

Africa Great Lakes Region Coffee Support Program (AGLC)

Pricing Coffee Cherry to Incentivize Farmers and Improve Quality

Background on AGLC Policy Advocacy Roundtables

The USAID-funded African Great Lakes Region Coffee Support Program (AGLC) is a collaborative initiative led by Michigan State University (MSU) that integrates applied research, farmer capacity building, and policy engagement. The program's goal is to dramatically reduce the effects of antestia bug / Potato Taste Defect (PTD) and to raise farm-level productivity in Rwanda and Burundi, both of which will improve income for smallholder farmers and help to sustain the African Great Lakes region's reputation for producing some of the highest quality coffees in the world.

The AGLC program has enduring ties with the public, private, and university sectors in Rwanda, all of which are necessary to build sustainable regional capacity in research, extension/outreach, and policy analysis. Ultimately, our goal is to equip policy makers with the necessary research to develop informed policies aimed at improving coffee quality and productivity. To achieve that goal, the AGLC team held a series of Policy Advocacy Roundtables in 2016 and 2017. The final roundtable event was held at the National Agricultural Export Development Board (NAEB) headquarters on 13 June 2017. This event was focused specifically on connecting Rwandan coffee price to quality.

Roundtable Discussion

During the AGLC Policy Advocacy Roundtable held at NAEB in June 2017, Rwanda coffee sector stakeholders (including government, cooperatives, exporters, input suppliers, etc.) discussed potential solutions they believed the Rwandan government could implement in order to improve the quality of Rwanda's coffee, increase the percentage of coffee that makes it through the fully-washed channel, and remove the amount of low-grade coffee in the fully-washed channel. AGLC policy recommendations are summarized below.

The Challenge

Given the higher prices paid for specialty coffee, the growing demand for fully-washed Arabica, and Rwanda's own comparative advantage, the country is shifting the focus of its coffee industry away from low-priced, commodity grade coffees (Source: NAEB, Medium Term Strategic Plan, 2013-2018, pg. 9). Unfortunately, some structures and policies are not designed to maximize Rwanda's potential for quality coffee—but there is room to develop new, beneficial policies. NAEB annually sets a cherry price in consultation with key coffee sector stakeholders, some of whom are heavily invested in trading lower grades of coffee. Buyers of low-grade coffee have few, if any, quality requirements. Their need for low-cost cherry sometimes drags down the minimum cherry floor price from what it could be if it were set to truly incentivize farmers to produce high-quality cherry for the specialty coffee market. Therefore, policies to allow and promote new ways to price cherry, allowing separate prices for low- and high-grade coffees, could be considered for testing and evaluation.

Policy Recommendations

Raise Cherry Floor Price

- NAEB should set a cherry floor price that will incentivize farmers to produce quality coffee, which Rwanda seeks to be known for on the global market. This price should be based, in part, on farmers' production costs. It should also ensure that farmers will receive a fair share of profits from the sale of high-quality coffee. In 2016, AGLC estimated that a price of 300 RWF/Kg of cherry would be fair compensation to farmers for *high quality* cherry. At 300 RWF/Kg it is estimated that farmers would receive, on average, a 41% gross margin on coffee sales.
- NAEB stewardship of the cherry floor price is required, as this floor price is known to greatly



USAID
FROM THE AMERICAN PEOPLE

MICHIGAN STATE
UNIVERSITY



Global



- determine the average price paid to the 350,000 coffee farmers throughout Rwanda. NAEB should emphasize and conduct research, such as regular monitoring of farmer cost of production and productivity measures.

Set Policy of Floating and Sorting All Coffee Cherry

- In addition to a cherry floor price as described above, NAEB should establish quality requirements at the point of purchase, such as required floatation and sorting before weighing at the CWS. Washing stations are thus only purchasing the “sinkers” and properly ripe cherry at the cherry floor price or higher.
- Quality metrics like cherry floatation are an improvement on other, more subjective criteria such as cherry color and are more immediately relevant than cup scores. Thus, floatation can be used, in addition to other methods to substantiate higher prices and higher requirements on the farmers’ harvesting and sorting practices.
- Key Consideration: policies that require floating at coffee washing stations (CWS) will need to consider ways for all collection sites of the CWS to have access to water. Note that typically one or two jerrycans of water are generally sufficient for floating cherry.
- While farmers sort cherry on raised tables, the agronomy staff of the CWS should interact with the farmers, re-enforcing good agricultural practices (GAP).

Allow Coffee Washing Stations (CWS) to Determine Policy for “Floaters”

- NAEB should allow CWS to establish/negotiate their own policies for the “floaters” and other “rejected” cherry. This is coffee that will ultimately be sold in the “ordinary” market at significantly lower prices. The following options could be expressly allowed and/or encouraged by NAEB:
 - * NAEB could recommend that CWS send the low-quality cherry home with the farmer. Several CWS have shown the educational benefits of this practice: eventually, farmers learn to float and sort on the farm when they know that the washing station will not pay the established floor price for low grade coffee. Farmers will have the option of processing rejected coffee to parchment on the farm and selling it to local traders for sale as ordinary coffee.

- * Alternatively, CWS could buy the low-quality cherry at a significant discount off the floor price (e.g., 50%), to be negotiated between the CWS and farmers. Washing stations can then either process this cherry separately at the washing station, taking care to not mix it with the high-quality cherry, or they can sell the aggregated amounts of low-grade cherry to traders.

Let the Market Determine the Price of Low-Quality Coffee

- NAEB should allow market forces to determine the price for lower-quality coffees. These markets currently exist and could be recognized through government statements and leadership. It is expected that over time farmers will be incentivized to produce an increasing share of the high quality cherry and a decreasing share of lower quality coffee—a highly desired outcome for the coffee sector.

Track and Publish Quality Metrics

- NAEB should promote CWS that achieve excellence in quality cherry processing. For example, results of a CWS best practices survey could be published.
- NAEB categories for tracking exports should be updated. Categories based on market-recognized quality factors such as cup scores, screen size, and incidents of defects would be helpful in developing policy to attract buyers.
- NAEB should track statistics on quality achievements at CWS, such as A1 quality parchment as a percent of total kilograms delivered to dry mills.

Authors' Acknowledgement: This research was undertaken by the Feed the Future Africa Great Lakes Region Coffee Support Program as an associate award under the Innovation Lab for Food Security Policy, implemented by Michigan State University and partners. The authors gratefully acknowledge support for this research from the United States Agency for International Development (USAID) Bureau of Food Security. The views expressed in this document do not necessarily reflect those of USAID or the U.S. Government.

This research is made possible by the generous support of the American people through the United States Agency for International Development (USAID) under the Feed the Future initiative. The contents are the responsibility study authors and do not necessarily reflect the views of USAID or the United States Government

Copyright © 2017, Michigan State University. All rights reserved. This material may be reproduced for personal and not-for-profit use without permission from but with acknowledgement to MSU.

Published by the Department of Agricultural, Food, and Resource Economics, Michigan State University, Justin S. Morrill Hall of Agriculture, 446 West Circle Dr., Room 202, East Lansing, Michigan 48824