What turned sweet taste of coffee farming into bitter brew?

AGRICULTURE Farmers stare at losses as production and prices drop, forcing thousands to seek safe haven in real estate with the economy bearing the brunt of falling exports

BY JOHN GACHIRI

When Samuel Muriuki Mugendi and David Kariti Mungai ventured into coffee farming years ago, they had high hopes of making it big by mining Kenya's 'black gold'. But the initial boom years turned into a 30-year tale of survival, far from the good life they dreamt of.

Mr Mugendi who is in his early 60s and Mr Mungai 58, have a story to tell of how their sweet success of coffee farming in early 20s ended being a bitter brew and now one sipped by thousands of farmers across Kenya.

Economists say the struggles of the two coffee farmers have had a butterfly effect on the entire economy and a key symptom was the shilling's historic low against the dollar in late 2011 when it hit Sh107.

During that period it was among the world's worst performing currencies, prompting Parliament to seek answers. While a report put blame on the banks, economists argue that the country's fundamentals are weak. In particular, they say, if Kenya wants a better price per dollar it has to increase export volumes and reduce the appetite for foreign goods.

Patrick Wainaina, chief executive of Junglemacs, an exporter of nuts, says it is not possible to continue bringing in goods and not exporting, and of significance, failing to export fully processed goods.

"A country is one large company. If you always spend what you don't have, your balance sheet will be in the red. In just a matter of time, you crumble and perish. Kenya is such like."

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>
> SAMUEL MUGENDI, COFFEE FARMER

Kenya's exports have not grown in a 30-year period unlike imports which have been accelerating from 2002. The top three major exports include tea, coffee and horticulture products whose volumes are still low.

Data from the Kenya Ports Authority (KPA) shows that in the 1980s about 5.4 million tonnes of cargo was being shipped in and 2.2 million shipped out. Forward 30 years later, one would expect higher volumes. However, for every 17 million tonnes of cargo being imported, only 2.9 million tonnes is shipped out. The lowest point was 2000 when 1.7 million tonnes was shipped out, four fifths of the 1980's level 20 years earlier. James Shikwati, the executive director of Inter Region Economic Network, a Kenyan-based economic think-tank says a negative balance of payments means that if Kenya was a farmer, it is the equivalent of the country buying food on credit and without any form of income.

The situation he says is not tenable as elementary economics show that buying on credit without a means to pay the debt means that sooner or later one will go broke and invite auctioneers.

"Negatively viewed, one can argue that Kenyans are importing themselves into debt, compromised creativity and value adding culture," said Mr Shikwati.

Mismanagement, corruption, lack of credit, failure to adapt with the times, regulatory apathy, have all interbred to bring about the present situation in the exporting sectors.

Coffee exports were at one time Kenya's leading foreign exchange earner in the 1980s. It contributed over 40 per cent of the total Kenyan exports value. Data from *the Economic Survey 2012* indicates that coffee exports last year were approximately worth Sh19.3 billion, making up only four per cent of the Sh483 billion in exports.

Mr Mugendi, Mr Mungai and other coffee farmers' troubles began in the 80s when credit dried up as interest rates shoot up, said the two farmers.

Loans previously available at a five per cent interest started attracting a 20 per cent rate and what was being loaned out was skewed towards the large estates over the coffee co-operatives which act as umbrella bodies for thousands of small-scale farmers.

Credit was and still is the lifeline of the production since it gives farmers power to to hire labourers, weed, prune bushes, purchase fertiliser and pesticides as they don't have to wait until they sell their crop.

"We could not afford to buy fertiliser, spray the crops and hire labourers to weed and prune the bushes and you could not make profit," said Mr Mugendi.

This saw production drop. Mr Mugendi's 1,000 bushes used to produce 9,000 kilogramme (kgs) but without the inputs, his farm could only produce 7,000 kgs. He is one of the lucky ones, he says. Some of his peers could only produce between 2,000kgs and 3,000 kgs from 1,000 bushes.

A research paper from Kenya Institute for Public Policy Research and Analysis (Kippra) titled *Policy and Legal Framework for the Coffee Subsector and the Impact of Liberalisation in Kenya* shows that in 1985 small farms produced 556 kgs of coffee per hectare and the price was Sh39.7. But in 1998, this harvests nearly halved to 261.8 kgs yet the priced per kg was Sh257.2. Dr John Omiti, the principal analyst at Kippra's productive division says that the coffee sector has been infiltrated by too many players who add no value and farmers have paid the price.

Farmers on average would receive 50 per cent of world prices per kg sold which was lower than other industries such as tea whose farmers which would receive up to 70 per cent.

This trend has continued. Data from the International Coffee Organisation shows that in 1990, Kenya exported 1.649 million bags of coffee at a time when prices were 89 US cents per pound but by the end of 2011 the country exported 672,000 bags at time when prices were 271 US cents per pound.

For many coffee farmers the question remains; Is it worth their sweat? Most small-scale coffee farmers disillusioned by poor earnings had neglected their coffee trees or chopped them down altogether and taken up dairy farming in frustration at years of hard toil with no returns. Some of them have also surrendered portions of their farms to the more lucrative real estate projects.

In the 70s, coffee farmers earned between Sh40 and Sh30 per kg which was a lot in those days. "A new Chevrolet pickup cost Sh46,000 and a Datsun cost Sh35,000," says Mr Mugendi.

Mr Mungai interrupts and tells him that a Datsun came into the Kenyan market at Sh15,000. Both men wince as they try to remember the price of cars that were emblematic of a serious farmer.

At prices of between Sh30 and Sh40 per kg it means, depending on the brand, a farmer would have to sell between 875 and 1,500 kgs to buy a car. And for many who could harvest upto 2,000kgs, this was easy money to get.

But today, buying a showroom pickup of Sh1 million would cost a farmer 10,000 bags, going by the Sh103 the two farmers were paid in 2011, or they would have to work 10 times as hard last year than in the late 70s. It's not the coffee farmers problems that really worries economists. It's the rising imports and dwindling exports. Looking at the KPA data, X N Iraki, an economist and lecturer at the University of Nairobi's School of Business, says that exports far outpacing imports would ordinarily see the shilling weaken. He also points at other factors.

"The demand for dollars could have resulted in a weakened shilling. However, there are other factors we may have ignored...Did you realise as soon as Somalia and South Sudan got some semblance of peace, the shilling depreciated?" poses Dr Iraki.

Carol Musyoka, a financial consultant with Bungani, says that Kenya over the same period has been changing from exporting goods to services over the same time.

This shift can give a hint why the shilling has not slid below the Sh107 mark despite the yawning gap between exports and imports.

"What we have to ask is if the shilling has quadrupled over the same time?"

Dr Omiti says that if value adition is carried out in sectors like tea as done in other countries such as Sri Lanka, it would boost farmers earnings by up to six times.

Mr Mugendi and Mr Mungai may be upbeat by recent developments such as better prices from European and American buyers, but this is only a drop in the ocean for the Kenyan economy.

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1,000
New yields for smallholder farms after credit needed for inputs became costly.

Sh107
The lowest exchange rate the national currency reached since it floated.

50%
The rate farmers would receive for exporting coffee, against the 70% for tea.

40%
Coffee was once Kenya's largest foreign exchange earner, accounting for two-fifths of export earnings.

Sh35
Approximate amount in wages the country loses in every kilogramme of Nut In-Shell smuggled out

20%
New rates for farmers up from five per cent.

Coffee yields on small farms and estates and export prices received by the Coffee Board of Kenya (1985-1998)

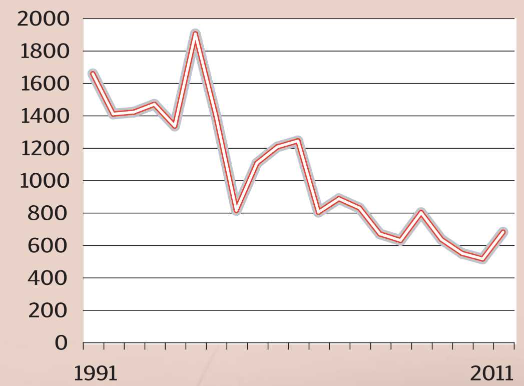
Credit running dry for small-scale farmers saw output drop as estates found it easier to get loans and suffered less.

	Small farm Yields Kgs /ha	Estates Yields Kgs /ha	Price Kshs/kg Clean coffee
1985	556	809	39.7
1986	581	1,179	50.2
1987	577	942	36.6
1988	710	1,150	44.6
1989	673	1,054	43.1
1990	595	937	36.4
1991	569.3	930	46.5
1992	440	925.1	49.36
1993	352.7	860.5	98.9
1994	342.7	1,012.60	144.3
1995	510	852	159.7
1996	463.7	1,045	139.1
1997	312	774	251.5
1998	261.8	536.5	257.2

Source: KIPPRA

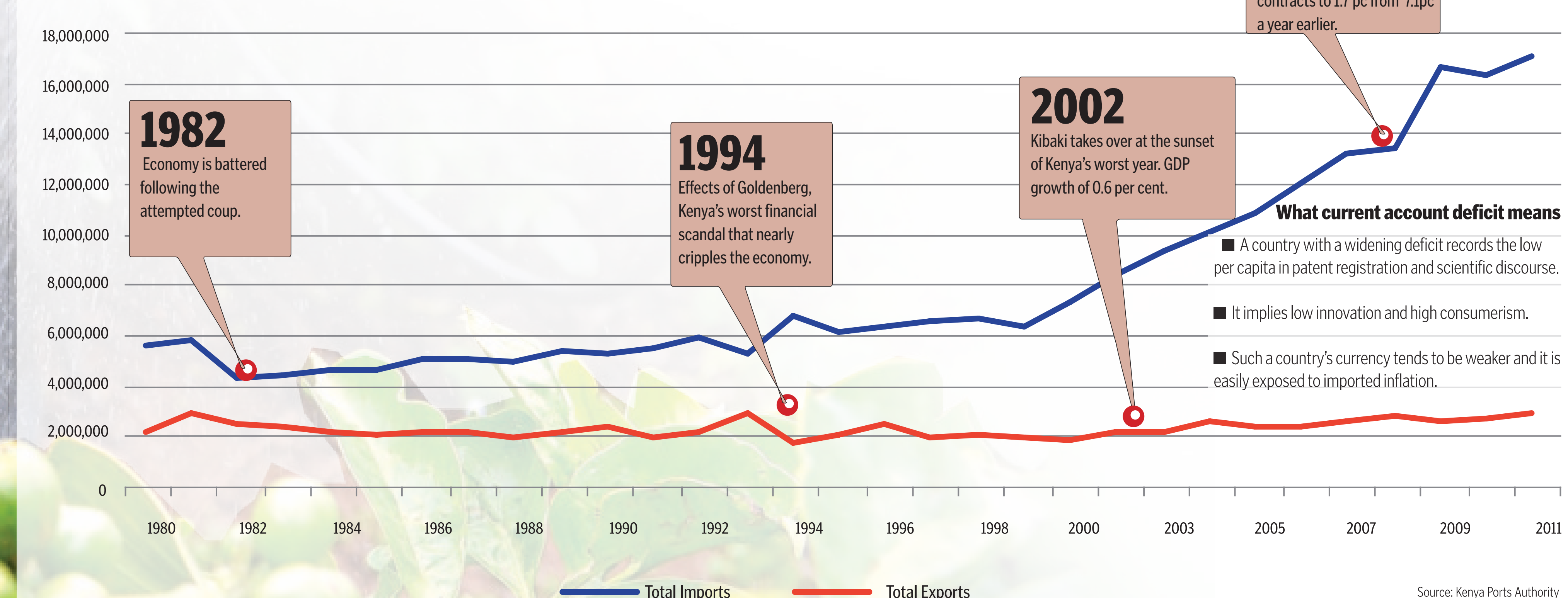
Kenya's total exports to all destinations 1990/91 to 2011/12 (000 bags)

Coffee exports drop and with Kenya losing out in accessing foreign currency.



Source: International Coffee Organization

Kenya's export vs import throughput (tonnes) 1980-2011



What current account deficit means

- A country with a widening deficit records the low per capita in patent registration and scientific discourse.
- It implies low innovation and high consumerism.
- Such a country's currency tends to be weaker and it is easily exposed to imported inflation.

Source: Kenya Ports Authority