



Projects Committee
13th Meeting
14 March 2017
London, United Kingdom

Executive Summary

**Sustainable Credit Guarantee Scheme to
Promote Scaling up/out of Enhanced Coffee
Processing Practices in Ethiopia and Rwanda**

Background

1. This document contains the Executive Summary of the following concluded project submitted by the Project Executing Agency (see Section II of document [PJ-110/17](#)):
 - **Sustainable Credit Guarantee Scheme to Promote Scaling up/out of Enhanced Coffee Processing Practices in Ethiopia and Rwanda (CFC/ICO/48)**
2. A copy of the full report is available on request from the Secretariat.

Action

The Projects Committee is requested to take note of this report.

EXECUTIVE SUMMARY OF THE FINAL REPORT

SUSTAINABLE CREDIT GUARANTEE SCHEME TO PROMOTE SCALING UP/OUT OF ENHANCED COFFEE PROCESSING PRACTICES IN ETHIOPIA AND RWANDA (CFC/ICO/48)

Nature of the project

The project seeks to design and implement a credit guarantee scheme to empower smallholder farmers to access commercial loans. The loans will assist farmers to purchase and install improved processing equipment and will enable the cooperative societies to purchase and export more effectively the resulting high quality coffee produced through the improved processing practices. At the same time, the project will respond to the emerging challenges to sustainable production of high quality coffee by providing technical assistance to promote good agronomic and processing practices, accelerated flow of market information to all players in the coffee chain, and will promote good governance of the cooperative societies.

Project background

The project derives from a three year project on improving coffee quality in East and Central Africa through enhanced primary processing practices, which was implemented in Ethiopia and Rwanda between July 2004 and February 2008. The original project aimed to demonstrate good agricultural practices for post-harvest processing of coffee, enabling farmers to produce higher quality coffee, generate higher income, and improve their livelihoods. Therefore, equipment for small-scale coffee washing stations such as pulling machines and raised drying beds was delivered to beneficiary farmers. The marketing of these high-quality coffee was also organized with technical assistance provided to build the capacity of farmers' organizations. However, at the closing workshop of this pilot project in 2008, it was felt that a new initiative was needed to consolidate the positive results achieved and to assure the sustainability of good post-harvest practices developed throughout the initial project.

This second project aimed to support farmer organisations and coffee producers in accessing finance to acquire the necessary equipment and to provide the necessary technical support to improve coffee processing practices in Ethiopia and Rwanda. However, banks in the two countries perceive lending to smallholder farmers or to their cooperatives to be unattractive due to perception of high risk and cost, with relatively low risk mitigation opportunities.

The credit guarantee scheme was based on a risk-sharing agreement between the Common Fund and Rabobank Foundation to cover half of any losses incurred through the lending made to farmers. The target groups were farmer cooperative societies involved in the purchase, processing and export of coffee. The project also provided technical support to ensure good corporate governance, proper agronomic and processing practices, and flow of market information.

Project implementation and results

Project activities covered 5 components:

- Access to commercial loans by smallholder coffee farmers
- Scaling up and out of improved coffee production and processing practices
- Strengthening of primary cooperatives and unions
- Enhanced access to production and market information
- Project coordination, supervision and monitoring

I. Access to commercial loans by smallholder coffee farmers

The objective of this component is to promote better access to credit and banking services by smallholder farmers with the expected output of an appropriate credit guarantee scheme being developed and implemented. Rabobank International Advisory Services was contracted to provide technical assistance to the local banks in lending to the coffee sector as well as to provide technical assistance to coffee cooperatives on corporate governance and financial literacy. In Ethiopia, over 23 cooperatives have benefitted from loans while in Rwanda 10 cooperatives were eligible to access to commercial loans.

Results and lessons learnt

Collateral remained a significant factor in loan access, especially in Rwanda, and this could be because of the price risk to which most of the participating cooperatives remain exposed. In the case of Rwanda, when a service provider or exporter provides the working capital, the service provider/exporter takes the responsibility of managing the price risk. When the cooperative accesses finance, this risk appears to move from the service/exporter to the farmer cooperative.

II. Scaling up and scaling out of improved coffee production and processing practices

The objective was to catalyse the scaling up and scaling out of improved coffee processing practices in the coffee growing districts of Ethiopia and Rwanda. The output planned was for stronger primary cooperatives and unions in the project areas. This has been clearly achieved in Ethiopia where there is an increase in the role played by the various cooperatives in the marketing and provision of working capital during the coffee season.

In both Ethiopia and Rwanda, the coffee farmers have adopted the recommended processing practices but the biggest challenge has been the management of the greater complexities as a result of making the necessary investments.

Results and lessons learnt

Participating cooperatives have greatly enhanced their production capabilities with investments in wet mills and establishment of dedicated committees to manage the production and quality of the processing. This is a strong indication that the cooperatives have a clear goal to expand and improve operations.

The cooperatives are also being supported in improving the information collected on the production processes to manage the production costs. However, this remains an area that needs added support and mechanisms to ensure that the cooperatives have the information readily available and understand how best the information or data collected can be used to enhance their decisions.

III. Strengthening of primary cooperatives and unions

The objective is to facilitate the formation of cohesive cooperative societies and unions based on good governance principles. The cooperatives have been trained on good governance and financial management. The cooperatives are also supported by the cooperative development agencies in both Ethiopia and Rwanda.

Results and lessons learnt

A much stronger supervision is apparent in Ethiopia compared to Rwanda. The members of the cooperatives also exercise their rights with regard to election of office bearers. In both Ethiopia and Rwanda, it was clear that cooperatives regularly change their leaders and the key challenge is ensuring that the institutional knowledge within the cooperatives is retained.

IV. Enhanced access to production and market information

The objective of this component is to facilitate timely access to production and market information by the key stakeholders in the coffee value chain. The key output was to improve access to production and market information.

The improved distribution of the information generated by the Coffee Liquoring Unit (CLU) in Ethiopia and the Coffee Board (NAEB) of Rwanda was planned under the project. However, prior to the start of the project, the Coffee Liquoring Unit was disbanded and the Ethiopia

Commodity Exchange (ECX) established. The ECX manages the coffee auctions in Ethiopia and disseminates prices through a number of media i.e. electronic display boards, Radio, TV and internet and is therefore able to provide more credible and, sometimes, real-time displays/publications.

Results and lessons learnt

Key information on the coffee quality and quantities available under the project cooperatives is available to the key stakeholders, but having the information readily available remains a challenge. The quality of the management in both Ethiopia and Rwanda also has a direct influence on the information collected and utilised by the manager at the cooperative.

In Rwanda, the international market information is availed and shared with the cooperatives while in Ethiopia this role has been taken over by the Ethiopia Commodity Exchange which communicates the market prices through various media.

V. Project coordination, supervision and monitoring

The objective of this component is to coordinate the project and ensure that the execution, monitoring, financial management and administration are effectively and efficiently performed.

Annual planning workshops were held and annual work-plans and budgets were in place for efficient operations. The Project Execution Authority (PEA) provides technical support to the Project Implementing Authorities (PIAs) and supervision missions by the International Coffee Organization (ICO) and the Common Fund for Commodities (CFC) were regularly held. Reporting was done on a half-year and annual basis report for each of the PIAs while the PEA provides a combined report for the entire project.

Conclusion

The project has had a significant impact on coffee processing and quality in both Ethiopia and Rwanda. In cases where the smallholder farmers lack the capacity or access to sufficient water supply the semi washed coffee produced was of a higher quality compared to the sundried coffee and fetches a higher price on the international coffee market.