pros and cons of the alternative approaches.

Coordination with World Bank investments in coffee privatization. BAP will coordinate with the national level coffee privatization activities planned by the World Bank PAGE project. Over the course of 2008, PAGE will continue to support coffee privatization with an infusion of approximately \$750,000 in focused activities and contracts. These will include:

1. \$150K for a study on privatization strategies/scenarios.
2. \$350K for an investment bank to come to Burundi to handle the sales of washing stations.
3. \$200K for *international* communication on the process.
4. PAGE also has a contract with OTF for the *internal* (domestic) privatization communication.

BAP activities will intersect and support the World Bank program in three ways.

First, BAP will organize a stakeholder workshop aimed at providing stakeholder input and a synthesis of policy and field-based issues that will feed into the PAGE-sponsored process to engage an external investment bank to sell off government interests in the coffee subsector.

Second, BAP's communication initiatives described above and CWS level work on privatization case studies described below will be one of the more important activities to be coordinated with the PAGE project.

Third, we are currently supporting the World Bank's efforts to identify a highly experienced privatization expert to who will be able to lead the strategies/scenarios work with case study inputs from our pilot stations.

Support field-level participants in privatization. Burundian producer organizations cannot yet make informed judgments about the value of CWSs or on how to manage key value chain functions downstream from production. The capacity of POs to attract/integrate new members, mobilize internal funds, provide quality services demanded by, and of interest to, their members, operate in a transparent, communicative manner, and link with/leverage outside technical and financial resources (both private and public sector) and engage community/provincial and national elected and administration leaders in constructive debate over actions to be undertaken jointly reinforcing the liberalization and privatization of the sector will be key to their becoming full, active participants in the process while enabling them to act and be perceived as valid private sector enterprises.

One of the greatest challenges in coffee privatization involves the status and capacity of local farmer associations to achieve legal status as cooperatives, take ownership of the CWS infrastructure and process. CWS infrastructure is currently owned by the GOB, but the GOB is committed to transferring ownership to cooperatives and private enterprises.

Starting in Year 1, we will work with pilot CWSs to clarify their legal status and evaluate options for the transfer of GOB ownership shares in the CWSs. Ownership can be held uniquely by the cooperative or jointly with private investors (including potentially restructured SOGESTALs). This process will require detailed work with the farmer

association management, assisted by CNAC and in cooperation with INADES and local finance institutions, to understand the options and to work through the collective decision making process. It will mean engaging the considerable knowledge and skills of CNAC and INADES to establish open forums with the producer associations and mapping out the steps and options for ownership, financing and for taking control of their own operations.

The team's industrial crops specialist will lead BAP efforts and along with the coffee technical team he will inform and facilitate the privatization process in working with the pilot CWSs and others that will serve as models for the country. There will be meetings with CWS managers, local community authorities, finance institutions and others to collectively map the process and execute the necessary steps. The individual obstacles (e.g., credit/financing, cooperative organization, knowledge of legal procedures for cooperative formation) faced by each of these pilot CWSs are not yet known so the focus of initial meetings with CWS managers and local authorities will be to identify and document these individual constraints. The team will then work hand in hand with the leader CWSs to work through the step by step details of each of these obstacles. This is where we expect CNAC and INADES to be particularly helpful.

Privatization Case Studies, “Lessons Learned” and Dissemination. One of the most important components of the pilot program lies in its utility as a source of learning and guidance for the longer term privatization process. Government owned coffee washing stations will be sold off either in groups (in the case of the SOGESTAL proposal) or one by one over an indefinite period of time. In either case, we anticipate that there will be variations in the level of investment and control that will be taken on by the community of producers relative to private sector investors. It is anticipated that the CWS sell-off will take various forms as summarized here below.

Cooperative Ownership. First, farmer associations in some areas have already begun the process of forming cooperatives and applying for legal status that will permit the acquisition of washing stations in their areas.

Private Business Ownership. A second path to privatization seems probable from the private business community in Burundi and possibly from outside of Burundi. There are private investors considering their options for becoming owners of washing stations and several have already invested in purchasing property and building washing stations from the ground up. SONICOFF and COPROTRA are two local businesses that are the current owner-operators of at least eight washing stations located in the communities of Gomba, Kinyota, Gasera, Rabiyo, Nyabikere, Canzikiro, Kirema and Kirehe. Burundi private investors have also installed washing station across the border in Rwanda.

Mixed Ownership. A third form of privatization that seems highly likely to occur, as it has in Rwanda recently, is one that combines both producer cooperative interests with private business interests in varying proportions (e.g., 30-70%, 51-49%, etc.). The proposal on the table currently from the SOGESTALS would, if adopted, result in such a mixed ownership model with varying degrees of private ownership (potentially based on the level of private ownership of the SOGESTALS at present).

There is great uncertainty in Burundi at the moment with regard to the specifics of how these (and potentially other) forms of ownership will play out over time. We expect that much will be conditioned by the experiences of some of the first to be privatized.

The coffee anchor program will serve Burundi well in tracking the privatization process and particularly by identifying a small number of case studies of each type from among those at the head of the pack. These early experiences, good and bad, will be analyzed, captured as a set of lessons learned (i.e., “what to do” and “what not to do”) as a guide and possible roadmap for those that follow. Ideally, washing stations targeted either as “leader washing stations” or “regional hub” washing stations by the pilot program will serve as the basis for these case studies, lessons learned and widespread dissemination. If not all forms of privatization are represented the initially targeted pilot washing stations then others can be added to this component of the pilot program on an “as needed” basis from among those that will be representative of alternative paths.

As we move through this process, it is important to consider where and how the private investors and enterprises will fit into this picture. There are currently eight privately owed washing stations in Burundi and there are plans among private owners and coffee exporters to expand the number of privately held CWSs either through new construction or through the purchase of government owed stations. Privatization is not an issue for the existing (already private) washing stations, but looking to the future and the opportunities for these and other private enterprises to be included in the process of privatizing the 141 state owned stations is a crucial area of debate. Looking to neighboring Rwanda, as well as Tanzania, Kenya and other East African Coffee producing countries it is clear that the private sector is a driving force in all of them. We anticipate that private enterprises will become equally strong in Burundi’s coffee subsector. From the privatization point of view BAP will promote and facilitate the involvement of private investors and enterprises along with the farmer associations in the interest of achieving the best possible models for managing successful coffee production, processing and sales.

To give the Producer Organizations the information and tools they will need, we will:

- Train leaders and managers from 11 anchor project CWSs in privatization process, including financing options;
- Members of 50 Producer Organizations will have their capacity reinforced in the areas of Association structuring/functioning, organization, internal governance- including improved business management skills and record keeping, internal resource mobilization, and the development of strategies designed to facilitate investment of earned revenues from coffee in improving community infrastructure, savings, purchase of shares in CWS and diversification of household/community revenue streams
- Train members from 50 producer organizations in privatization concepts;
- Develop case studies for CWSs in what to do (best practices) in forming cooperatives, joint ventures, and management contracting;
- Train producer organization leaders and managers on how to access financing for CWS purchase;
- Support producer organizations to understand the steps and mechanics of transforming into formal cooperatives and taking ownership of CWSs;
- Facilitate privatization transactions linking producers, private investors, and financiers;
- Work with banks, microfinance institutions, and government to improve understanding of the dynamics of rural, particularly agricultural financing, strategies to mitigate risk linked to crop

failure, lack of tangible collateral, and to assess the viability of proposed rural sector activities in order to facilitate increased access to financing for CWS purchase.

These interventions are detailed in Annex 3 along with their respective implementation timelines over the five year life of the coffee anchor project.

6.2.2 Coffee Quality Improvement in Production/Processing

Improving the quality of coffee to meet specialty coffee industry standards for taste is one of the principle axes of the coffee anchor program. Achieving this goal in the field and in the wet and dry milling of the coffee is a condition affecting the success of all other program components, particularly those aimed at developing specialty coffee markets. And other components, such as the development of cupping laboratories and capacity at the regional and leader washing station levels, are essential to the success of coffee quality improvement. While raising the *quality* of Burundi coffee is the primary goal of this component, a second highly desirable outcome of investments in this area will be to increase the *volume* of coffee produced and processed, particularly the volume of coffees qualifying for specialty markets.

Working initially with the leader washing stations and then the second tier regional stations the coffee pilot team will partner with CWS managers and producers to conduct Quality Control Audits and based on these audits will provide detailed technical assistance in each and every step required to raise the quality of coffee. There have been numerous technical areas already identified in our earlier coffee subsector diagnostic work that warrant special attention in this component of the coffee anchor program. These include:

Production:

- ❖ Application of proper cultivation techniques during growing season, especially mulching, pruning, and application of fertilizers and pesticides.
- ❖ Focus ISABU research on reducing the “potato taste” problem, the most serious agronomic constraint to raising coffee quality in Burundi.
- ❖ Replanting old coffee trees with improved plant material, focusing on reducing the pronounced cyclical swings in production every two years.
- ❖ Harvesting only ripe, undamaged cherries by farmers prior to bringing them to CWS within 6 hour time limit to avoid pre-fermentation.

Processing (Washing Stations and Dry Mills):

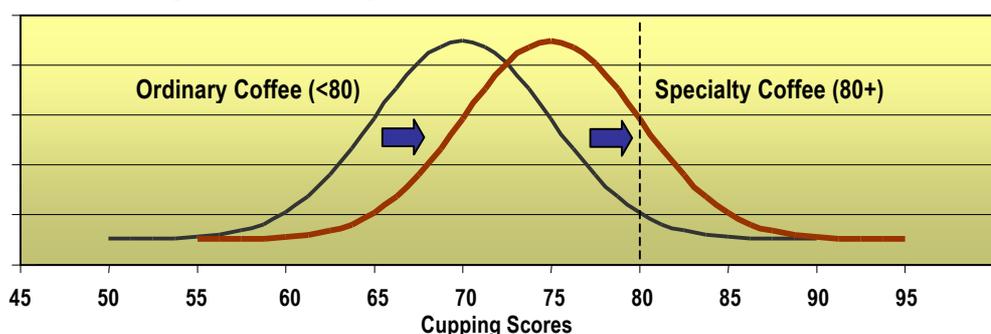
- ❖ Flotation of cherries at CWS reception area and removal of floaters.
- ❖ Assignment of traceable lot numbers.
- ❖ Cleaning (periodic and scrupulous) of depulping machines, channels, and tanks between depulping runs to eliminate off-tastes from fermenting debris.
- ❖ Attention to progress of fermentation process.
- ❖ Application of pollution abatement measures concerning pulp and waste water.
- ❖ Attention to grading and washing of parchment in channels between tanks.
- ❖ Attention to rigorous hand sorting in pre-drying of wet parchment.
- ❖ Turning and sorting of parchment by hand during entire stage of drying process to remove damaged or off-color parchment.
- ❖ Cupping of lots to sort production by quality and isolate “potato taste” and other problem coffee.
- ❖ Profiling of coffee quality for more focused marketing.

- ❖ Hand sorting of defective beans at the dry mill
- ❖ Attention to settings and procedures for dry milling (e.g., avoiding the problem of over-polishing beans as recently observed by industry experts).
- ❖ Maintaining clearly traceable lots through both wet and dry processing.

All of these steps will be the focus of technical assistance to the pilot washing stations. Implementation of several of these steps, such as the flotation of cherries and pre-drying and hand selection, will require modest investments in basic washing station infrastructure. It is estimated that the installation of a bank of 10 flotation tanks, for example, will cost approximately US\$ 5000. Covered pre-drying tables will cost nearly the same.

As depicted in Figure 6.2, we expect that BAP interventions will ultimately improve coffee quality across the board, not just in the 11 CWSs of the anchor project. We expect that the percentage of Burundi coffee that will be sold on specialty coffee markets will increase from a negligible amount today (< 1%), to 15 percent or more by 2012. But more than this, other coffees will move in the right direction and come closer to specialty coffee industry standards during this period.

Figure 6.2. Quality Improvements Affect all Coffees



Dissemination to the broad base of CWSs. Unless the results of the BAP coffee anchor program can be fully disseminated to the larger population of coffee producers and their respective washing stations the program will not have done its job. As a pilot initiative, it is designed to lead the way for the entire subsector in terms of producing high (specialty) quality coffee, creating market access and market demand for Burundi coffee, and providing a learning platform for how coffee washing stations can be successfully privatized. We already know from the isolated experiences of the Gourmet Coffee Project what can happen if the lessons are not extended more broadly—change will not happen and cannot be lasting.

Implementing a well-conceived dissemination plan will be the starting point for the anchor program’s outreach efforts. Our plan has at its core a set of successes and lessons learned that will provide grist for the outreach mill, so to speak. Materials of all sorts will be developed under leadership of the project technical and administrative staff.

Best practices for production and processing of specialty coffee will be made available in printed form and on the project web site. They should be available in English, French and Kirundi and will be distributed widely. These materials will take the form of technical bulletins, training manuals, videos and streamed live or on DVD as podcasts. The same will hold for marketing practices such as “How to Host a Buyer,” “Direct Sales Dos and Don’ts”

and “Adopting the National Coffee Traceability System.” Disseminating information on washing station privatization will require more of a case study approach that will follow the experiences of a small number of pilot washing stations through the process of producer organization, gaining legal status, accessing financing, setting up a system of self governance, and so on. These experiences will be vital to those who follow.

Formal training sessions based on the materials developed are a second step in the dissemination program. Train the trainer sessions will be based at the leader stations and regional (dry mills) for cupping, marketing, production and processing practices and other key areas of need. Through this second stage, trainers will be able to reach the larger audiences of washing station managers, farmer association leaders and others in their regions to extend lessons learned and best practices to the next level. Placing computers and internet access in these regional training hubs will be an especially useful tool for video and podcast demonstrations.

At both stages and in the development of training materials it will be important to include coffee researchers from ISABU, local extension agents, coffee exporters, freight forwarders community leaders and others who have a contribution to make and/or opportunity to learn from the dissemination of pilot program results.

Implementation. As itemized month by month in the BAP Coffee Anchor Program Timeline (Annex 3), coffee quality improvement in production and processing will have a very modest start in Year 1. This is because resources have been allocated initially to kick-start privatization and market engagement. Quality improvement will occur in part from the recommendations of buyers/roasters introduced to Burundi as part of the market engagement initiatives of BAP. From these visits the coffee team will compile a guide book on best practices for coffee production and processing that will be used in training sessions with our leader washing stations and partner dry mills. Any needed improvements in equipment and procedures will be made at this time, prior to the coffee harvest. Year 1 will also work closely with partner dry mills and OCIBU in the planning and development of two Coffee Quality Centers. These are envisioned as public-private partnerships that will be catalyzed by BAP resources (as a GDA) and guidance.

Years 2-5 will radically expand the coffee quality improvement investments and Best Practices of BAP to the training hub washing stations and then to the larger pool of CWSs most interested in making necessary improvements to improve coffee quality and access specialty coffee markets. The Coffee Quality Centers will be constructed and fully equipped. Professional cuppers at each CQC will be trained by industry experts. Coffee quality study tours to Rwanda, Kenya and elsewhere will be organized to learn from the best in the region. Also, two special events will be organized in Burundi aimed at improving coffee quality. Sustainable Harvest Coffee will conduct training program in Coffee Washing Station Operations for all CWS managers. In a later event Sustainable Harvest will hold in Burundi a “Lets Talk Coffee” event for coffee stakeholders through out the East Africa. Other training in Years 2-5 will include sessions on basic CWS management as well as in coffee logistics and shipping. Finally, the BAP coffee team will work closely with researchers at ISABU to identify and begin to address the major agronomic obstacles faced by Burundi’s producers, including the need for new planting material and steps to address the prevalence of “potato taste” so common and detrimental to coffees in the region.

6.2.3 Specialty Coffee Market Development

Burundi is entering an entirely new orbit as it makes its way into the realm of specialty coffee markets. This will mean that, as the investments in improving coffee privatization and quality as described above begin to bear fruit, there will be a precipitous shift for much of the country's coffee away from the organized weekly auction for commodity coffee in favor of direct sales to specialty coffee buyers. There will be a need for a major "paradigm shift" in how Burundi approaches coffee sales. There will be need for an expanded focus on coffee marketing.

The coffee anchor program represents a potentially huge step forward in the creation of a specialty coffee marketing plan and producer level access to these markets. Our plan is to engage our project marketing specialists in the development of a marketing strategy and marketing materials, including a country logo, brochures, standardized washing station fact sheets, coffee maps and other information that may be useful to coffee markets. It will involve buyer tours, buyer relationship building, traceability systems, appellation maps, certification strategies and many other dimensions that will place Burundi's coffees in some of the very best markets in the world.

This component of the pilot program, perhaps more than any other, will require the full coordination of investments and activities at multiple levels, including washing stations, regional centers, and at the national level. Discussed here below are some of the more important contributions that will be established through the BAP coffee anchor program, once the Burundi-based Marketing Specialist and US and EU Market Liaisons (part-time) are in place.

Activities will focus on cultivating appropriate contacts and potential coffee relationships in North America, Europe and Japan, organization and transmittal of coffee samples, arrangements of meetings and presentations and development and management of trade show exhibit booths and market materials. Also figuring into the marketing plan and program implementation will be as set of discrete and concrete steps that will "put Burundi on the map" in terms of worldwide visibility and roaster/buyer attention. These steps, to be carried out with direct industry involvement, include the following:

National level:

- ❖ Develop specialty coffee marketing strategy, together with industry experts, that will serve as a guide to market expansion over the next 5-10 years.
- ❖ Build a unique image for Burundi coffee utilizing publicity potential.
- ❖ Engage the media (popular, trade and educational) in new developments in Burundi's coffee subsector).
- ❖ Invest in market intelligence and market information.
- ❖ Strengthen capacities in coffee subsector through relationship building with face to face contacts through marketing liaisons in the US and EU.
- ❖ Begin developing an information communication technology-based coffee marketing tool with traceability information on lots at the CWS level.
- ❖ Develop a verifiable traceability system to track coffee lots to the washing station and, eventually to the farmer association and individual producer levels.
- ❖ Develop a certification strategy and support Burundi-based certification.
- ❖ Participate in major annual specialty coffee trade shows and similar forums.

Regional level:

- ❖ Work with SIVCA and SONICOFF regional dry mills to develop GDA proposals in support of regional coffee quality centers (CQCs). These CQCs will be based at the Ngozi and Gitega dry mills and will house a cupping laboratory, centre d'accueil for international buyers, and classroom for coffee quality training.
- ❖ Assess dry mill processing and quality control procedures at both SIVCA and SONICOFF, formulate and monitor the implementation of recommendations to improve the processes and procedures and facilitate linking Financial Institutions with these operators to finance upgrading of equipment and systems necessary for the recommended improvements to occur.
- ❖ Develop coffee appellation maps in support of traceability and the establishment of “terroir” coffees.
- ❖ Expand regional cupping capacities in support of growers, washing stations and dry mills to strengthen relationships with buyers.
- ❖ Establish buyer reception capacity.
- ❖ Establish coffee quality training programs at the regional level

Washing station level:

- ❖ Train targeted producer associations and private enterprises in seasonal campaign planning, direct sales negotiations, pricing strategies, sales contracting conventions, and risk reduction strategies.
- ❖ Assist in preparing the PO/CWS staff for market engagement by reinforcing their ability to access, analyze and synthesize real time information on the coffee sector, world market trends, international norms and standards and buyer exigencies.
- ❖ Develop information sheets and other promotional materials for marketing specialty coffee aimed at CWSs and regional cupping service providers.
- ❖ Conduct regular strategic buyer/roaster tours during the coffee harvest period with the aim of fostering stronger producer-buyer relationships and increased coffee sales.
- ❖ Broaden IT capabilities at coffee washing stations to make information available to potential buyers.
- ❖ Extend cupping capacity to leader and training hub levels.
- ❖ Implement traceability system at target CWSs.
- ❖ Extend traceability to all CWSs.
- ❖ Provide training to station managers in export preparedness and price negotiation.

Implementation. As detailed in Annex 3, market development work will begin in Year 1 with the development of a marketing strategy and building an image for Burundi coffee that connotes quality. Best practices for direct sales will be developed and leader and second tier CWSs will be trained in best marketing practices. There will be modest participation in key specialty coffee trade shows, notably EAFCA, SCAA and Cup of Excellence (Rwanda) where Burundi coffee will be presented and buyer linkages established with the assistance of the BAP marketing specialist. Buyer/roaster tours will be an important Year 1 activity and will continue through the life of the project, becoming more sophisticated and professional over time. Public awareness of specialty coffee markets and how producers and washing stations can access these markets will be a focus of the coffee media campaign in year one and beyond. This will occur through radio programming and printed news media. There will also be significant stimulus given to external media coverage of Burundi coffee to begin to prepare consumers in the US, Europe and other important coffee markets.

In years 2-5 many of these activities will continue and will be extended to beyond the leader and hub stations to a larger number of CWSs. Other activities will be introduced including the development and implementation of a national coffee traceability system, the establishment of coffee terroirs for Burundi's very best coffee producing regions, and the creation of a data base (agronomic, taste profiles, etc.) that will be used for appellation and terroir development. Cup of Excellence study tours for key Burundi coffee stakeholders will be conducted in Africa (Rwanda) and Latin America in preparation for an annual CoE competition and auction in Burundi starting in Year 4.

6.2.4 Cupping Labs and Training in Support of Quality and Marketing

Though already mentioned in the context of both the production/processing and marketing components of the pilot program cupping capacity is so vitally important to the development of specialty coffee in Burundi that it is highlighted here as a crosscutting component. Cupping laboratories will be established through BAP as GDA activities at the regional Coffee Quality Center (dry mill) level.

Key steps in this component will include:

- ❖ Procure cupping lab equipment
- ❖ Identify priority cupping lab sites
- ❖ Negotiate lab management with OCIBU and/or selected dry mills and CWSs
- ❖ Make cupping lab building investments (as GDA if with regional dry mills)
- ❖ Install cupping lab equipment
- ❖ Conduct cupper training
- ❖ Develop cupping training materials for best practices and dissemination
- ❖ Disseminate cupping resources, services and techniques for broader use by all washing stations and dry mills.

6.2.5 Information Technology and Communications (ITC)

The ITC component will crosscut all other aspects of the coffee anchor program and activities at all levels including washing stations, regional centers and national level initiatives. Wireless internet access through (cell phone systems) is now available in much of Burundi (via UCOM), presenting an exciting opportunity for washing stations to broaden their horizon in terms of technology access, learning opportunities and direct communications with buyers.

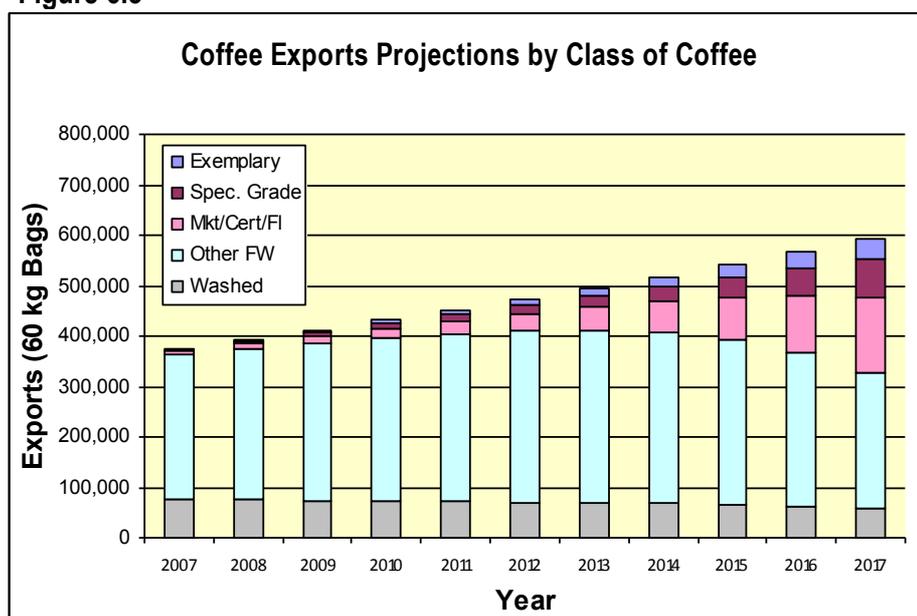
Starting in Year 2 the BAP ICT specialist with support from MSU's STTA coffee team will assist OCIBU in developing the CWS Data Base described earlier in this value chain study as a second area where internet access will be especially useful. Expansion of this data base will enable Burundi to track and report on key performance characteristics of all washing stations for purposes of monitoring and planning and assessing the impacts of investments in quality improvement. Similarly, the data base will serve as an important tool for export promotion, and with our industry partners we will design and implement a web based system that will be accessible to buyers interested in visiting and buying Burundi coffee. Hot-links to individual CWS sites will allow buyers to download CWS fact sheets learn about coffee and communicate directly with the stations that interest them most.

Establishing a national traceability system will enable buyers and sellers to track each lot from the time it enters the washing station until it is delivered to its final destination. The

ITC component will be integral to the development of the coffee traceability system and to using this system to its full potential.

From a basic training point of view, access to the internet at first and second tier washing stations will be a powerful tool for the dissemination of training materials across the country. Other countries, particularly in Latin America and more recently in Rwanda have benefited greatly from the development of information and communications technologies. Burundi will be no different in this regard. In Year 3 the BAP ICT specialist will set up and train the regional CQCs and the 3 leader stations and the in basic internet access and use for coffee marketing purposes. In Year 4 this will be extended to the 8 regional CWSs and in Year 5 support will be given to extending this capability to additional stations as they express interest and need.

Figure 6.3



6.3 BAP Overarching Targets and Indicators

Our targets for improved coffee quality, sales and overall volume of production are captured in Figure 6.3. While BAP will run only through 2012, we extend the figure through 2017 to demonstrate how the changes put in place during the BAP life of project will create the momentum for Burundi's coffee subsector to continue to develop in the medium term.

Table 6.1. Coffee Anchor Project Targets and Indicators

Goal	5-Year BAP Target	Indicators
Increased % of CWSs privatized.	80% of CWSs held under cooperative, enterprise or joint ownership	SOGESTAL/OCIBU records on CWS sales
Higher percentage of fully washed	90% fully washed (80% currently)	Coffee sales records (OCIBU)
Higher prices received for all grades of coffee	<ul style="list-style-type: none"> ▪ Top 5% @ 50% premium (over NY "C") ▪ Top 15% @ 35% premium ▪ Top 90% (all fully washed) @ 20% premium ▪ Unwashed @ 5% premium 	Coffee sales prices (FOB) Cupping scores
Higher prices received by producers for coffee	100% increase in producer prices (over 120 Fbu historical base)	Coffee sales records (OCIBU)
Higher % in specialty coffee (80+ cupping scores)	<ul style="list-style-type: none"> ▪ 15% Sold on specialty markets (<1% sold currently) ▪ 5% to high end buyers (85+) 	Analysis of cupping scores and buyer profiles
Higher percentage sold through direct sales to buyers/roasters	50% sold through direct sales (<1% sold currently)	Coffee sales records (OCIBU)
Higher coffee production levels	20% increase in volume of coffee produced (current annual average 18,000 tons)	Coffee production statistics (OCIBU)
Higher % of coffees traceable to CWS	<ul style="list-style-type: none"> ▪ National traceability system established ▪ 70% of coffees traceable to the producing CWS 	Coffee sales records indicating CWS of origin

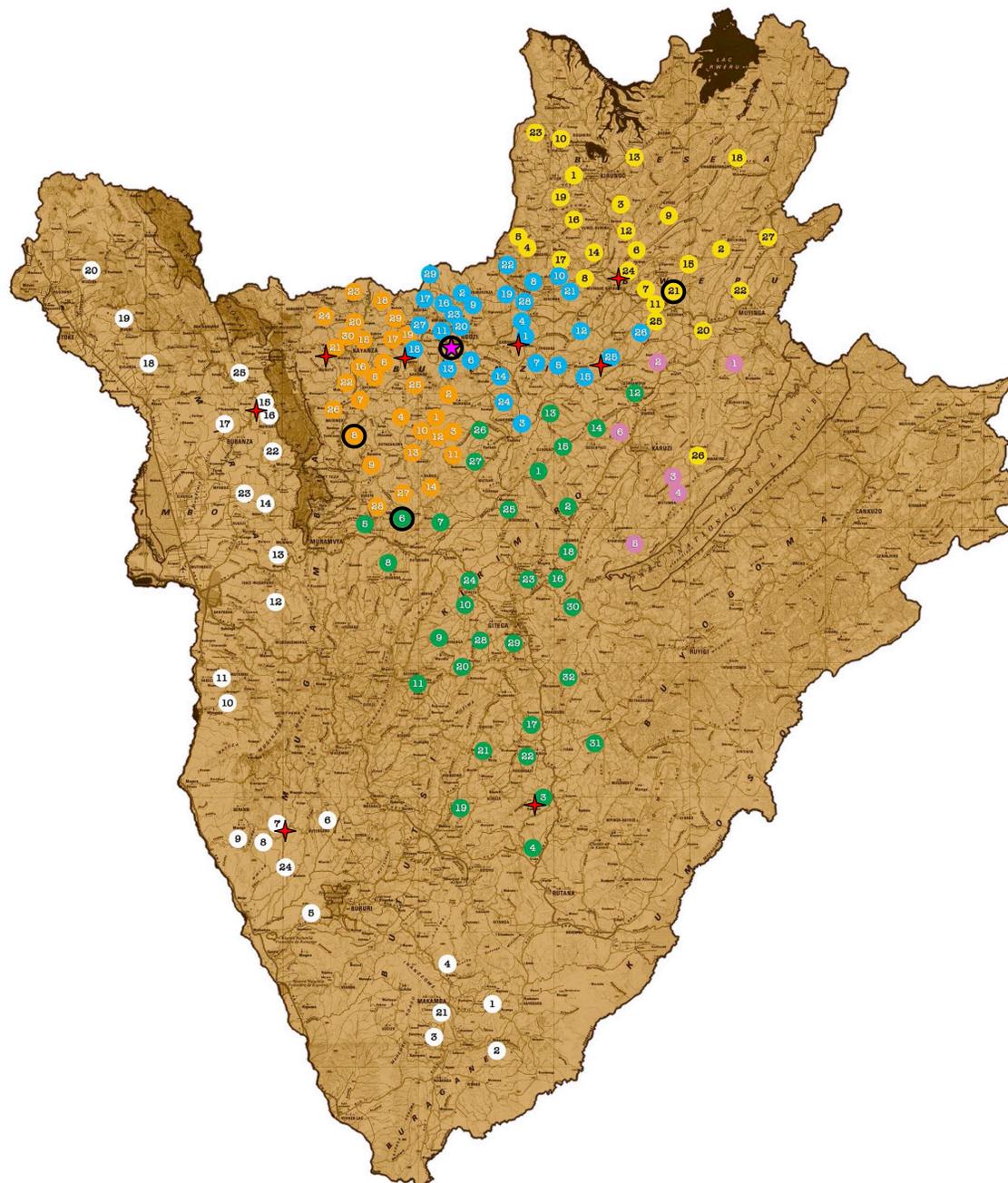
As summarized in Table 6.1, we are committed to a goal of 15 percent of all of Burundi's coffees qualifying as specialty coffees (cupping scores of 80 or above) and selling at premium prices. An average price premium for these coffees will be 35 percent, with the top third (5%) receiving price premiums averaging 50% above the New York C. Overall with these price premiums and investments made in creating producer incentives through subsector reform we set a goal of 20 percent increased coffee volume over the current annual production average of 18,000 tons. One of the requirements of specialty markets is that coffee be traceable to the CWS level. We expect to have a national traceability system in place and functioning by Year 3 of the project and that 70% of fully washed sales will be traceable to the CWS level.

Annex 1

Specialty Coffee Product Differentiation

Quality of Green Coffee	Buyers	Market Entry Costs
<p>Exemplary. Characterized by stand alone reputation of a specific region within a specific origin, exemplary coffees are retailed under the origin name and are designed to command the highest prices in the marketplace. Accompanied by farm stories and authentic traceable origins these coffees tend to put "a face" on the farmers who harvest them.</p> <p>Establishment of exemplary coffees contribute to country "coffee image" and provide a model for others to emulate. These coffees tend to raise the quality level of all coffees from the country/region.</p>	<p>1. <i>Roaster buyers:</i> Usually small boutiques roasters whose purchases constitute less than a container load and are brokered by an importer specializing in a relationship trade model. Examples include: Intelligentsia Coffee, Chicago, IL; Stumptown Coffee, Portland, OR; Counter Culture Coffee, Durham, NC;</p> <p>2. <i>Importer buyers:</i> Sustainable Harvest, Portland, OR; Volcafe Specialty Coffee, Petaluma, CA.</p>	<p>Highest investment in producing quality taste profiles with assiduous production, processing including hand sorting, traceability and appellation.</p> <p>Marketing through personal contact by way of roaster visits and meetings to submit/cup potential coffee samples; initial tours of coffee origin and follow up transmittal of coffee samples: part-time marketing specialist to handle information requests and oversee start up of trading relationships.</p>
<p>Specialty Grades: High, Medium & Low. Ranging from coffees that at the low end just make the specialty grade (at or just below a cupping score of 80) and those at the high end that approach exemplary, these coffees tend to be purchased in larger quantities by roasters interested in reliability and consistency of coffee quality. These coffees are often retailed in the marketplace under single origin name when reliable trading with origin has been demonstrated and there is sufficient market demand for the coffee. With time and added investment the best of these coffees move up to "exemplary" status.</p>	<p>1. <i>Roaster buyers:</i> Community Coffee, Baton Rouge, LA; Green Mountain Coffee, Waterbury, VT; Deidrich Coffee, Irvine, CA; Allegro Coffee, Denver, CO; Caribou Coffee, MN, Peet's Coffee, Emeryville, CA; Boyd Coffee, Portland, OR.</p> <p>2. <i>Importer buyers:</i> Royal Coffee, Emeryville, CA; Atlantic Specialty Coffee, Hayward, CA; Holland Coffee, Madison, WI.</p> <p>3. <i>Multi National Trading Co's</i> (with both export and import functions): ECOM Trading, Switzerland; Neumann Coffee Group, Germany; Volcafe, Switzerland.</p>	<p>Higher investment in producing quality taste profiles through improved production and processing techniques including hand sorting and traceability to the washing station level.</p> <p>To conduct coffee trading with potential buyers, sellers (or their agents) must be equipped with the knowledge of the market mechanisms, including a complete understanding of the distribution channels and the capacity to facilitate the timely, efficient movement of product through the supply chain.</p>
<p>Marketing/Certifications/Flavorings. Specialty coffee that is created by reason of value added attributes, vis-a-vis marketing (i.e., private label coffees), certifications (organic, Fair trade, shade grown, bird friendly) or flavorings; the specialty status of these coffees are predicated more on characteristics other than quality, however in the case of certified coffees some may also possess quality distinctions.</p>	<p>1. <i>Roaster buyers:</i> Taylor Maid Coffee, Sebastopol, CA; Thanksgiving Coffee, Fort Bragg, CA; Equal Exchange, W. Bridgewater, CA; Sacred Grounds, Arcata, CA; Magnum, Coffee Roasters, Nunica, MI; First Colony, Norfolk, VA</p> <p>2. <i>Importer buyers:</i> InterAmerican Coffee, Moraga, CA; Elan, Organics, San Diego, CA; Cooperative Coffee, Americus, GA</p>	<p>Modest investment in producing good physical characteristics and taste through improved production and processing techniques. Investment in organic, Fair trade and other premium-generating certifications.</p>

Annex 2. Map of Burundi Indicating Coffee Washing Stations and Potential Pilot Sites



Kayanza		21	Ruhande	7	Gisha
1	Rugoza	22	Kibuye	8	Gitaro
2	Muhanga	23	Muremera	9	Kagoma
3	Rubanga	24	Korane	10	Kibuye
4	Gitwenge	25	Mwurire	11	Kinyana
5	Masha	26	Rurengera	12	Masoro
6	Rubagabaga	27	Mushikanwa	13	Mirango
7	Gakenke	28	Rushwati	14	Mubuga
8	Bwayi	29	Nyanzari	15	Mugirampeke
9	Kiryama	30	Mubuga	16	Mugomera
11	Ruhinga	31	Kirambi	17	Murama
12	Nyarurambi	32	Rukobe	18	Murambi
13	Rama			19	Mushonge
14	Gacokwe	Kirundo-Muyinga		20	Nkaka
15	Karenzi	1	Burengo	21	Nyabikenke
16	Gahahe	2	Butihinda	22	Nyamugari
17	Mutumba	3	Gasura	23	Nzove
18	Mutsinda	4	Giheta	24	Rimiro
19	Kavumu	5	Gihororo	25	Rugabo
20	Butegana	6	Gikingo	26	Rugarama
21	Kibingo	7	Gishambusha	27	Rugori
22	Nemba	8	Gitega	28	Ruhama
23	Kirirma	9	Gitobe	29	Rukurazo
24	Yandaro	10	Gitwenzi		
25	Butezi	11	Kaguhu	Mumirwa	
26	Kinyovu	12	Kigobe	1	Nyange (Makamba)
27	Gatare	13	Kinyangurube	2	Mugangari
28	Buhorwa	14	Mbasi	3	Kanyinya
		15	Murago	4	Gitaba
Kirimiro		16	Muramba	5	Kajabure
1	Gahororo	17	Murehe	6	Rubirizi
2	Rusamaza	18	Mutarishwa	7	Ruhora
3	Butemba	19	Mwendo	8	Burambi
4	Gitaba	20	Ndava	9	Nyagashiha
5	Kivogero	21	Ngogomo	10	Kirasa
6	Teka	22	Nyamaso	11	Masama
7	Taba	23	Nyange	12	Isale
8	Nyamitwenzi	24	Rugerero	13	Magayo
9	Mbogora	25	Rusimbuko	14	Rugazi
10	Kibungere	26	Kagombe	15	Kivyuka
11	Gasave	27	Nyamasaka	16	Musigati
12	Ngayane	28	Buhimba	17	Muramba
13	Teme	Ngozi		18	Buhayira
14	Kigarama			19	Murwi
15	Ramba	1	Buhoro	20	Mugina
16	Ruvubu	2	Burenza	21	Buyezi
17	Mavuvu	3	Cagura	22	Muyebe
18	Shombo	4	Gatobo	23	Nzorya
19	Mahonda	5	Gihere	24	Kabumburi
20	Nkondo	6	Gisagara	25	Ntamba

