FACTORS INFLUENCING THE DEVELOPMENT OF COFFEE EXPORTS HANDLED BY COFFEE BOARD OF KENYA

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DECLARATION

This research project is my original work and has not been presented for examination in any other university.

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This research project has been submitted for examination with my approval as university supervisor.

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DEDICATION

To my Lord and Saviour Jesus Christ for His faithfulness and guidance.

Also to my loving parents Mr. and Mrs. J.N. Mburu for their continued support and encouragement.

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ABSTRACT

For the most of the last decade, the coffee industry in Kenya has been under great stress. Ranging from a decline in production and prices to incessant internal conflict within co-operative societies, the sector has been a victim of both demand and supply side constraints. Attempts at liberalization, long held as boon to the sector, have presented formidable challenges, confusion and more conflicts (Dada 2007, Nyangito 2001). However, even after the liberalization of the industry, the balancing of the interests of the many players by the sector regulator Coffee Board of Kenya (CBK), has been less than harmonious and has led to conflicts and controversies that have added to the problem of decreasing coffee production and subsequently coffee exports.

At the center of the coffee production chain is the Coffee Board of Kenya (CBK), which performs regulatory and licensing function of the coffee sector in Kenya. All coffee exports and imports are approved of and overseen by the Board. Thus the reduction in production of coffee greatly impacts exports, and subsequent foreign exchange and revenues earned by Kenya from the cash crop.

This study determined and assessed the factors influencing the development of coffee exports as handled by the Coffee Board of Kenya guided by the research question: "What are the factors influencing the development of coffee exports handled by the Coffee Board of Kenya (CBK)?" The study used a census survey of the thirty registered and licensed coffee exporters in Kenya. The research design was descriptive in nature to portray an accurate profile of persons, events and situations (Robson, 2002) and used a survey questionnaire which was distributed to respondents on a drop-and-pick basis.

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ABBREVIATIONS

CBK ....Coffee Board of Kenya

CRF..Coffee Reasearch Foundation

EAFCA..East African Fine Coffees Association

FX...Foreign Exchange

GDP...Gross Domestic Product

GOK...Government of Kenya

ICA...International Coffee Agreement

ICO... ....International Coffee Organization

IMF...International Monetary Fund

KCTA...Kenya Coffee Traders Association

KEPHIS...Kenya Plant Health Inspectorate Services

KPA..Kenya Ports Authority

KRA...Kenya Revenue Authority

NCE..Nairobi Coffee Exchange

NYCE...New York Coffee Exchange

WB..World Bank

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

International trade is defined as voluntary trade or exchange of goods and services, for mutual benefit between the residents of two countries, these residents being individuals, firms, governments or other associations (Griffin and Pustay, 2010). Historically, international business activity first took the form of exporting and importing. Trade (export and import) is important to a country's economic health eg. Exports account for 75% of Netherlands and Thailand's Gross Domestic Product (GDP) (Griffin and Pustay, 2010).

Today's complex world of international commerce has grown so rapidly, that we now live in an era of globalization with the integration and interdependency of markets and economies across the globe. . Despite the controversies surrounding the concept of globalization to the general aspect of human life, it has had a significant benefit to trade (Wolf 2004, Cateora 2008). National borders have been opened thus enabling free movement of goods. Based on this phenomenon, it has been a great development to many businesses which are given a chance of trading their products in the global market (Wolf 2004, Stiglitz 2002, and Milward 2003).

The history of international trade saw early civilizations in the Mediterranean, Middle East, Africa, Asia and Europe contribute to growth of export trade across borders by exploiting their comparative advantages, natural advantages and factor-proportions advantages (Cavusgil, Knight and Reisenberger: 2006; Griffin and Pustay: 2010). These advantages have continued into the 21^{st} century to sustain international trade.

The underlying rationale for international trade, especially exports among nations can best be explained by the theory of comparative advantage, as put forward by David Ricardo in1817 (Griffin and Pustay, 2010)., in that this exists when a country has a margin of superiority in the production of a good/service, that is where the marginal cost of production (opportunity cost) is lower (Krugman 1987, Rugman 1998; Griffin and Pustay, 2010). If each country specializes in production of those goods where they enjoy the advantage, and which intensively use the factors inputs in which they are most abundantly endowed, then total output can be increased leading to efficient allocation of resources (Krugman 1987, Rugman 1998; Frank and Bernanke, 2004; Griffin and Pustay, 2010). These gains are made possible from specialization in the economic activity that has comparative advantage. This principle of comparative advantage remains today as the foundation and justification for international trade. (Cavusgil, Knight and Reisenberger: 2006; Griffin and Pustay, 2010).

1.1.1 Export Trade

Exporting is defined as the selling of products made in one's own country, for use or resale in another country, while importing is the buying of products made in other countries for use or resale in one's own country. Exports and imports activities involve trade in tangible goods (visible trade) and trade in services which are intangible (invisible trade) (Griffin and Pustay, 2010). . Nations around the globe adopt export trade as an internationalization strategy, that is motivated by three fundamentals namely market-seeking growth to gain greater returns on resources already developed; to gain access to resources and factors of production not available at home; and to create efficiency by linking previously separate operations so as to lower total costs (Wortzel and Wortzel: 1997).

Exporting was the growth industry of the 1980s, 1990s (and into the current millennium). The promotion of exports is a matter of national importance (Gordon, 1993). The national interest is reflected in arrangements made by governments with a view to assisting the exporter and in statutory regulations (Schmitthoff, 1969). Governments exercise some control over certain aspects of exporting, mainly by means of export licenses, exchange controls and customs regulations (Schmitthoff, 1969).

Exports across national borders are vital due to the unequal distribution of productive resources among nations; export trade thus helps to offset disparities with regard to the availability of productive resources (Ethier, Helpman and Neary, 1993). However, whether a country can export successfully or not depends on its resources, economic environment, the opportunity, ability and effort of producers to trade; as well as the capacity of local producers to compete abroad (Stutz and Warf, 2007; Krugman 1987, Rugman 1998). Export relationships are built over time, and trust between the exporter and importer is a major issue in managing and sustaining a successful export operation (Gordon, 1993). Successful relationships of trust must be developed by demonstrating unquestioned reliability (Gordon, 1993).

When regions or countries specialize in the production of some goods or services, they enjoy a comparative advantage, which is a key factor of successful export trade. This notion was first introduced by the famous economist David Ricardo in 1817 (Krugman 1997 and Rugman, 1998): nations will specialize in the production of a commodity that they can produce using the least labor compared to other nations, and export the same (Stutz and Warf, 2007; Krugman 1987, Rugman 1998). The Ricardian model of comparative advantage as the basis for export trade globally, has many implications for economic geography. First, it shows how powerfully trade and exchange shape local production systems; it also demonstrates that trade allocates resources to the most efficient and profitable ends at minimum cost (Stutz and Warf, 2007). The only costs of free trade are borne by inefficient producers. Second, Ricardian notions of comparative advantage reveal that specialization reduces the total costs of production; thus export trade improves efficiency even without reallocating resources (Ethier, Helpman and Neary, 1993). Third, this approach points out that large (export) markets allow more specialization than do small ones (Stutz and Warf, 2007).

The Hecksher-Ohlin factor-proportions theory of export trade takes the view that a country should specialize in producing those goods that demand the least from its scarce production factors, and that it should export its specialties in order to obtain the goods that it is ill-equipped to make (Stutz and Warf, 2007; Griffin and Pustay, 2010).

Trade theories however have inadequacies. One inadequacy is the failure to incorporate the role of firms, especially that of multinational corporations. Another inadequacy is the assumption of homogeneous products, perfect competition, the immobility of production factors and freedom from government interference. Trade theories are based on restrictive assumptions that ignore scale economies and transportation costs: scale economies improve the ability of a country to compete even in the face of higher factor costs (Stutz and Warf, 2007). Despite their limitations, trade theories provide an essential basis for international business such as export trade (Griffin and Pustay, 2010).

However, barriers to trade are imposed by nations such as tariffs eg. export and import quotas, as well as non-tariff barriers (NTB's) and affect the free-flow of international trade. (Wortzel and Wortzel, 1997; Griffin and Pustay, 2010). Non-tariff barriers include discretionary licensing standards; health and safety regulations especially on foodstuffs such as coffee, labeling and certificate-of-origin regulations (Wortzel and Wortzel 1997, Stutz and Warf, 2007). However, advocates of free trade believe that gains from internationl / global trade should result from economic efficiencies and not government support (Cavusgil, Knight and Riesenberger, 2006; Stutz and Warf, 2007).

1.1.2 Coffee exports in Kenya

As a coffee producing and exporting country, Kenya enjoys a comparative advantage compared to non-producing countries such as the European Union and North America; Kenya is relatively more efficient than non-producing and exporting countries since her opportunity cost of producing it is lower than her counterpart's (Frank and Bernanke, 2004). Coffee is an important cash crop for export to Kenya's economy. Specialization based on comparative advantage is the basis for economic exchange ie exports trade. For Kenya and her trade partners, the benefits of export trade and exchange tend to be larger, the larger are the differences between their opportunity costs (Frank and Bernanke, 2004). She also enjoys a natural advantage in the coffee-growing regions of Central Province, parts of Western and Eastern provinces due to their geographic locations, climate, rich soils, altitude and conducive rainfall patterns. Advantages since labor is abundant to sustain the labor-intensive value-chain of the coffee sector factor-proportions advantages are also beneficial to development and sustainability of this sector. Exporting of coffees by these producer countries to non-producing countries is a strategic internationalization move by accessing a wider market, other than the domestic market, earning much needed foreign exchange (Coffee Quarterly, 2007; Talbot, 2004).

This study therefore intends to assess the factors that influence the development of Kenyan coffee export sector that is regulated by the government-appointed Coffee Board of Kenya, and the various strategies that the whole coffee export sector at whatever level in the value chain can adopt to enable the players compete competitively at both local and international markets in terms of producing more coffee, of good quality and high value.

Historically, coffee was the first major export of a cash crop in Kenya and has remained an important part of the Kenyan economy since its introduction to Kenya by French missionaries in 1893 (CBK, 2009). The early settlers accelerated its importance to the economy as they actively encouraged export of the coffee cash crop in order to help repay the then exorbitant costs of building the Kenya railway (Kenya Coffee Directory, 2008).

Until 1934, coffee production was concentrated in a small number of large estates, and Kenyans were not allowed to own or manage coffee farms until the 1950s. After Kenya's independence in 1963, the Kenyatta government worked hard to expand smallholder production by providing farmers with land and financial support. The government established the Coffee Development Authority (CDA) in 1964 to support cooperatives and small farmers, providing farmers with technical assistance and raising $3.98 million from local financial institutions to provide loans to cooperatives to build new processing factories. In 1966, Kenya joined the International Coffee Agreement (ICO, 2008). The agreement set production quotas on each country based on average production volumes in previous years. The Kenyan quota did not reflect planned capacity because it did not include smallholder volume in its calculation and the Coffee Board had to use its regulatory power to set quotas on individual farms and cooperatives (ICO, 2008). The Coffee Board also increased its control over the pricing and marketing of coffee, setting a price range within which all exporters had to bid for Kenyan coffee. During this period, some of the large estates left the coffee business. International quotas were lifted in the 1970s and by 1978 smallholders production exceeded estate production for the first time. The industry thrived in the early 1980s with production peaking at 129,000 tons, 40% of total exports in Kenya, but has been in a steady decline for the past twenty years with several large estates closing or laying off large portions of their labor force (ICO, 2008).

Under pressure from the World Coffee exporting firms to liberalize the economy, the Kenya government took a series of steps between 1990 and 2001 to loosen its control over the coffee industry. Such steps included: pulling out of cooperative management (1991); ending financial support to cooperatives, the KPCU and the Coffee Research Foundation (CRF) (1991); relaxing regulation of upstream processes (1999); allowing growers to choose among pulping factories, millers, and marketing agents (1999); limiting the role of the CBK as regulator (2001); privatizing the coffee auction and allowing a portion of coffee to bypass the auction and be sold directly to exporters; and increasing the number of marketing licenses issued from three to twenty-five (ICO 2006, 2008).

Kenya's coffee context is characterized by extreme fragmentation at the grower level and a heavy concentration of powerful players further downstream. This fragmentation is less extreme for estate owners who are vertically integrated, owning their own processing factories, and whose size allows them to have some negotiating power with marketing agents. Furthermore, since liberalization estates have been able to bypass marketing agents and the coffee auction entirely, selling up to 30% of their production volume directly to exporters (farm-gate or Second Window) (Dada, 2007). The 700,000 coffee smallholders, however, bring produce to market through local growing cooperatives (Kinoti, 2005). While there are 569 cooperatives, there is limited competition between them, because farmers have to process cherries within 24 hours of harvest (Mude, 2006). With limited access to transportation, they are forced to work through the closest cooperative.

The Coffee Board of Kenya (CBK) regulates the sector and provides a conducive economic environment for the continued development, competitiveness and sustainability of the coffee sector. It monitors and approves of all coffee exports and imports out of and into Kenya's national borders by approving and recording pertinent contracts and documentation (Republic of Kenya, 2002). CBK also issues licenses to stakeholders in the value chain of coffee, such as exporters, dealers, auctioneers, marketing agents / brokers, millers, co-operative societies, warehouses, as well as monitoring the physical movement of unprocessed or semi processed coffees from farmers to other locations, by issuing Coffee Movement Permits.

1.2 Research Problem

1.2.1 Conceptual Discussion

Exporting was the growth industry of the 1980s, 1990s (and into the current millennium). The Free Trade agreements in Europe, North America, Asia, Africa, the improved markets of Latin America, and the success of the newly industrialized countries in Asia, South Africa, Latin America, China and Europe all provide expanding and fertile markets for goods and services at a global level (Gordon,1993). The promotion of exports is a matter of national importance. The national interest is reflected in arrangements made by governments with a view to assisting the exporter and in statutory regulations (Schmitthoff, 1969). Governments exercise some control over certain aspects of exporting, mainly by means of export licenses, exchange controls and customs regulations (Schmitthoff, 1969).

Exports across national borders are vital due to the unequal distribution of productive resources among nations; export trade thus helps to offset disparities with regard to the availability of productive resources (Ethier, Helpman and Neary, 1993). However, whether a country can export successfully or not depends on its resources, economic environment, the opportunity, ability and effort of producers to trade; as well as the capacity of local producers to compete abroad (Stutz and Warf, 2007; Krugman 1987, Rugman 1998). Export relationships are built over time, and trust between the exporter and importer is a major issue in managing and sustaining a successful export operation (Gordon, 1993). Successful relationships of trust must be developed by demonstrating unquestioned reliability (Gordon, 1993).

When regions or countries specialize in the production of some goods or services, they enjoy a comparative advantage, which is a key factor of successful export trade. Under the Ricardian model of comparative advantage as the basis for export trade globally, nations will specialize in the production of a commodity that they can produce using the least labor compared to other nations, and export the same (Stutz and Warf, 2007; Krugman 1987, Rugman 1998). Specialization reduces the total costs of production; thus export trade improves efficiency even without reallocating resources (Ethier, Helpman and Neary, 1993). Third, this approach points out that large (export) markets allow more specialization than do small ones (Stutz and Warf, 2007).

1.2.2 Factors influencing development of coffee exports in Kenya

The Kenyan coffee export sector performance has been steadily declining in terms of both output and quality since its peak in 1987. Exports fell from 2.1 million bags to 0.9 million bags between 1987 and 2007, and Kenya's world market share declined from 3.1% in 1986 to 0.6% in 2006 (ICO, April 2008). Moreover, the quality of Kenyan coffee has fallen, making it harder for Kenya to demand a premium over commodity prices. Approximately 20% of Kenya's coffee production was premium grade in 1993; this proportion fell to about 10% by 2003 (ICO, April 2008).

There have also been sharp declines in the coffee sector's profitability with falling world prices and rising production costs squeezing profit margins, particularly for growers (Damore, 2004).

Declines in Kenya's coffee production volume have been driven, in part, by declining crop yields and quality the quality of Kenyan coffee has fallen over the past fifteen years, making it harder for Kenya to demand a premium over commodity prices; approximately 20% of Kenya's coffee production was premium grade in 1993; this proportion fell to about 10% by 2003. (Damore 2004,Coffee Quarterly, 2006). Kenyan coffee farmers greatly reduced application of fertilizers and pesticides to the coffee crop due to increasing costs of production and prices of inputs such as fertilizers (Damore 2004,Coffee Quarterly, 2006). According to earlier research done (IEA, 2000), coffee production and subsequently exports, have declined due to low use of inputs and neglect of coffee farms. This is attributed to lack of credit to purchase inputs, high prices for the inputs, poor delivery of processing and marketing services, and low payments to farmers (Nyangito, 2001). According to statistics in the Kenya Coffee Directory (2008), the performance of coffee export has been on the decline between 2000-2007. There has been an improvement in 2008-2010, and this trend needs to be sustained by promoting continued development of the sector using efforts of all stakeholders.

1.2.3 Research gaps

There has been insufficient documented research done on the factors influencing development of coffee exports that are handled by the Coffee Board of Kenya. The study will attempt to answer the following research question: What are the factors influencing development of coffee exports that are handled by the Coffee Board of Kenya ? The legal framework for operating the coffee industry is spelled out in the Coffee Act of 2001, which provides for the regulation of the industry and control over production, marketing and export of coffee, as well as incidental and connected matters (USDA, 2004);Impact and effectiveness of this legal framework on the development of the Kenyan coffee export sector has yet to be researched on.

1.2.4 Research Question

This study will be guided by the research question:

What are factors influencing the development of coffee exports as handled by the Coffee Board of Kenya (CBK)?

1.3 Research Objectives

The general objective of this study was to determine factors influencing the development of coffee exports handled by the Coffee Board of Kenya.

The specific objective of this study was to assess the factors influencing the development of coffee exports as handled by the Coffee Board of Kenya.

1.4 Value of the Study

1.4.1 Contribution to Theory and Practice

The findings of the study will benefit the coffee exporters in Kenya and the sector as a whole, which is one of four main contributors to the Kenyan economy through foreign exchange earnings (after tea exports, tourism and horticulture) (Economic review, 2010, CBK 2011). Global Consumer demand patterns have been evolving over time, especially in response to Fair Trade issues, Sustainable Coffee Farming practices and their direct impact on the immediate environment (Coffee Quarterly, 2007, 2008, 2009). By establishing strategic alliances and cultivating good relationships with producers along the value chain, both exporters and producers alike will be able to keep abreast of global consumer needs and demands. Kenyan exporters need to be more responsive and proactive to changing global consumer demand patterns, and collaborate closely with farmers/producers to disseminate this vital information in order to maintain and sustain the specialty-coffee market niche that Kenyan coffee enjoys (Coffee Quarterly, 2007). Strategic alliances among exporters, producers and the global consumer market will result in organized and efficient strategic management of the sector for all the stakeholders to benefit. It is in this regard that more research and documentation needs to be carried out in the sector.

The findings of this study will also be beneficial to the farmers whose survival is pegged on the performance of the sector. Feedback and feed forward of information on market trends, consumer demands, sustainable farming practices for the continued development and growth will be implemented.

The findings of this study will be beneficial to the policy makers such as Coffee Board of Kenya, Ministry of Agriculture, Ministry of Co-operatives and Ministry of Trade. The study will provide a decision-making platform for these policy-makers to streamline, harmonize and articulate policies that benefit the development and growth of this important sector. Also enabling the same in sighting the gaps in regulation will also need to incorporate some suggestions that will be given from the study into policy and regulation practices.

This study is useful for academic field and further research into the intricacies of this important export sector and its contribution to the Kenyan economy. The study will add to and enrich previous research studies done, while also acting as a platform on which future research studies can be undertaken.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter gives the literature of the study based on International Trade Theory, International Trade Strategy , the legal, regulatory and policy framework in Kenya coffee sector namely Coffee Board of Kenya (CBK), the Coffee Act 2001 and the role of supporting and related industries in the development of the Kenya coffee sector. The chapter also gives literature of the study on the five main factors influencing coffee exports handled by the Coffee Board of Kenya.

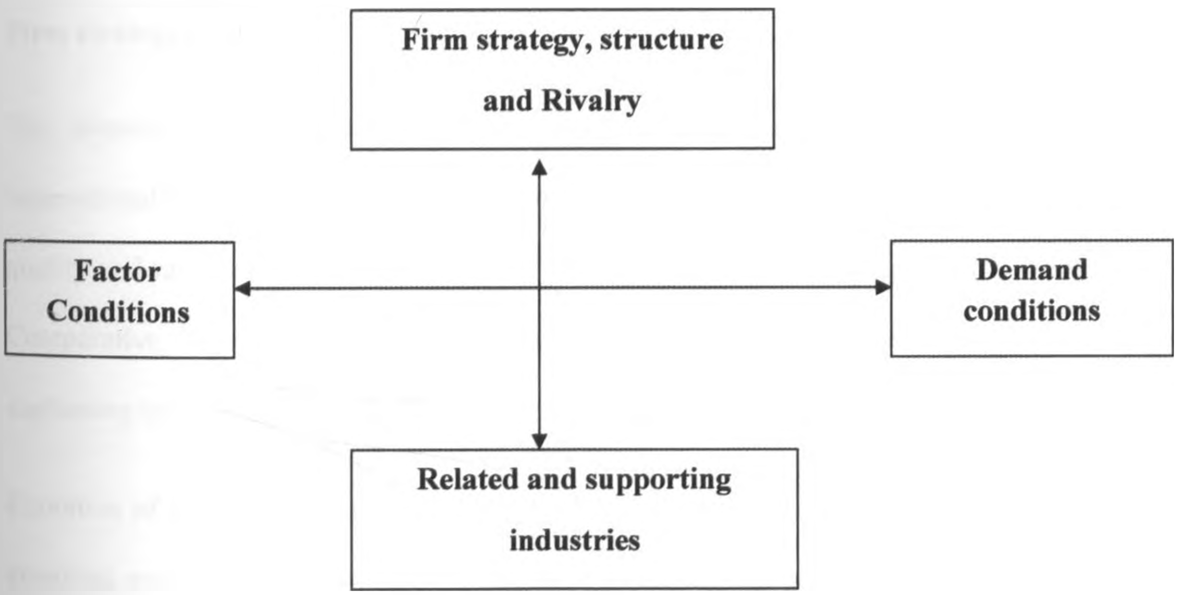
2.2 International Trade Theories

International trade is the voluntary trade for mutual benefit between residents (individuals, firms, governments) of two countries (Griffin and Pustay, 2010). International trade has important direct and indirect effects on national economies. Exports are a direct internationalization strategy employed by a country, sparking additional additional economic activity in the domestic economy such as employment creation. Because of the siginificance on international trade to businesses, consumers and workers – scholars have developed trade theories to explain and predict the forces or factors that motivate such trade (Griffin and Pustay, 2010). Governments of countries use these theories when they design policies to benefit their economies and citizens. Firm managers also use these trade theories to identify promising markets and profitable internationalization strategies (Griffin and Pustay, 2010).

David Ricardo, an early 19th Century British economist, developed the theory of Comparative Advantage, which states that a country should produce and export those goods and services for which it is relatively more productive than other countries are, and import those goods and services for which other countries are relatively more productive than it is (Frank and Bernake, 2004; Griffin and Pustay, 2010). Comparative advantage motivates trade at an international level, because prices set in a free market reflect a country's competitive advantage (Griffin and Pustay, 2010).

Michael Porter's "Theory of National Competitive Advantage" (1990) is the newest addition to international trade theory. Porter believes that success in international trade comes from the interaction of four country and firm-specific elements; namely Factor conditions, Demand conditions, Related and Supporting industries, and Firm Strategy, structure and rivalry . This represents Porter's Diamond of National Competitive Advantage as illustrated below (Griffin and Pustay, 2010).

Figure 2.1 Porter's Diamond of National Competitive Advantage



Source: "The Competitive Advantage of Nations" By Michael E. Porter. 1990.

Factor conditions

A country's endowment of factors of production affects its ability to compete internationally. Porter goes beyond the basic factors of land, labour and capital to include the educational level of the workforce, and the quality of the country's infrastructure.

Demand Conditions:

The existence of a large, sophisticated consumer base often stimulates the development and distribution of innovative products.

Related and Supporting industries:

The emergence of an industry often stimulates the development of local suppliers eager to meet that industry's production, marketing and distribution needs.

Firm strategy, structure and rivalry:

The domestic environment in which firms compete shapes their ability to compete in international markets. To survive, firms must continually strive to reduce costs, boost product quality and raise productivity (Griffin and Pustay, 2010). The classical country-based theory of Comparative Advantage, and the Hoecksher-Ohlin Factor endowments theory, are useful in explaining the export trade of agricultural cash crops such as coffee.

Exporters of a cash crop such as Kenya coffee, requires them to employ a global strategy for acquiring and penetrating global markets: this by viewing the world as a single marketplace, with the exporting firm's primary goal as that of creating a branded standardized product that meets the needs of customers worldwide (Griffin and Pustay, 2010). Exporters should also engage in international strategic planning aimed at developing distinct competencies, scope of operations, resource deployment and synergy.

Dunning's Eclectic Theory suggests that a firm's possession of a distinctive competence is necessary for the exporting firm to compete successfully: the internationalization export strategy reflects the interplay between the exporter's distinctive competence and the business opportunities available in different countries (Griffin and Pustay, 2010).

2.3 Exports as an Internationalization strategy

Exporting is the simplest internationalization strategy for a domestic business. Advantages accrue for the exporting firm, namely the exporting activity requires a relatively low financial exposure; permits gradual market entry; enables the exporter to acquire knowledge about the importer's market; avoids restrictions on foreign direct investment (Griffin and Pustay, 2010). However, there are also disadvantages of exporting, namely the vulnerability to tariffs/ quotas and non-tariff barriers (NTB's) such as government policies and bureaucracy requirements; logistical complexities and potential conflicts with distributors.

Exporting firms may have proactive or reactive motivations for exporting (Deresky, 2008; Griffin and Pustay, 2010). Proactive motives pull a firm into foreign markets as a result of market and business opportunities available there; exploit a technological advantage or to spread fixed Research and Development expenses over a wider customer base hence allowing it to price its products more competitively in domestic and foreign markets (Deresky, 2008). Reactive motives for exporting are those that push a firm into foreign markets, often because opportunities are decreasing in the domestic market, or they seek higher profit margins in foreign markets (Deresky, 2008; Griffin and Pustay, 2010). Direct exporting is either to distributors or end-users, located outside the firm's home country; it is a deliberate effort to expand its business internationally. The firm actively selects products, foreign markets to service, and the means to distribute in those markets (Griffin and Pustay, 2010).

2.5 Overview of the Kenyan Macroeconomic Environment

In the early 1980s, a number of developing African nations such as Kenya were encouraged by the World Bank and the International Monetary Fund (IMF) to liberalize their economies as a means to stimulate export-led growth in those industries where they enjoyed a competitive advantage (Oxfam, 2002). Consequently, the various reforms implemented involved removing government support mechanisms in the coffee sector, with the simultaneous opening up of its markets to the world. The unfortunate consequence was the unpreparedeness of the sector to absorb the associated. risks Furthermore, Kenya has been stuck selling raw materials that earn the least amount of revenue in the commodity value chains. Thus, while the major coffee brands (controlled by Kraft Foods, Nestlé, Procter & Gamble and Sara Lee) made profits of over US$1 billion in 2001, the small-scale Kenyan coffee grower earned as little as US$ 0.06 per kilogram (Oxfam, 2002).

In the late 1990s, Kenya maintained a relatively stable macroeconomic environment and the accompanying benefits began to filter through to agriculture. In addition, international market demand remained buoyant for the main commodities such as coffee, produced domestically. From a sectoral perspective the government's agricultural strategy recognized that an appropriate policy environment which sends consistent and credible signals to the market had to be in place and as such, the government took steps to complete the policy agenda. The government's strategy also recognized that the institutional framework had to be readjusted and emphasized, and that the reform of public sector operations helped to release resources that could be used for higher priority tasks (World Bank, 1996).

In the coffee industry, macroeconomic reforms including the removal of restrictions on the exchange rate, Foreign exchange (FX) retention and remittances and liberalizing interest rates, allowed exporters to keep most of their earnings in FX. Consequently, coffee farmers are also paid in FX, although the large majority that is paid in the local currency through their cooperative societies do not benefit directly from the liberalization of the FX markets. Farmers therefore continue to receive low payouts because of the high deductions made by the societies and owed to the ineffective and often corrupt management of both cooperative societies and coffee factories (Nyangito, 2001, UNCTAD 2009). As was the case with most other commodities, coffee was traded in a managed market regulated by the International Coffee Agreement (ICA) until 1989. Then, producing and consuming nation governments pre-determined supply levels by setting export quotas for producing countries. This helped to keep coffee prices relatively high and stable, maintaining a range of $1.20 per pound to $1.40 per pound. In the event that prices rose above the ceiling, suppliers were permitted to exceed their fair share to meet the growing demand. However, disagreements between members eventually led to the breakdown of the ICA in 1989 (Oxfam, 2002). When frosts lowered Brazilian output in 1994/5 and 1997, the rapid price increases triggered the production of coffee by other countries (particularly of the Robusta variety). Since there was nobody to regulate export quotas, the market was soon flooded with an oversupply of coffee.

In the world market, the price of coffee has fallen to a 30-year low, dropping by almost 50 percent. Thus, smallholders are forced to absorb the price risk, since they now receive a price that is below their cost of production. According to WB statistics, the price that producers earn today can only purchase one quarter of what it could 40 years ago. Moreover, with the increasingly sophisticated risk management technologies currently available, companies are able to source coffee from the lowest-cost producer and subsequently mix various blends to achieve the desired taste and texture. Today's standardized blends suggest that the importance of origin has been diminished, except for such known brands as the "Colombian Juan Valdez". In certain cases, the large coffee companies mix up to 20 different coffee types, while the labels fail to identify the source of the coffee (Oxfam, 2002). As such, the free-market system where coffee prices are set by the market no longer exists, and instead the large coffee companies are able to source their raw materials cheaply, to the detriment of smallholders, and sell at higher prices to their own benefit.

2.6 Factors Influencing Growth of Kenyan Coffee Export Sector

World market prices

World market prices greatly influence the viability, growth and development of the Kenyan coffee export sector. Hence coffee export supply is responsive to prices in the long-run. As such, depreciation of the general real exchange rate with a rise in investments positively influences coffee export volumes. The overall slump in production since the late 1980s is due to declining world prices and subsequent low farmer morale and. It is estimated that the national area under coffee cultivation is 170,000 hectares (EPZA, 2005) with about 800,000 households producing 60 percent of Kenya's coffee output. Towards the end of the 1990s a number of demoralized farmers, mostly in the Mt. Kenya region, abandoned coffee for more lucrative agricultural enterprises, mainly horticulture and dairy.

Kenya coffee is mainly Arabica-type , that has undergone processing, milling and grading is eventually offered for sale by the licensed Marketing Agents, to exporters at the Nairobi Coffee Exchange, housed in Nairobi at the Wakulima House (The Coffee Quarterly, 2009). Local auction prices are pegged on the New York Commodities Exchange Terminal (NYCE) which is used as a benchmark. Kenyan Arabica coffee is traded at a differential (+ - NYC) (The Coffee Quarterly, 2009). Currently, due to constricted global supplies in the world market, Kenyan coffee has for the last one year (2010-September 2011) witnessed very high prices for all grades of coffees, from top qualities to lower "mbuni" qualities. This has augured well for exporters and producers alike, but the issue is to sustain this trend by ensuring continued development of the sector to promote quality, quantity and creation of a national brand that places Kenyan coffee firmly on the global export map

Quality and Quantity/ Supply Factors

A second factor that influences the growth and development of the Kenyan coffee export sector is the quality and quantity of coffees offered for sale at the Nairobi Coffee Auction.

Kenyan coffee has also experienced a drop in quality levels over the past thirteen years. The factors that impact coffee quality include:

i) On-farm care: During the nine month gestation period, smallholders pay close attention to their coffee trees and are able to provide the personalized care and attention required. However, because of the low and slow payments to farmers and the high cost of inputs, their use of fertilizer and chemicals for controlling CBD and other inputs has declined, thereby reducing quality levels (KCTA 2006, CRF 2007). A reversal in trade liberalization, particularly the liberalization of inputs could further increase production outputs. (Were et al, 2002).

ii) Soil quality: The quality of some soils has declined considerably, creating an imbalance in acidity (pH) levels and promoting acidity that hinders the absorption of inputs. With limited access to extension services and the lack of rural finance, some producers continue to farm on these soils that yield low quality coffee (CRF, 2007).

iii) Harvesting methods: Large-scale producers do not engage in selective harvesting because of the added costs incurred. Instead, mechanized processes pick both ripe and unripe cherries and mix them together. Smallholders on the other hand, produce premium quality coffee because cherries are selectively hand-picked (CRF, 2007).

iv) Pulping and fermentation methods: Large-scale producers enjoy economies of scale and therefore use bulk processing methods, which lowers output quality (CRF, 2007).

Global consumer demand patterns

A third factor that influences the growth and development of the Kenyan coffee export sector is global consumer demand patterns. Global Fair trade practices have influenced overseas buyers and consumers of Kenyan coffee; increasingly there is global demand for branded coffees of stated origin, labels of certification and environmentally sound farming practices produce coffees that attract a higher premium at the Nairobi Auction level as well as overseas (Coffee Quarterly, 2008, 2009). According to research done easier, about 80% of global coffee consumption occurs in importing countries such as European Union, United States of America, Japan and China, that have no production of their own (KCTA, 2007). The trend in Kenyan coffee industry has been a move towards specialty coffees (CRF 2011, KCTA, 2007), Kenyan coffee has been in the menu of specialty shops; however the characteristics of the Kenyan coffee i.e. too acidic puts a limitation comparing to milder-taste coffees in other countries like Colombia and Guatemala.

According to EAFCA (2004 2005, & 2006) issues of competitiveness, profitability and sustainability of the African fine coffees is of critical importance; therefore exchange of coffee experiences, dialogue on policy bottlenecks and access to markets should be given priority. Kenyan coffee is widely considered to be of high quality, although its 'acid' taste is primarily preferred by Germany (the second largest market) and Scandinavian countries (with the highest per capita consumption) where it commands a high premium. Consumers in the United States (the largest market) and Japan do not accord the same value to acidity, and as such, are unwilling to pay a premium for it (CRF 2006, IEA 2000).

Kenya's product caters to a niche market, and as such doesn't compete directly with Brazilian and other milder coffees. This is an inherent advantage since this profitable characteristic is a result of the geographic climate of the country's consistently high growing altitudes. Global coffee consumers below the age of 35 have relatively elastic coffee drinking habits. After age 35, the proportion of people who convert from being 'non-coffee drinkers' to 'regular coffee drinkers' is quite low. It is therefore crucial to capture young people and develop their coffee drinking habits early on (Lewin et al, 2004).

However, demand conditions are weak in the Kenyan domestic market further limiting the pressure put on producers to improve quality. Kenya has a tea rather than a coffee culture and consumption is low relative to other coffee producing countries; while Ethiopians consume 50% of the coffee they produce, Kenyans consume only 1% (World Resource Institute, 2005). However, over the last nine years, large estates and local roasters such as Sasini Tea and Coffee Ltd, Gibsons, C. Dormans and Java Coffee Ltd have made some effort to encourage the development of a coffee culture opening retail shops throughout Nairobi but the retail industry is not yet fully developed.

Financial resources and endowment

A fourth factor that influences the growth and development of Kenyan coffee export sector is lack of adequate financial resources by the indigenous coffee exporters The coffee sector value chain is capital intensive, and for exporters to benefit from economies of scale when buying coffee from the auction or Second Window, this calls for Financial endowment. According to the Kenya Coffee Traders Association, the coffee auction is mainly dominated by multinational-backed subsidiary firms that buy the available and limited volumes at very competitive prices, to re-export to their overseas parent companies. This practice edges out indigenous exporters who are limited in terms of finances, and cannot compete with multinational counterparts. In order to level the export playing field, and give indigenous exporters a fairer advantage to grow, expand and develop, there is a need for local financial institutions to partner with coffee exporters (Coffee Quarterly 2007, 2008). A few banks such as Co-operative Bank of Kenya, Standard Chartered Bank Limited. and African Banking Corporation (ABC) Limited , have tailored suitable trade finance financial packages such as bank overdrafts, discounting facilities and advisory partnerships with coffee exporters, with a view to boost and grow their businesses.

However, with the recent weakening of the Kenya Shilling and rising interest rates, debt-leverage of Kenya's coffee exporting firms has become too expensive, and would eat into profits in the short and long-run, jeopardizing sustainability of the local export firms.

Financial resource endowment is a direct contributor to competition and rivalry between Kenyan exporters themselves (Coffee Quartely, 2007, 2008). Multinationals have local subsidiary export firms based in Nairobi and Mombasa: they mainly represent the four coffee export global players such as ECOM, Nestle and Kraft Foods (all based in the European Union), have greater financial muscle than indigenous Kenyan exporting firms. The indigenous thus unfairly lose out at the weekly Nairobi Coffee Auction, and are very limited in their participation and subsequent export market share (Coffee Quartely, 2007, 2008). Rivalry among coffee exporters include unethical practices such as buying out or headhunting a rival firm's personnel for valued trade secrets, thus effectively taking over the rival's market share.

Strategic Business Alliances and Partnerships

A fifth factor affecting the development of coffee exports is closely related to competition and rivalry – that of Strategic Business Alliances and Partnerships. There is need for relationship building and strategic alliances between the exporters and producers. Managers who engage in international strategic planning need to address the four basic components of strategy development: distinctive competence, scope of operations, resource deployment and synergy (Griffin and Pustay, 2010).

A good example in Kenya of the successful application of strategic partnerships and alliances is C. Dorman Coffee Ltd., which has established close relationships with farmers at the producer level, facilitating feed forward and feedback on the global export trends and addressing the challenges that farmers face on the ground. C. Dorman has also ensured that the company has a constant, timed supply of the coffee produce at hand to fulfill outstanding coffee-export contracts, as well as stocks for warehousing to act as a hedging-buffer for uncertainties in the coffee global market prices. This rapport between exporter and producer/s is essential for continued growth, development and sustainability of the export sector.(Coffee Quarterly 2007, 2008).

Global strategy by viewing the world as a single marketplace, has as its primary goal the creation of branded, standardized products that address customer needs worldwide (Griffin and Pustay, 2010). A global corporation assumes that customers are fundamentally the same regardless of their nationalities. Thus, the global corporation views the world market as a single entity as it develops, produces and sells its products. It tries to capture economies of scale and economies of scope in production and marketing by concentrating its production activities in a handful of highly efficient factories, and then creating global advertising and marketing campaigns to sell the products.

Government Policies and Programs Supporting the Export Sector

A sixth factor is government policy and legal framework governing the coffee sector. The economies of tropical African countries including Kenya, are historically based on the production and export of primary products such as coffee, tea, cotton, sisal (Bates, 1981, 2005). African nations aspire to achieve rapid development to provide larger incomes and higher living standards; these objectives can best be secured by shifting from economies based on the production of agricultural commodities, to economies based on industry and manufacturing (Bates, 1981).

The Kibaki administration that took over in 2002 sparked a renewed interest in coffee. In Western Kenya, farmers started opting out of maize farming to pursue the higher gross margins offered by coffee. Demand for planting material, mainly Ruiru 11, which is a high yielding variety (HYV) that is resistant to Coffee Leaf Rust (CLR) and CBD, is on the rise (Onsongo, 2004). Estate coffee production has been on the decline since large farms (usually over five acres) possess few economies of scale. This is a result of their heavy use of manual harvesting over mechanized harvesting. Additionally, they pay workers in cash, not having access to non-cash family labour as is the case for smallholders, usually with farms of less than 5 acres. Considering the current price levels, coffee farming has not been as profitable for estate farmers in recent years.

Since the introduction of commercial coffee farming in Kenya, the issue of production and profitability has always been a constant concern to stakeholders (Coffee Research Foundation, 2007) showing the ever increasing need to have right and progressive policies. According to Kenya Export Promotion Council (2006), good business relationship of both local and international players is key to the growth of the coffee sector. In order to operate successfully, the policy reforms created in the coffee industry should be in harmony with the legal framework. This requires clarifying the roles and responsibilities of relevant institutions so that they fit in well with all policy changes (Nyangito, 2001). This important element has been somewhat lacking in the Kenyan coffee sector, as evidenced by the case of the Coffee Board of Kenya (CBK).

In the past, CBK served as both the regulating agency and service provider to coffee farmers. As regulator, the Board acted as a government agent in all matters pertaining to the domestic development of the industry and international trade as directed by the Ministry of Agriculture (MOA). In the role of service provider, the Board promoted the coffee industry through marketing and processing, licensing and controlling coffee producers and processors, and conducting coffee research (Nyangito, 2001). Accordingly, the CBK was the only body able to roast, sell and export coffee. Planters had to sell to the Board and millers had to deliver all roasted coffee to them within a specified amount of time. The board also had the discretion to buy and sell all Kenyan coffee as it deemed fit. Not surprising, this dominant role created significant conflict within the industry and resulted in a highly inefficient operating structure.

In 1993, following a series of complaints regarding the inefficiency and the conflict of interest created by the CBK's dual role, the Government of Kenya (GOK) began implementing appropriate policy reforms, culminating in the Coffee Act 2001 As such, the GOK withdrew its control of the CBK, effectively allowing it to become a farmer-led organization. In the same wave, changes were made in the legal framework for regulating and controlling the coffee sector in 1999. The Coffee Board of Kenya (CBK) could no longer control the farmers' choice of coffee pulping, factory, miller or marketing agents. The coffee producers now had the power to appoint their own processors, millers, and marketing agents and only required the Board to register these agents (Nyangito, 2001). However, these newly 'empowered producers' were unprepared to wield this amount of power and didn't quite know how to use it to their own advantage. Although the policy reforms encouraged and permitted the active participation of more players in pulping, milling and marketing, these actors still had to be licensed and registered by the Coffee Board of Kenya.

The Coffee Board retained authority to arbitrate disputes, also wielding supreme power over all players in the sector. However, with mounting pressure from the ensuing conflict within the industry, the government resumed its management role of the CBK in 1999. While this move sought to ease tension between farmers and millers, it also aimed to facilitate the industry's liberalization (Nyangito, 2001).. This suggests that the policy reforms instituted, failed to clearly define the roles of each stakeholder and also made no provision for an accompanying regulatory framework for enforcing industry rules (KCTA 2006, Nyangito 2001).

2.7 The Coffee Act of 2001

The new Coffee Act (CA) came into force in April 2002 to encourage wider liberalization in the coffee sector (Coffee Board of Kenya, 2011). Under this scheme farmers can now freely choose between marketing agents and as a result, some dealers and roasters no longer have coffee buying agent status (Lewin et al, 2004). The act introduced a 'second window' as a push to allow a portion of production, about 30 percent, to by-pass the auction, to be sold directly to buyers through licensed brokers. Prices would then be determined by those established at the most current auction, with a surcharge of three percent. The system was established to be similar to that already in place in the tea industry (Moledina, 2005). Furthermore, the role of the Coffee Board of Kenya (CBK) was changed to that of (solely) industry regulator with no intervention in local markets (Lewin et al, 2004). The Coffee Act (CA) also encouraged commercial millers or management agents to render extension services either for payment or on credit, as a means to offer indirect financing through cooperative societies. Under this arrangement, the miller or agent is required to report the corresponding charges to the CBK (Republic of Kenya, 2002).

2.8 The Coffee Institutions

The coffee institutions such as the Coffee Board of Kenya (the sector regulator and licensor), co-operative societies, millers, marketing agents were created to perform a number of functions in the coffee industry. Through these players, the government sought to regulate the industry, while providing producers with the needed support for processing, marketing, selling and exporting their coffee. Although the role of each is important in building smallholder capacity, mounting inefficiencies in the institutions have limited their scope and hindered their ability to serve as a support mechanism to Kenyan coffee producers and exporters, according to Nyangito (2000) who argues that there are numerous inefficiencies in the institutions although the roles of the coffee institutions are well spelt out. The coffee industry is particularly vulnerable to external influence, (including vagaries of the international market with rapid and persistent fall in the prices of coffee, especially since the collapse of the International coffee Agreement (ICA) in 1989 and restriction to the primary production level), smallholders found themselves in a slump when producer prices fell worldwide as a result of a disproportionate increase in supply. Moreover, productivity fell deriving from a decrease in input usage.

Fig. 2.2 Conceptual Framework

Independent Variable → **Dependent Variable**

Factor Conditions

1. World market prices
2. Quality and quantity/ supply
3. Global Consumer demand patterns
4. Competition, rivalry among exporters
5. Financial resources, marketing

→ Development of Coffee exports handled by CBK

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter comprises of the research design, the population of interest, the population sample, data collection instruments, and the data analysis technique that were used to establish the factors that influence the development of coffee exports handled by coffee board of Kenya

3.2 Research Design

This study adopted a census survey design to establish the factors influencing the development of coffee exports in Kenya. A census survey was undertaken to collect data from all members of the population in order to determine the current status of that population with respect to one or more variables. Further, this census method collected data from members of targeted population by use of questionnaires, interviews and observation schedule (Mugenda & Mugenda, 1999, 2003). This design enabled the researcher to get generalized characteristics or information about the target population.

3.3 Population of the Study

Since this was a census survey, the population of this study comprised of all the 30 (thirty) licensed and registered coffee exporting firms in Kenya, as listed in the most current edition of the Kenya Coffee Trader's Association directory (2008). These export firms were located mainly in Nairobi, while a few were in Kiambu, Githunguri/Ruiru and one in Mombasa (but headquartered in Nairobi). (See appendix list of firms).

3.4 Data Collection

A structured questionnaire comprising close-ended questions was used to collect data. The questionnaires were administered using the drop and pick later method. The respondents of this study were employees from the mid-level and top-level management of the firms, and were directly involved in procurement and reselling/exporting coffee on behalf of their companies. The Questionnaire was aimed at addressing the objective of the study.

Sample questions read as follows:

Q21. Do you agree that the trend in Kenyan coffee industry has been towards specialty coffees? Yes [ ] No [ ]

Q23. Kenya's production costs are considerably higher than those of other coffee producing countries: to what extent do you agree with this statement?

Very great extent [ ] Great extent [ ] Moderate extent [ ]

Less extent [ ] Not at all [ ]

3.5 Data Analysis

The researcher ensured that all questionnaires were completely answered. The information was categorized according to topics related to the research objective. The Statistical Package for Social Sciences (SPSS) Version 17 was used for analysis and processing of data. Descriptive analysis for Percentages and frequency distributions was also used.

Descriptive statistics are supported by tables, frequency distributions and percentages in the subsequent chapter.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter details the findings of the study and discussions with respect to the objective of the study. The study was designed with the aim of achieving the objective of determining the factors that influence the development of coffee exports handled by the Coffee Board of Kenya (CBK). The study involved the collection of data through the use of questionnaires which were administered through drop and pick basis. This study targeted all the 30 registered and operational coffee exporting firms in Kenya as listed in the Kenya Coffee Traders Association Directory (2008). (This directory is the most current publication printed and in wide circulation).

The results are presented in order of the study objective i.e. To determine factors influencing development of coffee exports handled by Coffee Board of Kenya (CBK).

4.2 The Response rate

The response rate is expressed as the return rate calculated as a percentage of the total number of questionnaires that the researcher gave out. Out of the total 30 questionnaires the researcher administered, only 20 were returned. The response rate was therefore 66.66%.This percentages is fairly representative. Mugenda and Mugenda (1999, 2003) stipulate that a response rate of 50% is adequate for analysis and reporting. A response rate of 66.66% is therefore a good and adequate rate to base conclusions.

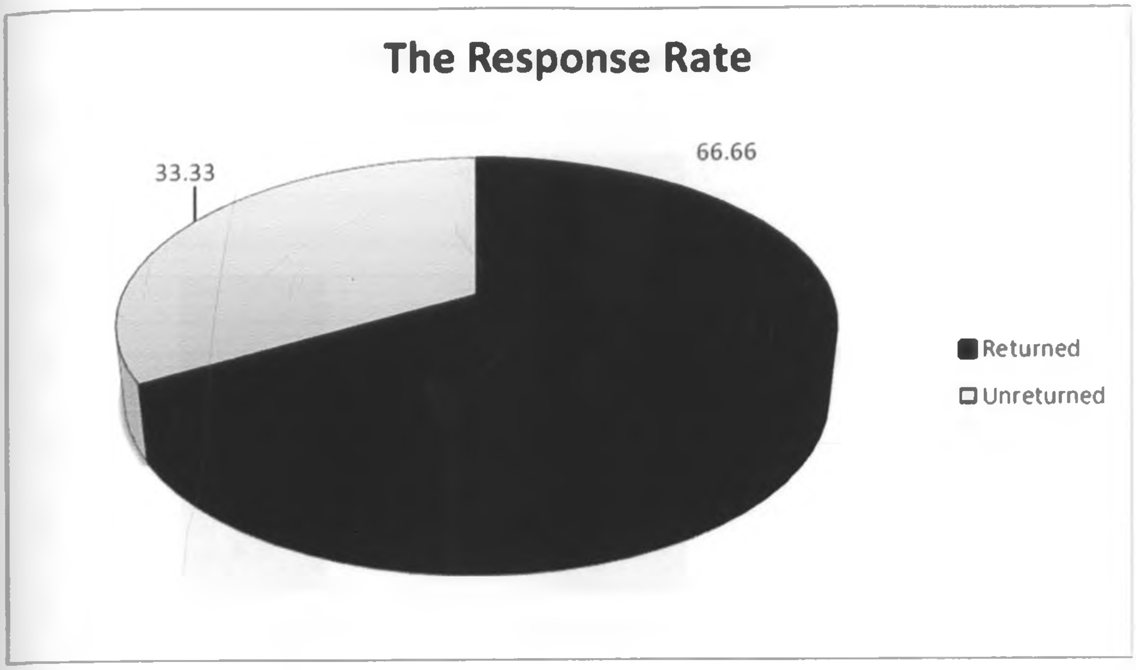


Figure 4.1: The response rate

Figure 4.1 above illustrates that the response rate was 66.66 % of the respondent firms where at least 20 out of the 30 licensed and listed coffee exporting firms responded.

4.3 Demographics

This section analyses the key characteristics of the coffee exporting firms and is intended to establish certain attributes like employment category, highest education level attained, and years of experience in the Coffee sector. Frequency tables, Bar Graphs and Pie charts are used to illustrate the data.

4.3.1 Employment category

The employment category is important because it enabled the study to establish the relationship between employment category and management experience with the Coffee exporting firms.

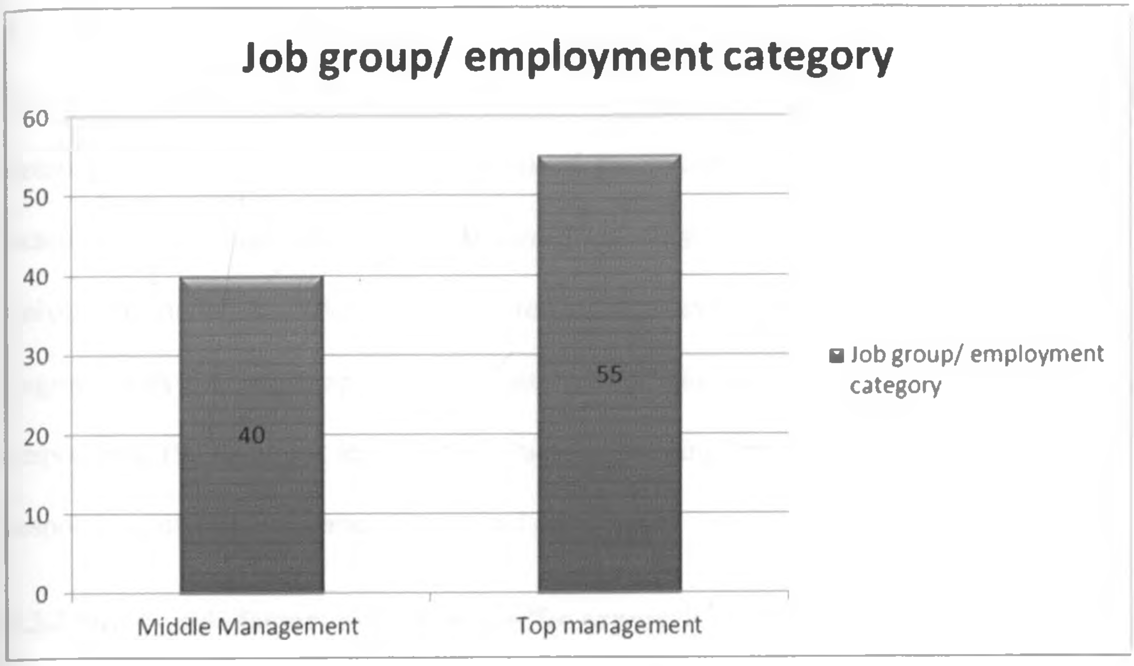


Figure 4.2 Employment category

According to the figure 4.2 above, 55% of the respondents were top management, 40% were middle management while only 5% were support staff. On the average the respondents 95% (40% + 55%) were in the management level/ cadre of the coffee exporting firms. Management experience in the Coffee sector is important to determine their knowledge of issues relating to coffee export trade in Kenya.

10 % of the respondents had served for between 1 and 5 years, 30% had an experience of 6 to 10 years while 20% had served for 11 to 20 years and 40% for over 21years. On the average the majority of the respondents (60%) had served in the industry for a long period and therefore they were conversant with the Kenya coffee export sector, and in a position to respond to coffee export issues.

4.3.2 Highest education level of Kenyan coffee exporters.

Respondents were required to indicate their highest education level. This enabled the study to determine if the education level determined the effectiveness and efficiency of management practices in the export firms. The findings were that 55% of the respondents had completed university education, 20% had completed college-level education, and 25% had a masters degree . Only 5% had completed form four level of education. On the average the majority of the respondents (95%) had at least higher education training and therefore they were in a position to respond to coffee management issues and challenges.

4.3.3 Supply side factors influencing coffee export

This study, looked at the extent to which Supply-side factors influenced coffee exports handled by CBK; factors being Climate, World coffee prices, Financial endowment/resources, Coffee output and Management of coffee co-operatives .

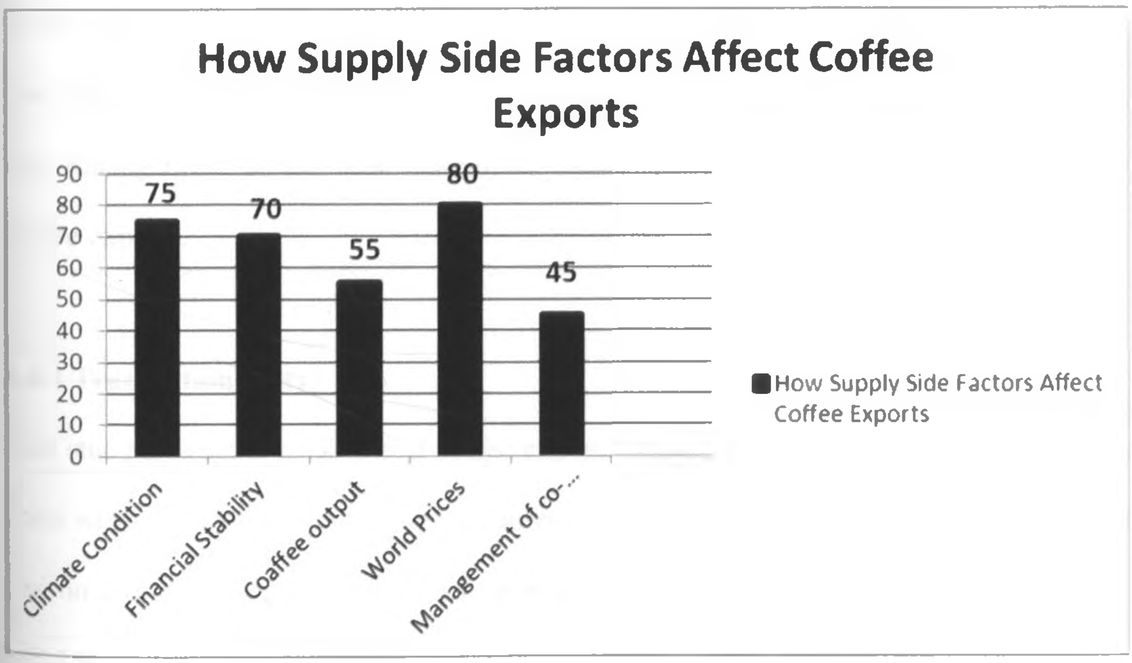


Figure 4.3 Supply side factors that influence coffee export volumes

From this study findings, all the factors influenced coffee exports in the Coffee exporting firms to a very great extent, except for Management of co-operatives. 75% of respondents felt that Climatic conditions influenced coffee export volumes directly to a very great extent: recent unfavorable climate, erratic rainfall patterns and prolonged drought have directly negatively affected quantity and quality of coffees which are made available to exporters at the Nairobi Coffee Exchange (NCE).

As far as World prices were concerned, these influenced coffee exports to a very great extent at 80%. World market prices greatly influence the viability, growth and development of the Kenyan coffee export sector. Hence coffee export supply is responsive to prices in the long-run.

Financial endowment and access to the same, also influenced the development of coffee exports to a very great extent. 70% responded that this contributed to a very great extent, given that coffee production and the entire coffee value chain require heavy financial investment for the profitability, sustainability, vibrancy and viability of the sector. Only 45% of the respondents felt that Management or the lack thereof, of coffee co-operatives, influenced the development of coffee exports.

4.4.1 Transaction costs

This study also set to establish if coffee exporters encountered the challenge of high transaction costs when implementing export procedures, and if this hurt their coffee business. On a scale of yes, no and somewhat the following responses were recorded.

Variable	Frequency	Percentage	Cumulative Percentage
Yes	13	65	65
No	5	25	90
Somewhat	2	10	100
Total	20	100	

Table 4.1 Effects of high transaction costs on the coffee export sector

From Table 4.1 above, 65% of the respondents agreed that the high transaction costs negatively affected the coffee export sector, 25% thought it did not while 10% felt it somehow did affect the business albeit to a very minimal extent: transaction costs were nothing out of the ordinary other than costs inherent to the coffee export sector. Transaction costs include levies payable to Coffee Board of Kenya, Coffee Research Foundation, Ministry of Roads and Transport, warehousing charges and interest to warehousemen (companies charged with safe custody of coffees pre- and post auction), road and railage transport charges, mandatory insurance bonds and premiums, shipping charges (transport, handling charges, Bills of Lading), interest on bank loans/ overdrafts, losses incurred due to fluctuating Kenya shilling to the US Dollar.

4.4.2 Coffee industry value chain

This study set to find out if the Coffee industry has a long and complicated chain that drains all the funds along the way before the payment gets to the farmer. On a scale of yes, no and somewhat the following responses were recorded.

Variable	Frequency	Percentage	Cumulative Percentage
Yes	4	20	20
No	14	70	90
Not entirely	2	10	100
Total	20	100	

Table 4.2 Effects of coffee supply chain on farmers' earnings

From Table 4.2 above, only 20% of the respondents agreed that the Coffee sector has a long and complicated supply chain that drains all the funds along the way before farmers get their earnings. 70% of respondents disagreed that the supply chain was too long. Only 10% of respondents agreed that the supply chain was too long, eroding farmers' earnings: the farmer still got payment albeit after incurring deductions such as recovery of loans and advances.

4.4.3 Right and Progressive policies

This study set to find out how the respondents rated the Kenyan coffee export sector/ environment in terms of right and progressive policies in place, chiefly by the coffee sector regulator namely the Coffee Board of Kenya and the Coffee Act (2001). The revised Coffee Act 2001 enabled the liberalization of the coffee sector and value chain, allowing for more players to participate and offer their services from the farmer to the exporter. The Coffee Board of Kenya (CBK) is the regulator, licensor and arbitrator, as well as enforcer of its laid down rules and regulations in implementing a conducive, competitive yet fair business environment for the coffee sector. On an attitudinal scale of *Good, average* and *poor,* the following responses were recorded.

Variable	Frequency	Percentage	Cumulative percentage
Good	2	10	10
Average	7	35	45
Poor	11	55	100
Total	20	100	

Table 4.3 Right and Progressive policies

According to table 4.3 above, only 10% of the respondents agreed that the Coffee industry had right and progressive policies, 35% thought that they were average, while 55% of the respondents indicated that the policies were poor. While a majority of respondents were pleased with the liberalization of the coffee sector, they were dissatisfied with the lax enforcement of rules and regulations set out in the Coffee Act 2001, as well as challenges such as theft of parchment coffee from factories, warehouses and even on road transit.. Also the prevalence of cartels amongst millers, marketing agents and exporters. Respondents felt that CBK was not enforcing its own regulations in the sector, nor encouraging demoralized farmers to continue growing the crop. CBK has not done enough to stop the continued uprooting of the crop, as well as sale and conversion of large coffee estates into housing and commercial developments.

Respondents felt that CBK should formulate and enforce policies protecting this endangered cash crop.

4.4.4 Effectiveness of related and support industry in coffee value addition and exports

This study set to find out the efficacy of related and support industry in value addition of coffee produce, thus directly influencing the development of coffee exports.

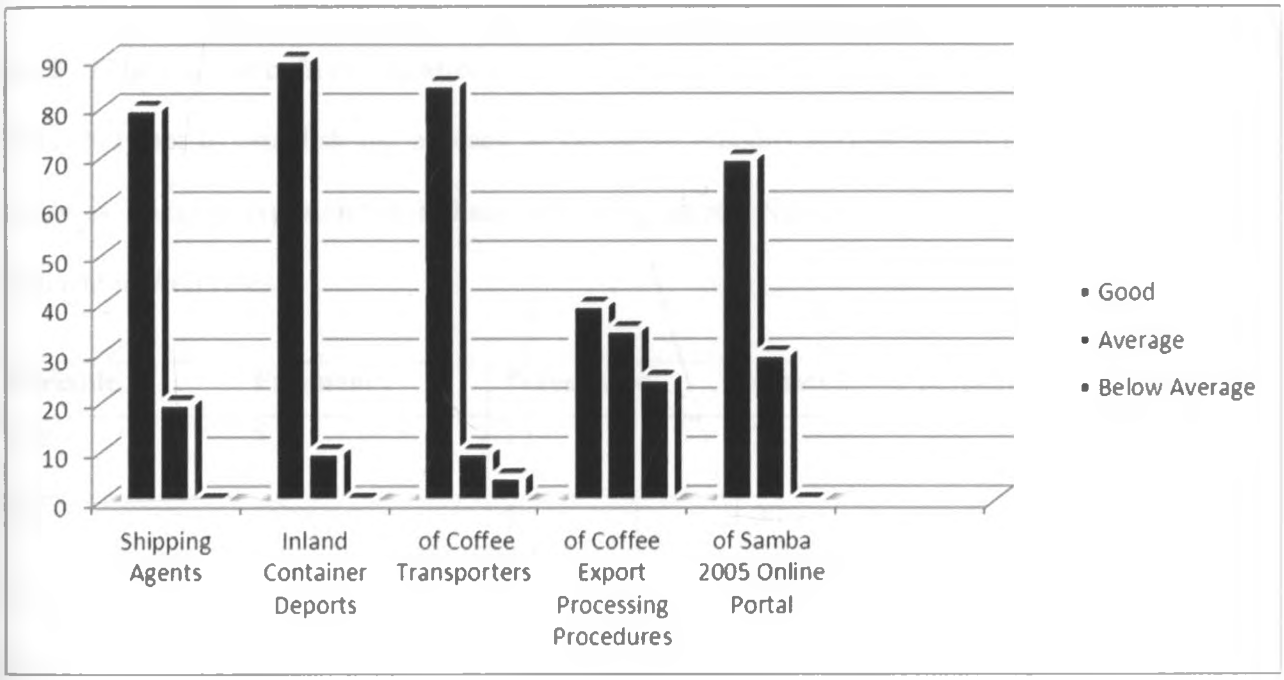


Figure 4.4 Effectiveness of related and supporting industries

The related and supporting industries include coffee export processors such as millers, warehousemen and the use of (Ultra-violet ray) color sorting machines, hand-picking of coffees; shipping agents and inland container depots, transporters and freight-forwarders; the Customs Simba (2005) online e-portal for lodging and processing of exports documents and payments to Kenya Revenue Authority. According to Figure 4.7 above, respondents rated effectiveness of shipping agents at 80% only 20% rated them as average. Inland container depots were rated as very effective by 90% of the respondents, while 10% rated them as average. For coffee transporters, 85% said they were good, although there were security threats and theft incidents of coffee bags or whole containers while in transit. 10% rated them average while 5% considered them below average. According to this study findings coffee export processing procedures rated good at 40%, it was average at 35% and below average at 25%, for the Simba (2005) e-online portal. 70% rated it good and 30% rated the procedures as average.

4.4.5 Efficiency of coffee institutions

This study set to establish the efficacy of coffee institutions (Coffee Board of Kenya, coffee factories, co-operative societies, millers, marketing agents, Nairobi Coffee Exchange (NCE))are efficient in their roles.

Variable	Frequency	Percentage	Cumulative percentage
Yes	5	25	25
No	1	5	30
Partly Efficient	14	70	100
Total	20	100	

Table 4.4 Efficiency of coffee institutions in development of exports

According to table 4.4 above, 25% of the respondents rated the coffee institutions as efficient in carrying out their roles, 5% said they were not and 70% indicated that they were partly efficient in their roles in the development of coffee export sector in Kenya. The findings thus prove that these institutions are inefficient in their role of influencing coffee exports.

4.4.6 Demand side factors influencing coffee export

This study sought to establish Supply side factors influencing coffee export. Using the scale if To a very great extent, To a great extent, To a moderate extent To a lesser extent and To no extent the respondents were required to indicate the extent to which; Consumer tastes, industry Certification, Relationship of exporters and producers, Competition In the industry and Illegal exports influenced coffee export among the Coffee exporting firms. The figure 4.8 below illustrates the findings.

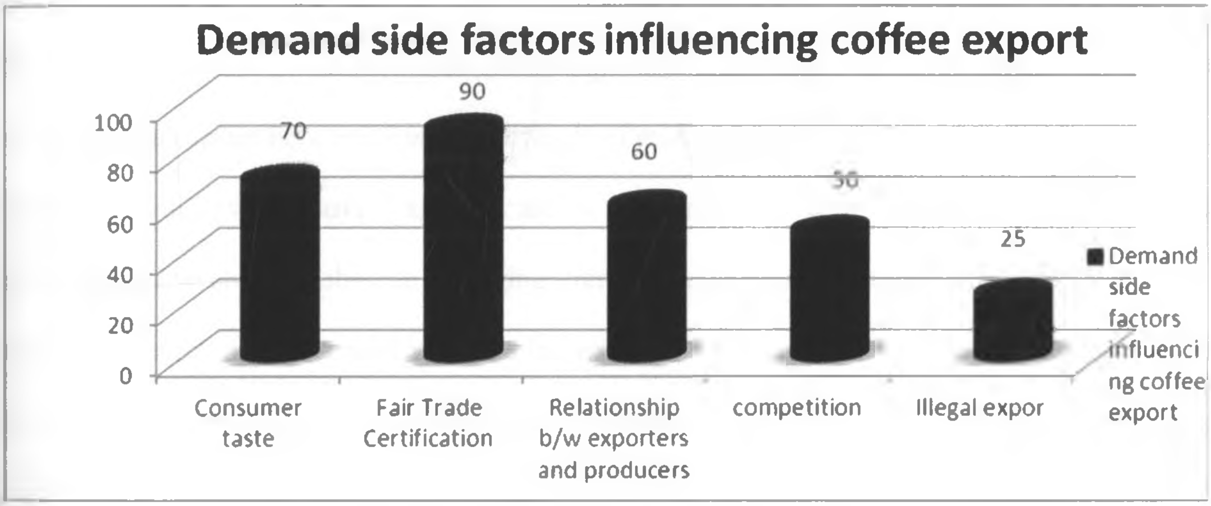


Figure 4.5 Demand side factors influencing development of coffee exports

From figure 4.5 above, 70% respondents rated Consumer tastes as a factor influencing the development of coffee exports to a very great extent: Consumer tastes and preferences dictate the quality and quantity of coffee exports. 90 % of respondents rated Fair Trade Certification as a major factor influencing coffee exports Consumers worldwide have become more educated on environmental and health issues. Hence there is a growing demand by global coffee consumers for coffee certification such as Fair Trade, Labels of Origin, Utz Kappeh, Rain Forest Alliance, 4C's, Green growing practices and Corporate Social Responsibility. These have a direct bearing on exporters' choice of quality right from the producer level; exporters strive to meet demand requirements of their overseas markets. At the Nairobi Coffee Exchange, the coffee sale catalogs are increasingly featuring certified coffees, to match demand levels. With a global cafe culture taking root, there is also an increase in demand for specialty coffees, which fetch a premium price in overseas markets such as the European Union (EU) nations, United States and Far East. Exporters in turn respond to these demands by sourcing for local specialty coffees.

60% of respondents rated highly the (business) relationships between exporters and producers in the sector influenced development of coffee exports to a very great extent with A good business/ working relationship between the two parties is of mutual benefit, with open communication on a feedback-feed forward basis. Exporters are in constant touch with overseas buyers of Kenyan coffee and are able to observe changing trends and consumption patterns, stringent health regulation requirements. Armed with this information, they can pass this on to producers to guide them and even cut down on avoidable costs. Through strengthened relationships and alliances with local producers, exporters are also assured of a steady supply of coffee produce, to cater for overseas demand. This way, exporters can plan operationally, tactically and strategically and ensure sustained profits, development and growth.

As far as Competition within the coffee export sector was concerned, 50%, respondents felt it influenced coffee exports to a very great extent ;at 10 % rated competition to a great extent , while 15% rated competition as only a moderate factor. Illegal exports are also a factor influencing demand for coffee exports . However, 55% of respondents rated it as a lesser extent; and to a great extent at 25%; a moderate extent at 10% and to a lesser extent at 10%.

From these study findings, demand-side factors that include Consumer tastes, Fair-trade Certification and Labels of Origin, Relationship of exporters and producers and Competition in the coffee export sector, influenced coffee exports to a significant extent. However, the occurrence of illegal and unlicensed coffee exports did not negatively influence the development of coffee exports to a great extent, since they are at a minimum.

In line with demand conditions such as consumer tastes and preferences, respondents were also required to state if the trend in industry has been towards specialty coffees. On a scale of yes, no and somewhat, the following responses were recorded.

Variable	**Frequency**	**Percentage**	**Cumulative percentage**
Yes	18	90	90
No	2	10	100
somewhat	0	00	
Total	20	100	

Table 4.5 Trend towards specialty coffees

According to table 4.8 above, 90 % of the respondents agreed that the move in industry has been towards specialty coffees. Only 10% said it was not. By monitoring and responding quickly to end-user consumers' needs, Kenyan coffee exporters are able to position themselves strategically in the market. There has been a growing demand from overseas coffee consumers, for specialty coffees that are top-quality, are carefully grown and tended to achieve a rich flavor. These specialty coffees find their way into high-end coffee shops and supermarkets, and command a very high premium compared to lower quality coffees. Thus, Kenyan coffee exporters have been keen and responded to the discerning, high-end consumers of the beverage.

4.5 Other challenges in the coffee export sector

This study set to determine other challenges in the coffee export sector, mitigation of the same and their effect in influencing coffee exports handled by the Coffee Board of Kenya (CBK). These other challenges being lack of education, lack of good business training, low management experience, high inflation prevailing in the country, and volatile/ unpredicatble world coffee prices. The respondents were required to rank these challenges. Below are the findings:-

Variable	Frequency	Position	Rank
Lack of Education	5	1	4
Lack of good business training	4	2	5
Low management experience	6	3	3
High Inflation in the country	16	4	2
Unpredictable world Coffee prices	20	5	1

Table 4.6 Other challenges in the coffee sector

According to table 4.6 above, the most serious challenge in the coffee business was unpredictable and volatile world Coffee prices ranked first with a frequency of 20 followed by high inflation in the country, third was low management experience in the industry followed by lack of education among the industry players ranking at fourth. Lack of good business training was the least ranked challenge at fifth position.

4.6 Kenya's coffee production costs

The respondents were also to assess whether Kenya's coffee production costs are considerably higher than those of other coffee producing countries. Using the scale "To a very great extent, To a great extent, To a moderate extent To a lesser extent" and "To no extent", the following are the findings:-

80% of respondents expressed that Kenya's production costs are very great higher compared to those of other coffee producing countries; 10% expressed "to a great extent, and another 10% to a moderate extent. Production costs of coffee in Kenya include farm inputs such as fertilizers (both industrial and organic) to enrich soils; pesticides to combat diseases such as Coffee Berry Disease, Leaf Rust and Nematode infestation. Increased inflation coupled with the weakening Kenya shilling have greatly disadvantaged coffee farmers, especially the small scale coffee farmers who do not earn enough to purchase these expensive inputs. Alongside high production costs are poor farming methods, such as the continued use of old coffee trees which are not disease resistant. Poor farming methods translate to high incidence of disease. Poor climate conditions such as prolonged drought in coffee growing areas like Central Province, force farmers to use overhead irrigation. Pumping irrigation water from rivers and canals needs the use of diesel-powered water pumps, and rising fuel costs have compounded the problems. Rising fuel costs have also directly affected the costs of imported inputs like fertilizers and pesticides.

4.7 Inefficiency, corruption and mismanagement of coffee institutions

The study sought to find out if high inefficiency, mismanagement and corruption in the coffee institutions significantly raise the industry's production costs. 60% of respondents felt that there is high inefficiency, mismanagement and corruption in the coffee institutions. This is a significant number. Corruption and mismanagement led to the collapse and subsequent receivership of the giant Kenya Planters Co-operative Union (KPCU). Several rural-based co-operatives such as Mbo-I-Kamiti in Ruiru/Githunguri, have constant wrangles amongst members, and this is counterproductive to fulfilling the objectives of the co-operatives in alleviating poverty in the rural areas. Other coffee co-operatives and millers have broken up into smaller (and less efficient) units. Collusion, corruption and theft of coffee have become a real threat to the sector.

4.8 Firm Strategy for Competitive Advantage: Local and global alliances/ partnerships

Respondents were required to indicate how favorable local and global alliances were to the competitive advantage of Kenya's coffee exports. 75% respondents favoured both local and global alliances and partnerships as a business strategy for sharing costs of production, marketing and research and development. 25% did not favor local and global alliances or partnerships.The coffee multinational subsidiaries based here in Kenya responded favorably, because they directly benefit from their parent companies as far as financial, managerial, research and development and marketing resources are concerned. The subsidiaries based in Kenya source for raw materials (coffee exports) and forward the same to the overseas based headquarters, for further value addition such as blending, roasting and packaging, and distribution to the end user. The indigenous Kenyan coffee exporters were also highly favorable to the formation of local and global strategic alliances, but most were limited by financial capacity.

75% of respondents favored Local partnerships between coffee farmers (small, medium and large-scale) and Agro-Chemical companies such as Wellcome, Glaxo, Smithkline Beecham. By partnering, economies of scale and reduced costs would be realized by coffee farmers, while the Agro-chemical companies would have a ready market for their products. Better farming techniques would be introduced, enhancing quality and quantity of coffee, of which 95% is ultimately exported out of the country. The two would work together toward problem solving, trouble-shooting and improving efficiency, effectiveness and sustainability of the coffee sector.

CHAPTER FIVE:

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This chapter presents analysis and findings of the study as set out in the research in the methodology. The results are presented in order of objectives i.e., To determine the influence of supply side factors on development of coffee exports and to establish how consumer demand conditions affect development of coffee exports as handled by CBK and to determine the challenges faced by Commercial Coffee exporting firms in implementation and management of coffee exports. The questionnaire was designed in line with the objectives of the study. The total number of questionnaires given out was 30 and 20 were completed and returned. (Appendix--- list of list of coffee exporting firms)

The study findings indicate that on the average the respondents for the coffee exporting firms were well educated; their Management experience in the Coffee sector was well established in Kenya and hence could have experienced coffee export management challenges over time. And also the majority of the respondents had served in the organizations for a long period and therefore they were in a position to respond to coffee export management issues. The Stream of coffee production the firms belonged was the category of Coffee exporting.

This study finding indicate that the supply side factors influencing export of coffee include Climatic conditions, Financial sector stability, Coffee Output, World prices and Management of co-operatives. However this study found out that all the supply factors except Management of cooperatives influenced coffee export among the Coffee exporting firms. According to the study findings high transaction costs negatively affected coffee business while in Kenya the study concluded there were no Coffee industry progressive policies despite the fact that the Coffee industry has no complicated chain that drains all the funds along the way before the payment gets to the farmer.

This study findings indicate that related and support industry influenced the development of coffee exports among the coffee exporting firms in Kenya. According to the study the related and support industry assist in increasing coffee production in terms of quality and value however this study concludes that the coffee institutions (coffee factories, co-operative societies, coffee millers and coffee board of Kenya) are not efficient in their roles and also the coffee export sector regulatory framework was equally bad however overall the effectiveness of the industry players in the coffee export business was average.

According to the study findings the demand side factors influencing coffee export were consumer tastes, industry Certification, Relationship of exporters and producers, Competition In the industry and Illegal exports however from this study influenced coffee export among the Coffee exporting firms findings, all except Illegal exports influenced coffee export among the Coffee.

From the study findings the challenges faced in the Coffee industry were noted as; Unpredictable world Coffee prices, high Inflation in the country, third was low management experience in the industry followed by lack of education among the industry players while Lack of good business training was the least ranked challenger. This study established that competitive responses; sustainable global alliances; diversification and value addition increased the competitiveness of Kenya's coffee as a determinant of coffee export.

5.2 Conclusions

This study concludes that the factors influencing the development of coffee exports that are handled by the Coffee Board of Kenya (CBK) are world prices, supply side factors such as production costs and consumer demand conditions. The findings indicate that Coffee exporting firms generally emphasize on current structures for export development by there is a serious problem with the legal and regulatory environment as far as the development of coffee export is concerned.

5.3 Recommendations

Any policies intended to encourage increased efficiency of production or greater yields should first focus on whether there are policy changes that must precede the wider uptake of the available export market. The effects of changes in the government policy on organizational structures of the global coffee marketing chain are to some extent mediated by national-level policy. This study thus recommends that all stakeholders in the coffee value chain in Kenya should thus be more actively involved in export regulation and promotion strategy (that is, the producers/ farmers, co-operatives, millers, marketing agents, exporters).

This study also recommends that in order to shorten the value chain overseas and build a better brand image of Kenyan coffee (as well as reap better profit margins), Kenyan coffee exporters need to be encouraged to implement Foreign Direct Investment (FDI) in the importing countries. Given the challenges of local value addition to green coffee, and its limited shelf-life, the Kenyan coffee export sector needs to explore alternative trade options such as FDI. There is need to exploring and implement the benefits of the Ownership Advantage Theory by the Kenya government and coffee exporters: the Ownership Advantage Theory suggests that a firm owning a valuable asset or product that creates a competitive advantage domestically, can use that advantage to penetrate foreign markets through Foreign Direct Investment. Competitive advantage of Kenyan coffee is its origin, distinct flavor and economies of scale of production. By taking the product to the doorstep of the consumers, Kenyan FDI establishments overseas will be able to add value to the green coffee by roasting it, packaging it with the Kenyan brand and distributing it – coffee is very sensitive and highly perishable, and is best blended and roasted within reach of the final consumer.

FDI will also help Kenyan exporters to cut down on high costs of negotiating, monitoring and enforcing contracts with importers.

Also licensing the Brand Kenya Coffee name or franchising their business operations overseas will be profitable to Kenyan coffee exporters. Foreign Direct Investment (FDI) has three distinct advantages accruing namely ownership advantage eg. Brand name, ownership of coffee processing and value-addition technology; Secondly is the location advantage by shortening the value chain and taking the product to the doorstep of the final consumer. Thirdly is the internalization advantage, whereby the firm benefits more from controlling the foreign business activity, than from hiring an independent company to provide the service. This study also recommends the involvement of government through Ministry of Agriculture, and financial institutions, to get on board and provide policy and monetary backing of Kenyan exporters in implementing the above recommendations. Given the sensitive nature of coffee and the need to preserve its ultimate quality, value addition such as roasting, grinding and packaging of the same for the wider overseas market can only be feasibly done in the importing countries. To implement this by FDI is a heavy financial undertaking, but a worthwhile one. There is a need to completely shift from the historical export of raw, green coffee beans to final-stage processing for end-consumers.

Economies of scale and economies of scope will be realized through Foreign Direct Investment (FDI) , such as the setting up of Brand Kenya coffee roasting and distribution factories in the importing countries. Economies of scope are realised by the broadening of product lines in each of the countries that exporters set up shop, thus lowering their production and marketing costs and enhancing their business bottom lines. This will give Brand Kenya coffee a better image, exponentially grow profitability of the same, and earn the Kenya coffee sector more revenues and foreign exchange. In keeping with Vision 2030 Economic pillar, this is certainly the way forward for this sector.

This study also recommends strategic alliances at a local level, and at a global level.At a local level, the coffee supply chain at production level, would benefit greatly when farmers and agro-chemical suppliers form partnerships for mutual benefit. Inputs such as pesticides and fertilizers are increasingly costly, and many small scale farmers do not apply them due to financial constraints. The government, through the Ministry of Agriculture, Ministry of Co- Operatives and the Coffee Board of Kenya, should actively embark on supplying and subsidizing these inputs. A tri-partite agreement between the Kenya government (vis-a-vis the relevant ministries), coffee farmers (small, medium and large estate) and coffee exporters, should be formed with the sole objective of reviving, restoring and propelling the coffee sector to its former pride of place as the key revenue and foreign exchange of the Kenyan economy. Many other accruing benefits such as increased employment, better land policy and usage, increased Gross Domestic Product, improved Balance of Trade through increased exports, a positive image of Kenya through building a better coffee national brand that is recognized globally.

At a global level between coffee exporters and importers overseas. This will greatly favor development, sustainability and growth of the coffee export sector. Strategic alliances are partnerships between two or more firms, that decide that they can better pursue their mutual goals by combining their resources – financial, managerial, technological – as well as their distinctive competitive advantages. According to Fumio Sato (2008), CEO of Toshiba Electronics: "It is no longer an era in which a single company can dominate any business by itself: advanced technology and complex markets prove that one cannot be the best at the whole process any longer" Alliances between Kenyan coffee exporters and overseas buyers such as food and beverage multinationals (eg. Kraft Foods, Nestle, Sara Lee, Starbucks and Procter and Gamble, supermarkets, coffee shops) may take the form of joint-ventures, equity strategic alliances, and non-equity strategic alliances.

Motivations and benefits for global and cross-border alliances include:

i) avoidance of import barriers, licensing requirements and protectionist legislation

ii) to share costs of research, development of new products and new processes

iii) to gain access to specific markets, such as the European Union (EU), where increasingly, regulations favor domestic companies. Although the EU countries are major importers and consumers of Kenyan coffee, there is growing Non-tariff barriers (NTB's) in place such as stringent health certification, Fair Trade Labels of Origin , Corporate Social Responsibility (CSR) issues, Carbon-footprint / environmental issues. All these non-tariff barriers are expensive for Kenyan exporters to implement, but a strategic alliance will share the costs along the coffee valu chain for mutual benefit. .

iv) to reduce political risk while making inroads to new markets like China, Russia, South Korea and Eastern European countries.

v) to gain rapid entry into a consolidating industry and take advantage of synergies.

This study also recommends a working partnership between the Ministry of Tourism and the Ministry of Agriculture (through coffee Board of Kenya), to organize eco and agro-tourism. This will go a long way in marketing the specialty coffees of Kenya, and is a wise marketing strategy that will yield huge dividends to all the economic sectors by extension. The Karen Blixen Coffee Museum located in Karen, Nairobi, is a tourist attraction, but needs to be marketed more aggressively to give the coffee sector more exposure.

These benefits must be translated into reality and implemented in the Kenyan coffee sector; they are in accordance with the economic pillar of Vision 2030. These motivations and benefits are feasible, and are good economic ideas whose time has come.

5.4 Limitations of the study

The main challenge faced was the administration of the questionnaires; most management employees of the Coffee exporting firms were not readily available for a face to face interview due to their tight schedules. There was also concern on breach confidentiality in the disclosure of information. At a time when new management issues are coming up with new strategies to enhance completion, many respondents feared they may breach confidentiality due to information leakages. The researcher took time in explaining to them that the study was for academic purposes only.

The study also coincided with the recess period of the Nairobi Coffee Exchange (NCE), whereby auctions are conducted fortnightly due to decreased volumes before the harvest of the main crop in November. Hence, there was lower activity in the sector and some coffee exporters were taking time off. However, according to Kenya Coffee Traders Association (KCTA) secretary, this is normal, given that coffee is an agricultural commodity and is subject to cycles of high and low activity every year.

There is very little documented research on some of the factors influencing development of the coffee exports handled by the Coffee Board of Kenya (CBK), such as the need for Foreign Direct Investment (FDI) and global strategic partnerships between exporters and importers.

5.5 Suggestions for further research

Further research is recommended on the issue of strategic alliances and partnerships at local and global level, as a strategy for sustaining and developing the coffee export sector. This is a very fertile ground that should be broken, given its enormous potential.

On a local level, agro-chemical companies willing to partner with coffee farmers at all scales (small, medium and large-scale). Research on partnerships between Coffee Research Foundation, agro-chemical companies and coffee farmers will assist greatly in Research and Development (R &D) to improve crop varieties, improve disease control, improve soil quality management.

Also on feasibility studies for Foreign direct investment (FDI) by Kenyan coffee exporters, in the importing countries. This would shorten the value chain and take the product to the doorstep of the final consumer. The Ownership Advantage accruing from FDI can be further explored for improved government and ministry policy formulation.

More research on local and external funding and promotion of the Coffee College based at Coffee Research Foundation in Ruiru, Kenya. Research on curriculum and ways to improve it, to serve as an educational facility for the entire coffee supply chain (production upto aggressive export marketing strategies). This would promote capacity-building of the players in the supply chain.

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APPENDICES

Appendix 1: Sampled Population

COFFEE EXPORTERS (MULTINATIONALS AND LOCAL EXPORTERS)

	INSTITUTION	DESIGNATION	POPULATION
1	Taylor Winch (Coffee) Ltd. Nairobi	Chief Liquorer/ Export manager	1
2	C. Dorman (K) Ltd., Nairobi		1
3	Sangana Commodities Ltd., Nairobi	Chief Liquorer/ Export manager	1
4	Servicof Ltd., Nairobi	Chief Liquorer/ Export manager	1
5	Kenya Coffee Co-operatives Exporters Ltd. Nairobi.	Chief Liquorer/ Export manager	1
6	Ibero (K) Ltd., Ruiru.	Chief Liquorer/ Export manager	1
7	M.A. Panju & Brothers Ltd. Mombasa.	Chief Liquorer/ Export manager	1
8	Merali Dewji & Sons (K) Ltd. Nairobi, Mombasa.	Chief Liquorer/ Export manager	1
9	Katarina Fresh Produce & Coffee Ltd., Nairobi	Chief Liquorer/ Export manager	1
10	Rejitek Coffee Co. Ltd, Nairobi.	Chief Liquorer/ Export manager	1
11	Tulip Amicafe Ltd., Nairobi	Chief Liquorer/ Export manager	1
12	Coffee Exporters (Kenya) Ltd. Nrb.	Chief Liquorer/ Export manager	1
13	Africoff Trading Coffee.Ltd., Nrb.	Chief Liquorer/ Export manager	1
14	Alanwood Ltd, Nairobi.	Chief Liquorer/ Export manager	1
15	Central Impex Ltd, Nairobi	Chief Liquorer/ Export manager	1
16	Kauka Services Ltd, Nairobi	Chief Liquorer/ Export manager	1
17	Josra Coffee Co. Ltd, Nairobi	Chief Liquorer/ Export manager	1
18	Cetco Ltd, Nairobi	Chief Liquorer/ Export manager	1

19	Jenem Coffee Ltd., Nairobi	Chief Liquorer/ Export manager	1
20	Sasini Tea and Coffee Ltd., Nairobi	Chief Liquorer/ Export manager	1
21	Red Berry Coffee Co. Ltd	Chief Liquorer/ Export manager	1
22	Dewji Coffee Co. Ltd	Chief Liquorer/ Export manager	1
23	Shah Meghji Hirji Ltd	Chief Liquorer/ Export manager	1
24	Simba Caf'e East Africa Ltd	Chief Liquorer/ Export manager	1
25	Rashid Moledina & Co. (Msa)Ltd	Chief Liquorer/ Export manager	1
26	Tecof coffee Ltd, Nairobi	Chief Liquorer/ Export manager	1
27	Merali Dewji & Sons (K) Ltd , Nairobi	Chief Liquorer/ Export manager	1
28	Tecof (K) Ltd, Nairobi	Chief Liquorer/ Export manager	1
29	Ransley Coffee Co. Ltd, Nairobi	Chief Liquorer/ Export manager	1
30	Gourmet Coffee Ltd, Nairobi	Chief Liquorer/ Export manager	1

LETTER OF INTRODUCTION

UNIVERSITY OF NAIROBI,

SCHOOL OF BUSINESS,

MBA PROGRAMME.

October 4th, 2011.

TO WHOM IT MAY CONCERN:

The bearer of this letter Angela Wanjiku Mburu, of Registration number D61/70203/2009, is a Bona Fide continuing student in the Master of Business Administration (MBA) degree program in the university.

She is required to submit as part of her coursework assessment a research project report on a management problem. We would the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable her to collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

JUSTINE MAGUTU (MRS.)

ASSISTANT REGISTRAR,

MBA OFFICE, AMBANK HOUSE, NAIROBI.

Appendix 2: Questionnaire

Kindly indicate (√) as the appropriate response as per the questionnaire where applicable.

SECTION A: GENERAL INFORMATION

1. Name of Company you work with (Optional)..

2. Job group / employment category

Support staff	[ ]	Middle-level management	[ ]
Top-level management	[ ]		

3. Job experience in the Coffee sector

1-5 years	[ ]	6-10 years	[ ]
10-20 years	[ ]	Over 20 years	[ ]

4. What is your highest education level?

Completed Std. 8	[ ]	Completed form 4	[ ]
Completed College	[ ]	Completed University	[ ]
Postgraduate	[ ]		

5. Which stream of coffee production do you belong to?

Small-scale farmers	[ ]	Large-scale producers	[ ]
Coffee exporter	[ ]	Coffee Miller	[ ]

Other [ ]

SECTION B: RESEARCH OBJECTIVES

6. Has the high transaction costs negatively affected your coffee business?

Yes [ ] No [ ]

7. Coffee industry has a long and complicated chain that drains all the funds along the way before the payment gets to the farmer. Do you agree?

Yes [ ] No [ ]

8. Using below scale how would you rate the Kenyan coffee export sector in terms of right and progressive policies?

Good [ ] Average [ ]

Poor [ ]

9. To what extent do input costs affect the development of coffee exports in Kenya?.......

Very great extent [ ] Great extent [ ]

Moderate extent [ ] Little or no extent [ ]

10. Do commercial millers or management agents render extension services to producers of coffee?

Yes [ ] No [ ]

11. Do the related and support industry assist in increasing coffee production in terms of quality and value? (eg. shipping agents, transporters, Customs Simba 2005 e-portal, KEPHIS, KRA, KPA)

Yes [ ] No [ ]

12. Are the coffee institutions (coffee factories, co-operative societies, coffee millers and coffee board of Kenya) efficient in their roles?

Yes [ ] No [ ]

Partly Efficient [ ]

13. Are the roles of each stakeholder (CBK, Millers, Marketers etc) in the coffee sector clearly defined?

Yes [ ] No [ ]

14. Was the exit of Coffee Board of Kenya (CBK) in controlling the farmers' choice of coffee pulping, factory, miller or marketing agents a positive move in liberalizing the coffee sector?

Yes [ ] No [ ]

15. Milling of coffee takes place at the coffee factories; do you think these factories fully utilize their capacity?

Yes [ ] No [ ]

16. Should the policy reforms created in the coffee industry be in harmony with the legal framework?

Yes [ ] No [ ]

17. Using the scale below how would you rate the Coffee export sector regulatory framework sufficiency in addressing the needs of the sector?

Good [ ] Average [ ]

Bad [ ]

18. The Coffee act of 2001 introduced a 'second window' as a push to allow a portion of production, about 30 percent, to by-pass the auction and be sold directly to buyers through licensed brokers, do you think this was a right move?

Yes [ ] No [ ]

19. Which is the biggest challenge that you face in your coffee business (farming, milling, export etc)?

Lack of Education [ ]

Lack of good business training [ ]

Low management experience [ ]

High Inflation in the country [ ]

Unpredictable world Coffee prices [ ]

20. Are the policy reforms instituted in the coffee sector of any help to the stakeholders?

Yes [ ] No [ ]

21. Do you agree that the trend in Kenyan coffee industry has been towards specialty coffees?

Yes [ ] No [ ]

22. Do you think the move to liberalize Kenyan coffee sector has stimulated export-led growth in the sector?

Yes [ ] No [ ]

23. Kenya's production costs are considerably higher than those of other coffee producing countries; to what extent do you agree with this statement?

Very Great extent [ ] Great extent [ ]

Moderate extent [ ] Less extent [ ]

Not at all [ ]

24. High inefficiency, mismanagement and corruption in the coffee institutions significantly raise the industry's production costs; to what extent do you agree with this statement?

Very Great extent [ ] Great extent [ ]

Moderate extent [ ] Less extent [ ]

Not at all [ ]

25. It is understood that Kenya's product caters for a niche market, and as such doesn't compete directly with Brazilian and other milder coffees; to what extent do you agree with this statement?

Very Great extent [ ] Great extent [ ]

Moderate extent	[ ]	Less extent	[ ]
Not at all	[ ]		

26. The whole coffee value chain can greatly benefit with sustainable global alliances with trickledown effect if production is increased and value added to the produce; to what extent do you agree with this statement?

Very Great extent	[ ]	Great extent	[ ]
Moderate extent	[ ]	Less extent	[ ]
Not at all	[ ]		

27. Kenya coffee export should be diversified to other markets to effectively capture the new entrants to the coffee drinking market. To what extent do you agree with this statement?

Very Great extent	[ ]	Great extent	[ ]
Moderate extent	[ ]	Less extent	[ ]
Not at all	[ ]		

28. Since the smallholder coffee producer lacks the appropriate support mechanism; local & international alliances with millers and marketers can add value to coffee production. To what extent do you agree with this statement?

Very Great extent	[ ]	Great extent	[ ]
Moderate extent	[ ]	Less extent	[ ]
Not at all	[ ]		

29. The Export Promotion Council (EPC) and KCTA have organized various coffee trade fairs/exhibition around the country and in USA, EU, Japan and China. To what extent has your firm benefited from these?

Very great extent [ ] Great extent [ ]

Moderate extent [ ] No extent [ ]

30. Local and global strategic partnerships/alliances and Foreign Direct Investment into coffee importing countries is the best way forward for the development of the coffee export sector.

To what extent do you agree with this statement?

Strongly agree [ ] Agree [ ]

Disagree [ ]

31. Kenyan coffee exports have always been semi-processed. To what extent do you agree that through Foreign Direct Investment, coffee value addition and subsequent profits will be maximized ?

Strongly agree [ ] Agree [ ]

Disagree [ ]

Thank you for your cooperation.