

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY  
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT  
POLICY

Required Report - public distribution

**Date:** 5/15/2019

**GAIN Report Number:**

## Kenya

### Coffee Annual

#### Kenya Coffee Sector to Decline as Reforms Fall Short

**Approved By:**

Shane Townsend

**Prepared By:**

Kennedy Gitonga

**Report Highlights:**

While demand for Kenya coffee in the world remains steady, with the United States being one of the top export destinations, the future of Kenya's coffee production is uncertain. FAS/Nairobi forecasts a significant drop in Kenya's coffee production in the marketing year (MY) 2019/2020 due to drought, low prices, and the persistent shift of coffee producers to less risky enterprises. Meanwhile, Government of Kenya (GOK) coffee sector reforms are falling short.

## **Commodities:**

Coffee, Green

### **A significant decline in Kenya's coffee production expected**

FAS/Nairobi forecasts Kenya's coffee production will decline in MY 2019/2020 due to effects of a crystalizing drought, and the scale-down of crop husbandry by farmers due to low returns. The sector is also losing competitiveness due to other factors such as: increasing cost of labor and inputs; high incidences of pests and diseases; and poor governance of marketing cooperatives. Indeed, when opportunity presents, farmers are moving to less risky enterprises. In the meantime, GOK efforts to promote smallholder coffee production in non-traditional growing areas is countered by a surge in housing developments on farms located in peri-urban areas, leading to an overall stagnation of total coffee production.

### **Viability of "cash on delivery" model in doubt**

The success of the "cash-on-delivery model" that was piloted in MY 2017/2018 in selected coffee marketing co-operatives is already in doubt, with industry sources attributing its lack of smooth take-off to low farm productivity and fragmented co-operative units. The size of coffee farms continues to decrease due to inheritance driven sub-division. On the other hand, Kenya has more than 500 coffee marketing co-operatives, all geared to marketing fewer than 900,000 bags of coffee annually. Moreover, Kenya has two distinct harvest seasons in a year (September-December and March –July), each of which peaks for less than two months. According to Kenya's coffee directorate, 20 percent of coffee mills are currently operating at their lowest levels.

### **Marketing system places huge risks on farmers**

Despite the continued, Kenya is yet to fully liberalize the coffee sector to let the private sector fully undertake critical marketing roles and assume associated risks. Both the existing policy and legal frameworks place immense risks on the producer, even in instances where farmers are unable to bear these risk.

Kenya produces mild coffees with primary processing occurring at either the communally/co-operative owned mills that aggregate coffee from small-scale farmers or at farmer-owned mills in large-scale plantations. Co-operatives or individual licensed farmers may sell their coffee directly to international buyers, so long as the direct sale contracts have been registered and approved by the Coffee Directorate of Kenya's Agriculture and Food Authority (AFA). Alternatively, they should contract and authorize their marketing agents to sell through the Nairobi Coffee Exchange (NCE), a spot market that has operated since the early 1930s. The incidence of risks at virtually all stages of marketing are borne by the farmer, because under Kenya's coffee sector rules a batch of coffee belongs to a farmer up to and until an exporter buys it. A Kenyan coffee farmer therefore not only bears production risks, but also post-farm risks such as quality deterioration, pilferage and theft, and exchange rate volatility.

### **Coffee consumption culture takes root**

Over the last decade, coffee culture drinking has taken root – especially amongst the middle-income groups. Numerous coffee houses have been established in shopping malls and are well patronized. Coffee preparation skills have also improved and are now a popular pursuit especially amongst the urban youth. In the rural areas, farmers' cooperatives are setting up small-scale roasting plants and

coffee houses, while robusta derived imported soluble coffees (i.e. instant coffee) continue to enjoy a stable, though modest, market. Overall domestic coffee consumption in Kenya remains low, accounting for only about three percent of production.

**Production, Supply, and Distribution (PSD) table**

Coffee, Green Market Begin Year	2017/2018		2018/2019		2019/2020	
	Oct 2017		Oct 2018		Oct 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Kenya						
Area Planted	112	112	112	112		112
Area Harvested	112	112	112	112		112
Bearing Trees	178	178	178	178		178
Non-Bearing Trees	0	0	0	0		0
Total Tree Population	178	178	178	178		178
Beginning Stocks	145	145	130	130		145
Arabica Production	715	715	750	750		650
Robusta Production	0	0	0	0		0
Other Production	0	0	0	0		0
Total Production	715	715	750	750		650
Bean Imports	0	0	0	0		0
Roast & Ground Imports	0	0	0	0		0
Soluble Imports	25	25	30	30		35
Total Imports	25	25	30	30		35
Total Supply	885	885	910	910		830
Bean Exports	700	700	700	700		650
Rst-Grnd Exp.	0	0	0	0		0
Soluble Exports	0	0	0	0		0
Total Exports	700	700	700	700		650
Rst,Ground Dom. Consum	30	30	40	35		40
Soluble Dom. Cons.	25	25	30	30		35
Domestic Consumption	55	55	70	65		75
Ending Stocks	130	130	140	145		105
Total Distribution	885	885	910	910		830

(1000 HA) ,(MILLION TREES) ,(1000 60 KG BAGS)

### **Effective financing of coffee sector still a puzzle**

Kenya does not run a price support or direct subsidy program for coffee farmers or others players in the coffee sector. The GOK, however, occasionally steps in to waive or restructure non-performing loans owed by farmer organizations to improve their viability. Past interventions however appear not to have been sustainable, as most of the targeted organizations accumulate more debts due to low returns, and poor management practices. The GOK owned Commodities Fund, also faces poor recovery of advances under its coffee financing portfolio, while most commercial banks are hesitant to finance coffee farming.

### **Ending stocks to decrease**

FAS/Nairobi forecasts ending stocks to drop to a record low in MY 2019/2020, attributed mainly to the lower production. GOK holds no coffee stocks, rather coffee stocks are held by the millers, marketing agents, and exporters. Individual large-scale farmers and co-operatives also hold stocks in the form of parchment coffee.

### **A paradox of great reputation, and declining production**

Kenya coffee is regarded as a specialty and is also widely used for blending coffees. Kenya is also the main coffee logistics hub for Eastern Africa with all the main international coffee traders represented, and a huge pool of coffee expertise, from farming to marketing, logistics, and trading. On the other hand, production is on the decline, and now accounts for less than one percent of the world's coffee total production.

### **Leading export destinations for Kenya coffee**

<b>Export Destination</b>	<b>2015/2016</b>		<b>2016/2017</b>		<b>2017/2018</b>	
	<b>Quantity (tons)</b>	<b>%</b>	<b>Quantity (tons)</b>	<b>%</b>	<b>Quantity (tons)</b>	<b>%</b>
Germany	7,464	17%	8,343	18%	6,580	16%
United States	6,083	14%	8,994	20%	6,419	15%
Korea South	2,027	4%	3,277	7%	4,721	11%
Belgium	5,164	11%	4,464	10%	4,518	11%
Sweden	4,473	10%	3,549	8%	2,930	7%
Switzerland	2,609	6%	1,797	4%	1,709	4%
Finland	2,570	6%	1,655	4%	1,314	3%