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Reform of the Coffee Sector in Burundi:

Prospects for Participation, Prosperity and Peace

May 2007

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Reform of the Coffee Sector in Burundi:
Prospects for Participation, Prosperity and Peace

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Executive summary

Coffee farming plays a vital role in the Burundian economy. It is the main industry and export product of the country and provides important income for the roughly 600,000 families (about 40% of the population) who grow it.

Reforms of the coffee sector, which were initiated in 1990 but never fully implemented, have continued with greater deregulation – bringing in private operators at some levels of the sector, notably at those of export, curing and most recently (and still to a limited degree) roasting.

With the return to Burundi of major donors, notably the World Bank and the IMF, the pace of reforms could accelerate. The Burundian government has already taken some steps in that direction, including passing a law on deregulation and deciding to sell certain assets of the Coffee Board (OCIBU[1]) as well as certain coffee washing stations.

But this deregulation and privatization process takes places in a specific political and economic context: on the one hand there is a new democratically elected government and generalized poverty which has been aggravated by 10 years of civil war. On the other hand there is a turmoil of diverging interests which will only intensify as reforms proceed. The movement of coffee growers, which is organized into associations, claims ownership over coffee production and thus seeks control over a good part of the state's shares in the sector, as well as active participation in all decisions concerning the sector.

Faced with this issue, International Alert wishes to contribute to the debate and to propose solutions that will allow the reforms to proceed in a way that serves the common interest of all the players involved. The ultimate aim of the report is to contribute to the prevention of conflicts that could arise in connection with the reforms.

The consultants carrying out this study consulted documents, interviewed individuals at departments and institutions in the sector and carried out field visits to the provinces of Gitega, Ngozi and Bujumbura Rural to interview coffee growers at the washing stations, including members and non-members of the coffee grower associations.

The report is structured around the following chapters:

- The first chapter provides a synthesis of the socio-economic and political context of the Burundian coffee sector.

- The second chapter outlines the reforms carried out to date, particularly those that concern the companies managing washing stations[2] (SOGESTALs) and the Curing and Packaging Society[3] (SODECO). These reforms maintain the state's ownership over production infrastructure (washing and de-pulping stations) and thus state predominance in the capital and control of the sector, via the Coffee Board (OCIBU). Unfortunately, coffee growers were not given a visible place or role in the sector following the reforms.

- The third chapter outlines the debate around privatization of the coffee sector. This chapter describes the divergent interests of the different actors (government, companies, private operators and donors). For the first time coffee growers, via their associations, have raised

[1] Office du Café du Burundi.
[2] Société de Gestion des Stations de Lavage du Café – referred to in this report as SOGESTALs.
[3] Société de Deparchage et Conditionnement du Café – referred hitherto as SODECO.

their voices and claimed their right to take an active part in these reforms and to participate on equal terms in the coffee sector.

- The fourth chapter analyzes the possible reform scenarios. The analysis focuses in particular on the important future role of the coffee grower organizations. These recently established organizations can provide a new momentum for coffee production and for the entire sector.

List of acronymns and abbreviations

ABEC	Association Burundaise des Exportateurs du Café; Burundian Association of Coffee Exporters
BCB	The Burundian Coffee Company
BIF	Burundian franc
CNDD-FDD	Conseil National pour la Défense de la Démocratie-Front pour la Défense de la Démocratie; National Council for the Defense of Democracy – Front for the Defense of Democracy
DPAE	Direction Provinciale de l'Agriculture et de l'Elevage; Provincial Department for Agriculture and Livestock
FRODEBU	Front pour la Démocratie au Burundi; Front for Democracy in Burundi
HA	Hectare
INADES	Institut Africain pour le Développement Economique et Social; African Institute for Economic and Social Development
OCIBU	Office du Café du Burundi; Burundi Coffee Board
OIC	Organisation Internationale du Café; The International Coffee Organization
SCEP	Service Charge des Entreprises Publiques; Department for Public Corporations
SDL	Station de Dépulpage et Lavage; De-pulping and Washing Stations
SIVCA	Société Industrielle de Valorisation du Café; Industrial Company for the Valorization of Coffee
SODECO	Société de Déparchage et Conditionnement du Café; Coffee Curing and Packaging Company
SOGESTAL	Société de Gestion des Stations de Lavage du Café; Company for Managing Coffee Washing Stations
USAID	United States Agency for International Development

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Introduction

Burundi, one of the poorest countries in the world, is experiencing a serious crisis of its coffee industry which is the country's main export, providing 60 to 80% of foreign currency revenues. Roughly 600,000 rural households, or almost 40% of the population, grow coffee and coffee represents an important source of income in the family economy, despite the very low prices received for the product. The coffee sector was one of the priority sectors targeted by privatization and deregulation reforms during a 1986 structural adjustment programme that aimed to restrict the state's role in the productive sector. It subsequently experienced a serious slump due to the following causes: inefficiency of production and marketing structures; decrease in quality and quantity caused by the aging of orchards; poor maintenance; climatic conditions; parasites; the fall in world market prices, and (until recently) insecurity.

The poor performance of the coffee sector created severe deficits which the state had difficulty covering, compelling the government to carry out a disengagement process. Due to the civil war, this reform programme was only partially executed but, today, the government is pushing to complete the process in order to meet its obligations to donors.

The privatization scheme is taking place in a shifting political and economic context. There has been a radical change in leadership on one hand, while on the other there is extensive poverty as well as social and economic uncertainty. The prospect of privatizing the country's main economic activity in this rapidly changing political and economic context raises important concerns about conflicts of interest and greed.

Economically speaking, the country is too heavily reliant on the export proceeds generated by coffee to be able to afford a failed reform. At a social and political level, different interest groups have different ideas about how the reform should be carried out. This includes the emerging associations of coffee farmers who are determined to take part in the privatization. The emergence of these associations is a recent development which adds another political, social and economic dimension to the reforms. Although some of the competing interest groups are relatively small, their diverse political, regional and even ethnic backgrounds cause the coffee reform to be a key peacebuilding issue for Burundi.

What economic, social and political strategic vision should there be for the reform of the coffee industry? Considering the economically strategic role of coffee, how can the sustainability and efficiency of coffee farming be guaranteed in a privatized context? What position should be offered to coffee farmers who claim ownership over the means of production? How should private investors already involved in the industry be included? How should the employees of the industry who wish to keep their jobs be taken into account? How can the interests of economic groups that are close to the different regimes which have ruled Burundi be accommodated? These are some of the questions that this analysis will attempt to answer by examining the political economy of the coffee industry reforms.

This study hopes to contribute to the on-going debate. Its ultimate objective is to orient coffee sector reforms toward economic development that is profitable for all the actors involved, including the farmers and the state, whilst strengthening the peace and social cohesion which Burundi so badly needs.

1. Current state of the Burundian coffee sector

1.1 The socio-economic level

The coffee industry has undergone several re-organizations since its introduction in the 1930s. Coffee farming was introduced by the colonial administration essentially by means of coercion, using unscrupulous supervision of farmers and the whip in case of negligence. Later on, particularly during the 1950s, coffee experienced a huge expansion. Due to a quality improvement policy, the producers' price was raised allowing coffee farmers to pay income tax and to become consumers of manufactured goods. During this period, the coffee harvest and sale was a point for rejoicing among the population. This led many coffee farmers in the north and centre of the country to take up coffee farming, resulting in an expansion of coffee production to a peak of 27,279 tons of green coffee in 1959.

However, due to demographic pressures and land scarcity, the space for growing coffee was from the beginning very limited. Contrary to some countries where coffee is grown by large producers living on the income from their production, coffee in Burundi is grown by several hundred thousand farmers who must exploit small patches of land (of about 1200 square meters of coffee trees per family).

At an economic level, coffee farming was introduced and has been supported by the state since decolonization for two reasons: First, to secure financial resources for the state, and second to provide a source of cash for farmers, which does not otherwise exist in rural areas. But this vision was often in contradiction with the feeble production caused by lack of space, and with modest prices caused by the volatility of world coffee prices.

From independence to 1976 the coffee industry was largely privatized.The state only intervened to fund research, assist quality improvement through investment in post-harvest equipment and to set and stabilize the price received by producers. The 1960s and '70s unfortunately also corresponded to a period when both the quantity and quality of coffee production decreased. This was due to post-independence political instability and to the population's disinterest in growing coffee, which was seen as a symbol of colonization.

In 1976, the private coffee factories (Ceduca, Indurundi)) were nationalized and all activities related to export were placed under OCIBU's management, thereby making the industry completely state-controlled. Private operators worked as subcontractors when collecting washed coffee[4]. The Burundi Coffee Company (BCC) was created to handle exports. From the early 1980s to 1993 the total coffee area expanded, encouraged by the state, with the number of coffee trees increasing from 90 million to over 220 million.

However, this expansion did not lead to a corresponding increase in production. Between 1980 and 1994, the yearly average production was 32,000 tons of green coffee, despite a doubling of the planting area and an expected production of 60,000 tons. The disparity between the area expansion and the quality and quantity of production signalled a serious crisis for coffee growing in Burundi.

The volatility of world prices and the fall in coffee production which followed this period weighed heavily on the country's economy and on the income of coffee farmers. The 1989 suspension of the International Coffee Agreement triggered an enduring fall in coffee prices on the

[4] 'Washed coffee' is a coffee that has been quickly washed following manual removal of the pulp, leaving a papery coating. 'Fully washed' coffee is obtained by mechanical removal of the pulp followed by fermentation and thorough washing of the grains.

international market. While prices varied between 120 and 140 cents per pound during the 1980s, they fell to 68 cents per pound on October 1, 1989. After a brief increase to 70 cents, the price stagnated at around 50 cents for the next four years. In 1994-95, bad weather in Brazil, the world's largest producer, caused a price rise to $1.5/pound[5]. In 1997-98, a second spell of bad weather in Brazil caused the price of Arabica coffee to rise to $1.89/pound. From then on, the prices per pound kept dropping, to $1.03 in 1999-2000, 87 cents in 2000-01 and 62 cents in 2001-02.

This steady decline in Burundian coffee prices cost the country about half the value of its foreign exchange earnings and created severe deficits in the coffee industry. According to Oxfam, the 2001-02 coffee season brought in $20 million to the country. If prices had been those of the 1980s, Burundi would have earned $48 million, a difference of $28 million which represents almost one fifth of the Burundian national budget for 2001-02[6].

But international prices do not entirely account for the fall in the price of Burundian coffee. Historically, Burundi has always received a lesser price for its coffee than the international reference price, despite its good quality. There are different reasons for this: OCIBU's control of coffee sales; bad marketing practices; the small volume of the country's production; lack of access to the sea; the conflict that has ravaged the country and, according to some, collusion by international traders operating on the Burundian market to maintain low prices.

For the coffee farmer, coffee has long constituted a key source of income for the family, particularly in the north of the country and particularly during the period when food crops where abundant and therefore relatively cheap. As demand for food crops increased, their prices increased and they started to compete with coffee growing. Hence, in most regions of the country coffee is no longer the primary source of income, although no scientific study has been conducted as confirmation of this fact.

The importance of coffee in the local economy

The Burundian farmer's interest in growing coffee is based on the fact that coffee is a seasonal product that provides a chunk of income larger than what the farmer is able to save during the course of the year. According to the latest statistics available, income from coffee growing provids 50% of family income in the northern region of Buyenzi[7]. This revenue allows the farmer to finance house construction and send children to school, as well as other small investments. In addition, with the initiation of micro-credit schemes in rural areas, ownership of coffee trees is the main guarantee that farmers can offer micro-credit institutions (COOPEC[8] and others). One should also acknowledge that the construction of de-pulping stations in rural areas led to the (modest) beginnings of industrialization, employment for local labour during the coffee campaign and the opening up of rural areas through the construction of factory access roads which are also used for other purposes.

[5] Fortunately for Burundi, for that same year the country had its best ever production, 41,000 tons.
[6] OXFAM, Value chains or slave chains? An economic analysis of the crisis in the coffee sector in Burundi, June 2002, p. 59.
[7] S.N.E.S. (National Survey and Statistics Service), 1986. This institution was later replaced by ISTEEBU (Burundian Institute for Statistics and Economic Studies).
[8] Coopérative d'Epargne et de Crédit: Savings and Credit Loan Cooperative

Table 1 Production and prices[9]

Year	Orchard Thousands	Surface Ha	Production Green cof Tons	Price/kg Beans BIFs	Price/ kg Raw coffee BIFs	World Quotation Cents/lb	Money paid to cof farmers BIFs
1990/91	181	71,300	33,912		175	89.11	7,000
1991/92	190	75,880	33,747	36	175	84.90	7,255
1992/93	202	82,700	36,528	36	175	64.04	8,140
1993/94	220	85,180	22,496	40	180	70.76	5,280
1994/95	227	85,180	40,985	40	180	150.04	8,280
19995/96	227	85,180	25,196	55	240	151.15	8,965
1996/97	229	85,859	26,733	55	290	122.21	9,176
1997/98	158	59,402	19,991	70	330	189.06	10,728
1998/99	158	60,530	16,937	90	420	135.23	14,700
1999/00	161	62,215	29,129	100	450	103.90	18,486
2000/01	166	63,195	18,502	100	450	87.07	11,987
2001/02	168	65,208	16,425	100	450	62.28	9,842
2002/03	174	66,767	36,225	110	450	61.54	23,483
2003/04	178	66,767	5,673	110	450	64.20	3,796
2004/05	186	69,883	36,600	120	500	80.47	27,339
2005/06	190	71,400	6,334	200	900	114.86	8,000

N.B.: From 2005/06 the prices paid to coffee farmers in theory have been liberalized. The drop in the number of orchards and surface in 1998 is due to a systematic count of the orchards across the country that took place that year, correcting the old statistics inherited from the orchard count in 1990. The column on the right is the money (in Burundian francs) paid at each harvest to coffee farmers for their production of green or raw coffee.

However, in a context characterized by strong demographic pressure which leads to scarcity of land, the population increasingly prioritizes food crops to the detriment of export crops, including coffee.

At the level of coffee farmers, the industry (SOGESTALs and private traders) injects an important sum of money into rural areas (more than 20 billion Burundian francs in a good year) during the harvest of green and raw coffee, as illustrated in the table above. This financial assistance re-invigorates the rural economy during the coffee harvest due to an increase in the consumption of manufactured goods, purchase of equipment for rural families (metal sheets, construction of houses), reimbursement of credit and payment of social expenses (weddings, school fees).

To improve its position on the market, Burundi has since the 1980s invested in quality coffee by developing de-husking and washing stations where a fully washed coffee is produced after fermentation. This type of coffee differs from “washed” coffee where the husk is removed manually. Nonetheless, despite a growing proportion of “fully washed” over “washed” coffee, the quality of green coffee has deteriorated constantly since the 1990s due to a drop in the quality of the beans (because of agronomical problems). The quantity of the best grades of coffee has dropped, despite investments made since the beginning of the 1990s. However, some initial signs of improvement can be noted from 2002 onwards, as manufacturing and taxation norms were brought into line with those of EAFCA (East African Fine Coffee Association) in response to the competition faced in a context of over-production at world level and the fall in prices.

Some observers are pessimistic about the future of the Burundian coffee sector, due to its structural problems. However, the main causes of the coffee crises, as far as both quality and quantity go, are the low prices traditionally paid to coffee farmers in Burundi and the weakening of accompanying measures.

Burundian farmers have always received much lower prices than farmers in neighbouring countries. For example, according to OXFAM, the price received by a Ugandan farmer for

[9] Source: OCIBU and OIC for world quotations (average of other mild Arabica)

Arabica coffee in the 1990s was 76% higher than the price received by a Burundian farmer. OCIBU, which has always controlled the distribution of payments in the coffee industry within Burundi, argues that Burundian producers have been protected from fluctuations in international prices. Although this is true, the farmers have also not benefited from periodic price increases (as in 1994/95, 1997/98 and 2004/05), apart from some instalments (or 2nd payments[10]) granted by OCIBU.

This situation profoundly discouraged farmers who could not destroy their coffee plantation due to the state law banning them from doing so. Farmers instead chose to neglect their coffee plants in favour of food crops and bananas used for traditional beer, which are more profitable due to the low production of food crops and the resulting price increases.

Despite being a precious source of foreign currency for the country, the coffee sector has accumulated significant deficits due to the constant fall of prices on the international market from 2000 to 2004, and due to the devaluation of Burundian coffee over recent years. These deficits were worsened by rising operational costs.

The internal debt of the sector on February 28 2005 amounted to 26,656,365,000 Burundian francs while the external debt stood at 35,480,958,000 francs. The coffee sector stabilization fund, which is managed by OCIBU, recorded a cumulative deficit of 8,921,210,000 Burundian francs as of February 28, 2005. Nonetheless, at the end of the 2004-05 marketing year, the fund managed to generate a surplus of 9 billion francs, thanks to a good harvest and an increase in the world price.

Table 2 Evolution of finacial deficits in the coffee sector over five years[11]

Year	Deficit (BIF)
1999/2000	3,200,000,000 BIF
2000/2001	3,100,000,000 BIF
2001/2002	3,650,000,000 BIF
2002/2003	6,050,000,000 BIF
2003/2004	1,700,000,000 BIF
2004/2005	Excess of 9 billion
TOTAL	**17,700,000,000 BIF**

While the government can exempt the coffee sector from reimbursing its external debt, by agreement with donors via the HIPC initiative, the internal debt is a more delicate issue. Indeed, the financial institutions are increasingly reluctant to fund the coffee harvest due to the significant debts already incurred by the coffee companies, most of which are insolvent. Until recently, financing was requested by OCIBU and the loans were guaranteed by the state. But with the state’s decision to no longer guarantee financing of the sector (as of 2005-06), securing funding for the sector might be a problem.

1.2 The economic level

At the macro-economic level coffee remains the main source of foreign exchange earnings as well as the main export product, even though its relative importance has diminished, as illustrated in the table below. In other words, as long as Burundi does not have alternative products, the state should take into account the weight of coffee in the trade balance and in export revenues when considering policies for reforming the sector.

[10] A 2nd payment is an addition to the original price paid to coffee farmers by OCIBU at the end of the harvest when there has been a significant rise in the world market price during the harvest.
[11] Source: OCIBU statistics.

Table 3 Evolution of the value of coffee exports[12]

Year	Coffee export value (millions BIF)	Total export value (millions BIF)	Coffee export value as % of total export value
1996	7,642.40	11,372.90	67.19
1997	26,981.70	30,767.20	87.69
1998	22,857.90	28,634.80	79.82
1999	23,643.20	30,970.80	76.34
2000	24,419.90	35,223.00	69.32
2001	16,326.30	31,978.10	51.05
2002	15,584.00	28,868.10	53.98
2003	24,837.50	40,628.70	61.13
2004	32,341.60	52,688.60	61.38
2005	43,586.60	119,684.40	36.41*

*N.B.: The smaller percentage of coffee in the total export revenues in 2005 is due to an increase in the export of precious metals (gold). This figure does not affect the overall picture of the importance of coffee to the national economy.

1.3. The socio-political level

Because of its economic significance, as is the case in other developing countries dependant on a single export product, the coffee sector has had a strategic importance for all the political regimes in Burundi.

Since the 1960s, the Burundian state has always received most of its revenues from the agricultural sector but these have mainly benefited the state sector based in Bujumbura or have been invested in the unproductive industrial sector. From 1972 to 1992 farming received 20 to 30% of investments, while industry received 70 to 80%. During the same period agriculture provided 64% of the gross domestic product while the services sector provided 37.7% and the industrial sector 16.7%[13].

This sector split is matched by a city/countryside divide. While 90% of the population lives in the countryside, during the 1980s total state funding for the rural sector amounted to 20%. In comparison, Bujumbura received 50% of total public investments and 90% of social expenditure[14]. This situation worsened during the conflict and the political transition period (1994-2005).

At the level of agricultural development, and particularly as regards coffee, the continuing difference between the remuneration given to producers (which is lower than the cost of production) and investment in the transformation and management apparatus of the sector, demonstrates clearly how producers are exploited in favour of institutions whose staff are relatively better paid.

These patterns of exploitation have disadvantaged the rural population and particularly coffee farmers. Revenue gained from coffee sales took on a politically and economically strategic importance because it could be used freely by the regime in power without attracting the attention of the international community or donors.

From a political angle, the exploitation that coffee growers have long suffered has been denounced by Hutu opposition movements, from 1972 until recently. This denunciation was sometimes followed by the removal and burning of coffee trees, although this occurred relatively infrequently and in only a few places.

[12] Source: BRB (Banque de la République du Burundi) monthly newsletter December 2001 and December 2005.
[13] H B, Hammouda, Burundi: Economic and Political History of a Conflict, Paris, Editions l'Harmattan, 1995, p. 107.
[14] André Guichauoua*, Rural Destiny and Agrarian Policy in Central Africa*, vol. 1. L'Harmattan, Paris, 1989, p. 168-173.

2. Coffee sector reforms

2.1 Beginning of the reforms

Total or partial privatization of public enterprises, according to their strategic importance, was first carried out as part of the structural adjustment policies advocated by the Bretton Woods Institutions (the World Bank and IMF) which were adopted by Burundi in 1986. The coffee sector, being entirely state-owned, was targeted as one of the priority sectors for privatization.

The first reforms of the coffee sector took place along three axes and culminated in 1991 with privatization of management, deregulation of certain functions and re-structuring of some of the entities in the sector.

2.1.1 Privatization of management

In order to improve the general management of companies in the coffee sector, management companies with mixed state and private ownership were created. In this way private operators acquired shares in OCIBU, SODECO and particularly in the companies managing the de-pulping and washing stations (the "SOGESTALs"[15]). The establishment of these SOGESTALs was the main innovation of the reform. SOGESTALs were set up in the country's main coffee-growing regions in order to manage the 133 washing stations spread across the country. The percentage of private ownership varied between companies. Overall, the state kept the majority of shares in all the SOGESTALs except the ones in Kayanza, Ngozi and Kirundo-Muyinga. Coffee growers have virtually no stock in these societies, save for OCIBU where the state granted them symbolic participation.

It is important to note that the privatization of this important sector took place at a time when Burundian society was characterized by a single party in power and a profound ethnic Hutu-Tutsi cleavage with Hutus feeling excluded from the country's political and economic spheres. It is therefore not surprising that the capital invested reflected the political and economic power balance of the time. This form of privatization has been maintained to this day and ownership of the assets has not yet changed.

2.1.2 Deregulation measures

At the same time as privatization of capital took place, the government introduced the first measures for deregulation, allowing actors to establish companies with total private ownership.

During this phase the following measures were introduced:

- Deregulation of coffee export through the ending of BCC's monopoly led to the creation of several private export companies. The private exporters created an organization (ABEC[16]) to defend their interests and support their export activities;
- Deregulation of the coffee washing and de-pulping stations led to the renting of washing stations by the mixed public-private companies, the SOGESTALs, and the installation of new private washing stations;
- Deregulation of curing led in 1995-97 to the establishment of private factories (Sonicof and Sivca);
- Deregulation of roasting led to the creation of two private roasting factories, in addition to OCIBU which, for a long time, had a monopoly on the national market for roasted coffee.

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[15] Société de Gestion des Stations de Dépulpage Lavage du Café.
[16] Association burundaise des exportateurs du café; Burundian Association of Coffee Exporters.

Despite these measures, the sector remains heavily controlled by the state. For example, the state's monopoly and quotas on coffee curing were only banned in 2002, thus allowing the two private curing factories to process fully washed coffee.

The process of privatization and deregulation was obstructed by the political crisis and the civil war and was virtually halted between 1994 and 2000.

2.1.3 Restructuring of the sector

In giving autonomy to and partially privatizing the different sections of the coffee production and marketing chain in 1991, the privatization process led to the creation of the following entities: OCIBU as coordinator and leader of the sector, the State Property Department, SODECO, the five SOGESTALs and ABEC.

a) OCIBU – Burundi Coffee Board

Following the reforms, OCIBU became a mixed private-public company consisting of shareholders from the state, SOGESTALs and SODECO, the banking and insurance sector, the scientific research institute ISABU and (with 14% of shares) coffee growers. OCIBU's role is to coordinate and regulate the industry, organize sales of coffee for export, set and monitor quality controls, manage the state's industrial assets and distribute the profits. However, the latter function is currently suspended following the abolition of the "qualitative remuneration grid" (GRQ[17]) and "fees established in advance of sales" (RCA[18]).

b) The exporters

Coffee exports are now organized by private companies and the one remaining state-owned company (BCC – Burundi Coffee Company) which previously enjoyed a monopoly on export. All the private exporters are organized in a professional association called ABEC. Coffee for export is sold at auction but direct sales have also been allowed for some years now and the SOGESTALs increasingly sell directly.

c) The curing companies

Curing[19] is carried out by three companies: SODECO[20], Sonicoff and Sivca. SODECO is a mixed private-public company where the state maintains a majority of shares (82%) and the rest are owned by SOGESTALs and private operators. SODECO has two factories, one in Gitega and another in Bujumbura. SODECO had a monopoly on curing until 1995.

Sonicoff (Society of Nile Coffee) is a private company which runs a factory in Gitega. Sivca (Société Industrielle de Valorisation du Café) is also a private company created in 1997 which has its factory in Ngozi. The total curing capacity of the three factories (estimated at 70,000 tons, of which 60,000 sits with SODECO and 10,000 with the private companies) by far outweighs the national production of 20-30,000 tons per year.

d) Companies managing washing and de-pulping stations (SOGESTALs)

The five mixed private-public SOGESTALs were created in 1991 to manage the multiple de-pulping and washing stations (133) created by the state across in places the country where there is a high concentration of coffee orchards. The five SOGESTALs cover the main coffee-growing regions: SOGESTAL Mumirwa (Western provinces: Cibitoke, Bubanza, Bujumbura, Bururi and Makamba), SOGESTAL Kirimiro (centre: Muramvya, Gitega, Karuzi, Rutana, Ruyigi), SOGESTAL Kayanza (Kayanza province), SOGESTAL Ngozi (Ngozi province) and SOGESTAL Kirundo-Muyinga (Kirundo and Muyinga provinces). Following deregulation, Sonicoff also established its own de-pulping and washing stations in Karuzi province.

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[17] Grille de Rémunération Qualitative.
[18] Redevances Connues d'Avance.
[19] Curing involves removal of the parchment, grading and bagging.
[20] Sociéte de Déparchage et Conditionnement de café.

e) The coffee farmers

The coffee growers are the backbone of the industry, producing the raw material on small individual plots. The 1991 reform did not include any organization of the farmers and it was OCIBU which in 1995/96 initiated their movement.

2.2 The predominance of state capital

As the reform process had only just begun and the public authorities did not clearly visualize the final result or the country's interest in the reform, some doubt and hesitation about privatization still remain. As illustrated in the table below, the state maintains a significant percentage of shares in the entities created by the 1991 reform.

Table 4 State and private sector shares in the entities created by the 1991 reform[21]

Enterprise	Capital (BIF)	State %	Private sector %
OCIBU SM	76,500,000	33.33	66.67
SODECO	250,750,000	82.00	18.00
SOGESTAL Ngozi	51,000,000	26.90	73.10
SOGESTAL Kayanza	30,600,000	14.20	85.80
SOGESTAL Kirimiro	50,100,000	68.00	32.00
SOGESTAL Mumirwa	30,200,000	81.00	19.00
SOGESTAL Kir-Muyinga	101,000,000	48.00	52.00
Total	**590,150,000**	**62.03**	**37.97**

The data contained in this table concern only the management structures as the state remains the sole owner of the industrial assets, i.e. premises, factories and equipment. All this is managed for the state by the Department of State Property under OCIBU.

As illustrated in the table, only the SOGESTALs in the north of the country have been able to attract private investment. The business environment in the north is closely linked to coffee as it has a long history in this region. SODECO, which has always been less profitable, has not attracted many private investors.

2.3 The second stage of reforms

During the most intense crisis period (1994 to 2001) coffee sector reforms did not advance at all. The reforms resumed with a June 27, 2000 decree which authorized the sale of the states' possessions in the coffee industry. The state's disengagement from the sector consisted of the following actions:

- Sale of the state's properties managed by OCIBU's Department of State Property;
- Sale of OCIBU shares in partly state-owned companies;
- Sale of state shares in SODECO;
- Sale of state shares in the SOGESTALs;
- Sale of washing stations which remain to this day entirely state-owned.

The following measures were taken to accelerate the process of deregulation and privatization:

- On January 14, 2005 a presidential decree was signed opening access at all levels of the sector to private operators;
- In 2005 the government stopped guaranteeing bank loans to OCIBU to finance the coffee harvest;
- On June 8, 2005 a ministerial decree was adopted declaring that OCIBU would from then on be a coordinating and regulating agency;

[21] Source: SCEP data sheet on partly state-owned entities, 2004.

- On June 16, 2005 a decree was adopted deregulating the prices throughout the sector and authorizing direct sales, i.e. sales not having to go through OCIBU;
- Cancellation of the orchard tax, which was a para-fiscal tax imposed on producers without provision of corresponding services;
- Call for proposals for the auction of two washing stations. However, this call was subsequently cancelled by the government elected in 2005 to give itself time to analyze the possible consequences of the reforms.

The presidential decree of January 14, 2005 established, at least legally, the full deregulation of the coffee industry. The promulgation of the decree opened new avenues for all the actors involved and gave them an incentive to reposition themselves.

In actual fact, despite the above-mentioned decree, the industry remained under heavy control by OCIBU. This was particularly evident in OCIBU's involvement in the following areas: (1) setting the producer price; (2) maintaining curing regulations with a recent (2002) lifting of restrictions on fully washed coffee; and (3) the sale of coffee at auction which is still organized by OCIBU, with a recent and limited opening towards direct sales to foreign buyers.

The cancellation of the orchard tax is considered a victory for the coffee grower associations which considered it almost as robbery. The tax consisted of a deduction of 30 Burundian francs per kilo by OCIBU and was supposed to fund research and accompaniment of coffee growers. The coffee grower associations see payment of this indefensible tax as one of the justifications for claiming that coffee growers have largely paid for the washing stations and that they would now like the state to give these stations to them.

The opposition by coffee grower associations to the sale of the two washing stations at Nkondo and Gasave was based on their claim to participate in the social capital of the SOGESTALs. Their opposition compelled the government to rapidly suspend the sale.

In March 2006, as a result of sustained pressure by the IMF and the World Bank and difficult negotiations to divide revenues among the industry's various operators, the Managing Director of OCIBU announced the full deregulation of the sector. This allows the sale of coffee for export outside the auction system managed by OCIBU. However, no one is authorized to sell coffee at a price lower than that specified by OCIBU.

As the coffee industry is now, at least in principle, fully deregulated the debate now focuses on the methods of privatization and the possible options. This privatization concerns OCIBU and its Department of State Property, SODECO, the SOGESTALs and the washing stations.

The sale of washing stations and access to shares in the SOGESTALs is the only issue that represents a strategic matter regarding privatization as it determines ownership of the coffee at all levels of the industry. The actor(s) who achieve control at this first level can more easily control the whole process up to export, using the other entities in the sector simply as service providers. This explains the debate around the participation of coffee grower associations in the social capital of the sector's entities.

2.4 The impact of coffee sector reforms

At a macro-economic level, despite the difficulties and sub-performance of the sector, the reforms are said to have achieved the following results:

- Improved management of the washing stations, compared to centralized management by OCIBU or another public institution, which would have been difficult to achieve without the SOGESTALs;
- Private sector promotion, allowing private operators to invest in shares in the privatized entities (SODECO, SOGESTALs and OCIBU);

- Effective deregulation of curing, de-pulping and export, through the construction of new washing stations by private investors and SOGESTALs;
- Maintenance of the industrial equipment by the Department of State Property is an important gain that should be watched over;
- Up to 1998 the state has cashed in on coffee export taxes and financial surplus to the order of 10 million Burundian francs from the 1994/95 coffee harvest, deducted from the Stabilization Fund.

However, accompaniment of agronomic activities has slackened following the reforms (see section 2.4.1). In addition, between 1999 and 2004 the state had to subsidize the sector with more than 18 billion Burundian francs in the form of Treasury Bonds, during a period when the price was very low. But the state can be considered responsible for this situation as it decided the distribution of profits (price setting for the producers and remuneration of other actors according to the qualitative remuneration grid/GRQ, and fees established in advance of sales/RCA)[22].

2.4.1 Negative impact on accompaniment of coffee production

Concerning accompaniment of agronomic tasks (laying of straw, spraying against insects, various types of maintenance) the reforms meant that none of the agricultural services felt responsible for carrying out these tasks. Meanwhile, OCIBU, with only four technical officers, did not have sufficient human resources to carry out this task. Removal of the post of hillside[23] agricultural accompanier in 1996-97 worsened the situation. Various solutions were attempted to alleviate matters, including contracts with DPAE[24] and giving the SOGESTALs the responsibility for accompaniment. However, none of these models worked.

The reforms have not changed the outcome for coffee growers. They have not redefined the farmer's role in the new arrangement, nor have they defined accompanying measures. Farmers have continued to receive the price allocated to them by OCIBU and the state as it is fixed by the amount of money left over after other actors in the sector have been paid. There is a danger that coffee farmers and agricultural accompaniers will lose their motivation, as a result, leading to poor maintenance of orchards and possibly a drop in production.

[22] The GRQ ("Grille de Rémunération Qualitative") was a flexible scale which set the payment for actors in the sector (apart from the farmers), according to their responsibilities. In 1999 the GRQ was replaced by the RCA ("Redevances Connues d'Avances" or fees established in advance of sales). The RCA sets payment for the different actors at a fixed percentage.

[23] The hill ("colline") is the lowest administrative unit in Burundi.

[24] Direction Provinciale de l'Agriculture et de l'Elevage; Provincial Department for Agriculture and Livestock.

3. The debate over privatization of the coffee industry

Almost all the coffee sector actors agree on the need to reform the industry through deregulation and privatization so as to reduce or put an end to excessive bureaucracy, to improve management and above all to establish a transparent (and eventually equitable) division of revenues. But in spite of numerous studies and seminars, no consensus has been reached on the strategies to be adopted for the reforms.

The various actors in the coffee sector including the farmers, the SOGESTALs, SODECO, SCEP, OCIBU, the government and donors, all have different approaches to selling the state's shares. Different options are suggested by different actors in a profoundly altered political, social and economic context.

3.1. A profoundly altered political, social and economic context

The political, social and economic landscape has changed drastically since the 1991, 2000 and 2005 privatization and deregulation measures: There has been a civil war, negotiations at Arusha resulting in a peace agreement signed in August 2000, a long period of transition before and after Arusha, and the 2005 elections. This long journey has led to a profound change in the country's political structures.

From 1972 one ethno-regional group monopolized power until the establishment of more ethnically and regionally inclusive governments following the Kajaga Convention on Power-sharing between UPRONA and FRODEBU. This lasted from 1994 until the elections in 2005. However, political instability, unstable security, the distance between elites and the mass of the rural population and distrust between political and economic elites based on ethno-political considerations did not cease. Hence, for more than a decade (1993 to 2005) the UPRONA-FRODEBU government was preoccupied with questions regarding security and political positioning.

Economic questions were pushed into the background, resulting in the slow pace and superficial approach to economic reforms, including those in the coffee sector. In addition, successive transition governments did not have the necessary financial means to pursue these reforms as a result of the economic embargo, the withholding of aid, the drying up of internal resources and a heavy budget deficit. This political context did not offer the best conditions for carrying out politically sensitive reforms which would have impacted on large sectors of socio-economic life in the country.

The 2005 elections which brought CNDD-FDD to power have profoundly modified the Burundian political landscape. First, the large victory of this party gives it legitimacy and ensures a measure of political homogeneity at the level of government. In addition, the willingness of CNDD-FDD to open up to Tutsis reinforces the government's national basis. These two factors combined create an atmosphere that is favourable to implementing economic reforms and to mobilizing the necessary financial resources.

This defusing of ethno-political tension partly removes ethnic antagonism as an issue for privatization of the coffee sector. Although this tendency needs to be confirmed in the longer term, the move beyond ethno-political antagonism represents an important development which should be appreciated, given the country's history. This new development in part lifts the barrier of distrust which for long blocked economic reforms, particularly in the coffee sector where ethnic (Hutu versus Tutsi) and regional (north versus south) interests clashed in an indirect and veiled manner.

While UPRONA and FRODEBU favoured an elitist conception of power, the new team of CNDD-FDD decision-makers seems, by its socio-cultural profile and discourse, to be closer to the population's preoccupations. This is illustrated by various measures, such as the lowering of the price of local beverages and sugar, free primary schooling and free health care for children under five and women giving birth.

In the context of privatization, this approach is reflected in the government's distancing itself from the privatization model proposed by SCEP, which largely reflects the preoccupations of donors, and particularly the IMF[25].

In this context of change, one should also note developments relating to democracy. In a society sensitive to the rights and responsibilities of citizens of a democracy, economic reforms, including those in the coffee sector, should take into account opinions expressed by the population. The emergence of civil society and the media also influences opinions on the direction economic reforms should take. Since the beginning of the peace process and the emergence of private radio stations with wide coverage in rural areas, the population's awareness of citizens' rights has been strengthened.

However, the increase in poverty (68% of the population live below the poverty line) and the scarcity of other economic resources increases tension around economic reforms. This is particularly the case for privatization of the coffee sector which many consider a collective asset that should not be touched, despite the billions of francs poured into the sector by the state each year in the form of subsidies.

At an economic level, privatization of the coffee sector is being discussed in a situation of extreme poverty, particularly among coffee farmers, as well as shrinkage of the Burundian economy and scarcity of resources and economic opportunities for the elites. The population's extreme poverty pushes the poorest into a vicious cycle of vulnerability. But coffee is an essential income for the poorest. The World Bank's survey on poverty illustrates that even if coffee is not the main source of income for coffee farmers, poor households draw a significant part of their income from selling it. Coffee is particularly important for them because the single payment allows them access to a relatively large sum of money all at once, which they can then invest in social or economic transactions[26].

In sum, the general context of the privatization process is characterized by economic uncertainties and a bitter struggle for resources amongst elites as well as the grassroots population. The latter, including coffee farmers, accompany this struggle with a sense of social desperation and an acute call for social justice. The coffee growers' movement is a good illustration of this new state of mind.

3.2 The debate over ownership of the coffee

Ownership of the coffee has long been a subject of debate between the main actors in the sector. The 1991 reforms did not clarify the property rights of different actors regarding the coveted raw material because it was known that those who own the coffee automatically retain the right to profit from it.

The state always treated coffee production as a public good. This is why the state set the payment scale for all those involved, set the price paid to farmers and decided on the use of stabilization funds. Farmers to this day claim ownership over this product, as they do for all agricultural products produced on their lands. The farmers claim ownership over coffee from planting to export, although so far neither the state nor any other intervener in the sector has

[25] Interviews.
[26] World Bank, Burundi Diagnosis of poverty, draft, December 2005, p. 53.

recognized this right. The state representative, OCIBU, has managed production on its own. The industrial sections and intermediaries of the sector (SOGESTALs, collectors of dried coffee) maintain that the coffee belongs to them from the moment they purchase it from the farmers.

This debate is important because some believe that whoever gains ownership will benefit from many prerogatives in terms of marketing and profits. But objectively speaking, a product changes owner when it changes hands following a transaction. It is up to the different actors to exercise ownership while the product is still in their hands.

3.3 Emergence of the movement of coffee growers

3.3.1 Its origins

The current most important socio-economic event in the coffee industry has been the emergence of the coffee farmers' movement, claiming nothing less than ownership of the means of production over the country's main resource.

The strong mobilization of this movement, from bottom to top, around a socio-economic issue is one of the few examples in Burundi's recent social and political history of a mass movement transcending ethnic issues. However, this does not imply an absence of internal opposition or weaknesses.

The creation of coffee farmers associations started in 1996 as an OCIBU initiative. Its main purpose was to cope with the breakdown in accompaniment of coffee farmers following the removal of the agricultural extensionist post. The SOGESTALs were called upon to assist coffee farmers. OCIBU decided to organize 'self-support' programmes for coffee farmers through the establishment of farmer associations. The mobilization of coffee farmers around tasks related to coffee production such as pruning, covering with straw, killing insects, and fertilizing aimed to the quality and quantity of coffee beans and rehabilitate abandoned coffee plantations.

OCIBU contracted INADES-Formation Burundi to launch a pilot programme to create coffee farmer associations in Kirimiro, Kayanza and Ngozi. In 1996, with the help of provincial authorities, SOGESTALs and DPAE, INADES identified potential leaders of the movement, so-called "link-actors". Agronomists and extentionists in the communes took part in the identification of these "link-actors". They were identified with the help of farmers who had some level of formal education, owned a relatively large coffee orchard and were ready to work for the programme for free. Two associations were set up in each of the provinces of Kirimiro, Kayanza and Ngozi before extending the process in these regions as well as to Kirundo-Muyinga.

In 1996-97, there was a massive adherence of farmers who regarded the associations as a way of gaining access to humanitarian aid, fertilizers or seeds. As farmers did not immediately receive the benefits expected, within a year the leaders chosen by the elite were unable to recruit new members.

The movement was restructured in 1998 after it went downhill. At the level of each SOGESTAL, individuals who genuinely represented coffee farmers were identified. INADES, in cooperation with the SOGESTALs, chose to create small associations gathering farmers from one, two or at the most three hillsides. This meant that members knew one another better, improving the associations' functioning. As they grew, these associations were encouraged to split into smaller groups consisting of hillside neighbours.

3.3.2 Rapid growth

The coffee farmers movement has a four-layer structure: hillside associations working near to where the producer lives; unions working around washing stations; the five federations working around the five SOGESTALs, and the Confederation working at the national level. Membership requires the producer to:

- Own a coffee orchard. Some associations go as far as requiring a minimum of about 100 coffee trees;
- Maintain the coffee orchard;
- Pay a membership fee varying from 3,000 to 40,000 francs per month.

Payment of membership fees allows associations to mobilize resources of their own and guarantees their members' commitment. However it also presents an obstacle to the participation of the poorest farmers due to extreme poverty and an assistance mentality that has developed among them. As of December 2005, the Confederation reported that out of an estimated total of 600,000 coffee farmers, the movement had 95,118 members, i.e. about 16% of the total number of producers. This estimate seems to be confirmed at some SOGESTALs (such as Kirimiro, Ngozi, Kayanza and Kirundo-Muyinga) but not in Mumirwa where the movement only started a year ago due to the insecurity that had long prevailed there. The movement's rapid development and the enthusiasm it inspires among the producers stand out clearly from field visits conducted for this study.

According to the Confederation, between March 2004 and December 2005, the number of associations increased by 148%, while the number of members increased by 202% and savings increased by 224%[27].

The associations are all structured along the same lines. They comprise a General Assembly; an Executive Committee consisting of a President, a Vice-President, a Treasurer, a Secretary and an Advisor; a Control Committee consisting of three members assigned to supervise the Executive Committee, check the accounts, etc.; and a Conciliation Committee in charge of managing conflicts. The committee members are elected by the General Assembly through secret ballot and are appointed for a two-year period. Some associations have put in place a system whereby a member of a neighbouring association carries out an audit of expenses incurred. Decisions concerning expenses such as loans requested during the fallow period[28] are taken by the General Assembly, which meets regularly.

The associations manage relatively large amounts of money, several million Burundian francs when, for example, they deliver hundreds of tons of coffee beans per season to the collection centres. But their financial management capacity is still too weak to manage such large amounts.

The members of the three committees represent their association in the union where elections take place for three similar committees. Individuals elected to the unions have to give up their positions within their respective associations. Each association also appoints two non-committee members to the general assembly of the union. The same process applies at the levels of the federation and the confederation.

The **hillside associations** are composed of 10 to 80 members and are formed at the level of one or several hills. Their function is essentially economic with the following main activities:

- Collection of coffee beans; management of collection centres; and payment of the farmers who have supplied the associations with coffee beans;
- Granting members small loans from the associations' own capital;
- Granting loans to members (fertilizer credit, credit of consumer goods) that the federation has acquired from a micro-credit institution or from an international NGO.

The **unions** are formed around washing stations and deal mainly with collecting coffee beans. Membership of the unions is not formalized and does not require a financial contribution, which

[27] National Confederation of Coffee Farmers' Associations in Burundi (CNAC).
[28] Loans are accorded to farmers during the fallow period in order to meet immediate needs, such as medical and school fees and purchase of small farming equipment. The loan is reimbursed after the harvest.

means that they have no resources of their own and are instead supported by the SOGESTALs. The unions' main activities are as follows:
- Coordinating collection and transport of coffee beans, controlling registration cards at the washing station; recovering money from the SOGESTAL; and paying each hillside association for the coffee beans;
- Supplying coffee plants produced by ISABU[29];
- Supervising treatment of plants against illnesses;
- Accompanying hillside associations.

The **federations** are formed around each SOGESTAL and their roles are:
- Coordination and follow-up of the activities of unions and associations in collaboration with the SOGESTALs;
- Support for the creation of new associations in terms of accompaniment, structure and editing core texts;
- Representing farmers at the regional level and defending their interests.

Federations in particular serve as links to the SOGESTALs for the dissemination of technical messages such as the treatment of coffee trees against illnesses. They also contract transporters to organize transport of coffee beans and sometimes make joint orders of fertilizer.

The **National Confederation**, called “Murima w'isangi” (“the Common Field”) in Kirundi, was created in March 2004 in Bujumbura, at a workshop organized by INADES. The committee of the confederation has 10 members, with two members from each regional federation. The confederation's main role is to defend farmers' interests and represent them in the decision-making institutions of the sector.

The coffee farmers' movement has few financial resources of its own. The associations' few financial resources consist of membership fees which are set by each association, as well as the profit margin gained on collection of coffee beans. Some associations request one unpaid working day per week from each of their members in order to cultivate food crops which are sold for the benefit of the association. Others request payment of part of the farmers' one-day salary. External financial support is provided from time to time by NGOs to support ad hoc activities. The SOGESTALs contribute to the operation of the associations, unions and federations by providing offices for the federations, or transportation for officials, office supplies (paper), etc.

The federations are funded by the contributions of member associations and some have managed to put aside relatively large amounts which are meant to be used later as guarantees to access micro-credit.

The confederation has no funds of its own and operates with occasional support from SOGESTALs and NGOs. The difficulty the coffee farmer movement faces in raising sufficient funds of their own or accessing substantial external support illustrates its organizational weakness, despite the important responsibilities that the movement claims in the context of reforming the industry.

3.3.3 A movement responding to its members' aspirations

When the movement was restarted in 1998 the SOGESTALs and INADES listened to farmers themselves and managed to identify solid ways of motivating them to join associations. A key constraint to farmers joining associations was transportation in regions like Kirimiro where the distance between farms and the washing stations is considerable. In these regions, people transported coffee beans either on foot or by bicycle. The other alternative the farmers had was to sell the coffee to merchants who would organize transportation but would pay less than the stipulated price. Today, some associations rent lorries to pick up coffee from collection centres.

[29] ISABU (Institut des Sciences Agronomiques du Burundi) is the state college specialising in agricultural research.

The association's organization of coffee transportation at a lower cost significantly increases the farmers' income.

The second motivation for joining an association concerned the control of weighing and payments as well as the distribution of fertilizer; all occasions at which the producer was often cheated. Associations took charge of recording the quantities of coffee brought by the farmers, controlling the weighing as well as recording all the payments made. Later, they extended the services provided to their members and to coffee farmers in general, and included distribution of fertilizer which is organized by many associations and has proved to be more efficient than when it was carried out by the SOGESTALs. Some associations also organize the collective pruning of coffee trees.

Finally, perhaps the main argument in favour of the associations is the price increase that first took place during the 2004-5 season, when producers were paid an additional 30F/kg of red coffee, and then during the 2005-6 season when the price went up from 120 to 200F/kg. Although this was mainly due to an increase in the world market price, the Confederation claims responsibility for it. The increase had a substantial impact on the perception of coffee farmers who saw coffee regain some of its profitability.

The renewed motivation and even enthusiasm among the coffee farmers who are members of associations is due to the totality of services provided, among which three should be highlighted: the increase in the price of coffee, micro-credit and the associations' ability to act on issues of importance to its members. The various services provided by the associations have improved coffee farming as a source of cash income for many poor households. According to coffee association leaders, the movement can save the coffee industry from further decline by mobilizing and motivating the farmers.

The question of the associations' representative nature is central to the debate about privatizing the coffee industry and the claims made by the movement. One of the means to assess its level of representation is not only the ratio of members versus non-members, but also the perception of the movement by non-members. Field visits indicate a strong esteem for the associations which is based on most of the above-mentioned services being provided not just to members but to all coffee farmers. This includes the price increase, transportation, control of weighing, distribution of fertilizer etc[30].

On the other hand, there is some resentment towards associations which either do not contact farmers at all or only contact them once without following up. The main motive for farmers to join is the prospect of accessing micro-credit which is extremely important to farmers in facing problems like survival during the fallow period and payment of school fees and health services.

A main reason for coffee farmers not to adhere is the movement's weak organization which fails to build on its success and to integrate all those wishing to join. Another reason not to join are the conditions for membership (financial contribution, participation in communal works) which some find restricting. Due to an urgent need for cash, some farmers prefer to sell their harvest cheaply to intermediaries or to smuggle it illegally to Rwanda (if they live near the border). There are also psychological barriers which mean that it is often coffee farmers of a slightly higher social and economic standing who join the associations, while poorer farmers who are socially isolated and less formally educated remain on the margins of the movement.

The leaders of the various entities of the movement are chosen through democratic elections free from external interference. Thus, the movement almost completely succeeded in keeping its distance from political parties at the time of the 2005 elections. Nearly all the leaders at the

[30] The positive opinion of the movement among non-members is corroborated by statements made by non-members on the radio programme for coffee producers which is broadcast twice a week on Radio Isanganiro.

various levels of the movement refrained from running for elections. The leaders of the higher echelons of the movement are almost exclusively Hutus due to their numbers. Some also say that the under-representation of Tutsis at the upper levels of the movement results from the fact that coffee is mostly grown in Hutu-dominated regions. In order to maintain social cohesion, one of the conditions for running for elections within the movement is to not have been implicated in ethno-political violence.

As coffee farming is traditionally a male activity, women are under-represented in the movement. But this under-representation is not extreme. Although fewer women adhere to associations, they are not entirely absent. According to figures from the Confederation, there were 18,179 female and 49,537 male members in September 2005, i.e. 36% were women.

As for the question of representation, the movement included only 16% of coffee farmers in total. According to the Confederation, membership of all coffee farmers or even most should not be an ultimate goal, however, because failure to handle such a large structure could have a negative impact.

Considering the services provided to members and non-members alike, the willingness of numerous non-member coffee farmers to join and the positive image of the movement among coffee farmers as a whole, the movement seems to largely represent the interests of all coffee farmers, as a whole.

3.3.4 A movement that inspires social hope

The coffee farmers' movement makes some bold claims for economic participation, considering the Burundian mindset and the traditional relationship between people of different social strata. On the matter of privatization, the movement seeks ownership over all coffee and the washing stations through the national Confederation. It also seeks participation in the social capital of the industry, in order to ensure a significant role in all the industry's operations, i.e. from planting through to export.

Before examining these claims in further detail in the next chapter, it is worth underlining the degree of ownership of these claims within the movement itself. Interviews were carried out in three different coffee-growing regions (Gitega, Ngozi and Rural Bujumbura) with members who have various levels of responsibility in the movement, i.e. ordinary members, association representatives on the hillsides, and leaders of unions and federations. What is most striking is the uniform agreement about the movement's claims at every level of responsibility, all the way down to the hillsides. Certainly the level of articulating these claims varies with the level of responsibility. However, there are strong emotions underlying these claims among most ordinary members and almost all the leaders of the movement, which demonstrates the movement's strong mobilization and powerful grassroots support for its claims.

The World Bank study on coffee producers' perceptions of the coffee industry confirms their strong support (58%) for having associations invest in washing stations. Among this group 62% say that if need be, they are ready to contribute financially to their associations' purchase of shares[31]. This mobilization also reveals the suffering experienced, with all the coffee farmers interviewed for this study expressing their disgust at the exploitation they have endured for too long. Resentment is deeply felt for those whom they call "the profiteers" who compelled them to cultivate coffee under tough conditions and at less than financial break-even point while others reaped the fruits of their labour.

This feeling is not only expressed in a negative way but also in the expectation of a better future, based among other things on the producers' price increase in recent years and the hope that the farmers' ownership of the industry will improve their income. Most coffee farmers

[31] World Bank, Burundi Diagnosis of poverty, draft, December 2005, p. 61-62.

interviewed expressed their readiness to bear market and production variations as long as they benefit from price and production increases. However it is hard to believe this willingness will be sustained unless a compensation mechanism is put in place allowing farmers to face hard times as well.

The determination with which these claims are expressed becomes threatening when it comes to the possibility of being denied investment in the washing stations. Some say they will not hesitate to stop growing coffee, to tear up the orchards or to sell to the highest bidder (meaning Rwanda). Beyond the material bonus expected from investing in the washing stations, their other motive seems to of a social nature. Coffee farmers want to participate in the socio-economic life of the country, to have their voices heard and to have ownership over a product they have long suffered for. The expectation of possible, even partial, ownership of washing stations and of the industry as a whole may be a source of strength for the movement. However, high expectations can also be a weakness given the structural constraints weighing on the industry and the risk of disillusionment.

Beyond its claims and activities in the coffee sector, the movement has the potential to drive the emergence of a strong, structured mobilization of farmers, the likes of which has not yet emerged in Burundi. Farmers have for the first time managed to find a strong “leitmotif” which rallies them around a real and tangible common interest (coffee and income). The movement can also serve as a basis for promoting micro-credit schemes in the coffee-growing regions of the country, as illustrated in the table below.

Table 5 The role of associations in mobilizing micro-credit[32]

Name of federation	SOGESTAL	No. of members	Amount mobilized in the contingency fund (BIF)	Volume of credit provided to members (BIF)
BONAKURE	KAYANZA	14,755	28,791,528	28,587,202
MFASHANGUFASHE	KIRUNDO-MUYINGA	17,036	28,277,585	16,647,545
NKORENGUKIZE	NGOZI	15,727	11,118,356	6,032,110
SHIRAMAZINDA	KIRIMIRO	15,009	20,536,315	16,856,545
MUCO W'IKAWA	MUMIRWA	5,189	6,342,700	0
TOTAL		**67,716**	**95,066,484**	**68,123,402**

As an economic force, the hillside associations of the movement can also play an important role in promoting social cohesion, particularly when it comes to land conflicts which are all too frequent in rural areas. They can play a positive role in helping displaced people and returning refugees to regain their properties and coffee orchards.

3.3.5 The limits of the movement

Despite its rapid growth and the relevance of its claims, the coffee farmers’ movement is limited by its inexperience, weak capacity and lack of financial resources.

The movement is developing very rapidly, but this growth is not well-managed as it is not accompanied by a strengthening of capacities and structures, particularly at the higher levels of the organization. The lack of financial resources weakens the Federations’ operational capacity and pushes them to rely on the SOGESTALs for certain services (travel, basic office equipment, bank guarantees to access credit etc.). This situation could in the long term compromise their autonomy and lead them to function simply as SOGESTAL messengers to the lower levels of the movement instead of carrying out their own, independently valuable, activities. This situation persists despite the potential of the associations and unions to mobilize the necessary funds for

[32] Source: National Confederation of Coffee farmers in Burundi: Situation of the associative movement of coffee producers, September 2005.

their functioning. The weakness of the movement is also demonstrated by the fact that the representatives of the National Confederation have a rather minor role. The essential part of the work is carried out by the President of the Confederation and assisted by external institutions like the SOGESTALs and INADES. This distance from grassroots members and dominance of the upper levels of the movement could hamper the process of financial and political accountability vis-à-vis grassroots members, particularly if the movement continues to grow and begins managing larger sums of money.

That said, the movement's operational and democratic centre of gravity seems to be situated at the upper levels as it is too young to have generated a critical mass of grassroots leaders with enough experience to monitor the activities of the higher levels. In addition, the low levels of formal educational amongst the leaders, even of the Federations, does not help matters. The difference in the level of formal education and experience between the President of the Confederation and members of the Confederation's Committee accounts largely for the dynamics within the team.

However, the consistency of political statements issued by leaders at various levels about the movement's claims demonstrates an important capacity for communication between the top and the bottom. Nonetheless, even this communication functions mainly in a top-down manner.

Different actors in the coffee industry criticize the associations (mainly the Federations) for being too close and dependant on the SOGESTALs. In many coffee regions, the development of the movement depends in large part on the actions of the local SOGESTAL Director. For example, the enthusiasm of the SOGESTAL Director in Kirundo-Muyinga allowed the coffee farmer associations in this region to not only catch up with more established associations in Ngozi, Kayanza and Kirimiro, but also to develop rapidly in size and activities.

This relationship with the SOGESTALs should not be considered in a one-dimensional way. On the one hand, the SOGESTALs have had a primary role in the development of the farmers' movement; on the other this close relationship has been legitimized by the movement's success, and the positive light in which coffee producers hold the SOGESTALs on the whole. A national study on the perceptions of coffee farmers has shown that two-thirds of those interviewed had a positive view of the SOGESTALs. In the rural areas, a majority was impressed with the reduction of cheating at weighing stations, the fast payments and the establishment of washing stations carried out by the SOGESTALs[33].

Another source of concern in the longer term is the risk that politicians may attempt to use the movement for recruitment and propaganda during electoral campaigns. However the last elections showed that the movement has done everything possible to maintain a distance from political parties.

So far the relationship between association members and non-members is beyond reproach as there are not yet significant (financial) interests at stake. But as the movement grows, it needs to remain focused on the relationship between members and non-members in order to maintain social cohesion on the hillsides and shared interests between coffee farmers of different social strata.

In conclusion, the movement of coffee farmers represents an innovative development in Burundi, taking responsibility for important agricultural activities. In meeting many of the needs of farmers, the associations have improved the image of the coffee industry and aroused renewed interest in this sector, thanks to an increase in price and second payments.

[33] World Bank, Burundi Diagnosis of poverty, draft, December 2005, p. 61.

However, the development of the movement has not been accompanied by a real strengthening of its structures. The fact that the movement is fairly new is certainly one of the main reasons for its weaknesses. But despite its limitations, the movement gives cause for hope. It is authentic and carries weight in rural areas due to its socio-economic potential and trans-ethnic dimensions. The movement's struggle is also a sign of the emergence in Burundi of a mobilization by local farmers around economic claims.

3.4 The positions of various actors in the coffee industry

The various actors in the coffee industry have relatively different views on how reforms should be carried out. Among the positions and suggestions made, the following section will examine in some detail the suggestions of the Department for Public Enterprises (SCEP) as it is the state's technical institution responsible for the coffee sector reform process.

3.4.1 The government

The governmental authority in charge of reforming the coffee sector is the Inter-ministerial Committee on Privatization, with SCEP as its technical secretariat. The latter is in charge of defining a strategy for the state's disengagement from the coffee industry. In March 2004, a final strategy document was produced, entitled: A Plan for State Disengagement from the Cash-crop Industries (coffee, tea and cotton). In the section concerning the coffee industry, directives are outlined for the privatization of each of the industry's entities. For the privatization of the 133 washing stations and the sale of state shares in SOGESTALs, which constitute the main point of debate, SCEP's strategy revolves around methods of participation in the SOGESTALs by producer organizations. Following a strongly one-dimensional analysis that underlines the weaknesses of producer associations as well as the marginal place of coffee in farming, SCEP presents three scenarios for the participation of producers in the SOGESTALs:

- Scenario 1: Free transfer of part of the state's shares;
- Scenario 2: Conversion of subsidies from bilateral and multilateral donors into shares for the producer organizations;
- Scenario 3: Granting part of the capital to buy shares at favourable conditions.

The main advantage of scenario 1 (free transfer of shares) is outlined as such: "if created and reinforced, the producer organizations would be guaranteed both participation in the capital of SOGESTALs at the time of the state's disengagement and access to the profits generated, increasing their incomes and thus reducing their poverty."

Next, the document presents the social, economic and legal disadvantages of this scenario. At a social level, taxpayers would not understand how one segment of the population could become the sole owner of property which previously belonged to the public. This dispossession of the general population would be hard to justify. Moreover, as some citizens have had their land expropriated for the sake of establishing nurseries, orchards, factories and collection warehouses, or even pathways and houses, they would never understand how this common property could now be awarded to only a handful of citizens. Such a decision would be considered discriminatory and an injustice to other segments of the population[34].

At an economic level, SCEP fears that the shares given to producer organizations would rapidly be subject to speculation and sold at low prices either to managers of these organizations or to private individuals. The free transfer of shares might also trigger jealousy among the employees of the privatized entities and among the neighbouring population who would ask for the same advantages. At a legal level, ownership of the freely acquired shares might be questioned by those who did not agree with the concept, be it current or future generations, "and this could trigger social conflicts".

[34] Plan for State Disengagement from the Cash-crop Industries (coffee, tea and cotton), p. 40.

As regards scenario 2, the document briefly explains that “the free transfer could be equivalent to subsidies of equipment acquired from donations which would be used to rehabilitate the coffee industry”.

Scenario 3, which is favoured by SCEP, suggests that the amount of shares controlled by producer organizations should be determined after integrating the value of washing stations into the capital of the SOGESTALs. A portion of these shares would then be reserved for these organizations to purchase through an interest-free loan repayable over 20 years. Either the state or a financial institution would oversee the farmers’ repayment of this loan.

SCEP’s suggestions and the underlying arguments obviously seek to restrict, to the greatest possible degree, the participation of producer organizations in the capital of SOGESTALs and washing stations following privatization. The imbalance of these suggestions and their supporting arguments led donors and representatives of the coffee, tea and cotton industries to request a counter-argument to the suggested scenarios.

The new government agrees with the principles of deregulation and privatization but wants time to study these issues in more depth. With this in mind PAGE has commissioned a study on the best privatization strategy for the washing stations, SOGESTALs and SODECO, as well as a legal and regulatory framework for restructuring OCIBU.

The government is, in principle, favourably disposed to broad participation of the producer organizations as shareholders in the privatized washing stations. Thus, the draft coffee sector privatization law does not contain the stipulation that was contained in the 1991 law that neither members of the Inter-Ministerial Committee on Privatization, nor members of government, SCEP or consultants having worked on the project could acquire shares. Instead it has been proposed that evaluation results for the entities being sold be made public so as to ensure that those involved in the project have the same information as other potential buyers.

3.4.2 The counter-argument to SCEP’s propositions

In essence, the counter-argument downplays the assessment of weaknesses ascribed to the coffee producer organizations, pointing out that they have existed since 1997, acknowledging their presence in all the SOGESTALs and states, and the fact that already at the time of writing (2004) they enjoyed a certain level of representation. The counter-argument suggests that before integrating these organizations into the privatization scheme, this representation should be analysed more deeply according to a set of precise criteria.

Given the relevance of the counter-argument to the focus of this study, it is worth quoting in part. Concerning the free transfer of shares to producers and the problems of equality and equity, the counter argument reads as follows:

At a social level:

- The losses incurred by producers over the years (sales at a loss) should be taken into consideration. Moreover, it should be noted that the producers had no choice in the matter;
- Approximately 600,000 families, i.e. a significant proportion of the Burundian population, are involved in coffee farming, to say nothing of other forms of employment connected to this crop;
- At a social level, the obligation to produce coffee while selling at a loss has been truly detrimental to the producers and it would be entirely fair to restore the balance through the provision of free shares to these farmers;
- Deductions, in the amount of billions of Burundian francs, from the Stabilization Fund have benefited the state’s budget for years, which is enough reason to compensate the producers with free shares.

At an economic level:

- Visible affiliation by producers in the management of the industry's entities is necessary;
- The links between the producer and the cash crop need to be reinforced in order to reduce the risk of producers abandoning the country's most important sector;
- The risk of speculation and resale of shares at low prices can easily be avoided by introducing a no-transfer clause in the contract which can be amended later. In this case, SCEP's argument that the free transfer will benefit private operators will no longer be justified;
- The position of state employees and producers is not the same as state employees continued to receive their salaries while the producers were exploited. For this reason, employees of companies to be privatized cannot claim the same advantages as coffee producers.

At a legal level:

- Burundian privatization laws make no provision for the free transfer of shares. To make this option work, the texts and legal framework should be amended. Amendment of the legal framework would allow greater transparency in decision-making (as it necessitates a parliamentary debate and vote). Alternatively, to avoid revision or amendment of the law, free transfers could be replaced by sale at a symbolic price.[35]

The counter-argument suggests the following scenario:

- Producer organizations benefiting from the distribution of shares must represent the coffee producers as a whole, income must be distributed to all, and part of the income must be allocated to cover management fees;
- A five-year transitional period should be envisaged during which the producers will only have the right of usufruct over the shares, including the right to vote;
- After this transitional period, the degree of representation of the producer organizations will be assessed, allowing the transfer of full property of the shares to them while maintaining the no-transfer clause;
- The producers' cut could be around 30 to 35% of the shares.

After discussing the primary issue of debate, namely the producers' integration into the privatized industry, the SCEP document offers suggestions on the second central issue, i.e. methods for selling the washing stations.

The document proposes three scenarios for going about selling the washing stations:

- The first scenario consists of incorporating the value of the washing stations into the SOGESTALs' social capital. This approach would have the advantage of bolstering the activity of the SOGESTALs by having them manage washing stations belonging entirely to them;
- As some stations are more profitable than others, the second scenario suggests grouping the more profitable stations with those less profitable. Stations with average productivity would also be included. Proceeding this way would have the advantage of favouring the sale of less profitable stations;
- The third scenario suggests selling washing stations one by one, regardless of their profitability. This solution would have the advantage of allowing each investor to buy what they want. According to SCEP, the less profitable and cheaper stations should be able to attract the interest of buyers with less financial capacity.

In its proposal, SCEP indicates a preference for the first scenario, allowing the SOGESTALs to continue to manage the washing stations. This solution would also solve the thorny problem of how to group the stations. But SCEP's position seems since then to have evolved towards

[35] Ibid.

scenario 3, i.e. the sale of washing stations one by one, which is also the option favoured by the IMF[36].

In sum, SCEP's proposal is useful in that it clearly spells out the issues at stake regarding privatization of the SOGESTALs and the washing stations. The main debate revolves around the position granted to the producer organizations in the social capital of the entities. The second concern is deciding on a strategy for selling the washing stations. SCEP's analysis and propositions evidently seek to limit and complicate the involvement of coffee farmers in the privatization plan. When invoking the problem of equity concerning the free transfer of shares to producer organizations and the exclusion of the rest of the population, SCEP totally ignores the historical exploitation of coffee farmers by the state. In so doing, SCEP defends a one-sided position favouring the state, which is understandable coming from a public department.

3.4.3 The coffee farmers

The coffee farmer associations strongly support reform of the coffee sector, although they would prefer a slower pace of implementation in order to be better prepared. One of their first requests is the separation of the OCIBU's role as operator and regulator. They also request an audit of the origin and ownership of OCIBU's shares in certain banks. The coffee farmers defend the idea that numerous levies on production prices (reimbursement of loans for industrial equipment, orchard taxes, and the use of the Stabilization Fund surplus for other purposes) give them the right to own a number of OCIBU's capital assets.

Along the same lines, the coffee farmers are convinced that these deductions to the production price have largely paid for the washing stations over which they are claiming ownership. It seems that this extremist discourse could be a negotiation tactic, but their ultimate objective in the privatization process is the free transfer by the state of a majority of shares in the washing stations, and maintenance of the current SOGESTAL structure, given that their movement is structured around it.

The other argument by coffee farmers is that the sale of washing stations one by one or in small lots, as suggested by other actors, would disadvantage washing stations with low supplies of raw material. This would have negative consequences for nearby coffee farmers who might then experience problems selling their product.

One of the reasons farmer associations insist on majority control of the washing stations is that they do not trust other actors in the industry. The coffee farmers fear that private operators who would buy the washing stations might abandon coffee growing in the event of low profits. The will of associations to control the social capital of the washing stations is not primarily motivated by the prospective dividends which, when shared among the farmers, would be insignificant. The associations are more interested in the sustainability of coffee growing and investing profits in community development activities.

The main objective of the associations is to control all aspects of the chain of production, including control of sales and decision-making at the level of production, as well as access to privileged information thanks to their participation in all the aspects of the industry. In response to doubts about their ability to manage the washing stations, the associations say that they have no intention of running the stations themselves as cooperatives, but that they would entrust management to professional sub-contractors.

3.4.4 The SOGESTALs

The SOGESTALs' position is similar to that of the growers' associations. SOGESTALs also support the idea of reforming the industry, but prefer a slow pace of implementation in order to

[36] The main indication of this development was the launch, from July 25 through September 23 2005, of a sales campaign for the washing stations in Nkondo and Gasave. The sale was then cancelled by the new government.

better control the process. They request that the role of the OCIBU be reduced to that of a regulating agency, which would entail the effective and complete deregulation of the industry. They also request an immediate opportunity for selling coffee directly which, according to the SOGESTALs, would allow them to negotiate higher prices than those received by the usual Burundian exporters who depend on international traders. In addition, advanced sales of coffee would allow access to international loans at much lower interest rates than those available locally.

In light of their experience in the coffee industry, they request priority in the acquisition of washing stations. According to SOGESTAL representatives, fragmented privatization of small-sized washing stations would spell the end of the SOGESTALs given that they are structured around these stations. They claim a binding agreement with the state grants them the right of privilege and therefore priority in the acquisition of washing stations, and SOGESTAL shareholders would be ready to claim compensation if this clause is not respected.

3.4.5 The exporters

The exporters hold a very different position. For reasons similar to those of the SOGESTALs and associations, they support a slow-paced reform of the industry. But as an intermediate measure before complete privatization, they suggest that renting of the washing stations be opened to competition to challenge the SOGESTALs' monopoly. As expected, the exporters are against direct sales between producers and international traders as this would threaten their position in the industry.

Regarding the sale of washing stations, the exporters support the concept of selling them in small lots of one to three stations which, according to them, would better guarantee the quality and origins of the coffee, which are primary conditions for obtaining a good price on the international market. They also argue that Burundian buyers would be better able to purchase these small lots. They argue that if washing stations were sold in larger lots, through the SOGESTAL structure, Burundians would be priced out and foreign buyers would benefit.

The exporters are opposed to maintaining the SOGESTAL structure and blame its large size for contributing to the decrease in quality and production of Burundian coffee. The exporters accuse the SOGESTALs of manipulating the producers because after all, according to them, the coffee farmers' primary concern is the price they get for their coffee. The exporters are in favour of complete transparency of the privatization process, and are ready to participate in the social capital of the washing stations and SOGESTALs.

3.4.6 The curing companies

The main public curing company, SODECO, is also concerned with this debate. But due to the deregulation that has already taken place at this level of the industry as well as the company's structural problems and large financial deficits, the debate regarding privatization of SODECO does not seem to interest public opinion much. Interest is much more focused on production and ownership levels, namely the washing and de-pulping stations.

Nonetheless, the owners of private curing factories are interested in acquiring washing stations to guarantee their supply of raw material. Sonicoff has seized the opportunity to construct its own washing stations and there is no indication that Sonicoff and Sivca will remain indifferent to the sale of other washing stations. A re-structured SODECO, consisting of two more viable entities, could also be interested in acquiring washing stations to guarantee its supply of raw material.

3.4.7 Employees of state-associated enterprises

The coffee sector employs a large number of contract and seasonal workers. Seasonal workers are particularly used in large numbers by the SOGESTALs in the de-pulping and washing stations during the harvest. But the reform of coffee industry entities particularly interests employees on permanent contracts who fear losing their jobs or certain social advantages after privatization.

Table 6 Contractual employees in public enterprises in the coffee sector: 31.08.2006[37]

Enterprise	Number of contractual employees
OCIBU	120
SODECO	200
SOGESTAL MUMIRWA	174
SOGESTAL KIRIMIRO	315
SOGESTAL KAYANZA	253
SOGESTAL NGOZI	200
SOGESTAL KIRUNDO-MUYINGA	192
TOTAL	**1454**

In a non-industrialized country where salaried employment is an important means of survival and of climbing the social ladder, coffee sector reforms is concerning for many employees, particularly staff and managers who do not feel assured that future owners will keep them on.

Employee spokespeople are perhaps the most hostile to the reforms and the shape it is being given, particularly the privatization that they believe is being imposed by donors. They fear that privatization of the industry will lead to massive lay-offs of a workforce that has acquired professional skills and that has no guarantee of being employed by private buyers or of finding work elsewhere, given the high unemployment rate. They base their case on the fact that, in the discussions and studies of coffee sector reforms, a social accompaniment plan for employees is barely mentioned. They propose splitting the capital into a large number of shares in order to allow interested employees to participate in the capital of the privatized entities.

3.4.8 The donors

The IMF is the donor pushing hardest for completion of coffee sector reforms. Given the structural challenges of the coffee industry and its influence on public finances, the IMF wants to see privatization of the industry completed as rapidly as possible. It considers reform of the coffee sector as the first priority for the country's economic reforms. According to the IMF, the transition period between the state-controlled and the deregulated system should be as short as possible.

The IMF also wants to abolish the monopolies of the state, SOGESTALs and washing stations while avoiding the creation of private monopolies. This clearly means that the IMF favours the option of selling the washing stations in individual lots, i.e. one by one. This would, in their opinion, free the coffee farmers from captivity by the washing stations and SOGESTALs, through the establishment of a free market.

Donors have already delayed funding on the grounds that coffee sector reforms are proceeding too slowly. The IMF's evaluation to complete their third periodic review was delayed, and the World Bank, which in this matter follows the IMF's lead, delayed the disbursement of 35 million dollars which was scheduled for November 2005. These funds, however, were subsequently released.

Among the main donors involved in the coffee industry, the European Commission seems to be less forceful about the reforms' pace and strategy. The EC understands the government's worries about the reform process and has committed to support the rehabilitation of washing stations and access roads in order to optimize the value of these entities before their sale. The IMF, on the other hand, would like to prioritize sales of the most profitable stations first. While

[37] Source: data received from the companies concerned (OCIBU, SODECO and SOGESTALs).

suggesting that producer organizations get at least 25% of the shares of the washing stations, the EC is also committed to strengthening the capacity of the producers to better cope with their future managerial duties. The EC in principle has no objection to increasing the associations' share, but believes that, if increased beyond 25%, the government should determine the methods of integrating these organizations.

Conclusion

Two options seem to emerge from the very conflicting positions on the privatization of SOGESTALS and washing stations:

1. The first option suggests minimal participation in the social capital of the washing stations by producer organizations, to be obtained in return for payment rather than free of charge. It also suggests sale in groups of one to three washing stations and the subsequent abolition of the SOGESTALs. This camp includes the positions of ABEC, SCEP and the IMF.
2. The second option suggests integrating the washing stations' value into the social capital of the SOGESTALs and selling them through the SOGESTAL structure. With regard to the participation of producer organizations, there are slight differences in the positions of the two members of this camp, namely the producer organizations and the SOGESTALs. The producer organizations claim majority participation ceded by the state, while the SOGESTALs claim a right of privilege (as outlined in their agreement with the state) which grants them priority in the acquisition of washing stations and which would allow them to maintain a majority of the shares. Despite these differences, the producer organizations and SOGESTAL shareholders and staff stand together in this camp.

The main dividing line between the two options above are conflicts between actors with established interests in the sector and actors seeking to gain a larger place in the industry. While some of the country's elites rapidly invested in the SOGESTALs when they were established in 1991, business circles that missed the boat at the time attempted to re-open SOGESTAL capital for investment when the world market price of coffee rose in 1994. They were blocked from doing so by the established interests.

The movement of coffee farmers constitutes an important social force which is growing in rural areas and which seeks to assert itself at all costs. Because of this, it could stimulate the appetite of elites in coffee-growing regions who may want to take advantage of the movement to advance their own socio-economic ambitions. Industry's reforms also concerns other entities in which the state maintains an important financial stake, such as SODECO and OCIBU.

3.5 Deregulation and privatization of coffee curing

For a long time, curing of coffee in Burundi was handled by SODECO. This function was deregulated in 1995 and two private companies (Sonicoff and Sivca) were established. While SODECO has a processing capacity of 60,000 tons, with each of its factories at Gitega and Bujumbura handling 30,000 tons, the two private factories have a total capacity of 10,000 tons.

Regarding the composition of their capital, the curing companies fall into three categories:

- SODECO is dominated by state-owned shares (82%) with no participation of coffee growers in the capital;
- Sonicoff's capital belongs to a single shareholder;
- Sivca saw, for the first time, significant public participation in its financial capital. Providers of cured coffee own 14.5% of the shares while small savers, including coffee growers, own 48.2% of the shares[38].

The case of Sivca illustrates the level of interest and positive response from coffee growers and other small savers if the rest of the industry were opened up to new shareholders. The financial

[38] Source: Proceedings of the Founding Assembly, Sivca.

mobilization which created Sivca transcended the ethnic divide and the positive public response demonstrates that the reforms, if carried out well, could contribute to reconciliation, unity and cohesion of the population as well as to decentralized development.

Privatization at the level of curing agents would concern only SODECO and, to a lesser degree, the sale of Ceduca's old factories (machines, land and buildings) and what remains of Unicafé and UCB (land and buildings), which were nationalized in 1976 and which are currently managed by OCIBU.

Privatization of SODECO

SODECO is a state-associated enterprise in which the state still owns the majority stake (82%). It was established as a result of an earlier privatization process and its statutes date from 1992 when the enterprise's capital was opened up to private investors. SODECO manages two factories (Buterere and Songa) with large processing capacity, both part of the state property managed by OCIBU.

Compared to the weak national production, the SODECO factories are over-sized and are rarely used all year. This situation is worsened by the competition it faces from the two private curing companies and by the instability and decline of production.

To take into account the interests of coffee growers as well as of the rest of the population, SODECO should allow investment from a variety of private interests as well as from coffee grower associations. As in the case of the SOGESTALs, producer organizations could benefit from a certain amount of shares ceded by the state (at least 20%) in order to have a significant influence. The introduction of producer organizations and SOGESTALs into the capital of SODECO would guarantee the regular provision of raw material and alleviate the financial burden that this enterprise imposes on the state.

SODECO privatization scenarios

SODECO could be privatized as one unit, in its current form, or in two units structured around each of its factories. In both cases, the value of the factories should first be integrated into the capital of the company.

- Privatization of SODECO in its current form has more disadvantages than advantages. The company would be gigantic and would necessitate so much financial capital that it would almost certainly be bought by foreign investors. Coffee growers and small savers from the coffee regions where the factories operate would not be able to invest in the company. There is also a great risk that the company would fail to interest investors due to its accumulated deficits (3.7 billion Burundian francs at the end of 2005/06) as well as recurrent high costs in a context of unstable production and prices.
- Privatization of SODECO in two parts, structured around the factories of Buterere and Songa, has several economic and social advantages:
  - The companies would be of a medium size and easy to manage;
  - A medium amount of capital would be needed and national shareholders would therefore be easier to mobilize;
  - Shareholders could be mobilized in the coffee-growing regions near the factories, which would raise interest in coffee farming;
  - Coffee farmer unions and federations could more easily participate in the new companies;
  - Provision of raw material would be easier to guarantee and producer organizations with shares in the company would contribute;
  - The economic profits from the companies could have an accumulative effect on the economy of the region;
  - An inclusive and public shareholder scheme around common economic interest would reinforce reconciliation and national unity.

In this scenario, the two companies would face the competition of the private curing companies in Gitega and Bujumbura.

Level of state shares in a privatized SODECO

In both the above cases the state would need to disengage in a more significant manner and sell its shares, leaving it with a maximum stake of 40% in order to maintain sufficient decision-making capacity at this level of the chain of production. The state, in other words, would have to sell at least half the shares it currently owns in the company.

The sale of state shares in SODECO should be done in a manner that allows for a diversified group of shareholders. The shareholding scheme should be open to coffee growers (by granting a portion of free shares to their movement), as well as to small savers, and the employees and owners of SODECO and the de-pulping and washing stations.

The sale of those factories nationalized in 1976 (Ceduca, Unicafé, UCB) arouses less social interest. The state should thus sell what remains of this property to the highest bidder.

3.6 Reforms of OCIBU

Reforms of OCIBU have been debated for years. It is currently also a mixed private-public company, and shareholders include the state, state-associated companies involved in coffee in a direct or indirect manner (banks, insurance companies, SOGESTALs…), private individuals and, to a marginal extent, coffee growers. But the state has continued to weigh in heavily on management and decision-making (setting the remuneration scale, setting prices, managing marketing, giving bank guarantees to entities in the industry, making administrative decisions, etc.).

A lot of thought has been given to how these reforms could best be carried out. In the spirit of inclusive privatization, effective coordination and alleviation of the recurrent costs, a reformed OCIBU should increase coffee growers' shares in its capital, simplify its structure and maintain only the indispensable functions of regulation, coordination and quality control. OCIBU should disengage from management of property and roasting and sell PCBC since private operators already produce roasted coffee of a satisfactory quality.

4. Socio-economic considerations for the privatization scenarios

4.1 The crucial role of producer organizations in yielding high-quality coffee

The different parties to the debate on privatization put forward contradictory arguments to defend their positions and interests. A more objective analysis and development of other arguments is needed as a contribution to the debate.

Among the criteria to be considered is the economic performance of coffee farming, production and export. Which of the four scenarios mentioned previously would promote better economic performance and generate higher revenues in a sustained manner? How can this optimal economic option also become the most equitable? Economic performance and equitability are the two criteria which will guide the analysis of existing options.

Almost all actors in the industry agree that in order to reinforce the position of Burundian coffee on the international market, coffee producers have to target markets specialized in high-quality coffees. There are three reasons for this choice:

1. Burundi is capable of producing high-quality coffee;
2. The price received for this type of coffee is higher than the price for the standard coffee that Burundi has so far exported;
3. The ecological limits to coffee farming in Burundi: lack of land, soil degradation, climatic conditions, falling yields.

All these conditions speak for a more selective development of coffee farming by limiting this crop to the most favourable areas. The coffee growers themselves claim the freedom to choose what to grow. With rising prices for producers and the participation of the associations, there is less risk of a collapse of coffee farming by uprooting plants. But sound management of this transition from extensive to more intensive farming focused on quality requires effective and participatory accompaniment of the coffee growers.

This transition also requires better command of technical methods which can only be achieved through sustained efforts and a mobilizing environment, and which a good price on its own will not bring about. Coffee associations are best placed to help coffee growers adopt these methods. Their experience in mobilizing growers and rescuing coffee farming demonstrates their potential role in the adoption of this new system.

This strategic shift therefore requires a movement which is powerful and involved at all levels of the industry. Sale of the washing stations in individual lots with a marginal involvement of producer associations seems to be the worst option for further developing the movement of coffee growers. This could even lead to conflicts between the owners of the stations and the coffee farmers in the area, with the risk of threatening the stations' supply of raw material.

The disappearance of the SOGESTAL structure around which the associations are organized, from the hillsides to the Federations, would severely weaken the movement, at least initially. The geographically and socially limited area of the hillside around the washing station also means that the association leaders at this level generally do not have a high level of formal education and are not well-equipped to understand in detail the economic, social and political stakes of production and sale on the international coffee market.

4.2 Grouping of SOGESTALs and washing stations

Privatization of SOGESTALs and washing stations should be treated separately because the two entities have different legal status. SOGESTALs are essentially management companies of washing stations, while the washing stations have remained state property. Privatization of SOGESTALs should also take into consideration their contract with OCIBU, prioritize efficiency and take account of the evolution of deregulation which has allowed the establishment of private washing stations and stations constructed by para-statal SOGESTALs using their own funds.

This does not necessarily imply maintaining the SOGESTALs as they are. While developing high-quality coffee regions in some provinces, more rational sub-divisions of washing stations could be envisaged which would take account of agronomic and geographical potential as well as allow the associations in the area to maintain a critical mass. This would mean dividing some SOGESTALs that extend over large areas into two or three sections, including SOGESTALs Kirimiro, Mumirwa, and Kirundo-Muyinga. SOGESTALs Kayanza and Ngozi which are more compact would not necessarily require subdivision. The disappearance of some non-productive washing stations and the opportunity to create new ones based on the coffee potential of the region should also be another criterion to be considered.

Donors justify their requirement that washing stations be sold in individual lots by referring to the need to avoid replacing the state monopoly with a private one. They also refer to the need to “free coffee growers from the SOGESTALs”. This demand is also expressed by private entrepreneurs through ABEC, pushing for diversification of the shareholders of washing stations. This would be implemented via the abolition of SOGESTALs which largely represent the interests of business circles from main coffee-growing regions (i.e. the north).

The sale of washing stations should be treated separately from that of the SOGESTALs as they are autonomous economic entities. The option of regrouping the stations should be analyzed, taking into consideration the available or potential mass of coffee trees in each area, as well as its socio-economic environment.

Regarding their emancipation from SOGESTALs, coffee growers in fact consider their partnership as a strategic one which could be developed further. Individual sale of washing stations would fragment the associations around one, two or three washing stations. This would weaken them and decrease their power vis-à-vis the owners of the stations, whereas a larger structure would increase their power. Due to transportation costs, coffee growers have to sell their coffee to the nearest washing station. Splitting up the management structure of washing stations will decrease the coffee farmers’ negotiation power vis-à-vis the owners of the stations.

A nuanced approach should be taken to the question of diversifying the shareholders of the washing stations and putting an end to the monopoly of certain well-established business circles. The main suggestion here consists of a vertical fragmentation of SOGESTALs' social capital through the sale of individual stations or small groups of them. The principle of diversification itself is not necessarily bad. Through reform of the industry, it would allow the opening of the stations' capital to all interested parties. From this point of view, considerations of fairness would not put the current shareholders of SOGESTALS and the movement of coffee growers on an equal level.

The coffee grower movement has good reasons to claim significant participation in the capital of the washing stations due to the exploitation that farmers suffered for the benefit of the state, the companies in the sector and the exporters, despite farmers being the producers of the raw material. The shareholders of companies in the sector cannot make the same argument. Their right of privilege which is contained in the companies’ agreement with the state grants them priority in acquiring shares in the washing stations. But this priority should be limited in order to leave room for other actors. In addition, the companies have in most cases already gained sufficient profits to cover their investments in the sector.

The calculation of the washing stations' value should include the value of the de-pulping factories and the entire infrastructure around them (buildings, hangars, generators, drying patches, land, etc). The washing stations are of such value that it is likely that the former shareholders would not be able to buy up all the shares. The inclusion of different actors as shareholders of the SOGESTALs and the washing stations could be achieved by breaking up the capital so as to allow as many people as possible to participate.

4.3 Open and inclusive privatization as a strategy for consolidating peace

The involvement of different interest groups in the most important part of the industry, the washing stations, takes on major importance given the social and political context of the country in which the coffee industry is the most important sector of economic activity and potentially one of the most profitable. After the decades of exclusion and conflicts that the country has experienced, the privatization of the industry should not ignore this political subtext.

On the political front, since the government Convention of 1994 the Burundian peace process has operated through the progressive integration of different social and political groups formerly excluded from the state sphere. This political integration was accompanied by social and economic integration of the newcomers, giving them access to state-controlled resources by assigning them political and economic posts in state-owned companies.

The privatization of the coffee industry cannot and should not be separated from the political process. It could serve as an integrating factor for the various interest groups that represent politically active social groups. Privatization should be able to accommodate both the old economic elite as well as business groups close to political parties formed from the former rebel groups who are the last to have entered the country's political and economic spheres.

Participation in the coffee industry, potentially the most profitable economic activity in the country, by actors from different backgrounds could give new impetus to coffee farming and to the national economy as each actor will bring their own knowledge, experience and dynamism. Enabling an inclusive shareholders' scheme can only add consistency to the policies and measures of socio-political reconciliation and cohesion.

The importance of the coffee farmers' movement is already being felt today. Its evolution and the mobilization that took place when the sale of two washing stations was announced in September 2005 make this movement an important and inclusive social phenomenon, given the cleavages that have torn the country apart.

The many demands that the movement puts forward about increasing prices and obtaining a voice in management and decision-making in the industry, as well as the economic services it provides (collection and transport of beans, supervising the weighing of coffee, micro-credit for members) is increasing its esteem among non-member coffee farmers.

At the time of the 2005 elections there was fear of political hijacking and dissension caused by parties interested in buying off the movement's leaders. For this reason the movement dissuaded its elected leadership from standing for election for political parties. Finally, donors support the involvement of producer organizations in the reform process, based on the experience of coffee industry reforms in other parts of the world.

4.4 The transfer of washing stations’ capital and management structure to producer organizations

In the name of fairness, some groups close to ABEC and SCEP oppose the idea of coffee farmers’ participation in the social capital of the washing stations and the SOGESTALs. They argue that since the washing stations were built using public funds there can be no property transfer favouring one particular group. This report supports the counter-argument presented in SCEP’s document which stresses the long-endured exploitation of coffee farmers as justification for generosity towards them.

Above and beyond questions of fairness, the social and economic value of a partial transfer of shares to coffee farmers versus sale to other private parties should be considered. The two options may be equally efficient economically, i.e. able to generate the same amount of income from coffee sales on the international market. However, the participation of coffee farmers in the capital of washing stations or SOGESTALs could have a social and economic impact on 600,000 coffee farmers. These impacts would show first in the increase of the producers’ share of coffee incomes, and second in community development projects financed by funds for micro-finance projects generated by the dividends of shares in washing stations.

Finally, there is a growing level of awareness among coffee farmers of their rights as well as a will not only to end years of exploitation but also to repair the injustices of the past through participation and decision-making power in the washing stations and SOGESTALS. This awareness is so strong that disappointing their ambitions would harm the movement and threaten the revival of coffee farming. Problems such as a fall in the price, even if justified, would be interpreted as a consequence of excluding coffee farmers and as a continuation of their exploitation. This could trigger abandonment of coffee farming.

If the various actors and main donors agree to grant producer organizations shares in the washing stations and SOGESTALs, the level of involvement is one of the points to be debated. The Confederation of coffee farmers claim majority ownership to obtain power of control over decisions directly affecting farmers and to have access to first-hand information through participation in other sectors of the industry. The spokespeople of the movement recognize that sharing the dividends among hundreds of thousands of coffee growers is not feasible. The funds would rather be used to finance collective development activities.

4.5 Minority voting bloc for producer organizations

The fundamental question is how to generate maximum income for coffee growers from the sale of their coffee, rather than considering possible income from their participation in washing stations and SOGESTALS. The issue is therefore to make this essential first level of production as efficient as possible. This first level governs the performance of the primary transformation of coffee as well as coffee farming through partnership with coffee farmers, which is at the base of the performance and sustainability of the industry as a whole.

The representatives of producer organizations clearly state that they do not intend to manage the washing stations and SOGESTALS themselves, but instead operate through a cooperative structure. In recognition of the movement’s weak capacities, they plan to hire a professional management company to carry out this task. This is an important difference technically speaking, but not at the level of decision-making. This management structure would be subject to the decisions of producer representatives, and there is a severe risk that conflicts of interest would arise between efficient management of the companies and the requirements of the representatives. This could risk undermining the performance of the companies.

This risk largely stems from the uncertainties currently surrounding the movement of coffee growers and its representative structure. The current weaknesses of the associations and the movement's lack of maturity favour caution when it comes to the possession and management of such property that has a key role in the competitiveness of the Burundian coffee and industry on the international market. If the profit that these companies generate is not essential for the coffee farmers' movement, there is a great risk that their performance will not be optimal. It would therefore be better to leave the decision-making to individuals interested in optimizing the companies' performance, i.e. to private economic operators. At the same time, representatives of coffee growers should be allowed to have their say via a minority voting bloc based on ownership of about 35% of the shares. This level of participation could be important enough to give them a say without giving them the right to impose decisions. This formula would have the advantage of reinforcing the movement at this crucial level of the industry without jeopardizing efficient management.

As we have tried to demonstrate, a shift towards quality coffee, which is the main way forward for Burundian coffee, will be hard to achieve unless it is taken forward by producer organizations. In different coffee-producing countries, reforms of the industry were achieved via the reinforcement of these organizations and assigning them responsibilities, be it defending producers' interests or accompanying them. The Burundian social and political context is characterized by a strong need for democratization (especially on the economic front) which underlines the need to empower producer organizations. Their minority involvement in the social capital of washing stations and in their management structure should be coupled with protection of the movement's dynamics. This entails maintaining the roots and structures of the associations which in a natural way bring together a critical mass of associations at the level of coffee-producing regions or provinces.

4.6 The pace of privatization

Finally, one of the main issues relating to the privatization of washing stations and SOGESTALs, and the possible involvement of producer organizations, relates to the pace of the process. The majority of the actors in the industry are against a hasty privatization and would prefer a progressive one that leaves room for adjustment as the process advances. The question of timing is even more crucial for the movement of coffee farmers which is in the process of building up its structure. Observing and testing out producer organizations and their Confederation for another few years would enable their potential and the level of responsibility that they could assume to be defined. Generally speaking, the main lesson learned from coffee sector reforms in the sub-region is to refrain from hasty reforms and to give preference to a step by step process, despite pressure from the IMF for a quick privatization.

However, the current situation of non-enforcement of decisions regarding deregulation and privatization of companies in the industry leaves a lot of room for uncertainties, wavering and for management structures to abdicate responsibility. The industry would gain from shortening this waiting period as much as possible.

5. General conclusion

The data on production and performance of the Burundian coffee sector has shown that the sector is going through a difficult period characterized by the following:

- Unstable and declining production which cannot be explained by coincidence or climatic conditions alone.
- Promotion of 'fully washed' instead of 'washed' coffee by raising the price of coffee beans. Fully washed coffee now constitutes over 80% of total production. This is an encouraging sign that the country has opted for production of quality coffee.
- The weak financial performance of companies in the industry is very worrying as they carry very high debts (see Table 2) which undermine their profitability.
- The deficits accumulated over several years also weigh heavily on public finances as the state, which owns the sector property as well as a majority of shares, is often called upon to finance the companies.
- The reforms carried out since 1991 have led to the current structure and the entry of the private sector into an industry previously reserved for the state.
- Following the first years of reform, management was improved and deficits were brought under control. Unfortunately, the conflict which erupted at the end of 1993 significantly hampered the implementation of reforms.
- However, the period following 1991 saw the deregulation of export and of the curing process, as two private companies (Sonicoff and Sivca) were established and became fully operational, although their processing capacity remains limited.
- The major event in the reform process is the establishment of coffee grower associations and their organization in a pyramid structure which is becoming more and more important (the associations currently represent more than 16% of the total number of coffee growers). The associations want a more equitable remuneration as well as participation in the capital and decision-making of the companies in the sector.

The analysis in this report explored the forms of privatization that different actors are contemplating. The most sensitive and decisive step of the reforms is privatization of the washing stations and SOGESTALs as this determines the ownership of coffee with implications for the division of profits. A sufficient opening of the capital to coffee farmer associations and to other private actors seems to be of utmost importance. This would inspire more confidence among coffee farmers, increase transparency in the remuneration of different actors in the sector, and generate renewed interest in this crop.

Coffee farmers' acquisition of shares is a delicate question which brings up the perennial problem of who will take care of their financial contribution. Although the principle of free cessation of shares by the state can be justified, it can only be carried out under acceptable limits which do justice to other citizens. We believe that the state could cede 20% of shares freely, and associations or donors interested in supporting this operation could fund the remaining shares. This scenario would both encourage producer organizations and protect the public interest by recovering funds through sale of shares.

The re-organization of capital must allow for a more inclusive entry of a more diversified and representative group of new shareholders in order to reinforce social cohesion. But the approach has to be free and voluntary. However, splitting the capital into a large number of shares, which is advocated by some, should be limited to a sensible level in order to avoid populism and to not create anarchy which would block decision-making.

SODECO should be split up into two distinct companies, constituted around the factories of Buterere (Bujumbura) and Songa (Gitega) in order to have entities of a medium size that will be easier to manage and to make profitable.

The coffee farmers have not demonstrated a strategic interest in controlling curing factories but it would be relevant for them to be shareholders in order to ensure good conditions for transformation of their coffee, and also to allow the curing factories to have easy access to raw material. Therefore the purchase of state shares would be open to both private enterprises, staff of the companies and to coffee grower associations.

The property of factories that were nationalized in the past (Cauca, Unicafé, UCB) should be sold to the highest bidder and as rapidly as possible, without any other considerations.

The future of OCIBU should be reconsidered, in order to turn it into a type of economic interest group that will guarantee quality, respect for norms, research, and the interests of different participants in the sector, including the state. Its functioning would be funded by deductions from coffee sales, or by services provided to companies in the industry.

If the analysis in this report was heavily focused on the coffee growers, it is because their role is decisive for the future of the entire industry. But this should not overshadow the problem of the many staff of companies in the sector (see Table 6). The privatization process should also take into consideration the claims of these people, in particular their rehabilitation, compensation for termination of their contracts and their participation in the capital of privatized companies.

The privatization process of course requires a financial audit and a technical evaluation in order to sell the entities at their real price, including the value of the assets that they manage.

The reform process entails high costs which the Burundian state cannot lift single-handedly. The donors which aid the country need to dig deep in their pockets to support the reforms. Their financial support would cover the entities' deficits, audits, technical evaluations and shares of producer organizations in SODECO and the washing stations beyond the 20% ceded freely by the state.

Although reforms of the coffee industry have been part of the economic agenda of different governments, the contradictory debates on this issue between economic and political elites sometimes gave off an air of manipulation or exploitation by politicians during the hot periods of the conflict. This led to a great deal number of delays in the implementation of privatization measures.

Although the transitional government did not manage to carry out these reforms, due to weak legitimacy and security imperatives prevailing at the time, it did put into place a great deal of the institutional basis for the reforms (laws, decrees, ministerial orders etc.). The current elected government now has sufficient legitimacy and authority to carry out the necessary measures to reform the coffee industry.

In the context of a country long marred by ethnic problems and regional divisions where coffee growing represents a significant source of revenue for the state and for numerous peasants, coffee sector reforms should have as their primary objective the reinforcement of rural development and the inclusive participation in the sector's capital by all social categories of the population.This would have a positive impact on local development and strengthen reconciliation and social cohesion.

6. Recommendations

The analysis in this report is a contribution to the on-going debate on the best strategy for reforming the coffee sector in Burundi. The recommendations below aim to allow the industry to become a tool for development as well as to strengthen social cohesion and stability in the country.

Numerous cases in Africa and elsewhere demonstrate the close links between overly rapid, non-participative and non-inclusive economic liberalization and the (re)emergence of social and political crises. This risk is even higher in a country like Burundi that has already been severely weakened by years of war, and in particular because the changes are taking place in the key sector of the economy. The government of Burundi has decided to renew its reform program in the coffee sector under pressure from donors, in particular the Bretton Woods Institutions, but also following the financial bankruptcy of the sector due to the fall in world prices and years of mismanagement. However, looking beyond considerations of the sector's economic and financial efficiency, the industry's restructuring, reorganization and privatization could lead to significant upheaval in Burundi's internal socio-political balance, at several levels.

Coffee reforms carry the following risks of social violence or political crisis:

- Producer organizations represent a social protest movement which is still quite recent in Burundi, but which has a lot of support. Not including them in the decision-making and privatization process could therefore lead to significant social tension. Likewise, a privatization that proceeds too quickly and that only reinforces the downward trend of coffee production, while economic alternatives remain limited, or that does not include a social plan for the employees of the industry, could endanger the country's stability;
- Sidelining the poorest coffee-growing regions, or the poorest class of farmers, could renew hostilities at the community level;
- The disengagement of the state should rightly erode the margins of manoeuvre for patronage or political clientage. However, a shareholder scheme for the main enterprises in the industry which does not respect free competition and transparency principles could leave room for certain privileged groups to take the industry over, which would lead to renewed ethno-political tension.

In order to minimize these risks and considering the economic interests of the sector and the debate around this, the following recommendations target different actors and different levels of the industry.

a) To the government of Burundi:

- Take into account the social and political dimensions of coffee reforms so they become a tool for reconciliation and development. This requires a high degree of transparency in the decision-making process, as well as wide consultation at all levels of the farmers' movement;
- Increase the participation of producer organizations in the capital of SOGESTALs and washing stations, in order to motivate them to help improve production;
- Undertake the grouping of washing stations for sale in such a way that the dynamics of the movement of coffee growers are preserved and strengthened;
- Cede (freely or for a symbolic price) 20% of shares in the washing stations under the SOGESTALS and in OCIBU to the producer organizations so that they have some decision-making influence and minority blocking power if necessary;
- Put in place a mechanism of financial assistance, managed by the Confederation of coffee growers under the control of Federations, to allow coffee growers to manage during years when the price is down. The mechanism will be funded by coffee growers' fees, paid when the price is favourable. During periods of low prices, fees will not be paid;

- Permit every interested and able party to acquire shares in the washing stations, SOGESTALs and SODECO;
- Permit active representation by all the main participants in the industry in the regulating body, OCIBU;
- Take account of the concerns of employees of the privatized companies in the privatization plan;
- Review agronomic extension measures for coffee-farming, as training is costly and the privatized entities will not be inclined to invest in them as the results are not immediate.

b) To donors

- Accept a progressive privatization in order to manage the gains, fill the gaps and better prepare the subsequent phases;
- Maintain a constructive dialogue with the government on the reforms and avoid making reforms an exclusive condition of aid;
- Take account of successful experiences as well as failures in other countries, to build on the positive examples and avoid the mistakes[39];
- Integrate a social aspect in the reforms by according funding for financial assistance to employees who are not retained;
- Put at the government's disposal the necessary human and financial resources to carry out the reforms (funding financial audits, technical evaluations, deficits accumulated by the public companies in the industry);
- Support the strengthening of the coffee farmer associations' financial management capacity and finance the purchase of shares beyond the part ceded by the state;
- Equip producer organizations with sufficient financial resources to finance their nascent micro-credit schemes;
- Take into account the fact that coffee still represents a main source of income for farmers in certain regions as well as a main source of foreign exchange for the state. As long as there are no other products to substitute coffee, this aspect should not be overlooked.

c) To private business

- Concentrate more financial efforts on buying shares in the privatized entities;
- Explore markets for specialty coffee and more profitable markets to get the most value from Burundi's high-quality coffee;
- Invest in the production of coffee, particularly by providing fertilizer;
- Organize or promote a micro-credit system or some other incentive around the production units (SOGESTAL factories, curing factories etc.) in order to encourage coffee growers;
- Invest more in constructing private washing stations.

d) To coffee grower associations

- Strengthen the dynamic of the movement to mobilize more members and to extend the movement around private de-pulping factories;
- Concentrate demands on control of raw material, by acquiring a significant amount of shares in the SOGESTALs, the de-pulping and washing stations as well as in OCIBU, the control and regulation body;
- Mobilize financial contributions from members to support their own activities and to eventually purchase shares to strengthen their presence in the privatized enterprises. It would be an illusion to think the state will cede all the shares requested by the movement;
- Widen and improve the social and economic services provided by the associations to their members (micro-credit, transport of berries, overseeing weights and payments) in order to attract more coffee growers;
- Take into account the context of liberalization of the economy. The current movement should accept the emergence of other coffee grower associations which do not necessarily accept its authority;

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[39] See Annex A: Coffee sector reforms in the region.

- Consider a compensation mechanism in case of price reductions;
- Pay particular attention to conflict resolution, especially in connection with the land rights (including coffee plants) of returning refugees and internally displaced people.

e) The following recommendations concern the main steps of industry reforms:

- The most decisive step of the reforms is the privatization of the washing stations and the SOGESTALs. It is at this level that production, quality and the notion of ownership come together. This is the part of the industry that needs to be reformed quickly and where the producer organizations should participate very actively;
- Reforms of SODECO are also urgent, in order to stop its tendency to accumulate deficits, but the privatization of this company will interest private business people more than coffee growers because a curing factory is simply a service provider to the owners of parchment coffee;
- The state should also quickly sell the buildings of old factories that were previously nationalized, as there is no reason to keep them as public property;
- Export is already privatized, but there has to be a more energetic search for more profitable prices for Burundian coffee. The initiatives underway to market coffee by direct sale and tender should be encouraged. Exporters should also explore forward sales of Burundian coffee as well as niche or speciality markets, as has happened in Rwanda and other countries producing high-quality coffee.

Annex A. Coffee sector reforms in the region

Kenya, Uganda, Tanzania and Rwanda began reforming their coffee industry some years before Burundi. A delegation from OCIBU undertook a mission to explore the cases of Kenya and Uganda which have more or less completed their reform processes.

In Kenya, the mission found that despite reforms the situation of the industry is not very bright. Kenyan coffee production and quality have considerably dropped. Following the reforms, the problems of the Kenyan industry are as follows:

- An organization still partly state-managed with a high number of intervening parties;
- Incomplete deregulation, in particular as far as coffee marketing is concerned;
- Lack of accompaniment of small farmers;
- Management of cooperatives by executives appointed by the state;
- Non-motivating prices offered to producers;
- Bankruptcy of the credit system for small farmers;
- An incomplete law on coffee since it does not integrate all elements, especially the direct sale of coffee.

The deregulation and privatization of the Ugandan coffee industry has been completed, and has allowed a significant increase in both production and producer price. Exporters provide funding and payments, producers themselves cover the cost of agricultural inputs, and private investments in the coffee industry continue to rise. However, the industry is also characterized by deterioration of coffee quality, disorder and the bankruptcy of many national exporters due to the intervention of multinational corporations, especially at the level of exports. Operators of the Ugandan coffee industry believe that the deregulation has been too fast. Even the government realized this but too late, and in trying to reverse the process it is now facing difficulties related to questioning the principle of acquired rights.

From the visits to Kenyan and Ugandan coffee industries, the Burundian delegation drew the following conclusions and recommendations:

- A strategy guaranteeing rise of production, improvement of quality and durability of the crop;
- A cautious approach not conducted hastily, in order to avoid errors seen in some countries;
- The involvement of producers at all stages of the deregulation and privatization process. The best formula remains to be defined as the countries visited offer different models. The degree of participation will be determined by the Inter-Ministerial Privatization Committee;
- The role of regulator and operator should be clearly separated in order to avoid the kind of incomplete deregulation seen in Kenya;
- The state would remain present in the fields of research and dissemination, regulation, quality control and promoting the image of Burundian coffee;
- To maintain and improve the current system of sales by auction which has already proved to be efficient but also keeping a secondary system of direct sales;
- To manufacture and market coffee by grades in order to improve the quality and the price through the establishment and promotion of specialty coffee brands.

The Rwandan example can also be a source of inspiration. Since 1988 the quality and quantity of production had seriously dropped. Reforms of the industry were initiated in 1998. It consisted of deregulation of marketing and export of raw/green coffee, the abolition of taxes on coffee export and deregulation of the creation of washing stations (45 stations were created between 2002 and 2005). The mission of the government agency in charge of the coffee industry (OCIR CAFÉ) was revised, maintaining only development and promotion of coffee, coordination of the industry, and the creation and participation of producer association in decision-making. The effects of this reform are still emerging, but it has for the time being succeeded in moderately increasing production, quality and in particular the income of producers.

In addition to this general evolution of the industry, the Rwandan coffee sector has also provided a success story which in the beginning was limited but is now starting to spread. An association of coffee growers of Maraba District (in the province of Butare) through Rwanda's National University succeeded in getting support from the USAID project known as PEARL (Partnership for Enhancing Agriculture in Rwanda through linkages), initiated by Michigan State University and Texas A&M University. From the start, the goal of the PEARL project was to sell Maraba coffee on the American market for specialty coffee. To improve quality, a washing station with relatively high capacity was built, along with a water pipe allowing spring water from Mount Huye to be collected, as well as a system of certification of coffee bean quality.

Considering the lack of management capacity of association members, management of the washing station was entrusted to members' sons and daughters who had finished secondary school. After producing 40 tons of superior quality coffee, an American expert in the market for specialized coffee was hired by PEARL. He succeeded in convincing a coffee dealer of specialty coffee to come to Maraba in June 2002. The latter bought 18 tons of coffee at a price three times the international market price. In late 2002, Union Roasters of London bought the rest of the production under a fair trade label because many of the members of coffee farmer associations are widows of the 1994 genocide.

In February 2003, a large UK supermarket chain, Sainsbury's, announced the sale of 'Maraba Bourbon' Union coffee of Rwanda in its 350 shops throughout the United Kingdom. Since then, PEARL has helped to build three new washing stations: one for the Maraba association and two in other provinces, one of which produces 'Rusenyi Bourbon' recognized for its high quality. On April 11th, 2006, the large American coffee chain Starbucks announced the sale of 'Blue Bourbon of Rwanda' among its specialty coffees. Through the PEARL project USAID has spent more than 10 million dollars over 5 years on the development and promotion of Rwandan coffee. These strongly subsidized projects have inspired independent private businessmen also to begin production of specialty coffee.

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List of interviewees

Name	Position
BARANSHAKA Alphonse	Managing Director of SOGESTAL Kirimiro
BARIDOMO Pascal	Director of INADES Formation
BIGIRIMANA Gilbert	RCN
BIGIRIMANA Maurice	Coffee grower, not member of an association, Ngozi
BIKORINDAGARA Zacharie	Managing Director of SIVCA
BIZINDAVYI Boniface	Head of Factory, Nyawitenzi
GAHUNGU Lino	Coffee grower, member of an association, Ngozi
HABONIMANA Stanislas	Coordinator of SOGESTALs
HAKIZIMANA Mélance	Vice President of the National Confederation of coffee

KANIWABO Fiona	Coffee grower, not member of an association, Ngozi
KANA Isidore	President of the Association of coffee growers in Gatabo
KAYOYA Appolinaire	Coffee grower, not member of an association, Ngozi
KINYOMVYI Antoine	Managing Director of OCIBU
MASUBUKO David	President of the Association of coffee growers in Commaudu
MIBURO Stéphanie	Coffee grower, not member of an association, Ngozi
MPONEYEKO Christian	President of the Union of Abakebana
MUBORO Oscar	Coffee grower, not member of an association, Ngozi
MUHITIRA Vincent	Director of DPAE, Ngozi
MUJIJI Joseph	Ligue Iteka
NDABUREKE Stanys	Coffee grower, not member of an association, Ngozi
NDARUGIRIRE Gabriel	Abadahemana Association, commune of Mumba
NDAWUHEME Gérard	Managing Director of SOGESTAL Ngozi
NDAYISENGA Telephare	Treasurer of the Federation of coffee growers in Kirimiro
NDENZAKO Cyrille	Managing Director of SODECO
NDEREYIMANA Léonidas	Team leader at the factory of Nyawitenzi
NDIHOKUBYAYO Domitien	CARE International, Ngozi
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