Our Crops, Our Wealth

Coffee Directorate

TRAINING MANUAL FOR ENTREPRENEURIAL OPPORTUNITIES IN THE COFFEE VALUE CHAIN

COFFEE KENYA
SO RICH SO KENYAN

KENYA VISION 2030

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ACRONYMS AND ABBREVIATIONS

AFA	Agriculture and Food Authority
CD	Coffee Directorate
DAP	Diamonium Phosphate
ICO	International Coffee Organization
FAO	Food and Agriculture Organization
ICDN	Inland Container Depot Nairobi
CRI	Coffee Research Institute
NCE	Nairobi Coffee Exchange
IMIS	Integrated Management Information System
KEPHIS	Kenya Plant Health Inspectorate Service
KESWS	Kenya Trade-Net System
KRA	Kenya Revenue Authority
KEBS	Kenya Bureau of Standards
NEMA	National Environment Management Authority
EU	European Union
JIS	Japanese Industrial Standard
BS	British Standard
ASTM	American Society for Testing Materials

FOREWARD

The Agriculture and Food Authority (AFA) is a State Corporation in the Ministry of Agriculture and Livestock Development established by the Agriculture and Food Authority Act No 13 of 2013 to operationalize the Crops Act No 16 of 2013. In the Ministry of Agriculture and Livestock development the role of the Authority is to regulate, develop and promote Scheduled Crops value chains for increased economic growth in Kenya. Coffee Directorate is one of the seven Directorates under Agriculture and Food Authority (AFA) whose mandate is to develop, promote and regulate the Coffee sub-sector. The core functions of the Directorate include the following:

(I) Regulation of the industry players through licensing and inspections;
(ii) Formulation of coffee policies, regulations and standards for the coffee industry;
(iii) Undertaking market research;
(iv) Spearheading promotion of Kenyan coffee nationally and internationally;
(v) Capacity building coffee industry stakeholders and county governments officers,
(vi) Establishing a coffee industry database for research and trade promotion.

To achieve its objectives, the Directorate conducts research and trains coffee stakeholders on business opportunities identifiable along the coffee value chain. Market information is critical for knowledge management in the Kenyan coffee industry. However, it has not been properly documented so as to support knowledge management.

Lack of knowledge may create significant market distortions. In this regard, the Directorate has developed a Training Manual that will serve as a guide in capacity building of new and existing entrepreneurs in the coffee value chain.

It is my belief that this manual would be seen as a necessity to unlock the potential within the private sector and accelerate economic growth not only within Kenyan coffee industry but also in the Kenyan economy as a whole.

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CHAPTER 1.0:INTRODUCTION

1.1 Background

Coffee is among the most traded commodities in the world and has been a strategic crop in the economy of Kenya since its introduction into the country in 1893 by French Missionaries that settled in Bura, Taita Taveta County. There are two main species of coffee grown in Kenya namely Arabica (Coffea Arabica) and Robusta (Coffea canephora). Coffee is grown in 33 out of the 47 counties in Kenya under a total of 119, 675 Ha.

Coffee production increased steadily from 43,778 MT at independence to 129,637 MT in 1987/1988 before a decline to 36,873 MT in 2019/2020 the decline is attributed to various factors among them low productivity. Whereas a coffee tree has the potential of producing 35 Kgs of cherry per tree per year, majority of smallholder coffee farmers are producing less than 2 Kgs per tree per year.

Kenya Coffee is marketed through the Auction System at the Nairobi Coffee Exchange (NCE) and the Direct Sales. Out of the total volume of coffee produced, 95% is exported and about 5% is consumed locally.

The Coffee subsector has been significant in foreign exchange earnings for the Kenyan economy and job creation. The collapse of the International Coffee Agreement (ICA) exposed the Kenya coffee industry to the global market challenges. This and other emerging market dynamics provide a rationale for the publication of this handbook that can provide a certain level of candour to coffee trade in Kenya.

In this aspect, the Coffee Directorate has found it necessary to come up with a Training Manual that will serve as a guide in capacity building of both new and existing entrepreneurs in the coffee value chain. This will offer collegial interaction among value chain players with regards to coffee business in the country and which efforts would drive up local coffee consumption and promote international trade of Kenyan coffee.

1.2 Objective

The main objective of this handbook would be to:

Publish a harmonized coffee business training manual for coffee entrepreneurs along the coffee value chain in Kenya.

CHAPTER 2.0: CONCEPT OF ENTREPRENEURSHIP

2.1 Entrepreneurship

Entrepreneurship refers to the process of creating a new enterprise and bearing any of its risks.

Market information is critical for the performance of entrepreneurs' constraint to a particular sector and lack of which is the single most entrepreneurship problem anywhere.

Individual entrepreneur therefore is a risk taker who detects or creates business opportunities that he or she then exploits through small and medium-sized firms or just sells the "business idea". Normally, the individual funds the venture through their own funding or from funding obtained from outside sources that would include money lending institutions among other sources available.

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2.2 Characteristics of an Entrepreneur

There are unique characteristics associated with entrepreneurs. These include:

(i) Discovers and exploits opportunities:

An entrepreneur ventures into areas that are unexploited and take the business opportunities available with the aim of making a profit from the new or existing but unexploited ventures.

(ii) A creator who initiates and motivates the process of change:

An entrepreneur also would venture into existing opportunities and find better ways of efficiently turning a profit at minimum cost.

(iii) Decisive (Decision Making)

Entrepreneurs not only need to have good decision-making skills, but also must have the capacity to make those decisions quickly in order to avoid missing opportunities. This necessitates quickly considering the facts and then deciding.

(iv) Passion

Passion is another characteristic of entrepreneurs. While a good payday at the end of the tunnel is good for motivation, entrepreneurs tend to be more driven by a passion for their offering as well as by a desire to make a difference. This passion or drive also helps to sustain entrepreneurs during periods where discouragement might otherwise manifest itself.

2.3 Behavioral Attributes of an Entrepreneur

(i) accepts risks
(ii) keeps alert to emerging opportunities
(iii) explores new business leadership,
(iv) initiates new ways of identifying business opportunities
(v) creates a new enterprise

2.4 Basic Concepts of Entrepreneurship:

There are some basic concepts that are necessary for an entrepreuner, which include;

(i) Many Areas of Skill

The interest and vision an entrepreneur may have cannot make up for a total lack of applicable skill. As the head of a company, whether he has employees or not, an entrepreneur must be able to wear many hats and do so effectively. For instance, if he wants to start a business that creates mobile games, he should have specialized knowledge in mobile technology, the gaming industry, game design, mobile app marketing or programming.

(ii) Financial and Emotional Investment

An entrepreneur must invest in her company. This investment may be something less tangible, such as the time she spends or the skills or reputation she brings with her, but it also tends to involve a significant investment of assets with a clear value, whether they be cash, real estate or intellectual property. An entrepreneur who will not or cannot invest in her company cannot expect others to do so and cannot expect it to succeed.

(iii) Organization and Delegation

While many new businesses start as a one-man show, successful entrepreneurship is characterized by quick and stable growth. This means hiring other people to do specialized jobs. For this reason, entrepreneurship requires extensive organization and delegation of tasks. It is important for entrepreneurs to pay close attention to everything that goes on in their companies, but if they want their companies to succeed, they must learn to hire the right people for the right jobs and let them do their jobs with minimal interference from management.

(iv) Risk and Rewards

Entrepreneurship requires risk taking. The measurement of this risk equates to the amount of time and money you invest into your business. However, this risk also tends to relate directly to the rewards involved.

An entrepreneur who invests in a franchise pays for someone else's business plan and receives a respectable income, while an entrepreneur who undertakes ground-breaking innovations risks everything on an assumption that something revolutionary will work in the market. If such a revolutionary is wrong, she can lose everything. However, if she is right, she can suddenly become extremely wealthy.

(v) Innovative

Entrepreneurship has thus been regarded as the adaptation of various innovations in industries, new production systems or techniques, new products, new markets, new marketing methods, new qualities of raw materials, new packaging and new mixture on methods are used.

(vi) Business Oriented

Entrepreneurship is expressed as an attitude that allows/inspires individuals to actually do the business-oriented thinking and formulate plans and programs and also establish enterprises.

CHAPTER 3.0: OPPORTUNITIES FOR ENTREPRENEURS ALONG THE COFFEE VALUE CHAIN

3.1 Establishment of Coffee Nurseries

There exists a number of opportunities along the coffee value chain which entrepreneurs can exploit.

A coffee nursery is a place where seedlings are propagated and grown to a desired age before being transplanted into the farm.

It is estimated that the current yearly demand for planting materials is 10 million against supply of 7 million seedlings especially for the improved varieties. This leaves a deficit of 3 million seedlings annually.

Many Kenyans are now embracing coffee growing and thus the demand for seedlings is growing but the supply is low. Starting up a coffee seedling nursey is one of the simplest business one can venture into along the coffee value chain

3.1.1 Supply of Nursery materials (potting materials)

An individual/company can supply materials to nursery owners which include manure, potting bags and any other requirements.

The supply of materials is a source of income and an individual can engage in this kind of business by sourcing the materials at a lower price and sell at higher price, thus making profit.

3.1.2 Coffee nursery establishment consultancy

This involves coming up with a consulting firm which delivers services relating to coffee nursery establishment and management. This should include targeting farms in need of training of good agricultural practises and training of staff and even training of new agripreneurs joining the coffee industry.

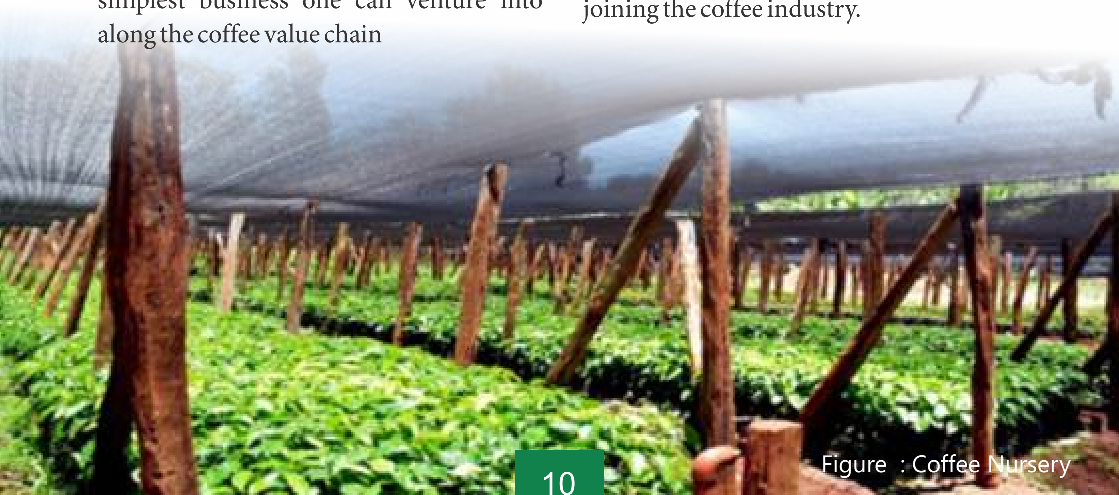

Figure : Coffee Nursery

3.1.3 Requirements

There following are basic requirements for the establishment of a coffee nursery.

(i) Nursery Certificate issued by the respective county government in consultation with the Agriculture and Food Authority.
(ii) Certified planting materials (seeds or cuttings), this can be obtained from the Coffee Research Institute
(iii) Land
(iv) Source of clean water
(v) Nursery management skills.
(vi) Capital
(vii) Potting materials

3.2 Coffee Growing

Coffee growing entails the following:
(I) Establishment of a Coffee farm
(ii) Coffee Farm Management
(iii) Supply of farm inputs (i.e., fertilizers, pesticides, manure)

3.2.1 Requirements

From an economic standpoint, enterprises are only feasible and practical if they can have the following resources,

(I) Land
(ii) Capital
(iii) Water
(iv) Technical know-how (outsourced or self)
(v) Certified planting materials (from CRI or an approved coffee nursery or personal nursery is critical for coffee farm.

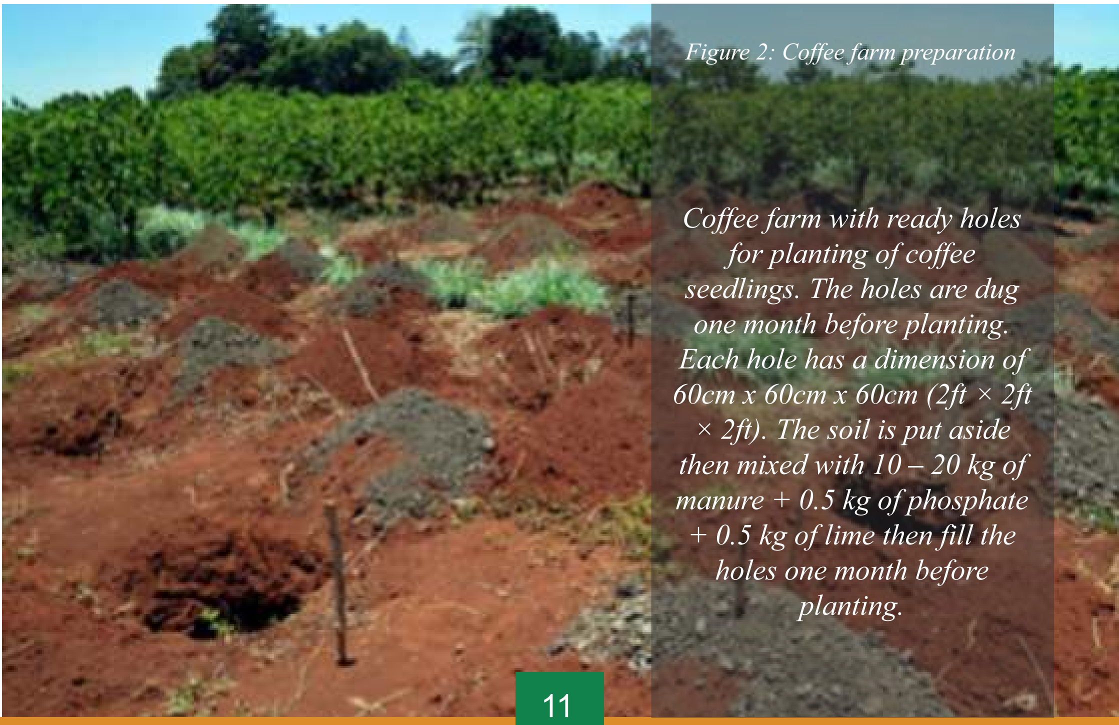

Figure 2: Coffee farm preparation

Coffee farm with ready holes for planting of coffee seedlings. The holes are dug one month before planting. Each hole has a dimension of 60cm x 60cm x 60cm (2ft × 2ft × 2ft). The soil is put aside then mixed with 10 – 20 kg of manure + 0.5 kg of phosphate + 0.5 kg of lime then fill the holes one month before planting.

3.3 Coffee Processing

Primary processing is the physical removal of fresh cherry skin manually or by a powered pulping machine with addition of water (pulping). The mucilage is allowed to ferment for a given number of hours and the parchment is washed thoroughly and dried until the bean inside reaches 10.5-11% moisture content.

3.3.1 Establishment of Pulping Stations

"Pulping station" means a coffee factory or place where coffee cherry is processed into parchment coffee. The Pulping station license is issued by the respective county government in consultation with the Agriculture and Food Authority.

3.3.2 Production of organic manure from coffee residue.

Coffee pulp is a good source of humus and organic soil carbon. When left to mature for three months under cover, it will reduce to become a very nice dry earthy compost which is a good soil improver and conditioning agent. This can then be applied onto the individual's farm or sold for profit.

A recent Food and Agriculture Organisation report revealed that the continuous use of fertilisers such as DAP (Diammonium Phosphate) in Kenya has resulted in reduced soil pH levels and declining productivity.

As Kenyans seek to increase food production to meet rising demand and fill shortages, the need to protect soils and the environment is also emerging.

Gap: There is lack of information about the production and use of organic manure in Kenya. Therefore, youths can take it up as a business opportunity and an income generation venture

3.3.3 Production of the Cascara drink and confectionery products

These are made from the coffee pulp, although not produced in Kenya, provides an opportunity for further value addition.

3.3.4 Requirements

(i) License issued by a County Government in consultation with the Coffee Directorate
(ii) Capital
(iii) Water
(iv) Coffee processing machines

3.4 Coffee Milling

This is process of parchment/buni de-husking, polishing, grading and packaging of green coffee beans. There's an opportunity for value addition.
After milling, the coffee husks can be used in:

- Making of charcoal briquettes from the coffee husks
- Production of animal feeds
- Production of packaging materials

Requirements

- Financial capital
- Licences from the relevant institutions
- Business premises
- Source of materials

3.5 Marketing

Kenya Coffee is marketed through the Auction System at the Nairobi Coffee Exchange (NCE) and the Direct Sales.

3.5.1 The Nairobi Coffee Exchange Auction

Coffee growers can offer their coffee for auction at the Nairobi Coffee Exchange where coffee is purchased by coffee dealers through electronic competitive bidding. The Nairobi Coffee Exchange auction is managed by the Nairobi Coffee Exchange Management Committee drawn from the industry stakeholders. Coffee marketing agents who have been contracted by coffee growers offer coffee for sale to coffee dealer (exporters) competitively to the highest bidders. Coffee Directorate annually licences the Marketing Agents and Dealers who participate at the auction floor.

3.5.2 Direct Sales

This entails engagement between the grower marketer and the overseas buyers. The grower marketers are coffee growers who are licenced to market own coffee directly to overseas buyers. However, in cases where the growers do not have the capacity to market directly, the process is facilitated by commercial marketing agents by way of drawing sale agreements between producers and the buyers and other marketing logistics.

3.5.3 Export (direct sales) registration procedures:

The following procedure will culminate into coffee export:

(I) Acquire Coffee exporter licence: Register with AFA Integrated Management Information System (IMIS)

(ii) Register with Kenya Plant Health Inspectorate Service (KEPHIS)
(iii) Train & register with Kenya Trade-Net System (KESWS)
(iv) Register with KRA Rules of Origin section
(v) Acquire Food hygiene licence

3.5.4 Permits Required:

For export to take place, the following are key:

(i) Clean coffee movement permit
(ii) International Coffee Organization (ICO) certificate of origin
(iii) Export health certificate
(iv) Phytosanitary certificate (for dry produce)
(v) Others which vary from one shipping line to another.

3.5.5 Port Clearances

Port clearance would entail:

(i) Coffee export procedure through the Inland Container Depot, Nairobi (ICDN)
(ii) Coffee export procedure through the Port of Mombasa

3.5.6 Coffee export procedure through the Inland Container Depot, Nairobi (ICDN) and Coffee export procedure through the Port of Mombasa

Export of coffee can either be done by grower marketers or coffee dealers. The grower marketers export through direct sales where they negotiate prices directly with the buyer while coffee dealers export through the Nairobi Coffee Exchange (NCE) auction where they buy coffee from marketing agents who sell coffee on behalf of smaller holder growers aggregated as co-operative societies and large estate owners. For more information on how to clear your consignment through ICDN of Port of Mombasa you can visit the Info Trade - Kentrade website.

3.5.7 Breakdown of the steps for a coffee buyer from start to end:

The steps below are summarized as a guide to coffee export:

3.5.8 The trader obtains a movement permit to transport coffee to Mombasa -3 steps

(i) Stakeholders apply for coffee movement permit
(ii) Pay for movement permit
(iii) Obtain coffee movement permit for transportation.

Obtain International Coffee Organization (ICO) Certificate of Origin- 7 steps

(i) Coffee Directorate issues license to Trader upon meeting the licenses requirements above
(ii) Trader deposits an advance fee (pre-payment)-Kshs 3,500 for the initial 50 export consignments [Pre-payment is

whereby a trader deposits a wholesome amount of money in advance where it is deducted from the account upon submission to the Coffee Directorate]

(iii) Coffee directorate Opts in/Opts out the trader depending on validity of their licenses

(iv) Trader makes application for ICO certificate of origin and obtains Unique Consignment Reference No (UCR)

(v) Trader makes payment for the ICO certificate of origin

(vi) Trader submits application ICO certificate of origin online through Kenya Kenya Electronic Single Windows System (KESWS) to coffee directorate

(vii) The checking officer at the directorate receives the application and views the attached documents, recommends and submit to verification officer who verifies and approves the certificate of origin

(viii) The Trader monitors the status online, downloads and prints ICO certificate of originOther pre-clearance documentation

Other pre-clearance documentation

(i) Trader engages a contract clearing agent

(ii) Trader/Agent books shipping space through a shipping agent

(iii) Trader/Agent lodges a custom entry

(iv) Pays merchant shipping levy

(v) Obtains passed clearance entry request for KEPHIS inspection

(vi) Pays for KEPHIS inspection

(vii) Inspection is carried out by KEPHIS

(viii) Makes an application for Phytosanitary certificate/obtains Phytosanitary certificate

(ix) Makes an application for Port Health release/obtains Port Health release certificate

(x) Submission of clearance documents for verification

(xi) Physical verification of cargo by KRA officers

(xii) Lodge a pre-advice/obtain KPA invoice and receipt

(xiii) Submit clearance documents to KRA booth gate clerk and export gate clerk

(xiv) Scanning of the container

(xv) Submit clearance documents to export yard clerk/obtain export certificate

(xvi) Obtain bill of lading

Further information on the export procedures can be acquired from Kentrade's website:

The website address is:

https://infotradekenya.go.ke/.

3.5.9 Business opportunities

Below are some business opportunities available in Coffee Marketing:

(i) Exporter
(ii) Marketing Agent
(iii) Grower Marketer
(iv) Coffee Roaster
(v) Logistics
(vi) Supply of quality and approved gunny bags

Requirements

(i) Financial capital
(ii) Licences from the relevant institutions
(iii) International Coffee Organization (ICO) certificate of origin
(iv) Phytosanitary Certificate from KEPHIS
(v) Business premises
(vi) Technical expertise
(vii) Labour

3.6 Roasting, Packaging & Distribution

The consumption of locally produced coffee in Kenya is estimated at 5% of total annual production with the remaining 95% being exported as green coffee. This makes the country dependent on the export market for revenue generation from coffee.

Starting a coffee roasting and packaging business is not as complicated as it may seem. Farmers who have a Grower Marketer license issued by the Directorate are allowed to roast, package and sell their coffee. Any other individual of group can also indulge in the business

Basic requirements to start a coffee roasting and packaging business:

(I) Certificates (KEBS, NEMA, business permit)
(ii) Dealers license from Coffee Directorate
(iii) Source of coffee
(iv) Roasting machinery
(v) Grinder
(vi) Supplier of packets
(vii) Packet sealer
(viii) Labour

Requirements

(i) Financial capital
(ii) Licences from the relevant institutions
(iii) Business premises
(iv) Technical expertise & equipment
(v) Coffee supply

3.7 Coffee Barista skills

This is the art and science of brewing coffee using espresso machines. A barista is a professional trained in preparing coffee, the likes of espresso, cappuccino, latte, mocha etc, Kenyan institutions like Dormans and Utake Coffee train coffee baristas.

As a barista, one can work in coffee houses or even open a coffee shop or kiosk where coffee is served.

3.7.1 Requirements for Barista services

(I) Financial capital
(ii) Barista certificate
(iii) Business acumen

CHAPTER 4.0: KENYAN COFFEE INTERNATIONAL MARKETING.

4.1 Introduction

International trade is a complex aspect because of the risks involved. Uncertainty surrounds the imports of food and agricultural produce because of the risks imposed by tariff and non-tariff barriers. Importers of coffee and agricultural food products from Kenya are not spared from this uncertainty. Kenyan coffee exporters are subjected to stiff business competitions and restrictions where the products are rejected and sometimes destroyed at the borders by the respective importing countries health inspection authorities.

The rejections are due to the failure by both importers and exporters to meet the various requirements by countries authorities which are responsible for ensuring the quality and safety of food and agricultural products entering the markets.

The Coffee Directorate has also observed that a number of member states of the European Union (EU) for example Sweden has a complex process of importing coffee and other agricultural food products. In this regard, the Directorate has compiled a coffee business handbook manual identifying the regulations applying to the trade and import of food and agricultural products from importing countries. This section examines among others, reasons contributing to non- tariff barriers for Kenyan coffee and other agricultural food products in the EU market. These include:

(i) Incorrect or lack of labelling of products from Kenya in accordance with EU regulations
(ii) Interceptions due to occurrences of harmful organisms on the Kenyan imported coffee and other agricultural food products.
(iii) Contaminated products from Kenya with health certificates incorrectly declaring them to be free from harmful organisms.
(iv) Evaluation of the testing procedures by bodies involved in issuance of certificates that accompany the coffee or food exports.

4.2.1 Essential components of an Export Contract

4.2.2 Price

Price in essence is the sum of costs and profit for the seller. In accordance with the ICOTERMS applied, the price will change accordingly. Currency also affects the price through fluctuation of foreign exchange rates.

4.2.3 Quantity

There is usually a minimum quantity required to make the transaction feasible Quantity may affect the price through change of transportation and other cost for corresponding quantities.

4.2.4 Quality, Standard and specifications

There are several ways to specify quality in the sale: sale by Sample, by Standard Quality, by Trademark or Brand, by specification, or by grade or type etc There are various standards set by ISO (International Organization for Standardization), or other national standards: JIS, BS, KEBS, ASTM etc. Quality certification by designated agencies should also be agreed upon.

4.2.5 Delivery/Shipment

Delivery should be specified at least with time, place and mode. Other terms to be taken into consideration are, whether trans –shipment is allowed, whether partial shipment is allowed, etc.

4.2.6 Terms of payment

Letter of credit (L/C) is the most popular method of payment; followed by documents against payment (D/P) and document against Acceptance (D/A). The details will be discussed under the payment method section. The currency must be specified irrespective of payment method agreed upon.

4.2.7 Other Considerations in the Contract include:

(i) Insurance
(ii) Mode of transport
(iii) Parking and markings
(iv) Documents
(v) Manner of handling claims
(vi) Force Majeure "act of God"

4.2.8 The negotiation process

Negotiation starts with:

(i) Enquiry

Enquiry does not have legal commitment to sell or buy. It asks for buyers or sellers interest to get into negotiation for further firm commitment.

(ii) Quotation

Quotation is made by seller to indicate price, quantity and delivery, requesting buyer's response. At this stage, there is still no commitment.

(iii) Offer

Buyer or seller shows firm interest to get into legal commitment if their conditions of price, quantity, delivery, terms of payment etc. are accepted by their counter.

(iv) Counter – offer

Counter offer is made against the offer made by the counterpart by showing alteration of some of the terms of the offer, usually price and delivery.

(v) Acceptance

Negotiation is concluded with acceptance of offer or counter – offer. This marks the starting of legal commitments between buyer and seller.

(vi) Incoterms 2000

4.2.8 Overview of incoterms.

International chamber of commerce, (ICC) first published standard INCOTERMS for common use in international trade in 1936 and which were revised in 1953, 1967, 1976, 1980, 1990, and 2000. Revised INCOTERMS up to 1980 revision are collectively called INCOTERMS 1980, while the 1990 and 2000 revision collectively called INCOTERMS 2000. It should be noted that United States has its own Revised American Foreign Trade Definition 1941, which has similar definitions with the ICC publication except for the FOB incoterms which has six categories. It is therefore recommended that exporters ensure they understand the incoterms applicable when dealing with American buyers on FOB basis. This is important particularly to SMEs because for small international trade transactions incoterms serve to define the contractual obligations of buyer and seller.

INCOTERMS define the costs and related obligations of the buyer and seller.

These costs and obligations affect the price of export/imports. In addition, incoterms define the trade risks taken by the buyer and seller while goods are on transit.

Classifications

(i) **FOB** – "Free on Board": This means the seller must deliver the coffee onto the ship at the port in the country of embarkation. Any overland transportation costs from mills or warehouses to the port of origin must be paid for by the seller. The buyer agrees to book and pay for oversea shipping, insurance, and any drayage/transportation, customs, and overland freight costs incurred on arrival to the port of destination.

(ii) CFR (Cost and Freight)

This term means the delivery of goods to the named port of destination (discharge) at the seller's expense. Buyer is responsible for cargo insurance and other costs of risks

(iii) CIF (Costs, Insurance and Freight)
The cargo insurance and delivery of goods to the named port of destination (discharge) at the seller's expense. Buyer is responsible for the import customs clearance and other costs and risks.

(iv) CPT (Carriage Paid To)
It means the delivery of goods to the named place of destination (discharge) at seller's expense. Buyers assumes the cargo insurance, import customs clearance, payment of custom duties and taxes, and other costs and risks.

(v) CIP (Carriage and Insurance Paid)
The delivery of goods and cargo insurance to the named place of destination (discharge) at seller's expense. Buyer assumes the import customs clearance, payment of customs duties and taxes and other costs and risks.

(vi) DAF (Delivered At Frontier)
DAF is the delivery of goods to the specified point at frontier at seller expenses. Buyer is responsible for the import customs clearance, payment of customs duties and taxes, and other costs and risks. Usually applicable for trade between neighbouring countries for example east Africa countries

4.1 Regulations of imports of coffee and other agricultural food products

Exporting coffee and other food products to EU and other market destinations is a complex process. Many coffee and food products from Kenya do not find their ways into the importing countries' supermarket shelves due to the failure to comply with a number of requirements, or violation of certain regulations. For example, in the past, there have been some rejections of coffee consignments from Kenya. Others have been banned from entering the EU market until certain requirements are met. For example, some Kenyan embassies have received reports from importers of coffee and agricultural products of Kenya being rejected and get destroyed at the importing countries borders by the relevant importing country customs authorities.

It is important that exporters should be aware that other than the importing country's custom authority, there are also other bodies in the EU countries which are responsible for ensuring the quality and safety of food and agricultural products entering these markets. These include:

(i) Swedish Board of Agriculture
(ii) National Food Administration
(iii) Swedish Consumer Agency
(iv) The Public Health Agency
(v) The Swedish Environmental Protection Agency

4.2 Survey report of Kenyan coffee

A survey research by Coffee Directorate in the US and by Kenya Embassies in the EU markets show that green coffee exported from Kenya have high potential demand. Of low demand however, are roasted, ground or decaffeinated coffee. Roasted and ground coffee have low shelf life which not only compromises the cup quality but they also face stiff competition from established coffee brands in those markets. They also don't enjoy reputational brand image given that value added coffee gives good cup when consumed within the proximity from the of point of sale. Coffee also lack the final touch by blending coffees from different origins to make a demand cup.

Decaffeinated (Decaf is short form for decaffeinated coffee) coffee are from coffee beans that have had at least 97% of their caffeine removed. Caffeine can also be removed using carbon dioxide or a charcoal filter — a method known as the Swiss Water Process. The beans are decaffeinated before they are roasted and ground. However, there have been debates as to whether decaffeinated coffee is healthier?

Like all coffee, decaffeinated coffee is safe for consumption and can be part of a healthy diet. However, it attracts less consumer demand in a number of coffee consuming countries. Kenya does not export decaffeinated coffee and thus there should be no alarm about its less attractiveness in a number of markets. There are some markets nevertheless where it is in high demand owing to its low caffeine content.

4.3 Coffee export barriers to most export markets

There exist considerable barriers to the coffee exports to EU and other markets. This is because of a number of factors of non-tariff barriers. The EU operates one of the most stringent set of measures, standards and regulations globally. This in effect is having a profound negative impact on Kenya's coffee exports to the EU member states.

EU Rules and Regulations

The EU's rules and regulations on the import of coffee and other agricultural food products apply to all Member States. In addition, some Member States have several other regulations which must be complied with by exporters and importers of coffee and other food products. Importers of coffee and other food products from agriculture are required to follow the rules regarding marketing standards, product labelling, plant protection, and import and export licenses. However, regulations and measures by specific country agencies have by far the most impact on EU Member States markets access by coffee and other agricultural food products. For example, compliance with member state regulations, rules and marketing standards in some cases are enforced by different specific government agencies called Boards.

(i) **Country's Board of Agriculture**

Country's Board of Agriculture ensures that food and agricultural food products sold or imported into the country meet requirements for quality and health. The organization is the particular country's expert authority in the area of agriculture, fishery, and rural areas. These regulations apply to locally produced as well as imported products

(ii) National Food Administration

The National Food Administration sets most of the rules pertaining to handling of food. This applies, for example, to requirements for an approved facility for handling plant products. The National Food Administration is responsible for the inspection of some plant foods at border posts.

The organization requires that all food packaging must be labelled with specific information like nutritional content, organic labelling, ingredients among others. Information and labelling of food and drink is one of the most important areas when it comes to regulation on food. It is the responsibility of the manufacturer of the products to ensure that the information and labelling are correct. But companies that import, sell or serve food products also have shared responsibility of this obligation about properties, composition, quantity, durability, origin or in production methods. Owing to their importance in most of the EU member states, information and labelling is one of the most central areas when it comes to food, hence the rules and regulations are many and complex.

4.4 Kenya Coffee and Coffee Industry Code of Practice

Marketing standards for applying to food and agricultural food products is another barrier of trade to exports destined markets. More stringent controls are on coffee, fresh fruits, vegetables, certain nuts and berries.

The EU and US require that these products must meet their trade standards such as health and quality. This applies to all levels of trade. Proper and correct labelling of products is a critical requirement of standard for trade. Coffee and coffee products must also be correctly labelled, among other things, country of origin. Importers and exporters of coffee must register their businesses with the food and health or more agencies of the respective importing or exporting countries. This is because it is a standard requirement that all import of food and agricultural products must be inspected by boards of agriculture or national food administration. Despite being correctly labelled, coffee and other agricultural food products must meet the quality requirement for the class of food to which they belong. Specific information on the marketing standards of each of the food products can be accessed from the website of the respective country's health or standard enforcement agencies.

Other marketing standards available for use are the EU general marketing standard, UN/ECE and Codex standards. It is important that the buyer and the seller agree on whether to apply the general trade standard or specific UN/ECE trade standard (https://unece.org/trade/wp7/FFV-Standards).

Codex Alimentarius also has standards for certain coffee and coffee products. However, exporters and importers must first meet the general trading standards before using the Codex Alimenttarius: https://www.fao.org/fao-who-codexalimentarrius/codex-texts/list-standards/en/

Import Bans or Requirements for Health Certificates when Trading with Countries outside EU.

Some agricultural products pose such a high risk that they may not be imported into the EU member states at all if they come from certain countries or parts of the world. Such imports include coffee, green fresh fruits, vegetables, berries and herbs from a country outside the EU, must be accompanied by health certificate - a document issued by the plant protection authority in the exporting country which shows that the product has been inspected and confirmation given that they are free from regulated plant pests.

Compliance with the code of conduct for green coffee (KS 2366: 2013)

According to coffee standard Ks 2366:2013 clause 11.1 clearly gives the procedures to be followed on primary processing. Coffee co-operatives or farms following the procedures given will end up producing quality coffee hence earning them good return. Practising this code of conduct will give out confidentiality to the buyers hence gaining bargaining power in the market for better prices.

4.5 Labelling

An important part of the EU's general and product-specific marketing standards requirement is that coffee and coffee products must be correctly marked. In some European countries like Sweden, importers of these products are required to register with the Swedish Board of Agriculture. This ensures they are covered by EU trade standards. At border control station, the consignment is checked for conformity with requirements for quality and labelling and plant pests.

4.6 Quality control and labelling

It is the responsibility of the exporter of green coffee and coffee products to ensure they meet the requirements of quality control and labelling. Responsibility also lies with importer who must ensure that upon receipt of the consignment of coffee and coffee products meet the marketing standards and they are correctly labelled. The importer may approve the consignment or reject it himself.

Importing country's board of agriculture or other authorized agency usually conducts random checks of locally sourced and imported products for compliance with quality and labelling rules. Products which fail to meet the existing requirements are intercepted.

The trader of the coffee and coffee products has the liberty to decide what to with the consignment for failure to comply with requirements from the following options:

(i) Rearrangement
(ii) Marking
(iii) Downgrading
(iv) Return to the sender
(v) Industrial processing
(vi) Use in animal feed (provided they meet the quality requirement)
(vii) Destruction

The country's agricultural board or other authorized agency then conducts a re-inspection at an extra fee borne by the trader or exporter. Importers of coffee from countries outside the EU are required to pay additional fee for the quality control in connection with the customs declaration.

ICO - coffee quality standards (numbering)

The International Coffee Organization (ICO) is the main intergovernmental organization for coffee, bringing together exporting and importing Governments to tackle the challenges facing the world coffee sector through international cooperation.

In February 2002, ICO implemented the Coffee Quality-Improvement Programme, under Council Resolution 407. The CQP under Resolution 407consists of minimum standards for exportable coffee, providing that from October 2002, exporting Members shall not export coffee that has the following characteristics:

(i) For Arabica, in excess of 86 defects per 300g sample (New York green coffee classification/Brazilian method, or equivalent); and, for Robusta, in excess of 150 defects per 300 grams (Vietnam, Indonesia, or equivalent); and

(ii) For both Arabica and Robusta, moisture content below 8 percent or in excess of 12.5 percent, measured using the ISO 6673 standard is considered harmful.

Observed cases

Coffee and other agricultural food products from Kenya are facing non-tariff barriers in a number of EU countries regulations because of the following reasons:

1. Incorrect or lack of labelling of the coffee and other agricultural coffee products from Kenya in accordance with EU regulations and the specific requirements by authorities leading to interception and rejection of consignments.

(i) Interceptions due to occurrence of harmful organisms on the Kenyan imported coffee and other agricultural food products.

(ii) Contaminated coffee and other agricultural food products from Kenya with health certificates incorrectly declaring them to be free from harmful organisms.

(iii) Agricultural products from Kenya exceeding the allowed maximum residue level or chemicals.

2. Since EU member countries regularly make interceptions of products already certified to be safe and free from chemicals and harmful organisms, The Kenyan bodies (KEBS, KEPHIS, etc) involved in issuance of such certificates should always re-evaluate their testing procedures.

3. Relevant advice regarding the EU market should be disseminated to producers and exporters of coffee and other agricultural food products on the regulations pertaining to the export of such products.

4. Most EU member countries population is keen on organic food. Consequently, there has been a shift towards the consumption of such foods. Therefore, Kenyan exporters should be advised to consider the behaviour of EU market concerning organic foods and products.

5. Some EU member countries like Sweden provides assistance to developing countries to export coffee and other agricultural food products to the country. For this reason, the National Board of Trade through Open Trade Gate Sweden (OTGS) provides information and training on customs duties, charges, regulations and requirements to facilitate trade and increase exports from developing countries to Sweden and EU.

Kenyan embassies are usually at hand to facilitate the engagement between the relevant ministries, departments and agencies (MDAs) of the Kenyan government for partnership with OTGS capacity building and exchange of information

CHAPTER 5.0: REGULATIONS

Coffee is listed as a Scheduled Crop in the first Schedule of the Crops Act No. 16 of 2013. Once a crop is declared as a scheduled crop all aspects of that crop is regulated for purposes of ensuring compliance with standards facilitating marketing and distribution through monitoring and dissemination of market information.

5.1 Regulation and Licensing

Any person dealing with a scheduled crop is required to register and get licensed by either the National government or the County government where he resides. The Crops Act 2013 further requires the dealer to regularly provided data to the government to help in the maintenance of sound statistical information which is necessary for planning purposes in regard to the specific scheduled crop.

The crops (Coffee) (General) Regulations, 2019 has clearly delineated the roles of both the county and the national governments. The agricultural side is largely under the county government while the trade category is under the National government. In that respect, any person dealing in coffee must be registered and licensed by either the National or County government depending on the level of operation. However, the delimitation of these roles is meant to deliver services more efficiently but in collaboration by the two levels of government to create the resultant synergy.

5.2 Standards and Code of Practice

Kenya coffee is mainly grown for both domestic and export markets. This makes it important to ensure that products supplied to those markets meet the necessary requirements in terms of quality and food safety. Production, processing, warehousing and marketing of coffee should be carried out in compliance with the coffee standards KS EAS 105 and the industry code of practice (COP) KS 2366.

Since all the activities of the Directorate are being automated, an individual, especially youth can open a cyber café where he/she can assist stakeholders do the following at a fee:

(I) Application of licences
(ii) Application of movement permits
(iii) Registration
(iv) Application of ICOs
(v) Filing returns

CHAPTER 6.0: FINANCING

Agricultural investment is critical in promotion of food security and reduction of poverty. Though widely recognized for its social impact, agricultural investment — particularly to small and medium enterprises (SMEs) — is also recognized by the financial sector as a profitable growth business.

6.1 Sources of funds in the Coffee Industry

Government of Kenya financing through Commodities Development Fund largely remains the main source of coffee financing. Entrepreneurs in the Coffee Sub-sector can access capital at lower interest rates compared to the market rates of other commercial lenders.

Commodities Fund:

The mandate of the Fund is to provide sustainable and affordable credit and advances to agricultural sector for:

(i) Farm improvement;
(ii) Farm inputs;
(iii) Farming operations;
(iv) Support for agricultural value addition initiatives
(v) Price stabilization;
(vi) Facilitating capacity building related to credit absorption.

Commodities Fund is committed to providing efficient and reliable credit facilities along the value chain to the satisfaction of the agriculture sector.

As part of serving its customers, Commodities Fund has developed deliberate focus on Youth groups, Women Groups and Persons Living with Disabilities (PWDs) as follows:

(i) Farm inputs;
(ii) Farming operations;
(iii) Agricultural Infrastructure development;
(iv) Support for agricultural value addition initiatives.

6.2 Other Financing Institutions

Other sources of finance include the commercial lenders such as Cherry fund by New KPCU, banks & SACCOs.

Opportunities

There are profitable business opportunities in financing that one can venture into:

(I) Opening an audit firm
(ii) Book keeping

(iii) Preparing periodical financial reports, including the profit and loss statement and balance sheet on a monthly and annual basis

(iv) Preparing weekly cash flow statement reports and controlling expenditure and cash flow

(v) Developing financial statements for account reconciliations, account receivables, account payables, revenue expenditure etc.

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