Effects of Liberalization on Coffee Production in Kenya

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Abstract

Coffee had for a long time been Kenya's leading foreign exchange earner. In 1986 it accounted for 40% of total foreign exchange earnings but this was to be the highest earnings ever since after that coffee contribution dropped continuously to stand at only 3% in 2010. This was caused by a fall in coffee production from a peak of 128,700 m. tons in 1987/1988 crop year to an average of 49,088 m. tons in the last ten years with year 2010 recording a low production volume of 42,000 m. tons. Since early 1990s, the government liberalized the coffee sector believing that this would promote increased production and increase foreign exchange and farmers' earnings. More than twenty years since liberalization began, coffee production has declined and remained depressed and this phenomenon forms the research problem in which we ask: Is this drop in coffee production as a result of liberalization? The purpose of this study was therefore to find out the effects of liberalization on production of coffee in Kenya. The main objectives of the study were to find out how, removal of government controls, take-over of societies' management by farmers' committees and the removal of monopolies in the processing and marketing affected coffee production in Kenya. The study conducted a detailed case study on the effect of liberalization on coffee production in New Weithaga Farmers' Co-operative Union which was the main source of primary data. A sample of 12 was purposively drawn from a population of 18 management staff while a sample of 38 active farmers were selected through stratified random sampling out of an active Union membership of approximately two thousand farmers. The research findings were that Liberalization of the coffee sector resulted in decreased production of coffee. The reasons cited for the decline in coffee production included:- the mismanagement of co-operative societies; declining farmers' earnings; decline in application of inputs; poor farming practices; and farmers' loss of confidence in management of coffee affairs.

Keywords: *Co-operative; Deregulation; Liberalization and Market Liberalization.*

Abbreviations: *AGM-Annual General Meeting; AISS-Agricultural Inputs Supply System; CBK-Coffee Board of Kenya; CEE-Central Eastern Europe; CIS-Commonwealth of Independent States; CRF-Coffee Research Foundation; DCO-District cooperative officer; EU-European Union; FAO-Food Agricultural Organization; FCCS-Farmer's Coffee Co-operative Society; GDP-Gross Domestic Product; GOK-Government of Kenya; HRS-Household Responsibility System; ICO-International Coffee Organization; KPCU-Kenya Planters' Cooperative Union; ROK-Republic of Kenya; SAPS-Structural Adjustment programmes; UN-United Nations.*

1.1 Introduction

The period starting 1980 was characterized by the implementation of the Structural Adjustment Programmes (SAPS) in most countries of Africa where the World Bank and the International Monetary Fund had a say in the macroeconomic management of the economies. SAPS involved "free market" policy programmes which encouraged privatization of government parastatals, deregulation – reduction of trade barriers and exchange rate adjustments. The SAPS had negative impacts in most countries including Kenya where it resulted in low investment, high unemployment and lower economic growth.

The United Nations joined the World Bank and the IMF in the 1990s to promote the policy of Liberalization in the Third World countries including Kenya after the apparent failure of the SAPS policy (UN General Assembly Article 44 of 1998). In the agricultural sector liberalization involved legal and policy reforms aimed at removing government controls in the producer co-operative societies, empowering the farmers to manage their societies, and encouraging competition in processing and marketing of the produce. Liberalization is said to result in increased investment, production and growth. The Kenya government therefore liberalized its coffee sector as other areas of the economy were being liberalized.

1.2 Background of the Study

Coffee has been grown in Kenya for over a century having been first introduced into the country in 1893. Coffee was grown in Kenya highlands on rich volcanic soils found between altitudes 1400 to 2000 meters above sea level by white settlers. Coffee was the number one foreign exchange earner for Kenya until 1986 when it accounted for 40.6%. This contribution has fallen gradually to 3% in 2010. This decline was occasioned by fall in coffee production from a peak of 128700 m. tons in 1987/1988 to 42000 m. tons in 2010 (Kenya Economic Survey-various). Coffee is the second largest commodity traded in the world after oil with an estimated value of US $ 80 billion.

Under pressure from the World Bank, the government took a series of steps between 1990 and 2001 to loosen its control over the coffee cluster. 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 (2006) (Condliffe et al, 2005). Liberalization of the coffee subsector was aimed at reversing the already noted declining coffee production to boost incomes among the millions of people who depended on coffee and also to generate increased foreign exchange earnings for the country.

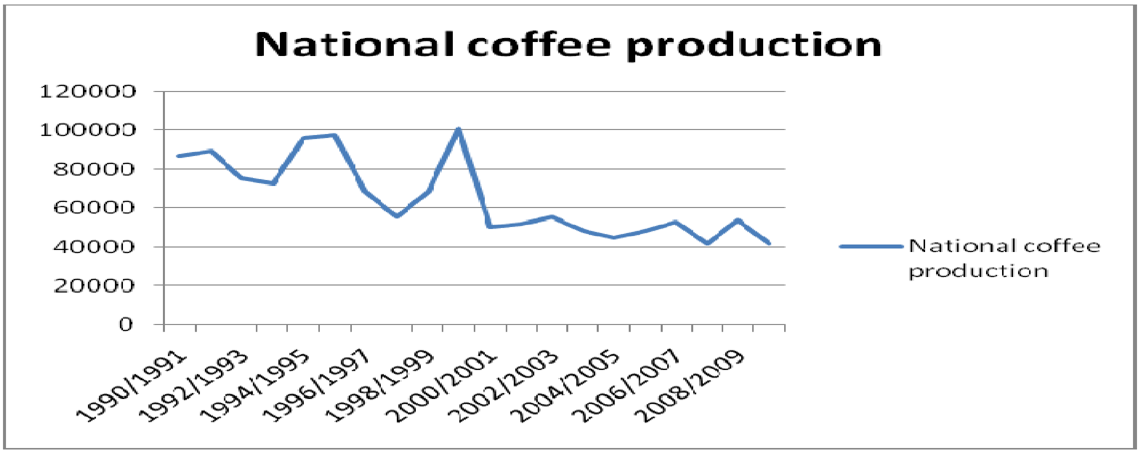

Figure 1: Coffee Productions before and after Liberalization 1990–2010 in Metric Tons

Source (CBK 2011)

Post-Liberalization production of coffee in Kenya is a story of continuous decline from 103889m.tons in 1989/1990 to 42000 m. tons in 2009/2010 with only a few years like 1999/2000 displaying an increase to 100850 m. tons.

1.3 Purpose of the study

The purpose of this study is to establish the effects of liberalization on production of coffee in Kenya.

1.4 Statement of the problem

Coffee production increased during the period the government controlled its production reaching a peak of 128700m tons in 1987/1988. Since the advent of liberalization in the early 1990s, coffee production has fallen to 68100m.tons in 1998 (the year of full liberalization) and to 42000m.tons in 2010. For two decades since the beginning of liberalization coffee production has continued to decline. The question is, "Is this decline in coffee production as a result of liberalization? Since liberalization is already in place to stay, does this mean that coffee production will remain depressed? The research endeavored to find out whether it was due to liberalization that coffee production in Kenya was depressed.

1.5 Objectives of the study

The general objective of the study was to establish the effects of liberalization on coffee production in Kenya; Specifically,

1.5.1 To determine the effects of deregulation of co-operative societies on production of coffee in Kenya.

1.5.2 To determine the effect of take-over of Co-operative Societies' management by farmers' committees, on coffee production in Kenya.

1.5.3 To find out how removal of monopolies through licensing of many millers and marketing agents affected production of coffee in Kenya.

1.6 Scope of the study

The study has relied on both secondary and primary data to analyze trends in coffee production. Secondary data has been used to analyze coffee production trends in Kenya before and after liberalization. As a source of primary data, the study has conducted a detailed case study of New Weithaga Farmers' Co-operative Society located in Kiharu Division of Muranga County, Central Province, to investigate the effects of liberalization on production of coffee in Kenya. The study considered New Weithaga FCCS to be a representative sample of other co-operative societies in coffee growing areas in Kenya.

2.1 Literature Review

This section highlighted the literature and theories available on the subject of liberalization in the coffee sector in Kenya. It also looked at the legal and policy framework guiding the management of co-operatives in Kenya. A number of books, journals, websites, magazines and manuals were cited for literature.

2.2 Conceptual Framework

This study investigates the effects of liberalization on coffee production in Kenya. Liberalization is therefore the independent variable while production is the dependent variable. The conceptual framework can therefore be represented as follows:

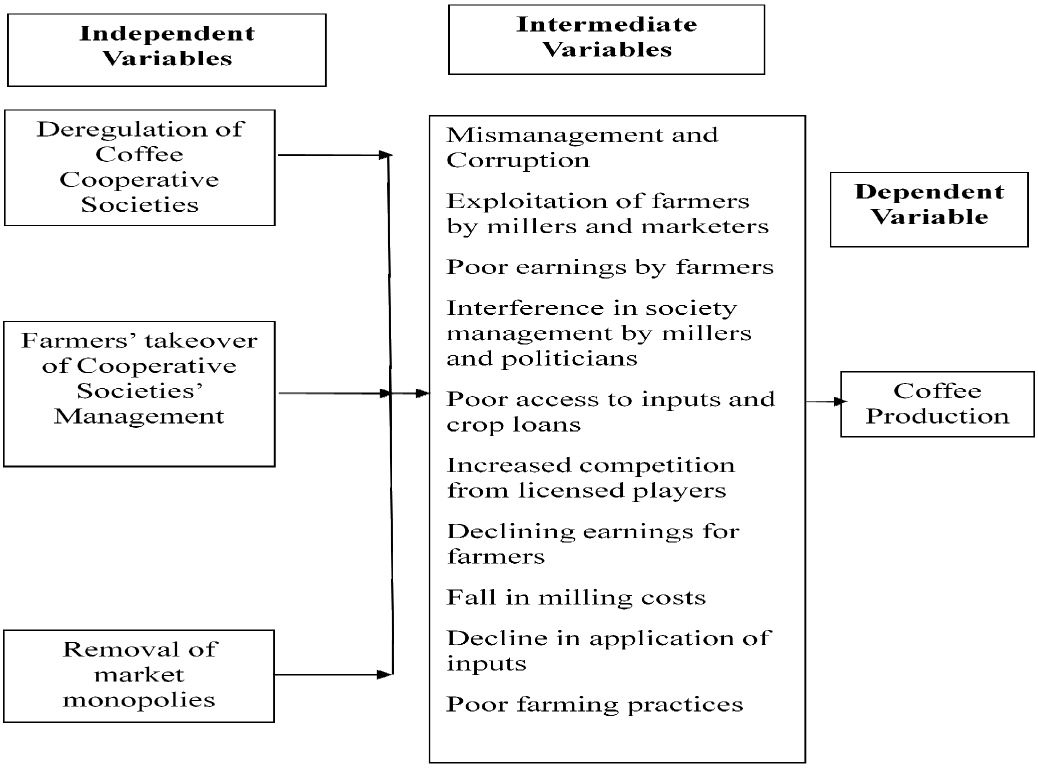

Figure 2: Conceptual Frame-work

2.3 Empirical Review

Coffee production in Kenya is at two levels; the Estates accounting for 35% and small-scale farmers accounting for 65% of total output (Karanja and Nyoro, 2002 and Nyangito, 2009). Liberalization comprised deregulation or removal of government controls in the coffee sector. This involved repealing of existing legislation and replacing it with new legislation

2.4 Knowledge Gap

Research has been carried out on the effects of liberalization on poverty of a rural community in Kenya (Karanja and Nyoro, 2002); on coffee producer price transmission (Krivonos, 2004); effects on foreign exchange earnings and farmers' incomes. Most of the research work in liberalization of coffee sector dates back to the period immediately after liberalization there is therefore need for more up dated research work in this area. A detailed case study on the effects of liberalization on production of coffee in Kenya is lacking and this study has gone a long way towards closing this gap.

3.1 Methodology

The study adopted a descriptive design in a case study which used both primary and secondary data. The reason for choice of case study methods was because it fitted the subject of the study which investigated the effects of liberalization of the coffee sector in Kenya on coffee production with specific reference to New Weithaga Coffee Farmers Cooperative Society. According to (Yin 1989) the case study allows the study to investigate a contemporary phenomenon within its real life context.

The study was carried out at New Weithaga Coffee Farmers' Cooperative Society which has four affiliate coffee cooperative societies; Weithaga, Kianderi, Kahindu and Koimbi. The total membership is 3232 with active members accounting for approximately 65% of the population. The sample for this study was drawn from the active members. The sample size comprised of 18 management committee members and 50 members.

Table 1: Sample and Sampling Technique

Cooperative society	Management committee population	Management committee sample	Farmers' Population	Farmers' Population sample	Total Sample
Kianderi	5	3	779	9	12
Koimbi	5	3	926	11	14
Wiethaga	5	3	878	10	13
Kahindu	3	3	649	8	11
TOTAL	18	12	3232	38	50

Two questionnaires were used to interview the respondent's one for the management committee members and their employees and the other one for farmers.

Data Analysis, Presentation and Interpretation

In the analysis the following were covered:

4.1 Awareness of Deregulation of Coffee Cooperatives

The government through the Commissioner of Co-operatives played a major role in controlling the coffee co-operative societies before liberalization in 1997. The study sought to establish whether the farmers were aware of the reforms that the government had introduced in the coffee sector and whether these reforms had any effect on coffee production. The results are indicated on figure below

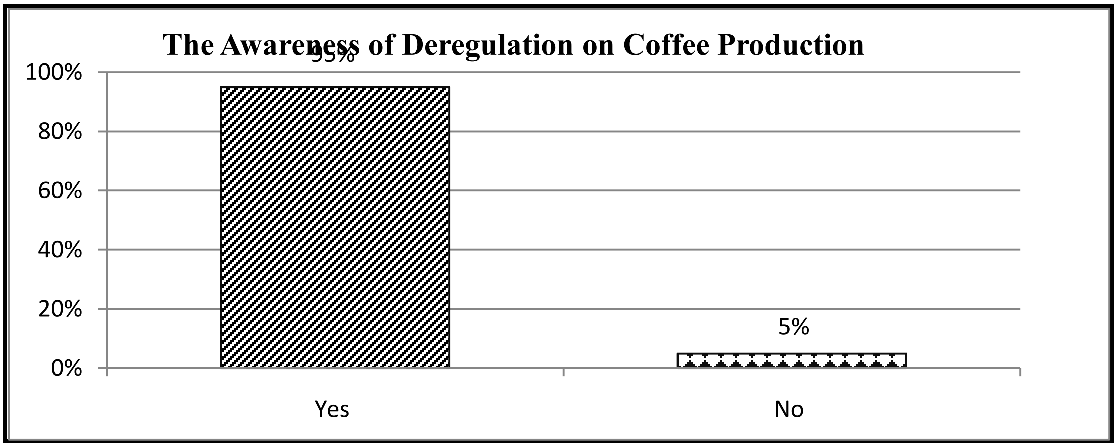

Figure 3: Awareness of Deregulation of Coffee Cooperatives

The findings revealed that 95% of the respondents were aware that the government had deregulated co-operative societies. They also knew that this deregulation had some effects on coffee production. This implies the farmers were up-to-date with what was happening in the coffee sector.

4.2 The Rating on how Deregulation has Affected Coffee Production

The study wished to find out the farmers' rating of the effects of the withdrawal of government controls on coffee production. This was as indicated below;

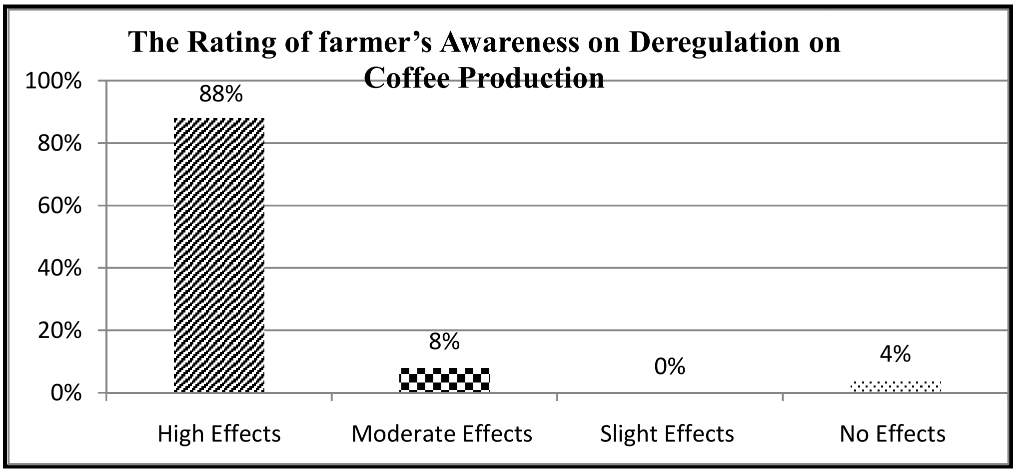

Figure 4: The Rating of Awareness on Deregulation

88% of the respondents indicated that the withdrawal of government controls in the coffee sector affected coffee production highly. This implies that the government controls in one way or another affected the coffee farming activities that on the other hand affected its production.

4.3 Deregulation of Co-operative Societies and its effect on coffee production

As well the study sought to know whether deregulation of Co-operative Societies led to increased or decreased coffee production.

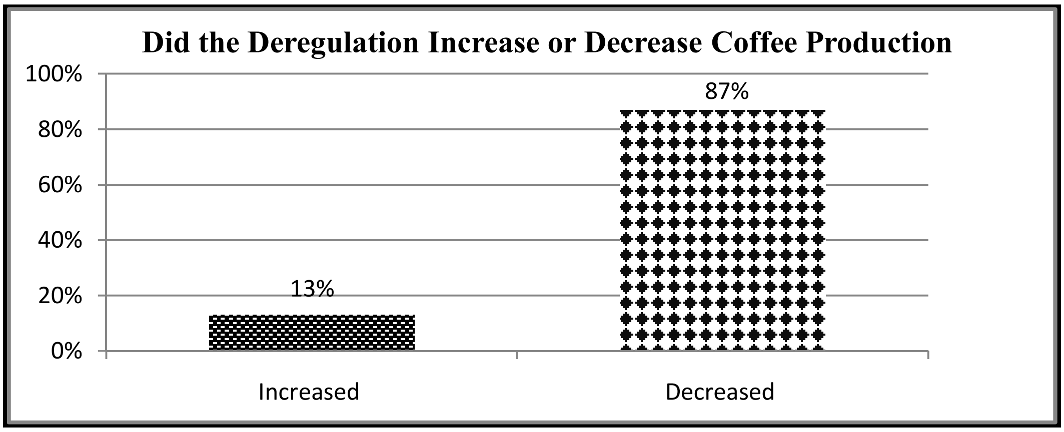

Figure 5: Deregulation of Co-operative Societies effect on Coffee Production

87% of the farmers indicated that the withdrawal of government controls from their co-operative societies resulted in decline of coffee production while 13% of the farmers indicated that these changes resulted in increased coffee production. The respondents, who agreed that the production has increased, felt that the farmers have gained full control of farming without government intervention. Thus, the freedom has motivated farmers to increase their effort in coffee farming hence increase in production. While, on the contrary 87% of farmers felt that the removal of government controls has led to lack of adequate supervision of the sector by the government leading to deterioration of service provision and declining production. there are no extension services formerly provided to farmers by government .Farm inputs have become expensive and difficult to access because of unavailability of cheap credit The fragmentation of Co-operative Unions has worsened the situation as economies of scale formerly enjoyed by Societies in acquisition of cheap inputs has been lost. There is very little service that the farmer is getting from the Co-operative Society. All these factors combined may explain the reported decrease in coffee production.

4.4 Effect of Co-operatives societies' management by farmers on coffee production

The results were as presented in figure below;

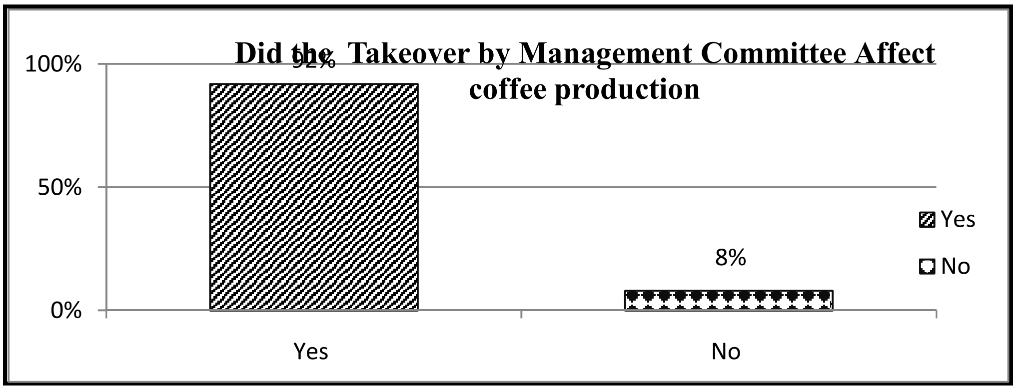

Figure 6: Effect of take-over of Co-operative Societies Management by Farmers on Coffee Production

92% of the respondents indicated that the take-over of management by farmers' management committees had affected coffee production. This finding is an indication that farmers are well informed of the performance of the coffee sector.

4.5 Extent to which Management of Coffee Societies by Farmers' Management Committees has affected Coffee Production

The extent to which management of Coffee Societies by Farmers' Management Committees has affected coffee production is in the figure below;

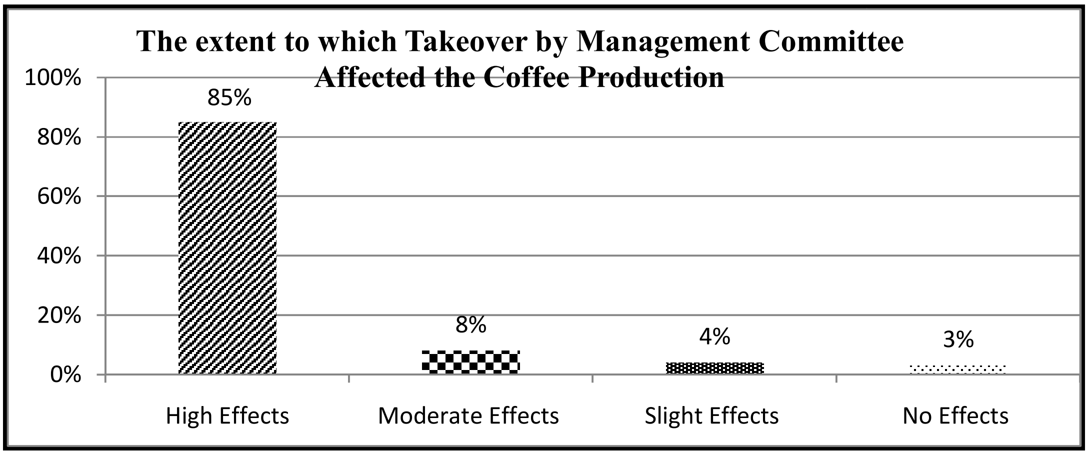

Figure 7: Extent to which takeover by farmers' management committee affected coffee production

85% of the farmers indicated that the take-over of management by farmers' management committees had highly affected coffee production. 8% of the farmers indicated that these changes had only moderate effects while another 4%

indicated that there was no effect on coffee production. This means that farmers were aware of the differences between performance of the coffee sector before and after the changes in management of co-operative societies.

4.6 Take-over of management by farmers committees and its effect on coffee production

Has the take-over of management by farmers committees led to increased or decreased coffee production? The results were as per figure

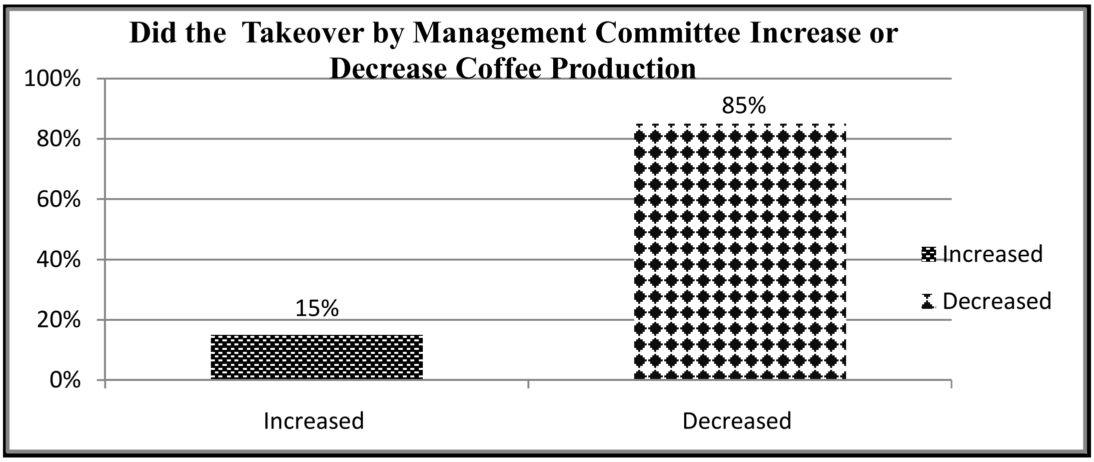

Figure 8: Take-over of management by farmers committees and its effect on coffee production

The responses were that 15 % asserted an increased production while 85% indicated a decreased production. This therefore, implies that the change of Cooperative Societies management from Commissioner of Co-operatives to the elected members of farmers Committees had negative effects on the growth of coffee production.

4.7 Effect of removal of monopolies on coffee production

Monopolies limits the farmers to one buyer hence limiting competition, the government removed monopolies in the coffee sector to allow farmers to decide who mills and who markets their coffee produce. The farmers feeling were as per the table.

Table 2: Whether the removal of monopolies has affected coffee production

	Percentages	**Cumulative Percentage**
Yes	**72**	**72**
No	**28**	**100**

72% of the respondents indicated that removal of monopoly had affected production, while 28% indicated that it had no effect.

4.8 Extent to which Removal of Monopolies affected Coffee Production

The extent to which removal of monopolies affected coffee production, the findings were as indicated on the figure below:

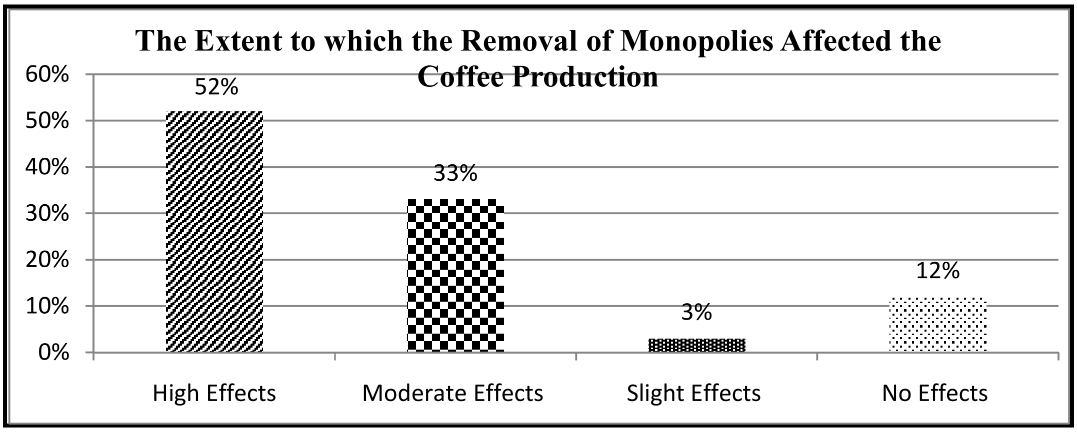

Figure 9: The Extent to which the removal of monopolies affected the coffee production

The 52 %, of the respondents indicated that removal of monopolies had high affects, 33 % indicated that it had moderate effects, 3 % of the respondents indicated that there was slight effects while 12%, indicated that there was no effects on coffee production.

4.9 Effect of removal of monopolies on coffee production

The findings of this finding are presented below;

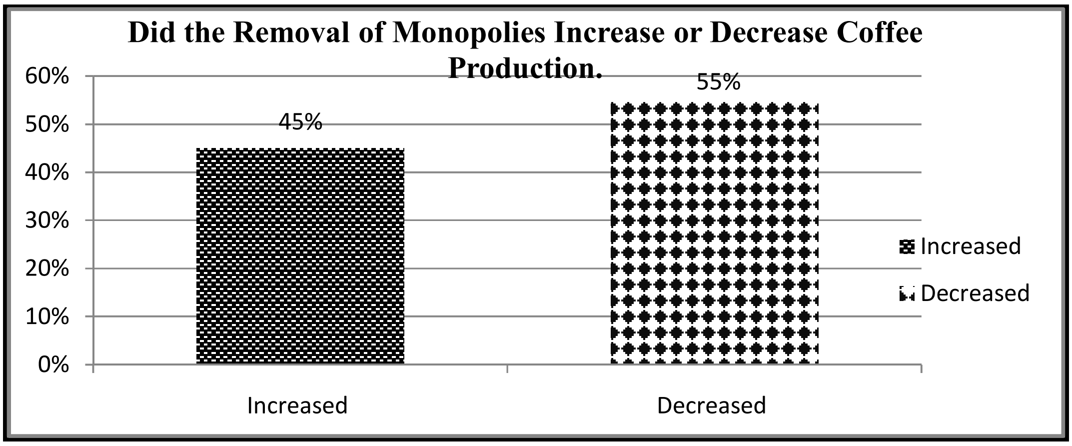

Figure 10: Effect of removal of monopolies on coffee production

55% of the respondents were of the view that removal of monopolies had led to decreased coffee production while 45% of them felt that coffee production had increased. Secondary data supports the view that production has decreased.

The main problems affecting coffee production as reported by farmers interviewed included poor payment plan, which led to inadequate access to chemicals and farm inputs for farming. Little or no education on coffee husbandry; Loan debts accrued due to low production, which makes it difficult to repay the loans; Local politicians influencing the management of the societies leading to poor management.

4.10 Main Problems affecting coffee production as reported by farmers interviewed

Most of the respondents expressed sentiments that there is the problem of poor payment plan, which led to inadequate access to chemicals and farm inputs for farming. There is little or no education given to farmers on coffee husbandry and regarding other relevant information. The farmers have huge loan debt, which they accrued before and it still increasing due to low production, which makes it difficult to repay the loans. There is politics in the management of coffee societies where by the local politicians have a lot of influence on the management of the societies leading to poor management of the coffee societies.

4.11 Solutions suggested by farmers interviewed for solving problems facing Coffee Production

Farmers indicated that there should be a visible and well established control and regulatory framework on management of the coffee industry; to oversee coffee production, educate farmers through provision of extension services, and provision of farming inputs (fertilizers chemicals, pesticides seeds farm implements) at lower subsidized prices. There should be intervention of government to reduce intermediaries in coffee marketing who exploit the farmers and to facilitate long-term loans from the cooperative societies. There should be timely and regular payment to farmers; followed by education or knowledge provision on how coffee prices and payment are determined. Millers and Marketing agents must be stopped from interfering with management of societies through corruption and bribery the farmers said.

Management Responses

4.12 Awareness of Deregulation of Cooperative Societies and its effect on coffee production

The study tried establish the level of awareness of the removal of government interference on the management and running of the Society from the management respondents.

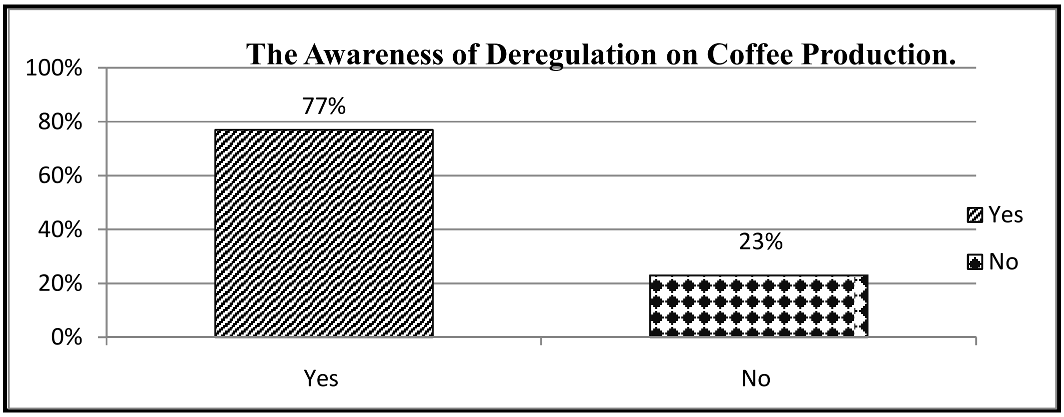

Figure 11: Awareness of Deregulation of Co-operative Societies and its effect on Coffee Production

The majority 77% of the respondents indicated that they were aware of those changes as well as their effects on coffee production while 23% indicated that they were not aware of any changes.

4.13 Extent to which Deregulation of Co-operative Societies affected Coffee Production

The study sought to find out the rating of the respondents with regard to the deregulation of co-operative societies.

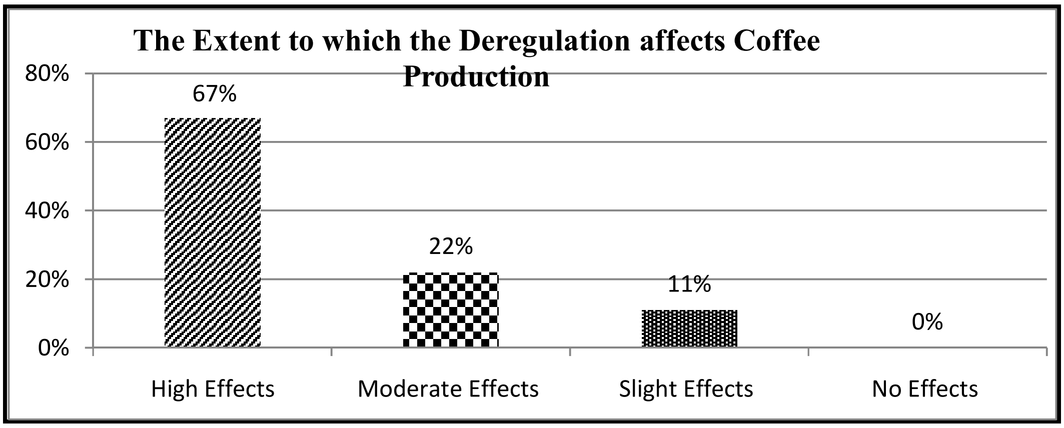

Figure 12: Extent to which deregulation affected coffee production

From the findings it implies that majority of management respondents just like farmers confirmed that coffee production was highly affected by deregulation.

4.14 Effect of deregulation on coffee production

The study also sought to establish whether the removals of government controls led to increased or decreased coffee.

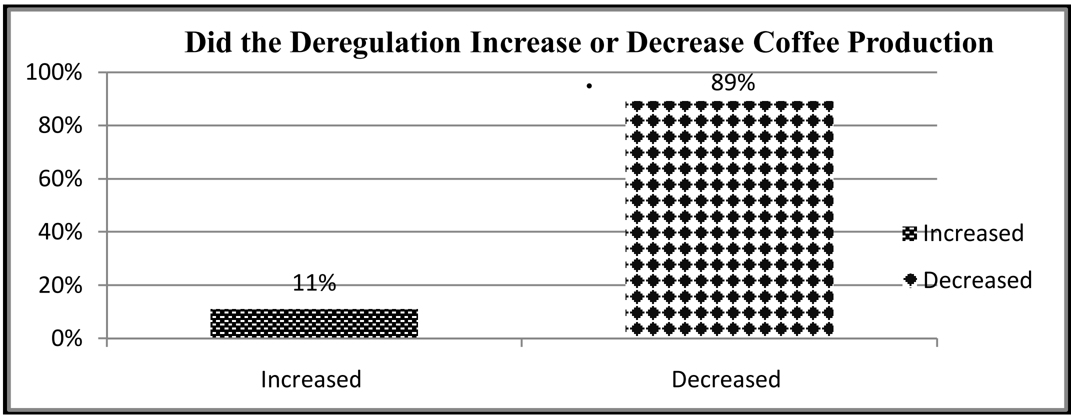

Figure 13: Effect of deregulation on coffee production

The analysis of the responses revealed that 11% of the respondents indicated that there was an increase in production while a majority of 89% reported that there was decreased production. According to the respondents the causes of decrease in coffee production include; exploitation of farmers by the private millers and marketers, poor payments for their coffee deliveries discouraging farmers from increasing coffee production.

4.15 Effect of take-over of management of co-operative societies by farmers committees on coffee production

Has the take-over of management of co-operative societies by farmers committees affected coffee production? The results were as per figure.

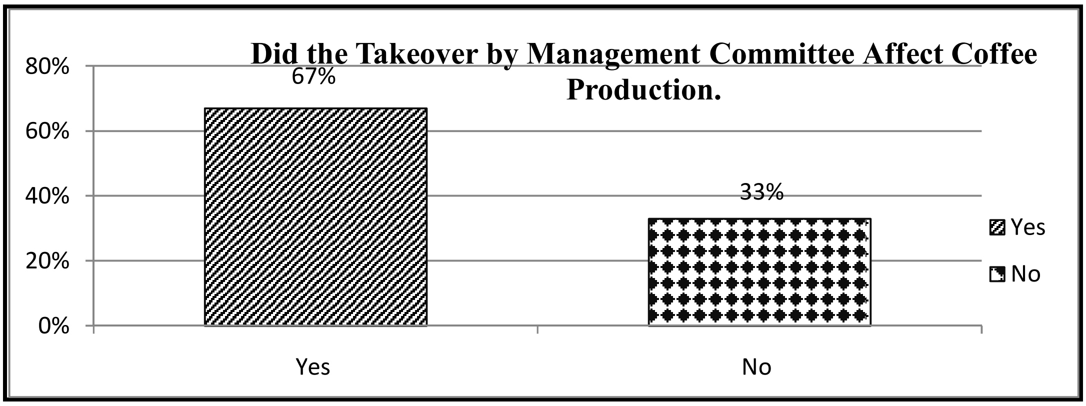

Figure 14: Effect of take-over of management of co-operative societies by farmers committees on coffee production

67% of management respondents indicated that the take-over of management of co-operative societies by farmers committees had resulted in decreased coffee production while 33% indicated that it resulted in increased coffee production. This implies that the commissioner of cooperatives had positive effects on coffee production and his replacement by the management committees had a negative impact.

4.16 Extent to which management by the Farmers' Committees affected Coffee Production

The study sought to find out the magnitude of the effects of the removal of the commissioner of cooperatives in the management of co-operative societies and the empowerment of farmers committees on the coffee production.

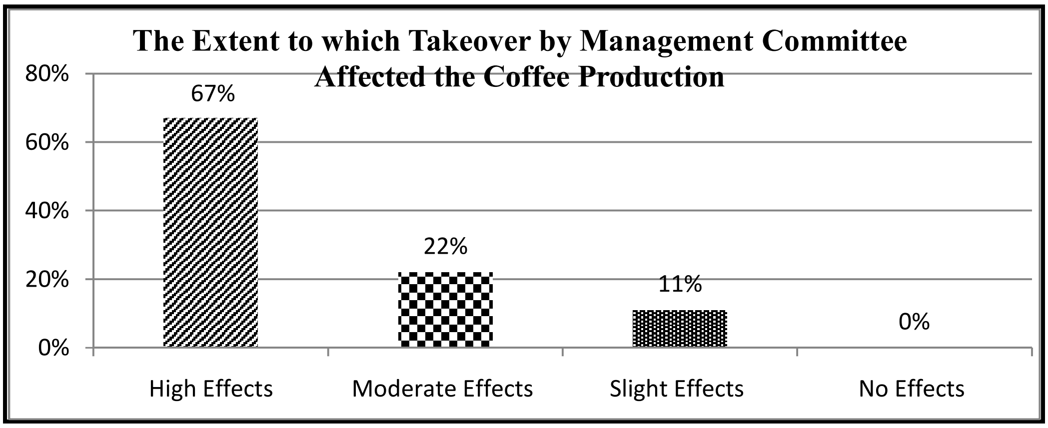

Figure 15: Extent to which takeover by management committee affected the coffee production

67% of the respondents indicated that the transfer of management to farmers' committees had affected coffee production highly while 22% and 11% indicated that it affected production moderately and slightly, respectfully.

4.17 Effect of take-over of co-operative society's management by farmers' committees result on coffee production

Did take-over of Co-operative Societies management by farmers' committees result in increase or decrease in coffee production?

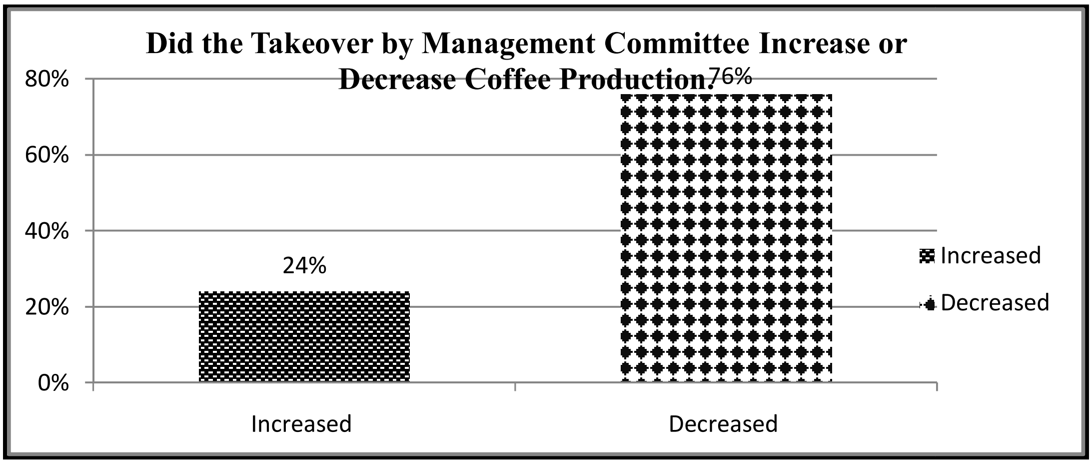

Figure 16: Effect of take-over of co-operative society's management by farmers' committees result on coffee production

The majority of the respondents 66.6% indicated that there was a decrease in coffee production while 33.4% indicated that there was an increase in production. The management is in a position to make this judgment accurately because they maintain production records for each cooperative society and for all the farms combined.

4.18 Effect of removal of monopolies on coffee production

The government decided to liberalize the milling and marketing functions by licensing more millers, marketing agents and dealers. In this way the monopoly formally enjoyed by KPCU and CBK was broken. The study therefore, wanted to know whether these changes had affected coffee production.

Table 3: Effect of removal of monopolies on coffee production

	Percentages	Cumulative Percentage
Yes	67	67
No	33	100

The response by the respondents was that 66.7% indicated that the removal of monopolies had affected coffee production while 33.3% indicated that it had not affected coffee production.

4.19 Effect of removal of monopolies on coffee production

This section sought to find out more about the effects on changes done in the coffee sector.

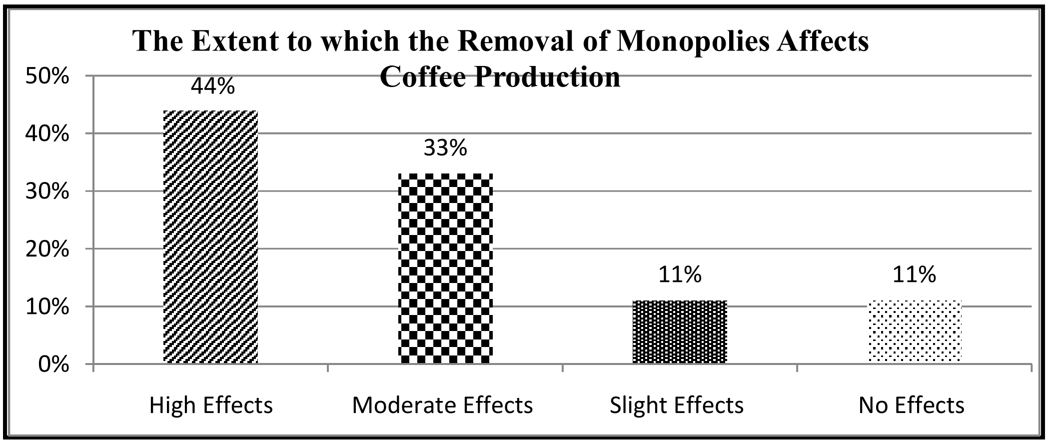

Figure 17: Effect of removal of monopolies on coffee production

45%o of the respondents thought that the removal of monopolies had affected coffee production highly, 11% moderately, 33% slightly and 11% thought there was no effect

4.20 Effect of removal of monopolies on coffee production

The response on these from the management is as under;

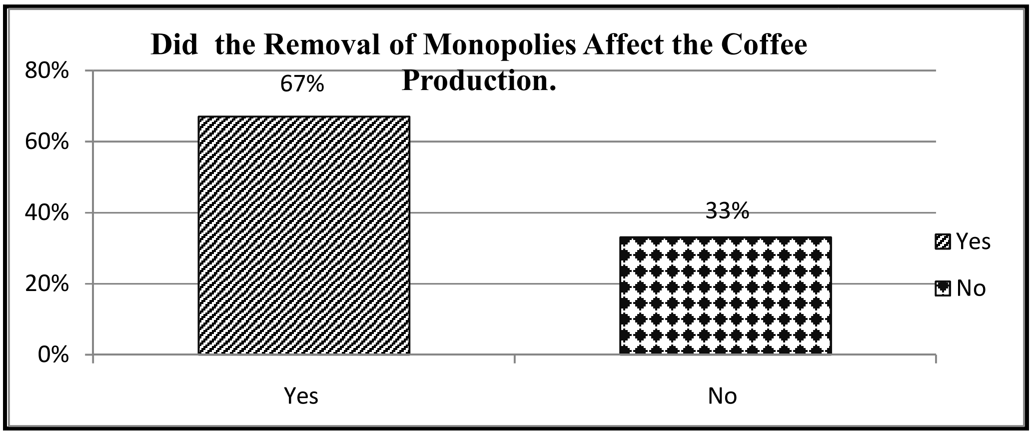

Figure 18: Effect of removal of monopolies on coffee production

67% of the respondents indicated that the removal of monopolies led to decreased coffee production while 33% said that it actually led to increased production.

Table 4: Production of Coffee in Kilograms from 1998 – 2010.

Year	Cherry (Kgs)	Mbuni (Kgs)	TOTAL (KGS)
1998	1368440	89958	1390586
1999	119855	61204	1181059
2000	3590019	247627	3837646
2001	1391012	72533	1463545
2002	571847	50546	622393
2003	639142	48991	688133
2004	536303	44181	580487
2005	644929	37064	681993
2006	770373	38699	809072
2007	862904	32988	895892
2008	369550	16984	386534
2009	861590	81596	943186
2010	602577	32819	635396

Source: New Weithaga FCS.

Coffee production in New Weithaga Farmers Co-operative society mirrors the national trend during the last fourteen years. In 1998 when total liberalization was effected, coffee production at Weithaga FCS stood at 1390586 kilograms(1390.586 M. Tons) Production continued to drop during the liberalization period and total output in 2010 was 635396 kilograms,(635.396 M. Tons) reflecting a 54% drop in production.

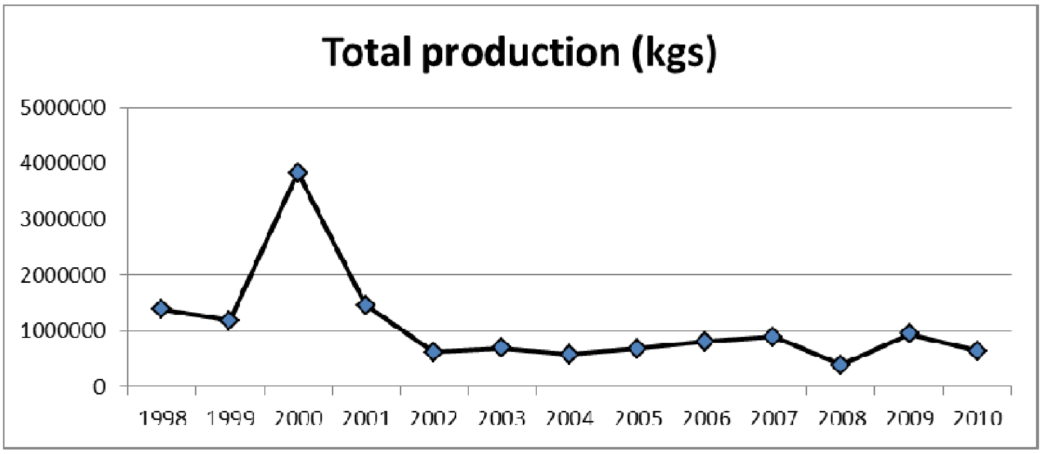

Figure 19: The New Weithaga FCS Total Production of Coffee in Kilograms from 1998-2010

Source: New Weithaga FCS

5.1 Summary and Conclusion

Liberalization of the coffee subsector was aimed at reversing the already declining coffee production to boost incomes among the millions of people who depended on coffee and also to generate increased foreign exchange earnings to the country. The argument for liberalization stemmed from the theory that government controls were stifling the performance of cooperatives and that their potential contribution to development could only be realized if they operated in a deregulated atmosphere.

Mismanagement of Co-operatives Societies has led to fall of farmers' earnings causing them to lose confidence and abandon coffee farming hence reduced production. There is no provision of extension services to farmers, and most of the existing coffee trees are poor varieties requiring a lot of chemicals which farmers cannot afford.

The removal of monopolies has led to increase in coffee theft because of liberalized marketing. The removal of monopolies has led to emergence of many millers and marketing agents and this has increased competition among these intermediaries and consequently resulted in corrupt practices as intermediaries strive to buy management and farmers support.

5.2 Recommendations

The Kenya government through the Coffee Board of Kenya needs to recover lost farmers confidence by increasing its visibility in the producing districts. This means more information to the farmer particularly regarding coffee milling yields, grading and classification, negotiating marketing contracts. This can only be achieved through regular direct contact with the farmers; extension services should be revived and improved to ensure production of high quality coffee.

There should be a timely and regular payment to farmers as well as provision of low priced inputs in order to lessen the burden for the farmers as they try to achieve their high production with skyrocketing prices for fertilizers and insecticides. There should be an established training institute for the coffee officers as well as farmers in order to increase education and knowledge provision on good coffee farming and management practices.

There should be setup well structured framework to rekindle interest in coffee farming, revive the dormant farms, ensure application of yield enhancing inputs, value addition to improve coffee prices and farmer earnings and finally ensure increased coffee production and growth of the economy.

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