



THE PEOPLE'S BANK
Banki yacu, Hafi yacu.

From	Agri Knowledge Centre
To	EMT Members, Agri Commercial Officers (ACO's)
Location	Kigali
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Subject	Sector Document for the Coffee Campaign 2012
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1. Introduction

In the beginning of January, the finance requests for the coffee campaign will start again. The coffee campaign last for a short period of time (from February/March until November) and during this period the cooperatives need funds for the purchase of cherry beans, the processing thereof and some (who export themselves) for the storage of the green coffee until delivery to an eligible buyer.

This Coffee Finance Policy (CFP) aims to set clear guidelines to support the Agri Commercial Officers (ACO's) in the field to assess the coffee related credit files. It is noted that BPR's Credit Policy remains fully applicable for each finance request and that deviations from the CFP are allowed, provided that a strong rationale exists and subject to credit approval. The purpose of the finance policy is to assist the Agri Commercial Officer to verify what the 'real' finance requirement of the client is and in which way a credit facility should be structured to meet (part of) the client's finance requirements and to mitigate the risks involved for BPR.

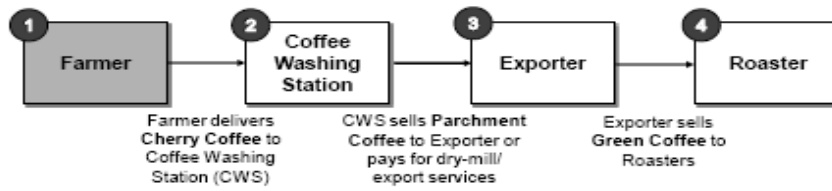
The aim by having these guidelines in place is to analyse credit files within a reasonable period of time taking into consideration the risks involved and to come up with a financial structure mitigating these risks.

2. The Coffee Value Chain

Below we will give a brief overview of the value chain of coffee for clarification reasons. A more in depth description of the coffee sector will follow later in the *Coffee Policy* of which this CFP will be an integral part.

Coffee is one of the most important cash crops in Rwanda. The cherries are plucked by the farmers as from late February/March until July each year. Farmers can subsequently decide to deliver/sell their cherries directly to a washing station or wash the cherries themselves into parchment and sell the parchment to exporters. Washing stations select, grind and wash the coffee into coffee parchment.

Onwards these parchments are delivered to exporters who process it into fully washed Arabica coffee and export it mainly to Europe and the US where the green coffee is roasted into coffee. The green beans produced from locally processed parchment (by farmers) are called semi-washed or ordinary beans. In Rwanda approximately 75% of the coffee beans are semi-washed and 25% is fully washed.



3. The Finance purpose

Working capital

Depending on the Coffee Washing Station ('CWS') selling parchment coffee to an Exporter or the CWS paying an exporter/Service Provider for dry-milling services, BPR is usually asked to provide a working capital facility to facilitate the purchase and processing of cherry beans or a Working Capital Facility facilitating both the purchase of the cherries as well as the storage of green coffee stocks at the warehouse of an Exporter in Kigali.

Investment financing

Note that a coffee cooperative might also request BPR for an investment loan to finance the equipment for a washing station. BPR is not prepared to grant any loan to finance a CWS for this season as they will never be ready for processing in time.

In general long term financing for CWS equipment can only be offered to professional parties with sufficient capital.

4. Main risks

Price risk (high):

Price risk is by far the largest risk in financing coffee washing stations. The price of cherry beans, parchment and green coffee beans are related to the international price for Arabica coffee as quoted in New York (New York C-contract). As the New York C-prices are volatile and no adequate hedging system is in place yet, CWS's might face losses when the prices of parchment and/or green coffee go down during the season.

Mitigant: to relate the finance amount to the quantity of cherries and a percentage of the NY-C coffee price

Operational risk (medium):

This risk occurs if the CWS is not managed in a good way. Theft of beans, bad maintenance/state of the machinery or inefficient usage of the CWS leads to high processing costs per kg parchment, which can result into losses.

Mitigant: To analyse and assess the CWS on track record, reputation, management.

Market risk (high):

This is the risk that there is no market for the parchment and or green beans produced.

Mitigant: To finance against a pre-agreed (provisional) sales contract from an Eligible Off taker¹.

Usage risk (high):

This is the risk that the funds of the banks are not used in the right manner. Coffee cherries are plucked and delivered to the CWS in phases. Upon each delivery and payment a farmer's receipt is received which describes how many cherries have been purchased, at what price from which farmer.

Mitigant: First disbursement of financing for cherries will be without proof that money was used in the right way. Before the second disbursement a farmer's receipt must be received and checked by the commercial officer that the money from the previous time was indeed used to buy the right quantity of cherries.

Disbursement of money under the stock finance limit only against receipt by the bank of a warehouse receipt from an Exporter's warehouse in Kigali.

¹ Eligible Off takers are reliable buyers. BPR can be comfortable that these buyers will meet the contractual commitments and pay for the coffee they purchase. A list of Eligible Off takers is attached in Attachment 1. If the off taker of your CWS is not on the list, check with the Agri Knowledge Center why not, maybe it can be added if more information is received, maybe it is a Non-eligible Off taker.

FX risk (medium):

Since the international coffee prices are in nominated in USD and therefore the ultimate sales price of the green coffee is in USD, the CWS is indirectly exposed to an FX risk between the RWF and USD.

Mitigant: the exchange rate between the USD and the RWF has been very stable over the past years.

5. Finance need

Step 1: What kind of CWS are we dealing with

To establish the 'real' finance need, which is not always the same amount as the client asks, it is important to find out how the CWS deals with the parchment coffee. The following 3 options exist:



- I The CWS delivers the parchment coffee to an Eligible Off Taker
- II The CWS delivers the parchment coffee to a Non-Eligible Off Taker
- III The CWS uses a Service Provider for dry milling and bagging the coffee, but remains the owner of the parchment.

For III where the CWS delivers parchment to a Service Provider for dry-milling services etc, a further 3 options exist:

- a CWS itself has a (provisional) sales contract for the green coffee with an Eligible Off taker in place (or can provide clear evidence/indication that such a (provisional) sales contract will be in place at the start of the season)
- b CWS uses the Service Provider for marketing of the green coffee
- c CWS has sales contract with Non-eligible Off taker in place or no sales contract or marketing contract at all

So the first step is to find out what the CWS plans to do with the parchment and choose in which category the client belongs (I,II or III).

Step 2 What and how much is BPR prepared to finance

Decide which type finance of finance facility the CWS needs and BPR is willing to consider:

- Ad I: Cherry pre-financing to facilitate purchase of cherries and transportation of cherries to the CWS. In principle BPR is prepared to provide financing to purchase cherries throughout the first 5 weeks of the season. Thereafter payments by buyers of the parchment coffee should fund the further purchases;
- Ad II: Because the parchment will be delivered to a Non-eligible Off taker, BPR **cannot finance** this CWS;
- Ad IIIa: Cherry pre-financing and stock financing for green coffee at the warehouse of the Service Provider/Exporter in Kigali;
- Ad IIIb: Cherry pre-financing and stock financing for green coffee at the warehouse of the Service Provider/Exporter in Kigali;
- Ad IIIc: Because the parchment will be delivered to a Non-eligible Off taker, BPR **cannot finance** this CWS.

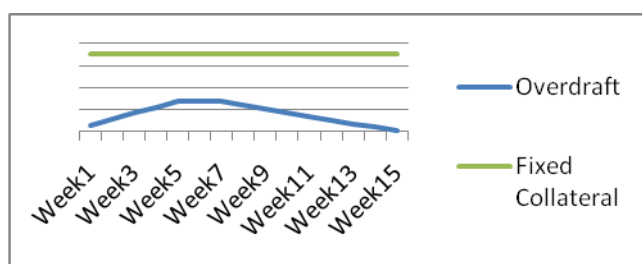
Step 3 How to Calculate the Finance Limit for the season

Finance amount cherry pre-financing:

$$\frac{\text{Total KG of cherries for the full season}}{15} * (\text{Cherry price} + \text{Transport costs}^2) * 4 * 100\% = \text{Facility}$$

This formula calculates the finance requirement for the first 5 weeks of the 15-weeks coffee campaign. The reason for multiplying the ‘average quantity of cherries per week’ by 4 instead of 5 is to correct for the first, slower period of the season. This amount is to be disbursed in 5 weekly installments.

During weeks 6 and 7 no new disbursements will take place (unless the CWS can evidence that they only receive payment for delivery of the parchment with a delay of f/e 2 weeks after delivery). As of week 8 a linearly repayment scheme will apply where equal weekly repayments will be made until the facility must be fully repaid by week 15.



Furthermore the total amount disbursed under the limit for cherry-financing must always be covered by the value of the fixed collateral and guarantee coverage (as in the graph above). If the above formula comes out at a higher amount, the facility available for cherry pre-financing must be capped by the value of the fixed collateral including guarantee cover.

Finance amount stocks stored in a warehouse in Kigali:

$$75\% (\text{advance rate}) * \text{NY C-price} * \text{expected stock level of green coffee at the warehouse}$$

For the NY C-price, please refer to

<https://www.theice.com/productguide/ProductDetails.shtml?specId=15>

To calculate the expected stock level:

- 1) Calculate how many kg of green coffee the CWS can produce from their quantity of cherries by using the following formula:

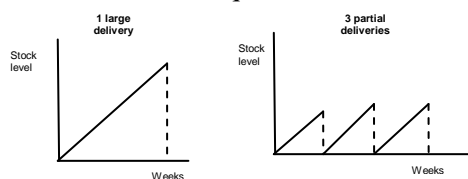
$$\text{Quantity of cherries} / 6 = \text{kg of green coffee}^3$$

- 2) Find out how the stock level at the warehouse in Kigali is expected to develop: will stocks increase up to the total level of production for one season and then be delivered to a buyer or will deliveries take place throughout the season (f/e each time when there is a full container of green coffee (19,000 Kg)).

² Transportation costs from farmer to CWS can be included in the finance amount. Compare these transportation costs as mentioned in the business plan of the client to the cherry transportation costs of the average CWS as mentioned in the Technoserve cost overview in Attachment 3. In the overview the costs are USD 0.09 or RWF 54. If the business plan has a lower amount, use the lower amount. If the business plan has a higher amount, use the Technoserve average but ask the client why his costs are so high.

³ To produce 1 kg of green coffee, approx. 6 kg of cherries are needed. To produce 1 kg of parchment, approx. 5.3 kg of cherries are required.

Based on the information of the client how the stock level is expected to develop, calculate the amount of financing that is needed at the moment of the peak (highest) stock level). This is the maximum amount of stock finance that the client will need during the season. As can be seen in the graphs below, depending on the delivery to off takers, the maximum stock level and finance required is different.



Step 4 Calculate the Total Facility

- I: The total facility will be the amount as calculated under ‘*cherry pre-financing*’ as described under Step 3;
- II: Not applicable because there will be no facility;
- IIIa: The total facility size will be the amount as calculated under ‘*stocks at warehouse in Kigali*’ as described under Step 3. Under this total facility there will be a **sub-limit** for purchasing of the cherries at the level calculated under ‘*cherry pre-financing*’;
- IIIb: Same as IIIa;
- IIIc: Not applicable because there will be no facility.

6. Collateral and Information Requirements

For **both** types (I and IIIa/IIIb) BPR requires:

- Copy of the (provisional) sales contract with an Eligible Off taker;
- Pledge over the fixed assets of the Cooperative/CWS (provide information on the value of these fixed assets);
- Payment by Eligible Offtaker to be made to account with BPR (tripartite-agreement to be signed between the client, the Eligible Off taker and BPR);
- Documentation with guarantee fund if a guarantee applies;
- Exchange of the USD received from the buyer into RWF with BPR at a pre-agreed rate as discussed with the Agri Knowledge Centre;

! Note that the amount of the full facility (ie. the limit for stock-financing as well as the (sub-)limit for pre-financing of cherries will be made available to the CWS by means of an overdraft facility. The actual limit on the overdraft will change on a weekly basis.

For the limit for **pre-finance of cherry purchases** BPR requires:

- (Copy of) the farmer’s receipts showing (i) what quantities of cherries were purchased (ii) from whom (iii) at what price;
- Weekly disbursement scheme. First disbursement will be on a clean basis, following disbursements only following receipt of satisfactory farmer’s receipts;
- Usage under the sub-limit for cherry purchasing should, as described in Step 3 as well, reduce as of approx. week 8 of the coffee campaign. Reduction to take place by either:
 - (i) repayment of exposure in 8 weekly installments by the CWS with funds received from their buyer of parchment coffee in the BPR account or by
 - (ii) receiving warehouse receipts for green coffee. This is not a reduction of the overall amount outstanding (no repayment takes place!) but the amount outstanding will now be covered by green coffee stocks evidenced by warehouse receipts.
 The amount of finance outstanding that is not covered by warehouse receipts must reduce in line with the above ie. in 8 weekly amounts with the the full amount of loans outstanding covered by warehouse receipts as per week 15.

For the limit for *stock financing* BPR requires:

- Warehouse receipts issued by an acceptable warehouse (will mostly be an Eligible Off taker);
- Regular updates on the delivery schedule to the Eligible foreign buyer.

6.3 Supply of cherries

- How realistic is the planning of the CWS if you consider the quantities of cherries they have processed in previous years. If they plan a large increase of quantities, verify how realistic this is and whether they can indeed buy all the cherries they need to realize their business plan.

! Keep in mind that in coffee there are always HIGH and LOW years. Establish what year it is, usually the even years like 2012 are the HIGH years.

6.4 Market:

- In step 1 of the previous section it is already explained how the various options that a CWS has to secure an off take for the goods can be treated. Also note again that in case a CWS does not have a market in place or in mind yet, BPR cannot work with this CWS.

6.5 Payment

- On a BPR Account (to be arranged via a tripartite-agreement between the client, the off taker and the bank);
- The CWS to exchange the USD into RWF with our banks against a pre-agreed rate to be discussed with the Agri Knowledge Center.

6.6 Financial statements

- Financial statements over the past two years (preferably audited).

For a more detailed overview of how to assess the financial statements please refer to Attachment 4.

6.7 Disbursement

- Disbursement of the funds is linked to:
 - o Cherry purchases evidenced by farmer/collection receipts for the sub-limit for pre-financing of cherries;
 - o Warehouse receipts issued by eligible warehouses in Kigali for disbursements under the stock finance.

In the table below an overview of the cherry production per month, per region in Rwanda

	<i>North</i>	<i>South</i>	<i>East</i>	<i>West</i>
<i>January</i>	0%	0%	0%	5%
<i>February</i>	0%	5%	5%	10%
<i>March</i>	15%	15%	15%	20%
<i>April</i>	20%	30%	30%	30%
<i>May</i>	25%	25%	25%	20%
<i>June</i>	20%	15%	15%	10%
<i>July</i>	15%	10%	10%	5%
<i>August</i>	5%	0%	0%	0%
<i>September</i>	0%	0%	0%	0%
<i>October</i>	0%	0%	0%	0%
<i>November</i>	0%	0%	0%	0%
<i>December</i>	0%	0%	0%	0%
<i>Total</i>	100%	100%	100%	100%

This table should act as a guideline determine how the coffee campaign will materialize in your region. Week 1 in the 15 weeks campaign will be later in the north where there is hardly any activity in February than f/e in the west where the season starts earlier.

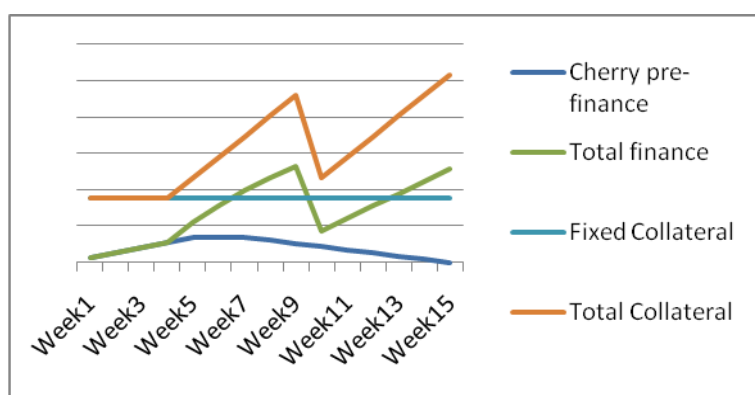
6.8 Repayment

Repayments under both the Cherry pre-financing limit and the Stock finance limit to come from the payments from the Eligible Off takers in the BPR account. Under the Cherry pre-financing limit a linearly repayment scheme will apply as of week 8. Equal weekly repayments must be made until full repayment by week 15.

If the CWS does not sell the parchment coffee but delivers to a Service Provider and therefore receives warehouse receipts for green coffee, the exposure under the Cherry pre-financing sub-limit needs to reduce by week 8 by equal weekly amounts as well. This means that the CWS has to provide sufficient warehouse receipts each week to increase the stock collateral for the exposure to such an extent that by week 15 the full exposure is covered by warehouse receipts.

Repayment under the Stock finance facility to occur upon payment for delivery by the Eligible Offtakers. Therefore, as stated before, it is highly important to receive regular updates on the delivery schedule to the Eligible Off taker, as it also determines the repayment scheme and tenor of the facility.

Please see in the graph how (1) the Cherry pre-finance exposure will always be covered by at least the fixed collateral and (2) how the Cherry pre-finance reduces as a growing amount of the total exposure is covered by warehouse receipts.



6.9 Reporting and monitoring during the coffee campaign and lifetime of the facility

- Weekly receipt of farmers/collection receipts. If the amounts of cherry purchases evidenced by the receipts are significantly lower than the outstanding amount under the facility, the ACO has to discuss the background for this with the CWS and determine (in cooperation with the credit officer) whether the next disbursement should wait;
- Warehouse receipts evidencing stocks held at Kigali storage location and/or NAEB;
- Weekly overview of parchment and green coffee stock levels per location incl. quantities of parchment and green coffee inventories pre-sold and/or pre-agreed against a sales contract.

For monitoring purposes, ACO's are advised to visit the cooperatives twice a month to verify the information required.

6.10 Availability of guarantee cover

For financing of working capital to CWS several possibilities exist to apply for a guarantee cover:

- CFC guarantee fund: if the coffee cooperative that you are considering to finance is on the list of CFC cooperatives, a finance request in line with the policy could qualify for 50% cover from the fund. Such cover must be included in the collateral section of the application.
- Rabobank Rural Fund: a request to finance working capital for the coffee campaign could also be submitted for coverage by the Rural Fund provided that the structure is in line with the described in this policy (and not solely based on collateral in the form of fixed assets).
- Other [...]

6.11 Double Financing:

In order to avoid double financing the Agri Knowledge Centre will check with the main exporters (RWACOF/RTC) if they grant any finance to these CWS as well.

Overview Attachments:

1. **Example to calculate the finance need.**
2. **Overview of Eligible Off takers**
3. **Standard format coffee application [to be added]**
4. **Cost overview average cooperative (source: Technoserve)**
5. **Approach financial analysis**

Attachment 1 Example to calculate the finance need

Example

Assume a CWS in the Northern Province requests BPR to finance their coffee campaign. The CWS plans to process approx. 228 MT of cherries and sell the anticipated two containers of green coffee beans to a buyer called Roger's Family. They received an statement from Roger's Family they intend to buy approx. 38,000 kg of green beans (ie. 2 containers) if the quality meets the right standards. Until delivery to Roger's family the green coffee is stored at Rwacof, who has also performed the dry milling services. The delivery to Roger's will be at 2 separate moments, a first container in week 10 and the second container in week 20 (ie. some time after the end of coffee campaign).

Step 1:

Since this CWS is selling green coffee to an Eligible Off taker, they fall within category 3.1 where they use a Service Provider to do dry milling for them and then they will themselves export/sell the green coffee.

Step 2:

Based on Step 1 we conclude this CWS needs pre-financing for cherries and thereafter stock financing for green coffee at the warehouse of Rwacof in Kigali.

Step 3:

Calculating the limits of the credit facility:

For cherry pre-financing:

$$\frac{\text{Total KG of cherries for the full season}}{15} * (\text{Cherry price} + \text{Transport costs}^4) * 4 * 100\% =$$

$$\frac{228.000}{15} * ([202] + 25) * 4 * 100\% = \text{RWF } 13.801.600$$

For stocks at warehouse in Kigali:

$$75\% * \text{NY C-price} * \text{maximum expected stock level of green coffee at the warehouse} =$$

$$75\% * [3.000] * 22.000 = \text{RWF } 49.500.000$$

Maximum expected stock level of 22.000 kg is based on assumption that they will make two separate shipments to Roger's Family. One container will be shipped in week 12 and the second one in week 20 (ie. some time after the end of coffee campaign).

Step 4:

The total facility size may amount to RWF 49.500.000. This can be rounded to RWF 50 mln. Under this total facility there will be a **sub-limit** for purchasing of the cherries at the level of RWF 13.801.600.

Step 5:

For both limits:

- Copy of the (provisional) sales contract with Roger's Family;
- Pledge over the fixed assets of the Cooperative/CWS incl. a valuation report mentioning the Forced Sales Value;
- Tripartite-agreement to be signed between the CWS, Roger's Family and BPR that Roger's Family will pay all amounts due into the BPR account;
- Documentation with guarantee fund if a guarantee applies;

⁴ See note 2.

- Exchange of the USD received from the buyer into RWF with BPR at a pre-agreed rate as discussed with the Agri Knowledge Centre.

For the limit for pre-finance of cherry purchases BPR requires:

- [Copy of] the farmer's receipts showing (i) what quantities of cherries were purchased (ii) from whom (iii) at what price;
- Weekly disbursement scheme. First disbursement of RWF 2.760.320 (RWF 13.801.600/5) will be on a clean basis, following disbursements only following receipt of satisfactory farmer's receipts;
- Usage under the sub-limit for cherry purchasing must reduce by week 8 of the coffee campaign by RWF 1.725.200 per week. That is RWF 13.801.600/8.

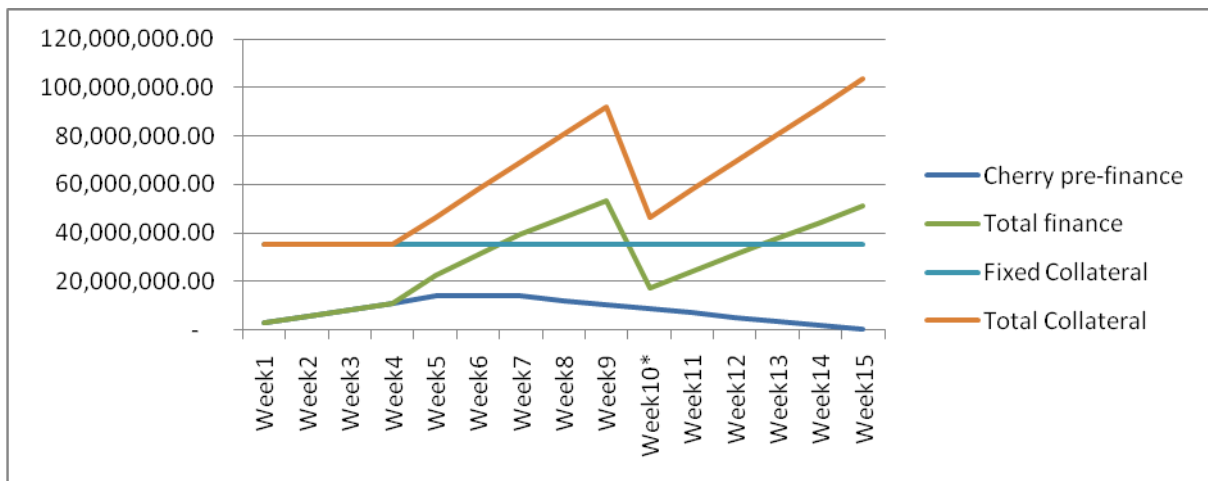
This reduction to take place by receipt of warehouse receipts for green coffee, meaning that each week warehouse receipts covering green coffee stocks of at least RWF 2.300.267 ($= (100/75) * RWF 1.725.200$) need to be delivered.

Against this first RWF 2.300.267 **NO** new disbursements under the stock can be made. If the CWS provides further warehouse receipts, additional disbursements at 75% of the value of the receipts can be made up to RWF 49.500.000, the maximum facility limit.

After delivery of additional warehouse receipts each week, the full amount of outstanding financing must be covered by warehouse receipts as per week 15 of the coffee campaign.

For the limit for stock financing BPR requires:

- Warehouse receipts issued by Rwacof;
- Regular updates on the delivery schedule to Roger's Family. It is important to know whether the deliveries of the green coffee will remain as scheduled in week 10 and week 20. If there is a delay, the CWS might have higher stocks or stocks for a longer period of time for which amendments to the credit facility might be required.



Attachment 2 Eligible Off takers

Based on NAEB list of coffee exporters and their reputation, the following list of off takers qualifies as Eligible:

I. NATIONAL LEVEL

- 01.C.B.C
- 02.RWACOF
- 03.RTC
- 04.ENAS
- 05.KCC
- 06.COOPAC
- 07.GREENLAND
- 08.KAYCO
- 09.GATARE
- 10.IMPEXICOR
- 11.BUFCOFFEE
- 12.RWABISINDU
- 13.SACOF
- 14.AGROCOFFEE
- 15.CAFERWA
- 16.OCIR CAFÉ(NAEB)

II. INTERNATIONAL LEVEL

- 01.ROGERS & FAMILY
- 02.SUCAFINA
- 03.WESTROCK COFFEE COMPANY
- 04.STARBUCKS

NB: The list is not limitative, it will depend on how the cooperative/CWS proves the competences of the off taker.

Attachment 4 Overview of the Standard Processing Costs of a CWS

2010 RWANDA COFFEE WASHING STATION PERFORMANCE METRICS

Total Revenue	Average Coop
	£3,69
washing station expenses	
Cherry payments	£1,52
Cherry transport payments	£0,09
Full time labor expenses	£0,08
Casual labor payments	£0,12
Other expenses payments	£0,23
Total washing station Expenses	£2,04
Total Non Advance expenses	£0,52
CSP/Export Expenses	
Milling	£0,08
Hand sorting	£0,04
Export Bagging	£0,02
Transportation	£0,01
Csp warehouse handling	£0,01
OCIR Warehouse Handling	£0,00
OCIR Fertilizer Fund	£0,14
Marketing Fee	£0,21
Taxes and other	£0,02
Total Dry Mill/Export costs	£0,51
Working Capital Financing Expenses	
Working capital Interest	£0,09
Working Capital	£0,01
Total Working capital financing expense	£0,10
CAPEX FINANCING EXPENSE	
CAPEX Principal Repayment	£0,25
CAPEX Interest	£0,10
Total CAPEX financing Expense	£0,35
Total Exchange Rate loss(Income)	£0,03
Totals	
Total expenses	£3,00
Total profit (loss)	£0,72
Total cash on hand	£0,05

Source: Technoserve

Attachment 3 Financial Analyses of a CWS


Income statement:

The income statement shows the receipts and expenses and finally the net profit. We shall focus on expenses because the less the expenses the more the cooperative is performing well. We shall use the washing station performance metrics to measure the performance of the washing stations. Here is the benchmark of the total cost per kg. The information has been got from TECHNOSERVE.

For the washing station who sells only the cherries, i.e. the one who does not process the cherries, the total cost is **0.52£** per kg. On other hand for the washing stations that process the cherries and export, the total cost is **1.48£** per kg. So, through the income statement, we can calculate the processing cost per kg by taking the **total number of parchment coffee sold divided by the total cost(process and export cost)**. The process cost per kg got can be compared to the process cost which we have in washing station performance metrics. If for instance you find a washing station who only sells the cherries with a production cost more than **0.52£**, you should be careful with that washing station. The same thing, for the washing station who process and export coffee, if it has a process cost more than **1.48£**per kg, you should also be careful for that washing station.

Balance sheet.

In assessing the performance of washing station, make sure if the total assets have been financed at least at 25% by equity, meaning that the total assets should not be totally financed by the loan.



80% advance
rate