

**IMPACT OF THE LIBERALIZATION OF COFFEE MARKETING RULES ON
THE PERFORMANCE OF COFFEE INDUSTRY IN KENYA:**

**A SURVEY OF COFFEE FARMERS' CO-OPERATIVE SOCIETIES IN
MATHIRA DIVISION, NYERI DISTRICT**

BY

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DECLARATION

This project proposal is my original work and has not been submitted for a degree in any other university

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DEDICATION

To my parents, Cllr. Joseph B.M Chillumoh and Elinah Mwaka Mwangome, for always being ready to support and understand me, and for putting such premium on my education. Also to my wife Elvinah Uchi Kai and Son Hezekiah Mwangome Muye, for bringing joy and satisfaction in my life. Last but not least, auntie Julian Tabu Chillumoh, for being the lovely and ever supportive in the family that I have known all my life. I love you all

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DEFINITION OF TERMS

Impact- Refer to a change in outcomes that can be attributed to a policy in a situation where there may be many other influences on outcomes.

Liberalization-In general, liberalization refers to a relaxation or removal of previous restrictions, usually in areas of social or economic policy.

Market liberalization -The, reduction of barriers to the free movement of goods and services, to encourage entry by new competitors.

Performance- The improvement in the coffee production, reduction in production and marketing costs rise in the prices of coffee and farmers' income.

Total assets-This is the total value of materials owned by the cooperative society in terms of hard cash and property.

Percentage payout-The amount of money the cooperative remits to farmers as a fraction of the coffee sales.

Expenditure- The amount of money spent, by cooperative society in the processing and marketing of coffee.

Cooperative society-A jointly owned commercial enterprise organized by farmers that produces and distributes goods and services and is run for the benefit of its owners.

ABBREVIATIONS AND ACRONYMS

CBK	Coffee Board Of Kenya
CCS	Coffee Cooperative Society
CMS	Coffee Marketing Services
CRF	Coffee Research Foundation
ICA	International Coffee Agreement.
ICO	International Coffee Organization
KPCU	Kenya Planters Cooperative Union
NYCE	New York Coffee Exchange
SACCO	Savings and Credit Cooperative
SAP	Structural Adjustment Programme
SPSS	Statistical Package for Social Scientists
UBS	Union Banking Section

ABSTRACT

Coffee has for a long time been among the leading foreign exchange earners for the country. However the coffee industry declined in performance in the 1990s hence didn't realize high incomes to the farmers, high prices for coffee sales and production outputs were low. The government in the year 2006, attempted to rejuvenate the sector through the introduction of direct marketing, dubbed the "second window", where farmers could sell their coffee directly to buyers among other aspects of liberalization. This study therefore embarked to investigate the impact of this new liberal marketing rule to the performance of coffee industry in Kenya. The main objectives being the impact of the new liberalization of marketing rules on coffee output, farmers incomes, coffee prices and also make policy recommendation to the regulating authorities on coffee marketing in Kenya.

The study made a descriptive survey of the Coffee Farmers Cooperative Societies in Mathira Division of Nyeri East District, Central Province as the study location to make the findings. The target population was the managers and management committee officials of the coffee farmers' cooperative societies in the Division. A sample size of 36 managers out of a population of 60 and 27 management officials out of a population of 81 was targeted. From the sample size of 63 out of a population of 141, 60 respondents were interviewed. Questionnaires were used as the main data collection instruments for both groups of the respondents. Data was collected for two years before and after the new liberal marketing rules. The data analysis was done with the assistance of the SPSS software. The outcome is presented in the form of tables of frequencies, percentages, statistical charts such as pie charts and bar graphs. Regression and correlation analysis was used to analyze the relationship between the new liberal marketing rules and the coffee prices, outputs and farmers income.

The finding reveals that since the coming into effect of the new liberal marketing rules, coffee is fetching a higher price per kilogram than before. The price changed from, Ksh 19 in 2004 to Ksh 34 in 2008. Coffee farmers income also increased from a percentage payout of 65.6% in 2004 to 83%'s in the year 2005. Coffee output though the average

for the two time periods reflects an increase, but a substantial reduction in production for 2008 from the 2007 level. This was attributed to change in weather patterns and settlement on previously coffee farms due to population pressures. However the quality of coffee is generally higher due to introduction of new or improved varieties and high price incentives on high quality coffee.

The study concluded in chapter five with some policy recommendations to the regulatory authorities such as the need to reduce the number of marketing agents, ensuring that marketing agents were competent and reduced taxation in the coffee industry. Infrastructural development, strict regulation of the coffee sector and increased international coffee marketing were the other recommendations made by the respondents.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Study

Coffee is the seed of an evergreen tree grown in a semitropical climate (Encyclopedia Americana, 2007). The tree is grown from a seed either in a nursery or directly in the fields where it is to grow. When it is about five years old, it produces its first commercial crop and depending upon soil and fertilization, will continue to produce for as much as 50 years. The coffee tree is pruned to a height of 5-8 feet so that picking is easy. Its fragrant flower is white somewhat resembling an orange blossom. From the flower comes the berry, which grows in cluster along the stems of the tree. The berry when ripe is red and looks much like a cherry. It contains two seeds surrounded by pulp.

After the berry is picked, it is dried and the pulp and skin are removed from the seeds by machinery methods. The seeds then become the green coffee of commerce. Usually the bean is oval in shape, rounded on one side and flat on the other (Encyclopedia Americana, 2007).

The history of coffee use can be traced to as early as the 9th century, when it appeared in the highlands of Ethiopia. According to UNCTAD (1995), Ethiopian shepherds were the first to observe the influence of the caffeine in coffee beans when the goats appeared to "dance" and to have an increased level of energy after consuming wild coffee berries. From Ethiopia, coffee spread to Egypt and Yemen, and by the 15th century, it had reached the rest of the Middle East, Persia, Turkey, and northern Africa.

From the Muslim world, coffee spread to Italy. The thriving trade between Venice and North Africa, Egypt, and the Middle East brought many goods, including coffee, to the Venetian port. From Venice, it was introduced to the rest of Europe. Coffee became more widely accepted after it was deemed a Christian beverage by Pope Clement VIII in 1600,

despite appeals to ban the "Muslim drink". The first European coffee house opened in Italy in 1645 (Kummer, 2003). The Dutch were the first to import coffee on a large scale, and they were among the first to defy the Arab prohibition on the exportation of plants or unroasted seeds when Pieter van den Broeck smuggled seedlings from Aden into Europe in 1616 (Dobelis, 1986). The Dutch later grew the crop in Java and Ceylon. Through the efforts of the British East India Company, coffee became popular in England as well. It was introduced in France in 1657 and in Austria and Poland after the 1683 Battle of Vienna, when coffee was captured from supplies of the defeated Turks.

When coffee reached North America during the colonial period, it was initially not as successful as it had been in Europe. During the Revolutionary War, however, the demand for coffee increased so much that dealers had to hoard their scarce supplies and raise prices dramatically; this was partly due to the reduced availability of tea from British merchants. After the War of 1812, during which Britain temporarily cut off access to tea imports, the Americans' taste for coffee grew, and high demand during the American Civil War together with advances in brewing technology secured the position of coffee as an everyday commodity in the United States.

In Kenya coffee production dates back several hundred years. Coffee was originally discovered in Ethiopia, Kenya's neighbor to the north. Unfortunately, just as in other coffee growing regions of the world, the coffee trade in Kenya triggered heated and bloody battles over the prime growing lands. The Arabs, who monopolized the coffee trade for several hundred years, killed and enslaved many thousand Kenyans and put them to work in coffee production both in Kenya coffee fields and on Arabian coffee plantations.

Around 1900 British settlers came to the region to grow Kenyan coffee. As more and more white settlers entered the region conflicts between the natives and the whites arose and led to more bloodshed. The British, being more skilled in the ways of politics and business quickly assumed control of the country.

This only escalated the violence and several native groups organized and revolted violently. The region remained a violent place until around 1960. Then the British relinquished control and granted the Kenyans independence.

All Kenyan coffee is of the Arabica variety, grown on rich volcanic soils in the highlands of Kenya. Approximately over 700,000 Kenyans are involved in coffee production. About 700,000 small scale farmers and 4,000 estate farmers (CBK, Coffee industry highlights March/May 2008) most coffee is produced by small holders with small plots of land. They are members of cooperative societies, which process their own coffee.

There are two flowerings in each season. The blossom normally appears shortly after the beginning of the long rains in March and April. In most districts, the main crop ripens from October until the end of the year. The second and smaller flowering comes with the short rains in October or November. These are picked in the early part of the season, often starting the following June.

During the harvest, only red ripe cherries are picked, and always by hand. This entails frequent picking rounds with each tree picked every ten days or so. After milling, the coffee beans are graded mechanically into various grades, which differ in size, weight and shape. The smoothness of its acidity and the subtle notes of its fruitiness make for an exceptional cup of coffee.

Today Kenyan coffee is a major export crop and provides jobs and security in an impoverished nation. As in many other regions of the world coffee has played a key role in development of under-developed countries. And unfortunately, money has driven some ruthless people and governments to place profit ahead of human rights. But as the world becomes more aware of injustices taking place the people of the world unite in support of democracy.

There has been a steady growth in Kenyan economy from 0.6 per cent in 2002 to 5.8 percent in 2005. Among the sectors that surpassed targets was agriculture which registered 6.7 per cent growth in 2005 against a target of 3.1 per cent. (Economic Survey, 2007). This was driven by coffee, tea, cane, horticulture, cereals and dairy farming.

Between 2002 and 2005, the value of tea increased to Sh37.7 billion from Sh33.4 billion, coffee nearly doubled to Sh9 billion from Sh5.4 billion, horticulture increased to Sh38.8 billion from Sh26.7 billion and maize fetched Sh6.3 billion up from Sh4.5 billion (Economic survey, 2007). This growth was realized due to tremendous performance of the agriculture sector especially the coffee sector which was among the leading foreign exchange earners. Despite the growth in agriculture, coffee farmers have been complaining of no growth in their income (Khan, 1999). However, growth in agriculture has been linked to development in other sectors, which invariably contributes to poverty alleviation.

A review of the global coffee markets indicates that coffee price fluctuations are caused by major imbalances between supply (production) and demand (consumption). Whereas coffee production has been increasing at an annual rate of 3.6%, its demand has been increasing by a mere 1.5%. In the last decade world production of Arabica increased by 12% while Robusta production increased by 53% with major increases in Brazil and Vietnam (FAO, 2007). This led to oversupply of low quality coffees in the world market. The fluctuations in the coffee prices impact on the income of the farmers' thus further affecting their production.

Global coffee consumption stagnated at around 106 million bags with the main importing countries showing signs of saturation in 2002. Consumption per capita was, however, still very low in most producer countries, which absorb 24% of total consumption. The governments of major consumer nations also imposed various taxes on processed coffee imports, a factor that limited value addition in producer countries which increased the disparity between producer and consumer prices. Like in most coffee production nations, international market conditions together with other internal factors have influenced coffee production in Kenya

Recently, in Kenya, coffee production of 41,083 Tonnes was achieved in the first nine months of 2005. Over a similar period in 2006, coffee production declined 0.4 per cent to 40,926 metric tones, according to Central Bank's Monthly Economic Review for

November 2006. However, average coffee prices improved 11.2 per cent from \$2,361.11 (Sh165, 277.70) a tonne in the first three quarters of 2005 to an average \$2,626 (Sh183, 820) a tonne in a similar period of 2006 (FAO, 2007). The increased value of coffee is expected to reflect on the incomes of the farmers who directly or indirectly depend on the products but this has not been the case of Kenyan coffee farmers.

The reduction in coffee production can be linked to the fact that coffee farmers lost interest in growing the crop since they only receive 30% of the proceeds from the sale of the crop (Karanja, 1998). The bulk of the proceeds are taken by middlemen in the name of marketing the product. The government of Kenya in 2006 therefore, set rules to regulate the direct sales of coffee allowing farmers to bypass a central auction where all Kenyan coffee had been trading since 1935. The new rule was dubbed the “second window”. The idea for the second window was to have three categories of licenses that are categorized as milling, marketing and dealer licenses. Some individuals and companies have gone round and obtained all the licenses and now farmers have lost control of their commodity and prices have plummeted. According to the rules, farmers can sell their coffee through the 12 marketing agents registered locally by the CBK. Coffee growers had for a long time rebuked the government for allowing the exporters to double up as marketing agents. Some of the global and local companies have milling licenses, marketing agency licenses and dealer licenses which allow a single company to control every level of the coffee industry. For example, Aristocrats coffee and tea exporters, Cetco (K) Ltd, Sagana commodities (Kenya) Ltd, Sondhi and C. Dorman Ltd all currently are operating under dealer license double up as marketing agencies. The farmers argued that exporters might take over the entire industry and sideline coffee organizations and other genuine buyers who would otherwise offer attractive prices.

The new marketing rule was set up to increase the coffee prices and thus farmers' income so that the experience of farmers uprooting the crop in favor of other crops could be avoided since coffee is a key foreign exchange earner in Kenya and employs many Kenyans and so contributes to poverty alleviation (Khan, 1999).

1.2 Coffee industry situation in Mathira

Coffee is the sole economic activity to which thousands and thousands of rural families entrust their economic survival (Gichuru, 2002). It had been such that since 1998, coffee farmers had faced difficult times. Payments for the crop started declining and before then, farmers in the division never had difficulty paying for the education of their children (World Press Review, 2002). The farmers were able to develop their farms using proceeds from coffee. But that changed and most farmers were then considering abandoning coffee farming altogether for food crops.

The prices in the world market continued to fall and caused confusion in the local cooperative society as the world market was the main consumer of the crop. As a result, the giant Mathira Coffee Farmers Cooperative Society was subdivided in 2000, as it was unable to supply for the financial needs of its members. The farmers were forced to sell their coffee at farm-gate price while at the same time the buyers were dictating the prices (World Press Review, 2002). Farmers would get loans at the beginning of every school term to take care of fees for their children but that increasingly got difficult. The problems persisted as the splinter cooperative societies were also unable to cope with the financial demands of its members.

The Kenya's coffee industry was a very promising industry in that it was one of the leading foreign exchange earners in the country. The farmers had to be able to practice standard agricultural activities but that could not be realized when the farmers' income was low such that they could not provide for their families' basic needs. The fluctuations in price of coffee and the difference between the traditional auction system and the second window aroused the curiosity of the researcher to investigate the impacts of the change of legislation concerning marketing. Recognizing that threat of loss of valuable foreign exchange, the study aimed to find out the impacts of such legislation on the performance of the coffee industry specifically on the Price of coffee in the market, production output and farmers' income.

By adequately documenting the impacts of liberalization of coffee marketing on the performance of the coffee industry, the information generated shall augment the stock of knowledge, which can be used by other academic scholars as a basis for further research.

1.3 Statement of the problem

The Kenyan coffee farmer has been earning little from their farming efforts. Out of all coffee income proceeds, only 30% had reached the farmer (Karanja 2002). Thus to say the least impoverished farmers and demotivated them from engaging in coffee farming in favor of other crops. Various factors had been highlighted to contribute to the condition of low coffee earnings and production volumes as well as poor performance of the coffee industry. Among them, was the strict control of the sector through regulations that exposed farmers to corrupt officers, both at the coffee cooperative society level as well as the Coffee Board of Kenya. The long marketing chain that subjected the coffee dues to many deductions by middlemen from the Co-operative Society, the Union, the millers, the marketing agents, the Coffee Auction and finally the international market, had compounded the problem. The rigidity of the coffee marketing rules that limited the sales of coffee to only through the Nairobi Coffee Exchange Centre, meant that the farmer had no choice and control over what price the coffee would fetch. Furthermore, allegations of collusion by coffee marketing agents to bid the coffee at low prices were common and on many occasions true.

The research study therefore wished and intended to find out and avail information on whether the liberalization of the coffee marketing rules had helped the coffee farmer to earn more income, gain higher prices from the coffee sales and as a result feel motivated to produce more coffee.

The Kenyan Economy is agricultural. All policies that are targeting at improving the sector need to be effective and efficient. The liberalization of coffee marketing rules, as a

policy on the agricultural sector and specifically on the coffee industry was a step towards the right direction in improving the performance of the sector. This study was an attempt to find out the effectiveness of the liberalization of the coffee marketing rules in the coffee industry in improving the performance of the coffee industry.

The research problem therefore has lack of information relating to the impacts of the new marketing rules which allowed direct coffee sales, as opposed to the initial mandatory central coffee auction on the performance of the coffee industry in Kenya. No serious scholarly work had been done to document the impact of the liberalization of coffee marketing rules on the performance of the coffee industry in Kenya and the researcher intends to fill this gap with this study.

1.4 Research objectives

1.4.1 General Objective

The main objective of the study was to establish the impact of the liberalization of coffee marketing rules on the performance of the coffee industry in Kenya with special reference to Mathira Division.

1.4.2 Specific Objectives

This study specifically sought to achieve the following:

- (i) To determine impact of the new marketing rules on the price of coffee from the farm level in Mathira Division.
- (ii) To establish the effect of the new marketing rules on the coffee output in Mathira Division in Kenya.
- (iii) To outline the change in farmers income since the implementation of the new coffee marketing rules in Mathira Division in Kenya.
- (iv) To make policy recommendations to the regulatory authorities on coffee marketing in Kenya.

1.5 Research questions

The study was guided by the following research questions:

- (i) What was the impact of the new marketing rules on coffee prices at the farm level in Mathira Division?
- (ii) What was the effect of the new marketing rules on the coffee output in Mathira Division in Kenya?
- (iii) How has the farmers' income been affected by the implementation of the new coffee marketing rules in Mathira Division in Kenya.
- (iv) What were the policy recommendations that can be made to the regulatory authorities on coffee marketing in Kenya.

1.6 Significance of the study

In order to reduce poverty, the agricultural sector had to be revitalized and one of the possible solutions was the introduction of new marketing rules for coffee farmers. This study was much needed because it would be used to gauge the effectiveness of new legislation in the coffee industry and would provide the basis for future formulation of marketing policies in the coffee sector.

The study was necessary because a good documentation of the impacts of liberalization of coffee marketing on prices, outputs and farmers' income would aid in the formulation of key focus areas in the management of the coffee farmers' cooperative societies. The government can use the knowledge from this study to identify more strategies and implementation of control measures in the agricultural sector.

Since the coffee industry is an important industry in the realization of economic development, anything that affects its ability to adequately cater for the key player in the industry i.e. the farmer, definitely affects national economic development. Hence, the importance to gain insight into the impacts of liberalization of the coffee marketing.

The study provided an insight into the features of the new liberal marketing rules in the coffee industry such as reducing the number of agents in the marketing chain and reducing the marketing costs and allowing other marketing agents besides the CBK to market the coffee at the Nairobi coffee exchange and elsewhere. This will benefit scholars and practitioners of marketing in Kenya and elsewhere in the world.

The study findings provided guidelines to policy makers in the Ministry of Agriculture and the Coffee Board of Kenya on how to regulate the coffee industry in the formulation of new marketing rules.

Finally the research will add to the body of knowledge on marketing of coffee industry in developing countries and benefit students and professionals in marketing and agriculture.

1.7 The Scope and Limitations of the Study

The study was carried out in Mathira Division in Nyeri District targeting the officials of the coffee co-operative societies. The researcher chose that approach because the CCSs had all the information on prices, production outputs and the income of farmers. It therefore made data collection process cheaper and convenient. Secondly, the information from Mathira Division is a reflection of the issues facing the small scale coffee farmers in the rest of the country.

The researcher anticipated some reluctance on the part of the respondents during the data collection process in Mathira Division co-operative societies because the officers considered such information on prices, outputs, and incomes of farmers to be confidential business data. The researcher however convinced the respondents that the information will be used for academic purposes only.

Mathira Division had 9 cooperative societies namely Barichu, Iriaini, Tekangu, Mugaga, Kiama, Gikanda, Mathira North, Gakuyu and Rutuma,(Ministry of Cooperative Development, Mathira Division 2006,annual report) from which financial and production records were obtained. That meant that some traveling was done by the researcher and sufficient time was required in order to visit all the co-operative societies.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature on the coffee situation in Kenya including the world coffee economy. Also reviewed, is the Coffee cooperatives situation in Nyeri District and Mathira Division.

2.2 Global coffee economy

There were a number of underlying fundamental factors affecting the world coffee trade that in turn contribute to the determination and evolution of coffee prices. The key determining factors continues to be production, consumption and stocks. Other economic, social, political and natural factors sometimes profoundly change the impact of the fundamental factors on the determination of prices and their evolution.

The International coffee market was subjected to continuous control from 1962 to July 1989 through (four International Coffee Agreements (ICA). When the agreements were in force, coffee market was regulated through systems of export controls (quotas), which were triggered when prices fell to significant low levels. According to Gilbert and Brunett (1998), and Gilbert, (1996), the main benefit of the coffee agreements was to raise the average level of producer prices relative to the levels which would have prevailed without the agreements. Gilbert & Brunett (1998) estimate that the agreements may have indeed raised producer prices by as much as 50-60%. In Kenya coffee farmers benefited through 30% higher prices when the ICA was in place (Karanja, 2002).

The success of the first four International Coffee Agreements (signed in 1962, 1968, 1976 and 1983) was to maintain relatively high and stable prices and significantly strengthening the economies of coffee producing countries while enhancing development of international trade and co-operation. However, due to lack of consensus between and among consumer and producer countries the 'Economic Clauses' of the 4th agreement were suspended on 4th July 1989 (ICO, 1997). According to Gilbert (1998), that date was the coffee 'Independence day' in that coffee trade regulation through ICA was no longer

to be the case. The prevailing economic thought advocating for increasingly globalised and free trade also means that commodity agreement such as ICA was thing of the past. Indeed, obituary notices in regard to commodity agreements have already been written (Gilbert, 1996).

2.3 World Coffee Supply

The current coffee crisis was caused by major imbalances between supply (production) and demand (consumption). According to International Coffee Organization (ICO) statistics, coffee production had been increasing at an annual rate of 3.6% while demand had been increasing by only 1.5%. The global coffee production trends and consumption for the past two decades had been such that coffee production in 2001/02 was estimated at around 113 million bags, which combined with world stocks of 40 million bags adds up to 153 million bags. Production was projected to increase to around 119.6 million bags in 2007 after taking into account the record crop expected from Brazil (FAO, 2007). However, according to ICO projections decrease in production was expected in 2007. That was mainly attributed to the adjustments made in most producer countries in terms of production costs and farm maintenance due to the prevailing low coffee prices.

2.4 Coffee demand

Coffee was mainly consumed in developed countries, which account for about 76 % of the total consumption. The rest 24 % was consumed in the producer countries. Coffee consumption in producer and importing countries in the period 1992 to 2001 per capita varied between 2.6 kg in Nicaragua and 1.5 kg in Ethiopia to 0.007 kg in Tanzania and 0.01 kg in Kenya (Anon, 2001). That was considerably low compared to the levels in developed countries where consumption per capita could reach 10 kg. That was despite the liberalization of coffee markets in most of the producer countries, which could have been expected to promote local demand. Low income per capita and the tea-drinking habits in former English colonies had been some of the factors behind the low local consumption.

Government policies which had tended to promote coffee, as an export crop had not helped either. A case in point was the Kenyan situation where the perception of coffee as

an elite drink had lingered on despite the low coffee prices. Most of the producer countries had also not seized the opportunity to promote local coffee consumption despite having vibrant tourist sectors. Forced delivery to specific market outlets and consumption taxes had also contributed towards increasing retail prices of roasted coffee in local markets. For instance, in Kenya farmers had delivered their produce to the central exchange from where all buyers (including local roasters) had to source their raw coffee. That limited the number and volumes of coffee finding its way to local consumption as trade volumes in the auction were set at around 30 bags. Roasted coffee also attracted 18% VAT apart from duties on packaging materials. For coffee producers, and particularly smallholder farmers, promotion of domestic consumption offered more dependable markets and alternatives to exports. Furthermore, expansion of local consumption had added effect of increasing world coffee demand and hence prices (Karanja, 2002).

The world coffee consumption had almost stagnated with the main importing countries showing signs of saturation. In the EU market, which was the main market for Kenyan coffee, the price elasticity of demand was low (0.3-0.6) because of near saturation levels. That was especially the case in Germany, Netherlands, Finland, Norway, Denmark and Sweden with per capita consumption of more than 7 kg. These EU countries absorb more than 75 % of Kenya's coffee. The per capita consumption in USA and Japan was rather low given their levels of income. That attributed to consumer health concerns and competition from other beverages such as tea, cocoa and soft drinks. There was therefore limited scope in increasing consumption in the traditional Kenya coffee markets. However, consumption in USA, Japan and other emerging markets was more likely to increase and Kenya would endeavor to position itself in these markets. In the past, CBK as the body responsible for coffee promotion have tended to concentrate its promotional campaigns in the traditional markets in Europe (FAO, 2007).

Limited promotion had been directed to USA and Japan as well as other emerging markets such as COMESA region. However, there had been private initiatives to promote production and marketing of Kenyan coffee in America and other emerging markets. One

such initiative was by Eastern Africa Fine Coffees Association (EAFCA), which was a voluntary organization of traders and other coffee industry stakeholders in the East African region. Identification of new market niches was one way of increasing market shares and prices. In the recent past, several market niches had emerged in Europe and USA. The niche markets were many but the well known ones included gourmet or specialty coffees, organic or other health and environmentally friendly coffees, and fair trade coffees. The organic, shade grown and fair trade coffees were in most cases referred to as sustainable coffees. Those segments of the coffee market continued to expand. For instance, the specialty coffee market sales continued to expand by 5 % to 10 % per year, according to conservative estimates. In USA, the specialty market accounts for 17 % of the total green coffee imports with retail sales value of US\$7.8 billion in 2000 (ICO, 2000; Giovannucci, 2001). The certified sustainable coffee global trade in 2000 was estimated to be worth US\$490 million (FAO, 2004)

A study done in USA and Canada indicated that the Latin American countries were, by far, the leading suppliers of sustainable and specialty coffees. Africa had the least share of the market. Those niche coffees guarantee a certain level of price to growers, which included a premium over the international market prices. For instance fair trade coffee guarantees a minimum price of US \$1.26/lb while coffee that is both in fair trade and organic certified, the producers receive US \$1.41/lb (Sorby, 2002).

Kenyan coffee was worldly renown for its high quality that makes it ideal for these niche markets. Indeed most niche coffee markets identify quality as the single most important factor (Karanja 2002). It was therefore apparent that Kenyan smallholder farmers can benefit from these niche markets provided they are better organized to overcome critical constraints like certification. Furthermore, given the envisaged restrictions in EU based on minimum pesticides residue levels, the path towards sustainable coffees becomes even more imperative. Low price elasticity indicates that demand increases at low rates when prices fall. That was indications that unless population changes there were limited scope for increasing consumption. The reason for the low growth in demand was the high consumption rate per capita.

Organic coffees were described as those coffees produced with methods that preserve the soil with minimal or no use of synthetic chemicals. Shade coffee was grown under shade (trees), which promote biodiversity conservation. Fair trade coffee is purchased directly from smallholder farmers' organizations, which adhere to the principles of fair trade (Giovannucci, 2001).

2.5 Trade Issues

One major feature of the global world trade was the high market concentration of roasters and traders. Four large multinational companies provide more than half of all the coffee consumed by the 25 main consumer countries. These companies are Jacobs/Kraft General Foods, Nestlé, Proctor & Gamble and Sara Lee/DE (Pelupessy, 1999). The first three controls 73 % of the USA market and the concentration was said to be increasing. In Germany the big-four market share rose from 75 % to 86 % while in Netherlands, Sara Lee/DE had a market share of 70 % (Anon, 2001).

The increasing concentration in international trade and roasting was also replicated in retailing. In European countries the five largest supermarkets chains have, in most cases, a joint market share of at least 50 %. Vertical integration between multinationals, roasters and supermarket chains was also becoming a common phenomenon. The consumer market was also highly differentiated through a pyramid of blends. These features of the international coffee trade and the consumer nations offer considerable barriers to entry for producer nation companies. That diminishes the opportunities that can be exploited by producer nations in adding value to the raw coffee. For instance, in 2000/01, about 90 % of Arabica and 94 % of Robusta coffee exported by all producer countries was exported in raw (green) form (Rickert, 2005)

2.6 Coffee Prices

The trends in production described above had impacted negatively on international coffee prices. Coffee prices had not only declined to historical levels but had also become very unstable and unpredictable. The historical evolution of coffee prices indicates the cyclical and instability phenomena that characterize the world coffee markets. The trends in Colombian Mild's at the New York futures market, which were used as reference prices

for Kenyan coffee, show three main periods of rising prices, which alternate with periods of falling prices. The first two periods of rising prices (1981 to 1986 and 1994 to 1995) were mainly as a result of supply problems in Brazil arising from adverse weather conditions. A third period of rising prices was also witnessed in 1997 and like the rest of earlier periods was also attributed to supply problems in Brazil (ICO, 1997). The same trends were replicated for Robusta.

2.7 Review of coffee marketing in Kenya

2.7.1 Coffee Marketing

Coffee marketing started at the farm gate and ended at the consumer level. In Kenya, there were two distinct coffee-marketing channels, one for the co-operatives and the other for the estates (MOA, 1998). The difference in the two channels was mainly at the primary processing level. The smallholder farmers (farmers with less than 2 ha under coffee) deliver their cherry to co-operative factories for primary processing as compared to the estate farmers who had processing factories located in their farms. Primary coffee processing involved cherry sorting, pulping (removal of out skin), fermentation, drying and storage. Dry cherry (mbuni) was usually bulked at the farm and delivered to the factory for onward transport to the millers. Some isolated smallholder farmers especially the ones not near a co-operative society used hand pulps to process their coffee in their farms. By 2001, there were 462 coffee co-operative societies in the country with over 890 processing factories (FAO, 2004). Smallholder farmers had to transport coffee cherry from their farms to their nearest co-operative factory. To do that, farmers relied on rural access roads. In most areas the roads were in poor condition making farmers to incur high transport costs. That despite farmers being charged a road cess at the rate of 1% of total coffee sales value to maintain these roads.

Farmers own the Co-operative societies, factories and other infrastructure that handles coffee. Apart from financial services and coffee processing, co-operative societies were expected to provide farm inputs either in cash or on credit to their members. There were also expected to provide technical services such as extension and advisory. However, these services had dwindled in recent past due to various reasons.

After primary processing, coffee was delivered to the millers for secondary processing. Secondary processing involved hulling, grading and sorting of parchment coffee to produce clean (green) coffee before storage and marketing. Currently there were four main coffee millers in the country. Those were Kenya Planters Co-operative Union (Nairobi plant and 4 rural branches), Thika coffee mills (Thika), Socfinaf Ltd (Ruiru) and Gatatha farmers' Ltd (Kiambu). Most societies in Murang'a delivered their coffee to KPCU Ltd, mainly as a result of historical relationship. After milling, the millers were supposed to pass on the coffee to CBK or the appointed marketing agent within 24 hours. The millers were also obliged to issue documentation on quality assessment, final weights and milling losses to the growers or their agents. Some millers such as KPCU also doubled up as commission agents and were therefore involved in processing of farmers' payments.

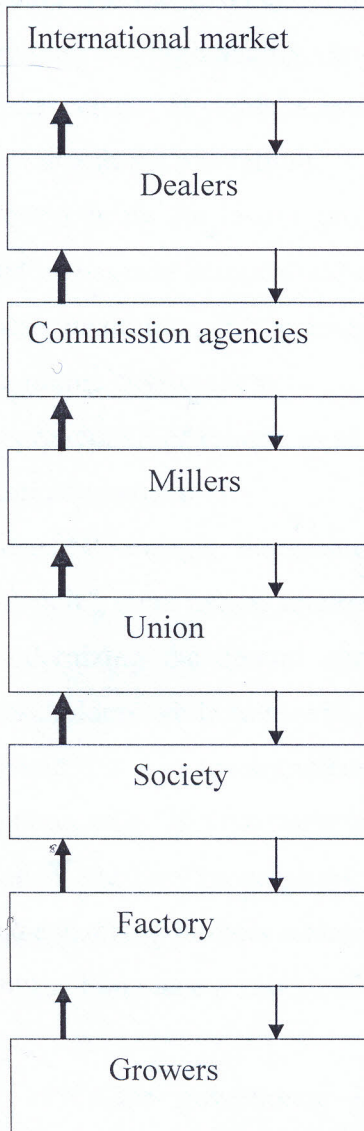
Prior to April 2002, CBK was the sole marketing agent. Since then a number of marketing agents had been licensed to undertake the coffee marketing function with CBK relegated to industry regulator. That was in line with the new Coffee Act, 2002 (MOA, 1998). The marketing agents were supposed to warehouse clean coffee, undertake classification and in conjunction with auctioneers prepared a sales catalogue, which was used, for bidding in the Nairobi coffee exchange. After coffee was sold the marketing agents received payments from the buyers within seven days from the date of sale. After deducting statutory deductions and taxes, the agents were supposed to remit the rest of the money to the farmers or his/her appointed commission agent within 14 days. However that was rarely done thereby causing delays in paying farmers. Coffee payments followed almost a similar route to coffee proceeds. However, the smallholder farmer's payments follow a lengthier route, which was prone to delays and heavy deductions. These featured of co-operative payment system had changed little even after liberalization. The large-scale farmers were paid directly by their marketing or commission agents while smallholder payments go through their co-operatives and other rural financial institutions such as Union Banking Sections (UBS) and saving and Credit Co-operatives (SACCOs). The lengthy co-operative payment system therefore was a major hindrance and a source of concern to farmers. Other commodities that compete

with coffee for resources such as tea, dairy and horticultural crops offer more attractive modes of payments based on daily, weekly or monthly payments.

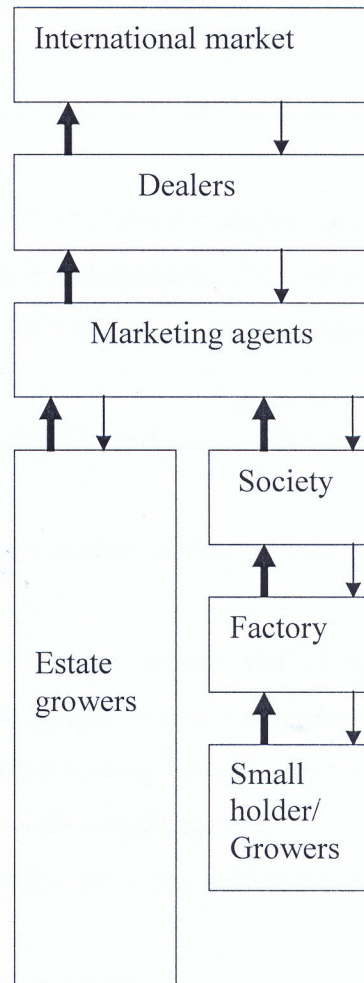
The physical flow of coffee as explained in the preceding paragraphs is diagrammatically represented as shown below;

Figure 2: Physical flow of coffee

Before liberalization



After liberalization



The arrow in bold indicate the flow of physical coffee. The other arrows facing downwards indicate the flow of coffee proceeds

Source; Karanja (2002)

2.7.2 Policy Reforms

Since October 1992, a number of policy reforms had been made in the coffee industry in an attempt to improve farmers' incentives and their control of the industry's affairs (Coffee Act Amendments, 2002). The reforms were also aimed at addressing specific challenges facing the coffee industry. The challenge includes:

- (i) Increasing coffee production through intensification in the high potential areas in the wake of diminishing land availability.
- (ii) Enhancing the diversification of coffee production through introduction of new yielding and high quality varieties.
- (iii) Enhancement of yields in smallholder farms whose current yields are approximately half that in the plantations.
- (iv) Restructuring the institutions in the industry to allow for greater decision-making and managerial responsibility to the principle stakeholders, the farmers. To prepare these institutions for greater operational efficiency in the emerging liberalized economic environment.
- (v) Improvement of returns to smallholder farmers by reducing transaction costs in the marketing chain.
- (vi) Intensify strategic marketing initiatives for coffee in the existing markets and extending them to new markets.
- (vii) Modernizing the central auction market to allow greater participation of more stakeholders while improving on transparency, and to create an open market driven system that can accommodate modern market trading instruments such as futures, options, all within the framework of a commodity exchange.
- (viii) Enhance tertiary processing to value add on Kenya coffee with a view of stabilizing and enhancing farmers returns.
- (ix) Putting into place a system of prompt payment for farmers.

In late 1992, the government issued broad policy guidelines, which started the liberalization of the coffee industry in line with structural adjustment programme (SAPs). Under these guidelines, the CBK was required to conduct the Nairobi coffee exchange in US dollars. Gradually permission was given for coffee farmers to be paid in dollars and

they were also allowed to retain dollars for their own use. These policies were intended to make it possible for farmers to benefit from currency gains and to allow them to participate in foreign exchange dominated trade. Due to the overvaluation of the Kenya shilling prior in 1992, exporters of commodities like coffee had a heavy indirect tax. Ephanto (1993) estimated the overvaluation of the Kenya shilling in 1992 resulted in coffee farmers and other agricultural exporters carrying an implicit tax burden of 29%. The flotation of the exchange rate and subsequent depreciation had removed that implicit tax burden. The retention of foreign exchange by coffee farmers had also allowed them to access cheaper foreign currency dominated credit from local banks. Nevertheless, the fluctuations in the exchange rate had exposed farmers to price volatility. The smallholder farmers who marketed their coffee through co-operatives had benefited marginally from the liberalization of the foreign exchange market as most of them lacked the necessary skills needed in the money markets.

Another important policy change had been the introduction of an alternative, farmers' payment system. Although coffee farmers in Kenya had always received prices that were close to the export parity price (Sammy, 1994), payment delays had been a major problem. The delays in payments arose from stock management problems and delays in the processing of proceeds along the marketing chain. Prior to 1993, coffee payments were pooled together by the CBK, which made several interim payments based on the averaged price for the season. A final payment was made after reconciliation of accounts. The pool payment system served the purpose of pooling price risks and maintaining as steady a flow of funds as sales realization allowed. That system was reviewed in 1992, by allowing farmers to opt for a 'direct'-payment system. In this system, farmers are paid the amount their coffee fetches at the weekly Nairobi coffee exchange less statutory deductions. Thus, the system eliminated the pooling of funds. By the end of 2001, 80% of Kenyan coffee was paid through the direct payment system and 20% through the pool. The main advantage of the direct system was that farmers were paid much more quickly and good quality coffee that fetched high premiums also received the weekly auction price rather than the yearly average price. To some extent that avoided the adverse selection problem inherent in the former pool payment system. Nevertheless, adverse

selection continued to be a major issue in smallholder coffee-marketing channels as coffee pooling was still practiced at the co-operative society level. It would be noted, however, that the direct payment system coupled with the deregulation of exchange rates had exposed coffee farmers to higher price risks.

Reforms had also been introduced into the coffee-milling sector with the licensing of more commercial millers. The coffee milling monopoly held by Kenya Planters Co-operative Union was dismantled in 1993 when four more commercial millers were licensed. This move had increased the installed coffee milling capacity in the country from around 140,000 Tonnes to around 230,000 tones (Karanja, 1998). That increase in installed milling capacity against a backdrop of declining production had resulted in an over-capacity of about 60% in 2000. The low capacity utilization was expensive to maintain and was a major constraint to securing lower milling charges which was the original objective of liberalizing milling.

In an effort to enhance coffee production, major changes had been introduced into the way coffee planters were licensed. In 1996, the minimum acreage required for a farmer to be licensed as a coffee planter was reduced from 10 to 5 acres. That change had resulted in a doubling of the number of small estates (below 20 acres) from 630 in 1994 to over 1500 in 2000. Thus, the co-operatives continued to lose a sizeable number of their well-to-do members as that became licensed as planters. That had further lowered the capacity utilization of those coffee-pulping factories owned by co-operatives while creating an increasingly important group of medium-sized coffee producers. The small estates like other estate farmers were able to process their coffee separately and therefore had more incentives to improve on their coffee quality unlike smallholder farmers who had to pool their cherry at the co-operative factories.

Furthermore, the estates received their payments directly and more quickly thereby avoided the delays and high deductions characterizing the co-operative marketing channel. As such, most farmers with the required minimum coffee acreage preferred to operate as independent coffee estates. Indeed some smallholder farmers had tried to form

joint family units to qualify to be licensed as independent estate farmers. Neither had coffee producer co-operatives been spared in the reform process. The government removed its tight control over the way co-operatives operate in June 1998 when the new Co-operative Act was enacted. The government had retained a minimal regulatory role in the co-operatives while encouraging members of the societies to run them as economic units. The review of the Act and politicization of the co-operative together with the new era of multi-party democracy in the country had resulted into splits of the co-operatives into smaller units. As a result the number of coffee co-operative societies increased from 207 in 1990 to 462 by 2001.

2.8 Coffee production trends

2.8.1 Area under coffee

Area under coffee in Kenya was estimated at between 160,000 and 170,000 ha. The smallholder farms account for around 128,000 ha, equivalent to 75% of total area. Although the estimates indicate marginal increases in coffee area in smallholder zones, there caused to believe that decreases had occurred in the last decade (Stein, 2002). These decreases could be attributed to neglect of farms and uprooting mainly as a result of the slump in coffee prices, competition from other farm enterprises and the need to create room for human settlement. That was especially the case in the traditional coffee zones of Central, Eastern and Western Kenya, which have high population densities.

The prospects for coffee expansion were therefore quite limited in these traditional areas as land unit per household continues to decrease as a result of population growth and subdivision. Nevertheless, limited coffee expansion had occurred in the recent past in some non-traditional coffee zones mainly in Rift Valley Province such as Uasin Gishu and Trans Nzoia districts. That expansion had been driven by the desire of farmers in those areas to diversify from maize and dairy production.

2.8.2 Coffee production

In the 1990s the national coffee production was on a declining trend except a few years when there was an upswing in production. The upswings in production were mainly attributed to increases in coffee prices following drought/frost in Brazil in 1994 and 1998. During the last decade, the country's production averaged 77,514 Tonnes of clean coffee. That was 40% less than what was being produced in 1987/88. That meant that the country was utilizing only 60% of the 1987/88-production capacity, which translates to a loss of 51,412 Tonnes of coffee per year (Stein, 2002). In 1954, in response to mounting resentment amongst the African population, the colonial government published a document - popularly referred to as the Swynnerton plan - setting out how the intensification and development of African agriculture was to be achieved. The plan aimed at creating rural elite as the vanguard of development and the first defense against revolt. It contained a strategy for the development of smallholder agriculture that had remained the corner stone of agricultural policy up to the present day. Swynnerton plan recommended, among other things, relaxation of restrictions on the production of export crops by Africans. According to the plan, progressive African farmers were expected to grow coffee, tea or pyrethrum to generate cash income as well as employ the landless labor. Nevertheless, production controls to ensure quality standards were maintained.

2.8.3 Coffee industry policy reforms in Kenya

A number of policy reforms had been made in the coffee industry aimed at improving farmers' incentives and thereby increase their control of the sub sector (Coffee Act Amendments, 2006). The reforms had been undertaken gradually in phases with an objective of having minimal disruption of coffee production, processing and marketing. Furthermore, most of the reforms had been initiated and implemented after broad consultations between the government, Coffee Board of Kenya (CBK), farmers and other stakeholders in the industry. The government played a minimal regulatory role in the co-operatives while encouraging members of the societies to run them as economic units. In order to harmonize the policy reforms and to complete institutional and legal reforms, a new coffee Act came into force in April 2002. The salient features of new Act included;

Separation of the roles of regulation and marketing with CBK role confined to regulation, Direct grassroots elections of CBK and Coffee Research Foundation (CRF) board members, Removal of old draconian rules on coffee uprooting, planting and intercropping, Limitation of deductions to cater for CBK and CRF expenses to 3% of gross proceeds, allowing private sector players to offer extension and advisory services and establishment of a coffee development fund. However even under the new Act farmers were not allowed to trade in cherry at the farm gate level and all coffee sold in Kenya had to pass through a central auction. Elections for CBK and CRF board members had already been held while the process of licensing marketing agents was on going. Emerging policy and institutional framework impacted both positively and negatively on smallholder farmers' welfare. On the positive side, the reforms had reduced the government involvement in coffee matters while encouraging farmers and private sector participation. Gains in lower processing costs and statutory deductions were also anticipated as a result of enhanced competition.

It was also expected that delays in payments would also be minimized. Nevertheless, the politicization of co-operatives has led to splits that continue to erode their economies of scale. There had also been an increase in governance problems that had led to an increase in mismanagement of coffee co-operatives.

Corruption, lack of financial accountability and transparency were some of the mismanagement issues that cut across most institutions in the coffee industry including co-operatives. The farmers more than ever before were exposed to price risks arising from fluctuations of coffee prices, exchange rates and performance risks in marketing institutions. The reform period had also been accompanied by under-capacity utilization in coffee processing and milling, factors that did not augur well to farmers' returns.

Although farmers' expectations had been raised with the enactment of the new legislation, that would prove to be misplaced especially given the prevailing global coffee economy and the not so clear benefits of the emerging internal institutional arrangements.

There was therefore need for guarded caution not to raise farmers' expectations on the prospects of coffee industry, both in the short and medium term.

In Kenya, coffee ranks fourth after tourism, tea and horticulture, accounting for 10% of the total export earnings in 2000 and 6% in 2001 (FAO, 2004/2005). Over 600,000 smallholders were engaged in coffee production and currently command a 48% share of the market. Coffee production had been on a declining trend since 1987/88 when a record 130,000 Tonnes of clean coffee was produced. During the last decade, the country's production averaged 77,514 Tonnes of clean coffee. Although the Nairobi coffee exchange prices had remained marginally higher than those prevailing in the international markets, they exhibit the same pattern characterized by declining prices in the last few years

The smallholder farmer's margin (farm gate as % of auction prices) initially increased from an average of 52% in the late 1980s to about 63% during the mid-1990s (Karanja, 1998). That was attributed to changes in taxation and lowering of statutory deductions. With decline in prices and production without commensurate decrease in overhead processing and marketing costs, the farm realization had been declining in the last five years.

Coffee production costs had escalated in the recent past mainly due to major increases in the cost of purchased farm inputs. Currency devaluation, inflation and inefficient input markets had been some of factors behind the increase in costs. Poor road infrastructure also had significantly contributed to the costs of inputs due to high transport costs.

The increases in costs of production when juxtaposed on the declining and low farm productivity, decline in coffee prices, and enhanced price and performance risks had made returns to coffee production to dwindle in the recent past.

2.8.4 Present situation of coffee industry policy reforms in Kenya

The coffee regulatory and monitoring authority in Kenya is the Coffee Board of Kenya, (CBK) (World Bank, 2003). It is dominated by producers and serves their interests. Throughout the years CBK had managed to get the highest price margins for its export coffee, which was regarded as some of the best Arabica coffee in the world. To date CBK remains in control of licensing producers and traders and is involved in marketing and research. Direct involvement in marketing is very limited. Coffee produced by smallholders is marketed by co-operatives, while the larger estates have their own marketing channels. All coffee in Kenya is sold to licensed traders and exporters at weekly auctions at the Nairobi Coffee Exchange.

The latest policy change was the Liberalization of the Kenyan coffee sector which was done in 2006 where the second window of marketing was introduced. The government of Kenya set rules to regulate the direct sales of coffee allowing farmers to bypass a central auction where all Kenyan coffee had been trading since 1935. Prior to liberalization, growers received payments for their coffee in installments as coffee passed through the various stages of processing and marketing.

2.9 Conceptual framework

The conceptual framework for the study seeks to present the preferred approach to analysis of the problem by identifying the nature and purpose of the impacts of liberalization of coffee marketing rules on the performance of the coffee industry in Kenya. Shields and Tajalli (2006) had identified several types of conceptual frameworks including working hypotheses, descriptive categories, practical ideal type, models of operations research and formal hypotheses. Descriptive categories conceptual framework was adopted, as the main objective was to explore and then describe the impacts of the new coffee marketing rules on the performance of the coffee industry in Kenya. The relationship between liberalization of coffee marketing rules and the performance of the coffee industry could be conceptualized at a fairly general level depicted in Figure 2.1.

FIGURE 2.1: Liberal Coffee Marketing Rules Model



Researcher, 2009

In this model the independent variables are the new liberal coffee marketing rules which operate in a new marketing environment. The expected and desired results are increased output, higher coffee prices and higher incomes for coffee farmers.

The liberal coffee marketing rules model proposes increasing coffee production through intensification of high potential areas, enhancing the diversification of coffee production through introduction of new high yielding and high quality varieties, enhancement of yields in smallholder farms and tertiary processing to value add on Kenyan coffee with a view of stabilizing and enhancing farmers returns as the input variables in the model.

These input variables were expected to improve the performance of the Kenyan coffee industry as a result of aggressive internationally marketing, restructuring the institutions in the industry to allow for greater decision-making and managerial responsibility to the principal stakeholders, the farmers, and to prepare these institutions for greater operational efficiency and reduced marketing costs in a more competitive liberalized economic environment with more licensed marketing agents.

The expected output variables included larger quantities of marketed Kenyan coffee, higher coffee production outputs and higher coffee prices, prompt payment of higher income to farmers, and higher tax revenue to the Kenyan government and foreign earnings from international coffee sales into the country.

3.0. RESEARCH METHODOLOGY

3.1 Introduction

In the previous chapter, the literature was reviewed to answer the research questions that will guide this study. In this part, the methodology that was used for this study is explained.

Bailey (1978:20) defines methodology as the philosophy of the research process. Murthy et al (2001) explains that methodology refers to the conceptual framework underlying the strategy. Methods on the other hand refer to tools used during study.

According to Singleton et al (1993:66) research is defined as the planning, execution and interpretation of scientific observation. This includes the assumptions and values that serve as rationale for research and the standards or criteria the research uses for interpretation of data and reaching conclusion

3.2 Research Design

The study adopted a descriptive survey to investigate the impacts of the new liberal marketing rules on the performance of the coffee industry in Kenya. Descriptive survey designs are used in preliminary and exploratory studies (Luck and Ruben, 1992). This is to allow researchers to gather information, summarize, present and interpret for the purpose of clarification (Orodho, 2002).

The descriptive study design methodology seems to have a clear advantage of being an effective way of collecting data from a large sample cheaply and faster. Mugenda and Mugenda (1999) notes that survey research is probably the best method available to a researcher who is interested in collecting original data for the purpose of describing a population which is too large to observe properly.

Kothari (2004) describes descriptive research studies as those studies, which are concerned, with describing the characteristic of a particular individual or a group. Descriptive research is a process of collecting data in order to test hypothesis or to answer questions concerning the current status of the subject of the study. It was in light of these observations that the researcher settled on this research design for the study.

3.3 Research Location

The study was carried out in Mathira division in Nyeri district of the central province of Kenya. Mathira division, according to the 2006 Ministry of Cooperative Development Annual report, has 9 cooperative societies namely Barichu, Iriaini, Tekangu, Mugaga, Kiama, Gikanda, Mathira North, Gakuyu and Rutuma, from which financial and production records were obtained.

3.4 Target Population

In descriptive survey studies, two categories of respondents are crucial, namely informed specialists and users (Luck and Ruben, 1992). The research unit was the co-operative society. In every society the study targeted the management committee officials who included the chairman, secretary, the treasurer and /or their vices. The study also sampled the senior managers in the finance, marketing and production departments of the societies and the Secretary Manager (General Manager).

In Mathira Division, Nyeri District, there are nine (9) coffee co-operative societies. In every society there are nine (9) officials who are the farmers' representatives. These are the chairman, secretary, treasurer, and their vices and some other three committee members.

The officials are expected to have information on the farmers' knowledge of the new liberal marketing rules as well as price, production and income trends for the small scale farmers they represent. The managers are expected to have information on the gains in the implementation of the new marketing rules as well as provide actual figures on the production, price and farmers income trends in the two periods under study i.e. two years before and after the new coffee marketing rules were affected.

Table 3.1 Target Population

Category	Population Target	Percent
Managers	60	43
Officials	81	57

Source: Ministry of Cooperative Development, Mathira Divisional Office, Nyeri District

3.5 Sample Design and Size

The researcher used purposive sampling strategy by targeting particular management committee officials and managers from every society depending on the information that they were likely to have as a result of their official capacities and duties.

The study purposively targeted senior managers such as the secretary (general) manager, the marketing manager, the production (factory) manager, and the Accountant/Finance manager in the nine (9) societies. The management committee officials were the chairman, secretary, and treasurer or their deputies in the nine (9) societies. In the absence of the managers and the committee officials, their vices or deputies would be selected.

The sample distribution used is as indicated in the table below. This enabled the researcher to control the sample size in the strata. Hence, increased statistical efficiency and provided data to represent and analyze sub-groups and enabled use of different methods in the strata. The following table thus, illustrates how the sample was arrived at.

Managers and officials were purposively sampled in the study because the status and positions they hold put them in good stead to provide information required in the study. As it was purposive sampling, the researcher used his judgment and prior knowledge to choose the sample that would best serve the purposes of the study.

Table 3.2 Sample design

CO- OPERATIVE SOCIETY	MANAGERS POPULATION STRATA (100%)	MANAGERS' SAMPLE STRATA (60%)	MANAGEMENT OFFICIALS' POPULATION STRATA (100%)	MANAGEMENT OFFICIALS' SAMPLE STRATA (33%)	TOTAL SAMPLE SIZE (45%)
1.BARICHU	7	4	9	3	7
2.IRIAINI	5	4	9	3	7
3.TEKANGU	6	4	9	3	7
4. MUGAGA	7	4	9	3	7
5.KIAMA	8	4	9	3	7
6.GIKANDA	5	4	9	3	7
7.MATHIRA NORTH	7	4	9	3	7
8. GAKUYU	8	4	9	3	7
9.RUTUMA	7	4	9	3	7
TOTAL	60	36	81	27	63

Source: Mathira Divisional Office, Nyeri District and the Researcher (2009)

3.6 Data Collection Procedure

The first step was to seek a letter of introduction from Kenyatta University, a step which helped the researcher to get information easily. After that, the researcher created time to contact people in the organization where the research was done. With the help of an assistant, the researcher distributed the questionnaire which the research intended to collect the same day. Using good rapport the researcher convinced the respondents to fill the questionnaires and assisted where they did not understand. That was made easier by an accompanying letter which not only introduced the researcher but indicated the value of the research to the respondents.

3.7 Data Collection Instruments

The main tools for data collection in the study were questionnaires and documented materials such as annual reports from Mathira Division ministry of cooperative development. The researcher had chosen that method because it was cheap to administer since it did not require a trained researcher to distribute and collect the questionnaire. Secondly, it eliminated interaction between the interviewer and the respondents which reduced biases. Moreover, the person who filled the questionnaire was anonymous and therefore was willing to give information especially over sensitive issues. It was a useful method, since the questions were straightforward enough to be comprehended without verbal explanation. However, the researcher could not probe for further information, and also could not control who filled the questionnaire. (Kothari, 2003).

3.8 Data Analysis

Descriptive statistical methods were used to analyze and present data. This particular study used simple statistical methods of data analysis like percentages, frequencies, mean and standard deviation. The study used statistical analysis tools such as frequency tables with percentages to analyze the study objectives. Other statistical presentation tools such as graphs and charts were used to illustrate the study findings.

The relationship between the new coffee marketing rules and coffee prices, outputs and incomes of farmers were analyzed through regression and correlation. Regression analysis defines whether there is a relationship between an independent variable (such as the new marketing rules) and dependent variables such as the prices, outputs and incomes (Chava, 1996).

Correlation analysis indicates the strength and direction of the relationship between the independent and dependent variables (Kothari, 2004). Correlation was measured by calculating the co-efficient of correlation r . The interpretations were as follows:

When $r=0$, there is no relationship between the variables.

When $r=1$, there is a perfectly direct relationship between the variables.

When $r=0.70$ to 0.90 , there is a strongly direct relationship

When $r=0.4$ to 0.6 , the relationship is moderately direct.

When $r=0.1$ to 0.3 , the relationship is weakly positive

When $r= -1$, there is a perfectly negative relationship between the variables.

When $r= -0.70$ to -0.90 , there is a strongly negative relationship

When $r= -0.4$ to -0.6 , the relationship is moderately negative.

When $r= -0.1$ to -0.3 , the relationship is weakly negative

The regression and correlation analyses was used to measure the relationships between the new coffee marketing rules and coffee prices, production outputs and farmers' income since liberalization. The data was collected and systematically recorded in SPSS data view. The statistical calculations were performed from within the SPSS programme.

3.9 Expected output

After analysis, the output of all the responses in the questionnaires was in the form of tables of aggregates of frequencies and percentages. The researcher used that in analyzing the study findings according to the research questions and writing the report. Interpretations of the mean, standard deviation, and the regression and correlation

analyses were used to measure the relationships between the new coffee marketing rules and coffee prices, production outputs and farmers' income since liberalization. This was used to make conclusions on the study findings and further enrich the report.

The researcher made the findings more presentable by incorporating statistical charts such as pie charts, bar graphs and line graphs.

The study culminated with this research paper that shows the impacts of liberalization of coffee marketing rules on the prices, production outputs and farmers' income. The resulting document will be availed in the universities and resource centers for reference and for further studies.

CHAPTER FOUR

4.0. DATA ANALYSIS, DISCUSSION OF STUDY OBJECTIVES AND SUMMARY OF RESEARCH FINDINGS

4.1 INTRODUCTION

The study was based on the nine (9) Coffee Co-operative Societies (CCSs) in Mathira Division, Nyeri North District of the Central Province of Kenya with the target population being the senior managers and committee members of the co-operative societies. Mathira Division has 9 cooperative societies namely Barichu, Iriaini, Tekangu, Mugaga, Kiama, Gikanda, Mathira North, Gakuyu and Rutuma. The researcher was able to interview 60 out of the 63 targeted respondents thereby achieving a response rate of 95 percent being distributed as 33 senior managers and 27 committee members.

The information from questionnaires was confirmed from secondary data obtained from the annual reports of the Ministry of Co-operative Development and Marketing for Nyeri North District where Mathira Division is situated.

The personal profiles of the respondents in terms of age, education level and their position in the coffee co-operative society is first described in this chapter. An analysis of the study objectives then follows before the chapter concludes with a summary of the major study findings.

4.2 PROFILE OF THE RESPONDENTS

The researcher's intention was to obtain information from the committee members and the senior managers of the co-operative societies in order to gain their perceptions and insights into the new marketing rules and their impact on outputs, prices and incomes of farmers since their introduction.

The study had targeted a total of 63 respondents with the researcher succeeding in interviewing 60 respondents distributed as 33 senior managers and 27 committee

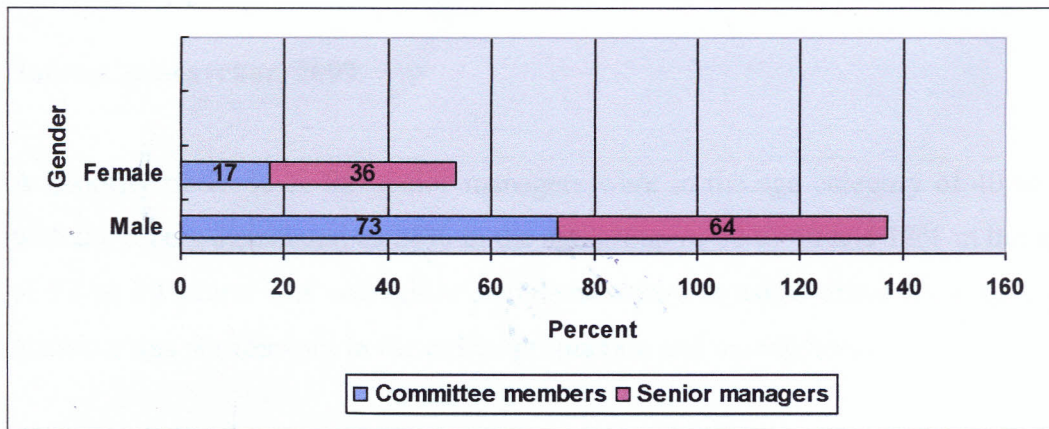
members. Mathira Division has 9 cooperative societies namely Barichu, Iriaini, Tekangu, Mugaga, Kiama, Gikanda, Mathira North, Gakuyu and Rutuma

The personal characteristics of the respondents were described in terms of age, education level, position in the society and so on.

4.2.1 Gender distribution of the respondents

The respondents were asked to indicate their gender and the results are shown in figure 4.1 below.

Figure 4.1: Gender distribution of respondents



Source: Researcher, 2009

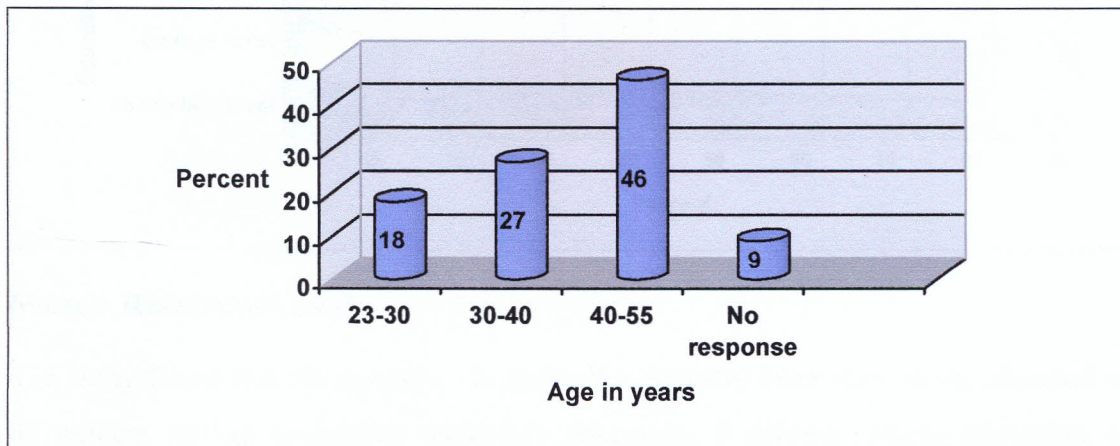
The gender distribution of the respondent committee members and the senior managers was lopsided in the favor of males with 73 % and 64 % respectively amongst the two sampled target populations. The females comprised 17 % and 36% respectively amongst the two groups.

This is a reflection of the patricidal nature of African societies whereby men dominate the economic spheres of influence in the society so that farm ownership and even management is still considered a male domain with only some token female participation usually in labor provision.

4.2.2 Age distribution of the respondents

The age distribution of the respondent managers was spread out across different age groups as shown in figure 4.2 below.

Figure 4.2: Age distribution of respondents



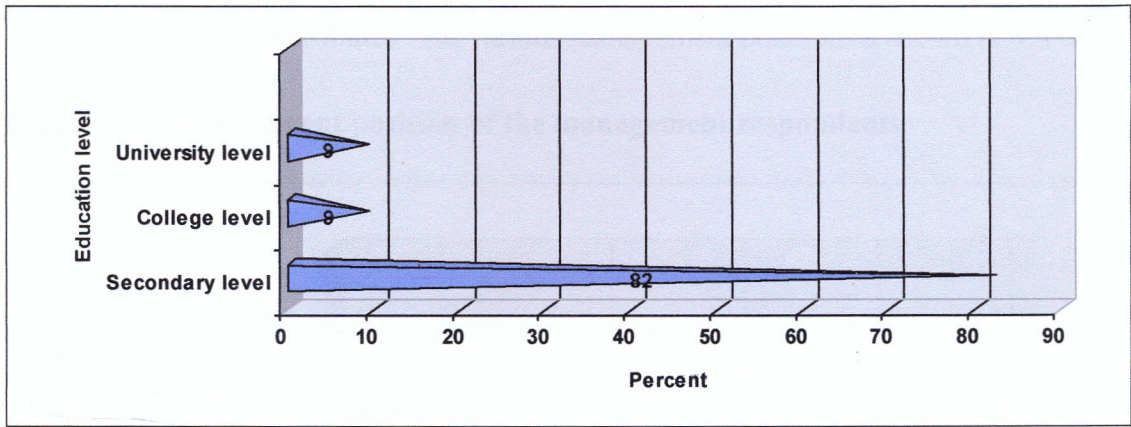
Source: Researcher, 2009

A majority of 46 % of the senior managers were in the age category of 40 to 55 years with the others distributed as 27% in the age group of 30 to 40 and 18% in the age group of 23 to 30 years. The committee members were not asked about their ages since the question was not relevant to the coffee production and management.

4.2.3 Education level of the respondents

The education level distribution of the respondent managers was shown by figure 4.3 below.

Figure 4.3: Education level of managers



Source: Researcher, 2009

The study found that the managers in the coffee industry were reasonably educated with 82 percent having completed secondary education, 9 percent college education with another 9 percent with university degrees.

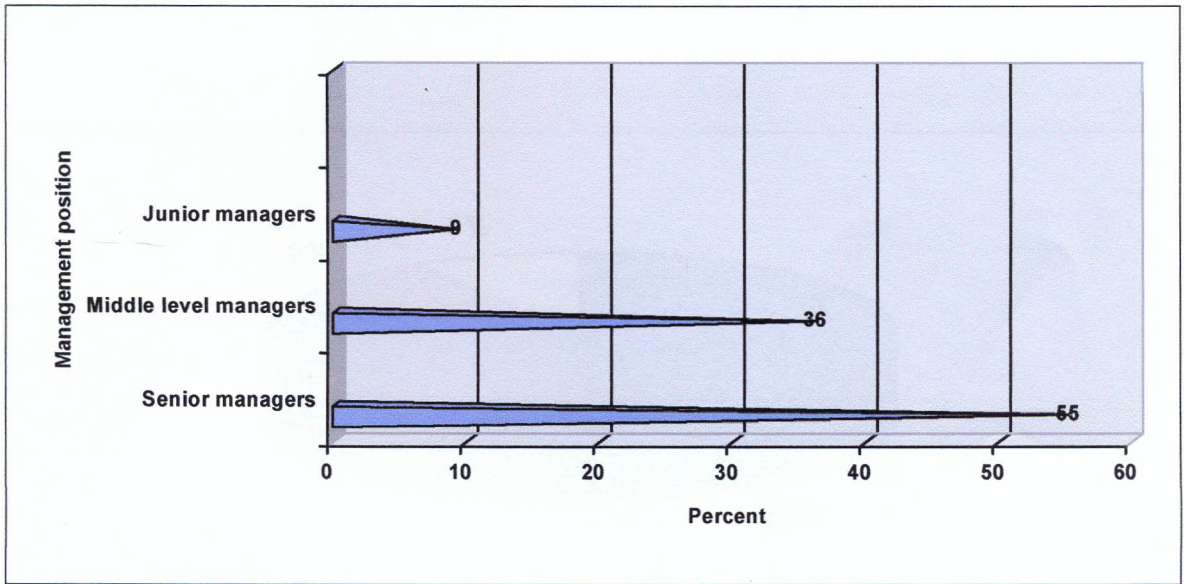
4.2.4 Occupation, management position and length of service in the coffee industry

The study found that the senior managers were distributed into different occupational categories such as factory manager (36%), secretary manager (27%), the custodian of the society (9%) while the book keepers comprised (18%) of the respondents. Some 9 percent of the managers did not respond to this query.

These occupations were categorized as senior management by 55 % of respondents, middle level management by 36 percent with another 9 percent occupying junior management levels.

The managers were distributed into various management positions as shown in 4.4 below.

Figure 4.4: Management position of the management respondents



Source: Researcher, 2009

The managers had a variety of professional and academic qualifications with 9 percent each with Certified Public Accountants (C.P.A.), Kenya Accountants Technicians Course (KATC) and Management Information System (M.I.S.) qualifications. However, none of the managers was found to have qualifications directly related to cooperative organization management. The impact of this on the performance of the cooperative societies is an area of further research opportunity by other interested scholars.

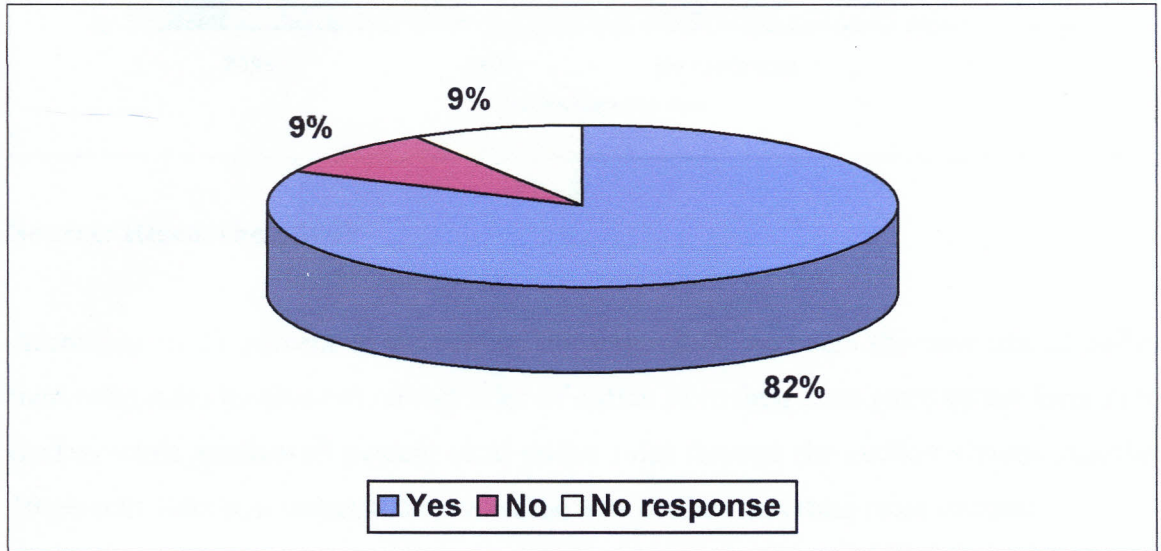
The managers and committee members were found to have worked for long durations in the coffee industry with 40 percent of them having worked for over 16 years. Another 33 percent cited an experience of between 6 and 10 years with only a minority of 17 percent having worked for less than five (5) years in the coffee industry.

4.2.5 Duties and responsibilities in the Coffee Co-operative Societies

The senior managers had a variety of duties and responsibilities in the coffee co-operative societies with 18 % of them guiding coffee managers on coffee processing and deliveries,

9% each preparing the books of accounts and counter signing all accounting documents, 36 % of them overseeing the day to day society operations, and another 27 % planning and organizing society affairs as distributed in figure 4.5 below.

Figure 4.5: Has your co-operative implemented the new marketing rules?



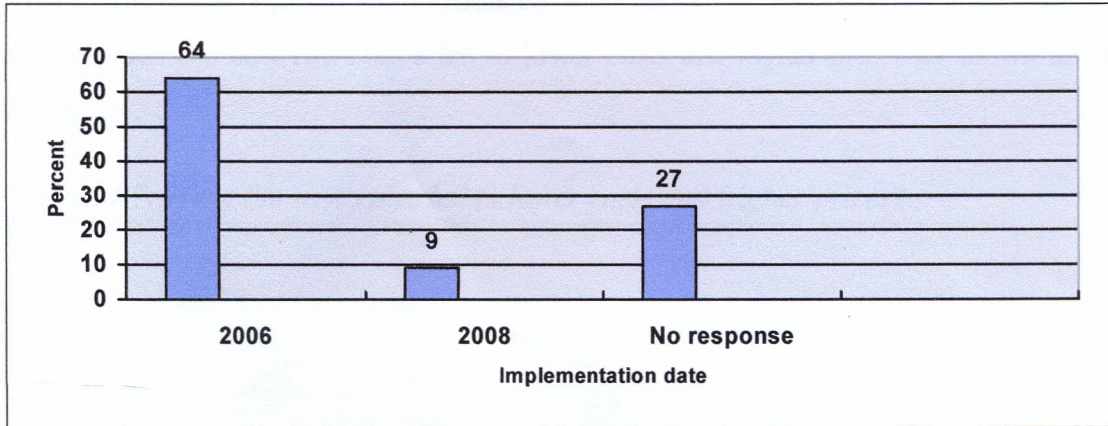
Source: Researcher, 2009

A majority of 82 percent of respondents confirmed that the new liberal marketing rules had been implemented in their co-operative society with only 9 percent denying the same fact. Another 9 % of the respondents were non-committal on this issue.

4.2.6 Implementation of the new coffee marketing rules in the Coffee Co-operative Societies

The respondents cited 2006 as the implementation date of the new liberal marketing rules according 64 percent of the respondents while 9 percent of them mentioned the year 2008 with another 27 percent being non-committal on the implementation date as shown in figure 4.6.

Figure 4.6: When were the new marketing rules implemented?



Source: Researcher, 2009

According to 27 percent of the respondent committee members the new liberal coffee marketing rules involved the direct sales of coffee from their farm gates by the farmers to dealers while another 63 percent cited coffee sales through the auction system. Another 10 percent were non-committal on what the new coffee marketing rules entailed.

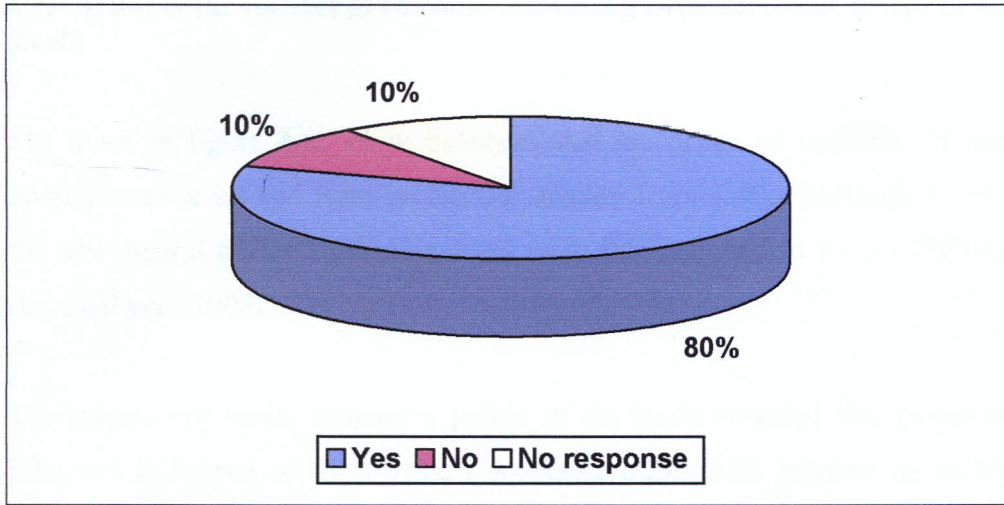
The senior managers polled in the survey however were more specific on what the new marketing rules entailed with 9 percent of them mentioning that a marketer must offer a minimum price before signing a sale agreement. Another 18 percent mentioned the introduction of good farming practices while a majority of 64 percent agreed with the committee members that the new liberal marketing rules involved the direct sales of coffee by farmers at the farm gates to dealers, millers and other middlemen. Only 9 percent of the senior managers who responded were non-committal on this issue.

4.2.7 Benefits of the new coffee marketing rules in the Coffee Co-operative Societies

The respondent coffee society officials generally agreed that new high yielding coffee varieties have been introduced as a result of the new liberal marketing rules such as Ruiru II and SL 28 varieties which have resulted in increased coffee production output according to 70 percent of the respondents.

Eighty percent of respondents agreed that demand for coffee has increased since the new liberal marketing rules were introduced with an equal number of proportions being positive that the new rules have led to lower costs and higher prices as shown in figure 4.7 below.

Figure 4.7: Have the new rules led to lower costs and higher prices?



Source: Researcher, 2009

The actual benefits cited as accruing as a result of the new liberal coffee marketing rules included the lowering of milling and marketing costs according to 10 percent of respondents, reducing the waiting time before payment to farmers (10%), improved selling price of coffee per kilogram (30%), and the improvement of premium payment according to 30 percent of respondents.

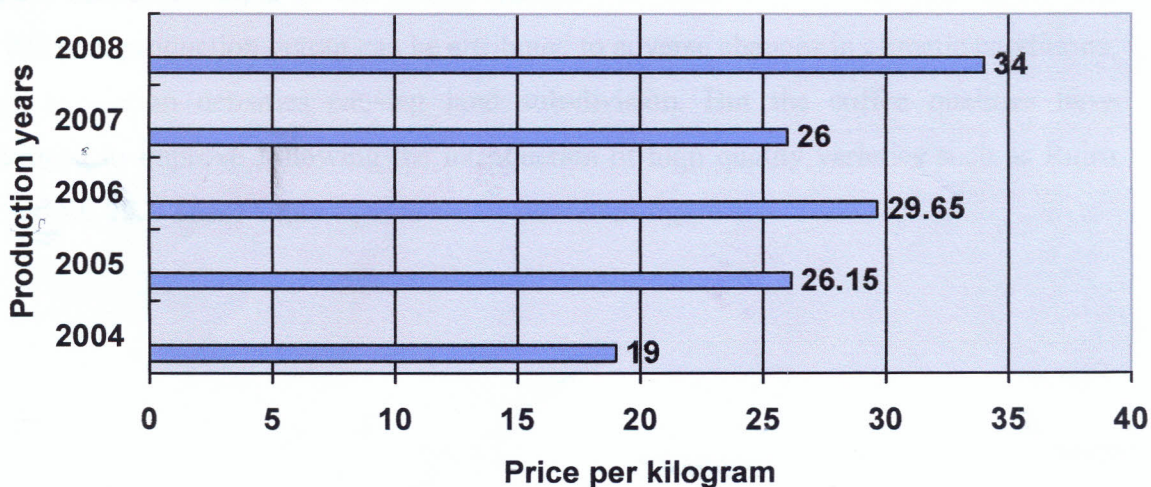
4.3 ANSWERS TO THE RESEARCH QUESTIONS

4.3.1 What is the impact of the new marketing rules on coffee prices at the farm level?

The chart in figure 4.8 below indicates that the prices of coffee delivered to the co-operative societies had been increasing steadily from Kenya Shillings 19 in 2004 before the new liberal coffee marketing rules were implemented to Kenya Shillings 34 in the financial year 2008.

The respondent senior managers polled in the study revealed that prices of coffee per kilogram delivered to the Coffee Co-operative Societies because niche buyers dictate how the coffee is to be grown. This affects coffee prices because high quality coffee does not reach the Nairobi Auction Centre. Hence buyers have to increase their prices to attract this high quality coffee.

Figure 4.8: Average price of 1 kilogram of coffee in the years 2004 to 2008



Source: Researcher, 2009

It can be argued that the new liberal coffee marketing rules have led to an increase in price of about 79 percent from Kshs 19 in 2004 to Kshs 34 in 2008.

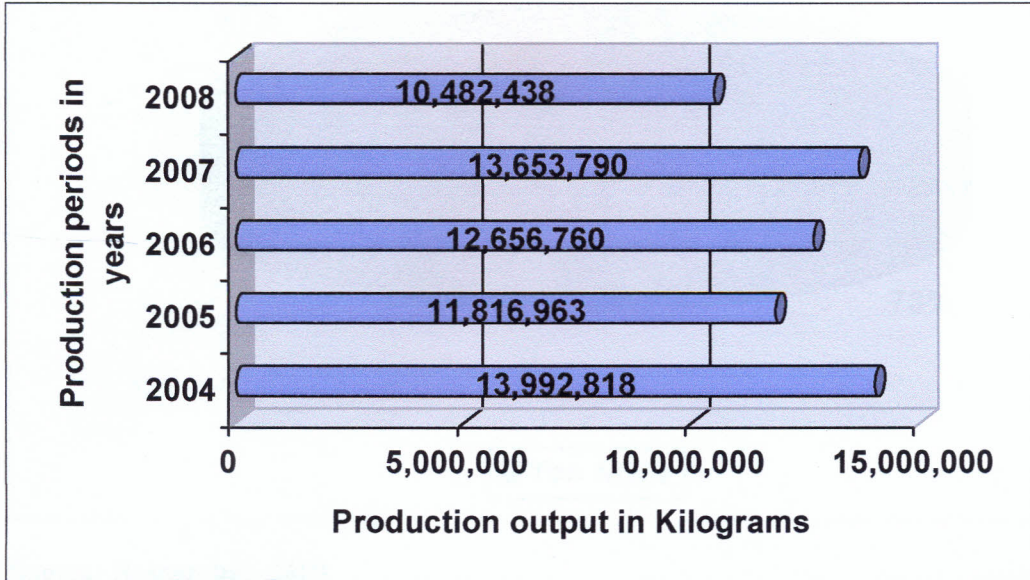
The respondent managers various reasons for the increase in the price of coffee per kilogram, delivered to the Coffee Co-operative Societies was that 36 percent of them cited that direct sales fetched higher prices than the auction sales.

Twenty seven percent were of the view that production of high quality coffee was the reason behind the general increase in the price of coffee per kilogram between the years 2004 and 2008. Transparency in coffee marketing and the ability of the farmers to do research and identify a higher paying buyer was mentioned by 9 percent each of the respondents as the factors attributed to the increase in the price per kilogram of the coffee prices.

4.3.2 What is the effect of the new marketing rules on the coffee output in Kenya?

The introduction of the new liberal marketing rules has led to a varying trend in the production output of coffee delivered to the Coffee Co-operative Societies since the introduction of the new liberal marketing rules with production annual output reducing from 13,992,818 kilograms in 2004 production year to 11,816,963 kilograms in the production year 2005 but again increasing to 12, 656,760 kilograms in the year 2006. The highest recorded output in the period studied was 13,653,790 in the year 2007. The variation in production output can be attributed to adverse changes in climatic conditions, high population densities causing land sub-division. But the coffee qualities have continued to improve following the introduction of high quality varieties such as Ruiru 11 and SL 28. These entire figures are illustrated in figure 4.9

Figure 4.9: Annual total production outputs before and after the new marketing rules

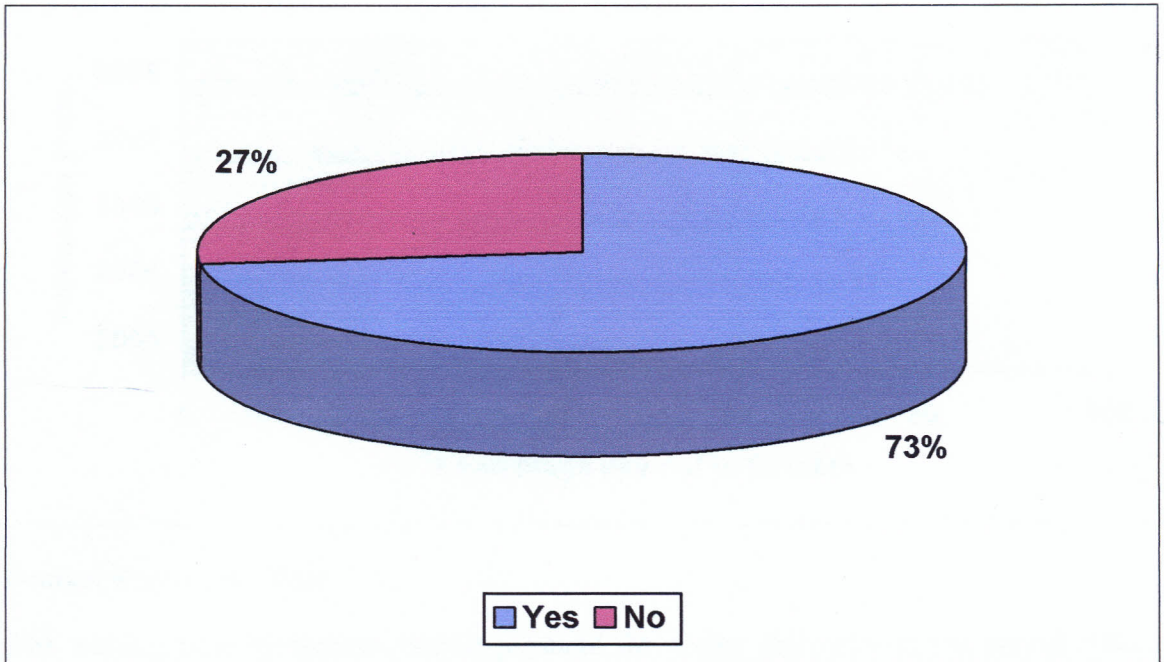


Source: Researcher, 2009

The respondents in the study cited various reasons for the increase in output with 46 percent of them being of the opinion that favorable weather conditions were a major cause with another 18 percent mentioning the change in the marketing rules to favorable direct marketing of the coffee at the farm level.

The survey confirmed that the new marketing rules have motivated farmers to produce more coffee with 73 percent of them in the affirmative about this as shown by figure 4.10 below.

Figure 4.10: Have the new marketing rules motivated farmers to produce more coffee?



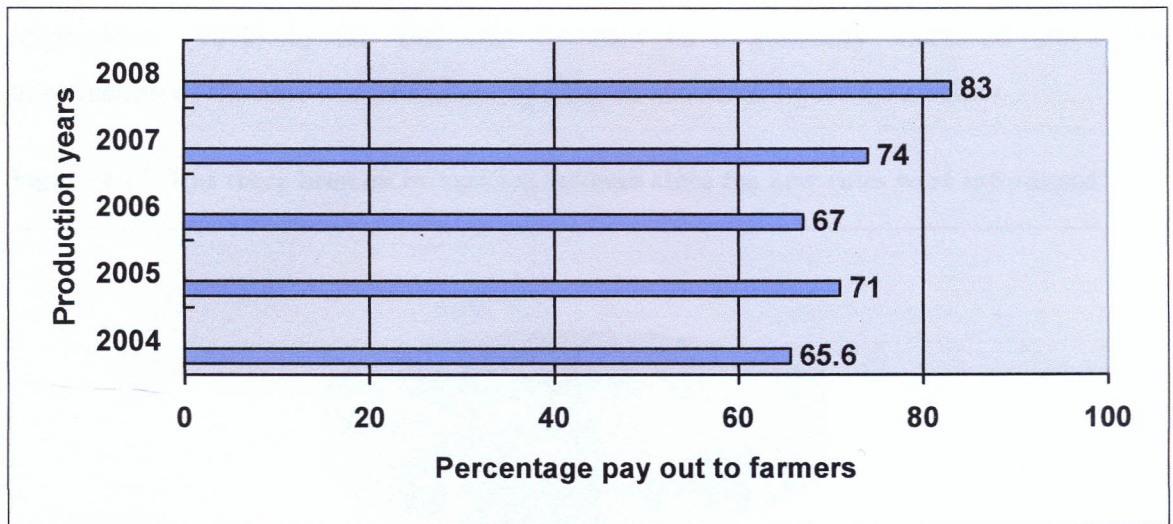
Source: Researcher, 2009

4.3.2 How has the farmers' income been affected by the implementation of the new coffee marketing rules in Kenya?

The average percentage pay out rate for the coffee delivered by farmers to the societies ranged from 66 percent in the production period 2004, 71 percent in the production period 2005, 67 percent in the production period 2006, 74 percent in the production year 2007 and finally to 83 percent in the year 2008 as shown in figure 4.11 below..

These figures do indicate that coffee farmers have generally been receiving more income as a result of increasing prices per kilogram of coffee delivered to the Coffee Co-operative Societies. All these can be attributed to the new liberal marketing rules introduced in the year 2006.

Figure 4.11: Percentage pay out to Coffee farmers



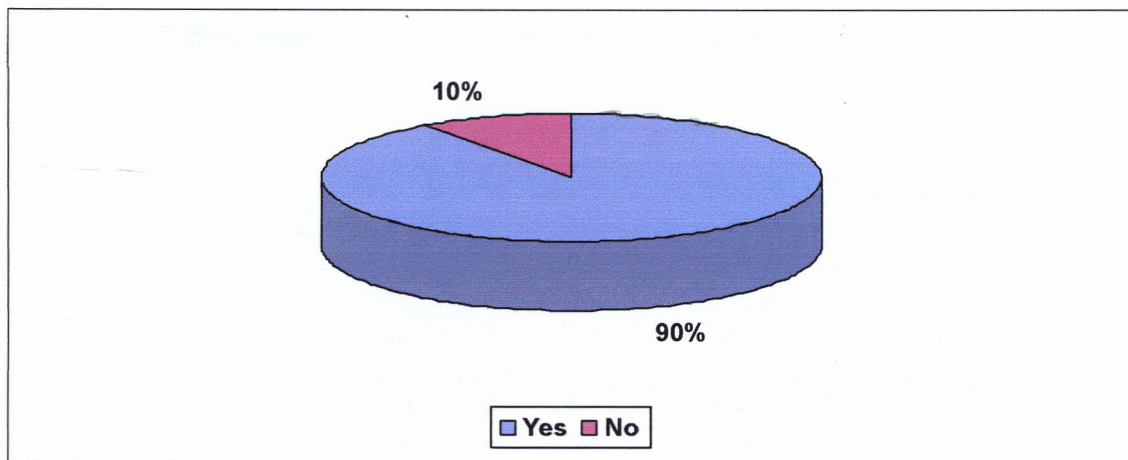
Source: Researcher, 2009

The waiting time by farmers before payment for coffee deliveries in the period 2004--2005 ranged between 4 and 7 months while in the years 2005—2006 the waiting time changed to between 3 and 6 months. In the production year 2006 – 2007, the waiting time changed to between 2 and 5 months with the production year 2007—2008 achieving a record waiting time before payment of between 1 and 4 months after coffee deliveries to the co-operative societies.

The causes of the change in waiting times before payment before and after the introduction of the new liberal marketing rules were attributed by 18 percent of the manager responded to the fact that marketers must pay the farmer in 14 days after collecting coffee payments from the buyers or dealers according to the new rules while another 18 percent of the respondents cited the fact that the Kenya Planters Co-operative Union (KPCU) took less time to pay the co-operatives after the introduction of the new marketing rules so that the co-operative societies could also reduce their own waiting times for farmers. Another group of 10 percent each of the respondents mentioned the fact that more market participants have been allowed in the coffee industry and millers have increased in numbers thereby reducing milling time and finally the farmers waiting time before payment.

There was an almost unanimity by the responding coffee committee members respondents (90%) to the fact that incomes have generally increased since the introduction of the new liberal marketing rules as shown in figure 4.12 below..

Figure 4.12: Has there been an increase in incomes since the new rules were introduced?



Source; Researcher, 2009

The respondents attributed several factors to the change in income with 30 percent of them citing transparency in coffee marketing with another 27 percent mentioning price consistency.

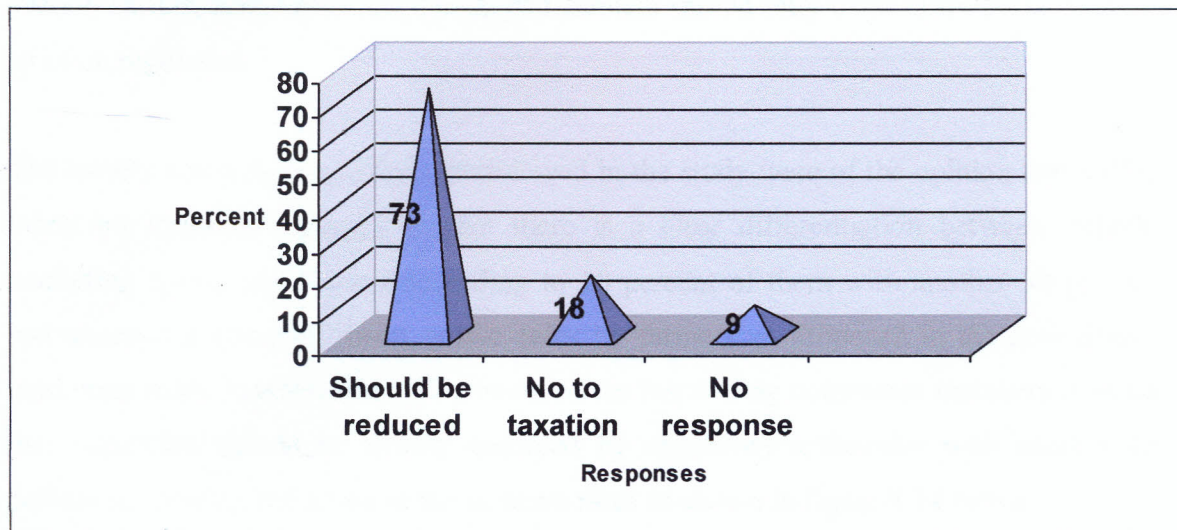
The benefits that had accrued because of increase of coffee farmers incomes included employment creation and improved standards of living.

4.3.3 Policy recommendations to the regulatory authorities on coffee marketing in Kenya

The responding senior managers made a variety of recommendations to the Kenya government on the way forward in the coffee marketing on issues such as licensing of new marketing agents, taxation policies on coffee, infrastructural development and international coffee marketing.

Thirty percent of the managers wanted a reduction in the number of marketing agents as opposed to about 20 percent of them who preferred that the government should consider licensing more marketing agents. Another 9 percent of the respondents urged the government to ensure the competence of the agents before being licensed. All these statistics are shown in figure 4.13 below.

Figure 4.13: Recommendations to the Kenya Government on Taxes on coffee



Source: Researcher, 2009

On the issue of taxation, 73 percent of the respondents advocated for a reduction in the taxation levels while 18 percent insisted that there should be no taxation at all in the coffee sector.

County council cess should be utilized for infrastructural development according to 27 percent of respondents with another 36 percent specifying that the money should be used particularly to improve the roads network in the rural areas. Some 18 percent of the managers wanted more money to be put on infrastructure with another 9 percent suggesting that there should be controlled development of fund specifically used for infrastructural development from tax revenues from the coffee sector.

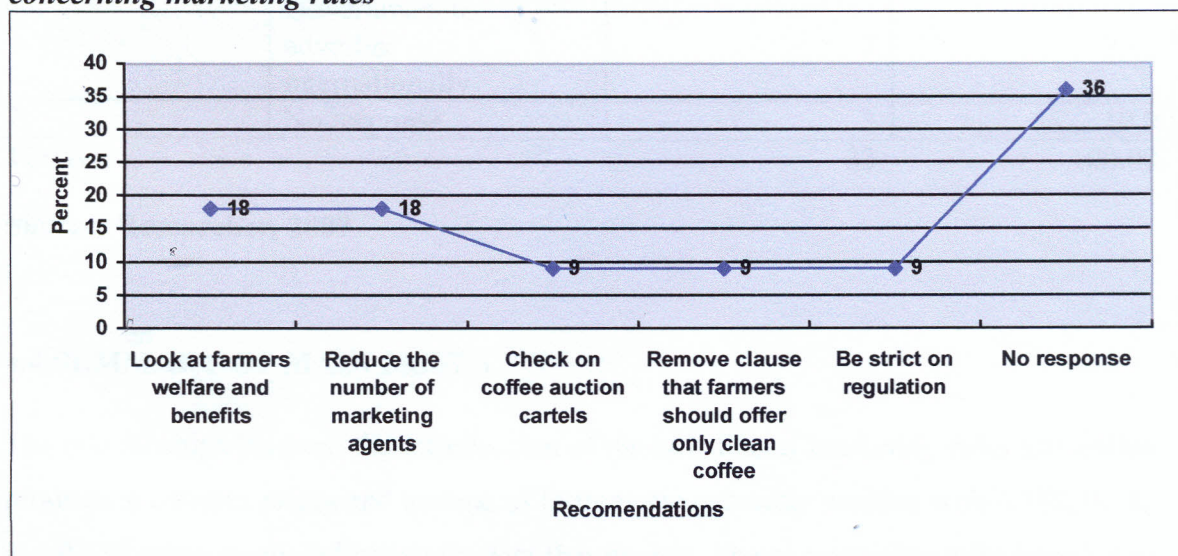
55 percent of the managers who responded in the survey recommended that the Kenya Government should increase its efforts in international coffee marketing with another 27

percent suggesting that a mechanism should be sought to increase international coffee prices.

To the Coffee Board of Kenya, the senior managers in the survey recommended that farmer's welfare should be paramount according to 18 percent of the respondents with an equal number of them suggesting a reduction in the number of the marketing agents. Nine percent each of the responding managers suggested that there should be a check on coffee auction cartels, removal of the clause that farmers should only offer clean coffee and be strict on regulation.

The society committee members interviewed in the study were of the opinion that coffee marketing rules be changed so that there is a clear differentiation between millers, marketing agents and dealers according to 10 percent of them with another 30 percent recommending allowing direct coffee sales by farmers as proposed in the new liberal marketing rules. Further, some 17 percent of the responding committee members insisted that regulation should be strictly enforced by regulatory authorities with another 16 percent advocating reduction in the taxation rates as shown in figure 4.14 below.

Figure 4.14: Recommendations to the Coffee Board of Kenya on regulations concerning marketing rules



Source; Researcher, 2009

Other strategies recommended improving the performance of the new marketing rules

by committee members included government regulation of coffee prices according to 30 percent of the respondents with 10 percent recommending that farmers be represented when making coffee regulations, strict licensing procedures by the Coffee Board of Kenya and the allowance of home consumption of coffee. A significant 23 percent of respondents recommended that the government should advertise internationally Kenyan coffee as a brand while some 7 percent of them were of the view that pure Kenyan coffee should be introduced in the international market as shown in table 4.1 below.

Table 4.1: Other strategies recommended to improve the performance of the new marketing rules

SERIAL NUMBER	RECOMMENDATION	FREQUENCY	PERCENT
1	Government regulation of coffee prices	6	30.0
2	Farmers representation when making coffee regulations	3	10.0
3	Strict licensing procedures by CBK	3	10.0
4	Allow home consumption	3	10.0
5	Introduce pure Kenyan coffee internationally	2	6.7
6	Government to advertise internationally	7	23.3
7	No response	3	10.0
TOTAL		33	100.00

Source: Researcher, 2009

4.4 SUMMARY OF MAIN ISSUES

The relationships between the introduction of the new liberal marketing rules and coffee production outputs, prices and income of farmers are generally positive with 0.392, 0.743 and 0.630 respectively indicating the fact that the new liberal marketing rules have led to increases in the variables.

Table 4.2: Correlation Analysis between the New Marketing Rules and Coffee Output, Prices and Income in Kenya

SERIAL NUMBER	INDEPENDENT VARIABLE	PEARSON'S CORRELATION	SIGNIFICANCE TEST(2-TAILED)
1	COFFEE OUPUT	0.392	0.003
2	COFFEE PRICE	0.743	0.024
3	COFFEE FARMERS INCOME	0.630	0.007

Source; Researcher, 2009

Coffee production output and farmers income have very strong and moderately strong relations with the new marketing rules with coffee prices exhibiting a weak relationship indicating that there is need for more policy restructuring in the pricing system of coffee in Kenya.

The correlations between the new liberal marketing rules and production output, coffee prices and farmer's income were all statistically significant at the 5 percent level of significance indicating that indeed the new liberal marketing rules have had a positive impact on the performance of the coffee industry in Mathira Division Nyeri District in Kenya.

CHAPTER FIVE

5.0 CONCLUSIONS, RECOMMENDATIONS AND FURTHER STUDIES

5.1 CONCLUSIONS

The study findings revealed that the new liberal marketing rules were implemented in the year 2006, with a majority of 82 percent of the respondents confirming that indeed the new marketing rules were in force.

The study found that the demand for coffee had increased since the new rules were implemented leading to higher prices, reducing the waiting time before payment and the lowering of milling and marketing costs. The new liberal marketing rules have resulted in the ability of niche buyers dictating how high quality cherry coffee were to be grown with high quality coffee not reaching the Nairobi Coffee Auction Centre. This has meant buyers have to increase their prices in order to attract high quality coffee.

The reasons for the increase in coffee prices were direct coffee sales, production of higher quality coffee and transparency in coffee marketing.

Coffee production output levels varied during the period under study due to a multiplicity of reasons such as variations in the weather conditions, introduction of the new marketing rules and the subdivision of the smallholder coffee farms because of the increased population pressure.

Coffee farmer's income however generally increased in the period under study with the percentage payout increasing from 66 percent in 2004 to 83 percent in 2008. There was an almost unanimity by the responding coffee committee members respondents (90%) to the fact that incomes have generally increased since the introduction of the new liberal marketing rules.

The respondents attributed several factors to the change in income with 30 percent of them citing transparency in coffee marketing with another 27 percent mentioning price consistency.

5.2 RECOMMENDATIONS

The study made some policy recommendations to the regulatory authorities such as the need to reduce the number of marketing agents, ensuring that marketing agents were competent and reduced taxation in the coffee industry. Infrastructural development, strict regulation of the coffee sector and increased international coffee marketing were the other recommendations made by coffee committee members surveyed in the study.

The senior managers made various policy and regulatory recommendations which included a reduction in the number of marketing agents while others preferred that the government should consider licensing more marketing agents. Another group of senior managers urged the government to ensure the competence of the agents before being licensed.

On taxation, 73 percent of the respondents advocated for a reduction in the taxation levels while 18 percent insisted that there should be no taxation at all in the coffee sector.

To the Coffee Board of Kenya, the senior managers in the survey recommended that farmers' welfare should be made paramount while others suggested a reduction in the number of the marketing agents. Nine percent of the responding managers suggested that there should be a check on coffee auction cartels, removal of the clause that farmers should only offer only clean coffee and be strict on regulation

The society committee members interviewed in the study were of the opinion that coffee marketing rules be changed so that there is a clear differentiation between millers, marketing agents and dealers as well as allowing direct coffee sales by farmers as proposed in the new liberal marketing rules. Further, the responding committee members insisted that regulation should be strictly enforced by regulatory authorities.

5.3 SUGGESTIONS FOR FURTHER STUDIES

The researcher recommends that other scholars who may be interested in the issues of coffee marketing might want to pursue other areas of research such as the following:

- i) The impact of the new liberal marketing rules on coffee foreign exchange earnings of developing countries
- ii) The impact of merging of small holder coffee farmers into large scale coffee plantations on coffee productivity in Kenya.
- iii) The impact of increasing the new number of coffee agents and dealers on the price and income of coffee farmers in Kenya.

The researcher wishes other scholars and students of Agriculture and Marketing well in their endeavors in doing research in these areas.

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APPENDIX I: LETTER OF INTRODUCTION

Kennedy Mwangome
P.O. Box 33
Nyeri.

Dear Respondent

IMPACTS OF LIBERALIZATION OF COFFEE MARKETING RULES ON THE PERFORMANCE OF THE COFFEE INDUSTRY IN KENYA:

A SURVEY OF COFFEE FARMERS' CO-OPERATIVE SOCIETIES IN MATHIRA DIVISION, NYERI DISTRICT

I am currently a student in Kenyatta University pursuing a course in Masters in Business Administration (Marketing Option). It is a requirement to write a report as a partial fulfillment of the course. I am currently conducting the above mentioned research with an aim of understanding the effects of liberalization of coffee marketing rules on the performance of the coffee industry in Kenya.

You have been randomly selected to participate in this study. Enclosed herein is a copy of the questionnaire, which I kindly request you to take a little of your time and complete.

The information you will provide in this questionnaire is for academic purpose only, and will be treated with utmost confidentiality. This information is meant to contribute to an important study whose results are likely to provide insight on how your organization can manage change to your benefit.

I thank you for your cooperation and participation.

Yours faithfully

KENNEDY MWANGOME

APPENDIX II: QUESTIONNAIRE FOR MANAGERS

Please fill this questionnaire openly and honestly. The information acquired will be treated with due confidence and used only for the purpose of the research study.

(Kindly tick your choice of response in the appropriate box and where necessary, fill in by writing)

PART A: PERSONAL DATA

1. Name of the respondent.....

2. What age brackets do you belong to? (Tick where appropriate).

18 – 22 years ()

23 – 30 years ()

30 – 40 years ()

40 – 55 years ()

Over 55 years ()

3. Gender (Tick where appropriate)

Male ()

Female ()

4. What is your occupation.....

5. What is the name of your co-operative society?

6. What is your position in the organization?.....

(a) Senior level manager ()

(b) Middle level manager ()

(c) Junior level manager ()

(d) Other (specify)

7. What is your level of education? (Tick where appropriate)

Primary level ()

Secondary level ()

University level ()

Other (specify)

8. What are your academic and professional qualifications?

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.....
.....

9. What are your duties and responsibilities in the CCSs'?

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.....

10. Has your co-operative implemented the new marketing rules?

(a) Yes ()

(b) No ()

11. When were these new rules implemented in your co-operative?

.....

12. What are these new coffee marketing rules that the co-operative has introduced?

Please list them

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.....
.....
.....

PART B: THE IMPACT OF THE NEW LIBERAL COFFEE MARKETING

RULES ON COFFEE PRICES AT THE FARM LEVEL

13. What was the highest unit Kilogram price of coffee that your CCS paid to the farmers in the period of time given below?

2004-2005

2005-2006.....

14. What was the highest unit Kilogram price of coffee in that your CCS paid to the farmers in the period of time given below?

2006-2007

2007-2008.....

14. In your opinion what reason(s) could you attribute the difference in prices before and after the implementation of the new marketing rules?

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PART C: THE IMPACT OF THE NEW LIBERAL COFFEE MARKETING

RULES ON COFFEE PRODUCTION OUTPUTS AT THE FARM LEVEL

16. How much total quantity of coffee in kilograms was delivered by farmers to your CCS before the implementation of the new marketing rules in the time period given below?

2004-2005.....

2005-2006.....

17. How much total quantity of coffee was delivered to your CCS in Kilograms after the implementation of the new coffee marketing rules, in the time period given below?

2006-2007.....

2007-2008

18. In your opinion what is the cause of this difference in production output/deliveries before and after the implementation of the new marketing rules?

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.....

**PART D: THE IMPACT OF THE NEW LIBERAL COFFEE MARKETING
RULES ON INCOME OF FARMERS AT THE FARM LEVEL**

19. What was the total percentage payout to the farmers from the total amount of revenue/income to the CCS from farmers coffee deliveries, before the implementation of the new coffee marketing rules, in the time period given below?

2004-2005

2005-2006.....

20. How long did farmers have to wait before being paid after delivering their coffee in the given period of time?

2004-2005

2005-2006.....

21. What was the total percentage payout to the farmers from the total amount of revenue/income to the CCs from farmers coffee deliveries, before the implementation of the new coffee marketing rules, in the time period given below?

2006-2007.....

2007-2008.....

22. How long did farmers have to wait before being paid after delivering their coffee, in the given period of time?

2006-2007

2007-2008.....

23. In your opinion what is the cause of this difference in the income to farmers per kilogram in the periods of time before and after the implementation of the new marketing rules in?

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.....
.....

24. In your opinion what is the cause of this difference in the waiting time before payment to farmers before and after the implementation of the new marketing rules?

PART E: MARKETING RULES POLICY RECOMMENDATIONS

25. What recommendations would you make to the Kenyan Government on the following issues?

	RECOMMENDATIONS
a) Licensing of new marketing agents	
b) Taxes on coffee	
c) Infrastructural development	
d) International coffee marketing	
e) Other (specify).....	

26. What recommendations would you make to the Coffee Board of Kenya on the regulations concerning marketing rules?

.....
.....
.....

Thank you for finding time to complete this questionnaire despite your tight schedule. You have greatly contributed to the impact of the new liberal marketing rules on the performance of the coffee industry in Kenya.

APPENDIX III - QUESTIONNAIRE FOR THE CCSs'

MANAGEMENT COMMITTEE OFFICIALS

BIO DATA

- 1) Name of co-operative.....
- 2) Name of official capacity.....
- 3) Gender of the respondent

a) Male []

b) Female []

- 4) Number of years working in the Coffee Industry.

a) Less than five years []

b) 6-10 years []

c) 11-15 years []

d) Over 16 years []

- 5) (a) Are you aware of the new liberal coffee marketing rules?

a) Yes []

b) No []

(b) If yes, name some of these rules

.....
.....
.....

- 6. (a) Have the new coffee marketing rules motivated farmers to increase their production output levels?

a) Yes []

b) No []

(b) What were the total coffee deliveries in kilograms to your CCS in the following period of time?

2006-2007.....

2007-2008.....

7) (a) Have new high yielding coffee varieties been introduced amongst the farmers who deliver coffee to your co-operative?

a) Yes []

b) No []

(b) If yes, name the varieties and the estimated increase in output

SERIAL NUMBER	VARIETY	ESTIMATED INCREASE IN OUTPUT(in Kgs)
1		
2		
3		
4		
5		
6		

8) (a) Does your CCS experience an aggressive demand for your coffee from coffee millers, marketing agents and international buyers since the introduction of the new marketing rules?

a) Yes []

b) No []

(b) Has this resulted to better selling price and lower costs of production, processing the coffee, lower marketing costs and better selling prices for your coffee?

a) Yes []

b) No []

(b) If yes, please state the actual benefits.....
.....
.....

9) What was the price paid to the farmer for coffee delivered in the co-operative society?

(a) Two years before the new marketing rules
.....

(b) Two years after the implementation of the new rules
.....

10) (a) How long did it take for farmers of coffee to be paid for coffee delivered to your society:

(i) Two years before the new marketing rules
.....

(ii) Two years after the implementation of the new rules
.....

(b) Please explain the difference.....
.....
.....

11) From a farmers perspective do you feel any change in your income from coffee proceeds since the liberalization of the marketing laws, in the year 2006?

- a) Yes []
- b) No []

Please explain your answer, below

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.....
12) What new coffee marketing rules would you recommend?

.....
.....
.....
.....
13) What other strategies would you recommend in order to improve the performance of the coffee industry in Kenya?

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.....
Thank you for finding time to give me this interview despite your tight schedule. You have greatly contributed to the impact of the new liberal marketing rules on the performance of the coffee industry in Kenya.

APPENDIX IV: COFFEE BEAN



Source: <http://www.google.co.ke>

APPENDIX V: TIME PLAN

PERIOD / TIME	ACTIVITIES
August 2007 – October 2008	Research project proposal writing, Proposal discussion with supervisor, Proposal defense and final submission / approval by supervisor & project panel.
November 2008 – December 2008	Book for appointments and liaise with CCS management where the researcher intends to collect data. Actual collection and assembling of data
December 2008	Data analysis, report writing, editing and the final research presentation.

APPENDIX VI: BUDGET PLAN

ITEM	QUANTITY	UNIT PRICE	TOTAL
Typed proposal	1 (55 pages)	-	2750
Proposal photocopies	7 (385 pages)	2	770
Binding	7 Booklets	50	350
Typed final report	85	50	4250
Photocopies of final report	510	2	1020
Hard cover binding of final report	6	350	2100
Flash disk	1	2000	2000
Research Assistants	2 x 4 days	500	4000
Computer usage(internet browsing and project analysis)	1	-	5000
Stationery (writing materials, pens, pencils etc)		3500	1500
Traveling expense (consulting the supervisor, to book for appointments with the CCS officials, data	N/A	N/A	10000

collection)
Contingencies
Total

N/A

N/A

3,384

37,840