

VALUE CHAIN BASED MATCHING GRANT FUND

COFFEE SECTOR STRATEGIC PLAN 2006-2010

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DRAFT FEBRUARY 2006

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1 EXECUTIVE SUMMARY

1.1 Apex Committee

The APEX Committee includes representatives of **all** private sector stakeholders of the Kenya Coffee Sector from small farmers to the market, with the mandate to present a co-ordinated Strategic Plan which addresses its Vision:

1.2 The Vision of Apex Committee

The Vision of the APEX Committee is to position Kenya as the leading producer of high quality coffee.

1.3 The Mission Statement

The Mission statement is to promote sustainable production of quality coffee for the benefit of all stakeholders, especially farmers, through the integration of the industry, supported by clear government policies.

In late 2004, faced with the declining state of the industry, the Apex Committee was formed and assumed responsibility for determining the strategic direction of the Kenya coffee sector. The process began at a consultative meeting in Nairobi, between the APEX Committee and the World Bank, following which a draft outline of a strategic plan was developed. Once the Matching Grant Management Team (MGMT) had taken over the management of the Value Chain Based Matching Grant Fund, it assisted the Apex Committee in developing a comprehensive strategic plan for the sector. Consequently the MGMT secretariat commissioned Foodlink Resources Consultants to coordinate a strategic planning workshop at which the APEX Committee members and others carried out a SWOT analysis and suggested objectives to be included in a 5-year draft plan – to be reviewed and approved by the MGMT/APEX Committee. The results were integrated into the Coffee Sector Strategic Directions and Objectives for the coffee years 2005-2010, summarised as:

- Seeking and obtaining clarification of the immediate and long term policies of the Government of Kenya with respect to the Coffee Sector and making recommendations from the perspective of the Coffee Sector as a whole.
- Facilitating improved, sustainable livelihoods for coffee growers by motivating them to produce more quality coffee.
- Pursuing full liberalisation of the sector through amending legislation where necessary.
- Establishing an effective education and information network throughout the sector.
- Highlighting to all relevant and responsible authorities the infrastructure needs of the coffee sector and determining action to be taken to ensure those needs are addressed.
- Promoting the market image of Kenyan coffee and facilitating added value through increased local consumption.
- Capitalising on the formation of the APEX Committee to achieve more complete co-ordination of all sectors of the coffee industry in Kenya.
- Pursuing the establishment of a national set of quality standards, compatible with those of the leading international certification agencies.

In order to address these specific objectives, Action Plans with realistic time frames and verifiable indicators were identified. Finally procedures for Monitoring and Evaluation were proposed, in line with the overall Matching Grant Project Guidelines.

2 BACKGROUND

The Government of Kenya through the Ministry of Trade and Industry with assistance from the World Bank is implementing the Value Chain Based Matching Grant Fund Project as part of its Economic Recovery Strategy for Wealth and Employment Creation, 2003-2007. The project is focusing on coffee, cotton and pyrethrum value chains.

2.1 The Coffee Apex Committee

As a first step in project implementation, sector organizations in the value chains were required to convene to form an APEX Committee comprising of key players along the entire value chain. With assistance from the World Bank, the key players in the coffee sector met and appointed seven (7) representatives to form The Coffee Apex Committee as follows:

- i) Two (2) members representing small holder farmers (**cooperatives**)
- ii) Two (2) members representing coffee growers' associations. (**Estates**)
- iii) One (1) member representing **Coffee Millers**
- iv) One (1) member representing **Coffee Roasters & Packers**
- v) One (1) member representing **Coffee Exporters**

Besides taking the lead in preparation of industry-wide strategy that reflects issues identified by the value chain analysis and the vision, objectives and goals of the industry, the Coffee Apex Committee has the following responsibilities:

- Act as the coordinating body to convene all sector forums along the value chain;
- Act as the principal body to develop consensus between various sector entities to help implement industry-wide strategies.
- Serve as a central body within the context of Matching Grant Fund Project to approve project concepts prepared by operators

3 THE STRUCTURE OF THE MATCHING GRANT FUND PROJECT

3.1 Strategic Planning Workshop

On November 30th 2005 during the consultative workshop, the Apex Committee members and other coffee sector stakeholders met in Nairobi to discuss a draft outline of the Strategic Plan.

At this workshop, the attendees determined the strategic directions and objectives of the Coffee sector, these being defined by the strengths, weaknesses, opportunities and threats of the industry. The result of all this is the Coffee sector 5-year Strategic Plan which has been reviewed and approved by the Apex Committee.

3.2 The SWOT Analysis

A **SWOT Analysis** was undertaken during the facilitation workshop, and a catalogue of strengths, weaknesses, opportunities and threats was developed at two levels; 1) Producers, Estates and Cooperatives; 2) Processors and Marketers.

3.3 Producers, Estates and Cooperatives

The producers comprise large scale estates and small-scale farmers, many with farms of less than 5 acres. These small-scale farmers form cooperative societies to process their produce. The cooperatives and the estates send their parchment coffee to commercial millers for milling and grading.

Key Strengths

- High Quality Coffee grown in Kenya.
- Suitable climatic conditions; Kenya provides an ideal climate for the growing of coffee especially in the Central, Rift Valley and Western regions of the country.
- Good brand awareness whereby Kenyan coffee is regarded as one of the best coffees in the World.
- Strong research capacity, especially from the Coffee Research Foundation (CRF), which undertakes coffee research services and is financed by a levy on coffee proceeds.
- Established institutions including, Coffee Board of Kenya (CBK), Kenya Planters Co-operative Union (KPCU), Kenya Coffee Growers and Employers Association (KCGEA), Kenya Coffee Growers Association (KCGA), Kenya Coffee Traders Association (KCTA) etc.
- Strong co-operative movement.
- Strong/good auction system. Kenyan coffee is traded at the auction held normally on Tuesday at Nairobi Coffee Exchange.

Key Opportunities

- Prospect for auction to operate as a regional exchange.
- Second window, providing the option of direct sales
- To improve government policy on coffee
- To expand demand for Kenyan coffee all over the World
- To develop own standards, compatible with international certifying agencies
- Increase domestic consumption and regional sales of roasted coffee.
- To develop own coffee standards.
- Appellation development as a big incentive for quality improvement that should increase the competitiveness of Kenyan coffees.

Key Weaknesses

- Lack of clear government policy and action on coffee.

- Weak recognition of private sector institutions impeding effective public-private partnership in the coffee industry
- Lack of affordable credit
- Poor infrastructure, especially roads, water and electricity supply
- High cost of inputs
- Lack of extension services
- High cost of production, especially labour and energy
- Poor marketing systems
- Poor payment systems to farmers
- Inefficient management (Corporate governance) of institutions, especially Co-operatives

Key Threats

- International cost competitiveness (relatively high local salaries, strength of Kenya Shilling against US dollar)
- Land fragmentation and policy on land tenure
- Competition from other crops for land
- HIV/AIDS pandemic
- Inadequate research and availability of information to farmers
- Liberalisation of market without adequate safeguards
- Political instability/interference
- Domination by marketing cartels
- Lack of training capacity development
- Lack of affordable credit
- Demands for standards and certifications, unless matched by incentives
- Low domestic consumption
- Environmental requirements

3.4 Processors and Marketers

The processors consist of commercial millers who send the graded coffee to marketing agents who prepare auction catalogues and put a reserve price. The licensed coffee dealers buy coffee at the auction; prepare it for export or for local roasting for the domestic market.

Key Strengths

- Quality and brand image
- Transparent and competitive market structure
- Spare processing capacity
- Tradition and expertise
- Rigorous quality control
- Geographical diversity of markets

Key Weaknesses

- Lack of clear government marketing policy
- Limited private sector ownership in the industry as a whole
- Deficient information network
- Inadequate and failing infrastructure
- Low domestic consumption
- Flawed payment implementation
- Weak regulator (Coffee Board of Kenya)

Key Opportunities

- Specialty Coffee
- Certification
- Local consumption

- Liberalised market
- Access to the regional market through regional trading bodies such as COMESA Free Trade Area (FTA), etc.
- Export of roasted coffee to clearly identified markets

Key Threats

- Decreasing crop = marginalisation of Kenya as a global source
- Regional competition, especially Ethiopia
- Changing consumer preferences
- Strong local currency, reducing revenue to growers

From the foregoing SWOT analysis it was clear that certain strengths, weaknesses, opportunities and threats were common to different parts of the coffee value chain and the Apex committee was able to identify certain strategic priorities to address within its strategic plan which would have a significant impact on achieving both its vision and mission.

These priorities were varied and ranged from kick-starting the rehabilitation of production, improving husbandry and quality, enhancing efficient payments to farmers, negotiating preferential tariffs (eg KPLC), to improving market information systems, promoting Kenyan brands and increasing local consumption.

It was envisaged that pilot projects established under the World Bank Matching Grant Fund would concentrate on addressing these priorities which would lead to visible and measurable results on a local level.

4 THE STRATEGIC PLAN

4.1 Vision

The Vision of the Apex Committee is to position Kenya as the leading producer of high quality coffee.

4.2 Mission Statement

The Mission Statement is to promote sustainable production of quality coffee for the benefit of all stakeholders, especially farmers, through the integration of the industry, supported by clear government policies.

4.3 Strategic Issues

After significant review of available data, and reflection of the conditions of the coffee industry, the stakeholders prepared an inventory of the perceived strengths, weaknesses, opportunities and threats to the industry. Having established sector conditions, future challenges, and projected potential growth for the industry, a few strategic directions were identified as a focus for the five-year plan for the coffee sector 2005-2010 as follows:

1. Seek and obtain clarification of the immediate and long term policies of the Government of Kenya with respect to the Coffee Sector and make recommendations from the perspective of the Coffee Sector as a whole.
2. Facilitate improved, sustainable livelihoods for coffee growers by motivating them to produce more quality coffee.
3. Pursue full liberalisation of the sector through amending legislation where necessary.
4. Establish an effective educational, information network and training programme for all players in the Kenya coffee industry.
5. Highlight to all relevant and responsible authorities the infrastructural needs of the coffee sector and determine the action to be taken to ensure those needs are addressed.
6. Promote the market image of Kenyan coffee and facilitate added value through increased local consumption.
7. Capitalise on the formation of the Apex Committee to achieve more complete co-ordination of all sectors of the coffee industry in Kenya.
8. Establish a private sector-based quality certification body, and work with others to develop an acceptable certification program for Kenya coffee producers taking into consideration the needs of smallholder producers.

The Apex Committee has identified the following four major areas of focus:

1. Policy Reform and Implementation – The Apex Committee will provide the needed support in the policy reform advocacy process within the country and promote the public-private dialogue and partnership in resolving policy issues. Apex will lobby for recognition as a representative of all the private sector stakeholders of the coffee industry.
2. Grower and Business Support Development – Apex Committee will work through national and private chapters in implementing programmes and activities that focus on the producers and improving the environment in which they operate so as to produce high quality coffee. National coordination between the private and public sector will help in synchronization of efforts and in synergy building.

3. Development of Markets and Market Information Systems – The Apex Committee will promote the improvement of the marketing systems, especially the improvement of price discovery mechanisms, market information, promotion and communication.
4. Research and Technology Transfer – The Apex Committee will work closely with Coffee Research Foundation and other public national organisations to ensure that research is market driven and disseminated comprehensively to the entire value chain.

All the above will be done in such a way that there is capacity building and institutional development at all levels of the value chain. Apex Committee will coordinate and promote the capacity required to support activities along the coffee chain. At all levels building of local capacity and efficient systems will ensure sustainability and the achievement of goals.

The five-year strategy (2006-2010) has been developed to increase the value and volume in the chain of coffee exports from Kenya, while also promoting increased domestic consumption.

5 STRATEGIC OBJECTIVES

5.1 Policy Clarification

Seek to obtain clarification on the immediate and long-term policies of the Government of Kenya with respect to the Coffee Sector and make recommendations from the perspective of the Coffee Sector as a whole.

- Have clear definition of the respective roles of
 - the Ministry of Agriculture
 - the Ministry of Co-operative Development and Marketing
 - the Ministry of Trade and Industry
 - the Coffee Board of Kenya
 - the Coffee Research Foundation and
 - the Export Promotion Council,

while identifying any other government ministries, departments or parastatals which may have, or claim to have, a role relating to coffee.

- Advocate and lobby for appropriate amendment of the latest relevant legislation in various sections in order to make it relevant to the proper production, processing and marketing of coffee for the benefit of all stakeholders and in keeping with international trends.

5.2 Quality

Facilitate improved, sustainable livelihoods for coffee growers by motivating them to produce more quality coffee.

- Better husbandry will be promoted as one way of improving quality.
- Better business skills will be promoted among the smallholder producers, and specifically, a curriculum will be developed to move them along from subsistence to a commercial orientation – Coffee Farming as a Business.
- Better post-harvest technologies will enhance both the quality and competitiveness of Kenyan fine coffees.
- Reverse the trend of growers abandoning and even up-rooting their coffee trees.
- Ensure that the improvement in coffee prices is reflected in farmers' incomes and establish means to assist farmers to finance their essential inputs.

5.3 Liberalisation

Pursue full liberalisation of the sector through amending legislation where necessary.

- Ensure that individual farmers, estates, co-operative societies and millers have freedom of choice of how and where to sell their products including the existing auction facility where appropriate.
- Promote better understanding of the second window as an opportunity in the industry.
- Seek Recognition for the APEX Committee to participate and be consulted in decisions affecting the coffee industry.

5.4 Information and Training

Work to develop an effective educational, information network and training programme for all players in the Kenya coffee industry.

- Work to develop relevant training programmes that suit the interests of members and other interested participants.
- Develop regular training events, in conjunction with the Kenya Coffee College at CRF
- Special training programmes will be put in place for coffee retailers, hoteliers and restaurant operators.
- Information on market requirements, research and new technology will be disseminated to all participants and especially to farmers.
- Existing, but ineffective, channels of communication such as the CRF Bulletin will be explored and others introduced, making use of existing sector organisations, media and especially the National and FM Radios and TV.

5.5 Infrastructure

Work to highlight to all relevant and responsible authorities the infrastructure needs of the coffee sector and determine action to be taken to ensure those needs are addressed.

- Insist on effective and transparent utilisation of Coffee Cess funds paid to Kenya Roads Board
- Address better options for a more realistic tariff for irrigation which must be established by KPLC if coffee production has to increase (e.g. low night tariff, discount related to strong Kenya Shilling).
- Promote better communications policy including exploration of proposals to liberalise and privatise the sector.
- Explore better health and educational facilities for families of coffee farmers and their workers.

5.6 Consumption

Promote the market image of Kenyan coffee and facilitate added value through increased local and international consumption.

- Promote the sale of high quality specialty coffee under special labels in several selected countries so as to promote the image of Kenyan coffees in the World.
- Develop a strategy for the promotion of Kenya coffees, and seek to maximise the efficiencies through the chain.
- Promote and encourage local consumption of coffee.

5.7 Capitalize on Apex Committee

Capitalise on the formation of the Apex Committee to achieve more complete co-ordination of all sectors of the coffee industry in Kenya.

- Ensure there is a single voice for the private sector coffee industry, since the industry consists of a number of separate, even segregated, trade and growers associations with no single voice for the industry as a whole.
- The Apex Committee presents a unique opportunity to foster greater awareness among the stakeholders of the roles and responsibilities of each other.

5.8 Certification

Explore to establish a private sector-based quality certification body, and work with others to develop an acceptable certification program for Kenya coffee producers particularly conscious of the needs of smallholder producers in Kenya.

- Establish relationships with national development agencies, such as NEMA that will be willing to support environmental programmes among coffee producers.
- Work with the national research organizations in establishing a Kenyan certification programme which must be compatible with those already established elsewhere, e.g. Utz Kapeh, Starbucks CAFÉ Practices, Fair Trade/FLO, '4Cs'
- International recognition will be sought so that the certificates issued will be acceptable to EU and US markets.

6 ACTION PLANS

FOCUS AREA (OUT PUTS)	Objectively Verifiable Indicators	Means of Verifications	Assumptions
Output 1: Favourable policy Reforms and strategy for implementation developed effective	<p>Relevant clauses in the Coffee Act 2001 amended and acceptable to the private sector and 2010.</p> <p>Increase in the improvement of infrastructure (roads, electricity, telephone etc) in coffee areas by 2010</p> <p>Number of times the Government invites the Apex Committee for consultation as a sign of its recognition by 2010.</p>	Apex Committee Reports, GOK Gazette	<p>Adequate social, economic & political stability exists</p> <p>Relevant national policies & reforms are effected for the coffee industry</p>
Output 2: Enhanced sustainable coffee productivity, quality value adding and competitiveness of Kenya's coffee industry	<p>2.1 Productivity Increase in coffee production among the target beneficiaries by at least 10% per year.</p> <p>2.2 Value Additions 10% annual increase in the value of marketable coffee from target beneficiaries.</p> <p>2.3 Competitiveness 10% annual Increase in market share and sales of coffee from project beneficiaries especially to the specialty markets.</p>	<p>PPMT records.</p> <p>PPMT Records</p> <p>PPMT Records</p>	<p>Government continues to support the coffee industry</p> <p>Coffee industry continue to attract local & international investments</p>
Output 3: Markets and Market Information Systems, and Kenyan Coffee certification developed.	<p>3.1 Participation in at least 5 promotional exhibitions on Kenya Coffee held worldwide by 2010.</p> <p>3.2 At least 5 new markets established locally, regionally and internationally</p> <p>3.3 At least 5 New Coffee Market linkages developed with target beneficiaries.</p> <p>3.4 At lease 10</p>	<p>MGMT</p> <p>PPMT Reports</p> <p>PPMT Records</p>	<p>Adequate commitment & capacity to add new technologies innovations & policies exist</p> <p>Availability of inputs</p> <p>External trade & market conditions do not compromise</p>

	<p>subcontracts entered into between key value chain players.</p> <p>3.5 At least 5% increase in local consumption of coffee achieved by 2010.</p> <p>3.6 At least 20% of Global markets (countries) recognizing Kenya coffee certification by 2010</p> <p>3.7 Reduced payment lag to targeted coffee farmers from 6-12 to 3-6 months</p>	<p>PPMT Records</p> <p>PPMT Records</p> <p>PPMT Records</p> <p>PPMT Records</p>	<p>gains</p> <p>Efficient and effective international & national agricultural support services exist</p>
<p>Output 4: Technologies, Trainings and Information availed to the coffee stakeholders in a timely manner</p>	<p>4.1 Increased dissemination and access of information to targeted stakeholders.</p> <p>4.2 Number of Training Manuals developed and made available for coffee smallholder farmers by 2010.</p> <p>4.3 Number of relevant training courses organized on coffee research findings, quality enhancement innovations markets and latest technologies by 2010.</p>	<p>G.O.K GAZETTE NOTICES</p> <p>Report of the Coffee PPMTs</p> <p>Report of the Coffee PPMTs</p>	<p>Political, social & economic stability does not deteriorate</p> <p>Research fund continues to be available</p> <p>Government keep its commitment to support the revival of the coffee sub-sector</p>

7 MONITORING AND EVALUATION

Programme monitoring will be conducted to assess the progress of the pilot projects initiated and supported by the MGMT/APEX Committee. The progress will be monitored annually through reports presented by the supported organisations and Apex Committee annual report to the Secretariat, and by independent consultant reports.

Supported organisations and institutions will present their annual work plans and budgets for the following year for evaluation by the Apex Committee and the MGMT Secretariat for consistency with the goals and objectives as stipulated in the coffee sector strategic plan (2005-2010).

The entire project activities will be subjected to external review after each phase for independent assessment of progress and guidance on completion of activities, programmes and projects. In addition, a final external review at the end of the five-year network plan will assess achievements and make recommendations on how to ensure the Apex activities' long-term sustainability.

It is envisaged that supervision missions by the Secretariat and the APEX Committee teams will be conducted regularly to gauge project progress, gather and disseminate lessons learnt and provide necessary guidance.