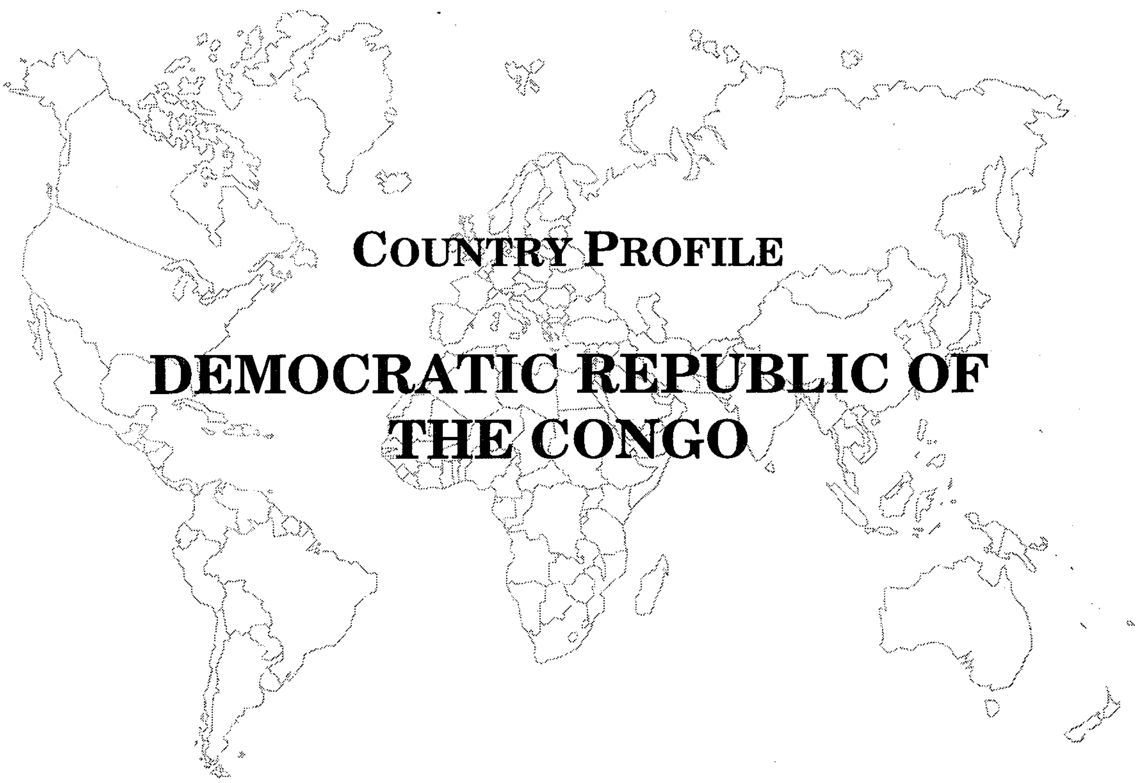
ICO/CFC STUDY OF
MARKETING AND TRADING POLICIES AND SYSTEMS
IN SELECTED COFFEE PRODUCING COUNTRIES



COUNTRY PROFILE

DEMOCRATIC REPUBLIC OF THE CONGO

COMMON FUND FOR COMMODITIES   INTERNATIONAL COFFEE ORGANIZATION   THE WORLD BANK

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ICO/CFC Study of Marketing and Trading Policies and Systems in Selected Coffee Producing Countries: D.R. of CONGO COUNTRY PROFILE

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Executive Summary: Democratic Republic of Congo

BACKGROUND

Agriculture is estimated to account for around 60% of Democratic Republic of Congo's (RDC) GDP, and between 1991 and 1996 coffee accounted for 75% of agricultural exports. In a country of about 47 million people, coffee grows in almost all the seven different provinces and is one of the most important cash crops in the rural economy.

Liberalisation started in the coffee industry in RDC in 1976, when the *Office National du Café* (ONC) lost its export marketing monopoly, having been unable to handle the crop effectively. In the early 1980s the government removed all price controls, leaving the market to determine price levels to farmers, and the costs of the intermediary services. The Central Bank continued to fix a weekly minimum export price, the *mercurial*, which was and continues to be applied for the registration of all export contracts.

The production of coffee in RDC showed a rapid increase in the late 1970s and early 1980s, in response to the impact of the free market. One of the most striking changes during the past 30 years has been the major swing from a plantation-based industry, with over 70% plantation production at Independence in 1960, to a smallholder based industry where less than 5% of output is produced on plantations.

Since the early 1990s, production has suffered as the rural infrastructure has deteriorated, due to lack of maintenance and investment. Access in some areas has become almost impossible. The dramatic decline in exports over the past two years probably reflects more of the difficulties of transportation, the political situation and smuggling rather than a reduction in production potential, although the incidence of the *tracheomycosis* fungus is increasing.

At the present time, the state of civil war which exists in RDC makes it difficult to arrive at an objective assessment of the potential of the market. Until there is a level of political stability and some economic stability and order, it seems unlikely that it will be possible to implement the programmes and strategies that will be needed to restore the confidence of the growers, and start to bring about the re-establishment of production.

THE REFORMS

There have clearly been benefits from the liberalisation of the internal market which have permitted the private sector to continue to operate, and, in places, compete fiercely for the available supplies of coffee, despite the adverse economic and political situation. However, the benefits have been lost in many areas, due to the collapse of the rural infrastructure.

The impact on producer prices of the liberalisation has been positive, though due to the size of the country, it is difficult to generalise. In December 1998, in one area producers were receiving 75% of the f.o.b. value of the robusta coffee, while in another area, growers were only receiving around 25% of the f.o.b. value. The former area was located in the East near the Uganda border, with better communications and thus more competition while in the other, coffee was bought from a farmer 75 km away from the nearest passable road.

After the collapse of the ICA's economic clauses in mid-1989, and the subsequent price decline, the government removed almost all export taxes and charges in an effort to encourage the sector and maintain grower prices. This remained the case until mid-1997, when the new government sought to increase revenue from the coffee sector and re-imposed export charges, in some cases retroactively. The present export charges amount to 13% of the f.o.b. value. This includes a 4.5% levy (3.5% for arabica) by the regulatory authority, the ONC (formerly *Office Zaïrois du Café*), to cover their costs and service provision to the industry.

With the difficulties of evacuation from the rural areas, quality has suffered, with farmers often storing under-dried cherry or semi-processed coffee in unsuitable conditions. The political instability has encouraged the rapid movement of coffee by exporters, with quality suffering in some cases. All export lots are subject to ONC quality inspection and certification.

Support Services

Since 1991, extension services for the coffee sector have been the responsibility of ONC (OZACAF). According to reports from rural areas, there seems to have been little extension activity in recent years, due largely to the problems associated with the deterioration of the infrastructure in the rural areas and political instability.

Given the remote location of many of the smallholdings and the decline in the plantation sector, the use of inputs has been very limited. Farmers use mainly organic fertiliser, having little access to any other sources of fertiliser. Apart from some NGO schemes in limited areas, there is little or no access for farmers to credit.

Organisations and Institutions

The ONC has prime responsibility for the coffee sector, including licensing, monitoring and quality control, as well as extension services for the coffee farmers. In addition, other institutions operating in the sector include the *Office Congolais du Contrôle* (OCC) which supervises all exports, OGEFREM (Maritime Freight Bureau) which makes a charge on freight bookings, and OFIDA (Customs) and the Central Bank. From the private sector, there is a *Comité interprofessionnel du Café* (Coffee Trade Committee) as part of the *Fédération d'entreprises Congolaises* (FEC).

The lack of stability, political and economic, has been a major disincentive to private sector players to become involved in initiatives towards the improvement of the industry. The will to do something is doubtless there, and once the situation is returned to normal, changes can be expected to be initiated from the FEC Committee.

Despite the liberalisation, the regulations and documentary requirements for exports are very cumbersome and slow. The requirement to have an export lot ready in store before it may be sold inhibits the exporters and internal traders in their price-risk management.

Democratic Republic of Congo

INTRODUCTION

Democratic Republic of Congo is primarily a producer of robusta coffee and an example of a free, but regulated, marketing system. The market was liberalised in early 1976. One of the most striking changes to have occurred in the coffee sector over the last thirty years has been the shift from a plantation based industry to a smallholder based industry.

In recent years, coffee production and marketing have been disrupted by civil war, political and economic instability and deteriorating infrastructure. However, despite the instability, liberalisation has permitted the private sector to continue to operate internally and, in some areas, this results in fierce competition for available coffee.

The profile firstly provides an overview of the Democratic Republic of Congo coffee sector and the macroeconomic setting under which the marketing system operates. The profile then details the supporting services that are provided to the farmer. The marketing system is then described along with the key components of its operation including, pricing policy, regulation, crop finance, risk management, taxation and institutions. Finally, the marketing system is evaluated by examining changes to grower prices, quality and production. As discussed in the profile, changes in production should not be viewed solely in the context of the marketing system but should be seen in the wider context of the political and economic instability and the fall in international prices in the early 1990s.

OVERVIEW

Trends in Coffee Production and Exports

The Democratic Republic of Congo (RDC), formerly Zaire, is a country of about 47 to 48 million people, covering an area of about 2,345,000 square kilometres. Recent estimates of the area under coffee vary from about 250,000 to 320,000 hectares, the majority of which is smallholder, which is inter-cropped with food and other cash-crops.

RDC produces both arabica and robusta coffee (approximately 87% robusta and 13% arabica). Annual coffee production increased in the 1960s and 1970s, in contrast to the majority of export and food crops. Exports reached a peak of over 2.2 million bags in 1986/86 (according to *Office National du Café* (ONC) export data), but have since declined dramatically.

According to the ONC, annual production averaged 1.6 million bags in the 1980s and has fallen to an annual average of 1.1 million bags in the 1990s. The overall decline in production can be attributed to a number of factors including political and economic disruption, very poor rural infrastructure, low producer prices, which led many farmers to abandon their plantations, and a high incidence of disease.

The *tracheomychosis* fungus is spreading across RDC's North East growing areas and as much as 40-50% of the crop in some areas has been affected. The production of arabica has shown a gradual decline in the East, though it has not been affected, as yet, by the *tracheomycosis* fungus.

Diagram 1: D.R.Congo — Coffee Production and Grower Prices, 1980/81-1997/98

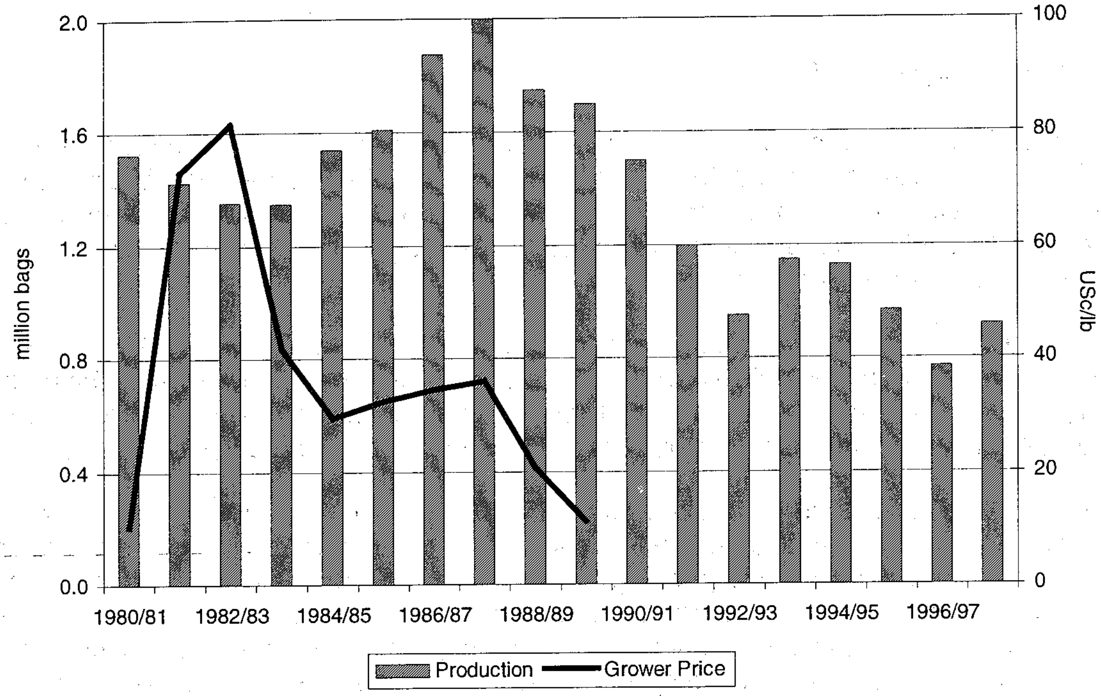


Table 1: D.R.Congo — Trends in Production, Trade ('000 bags) and Prices (US cents/lb)

	Production					
	Total	Robusta	Arabica	Exports	EUV	Grower Price
1960s (average)	**915**					
1970s (average)	**1,329**					
1979/80	**1,316**	1,176	140	932		
1980/81	**1,526**	1,376	150	1,017	76.11	10.41
1981/82	**1,425**	1,310	115	1,148	94.11	73.00
1982/83	**1,354**	1,234	120	1,109	111.68	81.48
1983/84	**1,350**	1,225	125	1,190	119.90	41.79
1984/85	**1,540**	1,390	150	1,162	109.35	29.50
1985/86	**1,610**	1,440	170	2,149	135.37	32.53
1986/87	**1,875**	1,695	180	2,027	84.97	34.59
1987/88	**2,000**	1,780	220	1,047	72.42	36.04
1988/89	**1,750**	1,510	240	1,502	59.86	20.77
1989/90	**1,700**	1,450	250	2,126	34.90	11.23
1990/91	**1,500**	1,350	150	1,496	29.59	na
1991/92	**1,200**	1,050	150	1,023	30.33	na
1992/93	**950**	800	150	938	29.32	na
1993/94	**1,150**	1,000	150	704	100.80	na
1994/95	**1,130**	980	150	1,055	120.53	na
1995/96	**970**	850	120	845	71.40	52.6
1996/97	**770**	650	120	568	68.49	62.6
1997/98	**920**	800	120	518		

Note: ONC figures show exports are higher levels that those shown above, which are derived from ICO data. For example in 1994/95 the ONC export figure is 1,417,000 bags.

Source: ICO, USDA, LMC

The plantation sector has declined steadily in importance since independence in 1960 when over 70% of production was from estates. This decline in estate production was accentuated by the Zaireanisation measures of 1973. By the mid-1980s, only 14% of production was from estates. Low prices in the early 1990s and a lack of security on plantations has led to a further decline in the estate sector and by 1996 it is estimated that only 2% of output was from estates (Table 2). The decline of the estate sector was further aggravated by the attraction of labour to more remunerative occupations, such as gold and diamond mining.

Table 2: D.R. Congo — Smallholder and Estate Production (%)

	Smallholder	Estates
1960	28%	72%
1987	86%	14%
1996	98%	2%

Source: Ministry of Agriculture

According to a study conducted in 1989, the average smallholder's area under coffee was about 1.00 hectare per family. According to ONC data, the average in the robusta growing areas was 0.90 hectares and in the arabica areas, 0.60 hectares. According to FAO figures, yields have declined from 372 kgs per hectare in 1980 to 351 kgs in 1991 and 312 kgs in 1993.

Coffee is grown in many different regions of RDC. Arabica comes from the eastern highlands of North Kivu, around Butembo and Lake Kivu, as well as the eastern part of Oriental Province (Kibali-Ituri). Robusta is grown in the North and central provinces throughout the equatorial rain forest, and also in the Equateur, Kivu, Oriental and Maniema Provinces. Other areas producing robusta include the East and West Kasai and Bandundu. In addition there is a production of the "Kwilu" type robusta in Bas-Congo. Table 3 sets out the relative importance of the different producing areas from 1990 to 1996. Rather than necessarily showing with precise accuracy the figures for each region, these statistics do show the trend of production from the major areas. Of particular note is the steep decline in the production from Oriental Province, which between 1979 and 1987 accounted for about 35% of production and now accounts for less than 10% of output. Of equal importance is the trend in the production in Kivu Province, where estimated production in 1996 was 47% lower than that of 1990. Exports from Kivu were again lower in 1997 and 1998 at 7,800 tonnes and 10,700 tonnes respectively. What is difficult to gauge for these past two years is the extent to which these figures reflect cross-border movements due to the political situation in the East rather than a decline in production. Local estimates among some private operators put the level of cross border movement as high as 50% of regional production in the past two or three years.

Table 3: D.R. Congo — Production by Region (Tonnes)

Province	1990	1991	1992	1993	1994	1995	1996
Bas-Congo	7,499	5,724	3,913	3,817	4,253	4,150	4,021
Kivu	33,084	25,256	17,264	16,841	18,765	18,045	17,486
Oriental	22,056	16,837	10,358	8,420	6,255	5,413	5,245
Equateur	33,084	25,256	18,415	19,086	22,518	22,657	21,566
Bandundu	9,814	7,492	5,121	5,557	8,069	7,879	7,635
Kasai	4,814	3,620	2,474	2,413	2,689	2,406	2,331
TOTAL	**110,351**	**84,185**	**57,545**	**56,134**	**62,549**	**60,550**	**58,284**

Source: ONC

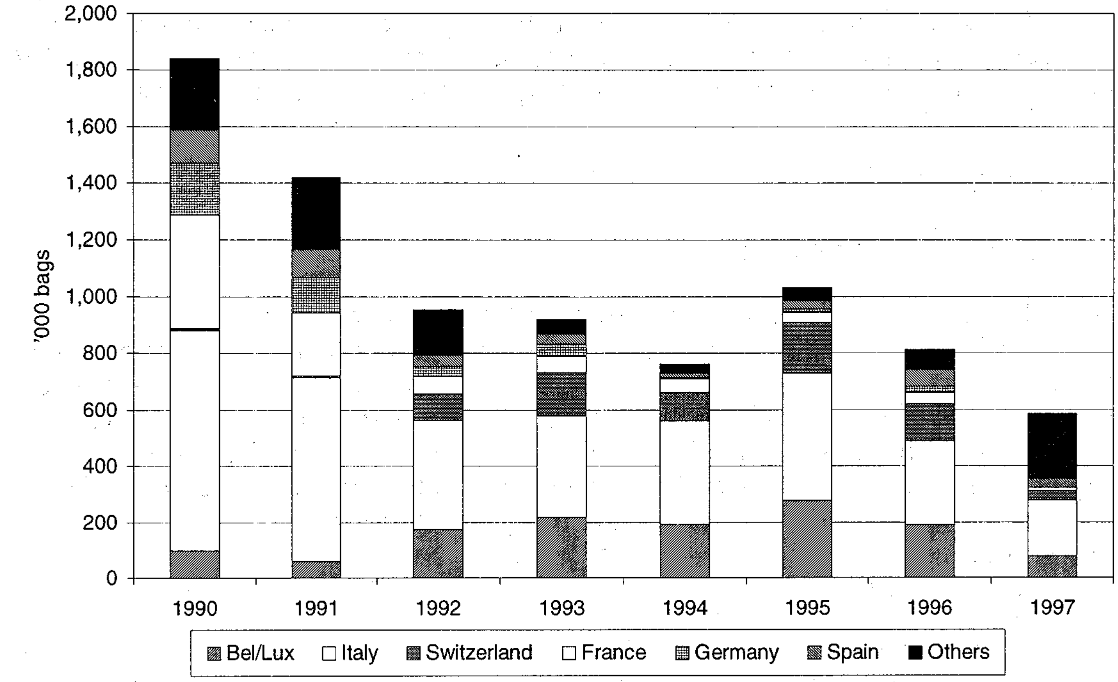
Exports

Annual exports averaged 1.2 million bags between 1977/78 and1985/86, reaching a peak of 2.1 million bags in the 1985/86 season. Exports rose again to over 2 million bags in 1989/90. One of the major limitations on exports during the 1980s was the ICA quota which was set well below RDC's production at that time. The export figures of 1989/90 reflect the export of the backlog of stocks since in July 1989 the ICA quota system came to an end.

In the 1990s, due to the factors already noted, production and exports have been declining and it was only in 1994/95 that exports exceeded 1 million bags. There is some smuggling of coffee between RDC and the nine countries with which it shares its borders. Over the years, the direction of smuggling has been dependent on the level of grower prices within each country and also the relative strength of their currencies. In recent years, the liberalisation of the foreign exchange regulations in most of the countries has had an impact on the incentive for smuggling, which seems to be very much a function of the different export costs from the neighbouring countries, as well as the degree of political instability at any given moment. For example, arabica exports were boosted in 1994/95 and 1995/96 from Eastern RDC due to cross border movements from Rwanda.

The European Union is RDC's largest export market. Diagram 2 shows the destination of RDC's coffee exports from ICO data. This data may not accurately reflect the final destination of the coffee, but rather the location of the buyer's domicile. According to the European Coffee Federation import statistics, Italy is by far the largest importer of RDC coffees. Between 1993 and 1995, Italy imported an average of 670,000 bags, a figure which declined to 482,000 bags in 1996 and to 344,000 bags in 1997. This reflects both reduced availability as well as concerns over quality.

Diagram 2: D.R. Congo — Coffee Exports, 1990-1997



Coffee in the Economy

Coffee is the main agricultural export, accounting for 75% of agricultural export revenue between 1991 and 1996. Timber was second to coffee accounting for 20% of agricultural export earnings. Coffee accounts for about 15% of GDP. Covering as it does almost all the provinces of RDC, a very large number of families are dependent on coffee for their livelihood. It has become an increasingly important source of foreign exchange for RDC as political instability in the 1990s has sharply reduced mineral production.

One particular feature of coffee in RDC over the past 20 years has been its stabilising role in a high-inflation economy. With few banks operating in the rural areas, and the difficulties of transportation and communication, coffee has been an important hedge for growers against inflation. Dried robusta cherry can be stored for long periods without too much deterioration in the quality. Farmers would only sell their crop gradually, as they needed funds for specific expenditure, such as school-fees, medical costs, etc. It is believed that the ability to hold coffee in such a way was a significant factor in the increase in smallholder production in the 1980s.

Recent Developments

Since August 1998, there has been a deterioration in the political and security situation and the eastern part of the country is no longer under the control of Kinshasa. The coffee situation is not entirely clear, coffee exports from the East are continuing to move fairly normally, albeit at drastically reduced volumes compared to even five years ago. This is mainly due to the *tracheomycosis* disease, as well as neglect of plantations. Imports into the West in 1998 were running at only 20% of their already reduced 1997 level due to an increase in infrastructure difficulties over the last twelve months.

The security situation has also sharply reduced the flow of coffee into Kinshasa. By the end of December 1998, barges were not going further north than Mbandaka along the river, effectively cutting off the important Equateur crop which comes in from December. In Bandundu, there were reportedly as many as 48 roadblocks on the 250 kms between Kikwit and Kinshasa, discouraging transporters from buying the crop.

GOVERNMENT POLICY

Macroeconomic Environment

RDC is the second largest country in Africa and is rich in natural resources. However, years of political and economic mismanagement have caused economic chaos. After the difficulties of the early years of independence, from 1965 to 1973 there was a period of stability and rapid growth, helped also by the good copper prices. However, in 1973 the government introduced its measures of Zaireanisation of the economy and foreign companies were either nationalised or handed over to local control. With the down-turn in copper prices and the lack of preparation in the Zaireanisation the economy deteriorated sharply, with an over-valued currency, hyper-inflation, and an increasing public deficit.

The first stabilisation programme was introduced in 1983 and the government sought to reduce the budget deficit, improve the balance of payments and regenerate the export sector. The currency, the Zaire, was floated and interest rate restrictions, price controls and several monopolies were abolished. Subsidies were reduced and profits allowed to be repatriated. However, difficulties in restricting budget deficits, due to a combination of high government expenditure and poor revenue collection, and difficulties in implementing reforms led to the blocking of IMF credits in 1989 and the RDC's subsequent suspension from the IMF in 1994.

In the early 1990s, planning and economic management were virtually abandoned. The resulting loss of confidence in the economy and the increased demand for payment in dollars led to the rapid fall in the value of the Zaire, and led to hyper-inflation. A new currency, the New Zaire, was introduced in 1993, although it too depreciated rapidly. An austerity budget for 1995 aimed to reduce inflation to 20%, reduce government expenditure and increase revenue. GDP growth was positive in 1995 for the first time in the 1990s.

Civil war in 1996/97 led to the formation of a new government in May 1997 and the establishment of a new Central Bank. This resulted in 12 months of exchange rate stability and low inflation. A new currency, the Congolese Franc, was launched in July 1998, although it is estimated that 75% of all transactions in the economy are made in dollars. In July 1998, a new fixed exchange rate of 2.50 new Francs Congolais to the dollar was introduced and foreign exchange is, partly as a result, very short in Kinshasa, which is in turn bringing renewed distortions to the internal market. Continuing economic stagnation, the reluctance of aid donors to support the new government and renewed skirmishes on the Rwandan border led to the return to civil war in August 1998. GDP in 1995 (1990 prices) was estimated at just US$ 6.4 billion, and appears to have fallen further since then. The population is estimated at about 47 million (Table 4).

Table 4: D.R. Congo — Macroeconomic Conditions, 1990-1997

	1990	1991	1992	1993	1994	1995	1996	1997
Exchange Rate, N.Zaires per US$	0.0002	0.0052	0.2	2.5	1,194	7,024	59,012	111,000
Real GDP Growth	-2%	-12%	-10%	-14%	-4%	2%	na	na
GDP (1990 prices) Bn N.Zaires	2,239	1,964	1,759	1,521	1,462	1,485	na	na
GDP (1990 prices) Mn US$	11,146	10,604	9,175	13,520	6,291	6,446	na	na
Per Capita GDP (US$)	313	289	230	328	148	147	na	na
Interest Rate (lending rate)	45%	55%	55%	95%	145%	125%	238%	
Annual Inflation (CPI)	82%	2154%	4337%	1890%	23770%	542%	659%	176%
Population (mn)	36	37	40	41	43	44	45	47

Source: IMF, LMC

Agricultural/Coffee Policy

The RDC economy is dependent on the mineral sector (copper, diamonds, gold, oil) for foreign exchange. It is estimated that the sector accounts for 15% of GDP. The agricultural sector is the most important in terms of employment, employing about 65% of the population. Agriculture accounts for over 30% of GDP.

At independence, and until the 1970s, the agricultural sector was split between the traditional sector, consisting of 3 to 4 million small farms and contributing 60% of agricultural GDP, and the modern plantation sector. Throughout the 1970s, the modern sector declined, largely as a result of nationalisation measures, and the marginalisation of non-Zairean nationals. This, along with the deteriorating macroeconomic situation, internal transport network, security and the introduction of price controls, led to the stagnation of agricultural production.

Liberalisation in 1982/83 saw the elimination of internal price controls for all commodities, though for coffee these had been effectively removed in 1976, and grower prices were allowed to fluctuate in line with internal supply and demand. Equally significant for the sector was the devaluation and liberalisation of the exchange rates which accompanied these reforms. This substantially increased grower prices for export crops in local currency terms. However, the continuing political and economic instability led to a further deterioration in the sector.

Responsibility for the agricultural sector is mainly under the Ministry of Agriculture and Rural Development. Also involved are the Ministries of Education and Scientific Research, Lands and Environment, Tourism and Conservation of Nature. A lack of adequate co-ordination, especially concerning the research aspects, has resulted in a piecemeal agricultural development programme.

Research

Prior to 1960, agricultural research, including that on coffee, was undertaken by the *Institut National pour l'Etude Agronomique au Congo* (INEAC) under the Ministry of Scientific Research. This was a highly regarded institution which maintained 26 research stations and had a staff of more than 300 professionals, covering virtually all areas of agricultural research.

INEAC, renamed INERA (*Institut National pour l'Etude et la Recherche Agronomique*) in 1979, declined gradually throughout the 1980s with reductions in funding. The capability of the research establishment has thus been eroded, although there are still capable staff available if this situation was redressed. The major problems affecting the research programme have been a shortage of financial resources and lack of leadership.

Attempts to restructure the research programme were made under the structural adjustment programmes of the 1980s. For the coffee sector, there has been some selection but no distribution of new coffee varieties for many years. According to ONC there are five research stations where the selection work has been continued, including Yangambi (Oriental Province), Bongabo (Equateur), Luki (Bas-Congo) and Mulungu (Sough-Kivu). Coffee in particular suffers from the lack of improved planting material and chemical treatments to counter the effect of *tracheomycosis*.

Extension Services

Extension services are primarily provided by the Ministry of Agriculture, although additional services are run as components of aid projects by NGOs or by private companies. Since 1991, extension services from the Ministry of Agriculture have been limited to food crops and coffee has been entirely the responsibility of *Office Zaïrois du Café* (OZACAF), now the ONC. The government service has suffered from a combination of inadequate funding, and low remuneration of staff. In the past two years, no funds have been budgeted for extension services to farmers and this, along with low international and domestic prices, has led to poor husbandry practices in many crops. This is also true of coffee, although in recent months the ONC has prepared a detailed plan to re-launch coffee production. Given the present political situation, there has been little real progress made in implementing the plan, although a seminar was held in Beni, Kivu Province, to start to address the problem of *tracheomycosis* in 1996. Two teams were set up in Goma and Beni to handle the disease control.

The ONC's efforts in extension services have been severely hampered by the internal political situation. For instance, in 1996/97 several vehicles and much equipment was lost due to looting.

A levy of 4.5% of the f.o.b. value is made by the ONC to cover the cost of its services. However, private sector operators report that they have seen little evidence of ONC extension staff in the regions. The head of ONC has recently recruited 40 new agriculturalists, to be trained for extension work and especially for the campaign against *tracheomycosis*, but they had not been able to go into the field due to the current political situation.

Part of the ONC's coffee plan is to promote the multiplication of planting material using cuttings, and the plan indicates that a very large number would be produced over the period of the plan running from 1998 to 2008. It remains to be seen whether the plan is realistic, not just in view of the present political situation, but also in terms of the ability and willingness of the farmers to utilise new planting material. In one centre, according to one exporter, 35,000 cuttings were offered to farmers in May 1998, but by December 1998, only half the available stock had been taken up.

Competition from cross-border buyers has had a notable impact on the agricultural practices of the farmers in those areas, for example in North Kivu. In these areas, generally better productivity has been stimulated by the more active demand for crops and buyers' ability to pay good cash prices.

Input Distribution

With a deteriorating macroeconomic base, input use and availability have declined since the 1970s. This has led to producers, even those in the estate sector, adopting a low input production system, which has led to low yields and productivity.

The distribution of inputs is in the hands of the private sector but there are numerous handicaps which reduce the potential for an effective input distribution network. These include:

- The sheer size of the country;
- Poor rural infrastructure;
- Lack of transport;
- Difficulties of importing goods and high import costs;
- Lack of available credit; and
- Smallholder farmers being too poor to be able to take risks.

The result is that farmers use almost exclusively organic material derived from their parallel agricultural operations, such as beans, soya, etc. There is only limited nutritional value derived from these materials.

Credit

The shortage of credit is chronic and widespread, both at the importer/exporter level in the major centres as well as in the rural areas. This has led to reduced agricultural growth, particularly in the modern/industrial sector.

Credit for agriculture has in the past been available from three main sources: the commercial banks, SOFIDE *(Société Financière de Développement) and BCA (Banque de Crédit Agricole).* However, none of these institutions is, at present, functioning effectively as a supplier of credit. There has, for many years, been little or no formal credit available to smallholder farmers and high interest rates and high inflation have made this area problematic.

Other sources of credit have included rural development projects and some parafiscal funds *(Fonds Agricoles).* However, given the present political environment, little new project finance is available.

Infrastructure

RDC has an almost unique infrastructure resource in its huge network of navigable rivers. These link many of the major Provinces and provide a very low-cost transport capability. The rivers reach into the most inaccessible parts of the country, providing an opportunity for agricultural development which would otherwise be impossible due to the logistical problems of access to markets. In the past, the river network was regularly maintained, but in the past ten years the extent of dredging and maintenance has declined. This has recently affected the port of Matadi, which is the main Atlantic port for RDC's exports. The port is over 100 km from the sea and the river needs regular dredging in order to maintain a channel for ocean-going vessels. In the past 12 to 24 months, this work has not been regularly carried out which has reduced the draft and seriously reduced the carrying capacity of vessels calling at the port.

The road network is also extensive, although only a small proportion is regularly maintained. Many of the mud roads are impassable during the wet season, making transport difficult, if not impossible. The road system has greatly deteriorated in recent years. A shortage of diesel fuel for trucks is a further constraint.

Although there is also a fairly large rail network, a lack of spare parts, locomotives and wagons have led to unreliable transport schedules. Some attempts to privatise the rail network have been made and while in certain sectors there is some improvement, in general the rail system needs very heavy investment to bring it back to normal operation.

Transport problems in general force local growers and processors to hold excessive stocks, thus tying up working capital. Another key element is the cost of diesel fuel: the government charges the same tax on all diesel fuel, making the cost of transport (which in some cases can be up to 1,500 kms from the point of production to the coast) higher than the value of the commodities being transported. In the case of coffee, the worsening of the transport infrastructure has contributed greatly to the low prices paid to growers in the internal markets.

MARKETING SYSTEMS

Marketing channels

From independence in 1960 up to 1972, the coffee industry was regulated by two organisations: in the West, the *Office du Café Robusta* (OCR) and in the East, *Office des Produits Agricoles au Kivu* (OPAK).

In 1972, the *Office National du Café* (ONC) was established as a parastatal coffee marketing board with a monopoly on the purchase and export of coffee. Growers could sell to private sector intermediaries, but these traders were required to sell the coffee to the ONC. Traders received crop finance, transport and processing assistance from ONC. After the Zaireanisation in the economy in 1973 the marketing situation became more difficult and it appears that some pre-finance from ONC to traders was never recovered, leaving ONC short of working capital. Private exporters were allowed to start exporting again from 1975/76. Thereafter the purchasing role of ONC was limited to buying coffee in certain more remote areas.

In 1979, the ONC was replaced by *Office Zaïrois du Café* (OZACAF). OZACAF functioned as regulator of the industry, as well as handling a limited volume of exports. The new government in 1997 changed the name of OZACAF back to ONC, though up to now its functions have not changed.

Table 5: D.R. Congo — Timetable of Marketing Reforms

1972	ONC established with a monopoly on coffee purchasing and exports.
1975/6	Private exporters licensed to compete with ONC.
1979	ONC replaced by OZACAF.
1982/83	First Stabilisation Programme. Grower and intermediary price controls removed.
1989	ICA collapses and international prices fall. The government reduces high taxes and OZACAF fees.
1997	OZACAF renamed as ONC.

Since the late 1970s, there has been little change to the marketing system. Most robusta coffee is sun-dried and dry-processed, although a few estates wet-process. Most of the much smaller arabica crop is wet-processed, either on small pulperies on the estates, or using hand-pulpers at smallholder level. The marketing system in the internal market as well as for exports is in the hands of the private sector.

Smallholders sell unprocessed or rough-hulled coffee either to local millers, or more frequently to small or medium-sized local traders, who assemble the coffee into lots varying in size from one pick-up truck load to 100 to 200 tonnes, according to the transportation available and their own financial resources. In the past, it was not uncommon to have lots of over 200 tonnes arriving in Kinshasa on barges, though the problems of river transport are contributing to the smaller lots arriving at the port.

The small traders either hull the coffee themselves, or else supply the dried cherry directly to the exporters for hulling and grading. Hulling facilities are also operated by large farmers, in some cases by co-operatives, the larger traders, some private exporters and, in certain locations, by the ONC.

The principal buying centres in the country are in the major producing areas as shown in Table 6. There are numerous other major buying centres around the country, which provide a focal point for production in any given area. In most central and western areas these are centred round the key river transport routes and ports, enabling the transport of the coffee to Kinshasa.

Table 6: D.R. Congo — Major Buying Centres

Province	Centres	Main Crop Season
Bas-Congo	Boma/Lukula (Petit-Kwilu)	June-Nov
Equateur	Gemena, Ubangi	Dec-May & July-Sept
Bandundu	Kikwit, Kwango	April-Sept
Kasai	Lodja, Mweka	July-Sept
Oriental	Isiro [1]	Dec-March
Oriental (east)	Bunia (mainly arabica)	July-Oct
Kivu (north)	Beni (mainly robusta but also arabicas from Butembo)	Nov -April
Kivu (north)	Goma (mainly arabica)	Dec -May
Kivu (south)	Bukavu/Uvira	Dec -May
Maniema	Kibombo	Dec -March

Notes: 1. Isiro has become less important in recent years, mainly due to tracheomycosis.

Exports are undertaken by private export companies although ONC still handles a limited volume on behalf of some exporters. ONC is also authorised to buy and export coffee on its own account but has not done so in recent years, due to the problems of raising crop finance and then competing with the private exporters.

In cases where a trader wishes to export but does not have the volume and/or an export licence, he can export through ONC, either finding his own buyer, or with ONC's assistance. The ONC in theory acts as buyer of last resort, and some within ONC hold the view that there are quantities of coffee in the interior which have remained unpurchased in recent years. It is difficult to assess the accuracy of such estimates, which may in turn explain the disparity between the ONC estimates of annual production and the actual export figures. There were 90 licensed exporters in 1994, and in the 1996/97 season 74 companies exported coffee, although only ten of these exported more than 1,000 tonnes.

Export Points

RDC is surrounded by nine countries, and has only a very small coastline, with no deep water port. Coffee is exported through six main export points (from West to East). In western Congo:

- Boma for the mainly Kwilu crop from Bas-Congo;
- Matadi for the robustas from most of central and north western RDC;
- Zongo for robustas from the north western part of Equateur; and
- Mobaz-Mbongo - Equateur Province.

In eastern Congo:

- Bunia/Mahagi for the robustas and arabicas from the eastern part of Oriental Province;
- Beni/Kasindi for the robustas and arabicas from North Kivu in the Beni/Butembo areas; and
- Goma/Ishasha for the arabicas from the Lake Kivu area, and robustas from further South around Uvira.

In the past, some coffee was also exported from Bukavu/Kalundu via Dar-es-Salaam, but this route is hardly used at present. The Zongo route has only fairly recently become important, with coffee being transported by road through the Central African Republic and Cameroon, for shipment from Douala. The distance is about the same as transporting coffee via Matadi but transit times are shorter due to the relative efficiency of the transport networks on that route and the better shipping opportunities from Douala.

Pricing Policy

Prior to 1975, grower prices and marketing margins were fixed by the government. A minimum grower price was fixed up to 1982, though with the liberalisation of coffee exports from 1975/76 onwards, the internal prices were largely determined by supply and demand. During the past 15 years, prices have at all stages of the marketing chain been determined by the free market. In some areas, growers receive premiums for higher qualities.

At export level, a *mercurial* price is calculated each week and published by the National Mercurial Commission, made up of the Central Bank, FEC, ONC and CTA, and presided over by the Ministry of External Commerce. Its value is used for calculating export taxes and other charges that are payable by exporters, and for determining the value of exports for purposes of repatriation of export proceeds. For coffee, it is fixed with reference to the futures markets in London (for robusta) and New York (for arabica) and physical market prices. Adjustments are then made for freight and other costs. The *mercurial* values for exports through the East or through Zongo are adjusted for the freight costs up to f.o.b. at the respective ports of shipment.

This price is calculated by the *Commission de la Mercuriale* which meets weekly and establishes the prices for all RDC's major export commodities, including copper, gold, diamonds, cobalt, coffee, timber, cocoa, tea. Members of the Commission are:

- Permanent Secretary, Ministry of Commerce (Chairman);
- Directors from cabinet offices — Ministry of Commerce, Ministry of Economic Affairs and Ministry of Environment;
- Two representatives from Central Bank; and
- One representative from each of: Association of Bankers; GEFREM; OCC; Coffee Trade Association; Timber Trade Association; Gecamines; Miba (diamonds); and CNE *(Centre National d'Expertise).*

The Commission appears to be working well at the present time, with the active involvement and participation of both the government and private sectors. It provides one of the few points of contact between government departments and the private sector, though specifically for the discussion of commodity export prices.

The *mercurial* prices are, in certain areas, published each week on the radio. This provides farmers with valuable information on market trends and price levels.

Taxation

Between independence in 1960 and the late 1980s, the government's main agricultural policy was to maximise revenues from agricultural exports and, as a consequence, tax rates were high. Coffee exports faced a turnover tax (CCA), a statistics tax, and the *Fonds Agricole* levy, on top of industry levies. Taxes were subsequently reduced in the early 1990s as international prices collapsed.

The new government in 1997 re-introduced the former taxes, in order to increase government revenue. At the present time, the effective taxation rate on coffee exports amounts to around 13% of the f.o.b. value (Table 7).

Table 7: D.R. Congo — Coffee Taxes (as a % of the f.o.b. value)

ONC (for robusta)	4.50%
OCC	1.00%
OFIDA	1.00%
OGEFREM (Freight Office)	0.59%
CCAE (turnover tax)	3.00%
Bank charges (BIC)	3.00%
Total	**13.09%**

In addition, for exports through the East, ONC charges a further FB.0.50 (about $ 15 per tonne). This was originally added as a charge to cover the cost of the OZACAF office in Mombasa which was needed during ICA quota times to control and verify the stamps on exports and certificates of origin.

Crop Finance

With little pre-finance available internally, the majority of crop finance is from own funds or from overseas buyers. The local banks, up to 1997, provided a certain amount of finance, mainly to the exporters. The high costs of local borrowing were generally offset by inflation, although in recent years most lending has been in dollars rather than New Zaires. In the last 12 months with increased political instability, local bank finance has almost completely ceased.

Traders who buy and bring coffee from the interior are often pre-financed by exporters. In many cases, in up-country markets, smallholders exchange their coffee for goods such as salt, soap, second-hand clothing, corrugated iron sheets etc. Some of the exporters are also involved in the import business and the small traders, with whom they trade, often use cash advances to purchase goods for this barter trade.

Quality/Regulation

All market participants are required to be licensed, although a number of unlicensed operators purchase coffee and market it through unofficial channels. Licences are issued by ONC. Since 1970, export licences have been granted on the condition that exporting companies exported a minimum volume of coffee during a season. Traders handling a smaller volume were required to sell their coffee to/through ONC/OZACAF for export. The minimum level was designed to eliminate speculative traders who would only enter the market when prices were high and invest nothing in the long-term development of the industry. The minimum volume was set at 350 tonnes in 1994/95. This regulation has since been discontinued. There is some concern that the exporting companies are also linked to importers, and that this may have implications on the pricing of exports. The fixing of the weekly minimum export price *(mercurial)* covers this problem to some extent, but more important is the keen competition in the internal market, which is the most effective form of regulation in the industry.

New requirements for obtaining an export licence recently set out by ONC place an emphasis on the exporters becoming more involved in production and include the requirement that an exporter must own a suitable coffee mill and have a coffee plantation of at least 75 hectares.

The ONC issues two licences for internal buyers: a 'Carte A' licence is issued to larger buyers who operate a hulling facility, while a 'Carte B' licence is issued to smaller traders and truck owners.

In addition to licences, there are a number of regulations concerning the movement of coffee and local officials frequently interfere in the movement and marketing of coffee in the internal markets on an ad hoc basis.

Quality certification is required before the export of any coffee from RDC and the coffee must conform with quality standards laid down by ONC. Separate grading standards exist for arabica and robusta coffee. For both types, quality standards are set according to method of processing (wet or dry), colour, defects, roast and cup quality. However, most of RDC's coffee is not graded according to bean size before export and colour and the number of defects are the major grading criteria, together with the liquor.

When a lot of coffee is ready for export, ONC agents draw samples from the lot, and the samples are analysed in the ONC laboratories in the different centres. There are ONC quality certification facilities in Kinshasa, Boma, Zongo, Bunia, Beni, and Goma. In Zongo the laboratory is reported to have been looted in recent years, but some quality work is still carried out there. Once analysed, ONC issues the *Certificat de Qualité* (CQ). Once this has been issued, the export contract can be registered, and the export price can be determined in accordance with the *mercurials* currently in force.

The different centres certifying robustas are dealing with coffee from widely differing growing and processing conditions. Thus a specific quality for export through Matadi, certified from Kinshasa, is recognised in the international market as being different and having a different value from a coffee with the same quality certificate coming from Kivu, certified in Beni. There are a wide diversity of growing regions and conditions, as well as processing and handling.

In addition to ONC, the *Office Congolais du Contrôle* (OCC), a government agency, also has a broad mandate to control all export commodities. OCC does not certify quality of coffee exports, but is present at the time of containerisation or export loading, to certify weights etc. The existence of the two organisations responsible for monitoring exports leads to a certain degree of duplication of responsibilities.

Export Documentation and Procedures

Once a lot of coffee is ready, and stored in an ONC approved warehouse, the exporter may then commence the procedures for export. The procedures are cumbersome requiring up to 25 signatures on documents before coffee can be exported. While this may be similar to systems operating in other countries, there is nevertheless a case for some streamlining of procedures to facilitate exports.

ORGANISATION AND INSTITUTIONS

Following its creation, the ONC/OZACAF has been responsible for controlling and regulating the coffee sector. Its main functions are:

- Providing extension services and services to assist growers in all Provinces;
- Quality control and processing;

- Co-ordination of marketing, including the distribution of stamps during periods of quotas; and
- Licensing exporters.

The majority of exporters are members of the Coffee Trade Association, or *the Comité professionnel du Café* (CTA). The CTA operates under the National Chamber of Commerce, or the *Fédération d'Entreprises Congolaises* (FEC).

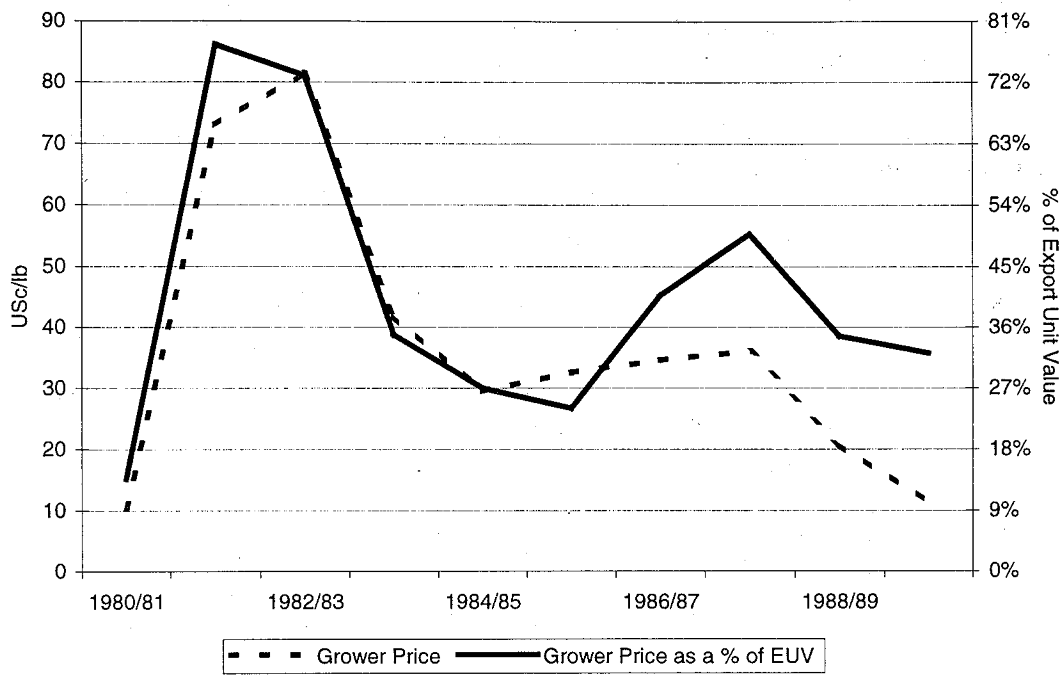
IMPACT OF MARKETING SYSTEM

Grower Prices

The size and diversity of the internal market in RDC makes the calculation of a price paid to growers extremely hazardous. The end of price controls in coffee in the latter part of the 1970s led to significant real increases in grower prices. According to ICO statistics, grower prices averaged 40.1 US c/lb during the 1980s but fell in the early 1990s as international prices fell, and the economy deteriorated. During the 1980s the proportion of the export price received by growers was reportedly an average of 46% (Diagram 3). This low proportion was due to a combination of three major factors: the taxation of exports, high costs associated with poor infrastructure and increasing transport costs, and distortions in the internal market arising from the ICA quota system. In the case of ICA quotas, in the late 1980s the distribution of quota stamps for the export of coffee to ICO member markets in theory followed a numbered registration system, with priority given to the higher quality coffee. However, the system was subject to some distortions and prices in the internal market usually reflected a value of the coffee close to the lower non-member prices, since the coffee often had to wait for long periods before export due to the abuses in the stamps system. Non-member exports were discouraged, despite the high stocks. An increasingly large volume of stocks were built up awaiting export, as reflected in the high exports in the 1989/90 coffee year once the quota system collapsed.

Currently, there is keen competition among private exporters in all the main producing centres and the prices paid to the traders are close to the world market levels prevailing, discounted by the cost of reprocessing and export handling and taxation. Exporters follow international market movements very closely. Reuters offer its market screen and information service in Kinshasa.

Diagram 3: D.R. Congo — Grower Prices as a % of Export Unit Values, 1980/81-1989/90



Risk Management

The exporters' ability to manage price risks has been limited by the export procedures, in particular the need to have the CQ before registering a sale contract. This precludes forward selling by the exporter, unless he is prepared to take the risk of movements in the *mercurial* and the overseas market price between time of sale and time of registration of sale. For these sales, the exporter also runs the risk that the quality of any given quantity of coffee may be classified differently to what was expected and sold in advance.

It is argued by the ONC that the requirement of having the CQ before registration of contracts actually reduces risk as speculative position taking is avoided, which could lead to international quality claims and problems. Systems of quality control vary between countries and some discussion between the ONC and established exporters might be appropriate to clarify the situation.

Quality and Quality Control

Up to the early 1970s, a good percentage of the coffee was graded by size and categorised accordingly. The old quality descriptions took account of this, N2AAA, N2A, N2B etc. Since then coffee has been graded more generally primarily by defect count and without reference to size, although one or two of the exporters have again started to grade their robusta coffee. However, due to colour and general appearance, the coffee still has the same quality certification (e.g. HTCM). Still, the value is enhanced by the regular bean size, especially for the bolder grades.

Coffee quality has fallen significantly since the 1970s (Table 8). In particular the proportion of HTMNM has fallen while HTCM has risen. The majority of exports, almost 50% are of the quality HTCM, *'Hors Type Courant/Moyen'*. This is a dry-processed robusta, ungraded, with a certain defect count according to established standards. By virtue of this type being ungraded, and due to the normal defect count, this grade is regarded by the market as a secondary robusta, though it is appreciated in certain markets for its quality characteristics. In all cases, ONC does not permit export of musty or mouldy coffee.

Table 8: D.R. Congo — Quality Grades (as a % of Total Exports)

	Quality	1972-74	1983-88	1991-97
ROBUSTA	HTMNM	25%	4%	9%
	HTMNI	35%	23%	22%
	HTCM	12%	37%	49%
ARABICA	K3 & K9	10%	4%	2%
	K4 & K5	68%	38%	75%
	K6 & K7	22%	53%	20%

Notes:
1. The qualities are in descending order for both robustas and arabicas
2. The K4/5 production was boosted in the mid-1990s by the arrival and export of a quantity of Rwandan coffee in Kivu.
3. Washed robustas represent at present about 2% of exports.

Over recent years, there has been a marked increase in the irregularity in the quality of coffee appearing with this quality description. This type varies considerably from lot to lot and is probably tenderable on the London terminal market (LIFFE) in about 50% of cases. The change in LIFFE grading rules in 1997, penalising, in particular, mouldy beans, has made the risk of rejection on the futures market greater.

In the mid-1990s, following the Brazilian frost of 1994, there was a period when the quality certification was especially irregular, with inadequate attention paid to the quality of exports of the HTCM coffees. The result was a steep decline in the value of this grade in relation to other robusta coffees, and its sale at a significant discount to LIFFE (Diagram 4).

The poor quality of the normal robustas, those being exported as HTC/M, can be attributed to a combination of factors including:

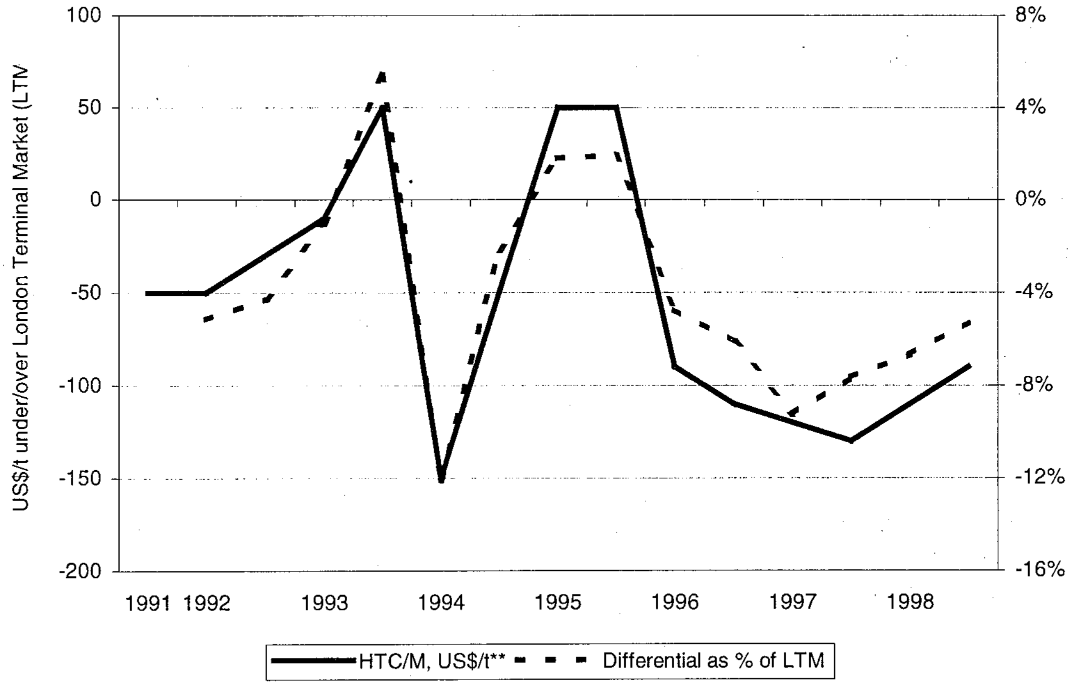
- Poor cultural practices, due to no inputs or extension service assistance;
- Poor harvesting. Coffee is mostly strip picked by small farmers when about 35% of the cherry is ripe, resulting in many unripe, black beans etc.;
- Poor post harvest-handling (drying, storage and processing);
- Slow movement to market, due to difficulties with transport; and
- A lack of homogenisation of coffees from different areas.

Indirectly, the ageing tree population and increasing transport and infrastructure problems have also had an adverse affect on coffee quality. The ageing tree population has led to a smaller bean-size, but has also led to lower yields per hectare which has made production of little interest to growers, who tend to neglect their coffee. The transport and infrastructure problems have adversely affected the quality of the robusta coffee arriving in the main buying centres. About 50% of the weight and volume of dried robusta coffee is represented by the cherry husk, and in order to save weight and therefore costs, farmers have more and more resorted to dehusking their coffee by beating the cherry with sticks, producing what is locally called *robusta pilloné*. The quality inevitably suffers with this treatment, not only because of the damage to the beans themselves, but also because the dehusking is often done before the cherry is properly dried. This not only damages further the beans, but can also lead to problems of mustiness, with under-dried clean coffee stored often in humid and unsuitable conditions.

The situation is further aggravated by the lack of spares and fuel for operating even those hulling factories which do exist in the more remote producing areas. While many of the exporters have equipped their reprocessing facilities for preparation of the coffee before export, it is further back down the marketing chain that the greatest attention needs to be paid to quality.

For robusta coffees, the ONC announces the start of the buying season two months after the harvest, to allow the crop to be dried by growers before marketing. However, in practice there is sufficient competition among the private buyers in the main areas to result in the coffee being purchased almost as soon as it has been partially dried after harvest. The result is the marketing of coffee with a high moisture content, with all the attendant quality risks and problems.

Diagram 4: D.R. Congo — HTC/M Differentials, 1991-1998



There is still a proportion of better quality robustas, both from the estate sector (where there is still a very small production of washed robustas, which fetch very good premiums) and from the smallholder sector in certain parts of Equateur, Bandundu, Kasai, and Kivu. They continue to be sought after by the market, and sell at a good premium to the London futures market. They are especially appreciated by markets where there is demand for espresso coffees, since they have an almost unique quality among the robustas for this particular application. The ONC together with the *Comité professionnel du Café* are currently preparing a new grading/classification scheme.

Production

Annual output has fallen from the mid-1980s' levels of about 90,000 tonnes to its current level estimated to be around 35 to 40,000 tonnes. This is not so much a reflection of the marketing system but due to a number of factors already enumerated, namely the adverse political situation, poor infrastructure, the absence of improved varieties and technology to farmers and the inappropriate wider macroeconomic environment.

In this regard, the first issue to address must be achieving political and macroeconomic stability. Up until the end of December 1998, it seems the government had not published a budget for 1999. In such circumstances, the regulation of the coffee industry and any work in development and extension has to be covered by ONC levy, the revenue from which is declining with falling exports. The CTA emphasises the importance of general economic and political stability if sustainable improvements are to be made in the coffee sector.

Investment in the Sector

Economic instability has also limited investment in the sector. This started in the early 1970s, with the Zaireanisation policy of the government between 1973 to 1975. The high levels of inflation in the 1980s and early 1990s were a discouragement to any long-term investment. The lootings in Kinshasa of 1991 and 1993 further reduced the incentive to invest. However, a number of exporters have invested in drying, hulling and export grading facilities in the last few years, to improve the efficiency of their operations and to reduce the turn-over period between buying the coffee and its export.

The investment in the re-processing facilities for export is to be welcomed. While this can make a real improvement in the regularity and reliability of export lots, if the real quality problems are to be resolved, improvements need to occur closer to the point where the coffee is grown and harvested. This is particularly noticeable in the Kivu Province, where the coffee is generally much more accessible and grown closer to the main centres. The result has been the maintenance of quality standards in this part of the country, though the sharp decline in output due to the *tracheomycosis* outbreak has greatly affected that area.

The place where investment has been lacking has been both in the industrial/estate sector, where production has drastically declined, as well as in primary processing closer to the farm gate. The decline of the latter is largely due to the logistical difficulties of access in the major growing areas and management problems.