



**MINISTRY OF AGRICULTURE, LIVESTOCK, FISHERIES AND CO-OPERATIVES**

**TALKING NOTES FOR THE CABINET SECRETARY, MINISTRY OF AGRICULTURE, LIVESTOCK, FISHERIES AND CO-OPERATIVES, HON. PETER MUNYA, EGH, DURING THE LAUNCH OF THE COFFEE PRICES STABILIZATION FRAMEWORK ON 04<sup>TH</sup> MAY, 2022 AT THE SAFARI PARK HOTEL, NAIROBI.**

---

**Distinguished Guests,**

**Ladies and Gentlemen,**

It gives me great pleasure to join the coffee industry fraternity, during the launch of the **Coffee Prices Stabilization Framework**, a major milestone in our continued reform agenda.

For the past 2 years, The Ministry in collaboration with County governments, have brought to life the 10-year Agriculture Sector Transformation and Growth Strategy (ASTGS) whose goal is to create a vibrant, commercial and modern agricultural sector that supports 100% food security. The strategy is anchored on three outcomes: **Increasing producer incomes; Increasing agricultural output and value addition;** and **Boosting household food resilience.**

The strategic reforms I have been spearheading the past 2 years have been aimed at taking back the sector to its rightful owner: the small holder producer so that he gets a fair share of his toil. We will not meet our national goals if the farmer isn't enabled to grow. I am pleased to note that the reforms are bearing fruit, even though at a pace slower than we would have



liked due to the fightback of the middlemen who have been comfortable with the status quo.

## **Ladies and Gentlemen**

The coffee subsector has been one of the sectors we have been keen to turnaround in our reform agenda. The Government has always taken cognizance of the strategic role the coffee subsector plays towards poverty alleviation, economic empowerment, foreign exchange earnings, food security and job creation, among others. The Government has factored the coffee industry in its Vision 2030 and recognizes coffee as one of the critical subsectors, in its economic development blueprint. The coffee subsector is also recognized in the "Big Four" Agenda as its activities directly or indirectly contribute to food security and manufacturing through establishment of agro processing industries.

Coffee is currently grown in 33 counties by an estimated 800,000 smallholder growers and 3,000 coffee estates with a total acreage of 119,675 Hectares being dedicated to coffee production. The top five counties are Kiambu, Kirinyaga, Murang'a, Nyeri and Embu all in the Mt Kenya region. Other counties with great potential outside the Mt Kenya region are Kericho, Bungoma, Trans-Nzoia, Nandi and Kisii.

Looking at the historical performance, the coffee subsector attained remarkable growth soon after independence which led to the growth of an all-time high production of **129, 637 MT** in 1987/1988 during the famous



coffee boom. However, the subsector has, in the last two decades, encountered several challenges, which have resulted to a significant drop in production and earnings, pushing the coffee industry from the prestigious number one foreign exchange earner to the fourth position after Tea, Tourism and Horticulture. These challenges include; climate change vagaries, high cost of production, **perennial price volatility**, inadequate research, obsolete coffee processing technology, inadequate coffee extension services and high cost of production, among other challenges.

These challenges have contributed to low coffee production and productivity in the country. In the last couple of years, coffee production has averaged 40,000 MT per year. Productivity equally dropped from a high of **6kgs per tree** in 1988 to the current **2kg per tree**. The decline in production and loss of opportunities attracted our attention as Government and we sought to stop the decline by developing interventions aimed at ensuring full recovery of the subsector for its greater contribution to the national economy.

In 2016, H.E the President, appointed a Task Force which compiled a comprehensive report. The report contains a raft of recommendations geared at full recovery of the coffee subsector. It is from these recommendations that the National Government in collaboration with Counties and other stakeholders, instituted a number of reforms in the Coffee sub-sector which have resulted in a positive impact within a very short period. Some of the reforms include; Establishments of the Commodities Fund, rollout of the World Bank funded coffee revitalization program, establishment of the cherry



advance revolving fund, E-Voucher input subsidy programme, reviews of the subsector legislations and appointment of the Technical Working Committee on Design, Development and Implementation of Coffee and Sugar Price Stabilization Frameworks, Robusta Coffee Production Programme and Promotion of Domestic Consumption of Kenyan Coffee, and Promotion of Kenyan coffee in Export Market Destinations, among others.

### **Ladies and gentlemen**

I would like to detail some of the reforms I have mentioned above.

A **KES 2.70** billion cherry revolving Fund was established under the administration of New KPCU Ltd. A total of **KES 177,836,478.60** has been disbursed benefiting **15,703 farmers** from 16 counties and sensitization is ongoing to reach out more farmers. The introduction of the cherry fund has improved liquidity to farmers enabling them to access basic commodities such as farm inputs as they wait for coffee sales.

The establishment of the **KES 1 billion** farm inputs subsidy programme is envisaged to reduce the cost of inputs and improve the application of inputs. Under the program a total of **80,087** farmers have so far been registered for the program out of which **59,000** farmers have already benefitted from the subsidy at a cost of **Kshs 450 Million**.

The Ministry proposed enactment of a coffee act and a set of regulations to improve service delivery and regulation of the coffee industry. The Coffee Bill is with parliament for enactment and the regulations were submitted for publication.



The re-engineered regulatory framework envisages re-establishment of the Coffee Board of Kenya (CBK), the Coffee Research Institute (CRI) and reduction in the cost of services to coffee farmers. The proposed framework seeks to regulate the interest rates (max 5%) on borrowings for smallholder farmers, capping the cost of coffee milling services (max USD 40) and capping deductions by coffee factories (max 5%) on gross sales and efficient procurement of service providers.

The Ministry also introduced a coffee revitalization programme in partnership with the World Bank. Phase 1 of the project covers 8 counties in Mt Kenya and Central Region - Meru, Tharaka Nithi, Embu, Kirinyaga, Nyeri, Murang'a, Kiambu and Machakos. Phase 2 of the programme shall spread out to other regions. Some of the key achievements of the project include the configuration of soil specific fertilizer formulae by MEA and CFAO companies; Ongoing soil analysis to inform the application of farm inputs; Support towards production of coffee planting materials, among others.

As government, we are convinced that these reforms will go a long way towards increased coffee production and enhanced operational efficiency in the coffee value chain, thus increasing the profitability and trade facilitation.

### **Ladies and gentlemen**

Looking at the Coffee Industry Performance I am pleased to inform you that coffee industry export earnings have registered remarkable improvement with a realization of **KES 18.73 billion** in 2013/2014, **KES 21.61 billion** in



2018/2019 and **KES 27.07 billion** in 2020/2021. This translates to an increase of 33% of coffee earnings between 2014 and 2020/21.

The average coffee prices per **60kg bag** of coffee have grown from **USD 184.60** in 2018/2019 to **USD 337.30/60kg bag** in 2020/2021 which translates to an 83% improvement in coffee prices. In the year 2021/2022 the coffee prices continued to demonstrate remarkable improvement with the auction having registered an average of **USD 374.40/60kg bag** as of 31<sup>st</sup> March 2022, an increase of **11.1%** from the previous year's price performance of USD 337.30/60kg bag.

These high auction and direct sales have translated into remarkable improvement in coffee payments to coffee growers with several societies registering coffee payments exceeding **KES 100.00/Kg** of cherry in the coffee year 2020/2021. The National coffee payments average has risen from **KES 45.00/kg** of cherry in 2016/2017 to **KES 80.00/kg** of Cherry in the year 2020/2021, an increase of 78% over the period. This is indeed a very significant increase in coffee prices.

- In 2021/2022 Season several cooperative societies have made payments of over Ksh100/Kg of cherry.
- Musagara factory of Baragwi FCS in Kirinyaga paid Ksh 128.00 per Kg of cherry.
- Gachenge factory of Kianjuru FCS in Kirinyaga paid Ksh 102.50/kg of cherry for the coffee year 2021/2022.
- Kibugu factory of Kibugu FCS paid ksh117/kg of cherry in Embu.



- Karogoto factory of New Tekangu FCS in Nyeri paid ksh110/kg cherry.
- Rungeto FCS factories in Kirinyaga made the following payments -
  - Kii factory                      Ksh 124.00/Kg cherry
  - Karimikui Factory              Ksh 127.70/kg cherry
  - Kiangoi Factory                 Ksh 122.40/kg cherry
- Wanjengi factory of Kahuhia FCS in Muranga paid Ksh 118.05/kg cherry
- Lalem FCS paid Ksh 100/kg of cherry in Kericho County
- Kutere FCS paid Ksh95.25 in Bungoma county.

The improved coffee payments has improved the morale of coffee growers who have intensified investments in coffee production which is anticipated to substantially increase coffee production in the coffee year 2021/2022 from **34,000MT** to a projected **45,000 MT** in 2021/2022.

The Volumes of coffees traded at the Nairobi Coffee Exchange has almost doubled with an increase of 46.51% from **291,810 to 427,545** 60kg bags for the October 2021 to March 2022.

### **Ladies and gentlemen**

Even with the above notable transformational improvements happening in the subsector, my Ministry has been concerned with the ongoing coffee prices fluctuations which we view as unsustainable, and which have hampered effective planning and investment in the coffee industry.



To address this, I appointed a Technical Committee on 30<sup>th</sup> August 2021 to examine causes of coffee prices instability and propose a framework towards attainment of competitive, sustainable, and stable coffee prices. The Task Force members engaged stakeholders and established several factors which contribute to the volatile and unfavourable coffee prices, namely; Inadequate coffee extension services; Inadequate quality coffee planting materials; Inadequate coffee research services; Obsolete primary coffee processing equipment; Poor corporate governance of growers' institutions; Global coffee demand and supply factors; High cost of coffee production factors such as farm inputs; and Global coffee prices volatility.

To address the above, the following interventions are proposed towards establishment of a robust coffee prices stabilization framework -

- a) Address a reduction in the cost of production through appropriate support of growers with quality and affordable farm inputs and planting materials.
- b) Improve on the quality of coffee through adoption of Good Agricultural practices and modern coffee processing technologies.
- c) Promote efficiency in the management of coffee farmers' cooperative societies.
- d) Modernize and digitize growers' coffee factories for efficiency in service delivery.
- e) Enhance transparency in secondary coffee milling and ensure efficient utilization of the existing capacity.
- f) Ensure transparency in the coffee marketing through direct grower involvement and grower capacity building,
- g) Explore other coffee marketing channels such as futures and forward sales.
- h) Explore bilateral agreements with Kenya's coffee markets for competitive and agreeable market access conditions.





- i) Establish a coffee prices stabilization fund to support recommended price stabilization strategies.
- j) Enhance coffee research on modern coffee processing technologies and value addition

I am pleased to note that the Task force has put together a comprehensive risk mitigation framework which seeks to address some of the challenges highlighted so as to attain stable incomes. Some of the risk mitigation strategies proposed include; Intensified research on coffee production; climate change adaptation; adoption of integrated soil health and fertility technologies; provision of adequate allocations for price stabilization framework; establishment of robust regulatory and research institutions; Development of coffee master plan, adoption of lean organizational structures; Adoption of prudent financial management practices and use of the credit reference bureau platform; Setting indicative prices mechanism to facilitate growers negotiation of prices, develop robust coffee marketing strategies; and Enhancing enforcement of standards and the regulatory framework.

The measures once implemented are anticipated to further contribute to full revitalization of the coffee industry.



## **Ladies and Gentlemen**

While we are committed towards introducing reforms in the coffee industry, we call upon county governments, industry stakeholders, the private sector, the trading fraternity and the media to support the reform agenda. We urge coffee buyers to continue sourcing Kenya coffee and to give our farmers favourable coffee prices for sustainability of the coffee business.

As I conclude my remarks here today, I wish to appreciate the great efforts of the Task Force members who developed the coffee prices stabilization framework and the Agriculture and Food Authority for their technical support. I also extend my sincere gratitude to coffee farmers and the industry stakeholders for attending this launch and for availing information which has facilitated development of the coffee prices stabilization framework. I am pleased to unveil the Coffee Prices stabilization framework.

**Asanteni sana and God Bless you all.**