Kisii County Government

Ministry of Agriculture, Livestock, Fisheries and Cooperative Development

Task Force Report on the Coffee Sector

June 2014

Acknowledgement

On behalf of the Members of the Task Force, let me take this opportunity to thank the H.E James E.O. Ongwae, the Governor of Kisii County and County Minister for Agriculture, Hon. Vincent Sagwe; first for his timely concern about the challenges facing the coffee sector in Kisii County, and second, for initiating a process for instituting reforms to improve and enhance the sector's performance. As members of the task force, we feel honored and privileged to have been entrusted with the task of looking into the various issues and challenges affecting the coffee sector in order to identify recommendations to spur improvement and safeguard the future sustainability of sector in the county.

Further, on behalf of the task force members, I wish to extend my sincere gratitude to all the stakeholders who participated in this process for their contribution and support. The input of various coffee growers, the coffee societies, Coffee Research Foundation of Kenya (CRFK), various Government Departments and institutions is gratefully acknowledged. I also wish to register my appreciation to the Government of Ethiopia and the County Government of Nyeri for their invaluable input and allowing visitation by members of the task force. This enabled the taskforce to gather very useful benchmarking facts and information.

I am also indebted to our consultant - Brightpath Consulting Limited; who provided technical support and assisted us in finalizing the report. The industry insights and expertise of the consultant were invaluable. In addition, I would like to express our appreciation to His Excellency, The Governor and the County Government for the provision of secretariat and logistical support that enabled us to complete the assignment.

Finally, I wish to thank, in a special way, members of the taskforce for their dedication, diligence and commitment throughout the various stages of the assignment. This task would not have been completed without your commitment.

Mr. Elijah Mochorwa

Chairman, Coffee Task Force

June 2014

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List of Acronyms

CBK	Coffee Board of Kenya
CODEF	Coffee Development Fund
COTU	Central Organisation of Trade Unions
CRFK	Coffee Research Foundation of Kenya
GCFCU	Gusii Coffee Farmers Co-operative Union
KCTA	Kenya Coffee Traders association
KPCU	Kenya Planters Coffee Union
MFI	Micro Finance Institution
MoIED	Ministry of Industrialization and Enterprise Development
N.S.S.F	National Social Security Fund
OD	Overdraft
SWOT	Strengths, Weaknesses, Opportunities and Threats
TOR	Terms of Reference
WPM	Wakenya Pamoja Sacco

Executive Summary

Coffee is undoubtedly one of the most important agricultural commodities in Kenya. As the fourth largest foreign exchange earner, the coffee sector is important to the national and the county economy. In Kisii County, the sector is organized into an umbrella Union which manages 22 societies with an estimated membership of about 55,000 farmers. The sector is a source of livelihood for many people through its linkages in production, processing, milling, marketing and consumption.

Over the years the sector has been facing various farm level, production, processing and marketing challenges. To address these problems, a number of reforms have been undertaken in the last two decades to try and improve the sector. Some of the major reforms included; liberalization in production and marketing, removal of licenses and controls in production and minimization of government involvement in the coffee industry. Even with these reforms, the coffee sector continues to be under great stress and most of the anticipated gains from reforms have not been realized. The implementation of the new constitution to devolve key functions means that the coffee sector now falls entirely under county government. With this view, the county government must enact legislation and policies geared towards revamping the sector.

It is against this background that the county government appointed a task force to investigate the problems that beset the sector and make appropriate recommendations. To deliver on its assignment, the task force adopted various approaches to gather information. These included; bench marking visits by members of the task force to regions/countries with similar industry structures; discussions with relevant industry stakeholders; literature review and written submissions from stakeholders.

A summary of the major concerns and recommendations are as follows:

a) Farm Level

The key concerns include: poor delivery of extension services; poor adoption of improved technologies; weaknesses in grower education; low farm productivity; over-reliance in inorganic fertilizers; delays in payments; rising cost of production and price fluctuations.

The recommendations to address these concerns include:

The county government to second a unit of extension services to address the unique and specific grower education needs in the sector; the county government to identify specific farm level interventions to support farmers in adoption of technologies; the county government to enact legislation to guide payments to the farmers for coffee deliveries.

b) Production and Processing

The key concerns include: Capacity bottlenecks due to old, obsolete and inappropriate processing machinery; lack of standardized production procedures and manuals to guide processing and quality control at the various processing levels; uneconomical production units i.e. factory and societies.

The recommendations to address these concerns include:

The county government to conduct an audit and needs assessment of machinery of all the union and all societies; the county government to assist the union in the establishment of a modern model coffee processing factory to act as bench mark to the others; the county government to support a factory modernization program to address capacity needs and bottlenecks; the union with the support of the county government to develop standard production procedure manuals to guide processing and quality control at the various processing levels.

c) Policy and Regulatory framework

The key concerns include; poor relationship among stakeholders; lack of clarity of roles among stakeholders; weak regulatory framework and monitoring especially in curbing illegal trade and coffee theft; weak mechanism for on-going monitoring of performance at the various levels in the coffee value chain; too many actors in the coffee sector whose margins result in the loss of value to the growers

The recommendations to address these concerns include:

The county government to enact legislation on the roles and functions of the stakeholders in the sector and establish a clear industry structure that eliminates the role of middlemen. The county government to establish a security system to address coffee thefts and security of coffee factories and its assets and a mechanism for monitoring of performance

d) Management of Asset and Liabilities

The key concerns include**;** Presence of a large pool of assets that are not profitable and are not aligned with the strategic direction of the sector. **;** irregular disposal of the union`s assets**;** lack of clear guidelines and criteria for asset management, acquisition and disposal; too many unsustainable and non-performing debts; lack of a policy framework to guide borrowing of loans by the union and the societies.

The recommendations to address these concerns include:

The county government to develop clear guidelines and criteria for asset management, acquisition and disposal; disposal of the loss making and non-core assets; the county government to initiate forensic investigation on all loans and debts to establish their credibility and authentication; the county government to establish a mechanism for settlement of the outstanding debts for the union and societies.

e) Governance Challenges

The key concerns include**:** inappropriate governance structure due lack of clarity of roles and functions of the union board and management; inappropriate guidelines to govern composition and eligibility of stakeholders in the union board; weaknesses in the staff compliment and human resource capacity.

The recommendations to address these concerns include:

The union to be restructured to respond to the current needs of the sector and inculcate professionalism and efficiency in its operations; The county government to second key technical/management staff to the union to establish internal structures for the union in the medium term; the county government to enact legislation to govern the composition and eligibility of stakeholders in the union board ; The process of corporate governance restructuring to be in line with Chapter 6 of the new constitution to ensure that election or appointment of officers representing any interests in the sector will be officers with high integrity and competent skills.

f) Financial management and controls

The key concerns identified include: lack of clear policies, procedure manuals to guide financial management, and accounting; poor book keeping of accounting records; poor monitoring and enforcement of audit; non-issuance of payslips and statements to farmers.

The recommendations to address these concerns include

The county government to assist the union to develop policies and procedures manuals to guide financial management and accounting; the county government to assist the union in the establishment of clear management and information systems for its operations; The county government to enforce immediate compliance of the audit requirements; the county government to establish a mechanism for monitoring the implementation of audit reports; the county government to enact legislations to guide borrowing and debt management in the sector; the county government to enact legislation and stringent by-laws for deterrence and minimization of financial mismanagement and corruption; Prosecution of all persons implicated in any corruption dealings and economic crimes and these people must be barred from holding any office in line with chapter six of the constitution. All those who have embezzled funds must repay

g) Value Addition and Branding

The key concerns include: Limited value addition of coffee; lack of brand identity; lack of a niche market; lack of clear policy framework to support value addition; unco-ordinated milling and marketing where some societies avoid milling and marketing through their union. This is a major anomaly and that is the conduit for stealing farmers' proceeds through various advances from millers and marketers.

The recommendations to address these concerns include

The county government to commission a feasibility study to establish an optimal value addition model for the sector; the union together with county government to pursue branding and establishment of niche markets; The union to provide land for the establishment of an ultra-modern coffee house and mall; Funds or proceeds from sale of non-core assets to fund value addition; the county government to pursue private – public partnerships approaches in the sector; the county government to legislate laws to facilitate central milling and marketing of coffee from the county and develop a structured and guaranteed system of payments to the farmers and other stakeholders in the value chain.

Other recommendations include:

i) The county government to establish a mechanism of streamlining Wakenya Pamoja Sacco with a view to putting it on a growth path of making it a full – fledged bank;
ii) The county government to assist the union in establishing full computerization of the operations and activities across the value chain
iii) The county government should facilitate capacity building of the stakeholders especially the staff and management committees of the societies

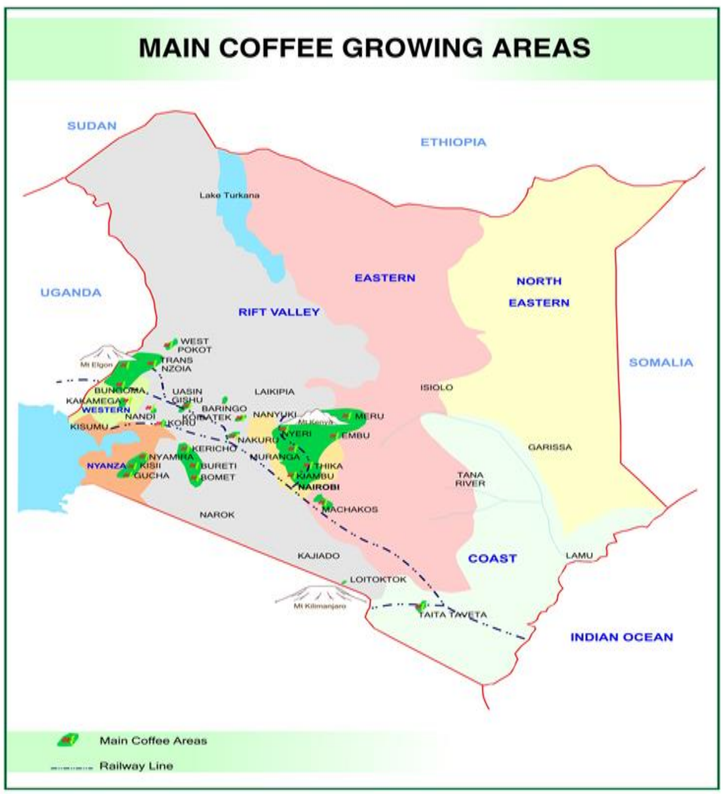
It is hoped that implementation of this report will revitalize the sector for the benefit of the farmers and other stakeholders. Towards this end the county government should establish an implementation framework for this report**.** In implementing the report the county government should explore opportunities for collaboration with the neighbouring counties

Chapter 1: Introduction

1.1 Background

Coffee is one of the most traded commodities in the world with an estimated value of over 80 billion US Dollars annually. Globally, the five leading coffee producers are: Brazil, Vietnam Colombia, Indonesia, and India in that order. Ethiopia which is considered the birthplace of coffee, is the leading producer in Africa and it`s the 7th largest coffee producer in the world. The other leading producers are Rwanda, Uganda, Ivory Coast, Tanzania and Kenya. According to ICO (2010), Kenya is the 21st largest producer of coffee in the world, producing over 50 million kilograms annually.

Despite the proximity of Kenya to Ethiopia which is widely believed to be the region from which coffee originated, coffee was not cultivated in Kenya until 1893, when missionaries imported coffee trees from Brazil (Gathura, 2013). Today, an estimated 170,000 Ha of arable land in Kenya spread across the various coffee growing regions in the country (see fig 1.1).



Source: David, 2001

Figure 1.1: Coffee growing areas in Kenya

1.2 The Kenyan Coffee sector

The coffee sector in Kenya is one of the important economic agricultural activities in terms of income generation, employment creation, foreign exchange earnings and tax revenue. The sector is the fourth largest foreign exchange earner after tea, tourism and horticulture. According to the Kenya Economic Survey (2013) coffee exports account for approximately five percent of all exports from Kenya. In addition, the coffee industry, due to its forward and backward linkages, directly and indirectly benefits about six million people in the country.

In terms of production, Kenya grows mainly the *Arabica* variety. The predominant commercial cultivars are the *SL28*, *SL34*, *K7* and *Ruiru ll*. Pockets of the *Blue mountain* and *French mission* however still exists in the older establishments. A new variety, *Batian*, that was released by the Coffee Research Foundation of Kenya (CRFK) in 2011 is also being promoted.

Kenya’s coffee is characterized by a dual production system comprising of co-operative societies, which service most of the small-scale farmers and the large-scale coffee estates. The cooperative societies process their coffee through their factories, serve as the custodians of the coffee for their members and are supposed to benefit individual members through economies of scale. Each cooperative owns and manages one or more wet-processing factories.

According to the CBK, estimates there are currently over 700,000 small holders who produce on individual plots of less than 2 hectares and market their coffee through 450 active Co-operative Societies. Within the large scale sub sector, there are 3,300 small to medium estates with farm sizes ranging from 5 to 10 hectares and about 100 large estates with sizes of between 10 hectares and over 200 acres

On average, smallholders (co-operatives) produce about 56% of Kenya’s coffee while 44% of the production is under the estates sub-sector. This is a shift from a decade ago when smallholders were producing about 66% of the total production (see table 1.1).

Table 1.1: Coffee Production in Kenya

Year	Estates production (metric tons)	smallholders production (metric tons)	total (Metric ton)	Hectares	Productivity (kgs/ha)
2003/2004	18,473.0	29,958.0	48,431.0	170,000.0	284.89
2004/2005	20,745.0	24,500.0	45,245.0	170,000.0	266.15
2005/2006	21,975.0	26,860.0	48,835.0	170,000.0	287.26
2006/2007	23,850.0	29,150.0	53,000.0	170,000.0	311.76
2007/2008	18,900.0	23,100.0	42,000.0	170,000.0	247.06
2008/2009	25,650.0	32,350.0	58,000.0	170,000.0	341.18

Source: CBK statistics (Various)

1.3 Challenges in the Coffee Sector

In spite of its importance, the coffee industry in Kenya has been facing several production, processing and marketing challenges over the last two decades. The challenges include;

- Poor adoption of production technologies, low farm productivity and low farm level earnings
- Incessant conflicts within co-operative societies and governance challenges.
- The intricate relationship between the various stakeholders has led to conflicts and controversies that have added to the problem of decreasing coffee production. Specifically, the balancing of the interests of the cooperatives, the regulator and the millers has been less than harmonious.
- Declining land holding sizes, aging coffee plants and competition with other agricultural enterprises.
- Poor post-harvest handling; there is limited capacity by the handlers of the processing equipment and procedures leading to loss of quality at the various processing levels.
- Rising cost of production (COP) while the prices in the world market have continued to fluctuate and mostly are on the declining trend. The gains that were anticipated as a result of enhanced competition following liberalization have not been realized.
- Governance problems that have led to an increase in mismanagement of coffee co-operatives. Corruption, lack of financial accountability and transparency are some of the mismanagement issues that cut across most institutions in the coffee industry.
- Delays in payments to growers and the politicization of co-operatives has led to splits that continue to erode their economies of scale.

1.4 Coffee Industry Policy Reforms in Kenya

To address the above challenges, a number of policy reforms have been made in the coffee industry. Table 1.2 below summarizes the key reforms have been undertaken in Kenya's coffee sector since early 1990s.

Table 1.2: Coffee Sector Reforms in Kenya

Period	Reform
1992	In October 1992 CBK was mandated to conduct the Nairobi coffee auction in US dollars. Gradually permission was given for coffee farmers to be paid in dollars and they were also allowed to retain dollars for their own use.
1993	A direct payment system was also introduced to reduce the delays in payments that characterized the old pool system. Three commercial millers were licensed in 1993 thereby breaking the monopoly held by Kenya Planters Cooperative Union (KPCU)
1996	The minimum acreage required for a farmer to be licensed as a coffee planter was reduced from 10 to 5 acres to improve production.
1998	The government removed its tight control over the way co-operatives operate when a new Co-operative Act was enacted. The government has retained a minimal regulatory role in the co-operatives while encouraging members of the societies to run them as economic units.
2002	In order to harmonize the policy reforms already implemented and to complete institutional and legal reforms, a new coffee Act came into force in April 2002. The salient features of new Act included; • Separation of the roles of regulation and marketing with CBK role confined to regulation • Removal of old draconian rules on coffee uprooting, planting and intercropping, Limitation of deductions to cater for CBK and CRFK expenses to 3% of gross proceeds, allowing private sector players to offer extension and advisory services. • However even under the new Act farmers were not allowed to trade in cherry at the farm gate level and all coffee sold in Kenya had to pass through a central auction.
2006	• Full liberalization, the marketing of coffee by removing the involvement of the

	Coffee Board of Kenya in marketing. • Introduction of direct sales to allow farmers to negotiate their prices directly with the consumers. • Establishment of the Coffee Development Fund (CODEF) so that farmers can access credit. • To further remove the financial burden to farmers, the Government waived and took over loans to farmers worth about 6 billion shillings in the period 2008 - 2012.
2012	• The devolution of the agriculture function where the coffee sector falls. • The implication is that the responsibility for management of the coffee sector falls entirely with the county government.
2013	• The enactment of the Agricultural Food and Fisheries Act no 13 of 2013. The purpose of the reform was to consolidate the numerous pieces of legislations within the agriculture sector to address overlap of functions. • This reform has led to restructuring of the CBK which has now been merged under the Agricultural Food and Fisheries Authority.

Source: Author`s compilation from various sources.

The emerging policy and institutional framework impacted both positively and negatively on smallholder farmers' welfare. On the positive side, the reforms have reduced the government involvement in coffee matters while encouraging farmers and private sector participation. On the negative note, a number of issues are still outstanding, despite the above reforms.

Coffee production is currently faced with a number of production, processing, marketing and governance challenges that must be addressed and managed for increased productivity and farmer returns. It is against this backdrop and in light of the rising stakeholder expectations following inauguration of the county government that the Minister for Agriculture, appointed a task force to investigate the problems that beset the sector and make appropriate recommendations. The appointment of the task force was also informed by concerns about the future sustainability of the sector in view of a changing environment characterized by new challenges such as climate change, the rising cost of inputs, a diminishing resource base (farm size), and risk management problems. The terms of reference of the task force are listed in section 1.5 below.

1.5 Terms of Reference

1. To determine the Nature and Ownership of Gusii Coffee Farmers Co-operative Union (GCFCU) in terms of its assets and liabilities.
2. To determine the composition of co-operative societies affiliated to the union in terms of names, status (active or inactive), number and names of factories, number of growers and number of trees as per the last census done
3. To determine the status of audited accounts for the union, all affiliated societies and non – affiliated societies in Kisii County
4. Production for all Societies and the Union in the period 2008 – 2013
5. Schedule of Coffee Payments in the period 2008 – 2013
6. Debts owed by Societies and the Union in the period 2008 – 2013; the nature, source, purpose and mode of payment
7. Machinery status and needs for all societies in Kisii County
8. Challenges facing the Union, Societies and Farmers in Kisii County
9. The role of Coffee Research Foundation in Kisii County
10. The Role of Coffee Board of Kenya in Kisii County
11. Relationship between the Union and Wakenya Pamoja Sacco
12. Recommendations

1.6 Methodology

To deliver on its assignment, the taskforce adopted various approaches to gather information. These included;

- Meeting and discussions with relevant industry stakeholders.
- Visits to local co-operative societies, private estates and the union.
- Consultative meetings with the county government and members of the county assembly.
- Request for written submissions from some industry stakeholders.
- Benchmarking visits by members of the task force to regions/countries with similar industry structures.
- Reference to secondary data sources including published reports and industry websites.

The information gathered from the above sources was then discussed and reviewed consultatively among the taskforce members and other stakeholders before the report was compiled.

1.7 Organization of the Report

This report is organized in five chapters. Chapter one details the background information, and highlights the need for the formation of the taskforce. Chapter two characterizes the structure of the coffee sector in Kenya and discusses the role of some of the key stakeholders; specifically the CBK and CRFK.

This is followed by chapter three, which presents the task force findings based on the terms of reference. Chapter four provides a summary of the key challenges in the sector and also looks at benchmarking and any cross cutting issues. The report then concludes with chapter five which discusses the recommendations and strategies for change in the sector.

Chapter 2: The Coffee Industry Structure

The coffee industry in Kenya operates under the coffee Act (Cap 333) and the Agricultural Act (Cap 318) of laws of Kenya and is structured into policy, regulatory, research, production and trade functions.

2.1 Policy, Regulatory and Research Functions

The policy, regulatory and research functions in the coffee industry falls under the Ministry of Agriculture, which, with the assistance of the agencies under it, formulates laws and policies to regulate the coffee sector.

a) The Coffee Board of Kenya (TOR 10)

The role of the CBK as stipulated in the act is to;

- Formulate policies and rules to regulate and develop the coffee industry in consultation with the Ministry of Agriculture.
- Carry out registration and licensing of coffee nurseries, growers, pulping stations, millers, marketing agents, management agents, buyers, roasters, packers, warehousemen and auctioneers to ensure adherence to standards.
- Provide advisory services related to coffee production and quality enhancement.
- Collect, collate, analyze data, maintain a database on the coffee industry and document and monitor it through registration of any persons dealing with coffee.
- Represent the government in international fora in regard to coffee matters.
- Arbitrate in case of any disputes in the industry.
- Encourage environmentally friendly, ethical and hygienic coffee production, processing and marketing practices, in order to enhance quality of coffee and sustainability.
- Identify, develop and promote new and emerging domestic and global markets

In the past, the mandate of CBK laid a lot of emphasis on regulating production and processing and marketing. However following amendments of the Coffee Act, its mandate for marketing of coffee has been removed.

2.1.1 Key Observations

In the case of Kisii County the stakeholders have raised their concerns regarding the role of the CBK in curbing illegal trade and coffee theft. Further, they have expressed concerns relating to the following;

- Weaknesses in grower education
- Lack of price advisory information to the growers
- Lack of timely dissemination of the of policy changes affecting the sector.

b) The Coffee Research Foundation of Kenya (TOR 9)

The principal function of the Foundation is to carry out research into and investigate all issues relating to coffee and other agricultural and commercial systems associated with coffee. Other services provided to the coffee growers include soil and leaf analysis, coffee planting materials, pesticides analysis and field advisory training of coffee farmers. In order to discharge its mandate, the Foundation has established research stations across the country. The substations are located at Mariene (Meru), Kisii, Namwela, Kitale and Koru (Kipkelion).

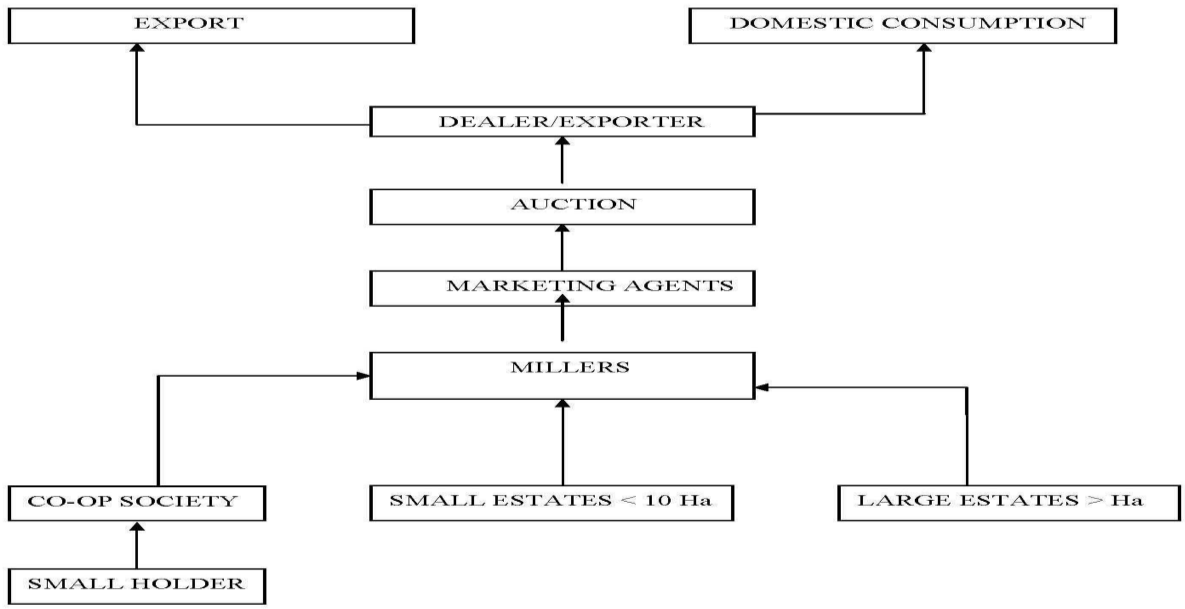
The activities of Coffee Research Foundation are funded mainly through a levy on coffee sales. However, in most of the years, funds from the levy have not adequately covered the Foundation's budget.

The Coffee Research Foundation is credited with some achievements which have contributed significantly to the growth and development of the coffee industry in the country. Some of these achievements include selection of high yielding, high quality Arabica coffee varieties, such as, *SL28, SL34, K7* and the disease resistant hybrid variety *Ruiru II* and *Batian*

Despite some of these achievements, a key concern by stakeholders is that the CRFK activities have been heavily skewed towards improving farm production and coffee yields with little focus on coffee value addition. **The view of the stakeholders** is that the CRFK focus should be redirected to assist the industry enhance coffee value addition through research focused on consumers which then could inform the coffee blenders and packers in formulating brands. The stakeholders also feel that they are not benefiting from the proximity of the local CRFK station with regard to farmer advisory services and establishment of coffee nurseries.

2.2 Production and Trade Functions

The Coffee value chain is characterised by the presence of many players. The key actors, their interaction and their relationship within the Kenyan coffee industry are illustrated in Figure 2.1 below.



Source: USAID (2010)

Figure 2.1: The Kenyan coffee value chain actors

The main actors include;

- **Producers:** Production is constituted by 700,000 small holder farmers who produce about 28,000 metric tons and are organised into 450 co-op societies; The small and medium estates farmers are over 3,300 and own 5 to 10 acres while the large scale farmers/estates are over 100 and own farms of 10 acres and above.

- **Wet Millers**: There are over 4,000 wet processing plants. Smallholders deliver harvested cherries to a co-operative society's processing factory, where it is pulped, washed and dried.
- **Dry Millers:** There are a number of dry millers and they include; KPCU, Socfinaf, Thika Coffee Mill, Sasini, Central Kenya Coffee Mills, Gusii Coffee Mills and Hema Millers.

Millers process *parchment* and `*mbuni*` into seven official grades based on bean size and bean density, ready for auctioning.

- **Marketing Agents**: The marketing agents are responsible for: ensuring presentation of coffee in the auction, preparation of the auction catalogue, setting of reserve prices, selection of an auctioneer. There are eight marketing agents and they include; Coffee management services, Eaagads, Tropical Farm Management, Sasini, KCCE, Sustainable Management services, Nyambene and KPCU.

- **Auction System:** This has been the traditional method of marketing Kenya coffee. There are over 90 registered coffee exporters who bid for coffee at the auction in Nairobi.

2.3 The key Observations

i) There are too many actors in the coffee sector whose margins result in the loss of value to the grower.
ii) There is no marketing agent for the coffee from county.
iii) The role of GCFCU as a marketing agent is dormant.
iv) The second window that allows for direct sales has not been utilised.

Chapter 3: Findings of the Task force

This chapter discusses the findings of the task force for each of the items in the terms of references.

3.1 Nature and Ownership of Gusii Coffee Farmers Co-operative Union (TOR 1)

The Gusii Coffee Farmers Co-operative Union is a Kenyan Co-operative union representing approximately 75,000 coffee growers who are organized into 27 cooperatives societies in Kisii and Nyamira Counties. The societies that are affiliated to the union are listed in table 3.9.The main functions of the union include:

- Maintaining books of account for the societies.
- Coordinating transport and logistics for the societies.
- Coffee milling – In July 2011, the union operationalized a new coffee mill with the objective of reducing wastage, transportation and warehousing costs.
- Maintaining and servicing of coffee machinery for the societies.
- Establishing of coffee nurseries.
- Conducting educational meetings for the farmers and society officials.

The task force established that the union and the societies have the following assets and liabilities as per the schedules provided.

3.1.1 Assets Owned by the Union

a) Table 3.1 : Schedule of Land /plots owned by Union

	Asset	Description	Asset No	Land rates outstanding	Remarks
1	14 acres	Houses Union main office and Coffee mill at Mwembe	Block 245	Kshs 62,300	• Formerly 16 acres • One acre given to Wakenya Pamoja Sacco • One acre sold to finance a coffee mill
2	acres)	Houses Getembe bookshop	Block II/88	Kshs 37,206	• Lease expired in 1973
3	(acres)	Masaba Building	Block III/130	Kshs 39,916	• Lease expired 1986
4	(acres)	Next to Masaba General stores	Block III/131	Kshs 32,852	• Lease expired 1986
5	(acres)	Property at industrial area	Block III/23	Kshs 41,505	• Occupied by a church paying 50,000 per month. • Lease expired 1989
6	(acres)	Property at industrial area	Block III/21	Kshs 20,506	• Lease expired 1997 • Undeveloped with coffee

Source: GCFCU

b) Table 3.2: Schedule of Assets at Simbauti Farm (owned by the union)

	Asset	Description	Status
	Total Land	400 acres	• Original acreage 1,130 acres • 400 acres remaining as per the search from lands • Houses all the operations in the farm
		Operations in the Farm	
a	Coffee plantation	10 acres	Operational
b	Tea Plantation	158 acres	Operational
c	Banana plantation	10 acres	Operational
d	Offices and staff houses	• 2 permanent staff houses • One semi-permanent house and 6 temporary houses	Rented out
e	Buildings	• 2 permanent , one incomplete • 50 number temporary houses	Operational
f	Dairy (cattle)	26 number	Operational
g	Goats	51 number	Operational

Source: GCFCU

c) Table 3.3: Schedule of Motor Vehicles owned by the Union

	Asset	Description	Status and remarks
1	Mitsubishi Lorry	KAL 241G	Operational
2	Mitsubishi Lorry	KAL 570S	Operational
3	Mitsubishi Lorry	KBR 244P	Purchased at Kshs 10,224,280 in 2010
	Mitsubishi Lorry	KAL 241G	Operational
4	Tractor	KYY 734	Operational
5	Tractor	KAK 750D	Operational

Source: GCFCU

d) Table 3.4: Schedule of Plant and Machinery Owned by the Union

	Asset	Description	Status and remarks
1	Coffee Milling machine	Capacity - 1.2 tonnes per hour	Purchased at Kshs 17, 150,000 in 2011
2	Maize Sheller		Located at Simbauti farm
3	Water Pump		
4	Weighing scales		

Source: GCFCU

e) Table 3.5: Schedule of Office Equipment owned by the Union

	Asset	Description
1	Computers	6 Number
2	Printers	2 Number
3	Photocopier	1 Number
4	Furniture	Various
5	Mower and loose tools	Various

Source: GCFCU

f) Table 3.6: Schedule of Shares owned by the Union

	Asset	Value in Kshs
1	Co-operative Bank	900,400
2	KPCU	140,979
3	CIC	134,160
4	CODIC	30,000
	TOTAL	**1,205,539**

Source: GCFCU

g) Table 3.7 Schedule of Debts owed to the Union

	Asset	Value in Kshs
1	Members	37,201,141
2	Non- Members	1,395,013
3	Rent due from tenants	2,254,266
	TOTAL	**40,850,420**

Source: GCFCU

3.1.2 Liabilities of the Union

Table 3.8: Liabilities of the Union

	Liability	Value in Kshs
1	Share Capital	6,223,614
2	Capital Reserves	185,475,556
3	Statutory Reserves	8,379,745
4	General Reserves	114,618,417
5	Appropriation Account	42,939,627
6	Deferred Tax Liability	188,694
7	Creditors	17,093,256
8	Legal fees –Nyatundo & Co. advocates	2,750,559
9	Legal fees –Ogamba and Co advocates	1,635,922
10	KRA	2,940,907
	TOTAL LIABILITIES	**382,246,297**

Source: GCFCU

3.1.3 Key Observations

i) All the leases of the union are expired

ii) There are many unsustainable debts owed to and by the Union

iii) There is no mention of storage or warehousing facilities which points to capacity issues in handling coffee storage.

iv) There is no valuation to ascertain the true value of the assets.

v) There is no asset register to back the records obtained from the Union.

vi) There is non-optimal utilization of Simbaut farm.

3.2 Composition of the Co-operative Societies (TOR 2)

The TOR was to determine the co-operative societies affiliated to the union in terms of names, status (active or inactive), number and names of factories, number of growers, trees as per the last census done. The findings are as tabulated in table 3.9 below.

Table 3.9: Composition of the Co-operative Societies affiliated to the Union

S/No	Name of Society	Annual Production (Kgs)	Area (Ha)	Active members	No of factories	Name Of Factory	Status A – Active X – Inactive
1	Kenyenya	92711	421	5498	5	Main	A
						Nyabioto	A
						Omogumo	A
						Eburi	A
						Borabu	A
2	Gesarara[1]	1387	447	2526	4	Main	A
						Getwanyansi	A
						Rianyambaka	A
						Bochura	A
3	Marani	59382	383	3400	4	Main	A
						Nyabonge	A
						Nyanchogu	A
						Rigoma	A
4	Nyamache	94871	371	3434	1	Main	A
5	Nyaigwa	38690	175	2639	4	Main	A
						Ekerubo	A

[1] not affiliated

						Megogo	A
						Mwancha	A
6	Kiomooncha	24497	135	3320	4	Main	A
						Sieka	A
						Nyagoto	A
						Nyamagoma	A
7	Nyaguta	28334	113	2000	2	Main	A
						Nyaboterere	A
8	Nyambunde	31902	151	2201	2	Main	A
						Kionyo	A
9	Kenyoro	37415	263	5200	4	Main	A
						Gesuguri	A
						Nyamagundo	A
						Gesebe	A
10	Gakero	13959	203	4037	3	Main	A
						Itabago	A
						Kebege	A
11	Magena				2	Main	A
						Nyamonyo	A
12	Mogonga	45677	376	2200	2	Main	A
						Enkurongo	A
13	Nyamosongo	14740	78	996	2	Main	A
						Nyamokenye	A
14	Riasuta	16027	165	1350	3	Main	A
						Orienyo	A
						Nyagetonkono	A
15	Nyamonya	16214	90	3000	3	Main	A
						Nyagancha	A
						Motonto	A
16	Nyamarambe	33518	289	2201	3	Main	A
						Mosache	X
						Nyakorere	A
17	Nyaturubo	18240	82	2594	1	Main	A
18	Nyakoe	17179	77	622	2	Kiogo	A
						Ngege	A
19	Nyosia	5714	117	650	1	Main	A
20	Mobamba	7035	48	2270	3	Main	A
						Masongo	A
						Mosasa	A
21	Iyabe	1706	226	1500	2	Main	A
						Kebacha	
22	Nyachenge	6639	21	4009	2	Main	A
						Iringa	A

Source: GCFCU

3.2.1 Key Observations

i) Although most of the factories owned by the societies are active, there are concerns about their capacity and the fact some of machinery is old and leading to loss of quality at processing.

ii) There is also possibility of capacity mismatches which impact negatively on the ability of the societies to enjoy economies of scale leading to high cost structures.

3.3 Status of Audited accounts (TOR 3)

The TOR was to determine the status of audited accounts for the union, all affiliated societies and non –affiliated societies in Kisii County. The Gusii Coffee Farmers Co-operative union is responsible for ensuring that all the accounts of the union have been audited. Both the private and government audit agencies are eligible for auditing the financial records. Note that the GCFCU was last audited in the period 2011/2012.

3.3.1 Audit Status per Society

The following table 3.10 shows the last audit period for each of the societies

Table 3.10: Audit Status for Societies

S/No	Name of Society	Last Period of Audit	Remarks
1	Kenyenya	2011/12	Compliant
2	Gesarara	2011/12	Compliant
3	Marani	2010/11	Compliant
4	Nyamache	2010/11	Compliant
5	Nyaigwa	2011/12	Compliant
6	Kiomooncha	2009/10	Overdue
7	Nyaguta	2011/12	Compliant
8	Nyambunde	2010/11	Overdue
9	Kenyoro	2010/11	Overdue
10	Gakero	2010/11	Overdue
11	Magena*	-	Started operation in 2011/12
12	Mogonga	2010/11	Overdue
13	Nyamosongo	2011/12	Compliant
14	Riasuta	2008/09	Long overdue
15	Nyamonya	2011/12	Compliant
16	Nyamarambe	2006/07	Long overdue

17	Nyaturubo	2011/12	Compliant
18	Nyakoe	2004/05	Long overdue
19	Nyosia	2010/11	Overdue
20	Mobamba	2001/01	Long overdue
21	Iyabe	2011/12	Compliant
22	Nyachenge	1992/93	Long overdue

Source: GCFCU

3.3.2: Key Observations of Status of audit

i) Eight out of 22 societies had up to date audited accounts up to the year 2011/2012 namely: Kenyenya, Gesarara, Nyaigwa, Nyaguta, Nyamosongo, Nyamonya, Nyaturubo, and Iyabe. The due period for audit is 2012/2013 meaning that they were up to date at the time of collecting data by the task office.

ii) Seven societies were audited in 2010/2011 namely: Marani, Nyamache, Nyambunde, Kenyoro, Gakero, Mogonga and Nyosia. These societies have not been audited for last two years namely 2011/12 and 2012/13.

iii) Six societies have not been audited for a substantial period of time. They are Nyachenge (1992/93), Mobamba (2001/01), Nyakoe (2004/05) Nyamarambe (2006/07), Riasuta (2008/09), Kiomooncha (2009/10).

iv) The findings on the status on the audit, points to weaknesses in monitoring and enforcement of the audit function. The task force could not verify the extent of implementation of the audit findings nor verify the quality of the audits.

3.4 Production for all Societies and the Union in the period 2008 – 2013 (TOR 4)

The total production (kgs) of all the societies for the period 2008 – 2013 is shown in table 3.11

Table 3.11: Coffee production per Society 2008/09-2012/13

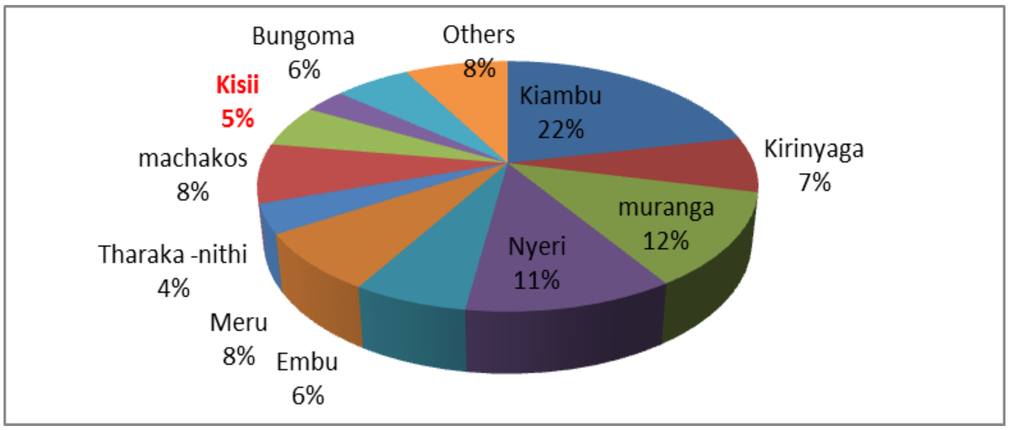
		YEARS						
S/No	**Name of Society**	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**Total**	**Average Per Society**
1	Kenyenya	948,219.0	556,265.0	806,047.0	1,437,311.0	1,279,797.0	5,027,639.0	1,005,527.8
2	Gesarara	702,789.0	377,478.0	520,272.0	770,030.0	844,332.0	3,214,901.0	642,980.2
3	Marani	270,682.0	356,294.0	473,974.0	622,789.0	656,649.0	2,380,388.0	476,077.6
4	Nyamache	427,914.0	335,996.0	419,034.0	579,286.0	520,591.0	2,282,821.0	456,564.2
5	Nyaigwa	343,702.0	232,137.0	611,196.0	392,792.0	513,343.0	2,093,170.0	418,634.0
6	Kiomooncha	510,802.0	211,484.0	430,046.0	357,324.0	384,325.0	1,893,981.0	378,796.2
7	Nyaguta	328,223.0	170,002.0	272,371.0	315,892.0	320,221.0	1,406,709.0	281,341.8
8	Nyambunde	311,458.0	176,790.0	229,207.0	263,705.0	234,541.0	1,215,701.0	243,140.2
9	Kenyoro	238,995.0	130,525.0	207,611.0	132,081.0	292,383.0	1,001,595.0	200,319.0
10	Gakero	211,328.0	63,570.0	126,945.0	199,602.0	341,329.0	942,774.0	188,554.8
11	Magena	201,577.0	106,091.0	139,563.0	171,354.0	232,826.0	851,411.0	170,282.2
12	Mogonga	201,105.0	191,817.0	236,082.0	95,807.0	90,242.0	815,053.0	163,010.6
13	Nyamosongo	308,649.0	82,025.0	186,299.0	-	188,451.0	765,424.0	153,084.8
14	Riasuta	54,597.0	77,203.0	98,432.0	179,287.0	285,544.0	695,063.0	139,012.6
15	Nyamonya	-	96,141.0	158,449.0	49,495.0	379,017.0	683,102.0	136,620.4
16	Nyamarambe	139,551.0	48,576.0	74,626.0	182,430.0	187,178.0	632,361.0	126,472.2
17	Nyaturubo	185,787.0	46,546.0	132,500.0	107,003.0	124,897.0	596,733.0	119,346.6
18	Nyakoe	122,712.0	99,495.0	78,568.0	97,557.0	98,768.0	497,100.0	99,420.0
19	Nyosia	46,343.0	35,434.0	45,547.0	38,846.0	43,890.0	210,060.0	42,012.0
20	Mobamba	-	28,494.0	42,355.0	65,498.0	59,248.0	195,595.0	39,119.0
21	Iyabe	-	8,286.0	10,215.0	5,111.0	28,372.0	51,984.0	10,396.8
22	Nyachenge	-	11,278.0	17,211.0	20,476.0	-	48,965.0	9,793.0
	Total Per Year	**5,554,433.0**	**3,441,927.0**	**5,316,550.0**	**6,083,676.0**	**7,105,944.0**	**27,502,530.0**	

Source: Author – Adapted from the data from Ministry of Industrialization

3.4.1 Production Systems

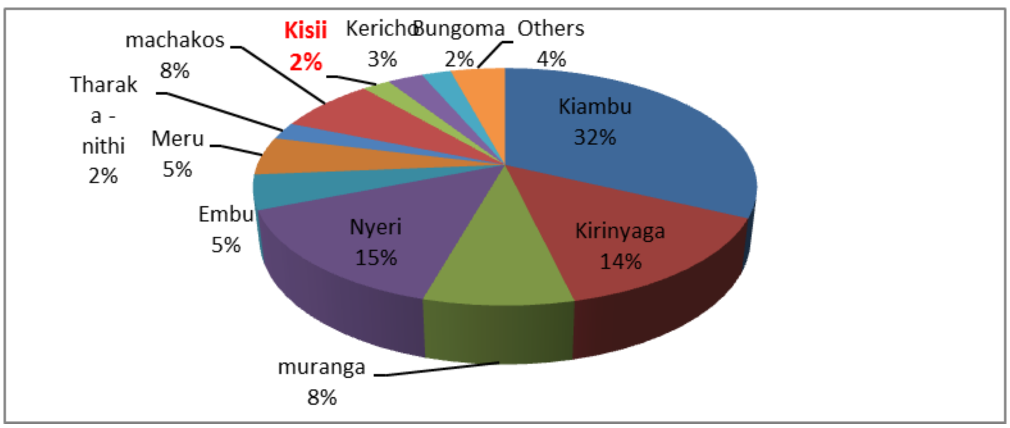
Kisii is one the coffee growing counties in the west of Rift valley. Coffee production in the County is characterized by a dual production system; the estates and smallholder farmers who are organized into 22 active cooperative societies with a membership of about over 55,000 coffee growers. The production conditions in the county are generally good and characterized by high altitude, red volcanic soils and which are deep and rich in organic matter and high rainfall.

In terms of production, the county produces an annual average of 5.5 million kilograms of coffee from a total planted area of about 5000 hectares. According to the Kenya coffee Traders association (2013), Kisii County contributes approximately 5 % and 2% of Kenya's total area under coffee and the country's annual coffee production respectively as shown in Figures 3.1 and 3.2 below.



Source: KCTA (2013)

Figure 3.1: Area under Coffee in Kenya by County



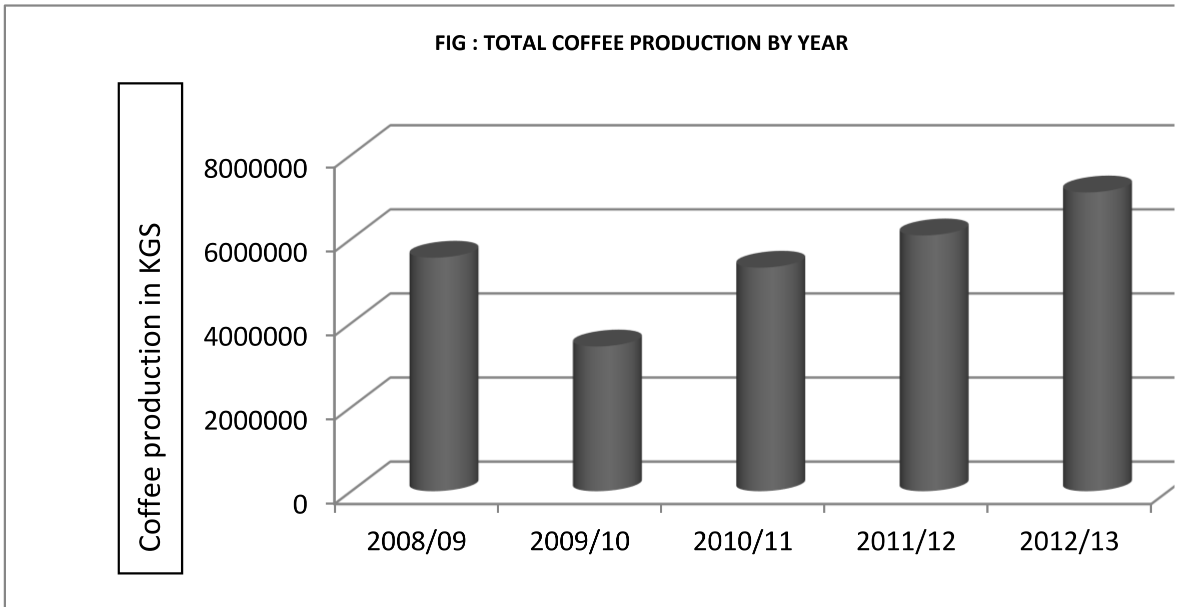
Source: KCTA (2013)

Figure 3.2: Average annual production by County

The inconsistency observed in the country‘s contribution to the national statistics in terms % area planted and % contribution to the annual national production- provides important insights regarding underlying weaknesses in the county coffee production system.

3.4.3: Key observations

i) There is a general increase in the production over the last five years as shown by the annual county production trends in figure 3.3



Source: Author

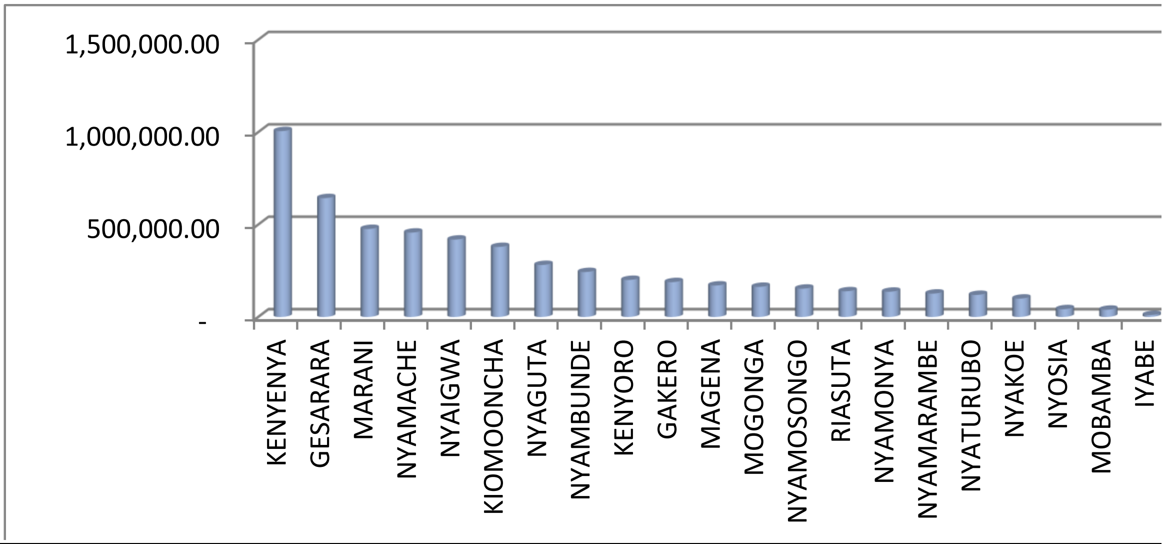
Figure 3.3: Combined Five year average annual production for Smallholders

v) There are no clear and consistent trends in productivity and production changes across the societies. There are very wide productivity variations across societies. While production is rising for some societies, others have depicted a declining trend (see table 3.11)

vi) The productivity variations across societies are apparently not driven by weather conditions.

vii) Some societies have very low production. Figure 3.4 shows that the average 5 year annual production per society between 2008/09 to 2011/2013. The figure reveals that some of the societies are very small producing hardly 10,000 Kgs of coffee per year.

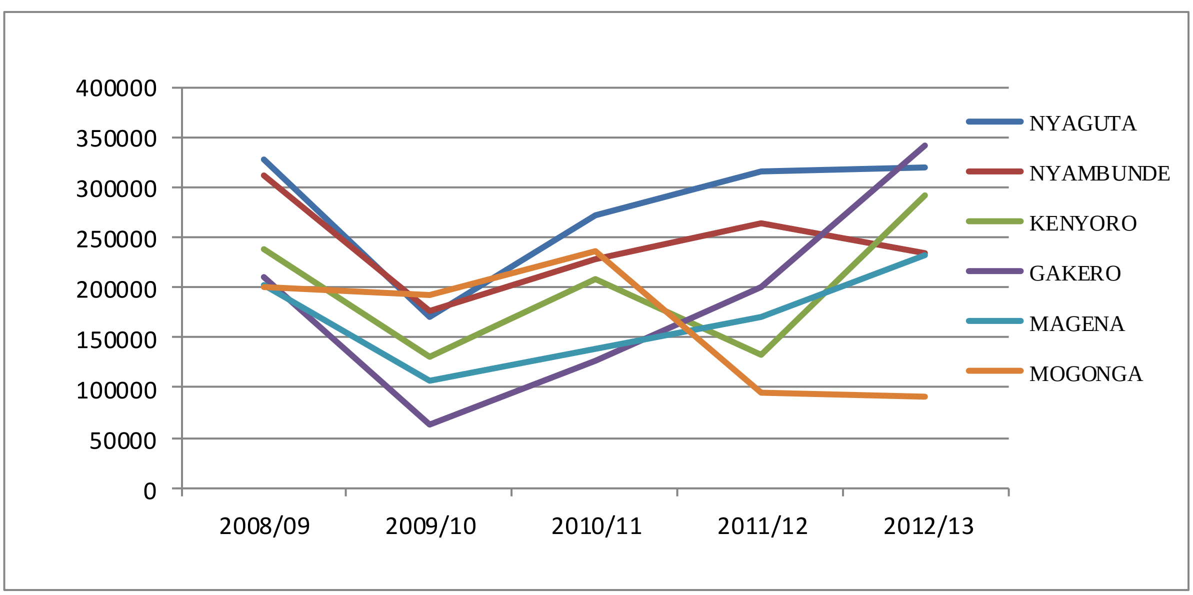
This level of production is not sufficient to enable their members enjoy the economies of collective action.



Source: Author

Figure 3.4: Five year annual production by society between 2008/09 to 2012/2013

viii) Analysis of the production trends for the individual societies shows that the coffee production system (enterprise) is highly volatile, implying that any productivity gains can be wiped out instantaneously (see Figure 3.5).



Source: Author

Figure 3.5: Five year annual production trend by society between 2008/09 - 2012/2013

The volatility is explained by the fact that most small-scale producers rely heavily on the returns from one season to finance the next, through taking care of the coffee bushes and the acquisition of inputs for disease control. Where the incomes have fallen or are altogether nonexistent, the maintenance of the plants suffers, leading to lower or no yield.

3.4.4: Key factors influencing Production and Productivity

The key factors identified by the task force to explain the production and productivity bottlenecks in the county include:

a) The extension services delivery to farmers is poor and farmers may not be aware of the improved technologies.
b) Poor producer incentives due to delays in coffee payments and high processing costs
c) Lack of mechanism for quality feedback from buyers.
d) Conflicting messages from government departments- specifically the department of agriculture and that of cooperatives.
e) Weak mechanism for on-going monitoring of performance at the various levels in the coffee value chain
f) Low adoption of superior varieties such as *Ruiru II and Batian*
g) Processing Capacity bottlenecks leading quality loss and reduced earnings

3.5 Schedule of Coffee Payments in the period 2008 – 2013 (TOR 5)

The TOR was to develop schedule of coffee payments for all affiliated societies and non – affiliated societies in Kisii County. The schedule of coffee payments by society for the last five years as per the terms of reference is presented table 3.12 below.

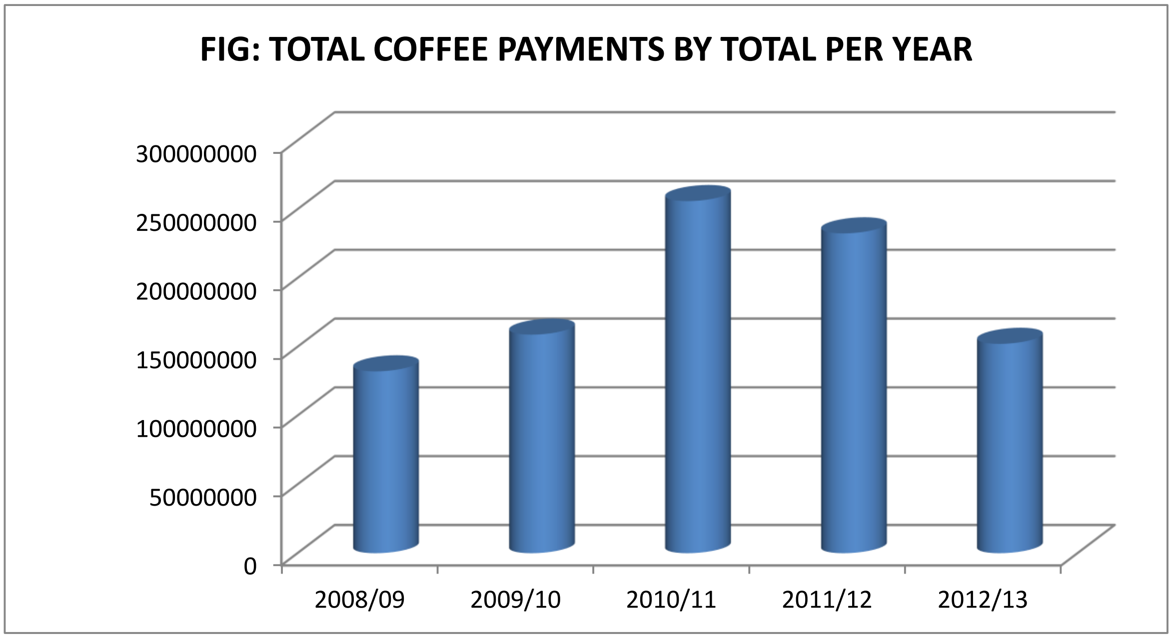
Table 3.12: Schedule of coffee payments 2008/09 to 2012/13

	Years								
Name of Society	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**5 year Average**	**3 Yr Average [2008/09 -2010/11**	**3 Yr Average [2010/11 - 2012/13]**	**% Change**
Kenyenya	21,826,211	18,483,401	35,307,571	62,116,777	26,363,163	**32,819,425**	25,205,727.67	41,262,503.67	64%
Nyaguta	18,323,575	44,648,477	29,872,967	28,973,609	19,401,426	**28,244,011**	30,948,339.67	26,082,667.33	-16%
Gesarara	14,259,707	26,065,725	32,457,589	23,014,774	19,292,794	**23,018,118**	24,261,007.00	24,921,719.00	3%
Marani	5,965,254	8,548,424	25,995,901	26,081,453	19,924,852	**17,303,177**	13,503,193.00	24,000,735.33	78%
Nyaigwa	10,672,432	5,371,299	15,878,630	19,196,871	9,090,418	**12,041,930**	10,640,787.00	14,721,973.00	38%
Kiomooncha	10,641,361	6,596,743	14,923,864	8,568,549	6,167,759	**9,379,655**	10,720,656.00	9,886,724.00	-8%
Mogonga	5,142,299	7,664,993	12,852,088	10,283,037	9,791,347	**9,146,753**	8,553,126.67	10,975,490.67	28%
Nyakoe	4,785,594	10,849,385	11,457,208	8,214,750	6,531,890	**8,367,765**	9,030,729.00	8,734,616.00	-3%
Nyamache	7,619,079	6,617,229	25,578,675	840,646	1,055,385	**8,342,203**	13,271,661.00	9,158,235.33	-31%
Nyambunde	5,004,074	3,965,549	8,457,030	10,999,865	2,839,201	**6,253,144**	5,808,884.33	7,432,032.00	28%
Kenyoro	5,277,880	2,655,468	9,594,563	4,403,939	3,800,670	**5,146,504**	5,842,637.00	5,933,057.33	2%
Gakero	3,230,900	2,282,654	5,511,516	5,615,830	4,604,361	**4,249,052**	3,675,023.33	5,243,902.33	43%
Magena	3,490,604	2,656,651	4,538,423	6,789,821	3,468,200	**4,188,740**	3,561,892.67	4,932,148.00	38%
Nyamosongo	5,134,557	2,634,046	7,499,366		4,956,927	**5,056,224**	5,089,323.00	6,228,146.50	22%
Nyaturubo	4,564,129	2,478,908	3,567,680	5,751,411	3,568,323	**3,986,090**	3,536,905.67	4,295,804.67	21%
Nyamarambe	1,636,900	1,196,426	2,567,706	4,738,113	3,530,231	**2,733,875**	1,800,344.00	3,612,016.67	101%
Riasuta	1,198,707	1,710,432	1,775,141	3,779,744	4,273,305	**2,547,466**	1,561,426.67	3,276,063.33	110%
Nyamonya		2,821,653	5,237,313	1,078,985	1,295,912	**2,608,466**	4,029,483.00	2,537,403.33	-37%
Nyosia	2,879,546	985,391	2,021,821	1,105,582	1,232,326	**1,644,933**	1,962,252.67	1,453,243.00	-26%
Nyachenge	528,289	463,726	550,742	869,766	382,878	**559,080**	514,252.33	601,128.67	17%
Iyabe		170,214	287,552	58,895	599,739	**279,100**	228,883.00	315,395.33	38%
Total Per Year	**132,181,098**	**158,866,794**	**255,933,346**	**232,482,417**	**152,171,107**	**187,915,710**	182,327,079.33	213,528,956.67	17.11%

Source: Author – Adapted from the data from Ministry of Industrialization

3.5.1 Key Observations :

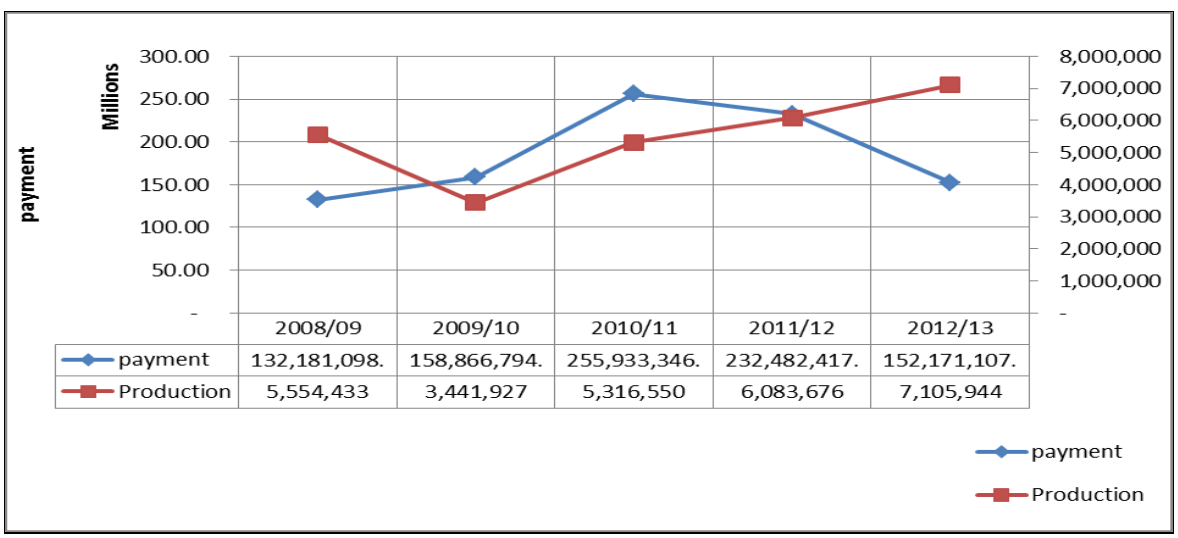
i) There is an erratic trend in coffee payments of in the period 2008 – 2013 as shown in figure 3.6



Source: Author

Figure 3:6 Annual total coffee payments in the period 2008/09 -2012/13

ii) Analysis of the payments reveals that the trends on payments do not follow the trends in production. While production appears to be rising, payment to growers is on a downward trend (see figure 3.7).

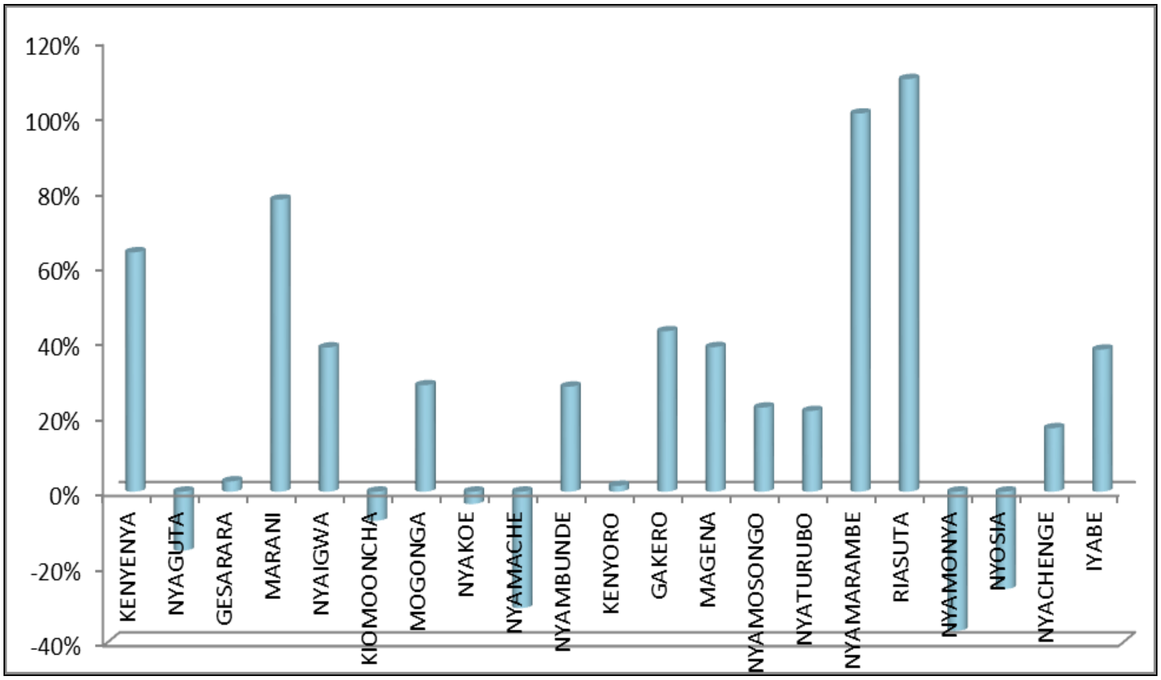


	2008/09	2009/10	2010/11	2011/12	2012/13
payment	132,181,098.	158,866,794.	255,933,346.	232,482,417.	152,171,107.
Production	5,554,433	3,441,927	5,316,550	6,083,676	7,105,944

Source: Author

Figure 3.7: Five year total payment trend for the societies 2008/09 to 2012/2013

iii) There are no clear and consistent trends in payments across the societies. While payments went up substantially for some societies, a number of societies recorded a decline **(see figure 3.8).**



Source: Author

Figure 3.8: Five year total payment trend for the societies 2008/09 to 2012/2013

i) The variations in payment trends across societies apparently not driven by prices. This implies that there are other underlying performance related fundamentals.

3.6 Debts owed by Societies and the Union in the period 2008 – 2013

The TOR was to determine the nature, source, purpose and status of the debt.

The taskforce was presented with different debt schedules as under:

3.6.1: Debts owed by union

It was established that the union owes different creditors as shown in Table 3.13

Table 3.13: Summary of debt owed by the Union (GCFCU) as per the Union

S/no	Item description	Amount
1	Kenya Revenue Authority	**3,500,000**
2	Farm Salaries	**2,000,000**
3	Migos & Ogamba & Co Advocates	**7,000,000**
4	Nyatundo & Co Advocates	**6,000,000**
5	N.S.S.F	**5,000,000**
6	County Government (Former Municipal Council)	**3,000,000**
7	Union Staff Allowances	**3,962,035**
8	Simbauti Staff Leave Allowance	**1,460,329**
	Total	**31,922,364**

Source: Author – Adapted from the data from GCFCU

Table 3.13 above presents the schedule that was provided by the union. However these debts are significantly different from those in **Table 3.8** which raises questions on the validity of the debts

3.6.2: Summary of Debts owed by the Societies

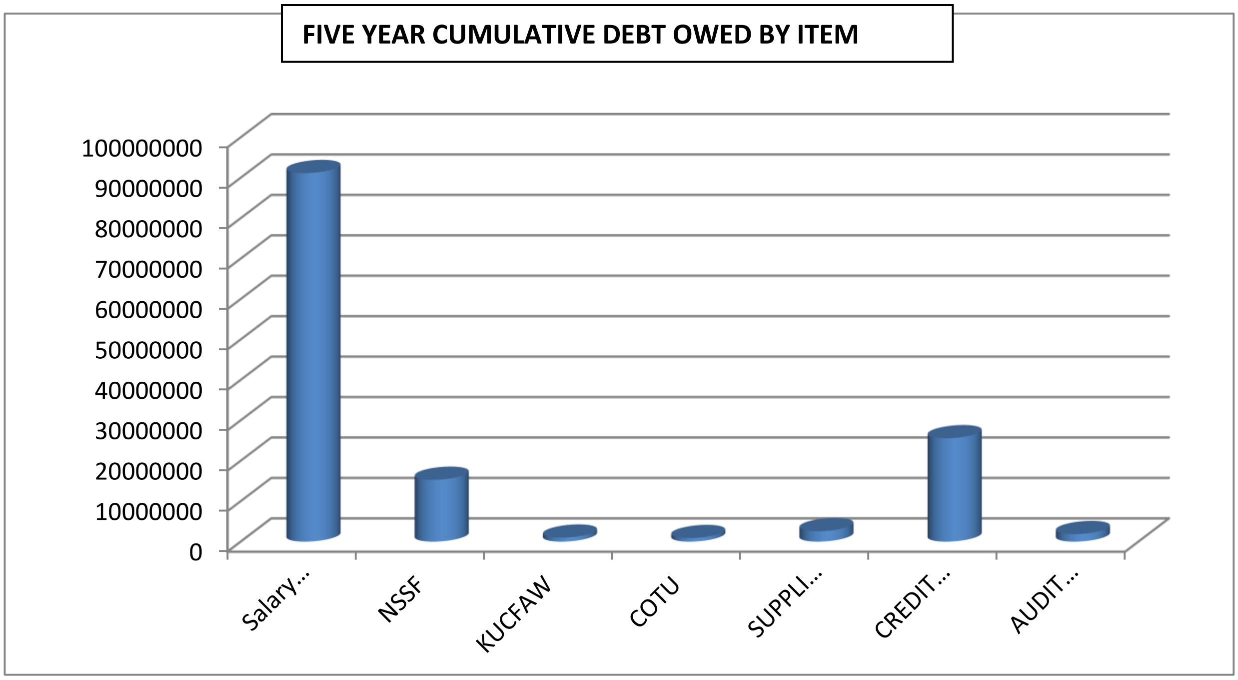
a) Table 3.14 shows the schedule of debts owed by the societies according to the records held by the union. As of end 2013 the debts are estimated at about Kshs **138,301,225.**

Table 3.14: Summary of debt owed by the Societies as per the Union

		NATURE OF DEBT (KSHS)							
S.N	**SOCIETY**	**Salary arrears**	**NSSF**	**KUCFAW**	**COTU**	**SUPPLIERS**	**CREDITORS**	**AUDIT FEES**	**TOTAL**
1	RIASUTA	11,128,738	1,679,946	73,150	12,235	192,800	2,839,367	395,000	**16,321,236**
2	KENYENYA	6,640,888	1,627,068	261,654	31,460	88,650	4,905,800		**13,555,520**
3	KENYORO	8,820,210	1,245,371	129,206	-	-	2,095,030	373,750	**12,663,567**
4	NYAKOE	9,547,359	899,159	30701	30080	162,750	1504,187	215550	**12389786**
5	NYAMOSONGO	6,982,632	907,583			4868	519033	16800	**8430916**
6	NYAIGWA	4576350	1186953	40160	6955	209100	1968013	37500	**8025031**
7	NYAMBUNDE	5344462	830828	24893	27220	150000	1527596		**7904999**
8	GAKERO	5405577	1060410		410533	503850	145880	5000	**7531250**
9	KIOMOONCHA	6015108	158807	36575	24750	187000	568557		**6990797**
10	MOGONGA	3860750	814910	7560	220		2264328		**6947768**
11	MARANI	4233531	1349868		57750	151620	617024		**6409793**
12	NYACHENGE	4938539	86000	16798	61566		313627	400600	**5817130**
13	MAGENA	4200996	577858	3780	110	220350	324048	78151	**5405293**
14	NYAMARAMBE	2017412	682512	167135	4563	80000	1242056	15000	**4208678**
15	NYAMONYA	2024166	633976	10650	5325		1125623		**3799740**
16	NYATURUBO	2197021	171100	15710	118905	170400	595,096		**3268232**
17	NYAGUTA	734053	411060	23385	37572	302500	251451	177008	**1937029**
18	NYOSIA	1451955	253284	11988	9925		86257	104774	**1918183**
19	IYABE	592034	4000	110516	5311		1158970		**1870831**
20	MOBAMBA	15536	556703	7470	27188	38400	1028438	44000	**1717735**
21	NYAMACHE	417383	148503	16020	6525	114470	484810		**1187711**
22	GESARARA								**0**
	TOTAL BY ITEM	**91,144,700**	**15,285,899**	**987,351**	**878,193**	**2,576,758**	**25,565,191**	**1,863,133**	**138,301,225**

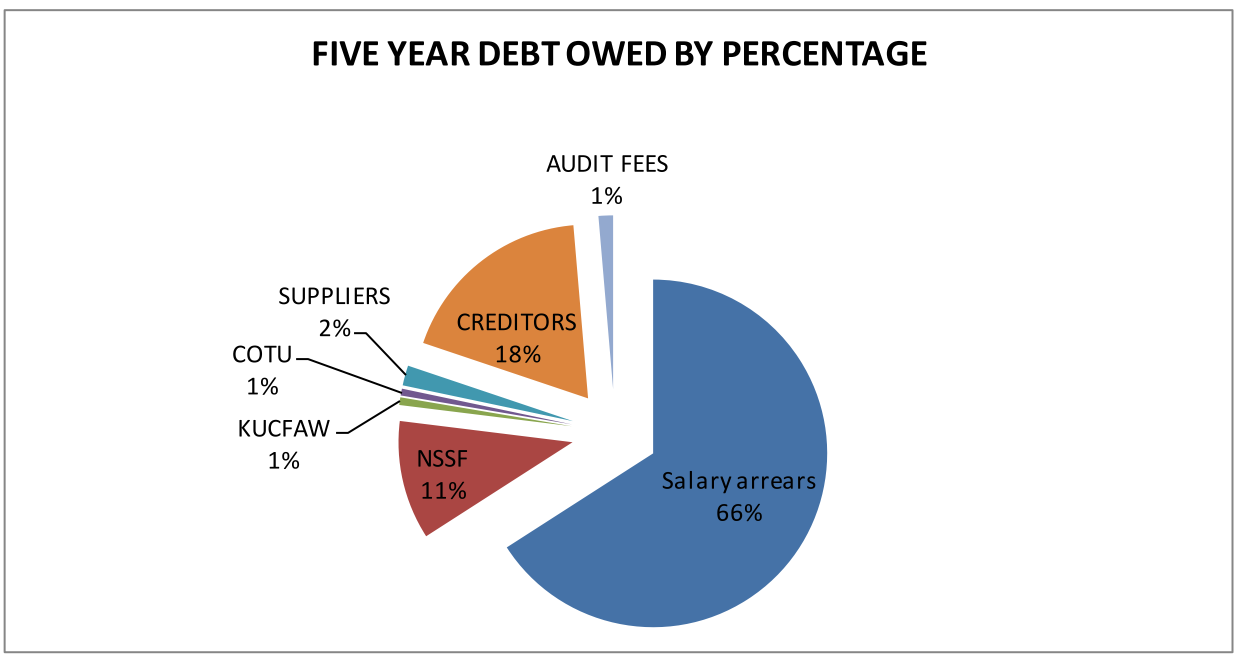
Source: Author – Adapted from the data from GCFCU

The data in table 3.14 can be broken down to show that out of a total of Kshs 138,301,225 debt over Kshs 90,144,700 is owed to salary arrears as shown in figure 3.9. This represents over 66% of the total debt (see figure 3.10)



Source: Author – Adapted from the data from GCFCU

Figure 3.9: Five Year Cumulative Debts Owed By Societies by Item (As per Table 3.13)



Source: Author – Adapted from the data from GCFCU

Figure 3.10: Five Year Cumulative Debts Owed By Societies by Percentage (As per Table 3.14)

b) **Loans Owed By The Society**

In addition to the above debt, the societies have additional liabilities in form of loans taken from various financing institutions. The schedule of the loans as presented to the task force is presented in table 3.15. However some of the data presented did not have details on the purpose, principal, lender, and mode of payment of the loans (see table 3.15)

Table 3.15: Summary of loans owed by the Societies

MARANI					
s/no	**Purpose**	**Principal**	**Lender**	**Mode of payment**	**Outstanding Balance**
1	Servicing machines	250,000	Wakenya Pamoja	20% deduction	100,000
NYAIGWA					
s/no	**Purpose**	**Principal**	**Lender**	**Mode of payment**	**Outstanding Balance**
1	Payment to members 2011/2012	12,800,000	Sasini Mills	Coffee proceeds	6,000,000
2	Payment to members 2011/2012	5,000,000	OOP – Bank	Coffee proceeds	5,000,000
3	Salary arrears 2011/2012	8,599,200	Sasini Mills	Coffee proceeds	8,599,200
4	Engine repair 2011/2012	1,400,000	Ranberger	Coffee proceeds	1,400,000
	TOTAL				**20,999,200**
KIOMOONCHA					
s/no	**Purpose**	**Principal**	**Lender**	**Mode of payment**	**Outstanding Balance**
1	Chemicals 2011	3,000,000	Co-op Bank	20% payment	2,700,000
2	Advance payment 2009	250,000	Wakenya Pamoja	20% payment	400,000
3	Advance payment 2010	932,829	CODF	-	582,451
	TOTAL				**3,682,451**
NYAMARAMBE					
s/no	**Purpose**	**Principal**	**Lender**	**Mode of payment**	**Outstanding Balance**
1	Crop Advance	-	Wakenya Pamoja	-	2,244,831
2	CODF	-	Wakenya Pamoja	-	1,347,747
3	OD	32,700	Wakenya Pamoja	-	32,700
	TOTAL				**3,625,278**
NYACHENGE					
s/no	**Purpose**	**Principal**	**Lender**	**Mode of**	**Outstanding**

				payment	**Balance**
1	Advance	500,000	Wakenya Pamoja	Coffee proceeds	500,000
2	Processing	87,000	Wakenya Pamoja	Coffee proceeds	87,000
3	Salary arrears	4,938,539	-	-	4,938,539
4	Retirees arrears	3,136,270	-	-	3,136,270
	TOTAL				**8,661,809**
RIASUTA					
s/no	**Purpose**	**Principal**	**Lender**	**Mode of payment**	**Outstanding Balance**
1	Repair and Processing	1,200,000	Wakenya Pamoja	Coffee proceeds	1,200,000
	TOTAL				**1,200,000**
NYAMACHE					
s/no	**Purpose**	**Principal**	**Lender**	**Mode of payment**	**Outstanding Balance**
1	Purchase of Chemicals	2,900,000	Co-operative Bank	Coffee proceeds	2,900,000
2	Coffee advance	600,000	CMS	Coffee proceeds	600,000
3	Advance	74,000	Wakenya Pamoja	Coffee proceeds	74,000
	TOTAL				**3,574,000**
KENYENYA					
s/no	**Purpose**	**Principal**	**Lender**	**Mode of payment**	**Outstanding Balance**
1	Working Capital	2,830,000	Co-operative Bank	Coffee proceeds	2,830,000
2	Purchase of Chemicals	3,500,000	Stanbex	Coffee proceeds	3,500,000
3	Crop Advance	2,500,000	Wakenya Pamoja	Coffee proceeds	2,500,000
	TOTAL				**8,830,000**
MAGENA					
s/no	**Purpose**	**Principal**	**Lender**	**Mode of payment**	**Outstanding Balance**
1	Store Construction	1,500,000	Co-operative Bank	Coffee proceeds	1,500,000
2	Advance	500,000	Wakenya Pamoja	Coffee proceeds	500,000
3	Advance	257,000	Gusii Coffee Mills	Coffee proceeds	257,000
	TOTAL				**2,257,000**
MOGONGA					
s/no	**Purpose**	**Principal**	**Lender**	**Mode of payment**	**Outstanding Balance**
1	Advance	355,540	Wakenya Pamoja	Coffee proceeds	355,540
2	OD (1980)	332,896	Wakenya Pamoja	Coffee proceeds	332,896
	TOTAL				**688,436**
KENYORO					
s/no	**Purpose**	**Principal**	**Lender**	**Mode of**	**Outstanding**

				payment	Balance
1	Farm inputs	3,000,000	Co-operative Bank	Coffee proceeds	3,000,000
2	Crop Advance	800,000	Wakenya Pamoja	Coffee proceeds	800,000
	TOTAL				**3,800,000**

GAKERO

s/no	Purpose	Principal	Lender	Mode of payment	Outstanding Balance
1	Advance	1,700,000	Wakenya Pamoja	Coffee proceeds	1,700,000
2	Salary Arrears	1,500,000	-	-	1,500,000
	TOTAL				**3,200,000**

NYAMONYA

s/no	Purpose	Principal	Lender	Mode of payment	Outstanding Balance
1	Loan	500,076	Wakenya Pamoja	Coffee proceeds	500,076
2	Advance	8,177	Wakenya Pamoja	Coffee proceeds	8,177
3	Loan	4,000,000	-	-	4,000,000
	TOTAL				**4,508,253**

NYAMOSONGO

s/no	Purpose	Principal	Lender	Mode of payment	Outstanding Balance
1	Loan	464,994	Wakenya Pamoja	Coffee proceeds	464,994
2	OD	2,845	-	Coffee proceeds	2,845
	TOTAL				**467,839**

NYAMBUNDE

s/no	Purpose	Principal	Lender	Mode of payment	Outstanding Balance
1	Stabex Loan for Purchase of Chemicals	6,000,000	Co-operative Bank	Coffee proceeds	6,000,000
2	Crop Advance	8,000,000	Sasini Mills	Coffee proceeds	8,000,000
3	Loan	583,589	Wakenya Pamoja	Coffee proceeds	583,589
4	OD	16,900	Wakenya Pamoja	Coffee proceeds	16,900
	TOTAL				**14,600,489**

NYAGUTA

s/no	Purpose	Principal	Lender	Mode of payment	Outstanding Balance
1	Operations (Advance) 2012/13	450,000	Wakenya Pamoja	Operations Account – 20%	400,000
2		500,000	GCFCU	Operations Account – 20%	500,000
	TOTAL				**900,000**

NYATURUBO

s/no	Purpose	Principal	Lender	Mode of payment	Outstanding Balance
1	Operations (Advance) 2012/13	800,000	Wakenya Pamoja	Operations Account – 20%	800,000
2	Salary Arrears	5,100,000	Wakenya Pamoja	Operations Account – 20%	5,100,000
	TOTAL				**5,900,000**
NYOSIA					
s/no	**Purpose**	**Principal**	**Lender**	**Mode of payment**	**Outstanding Balance**
1	Operations (Advance) 2008	880,000	Wakenya Pamoja	Operations Account and Members Account	1,095,208
	TOTAL				**1,095,208**
GESARARA					
s/no	**Purpose**	**Principal**	**Lender**	**Mode of payment**	**Outstanding Balance**
1	Salary Arrears	12,000,000			12,000,000
2	Gratuity	3,000,000			3,000,000
	TOTAL				**15,000,000**
IYABE					
s/no	**Purpose**	**Principal**	**Lender**	**Mode of payment**	**Outstanding Balance**
1	OD (1992)	35,000	Wakenya Pamoja	Coffee proceeds	702,000
2	Crop Advance	31,521	Wakenya Pamoja	Coffee proceeds	31,521
	TOTAL				**733,521**
	GRAND TOTAL		**103,823,484**		

Source: Author – Adapted from the data from Ministry of Industrialization

3.6.3 Key observations

i) There is a large and unsustainable debt for the union and societies. The union has an estimated debt of **31,922,364**.The amount of debts outstanding for the societies is **Kshs 138,301,225** and the loan outstanding is for **Kshs 103,823,484**

ii) There is inconsistency in the reporting of debt of the union. For instance see table 3.8 and 3.13

iii) There are no effective controls to obligate the societies market their coffee through the union. Some of the societies by pass the union to sell or mill their coffee to independent millers. **This provides a big loophole for fraud and corruption** considering the weak financial monitoring systems at the society level.

iv) Most of the data is unclear as relates the date when the debt was incurred, the purpose and the nature of the balances outstanding pointing to weakness in record keeping and accounting

v) It is not clear whether the loans waived by government affect the status of debts or not

vi) There was no evidence to back up the debts presented although these is from balance sheets,

vii) There are no clear records debts owed to both the union and the societies

3.7 Machinery Status and needs for all societies in Kisii County (TOR 7)

The task force established that most of the coffee factories in the county have old and obsolete machinery leading to wastage, quality losses and high cost structures. There is need for the county government to commission a full machinery audit to ascertain the full extent of the problem.

3.8: Relationship between the Union and Wakenya Pamoja Sacco

There following observations were deduced about Wakenya Pamoja Sacco;

- Wakenya Pamoja SACCO is now owned by the shareholders, but the release from the original owner the union was done without regard to the farmers.
- The number of delegates are too many and need to be reduced
- The original owners to be listened to and be brought back on board.
- In elections all the members no matter the size of shares should be allowed to vote and this requires the repealing of the SACCO by- laws to be all inclusive. The minister to come up with regulations and rules for the amending of the by-laws. This should include clear guidelines for conducting elections
- There are staff capacity and competency bottlenecks
- Wakenya Pamoja Sacco to grow into a full-fledged bank

Chapter 4: Summary of key challenges and Benchmarking

The task force established that although the coffee sector has a huge potential, there are a number of challenges that affect its performance. This chapter provides a summary of the main challenges and problems that affect the sector.

4.1 Key Challenges facing the sector

a) Farm Level Challenges

i) Poor delivery of extension services leading to; poor adoption of improved technologies, weaknesses in grower education, lack of price advisory information to the growers and lack of timely dissemination of the of policy changes affecting the industry.

ii) Low farm productivity which leads to low farming earnings. When benchmarked the county productivity compares unfavorably with counties such Nyeri and Kirinyaga as shown in **table 4.2** below.

iii) Delays in payments to growers leading to poor producer incentives

iv) Declining land holding sizes, aging coffee plants and competition with other agricultural enterprises.

v) Rising cost of production (COP) while the prices in the world market have continued to fluctuate and mostly are on the declining trend. The gains that were anticipated as a result of enhanced competition following liberalization have not been realized.

vi) The exposure to price risks arising from fluctuations of coffee prices, exchange rates and performance risks in marketing institutions.

vii) The coffee production system (enterprise) is highly volatile, implying that any productivity gains can be wiped out instantaneously. There are no clear and consistent trends in productivity and production changes across the societies.

viii) Over –reliance on inorganic fertilizers and other commercial inputs in the production of coffee

b) Production and Processing

i) Capacity bottlenecks due to old, obsolete and inappropriate processing machinery. This has led to wastage, loss of quality and high processing costs.

ii) Lack of standardized production procedure manuals to guide processing and quality control at the various processing levels.
iii) Lack of a mechanism for quality feedback from buyers.
iv) Uneconomical production units (factory / societies) - Some of the units are too small to allow for the economies of scale.
v) There is no clear and updated inventory of the status of the machinery or its capacity.

c) Policy and Regulatory framework

i) The intricate relationship between the various stakeholders has led to conflicts and controversies. The balancing of the interests of the cooperatives, the union, the farmers, the regulator, the millers and other stakeholders has been less than harmonious due lack of clarity on the roles of each of the stakeholders.
ii) Concerns by stakeholders regarding the role of the CBK in curbing illegal trade and coffee theft. There is feeling among stakeholders that activities of CBK are not visible on the ground.
iii) Although the coffee sector has been reformed to allow farmers to market their own coffee, there is no enabling framework to support coffee trade and marketing. The marketing license for the union is also expired.
iv) Conflicting messages from government departments specifically the department of Agriculture and that of Cooperatives. There is a conflict in the line ministries that deal with coffee and other related bodies. For instance the department of cooperatives tends to patronize coffee marketing at the expense of other crops.
v) Weak mechanism for on-going monitoring of performance at the various levels in the coffee value chain

d) The Coffee Structure and Role Actors

i) There are too many actors in the coffee sector whose margins result in the loss of value to the grower.
ii) There is no clear structure that is customized to meet the unique needs of the county. There is concern that the existing structure is generic and is not customized to meet the unique needs of the county.

e) Management of Asset and Liabilities

i) Large pool of assets that are not optimally utilized. Some of the assets are non – profitable and are not aligned with the strategic direction of the sector.

ii) There is unclear or irregular disposal of the Union`s assets e.g. part of Simbauti farm.

iii) Lack of clear guidelines and criteria for asset management, acquisition and disposal.

iv) Most of the leases of the union are expired.

v) There is no valuation to ascertain the true value of the assets.

vi) There is no clear and updated register of assets owned by the union and the societies.

vii) There are many unsustainable and non-performing debts owed to and by the Union and Societies. There are inconsistencies in reporting of liabilities

viii) There is no policy framework to guide borrowing of loans by the union and the individual societies.

f) Governance Challenges

i) There is an inappropriate governance structure due lack of clarity of roles and functions of the Union Board and Management leading to conflict and duplicity of roles. For instance the stakeholders feel that powers at the union are vested in one office and that there is no transparency and accountability as the union CEO signs cheques on behalf of the other signatories (one signature can withdraw society money)

ii) There are no clear guidelines to govern an appropriate composition and eligibility of stakeholders in the Union board. As currently constituted, the board has only farmer representatives without provision for professionals.

iii) There are no guidelines for the remuneration of the Union Board.

iv) There is no committee to provide oversight on the operations of the coffee mill. The coffee mill also lacks the liquoring section. To streamline the operations of the mill, the coffee mill should be managed as an independent unit of the union.

v) Incessant conflicts within co-operative societies.

vi) There is corruption and lack of transparency and accountability especially in the finances. There is no receipting of moneys from primary society.

vii) There are weaknesses in the staff compliment due to lack of clear human resource policies and succession planning. The union structure for instance lacks key functions such as the internal audit function and technical services. Again, most of the union and society staff lack capacity, requisite skills to discharge their functions.

g) Financial management and controls

i) There are no clear policies, procedures and manuals to guide financial management and accounting. The manuals should provide details for internal control systems, asset management, credit control, cash flow, book keeping, and accounting for the sector.

ii) Poor book keeping of accounting records.

iii) Poor monitoring and enforcement of the audit. The task force established that a number of societies had not complied with the law requirement regarding audit.

iv) An inappropriate model for financing the activities of the union. The current cost sharing system is not pegged on services delivered and hardly benefits the societies.

v) There are no clear guidelines to government utilization of coffee cess.

vi) There no set policies to guide borrowing and debt management.

vii) Lack of clear and stringent by laws for deterrence and minimization of financial mismanagement and corruption.

viii) The farmers and societies do not get statements of their coffee deliveries and the payments do not go directly to the farmers` accounts.

h) Relationship with Wakenya Pamoja Sacco

i) Although Wakenya Pamoja Sacco and Union are independent entities this relationship is not well understood. The stakeholders also feel that the change of ownership was done without regard to the farmers.

ii) The number of delegates are too many and need to be reduced

iii) Lack of strategic direction and growth path of the Sacco. The peers of WPS are already organized into strong national MFIs e.g. UNAITAS.

i) Value Addition and Branding

i) Limited value addition of coffee

ii) Lack of brand identity market- for instance Kisii has not leveraged on production of the blue mountain variety-which the county is known for.

iii) Lack of clear policy framework to support value addition

iv) Uncoordinated milling and marketing where some societies avoid milling and marketing through their union. This is a major anomaly and is the conduit for stealing farmers' proceeds through various advances from millers and marketers.

There is need to address the above challenges with a view to strengthen the coffee sector of the county. The challenges and opportunities for revitalization of the sector are summarized in the SWOT table below.

Table 4.1: The Kisii Coffee Sector SWOT Analysis

Strengths	**Weaknesses**	**Opportunities**	**Threats**
i) Ideal climatic conditions ii) Pool of coffee knowledge *iii)* Renowned coffee variety - *Blue Mountain* iv) Availability of Renown coffee research facility v) Availability of superior coffee varieties (New / Improved) vi) Devolution of functions vii) Good will from the County government viii) A good asset base at the union	i) Poor extension and advisory services ii) Small and Uneconomical units at the farm and society levels iii) Old and obsolete processing technologies iv) Capacity bottlenecks and mismatch especially at processing, warehousing and level. v) Poor keeping and management of records vi) Non optimal management of assets and liabilities and debts which are now overwhelming vii) Inappropriate human resource structure and compliment viii) Limited value addition of coffee ix) Inappropriate policy framework - There is a conflict in the line ministries that deal with coffee and other related bodies and 10. The Department of cooperatives tends to patronize coffee marketing at the expense of other crops. x) A poor Governance structure and weak by laws leading to poor accountability xi) Lack of appropriate mechanism for performance monitoring and audit xii) Weak regulatory framework leading to weak regulation- **the activities of CBK are not visible on the ground** xiii) Lack of transparency leading to value leakage along the value chain xiv) Multiplicity of players leading to duplication and poor coordination xv) Lack of brand identity xvi) Large pool of assets that are not optimally utilized xvii) Poor utilization of Cess and cost sharing levy	i) Liberalization of sector allowing farmers to market their coffee directly ii) Value addition iii) Penetration of niche markets – emerging markets, specialty markets, consumer preferences, youth and local consumption iv) Certification for sustainability v) Adoption of modern technology and ICT vi) Use of devolution platform to revitalize the sector vii) Reorganization of the regulatory function following the consolidation of agricultural parastatals viii) Optimal utilization of the large asset base ix) Possibility for Private public partnerships especially in value addition of coffee x) Organized and aggregated marketing	**i)** Climate change effects **ii)** Competition from other enterprises **iii)** Changing consumer preferences **iv)** Price volatility – leading to a very unstable farming system **v)** Illegal coffee deals / hawking **vi)** Age profile of farmers – most farmers are old and young people not willing to go into farming vii) Climate change viii) Rising Consumer concerns about food safety and health issues associated with coffee ix) High level of debt by the societies

Source: Author

4.2 Benchmarking

In order to suggest credible recommendations, the task force undertook visits to Nyeri County and Ethiopia to benchmark and compare experiences. The comparative productivity performance by county as shown in table 4.2 while the experiences of the Nyeri and Ethiopian models are shown in box 4.1 and 4.2 below.

Table 4.2: Comparative productivity figures by County

	Estimated Area under coffee			Annual production metric tonnes			Productivity Kgs/Ha		
County	**Estates**	**Small holders**	**Total**	**Estates**	**Small holders**	**Total**	**Estates**	**Small holders**	**Total**
Kiambu	12814.0	10830.0	23644.0	15633.0	2560.0	18193.0	1220.0	236.4	769.5
Kirinyaga	1590.0	6245.0	7835.0	2194.0	5870.0	8064.0	1379.9	940.0	1029.2
Muranga	1138.0	12187.0	13325.0	1662.0	2925.0	4587.0	1460.5	240.0	344.2
Nyeri	1106.0	11374.0	12480.0	1634.0	6630.0	8264.0	1477.4	582.9	662.2
Embu	336.0	6499.0	6835.0	397.0	2268.0	2665.0	1181.5	349.0	389.9
Meru	640.0	7706.0	8346.0	328.0	2624.0	2952.0	512.5	340.5	353.7
Tharaka –Nithi	344.0	3802.0	4146.0	175.0	1167.0	1342.0	508.7	306.9	323.7
Machakos	1877.0	6526.0	8403.0	1443.0	2803.0	4246.0	768.8	429.5	505.3
Makueni		1736.0	1736.0		763.0	763.0		439.5	439.5
Kisii & Nyamira	**144.0**	**5869.0**	**6013.0**	**29.0**	**1174.0**	**1203.0**	**201.4**	**200.0**	**200.1**
Baringo	146.0	677.0	823.0	1.0	115.0	116.0	6.8	169.9	140.9
Kericho	557.0	2879.0	3436.0	298.0	1238.0	1536.0	535.0	430.0	447.0
Nakuru	1256.0	309.0	1565.0	705.0	111.0	816.0	561.3	359.2	521.4
Trans Nzoia, Keiyo & Marakwet	2440.0	341.0	2781.0	437.0	113.0	550.0	179.1	331.4	197.8
Migori and H/bay	34.0	1329.0	1363.0	3.0	106.0	109.0	88.2	79.8	80.0
Bungoma	183.0	6230.0	6413.0	34.0	1246.0	1280.0	185.8	200.0	199.6
Kakamega and Vihiga		487.0	487.0		20.0	20.0		41.1	41.1
Total	**24,605.0**	**85,026.0**	**109,631.0**	**24,973.0**	**31,733.0**	**56,706.0**	**1,015.0**	**373.2**	**517.2**

Box 1: Nyeri County Experiences

The Nyeri County had appointed a task force to look at issues in the coffee sector. The findings of the task force indicates the two counties a number similar challenge. Some of key observations by the taskforce are as under;

a) Productivity in the county is higher than Kisii where some farmers produce up to 40kgs per bush/tree seasons
b) Presence of a centralized milling system
c) Establishment of a security system by the county government through provision of a well facilitated special unit and adequate fencing
d) Establishment of a Mount Kenya coffee production and Marketing company to spear head and drive a centralized coffee marketing initiative
e) Cooperatives have come together to float tenders for chemical and fertilizer to leverage on volume
f) The miller is owned by farmers through share holding
g) County has already gone into is value addition and selling of finished coffee in the local market
h) The sector is managed by qualifies staff and a professional board
i) Establishment of a modern high capacity mill of one ton per hour [**procured at 8.5 Million]**
j) Establishment of a lab equipment to facilitate classification and grading coffee
k) Presence of elaborate information sharing mechanisms on payments, prices and grower education
l) Full computerization of processes especially the coffee weights
m) Presence of large societies such as Othaya Cooperative Society that manage up to 22 factories –to leverage on volume and economies of scale.

Box 2: Ethiopian Experiences

Ethiopia is the largest producer of coffee in Africa with over 120 species. The sector is a leading export commodity and contributes about 26% of GDP. From the visit the task force made the following observations;

a) The millers are largely owned by cooperatives but there are also a few private entrepreneurs

b) There are no of middlemen in the coffee value chain

c) There are no cases of coffee theft as security is well organized

d) The government has made legislation to protect the coffee sector to eliminate cartel and middlemen

e) Presence of a central marketing system

f) Presence of quality, delivery and payment guarantee.

g) Presence of an elaborate storage and warehousing system by the union. Buyers deposit their money before collection of coffee

h) 40% of the finished coffee is locally consumed

i) There is a presence of direct sales as main way of selling the coffee

j) There is no use of chemical fertilizers. Only organic manure is used to grow coffee

k) The cost of farm inputs is significantly low.

Chapter 5: Recommendations and Strategies for Change

The task force was commissioned to look into various issues affecting the coffee sector and make appropriate recommendations to enhance efficiency, competitiveness and value realization in the sector. This chapter contains recommendations and strategies for change in the coffee sector in Kisii county based on the taskforce`s findings. It is anticipated that implementation of the recommendations will result in improved performance of the sector. A summary of the of the key findings and recommendations are as follows

a) Farm Level:

To address the farm level challenges and concerns, it is recommended that;

i) The County government seconds a unit of extension services to address the unique and specific advisory and grower education needs in sector

ii) The county government to enact legislation to guide payment to the farmers for coffee deliveries. The guidelines should address the mode of payment, delays in release of payments and the relative sharing of revenue from the sale of "made coffee", between the union and the farmers,

iii) The county government to identify specific farm level interventions to support farmers in adoption of technologies and replacement of aging coffee plants. This should by guided by a needs assessment and feasibility study taking into consideration regional best practices.

iv) The county government to establish policy guidelines to address the problem of declining farm size and non-optimal farm units.

v) The union in conjunction with the county government to establish guidelines (by – laws) to ensure that farmers are responsible for maintaining and harvesting quality coffee

ix) The county government to promote the use of organic fertilizers and other alternative inputs in the production of coffee

b) **Production and Processing**

To address the production and processing challenges, it is recommended that;

i) The county government to assign technical staff from the ministry of agriculture to conduct an audit and needs assessment of machinery of the Union and all Societies

ii) The county government to assist the union in the establishment of a modern model coffee processing factory to act as bench mark to the others.

iii) The county government to support a factory modernization program to address capacity needs and bottlenecks. This should also address any existing capacity mismatches and underutilization.

iv) The union with support of the county government and industry experts should develop standard production procedure manuals to guide processing and quality control at the various processing levels.

v) The union and county government to look into the possibility of pursuing relevant certification to enhance improvement of internal systems and promote market penetration.

c) **Policy and Regulatory framework**

To address the policy and regulatory challenges, it is recommended that;

i) The county government to establish legislation on the roles and functions of the stakeholders in the sector. This should eliminate any conflicting roles and ambiguities of the various stakeholders

ii) The county government to establish a clear industry structure that eliminates the role of middlemen.

iii) The county government to establish a security system to address coffee thefts and security of coffee factories and its assets.

iv) The county government should establish a mechanism for monitoring of performance at the various levels in the coffee value chain. This however should be aligned with ongoing reorganization of the regulatory function (The CBK)

d) Management of Asset and Liabilities

To address the challenges of management of asset, debt, and liabilities, it is recommended that;

i) The County government to develop clear guidelines and criteria for asset management, acquisition and disposal.

ii) The sale of part of Simbauti farm should be investigated

iii) The union to pursue development of core assets to maximize the shareholder value

iv) The union to dispose assets that are non – profitable and are those that are not aligned with the strategic direction of the sector. This is to unlock value of the assets for the benefit the shareholders.

v) The county government to assist to assist the union and the societies to renew expired leases and obtain titles for any unregistered land. All titles should be held by the county government in trust on behalf of the union. Any sale or transfer of land must be approved by the county government.

vi) The union to undertake immediate valuation of all the assets and update the register of assets owned by the union. This should also apply for all the societies.

vii) The county government to establish a mechanism for authentication and settlement of the outstanding debts for the Union and Societies.

e) Governance Challenges

To address the governance challenges in the sector it is recommended that;

i) The Union to be restructured to respond to the current needs of the sector and inculcate professionalism and efficiency in its operations. The new structure should address weaknesses in human resource policies.

ii) The county government to establish an appropriate governance structure that will ensure clarity of roles and functions of the Union board and Management. The Board should play the role of giving policy direction and oversight while Management should take responsibility and accountability of the day to day operations of the union. This is line with the best corporate practice.

iii) The county government to second key technical/management staff to the Union to establish internal structures for the union in the medium term. This is to facilitate the establishment of **an optimal management model** for the sector.

iv) The county government to enact legislation to govern the composition and eligibility of stakeholders into the union board and its affiliates. The composition of the board should allow for incorporation of professionals with key competencies to join the board. The legislation should also provide clear guidelines on elections of the Board.

v) The county government to develop guidelines for the remuneration of the Union Board.

vi) The process of corporate governance restructuring should be guided by Chapter 6 of the new constitution to ensure the election or appointment of officers representing any interests in the sector will be officers with high integrity and competent skills.

vii) Any officers who have mismanaged the societies should be barred from holding office.

f) Financial management and controls

To address the financial management problems and controls in the sector it is recommended that;

i) The county government to assist the union to develop policies and procedures manuals to guide financial management and accounting. The manuals should provide details for internal control systems, asset management, credit control, cash flow, book keeping, and accounting for the sector.

ii) The county government to assist the union in the establishment of clear management and information systems for its operations.

iii) The county government to enforce immediate compliance of the audit requirements. The societies that have not been audited should be audited with immediate after the adoption this report

iv) The county government to establish a mechanism for monitoring the implementation of audit reports

v) The county government to enact legislations to guide borrowing and debt management in the sector

vi) The county government to identify an appropriate model for financing the activities of the union. The current cost sharing system should be replaced with system pegged on services delivered and revenue generated

vii) The county government to enact legislations and stringent by-laws for deterrence and minimization of financial mismanagement and corruption

viii) The county government to initiate forensic investigation on all loans and debts to establish their credibility. All those who have embezzled funds must repay/prosecuted.

g) Value Addition and Branding

To address Value Addition and Branding the sector it is recommended that;

i) The county government should commission a feasibility study to establish an optimal value addition model for the sector

ii) The union together with county government should aggressively pursue branding, establishment of niche markets for its coffee including and leveraging on the strengths such as the *blue mountain* variety.

iii) The union to provide land for the establishment of an ultra-modern coffee house and mall

iv) Funds / proceeds from sale of non-core assets to fund value addition

v) The county government to pursue private – public partnerships approaches in driving the process of value addition is highly desirable as long as farmer's interests are not infringed upon

vi) The county government to legislate laws to facilitate central milling and marketing of coffee from the county and develop a structured and guaranteed system of payments to the farmers and other stakeholders in the value chain.

vii) Key union facilities such as the mill should be run as an independent subsidiary of the union in order to protect proceeds from milling. It is also expected that the value addition arm of the union should be an independent subsidiary of the union

h) Relationship with Wakenya Pamoja Sacco

To address the Relationship with Wakenya Pamoja Sacco issue it is recommended that;

i) The commercialization of the SACCO needs to be investigated further to establish if the original owners were taken care of during the transition

ii) The union and Wakenya Pamoja Sacco to provide clarification to farmers and stakeholders on their relationship.

iii) The county government to establish a mechanism of streamlining the SACCO with a view to putting it on a growth path of becoming a full – fledged bank in the county. A local bank is necessary for strategic reasons.

Other recommendations

i) The union should pursue with assistance from the county government full computerization of the operations and activities across the value chain

ii) The county government should facilitate capacity building of the stakeholders especially the staff and management committees of the societies

iii) The county government to establish an implementation framework for this report**.**

iv) In implementing the report the county government should explore opportunities for collaboration with the neighbouring counties

6.0 Conclusion

It is thought through that the coffee sector remains to be one of the most important sectors both in the county and country. Even with reforms that have been undertaken over the years, there still remain many challenges that affect the sector. Reforms such as liberalization were not well coordinated and the farmer's representatives, union, agents, millers and marketers have over the years taken advantage of this to fleece the farmers.

The implementation of the new constitution to devolve key functions means that the coffee sector now falls entirely under county government. With this view, the county government must enact legislation and policies geared towards revamping the sector. The county government must initiate forensic investigation on all loans and debts to establish their credibility. All those who have embezzled funds must repay. Any officers who have mismanaged the societies should be barred from holding office.

In its current state, the Union needs be strengthened with competencies and focus on its core business. Key union facilities such as the mill should be run as an independent subsidiary of the union in order to protect proceeds from milling. It is also expected that the value addition arm of the union should be an independent subsidiary of the union. With the ever changing economic environment of the sector, the role of strategic investors in driving the process of value addition is highly desirable as long as farmer's interests are not infringed upon. In addition, the process of corporate governance restructuring in line with Chapter 6 of the new constitution will ensure the election or appointment of officers representing any interests in the sector will be officers with high integrity and competent skills.

7.0 References

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Gathura M.N (2013) Factors affecting Small-Scale Coffee Production in Githunguri District, Kenya *International Journal of Academic Research in Business and Social Sciences* September 2013, Vol. 3, No. 9

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Various oral and written submissions from stakeholders

8.0 Annex

Annex 1: Declaration by Task Force Members

S No	Name	Designation	Signature
1.	Elijah M. Mochorwa	Chairman	
2.	Vincent M. Kenyariri	County Co-operative Commissioner	
3.	Javan Ngeywo	Coffee Board of Kenya	
4.	Stephen Keuku	Chairman, Nyakoe F.C.S	
5.	David Mose Nyamumbo	County Director of Agriculture	
6.	Richard Getonto	Secretary, Coffee Estates	
7.	Barnabas Oyugi	Chairman, Coffee Estates	
8.	Abel Mainga	Gusii Coffee Farmers Co-operative Union	
9.	Lilian M. Sosi	Youth SACCO	
10.	Julius Maganga	Chairman, Nyamonya F.C.S	
11.	Elijah Nyarumi	Representative for the Challenged	
12.	Vincent Mokua Oigo	CEO, Wakenya SACCO	
13.	Daniel Orina	Secretariat	
14.	Rose. Sereti	Secretariat	

Annex 2: Attached as separate booklet