



project results

PRICE RISK MANAGEMENT FOR THE COFFEE VALUE CHAIN IN RWANDA



The challenge

Coffee is the second most frequently exported commodity by Rwanda after black tea. 400,000 smallholder households depend on coffee production for their livelihood.¹ However, coffee is subject to significant price fluctuations, resulting in big differences in profit and loss for value chain actors from one season to another. Coffee price risk limits the capacity to optimise production and sale and exposes all actors along the value chain, including smallholder farmers and aggregators, to income volatility and vulnerability. **Many Rwandan coffee value chain actors cannot manage this price risk as they do not dispose of the necessary skills to implement hedging mechanisms.**

The proposed solution

The project aimed to provide Rwandan coffee aggregators (agri-SMEs and cooperatives) with Price Risk Management (PRM) training to strengthen their risk management capacities and resilience against price volatility, ultimately benefiting more than 10,000 farmers. The training aimed to enable smallholder aggregators to understand and comply with the conditions of coffee contracts and to close them at the right price to avoid losing money. The programme was inspired by a successful PRM programme by Oikocredit in Latin America in 2017.

The expected outcomes of the project were:

- 1 improved capacity of aggregators to manage coffee price risk and avoid losses
- 2 improved capacity of financial sector stakeholders to appraise the creditworthiness of SMEs
- 3 de-risking potential investees

Partner organisations

The following Rwandan coffee aggregators benefitted from the programme:

- Two agri-SMEs: **Bufcoffee Limited** and **Impexcor Limited**, both investees of Oikocredit, who are specialised in coffee production and export. They source coffee from 22,000 farmers, with a joint total annual sale of more than 12 million euros in 2021.
- Nine cooperatives supported by the local NGO **Sustainable Growers: Abakundakawa Rushashi, Cocagi, Dukundekawa, Gashonga coffee, KOAKAKA, KOPAKAKI Dutegure, Nyampinga, TUK, and Twongerekawa Coko**. They source coffee from 6,504 member farmers, of which 38% are women, with a joint total annual sale of more than 2.6 million euros in 2020.

Members of the **Council on Smallholder Agricultural Finance (CSAF)**, a forum for lenders in agriculture, also benefitted from the programme's knowledge-sharing sessions. These members included **AgDevCo, Alterfin, Common Fund, Global Partnerships, Incofin, MCE, reponsAbility, Root Capital, Shared Interest and SIDI**.



Market building



Internal management



IMPACT INVESTOR



PARTNER ORGANISATIONS

2 SMEs and 9 cooperatives working with over 10,000 farmers
Rwanda

AGRICULTURAL VALUE CHAIN

Coffee

START DATE

January 2022

DURATION

8 months

TOTAL EXPENDITURE

€ 113,650

Including € 78,814 (69%)
financed by SSNUP

¹ [Rwanda Development Board](#)





key results (as of August 2022)

A new PRM training material for Rwanda developed

11

Rwandan coffee aggregators trained in PRM
(two SMEs and nine cooperatives)



12



impact investors benefited from knowledge-sharing sessions

43 investment officers from CSAF members in East Africa can now evaluate the PRM capacities of SMEs when proposing financing options

New potential investees identified for Oikocredit for the new harvest season



Project's contribution to the SDGs



1. No poverty

1.5 Building the resilience of vulnerable people

2. Zero hunger

2.4 Adoption of productive, sustainable, and resilient agricultural practices

100%



satisfaction rate

as all participants deemed the training relevant and applicable to their organisations

According to the participants, **the training provided new knowledge**, such as:

- ✓ coffee transactions on international stock markets (Arabica coffee is traded on the New York Stock Exchange under the benchmark "C Contract") and different types of sale and purchasing contracts
- ✓ coffee price composition and fixation, including country differential (buyers are willing to pay a higher price for Rwandan coffee due to its high quality)



lessons learnt

✓ **Baseline assessments are crucial when developing new training material**

The Oikocredit training material developed in Latin America had to be adapted to the Rwandan context. Rwanda has mandatory minimum cherry-buying prices, while Latin American countries do not. Africa also has different local governance dynamics. The original training material was designed for cooperative organisations, while the programme in Rwanda also targeted SMEs. Therefore, baseline analyses and assessments were crucial for adapting the material and teaching methods. They also served as a starting point for measuring the learning progress of the individual participants and their organisations.

✓ **Recruiting consultants with experience in training local farmer organisations**

The recruitment of a local consultant with vast experience in training smallholder farmer organisations proved crucial for the success of this project. Although the consultant was not an expert in PRM, he was very familiar with the issues faced by participants. He could interpret the information from the PRM expert in a way the participants could absorb and understand.

✓ **Coffee aggregators' skills and capacity to establish appropriate sale contracts need to be further strengthened**

After the basic training, participants requested more regular training about different open contracts and how to establish them, including price fixation, contract analysis and negotiation.

✓ **Constant monitoring of key indicators and strong internal coordination are crucial in managing coffee price risk for businesses**

For all stakeholders in the supply chain, continuous monitoring of key indicators is vital to mitigate business uncertainty and to be able to react adequately. The risks must be jointly identified, monitored, and mitigated by the Board of Directors, management, and operational (commercial and financial) teams. Many participants said they would improve record keeping, data analysis, communication and cooperation between the Board and management in their organisations.

Outlook

After this basic PRM training, the participating organisations will further benefit from the following:

- **Intermediate and advanced PRM training**
- **Installation of a PRM open position dashboard:** Each project partner will link the dashboard to their respective information systems, consolidating their data in a single comprehensive system. Open positions can be managed in real-time using market data to simulate coverage purchases for effective PRM hedging.
- **Ongoing advisory support from the PRM expert** to build internal PRM capacities and confidence to operate independently in future harvest cycles.
- **Peer-to-peer visits:** By visiting other producer organisations that have successfully implemented sound PRM practices and financial hedging strategies, project partners can visualise themselves doing the same. A community WhatsApp group will also be created to exchange best practices and to foster a PRM culture.

