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University of Notre Dame, Mendoza College of Business, Business on the Frontlines

The foundation of relationships and a building block for business: A lesson from the Cooperative de Valorisation des Fruits de Gakenke (COVAFGA)

Introduction

It was our third trip out to the northwestern region of Rwanda, and as we stopped along the side of the road to grab some drinks for the day, we were disappointed to see that the small road-side store had only sodas or bottled water stocked. On our two prior long trips and days out in the sun, we had enjoyed some refreshing tropical fruit juices. But, not this time.

One of the smallest African nations, land-locked Rwanda sits nestled among Uganda, the Democratic Republic of the Congo, Burundi, Tanzania, and Kenya. There are nearly ten million Rwandans and tens of millions more people in the surrounding countries. As the Rwandan economy grows and urbanization takes over its capital, Kigali, the demand for consumer goods such as fruit juices has also increased, especially for their sweet natural taste and as an alternative to bottled carbonated drinks. The agricultural conditions in Rwanda are ideal for growing tropical fruit. Rwanda, about the size of Maine, is farmed from corner to corner. Thus, the supply of fruits seems endless. Several fruit juice producers operate in Rwanda, and even more juice is imported. However, they still cannot meet the demand for their product, including our thirst.

COVAFGA

Out in Gakenke, we had the opportunity to meet with Pierre, one of 21 members of a maracuja juice producing cooperative, the Cooperative de Valorisation des Fruits de Gakenke (COVAFGA). Maracuja, also known as passion fruit, makes a delicious beverage with very little processing. This cooperative sells the juice to local shops in town, as well as in Kigali, Musanze, and throughout Gakenke, some of the larger Rwandan cities. They also sell internationally in Burundi, and after participation in agricultural business expositions in Uganda and Tanzania, COVAFGA is working with a Belgian company to assess the possibility of exporting its juice. COVAFGA's sweet smelling and refreshing maracuja juice is better than its competitors', but their competitors have the advantage of a higher production capacity.

Pierre, one of the founding members of the cooperative which began in 2007, told us that the founders strategically located the company next to COAFGA, a produce market that provides a consistent supply of maracuja. Initially each of the members contributed 100,000 RwF to begin operations. Currently, the cooperative has three permanent workers – a technician, marketer, and accountant – as well as 15 employees, all local orphans, who process the maracuja to make the fruit juice.

Pierre explained that COVAFGA currently operates at capacity, producing 100 liters (L) of juice each day with two very small machines, one electronic and one manual. He took us through the small concrete building where in one of three rooms a short assembly line was in progress. The workers were sitting on stepping stools or the floor while the first two used machetes to cut the passion fruit in half, then the next group separated the halves and placed them into a large plastic bucket. Next some of the workers used metal spoons to scoop and separate the fruit from its rind into another plastic bucket. Pierre pointed to the two machines that pressed the seed and fruit into juice. Next, we walked into a second room where thousands of plastic bottles shipped from Uganda were waiting to be filled with the succulent juice. The last stop on our factory tour was the small bottling room where on an old wooden table sat several plastic bins, pitchers, and funnels to bottle the juice. Once filled, the bottles were labeled and packaged into boxes to be shipped.

After the tour, we asked Pierre about the costs to make the juice and how COVAFGA took the bottles to market. He told us that it takes 90 maracuja, at a cost of 18 RwF each, to produce 1L of juice. A 1L plastic bottle imported from Uganda costs 200 RwF. Twelve bottles are packaged into each cardboard box for transport to market. Pierre then explained that because the cooperative does not have its own means of transportation, it pays the taxi buses between 200 RwF and 400 RwF per box, depending on distance, to deliver the juice. Approximately 20 boxes are delivered to Kigali each day and 30 boxes to Musanze and Gakenke a few times each week. A 1L bottle of the juice sells for 2500 RwF.

As we had witnessed on our visits out to the villages, most Rwandans got around on foot. Some owned bicycles to bring water and crops to market or neighboring villages. The taxi buses, the size of large mini-vans, squeezed nearly 25 passengers and traveled along the main roads throughout the country.

After scribbling down some calculations, we looked at one another a bit perplexed. With so much demand for fruit juice in the market, why weren't Pierre and the other 20 members of COVAFGA investing?

Financing in Rwanda

Financially, COVAFGA operated day-to-day. Pierre told us that the cooperative had a 3,008,000 RwF loan from the bank down the road that helped them maintain their operations. But, other than the building and machinery, COVAFGA had little else in assets. If there was any money left at the end of the year, it was reinvested in the company or "shared-out" to the cooperative's 21 members, just like a dividend. When we asked about any financing from new membership, Pierre told us that membership was open to anyone, but a potential new member must now contribute 300,000 RwF, the equivalent of about \$500 USD which would be a significant investment for most Rwandans.

The National Bank of Rwanda regulates the banking industry within the country. Over the last ten years, commercial banking in Rwanda has drastically improved both in terms of the number of banks and their branches available throughout the country, as well as the availability of funds. Interest rates on commercial bank loans range from 12-14%. Loan applicants are required to have some collateral or a co-signer, and the process takes about six to eight weeks.

Microfinance institutions are also prevalent in Rwanda. As of 2009, the gross loan portfolio was approximately \$20 million USD with over 45,000 active borrowers.¹

In addition to traditional commercial banks, the Rwandan government and National Bank have implemented Savings and Credit Cooperative Organizations (SACCOs) throughout the country. Although only formally introduced a little over a year ago, SACCOs have become popular in several communities. SACCOs are private entities owned by their members who each must contribute an initial 10,000 RwF to join. SACCO members elect their leadership, known as the Credit Committee. Members must be at least 16 years old, and the SACCO must have at least seven members in order to officially register with the Rwandan Cooperative Agency (RCA). The interest rate for SACCO loans is 6% annually. After the initial 10,000 RwF deposit, members may contribute to the SACCO savings as they desire. The National Bank regulates the SACCOs and provides matched loan financing to a SACCO once its member contributions reach 100,000 RwF.

Each SACCO sets its rules for loan request requirements. In general most groups require a project presentation, a potential visit to the area where the project will take place, and financial analysis. Members who have collateral are asked to post it; however, this is not required. Those with no collateral are encouraged to have a mutual guarantee. The Credit Officer is the authority for collection of loan interest and principle payments.

COVAFGA's operational challenges to both more efficiently transport their products and to improve production capacity seemed feasible to overcome if the cooperative could obtain the financing to purchase production machinery and a small pick-up truck. We followed up asking Pierre if the cooperative had considered requesting another loan. He shook his head and quickly responded that it was not possible to borrow any more money. It appeared as though Pierre and the other members of COVAFGA were not giving appropriate consideration to taking another loan from a bank – a loan that they could repay in less than six months.

Historical context

Prior to World War I, Germany occupied the area known as Rwanda, and Rwandans lived peaceably with nearly 15% of the population a part of the Tutsi clan and more than 70% of the population Hutu. During WWI many Hutu had fought for Germany. But after the war Belgium occupied the area that became Rwanda and thus the Belgians aligned themselves with the Tutsi. The Belgians created a Hutu-Tutsi divide based on physical features and economic status, and they had ethnologists "verify" the superiority of the Tutsi whom they claimed had more European features.

Throughout the mid and late 1900s, the divide intensified and violence spread. Multiple wars ensued with the ruling party in Rwanda changing between Hutu and Tutsi. In the early 1990's the ruling Hutu party, led by then President Juvenal Habyarimana, began a hate campaign against the Tutsi. Media propaganda referred to the Tutsi as "cockroaches" and warned the Hutu to defend themselves against the Tutsi who were said to want to enslave them.

On April 6, 1994, a plane carrying Habyarimana and the president of Burundi was shot down. This event ignited the Rwandan Genocide, and over nearly 100 days the pre-meditated and meticulously planned

¹ Microfinance Information Exchange (MIX) Market. "Microfinance in Rwanda." 2009.
<http://www.mixmarket.org/mfi/country/Rwanda>

genocide of the Tutsi occurred as the world watched. The Hutu-led Rwandan army and trained militias slaughtered approximately one eighth of the country's population, caused nearly another eighth to flee to neighboring countries, and internally displaced hundreds of thousands. It is estimated that upwards of 500,000 women were raped during the 100 day genocide, and as a result, nearly 67% were infected with HIV/AIDS and 20,000 children were born.² Those carrying out the genocide did not discriminate based on economic status, age, gender or profession – only by ethnic association and sympathetic supports. These horrific acts left an entire nation physically and mentally traumatized, destroying what poor economy it had.

The Rwandan Patriotic Front (RPF), a rebel Tutsi group led by now President Paul Kagame, marched from Uganda to seize control of the country and to stop the bloodshed. The RPF's stronghold brought the return of many Tutsi who did not grow up in Rwanda, many of whom took seats in government and became prestigious business owners in the cities. It was impossible for the Rwandan legal system to formally handle every offender in the genocide. Many men, after confessing to crimes among their peers in a community legal structure known as *gacaca*, were released back into the communities where they committed the atrocities to live next to former friends whose family members they brutally murdered.

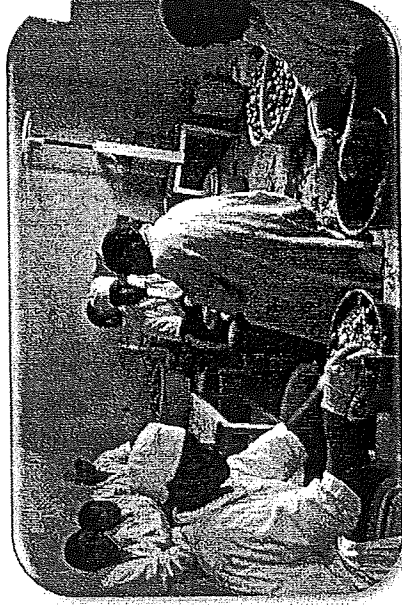
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Case Questions

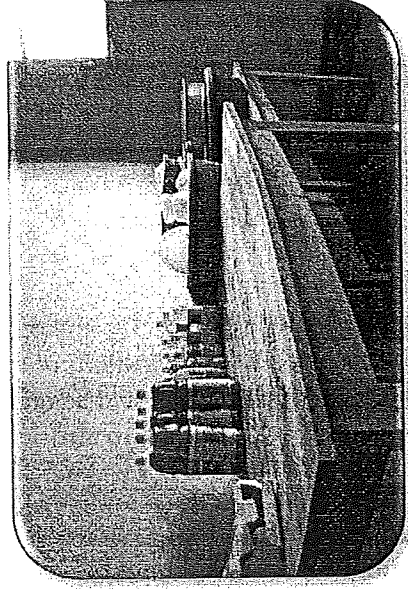
- 1) As business leaders, what role do you play in a situation such as COVAFGA's? What options are available to you as a small, medium, or large business owner? What responsibilities do you have to one another and to your community?
- 2) At what point do business and government issues collide in this case? How would your recommendations impact the relationship between co-op members and their government? Their neighbors? One another?
- 3) Given Rwanda's history, what are the implications of such events, as well as their challenges to developing business? Provide an example as to how relationships can be sustained or rebuilt given the deep historical cleavages imposed throughout the Rwandan society? What might success look like?
- 4) Conflict situations occur everywhere in our daily lives. What measures can business leaders take not only to manage and mitigate the effect of conflict, but rather create positive deviance? Do you think these are practical actions in the current professional business world? Who would you partner with and why? What would you bring to the table as a business leader in this partnership?
- 5) What was the true underlying problem to COVAFGA's hesitation to invest in its development? What would be necessary for business to function successfully here?

² Survivors Fund. "Statistics of the Genocide." <http://www.survivors-fund.org.uk/resources/history/statistics.php>

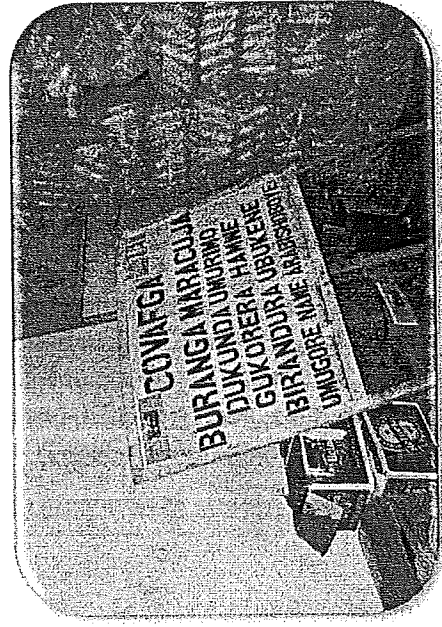
Exhibit 1 Cooperative de Valorisation des Fruits de Gakenke (COVAFGA)



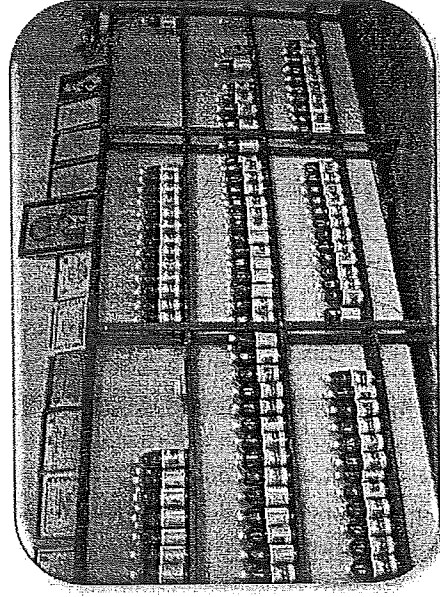
COVAFGA workers preparing the maracuja with the juicing machines pictured in the background



COVAFGA bottling room



Plastic bottles and caps imported from Uganda



COVAFGA maracuja juice bottles ready for consumption

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Teaching Note

This case has simple mathematics behind the reasoning for buying a new machine or used truck, but there are deeper issues than financing. Historical issues impede the development of multiple dimensions of trust – in one another, the community, the future, institutions, and leadership – that are critical to business development. A basic trust that most people in the developed world take for granted – the existence of stable financial institutions, legal upholding of contracts, and a standard of rules for business – simply does not exist in Rwanda.

Discussion can revolve around how basic trust must be formed in business relationships and contracts before anything else. The case discussion should mainly focus on the business implications of conflict in society, and the tensions that remain even after hostilities have ended. Students should be encouraged to think about the role of business in the context of momentous conflict, and be able to abstract thoughts on the roles they will play as business leaders. Students should think about ways in which business can help rebuild war torn or conflict societies in a positive manner, that is, without exacerbating the societal divides. Responses centered on only the profitability of the new machinery are too shallow; students must be challenged to look deeper into the societal barriers that are blocking COVAFGA's development.

The importance of trust in business

COVAFGA's challenges are twofold and rooted in the historic violent divide between Hutus and Tutsis. First, the devastating impact of the wars and culmination of the genocide have inflicted deep pains among Rwandans and led to extreme distrust. Even without knowing Pierre's ethnic background, one could only imagine the extreme hesitation he may have felt to leave himself vulnerable to a lender he did not know, or may not understand. As trust is the foundation to building relationships, the lack of trust among Rwandans makes it difficult for them to engage in developing business activities.

Second, business, and specifically financial, acumen is not prevalent among most Rwandans. The underlying distrust compounds the fear of engaging in business operations, such as financing from a bank. Even though there are many people in the United States who do not understand the operations or implications of borrowing from a bank, the people trust that the financial system and government will provide security. This trust and rigor in the institutional financial system does not exist in Rwanda.

Additionally, even though the cooperative was open to any new membership, the underlying trust issue poses a potential limit to take on new members. Foreign and disengaged private investors would also be a difficult source of funding for the cooperative to not only understand but to also trust, especially as these investors may likely take a strictly financial interest without regard to the orphans COVAFGA employs or the neighboring market it supports.