Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

Date: 5/4/2001

GAIN Report #KE1002

Kenya

Coffee

Annual

2001

Approved by:
Fred Kessel
U.S. Embassy
Prepared by:
Mary Onsongo

Report Highlights:
Kenya's coffee production for MY1999/2000 has been provided at 101,000 MT. MY2000/2001 is estimated at about 61,000 MT and MY2001/02 is forecast at 58,000 MT. The drop in production for 1999/2000 can be attributed to poor prices, unfavorable weather, low farmer morale and above all anxiety and unpredictable nature of the on going coffee reforms. Any upsurge in production will entirely be based on natural forces. Presently it is hoped that the proposed Coffee Bill will provide an appropriate way forward for the sector's ailing production, marketing and policy issues.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Nairobi [KE1], KE

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Executive Summary

Figures obtained from the Coffee Board of Kenya (CBK) put Production at about 101,000 tonnes for the year 1999/2000. This was an upsurge from the previous year which had 68,897 tonnes. That production level cannot be sustained due to the poor prices (low quality and oversupply in the world market), drought experienced the previous year and above all the anxiety and unpredictable nature of the on going coffee reforms. A drop to about 61,000 tonnes and 58,000 tonnes is projected for the coffee years 2000/01 and 2001/02 respectively.

Presently the sector is trapped in a myriad of problems ranging from low farmer morale, complex production issues, marketing and policy matters. The Ministry of Agriculture and Rural Development (MOARD) has gazetted and presented in parliament a sessional paper on liberalization and restructuring of the coffee industry. It is hoped that the proposed coffee Amendment Bill to be presented in parliament will provide an appropriate way forward for the sector.

Exchange rate 1 USD = 78 kshs

Production

Coffee PS&D Table

PSD Table						
Country	Kenya					
Commodity	Coffee, Green				(1000 HA)(MILLION TREES)(1000 60 KG BAGS)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		10/1999		10/2000		10/2001
Area Planted	162	162	162	162	0	162
Area Harvested	155	155	155	155	0	155
Bearing Trees	265	265	265	265	0	205
Non-Bearing Trees	12	12	12	12	0	12
TOTAL Tree Population	277	277	277	277	0	217
Beginning Stocks	130	20	643	490	568	489
Arabica Production	1677	1683	1119	1017	0	967
Robusta Production	2	2	2	2	0	2
Other Production	0	0	0	0	0	0
TOTAL Production	1679	1685	1121	1019	0	969
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	3	3	3	3	0	3
TOTAL Imports	3	3	3	3	0	3
TOTAL SUPPLY	1812	1708	1767	1512	568	1461
Bean Exports	1146	1195	1176	1000	0	851
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	1146	1195	1176	1000	0	851
Rst,Ground Dom. Consum	20	20	20	20	0	20
Soluble Dom. Consum.	3	3	3	3	0	3
TOTAL Dom. Consumption	23	23	23	23	0	23
Ending Stocks	643	490	568	489	0	587
TOTAL DISTRIBUTION	1812	1708	1767	1512	0	1461

Figures obtained from the Coffee Board of Kenya put Production at about 101,000 MT for the year 1999/2000. This was an upsurge from the previous year which had 68,897 MT. That production level cannot be sustained, a drop to about 61,000 MT is estimated during the year 2000/01 coffee year. A further drop for the year 2001/02 to about 58,000 MT is forecasted. The increase in production in 1999/00 is attributed to the good prices that were realized the previous year, carry over from the previous year and other natural forces among other factors. As at the end of April 2001 about 36,000 MT had been received by the CBK as part of the main crop compared with 75,000 MT the previous year at the same time. The drop in production is due to low quality coffee in the early part of 2000/01, poor prices, drought and above all the anxiety and unpredictable nature of the on going coffee reforms coupled with low farmer morale. During the main harvest in Oct-Dec 2000 most of the farmers harvested light beans (impacting negatively on quality) due to the drought that was termed as the worst in recent times. This forced most of the coffee to fall under the miscellaneous category of the catalogue hitherto a class of late deliveries and ungraded coffee.

Crop Situation

Most of the coffee regions are already receiving the long rains. This has resulted in moist and humid conditions which have induced good flowering, fruit development and cherry ripening. The trees have recovered from the drought experienced in 2000, but the development of the bearing heads is not yet complete, and therefore normal production recovery will not be immediate. The heavy rains have also caused leaching as evidenced by some cases of plant malnutrition (yellowing) in some parts of western Kenya. In general the number of the neglected farms has been on the rise mainly in the Rift Valley, Western and Eastern regions. The current field activities are weeding, pruning, in-filling and change of cycle.

Kenya’s output will drop substantially in the current crop year due to a severe drought, coffee diseases and poor husbandry as farmers abandon their bushes due to low earnings. The worst hit in production is the cooperative sector. The dismal performance of the sub sector stemmed from financial mismanagement, corruption and ineptitude on the part of the cooperative officials. Local analysts hold that there is continued decline of the area under coffee (not quantified) in high potential areas of central province which could be impacting negatively in production.

Input Situation

Input application levels for the cooperative sector remains relatively low as compared to the estates sector. The Coffee Board of Kenya (CBK) estimates the cooperative sector to be about 20 percent as compared to estate sector usage of about 60 percent of input use. A few societies are able to acquire inputs through a farm input loans scheme (Fils) at the Co-operative Bank, the unions and credit from input suppliers. Most farmers have reverted to using farmyard and other organic manures.

Presently there is limited access to credit and the cost of borrowing is high. The requirements by the commercial banks for security have been major impediments to accessing finance arrangement in the industry, particularly for the smallholder growers. Short term financing by CBK, commission agents, commercial banks and co-operative societies; SACCO societies provide crop advances or loans in kind to coffee production and processing. Financing schemes such as cherry picking and parchment advances are used to pre-finance the growers while they await the sale of their crop. These financing schemes cater for shorter term needs (working capital) but do not address capital development for the farmers. The cooperative societies borrow on behalf of their members who are sometimes unaware of the loans taken and loan recovery is not restricted to those who benefit from the loans. There have also been incidences whereby farmers have evaded loan repayments through illegal cherry deals and splits of cooperative societies.

Stabilization of Exports (STABEX Funds)

Under the Lome IV Convention for African, Caribbean and Pacific (ACP) countries, Kenya qualified to get STABEX fund allocations from 1990-1993, which amounted to ksh 8.7 billion. As of December 2000 the money totaled about kshs 12 billion including interest earnings. The coffee sub sector was allocated about 1.78 billion. Legislators from the Mount Kenya region (Central Kenya Parliamentary group) have been threatening the GOK to release the funds to the coffee farmers. The legislators have accused the government of withholding the funds with the intention of impoverishing coffee and tea farmers for political reasons. The president ordered the release of the STABEX funds through the Cooperative Bank as a loan to farmers at a 5 percent interest rate. This is to act as a revolving fund. This has caused more confusion as many doubt the availability of the funds and question the mode of issuance.

Insect pests and disease

Serious damage caused by insect pests such as green scales, berry borers, leaf miners and antestia bug has been reported. The main diseases reported are leaf rust, BBC, CBD and Fusarium bark disease. Chemical control measures by spraying are rare as most farmers lack the capital to follow the spraying program as recommended by the Coffee Research Foundation. The on going rains have resulted in reduced incidences of scales which had previously affected the trees.

Consumption

There are no published data available on domestic consumption. The CBK estimates that about 2-5 percent of Kenya's output is consumed locally. There are efforts in the proposed Bill to concentrate on local promotion.

Coffee Export Matrix Table

Export Trade Matrix			
Country	Kenya		
Commodity	Coffee, Green		
Time period	oct - sept	Units:	60 kg bags
Exports for:	1999		2000
U.S.	68845	U.S.	63567
Others		Others	
Germany	408554		387166
Netherlands	45980		137339
Belgium	65660		98936
Sweden	111140		86438
United Kingdom	102385		66677
Finland	40525		41604
Italy	16481		24225
Norway	22740		23265
Japan	19551		24345
Switzerland	11718		19420
Total for Others	844734		909415
Others not Listed	181226		222129
Grand Total	1094805		1195111

Trade

Exports

Figures provided by CBK gave exports for the year 1999/2000 to be 1.2 million 60 kg bags. This was an increase from the previous year (1998/99) which was 1.1 million 60 kg bags. The exports earned the country about kshs 11.7 billion and kshs 10.5 billion for the 1998/99 and 1999/00 respectively. Estimates for the coffee years 2000/01 and 2001/02 have been put 0.85 and about 1 million 60 kg bags respectively. Since the beginning of the coffee year 2000/01, a total of 490,906 valued at kshs 3.4 million F.O.B Mombasa had been exported (October 2000-February 2001). During the same period the previous year 343,293 bags had been exported, valued at about kshs 3.05 million. This represents a rise in both quantities and value of 43 percent and 11 percent respectively.

Prices

Improved quality of coffee on offer has recently pushed prices up at the Nairobi Coffee Exchange. Although prices have come up from the low levels of Oct/Dec quarter, there is still serious concern among farmers as the price is not yet reflected at the farm level. Coffee prices rose sharply during the last week of March with a few lines of the top quality grades reaching two year highs. One lot of the benchmark AA grade from a farmers society in the Mount Kenya Region (Nyeri) was sold at a high of $469 per 50 kg bag, the highest the auction has recorded since 1998. High quality main crop from key growing areas of Nyeri and Kirinyaga Districts in the Mount Kenya Region have hit the market. Some traders say that prices are also riding on a market anxiety over diminishing supply.

Stocks

The Kenya coffee industry does not have a thorough method of capturing stock data. Stocks provided by the CBK are mainly those held by them in their warehouses and not those at the millers and society levels. It is believed that some millers hoarded some coffee in anticipation of eventually marketing it after the industry is fully liberalized.

Policy and Marketing

Coffee is volatile crop and its growers are often expressive and emotive. The sector has been bedevilled by numerous problems ranging from farmers dissatisfaction with the system, split of cooperatives, mismanagement of coffee organizations and general decline in performance. The marketing cooperatives have been hit by internal squabbles with the members putting blame on malpractice and procurement procedures and investment methods imposed on them by the society officials.

As the coffee industry is faced with more and more problems the sector is finding it increasingly difficult to shape its own image. It is confronted by a system which is more complex and unstable, where relations are less harmonious, roles less well defined and results less predictable. After partial liberalization of the coffee sector wrangles ensued between co-operatives, millers and the CBK. There were no more converging ideas, no more common visions, no more common interest. Dialogue became simply an issue of crisis management in moving the coffee crop from the farmer to the market. Al all this happened at the expense of declining quality and production. The GOK which was expected to come in as a neutral arbitrator seems unable to sort out the sector problems amicably. The only solution lies in the adoption of the proposed Coffee Amendment Bill and its new policy frameworks.

The marketing policy in the proposed amendment is to retain the central auction system managed by an association to be called Kenya Coffee Producers and Traders Association (KCPTA). The marketing aspects of Kenya coffee have been fragile considering that coffee is a heavily politicized crop. The stakeholders have been agitating for full liberalization. The proposed Bill is aimed at tackling marketing as well and constraints and problems with an aim of having an efficient marketing system. It remains to be seen how this important agricultural and export industry will respond to the proposed changes.