THE IMPACT OF NEO-COLONIALISM ON COFFEE TRADING ACTIVITIES IN KENYA

BY

REBECCA M MAUNDU

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

SUMMER 2017
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BY

REBECCA M MAUNDU
ID NO: 649337

A Thesis Report Submitted to the School of Humanities and Social Sciences in Partial Fulfillment of the Requirements for the Award of Master of Arts Degree in International Relations

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

SUMMER 2017
DECLARATION

This thesis report is my original work and has not been presented for a degree in any other institution.

Signature: ………………………………. Date: ……………………………..

REBECCA M MAUNDU (ID. NO: 649337)

This thesis report has been submitted with my approval and justified as the university supervisor.

Signature: ………………………………. Date: ……………………………..

Dr. WELDON K. NGENO

School of Humanities and Social Sciences (SHSS) –USIU -AFRICA

Signature: ………………………………. Date: ……………………………..

DR. TOM L. S ONDITI

DEAN - School of Humanities and Social Sciences (SHSS) –USIU -AFRICA

Signature: ………………………………. Date: ……………………………..

AMB. PROF. RUTHIE. C. RONO

DVC- ACADEMICS USIU -AFRICA
DEDICATION

I dedicate this work to my family for their entire support in my academic endeavor. The co-operation, inspiration and spiritual support from my workmates and fellow students have been invaluable. Special gratitude goes to my supervisor for the understanding, patience and guidance.

May the Almighty God richly reward you!
ACKNOWLEDGEMENT

I’m grateful and highly indebted to many outstanding individuals without whom this work would not have been successful. Special gratitude to the Almighty God for the free provision of care, health, and strength he has accorded me, may abundant glory be to God. I’m equally grateful to my supervisor Dr. W. Ngeno for his personal commitment, encouragement, availability, patience and tolerance during the many discussions that immensely contributed to the success of the thesis.
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<th>Description</th>
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<tbody>
<tr>
<td>AGOA</td>
<td>Africa Growth and Opportunity Act</td>
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<tr>
<td>CBK</td>
<td>Coffee Board of Kenya</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>KCC</td>
<td>Kenya Cooperative Creameries</td>
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<td>KCPTA</td>
<td>Kenya Coffee Producers and Traders Association</td>
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<tr>
<td>KPCU</td>
<td>Kenya Planters Co-operative Union</td>
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<tr>
<td>KTDA</td>
<td>Kenya Tea Development Authority</td>
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<tr>
<td>SCIP</td>
<td>Small-holders Coffee Improvement Programme</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
<tr>
<td>CRF</td>
<td>Coffee Research Foundation</td>
</tr>
<tr>
<td>ICO</td>
<td>International Coffee Organization</td>
</tr>
<tr>
<td>FAO</td>
<td>Food and Agriculture Organization</td>
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<tr>
<td>GOK</td>
<td>Government of Kenya</td>
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<tr>
<td>ACP</td>
<td>African, Caribbean and Pacific region Countries</td>
</tr>
<tr>
<td>SCIP II</td>
<td>2nd Small-holders Coffee Improvement Programme</td>
</tr>
<tr>
<td>STABEX</td>
<td>Stabilization of Export</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Agency</td>
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<tr>
<td>CFDS</td>
<td>Coffee factories development scheme</td>
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<tr>
<td>SPS</td>
<td>Sanitary and Phytosanitary</td>
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<tr>
<td>LIFFE</td>
<td>London International Financial Futures and Options Exchange</td>
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ABSTRACT

The general objective of this study was to determine how different aspects of Neo-colonialism has hindered growth of the coffee industry in Kenya (1980-2008). The study sought Neo-colonialism effects on the coffee value chain specifically marketing, financing and production. This thesis investigated how the International Monetary Fund (IMF) sponsored liberalization programs destabilized the coffee sector in Kenya and brought to light the unseen forces in coffee value chain disadvantaging the Kenyan farmer. The study adopted the Dependency and World System theories while a conceptual framework assessed the interdependence between Neo-colonial and the key variables: production, marketing and financing.

On Coffee production the study found that the producers are faced with meeting quality challenges, high production costs, technology challenges and global market volatility highly favored to developed nations. On coffee marketing, the study found that multinationals coffee firms controlled the market through domestic brokers/agents who pursue their interests leaving farmers vulnerable to unbalanced economic practices. In terms of coffee financing the study found that the liberalization policies crippled the coffee industry by promoting unfair trade practices. By financing cooperatives at a vulnerable stage when the coffee prices were at record low resulted in indebtedness of coffee farmers, weakened cooperative institutions and loss of livelihood means.

The study concluded that in order for the Kenyan coffee sector to break free from foreign influences and generate sustainable rates of growth by improving the quality of
governance and developing a credible set of institutions to support and execute market-friendly economic policies.
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

In the 1960’s, when majority of African countries achieved independence, the continent’s future seemed prosperous as most of the African countries had been left with natural and geographical advantages. These newly independent countries were predisposed to huge reserves of all kind of raw materials and armed with a large population looking forward to be finally their own master. Fifty years later, the continent’s situation is not significantly better and neither has the Western development aid delivered positive results on a massive scale (Swainson, 1970). Over the past decades, an increasing number of writers and activists have started to denounce what through Ghana’s first president Kwame Nkrumah became known as Neo-colonialism.

Nyikal reiterated that colonialism is not over but merely perpetrated through a new form of colonialism, by the same western countries, masked under the pretext of economic support for Africa. It is directly enforced or institutionalized by the World Bank, the International Monetary Fund (IMF) and the World Trade Organization (WTO). These policies are enforced on poor African countries through the organizations chaining Africa to continued dependence on western economies for mere subsistence, by preventing self-help to the continent’s economic problems. Moreover, the same policies seem to favor a trade imbalance over the struggling ones in Africa to the already wealthy Western economies. This economic colonization of Africa has done and continues to do as much
damage to the continent as the imperial colonialism and after effects have done (Nyikal, 2005).

Nag (2013) cites that scholars of international political economy offered myriad of explanations in the attempt to analyze underdevelopment in the continent. Some of the arguments put forward to explain the current economic crisis in Africa range from political instability (conflict and weakened institutions), and underdeveloped human resources (lacked skilled resources). Nag also argues that the oil crisis of the 1973-4 (the great depression), spiked government spending after the colonial period, inheritance of poor colonial economic systems and trade practices (set to serve as source to the “mother” country rather than serve the people), and the sole dependence on primary industries (failure to diversify), among others.

Martin (1985) argued that the condition in Africa is in fact far worse than it was at the end of colonialism under the European nations in the 1960s and 1970s. The existence of influence of the former colonial powers, which persists after independence, is responsible for the excessive exploitation of African resources. Nag (2013) states that in Kenya Neo-colonialism has been advanced as a possible explanation to explain the failure of the country’s economy Vis a Vis the global economy. It has been closely related to the concept of underdevelopment and revolves around the control of local policies from outside. Proponents of Neo-colonialism argue that the postcolonial period has been characterized by a deliberate scheme to establish neo-colonist system. Mwaura (2005) refers to how former colonial masters recognized the need to reform colonies after
realizing classical colonialism can no longer guarantee benefits for which the colonies had been acquired. This has impacted the political, social and economic context of the agricultural industry in a manner that hinders the growth of the industry.

Nyikal, (2005) noted that part of debate revolved around the failure of African economies to transform from their traditional role as primary commodity producers in the world economic system. Several arguments have the strong presumption that the growth of international markets is a positive phenomenon that can help spur the continent’s development. Such thoughts have been countered by a growing philosophical debate around the concept of Neo-colonialist tendencies that contribute to the lasting social economic inequalities between the north and south. During the 1970s the African countries started to lose value in exports by 11%.

All these points are to a great extent valid, but how the situation has been handled has resulted more to maintaining the status quo or worsening the situation altogether as the rest of the world looked on if not directly benefited. The European strategy of trade and commerce affects African agriculture immensely as most African exports are less in value than imports (Mwaura, 2005). During the colonial era white settlers who owned large tracts of land and auctioned the coffee in London primarily grew coffee. (Pendegrast, 1999). However, in 1933 Kenyan legislatures enacted the Coffee Act, which established the Coffee Board of Kenya (CBK) that eventually formed the Kenyan auction system. The coffee trade intensified relations between the cultivators in the South and the consumers in the North by early 19th Century. In economic terms it was the third
most valuable internationally traded commodity in the world by the end of the nineteenth century (Topik, 2004) Although failure of internal policies can also been cited as a hindrance to the coffee industry development, it is imperative to assess how coffee trade has become victimized and constrained by indirect and subtle forms of domination by foreign means.

Past policies such as the ones fronted in Sessional Paper Number 10 of 1965 have failed to provide a clear road map for improving the agricultural industry coffee sector notwithstanding. The paper was a conceptual plan by the government for socio-economic development. It was meant to guide economic growth that was built around equity informed by African Socialism. The vision for high and growing per capita incomes that is equally distributed has continued to plague planners as it was wrongly conceptualized from the very beginning. Kenya still exports primary goods with little value addition, and the manufacturing has stagnated. At the same time the informal enterprises have grown and become residual career choices for highly trained Kenyans. This is a reminiscent of the coffee industry in Kenya that portrays exports of primary goods with little value addition.

In the 1990’s, Kenya was pressured by the Bretton Woods institutions within the framework of the economic globalization to liberalize the coffee industry with assurances of comfortable earnings for farmers. The State, which had played a major role in regulating coffee activities through boards and stabilization funds, was made to disengage itself from the coffee sector and allow farmers to have direct access to the market through
unknown private operators. Due to the effect of the Structural Adjustment Programs (SAPs) pushed for by the International Monetary Fund (IMF) and World Bank in Kenya, coffee earnings was adversely affected by the reduction of the world prices as production outstripped consumption due to the free market economy. The suspension of the coffee quotas led to price drops allowing the foreign companies to take advantage of the coffee farmers by ruling the world market and determining the farmer prices. This system has been heartless with little interest in the welfare of the Kenyan coffee farmers (Patel, 2007).

As Susan George (1990) posits debt is an efficient tool of accessing other peoples’ raw materials and infrastructure on the cheapest possible terms. Multiple countries must compete for shrinking export markets and can export only a limited range of products because of Northern protectionism. Because of their lack of cash to invest in diversification, market saturation ensues, reducing exporters’ income to a bare minimum while the North enjoys huge savings. The fact that Neo-colonial methods are less direct and less visible renders it more dangerous than colonialism since it implies power without the need for justification of the master, and exploitation without protection for the country subject to it.

The International Coffee Agreements (ICA) under the International Coffee Organization (ICO) was the most successful effort to control coffee supply up to 1989 owed in part to the United States, who helped to enforce the quota system in an effort to prevent communism from destabilizing developing countries. In 1989 when the U.S.
pulled out from the agreement, suspending the quota system, it plunged coffee prices to about half their previous levels and to record lows (ICO, 1997). We can point to several factors that can be blamed for the decline in coffee prices such as; the dismantling of the ICA’s, price regulation, fluctuating market supplies, the exploitation of market power by multinationals, and policies implemented by the World Trade Organization (WTO) and the International Monetary Fund (IMF).

David, (2002) stated that in 2014 Africa —the home of coffee— earned nearly $2.4 billion from the crop whereas Germany, a leading processor, earned about $3.8 billion from coffee re-exports. The concern is not that Germany benefits from processing coffee but the fact that Africa is unfairly imposed EU tariff barriers for doing so by imposing a 7.5 per cent charge on roasted coffee. At the same time Non-decaffeinated green coffee is exempt from the charges. As a result, the bulk of Africa’s export to the EU is unroasted green coffee. The impact of such charges goes well beyond lost export opportunities. They suppress technological innovation and industrial development among African countries. The practice denies the continent the ability to acquire, adopt and diffuse technologies used in food processing. It explains to some extent the low level of investment in Africa’s food processing enterprises (Patel, 2007).

A further analysis of coffee trade reveals that African farmers, at most, get slightly more than a quarter of the retail value of their product in importing countries. Africa’s coffee is overwhelmingly dependent on sales from the West where prices for Arabica coffees are set on the New York Intercontinental Exchange (ICE) futures market and London
International Financial Futures and Options Exchange (LIFFE). The price of coffee fluctuates dramatically as speculators in New York City trade it. With no restrictions on international investments, corporations force countries to compete against one another in a “race to the bottom,” lowering wages in order to maintain business margins a clear case of Neo-colonialism (Mbataru, 2007).

Ponte, (2001) pointed out that in the East African Region, dependency remains a major problem, especially for poor African countries: Burundi derives nearly 80 percent of export earnings from coffee; Uganda and Ethiopia more than 50 percent; and Rwanda slightly less than 50 percent. In countries such as Ethiopia, small coffee producers have suffered as a result of the Bretton woods institutions: WTO, IMF and the World Bank, who have privatized public businesses and removed restrictions on foreign ownership in many developing countries who sign the IMF agreements in order to prevent default on international loans (Pearson and Chaitezvi, 2013). Signing the IMF also includes a pledge of new loans from private international lenders. As a result, the gross national income in sub-Saharan Africa countries has been devastated, and Africa’s share of world trade has decreased. In opening up the global economy, local businesses, such as the coffee farmers pay the price (Mbataru, 2007).

According to UNCTAD (2010) Kenya Coffee is one of the major cash crops coming third after tea and horticultural produce. In 2005 horticulture accounted for 23 percent and tea for 22 percent of total export earnings. Coffee declined in importance, accounting for just 5 percent of export receipts in 2005 (Mbataru, 2007). Even with this
decline over the last 10-20 years, the coffee industry still injected over 100 billion shillings to the country’s Gross Domestic Product. The collapse of the quota system led to a drastic reduction in coffee prices around the world with Kenya feeling the full effect of the low prices. Farmers who had been used to fairly stable prices for many years could not afford to take good care of the crop any more due to steep rise in input costs. This can be attributed to the effect of the Structural Adjustment programs pushed for by the IMF and World Bank on Kenya on one hand, and a steep fall in prices of the crop on the other (Pearson and Chaitezvi, 2013). Since the ICA’s collapse in 1989, Western coffee drinking nations and the World Bank have resisted efforts by producer countries to put commodity price management on the international agenda. This has adversely affected Kenyan coffee farmers.

In an unregulated market, coffee trade is left to the whims of Neo-colonialist such as Multinational corporations who control the price of coffee, they control the production and marketing today in order to protect their profits (Karanja, 1998). Besides them the Bretton woods with its free trade and liberalization policies have contributed significantly to the coffee trade problems in Kenya. Based on the above observations the declining coffee industry is attributed to the influence of new forms of colonialism masked under institutions such as the world trade organization (WTO) and IMF structural adjustment programs (Karanja, 1998). The policies have been enforced on poor developing nation (Kenya notwithstaning) chaining them to continue dependence and unequal trade balance that favors the western economies. This economic
The colonization of Africa has done and continues to do as much damage to the continent as the imperial colonialism and after effects (Karanja, 1998).

1.2 Statement of the Problem

Neo-colonialism offers an explanation of how Africa is a victim of indirect and subtle forms of domination through political economic and social means by external forces. Specific developments include the increased importance of international financial systems that have limited the capacity of national governments to pursue independent monetary policies. The emergence of the unchallenged hegemony of free market economics has also perpetuated the North-South divide. Foreign factors have also led to a loss of autonomy in national policy making. The study therefore utilized such a paradigm to analyze why Kenyan coffee sector has failed to accrue the benefits of this multibillion-profit business. In particular it assessed how domestic actors interact with external actors to hinder the development of the industry. More specifically the failure of internal structures and institutions can be attributed to the political interference that has ramifications on domestic policymaking. While most existing literature tends to focus on the failures of internal structures, this study argues that an interaction of domestic and external actors is responsible for the perpetuation of neo-colonial tendencies in the coffee industry. The study therefore sought to establish such patterns and reverse the trend. It also seeks to offer solutions that go a long way in steering the sector into the next phase of development that is value addition.
1.3 Objectives of the Study

The study sought specifically to:

1. Examine the impact of Neo-colonialism on coffee Production in Kenya
2. Determine the impact of Neo-colonialism in the Marketing activities of coffee trade in Kenya
3. Establish the impact of Neo-colonialism in the international financial agreements on coffee trade in Kenya

1.4 Research Questions

The study was guided by the following questions:

1. What is the impact of Neo-colonialism on coffee Production in Kenya?
2. Has Neo-colonialism impacted on the marketing activities of coffee trade in Kenya?
3. What is the impact of Neo-colonialism in the international financial agreements on coffee trade in Kenya?

1.5 Research Hypothesis

The hypothesis of this research is that neo-colonialism has impacted negatively on coffee trade and trading activities.
1.6 Justification and Significance of the Study

The Kenyan coffee industry was chosen for several reasons. With reference to global trade, the coffee industry demonstrates a pattern of consumption and production that is uneven between the developed and developing countries. About 90 percent of the global coffee production takes place in developing countries (Southern hemisphere) while consumption takes place mainly in the developed North. This is because the North has a well-developed consumer based economies. The duality and unequal structure of development offers an interesting perspective on the economic relationship between Kenya and other developed countries (Ponte, 2001). Furthermore coffee is the second most valuable traded commodity in the world after oil, which demonstrates the importance of coffee as a commodity to the Kenyan economy and its relationship to the developed metropolitan countries of the West (Ponte, 2001).

Critically analyzing the imperialistic order, which unfairly affects the production, marketing and financing of the coffee industry in Kenya can help reverse this trend. This research also sought to demystify some of the undisclosed stipulations within the coffee trade policy and its linkages to Neo-colonialism in Kenya. The research also derived appropriate recommendations that will help mitigate factors that hinder coffee trade in Kenya hence opening the path for a change in discourse, making a difference in this locked dependency on wealthy nations.

The economic conditions facing coffee farmers in Kenya poses a significant challenge to the social sustainability of coffee production. Typically the hired labor serving coffee
plantations represent the poorest segment of the population. In the supply chain ecosystem it severs linkage directly to the Neo-colonial powers who control both the manufacturing sector and the export sector. From the various literature reviewed, it is evident that most writers have generalized causes of declining coffee trade into volatile coffee prices, poor technology techniques and vested interests in the marketing of coffee. However existing scholarly work has not adequately addressed the correlation between the coffee industry and modern day colonialism. This study hence aimed at bridging this gap in the study.

This research study will provide useful knowledge to researchers and policy makers in formulation of policies and a regulatory framework to combat economic and trade exploitation by the world economic powers in Kenyan coffee industry. This would be of significance in providing deeper insight into the production, financing resources factors and marketing activities, which contribute towards coffee trade. Economic and socio-political researchers and scholars can use the information generated from this study to add to their understanding of the influence of externalities to trading activities in the Kenyan coffee sector.

The study will be helpful to the government, coffee research board, and ministry of Industry, Trade and Cooperatives, Ministry of Agriculture, Livestock and Fisheries. It can also be a valuable resource to various coffee co-operatives, and International Coffee Organizations. The study findings will provide foundation and material for further related
research invaluable to researchers providing a better understanding of the issues under investigation and at the same breadth sharpen research skills.

1.7 Research Methodology

This section outlines the procedure and methods the researcher employed in order to obtain data for this study. It comprises of the research design, data sources and methods of data analysis.

1.7.1 Research Design

Kombo (2006) defines research design as the scheme, outline or plan that is used to generate answers to research problems. It is an arrangement of conditions of data collection and analysis. This study employs descriptive survey to assess the nature and development of Coffee trade and its problems with a view to offer solutions. According to Kothari (2004) a descriptive research includes surveys and fact-finding enquiries of different kinds with an aim of describing the state of affairs as it exists at present as the researcher has no control over the variables but can only report what has happened or what is happening (Kothari, 2004).

To further address the study objectives, explanatory research design was used to find out the performance and problems facing coffee trade in Kenya. Explanatory research is defined as an attempt to connect ideas to understand cause and effect, meaning researchers want to explain what is going on (Kothari, 2004). The main aim of explanatory research was to identify causal links between Neo-colonialism and coffee
trade especially in Marketing, Production and the financial systems that pertain to the research problem.

1.7.2 Data Collection

The study used exploratory desktop research based on secondary data. Data collected was retrieved from, online databases, such as East African and Kenyan newspapers independent journals, books, reports from organizations like FAO, World Bank, KPCU, CRF and ICO documentaries.

1.7.3 Data Analysis

Since the research was qualitative in nature, the analysis was done using descriptive statistics, which allowed use of inferential statistics to make predictions (“inferences”) from that data. The qualitative data generated from desktop research will be categorized in themes in accordance with research objectives and reported in narrative form.

In this thesis, the method of classical content analysis was used to assess the impact of Neo-colonialism on the economic growth of Kenya, covering the period from 1980 to 2010. This was done with reference to the set of coffee sector macro variables as stated in the research questions. The details of the macro variables and its relevance to the coffee sector are discussed in the next chapter. The table in Appendix 1 presents all the electronic and non-electronic sources of quantitative secondary data used to develop and support the arguments in this thesis. Though the list of variables identified in the Appendix 1 contains differing characteristics, methodology and data collection
techniques in reporting the respective indicators, what they all have in common is the connection to the arguments in this thesis.

According to Ryan and Bernard (2000) classical content analysis comprises techniques for reducing texts to a unit-by-variable matrix and analyzing that matrix quantitatively to test hypotheses which the researcher can produce a matrix by applying a set of pattern to a set of qualitative data for example written texts, with the assumption being that the patterns of interest have already been discovered and described beforehand (Ryan and Bernard, 2000).

1.8 Operational Definition of Terms

**Coffee Trading**- Coffee as a major export commodity is traded as green (unroasted) coffee in futures contracts on many exchanges, including the New York Intercontinental Exchange (ICE) futures market and London International Financial Futures and Options Exchange (Liffe). The world's largest transfer point for coffee is the port of Hamburg, Germany.

**Coffee Marketing**- This is a market where coffee is bought by the licensed coffee dealers through competitive bidding in the Nairobi coffee Exchange in Kenya. Currently this is done through a central auction system conducted every Tuesday of the week and through the direct sale, commonly referred to as “Second Window” which requires that a marketing Agent directly negotiate with a buyer outside the country.
**Coffee Production** - is the industrial process of converting the raw fruit of the coffee plant into the finished coffee. However, it is not what one would call a processed product. The cherry has the fruit or pulp removed leaving the seed or bean which is then dried.

**Coffee Financial Systems** – these are the mechanisms put in place to provide price risk management services to protect farmers against losses and monitor financial and stock transactions to enforce accountability and strong management practices within the coffee sector.

**Neo-colonialism** – Also commonly referred to as neo imperialism is the use of economic, political, cultural, or other pressures to control or influence other countries, especially former dependencies. Neo-colonialism can also be defined as the control of less-developed countries by developed countries through indirect means. The term Neo-colonialism was first used after World War II to refer to the continuing dependence of former colonies on foreign countries, but its meaning soon broadened to apply, more generally, to places where the power of developed countries was used to produce a colonial-like exploitation. The term is now an unambiguously negative one that is widely used to refer to a form of global power in which transnational corporations and global and multilateral institutions combine to perpetuate colonial forms of exploitation of developing countries. Neo-colonialism has been broadly theorized as a further development of capitalism that enables capitalist powers (both nations and corporations) to dominate subject nations through the operations of international capitalism rather than by means of direct rule.
1.9 Organization of the Study

The aim of this thesis was to explore the concept of Neo-colonialism academically and its linkages to coffee trading in Kenya. The methodology of the analysis consisted of establishing a conceptual framework that analyzed and compared Neo-colonialism dependence by evaluating its functions in the Kenyan coffee trade. The thesis began with the formulation of a problem, research questions, and objectives of the research and purpose of the study. The methodology focused on the approaches used in justifying the source of data and the techniques employed in analyzing the data to support the arguments presented in this thesis. The arguments in this thesis were divided into three sections.

The first section consisted of a literature review and theoretical framework. This chapter offered a comprehensive coverage on the theories, policies and application of Neo-colonialism as a problem. It reviewed the problem facing the Coffee trade in Kenya by presenting the macro levels of its variables.

The second section discussed the organization of the data results on various variables which were be analyzed under the coffee production in Kenya, the impact of the liberalization reforms, and the micro-level evidence based on the qualitative findings. This section of the thesis provided a thorough data analysis on the Kenyan coffee trade and trading activities and how it was impacted by Neo-colonial tendencies. It discussed the structure of the coffee sector during the colonial and post-colonial period before
highlighting the problems emanating from the regulatory regime during the post-colonial period and ended by describing the main challenges faced by the coffee trade in Kenya.

The final part consisted of arguments of the thesis drawn to a conclusion. This was done by summarizing and synthesizing the arguments and findings in response to the problem of Neo-colonialism tendencies on the coffee trade in Kenya. This chapter also identified some of the other areas for further research within the subject area and provided references of data sources.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter focused on the literature that explains the failure of the coffee sector from a Neo-colonialist approach. The review meant to enhance understanding of the coffee trade problems in Kenya. The finding of the review helped to note the gaps in knowledge and create the entry point for this study. It also sharpened and deepened the conceptual framework of the research by examining the effects of Neo-colonialism in the coffee trading activities in Kenya. This study was entrenched on the presentation of various scholarly thoughts and publication flows in support of the themes and subthemes of this study. The theoretical framework is also presented together with conceptual framework represented in a pictorial format. Information that was used to build up this chapter was obtained from books, government reports and online journals.

2.2 Theoretical Framework Review

A theoretical framework can be defined as a study or explanation that is based on ideas or opinions of a scholar. Theories can also be defined as a set of ideas or principles whose intention is to explain a situation or an event. The following section explores the key concepts and the existing theories and literature that explain Neo-colonialism to be a phenomenon beyond the legal annexation of territories by a Western metro pole. Neo-colonialism has become extremely flaccid in nature because it is multifaceted and used inappropriately (Hagg, 2011). The concept of Neo-colonialism is closely associated with
the Dependency and the World System theories as explanations for underdevelopment in Africa. These theories explore the inequality of the world coffee trade framework that contributes to lasting social inequalities between the developing nations such as Kenya and the developed states.

2.2.1 Dependency Theory

Dependency theory is a theory that analyses why economic growth in industrialized countries does not necessarily lead to growth in developing countries. Raul Prebisch an early proponent of the theory argued that poor or developing countries export primary products to rich countries who then add value during manufacturing and sell them back to poorer countries (Ferraro, 2008). As a result poor countries would never be earning enough to pay for their imports.

According to the theory colonial masters dominated almost everything including the Africans mode of production and to some extent they still hold dominance to date. The dependency theory proves how economically dependent the peripheral states are to the western world as it links how two or more economies relate to each other on capitalistic tenets. In this theory the periphery states always invite (transnational corporations) TNCs to invest in their country with the hope of improving their economies by importing a form of material benefit to its people. According to Njuguna, Katumanga and Gareth, (2009) workers' time and energy are often consumed in the extractive part of production for goods that will not locally be consumed as they are exported entirely. For example the Kenya coffee total production is exported as green coffee beans up to 98% leaving only
2% for local consumption. The biggest of these exports are made to Germany (Europe) who remove the taxes on the imported unprocessed coffee beans but pass heavy tax on the processed coffee. This means that Kenya is forever dependent on the developed nations for refining unprocessed into processed coffee.

This theory of dependency will help the study analyze how this has interfered with the patterns of trade relations and labor division between international capitalist powers and Kenya coffee production as it favors the Neo-colonial powers. This has been facilitated by the fact that the periphery states such as Kenya do not have power/control over international markets, policies and financial arrangements.

### 2.2.2 World System Theory

The world system theory as fronted by Immanuel Wallerstein argues that the world economic system is divided into a hierarchy of three countries; the core the semi-periphery and the periphery (Wallerstein, 2004). This theory emphasizes the social structure of global inequality where the core countries dictate and exploit the peripheral countries for labor and primary goods. The peripheral countries have a lower concentration of capital hence making them dependent on core countries. The semi-peripheral countries on the other hand are on the middle point of development and share characteristics of both core and peripheral countries.

However in the context of Neo-colonialism the core are the former colonial masters while the periphery is where most African countries lie including Kenya. The core countries are the dominant developed states characterized by capital intensive, sophisticated
technology and reduced amounts of labor exploitation and coercion. The peripheral countries on the other hand are dependent on the core countries for capital as they are less industrialized. Core countries that own the world capital and technology have greater control over world trade and economic agreements. They have high concentration of economic and military power and are not dependent on any other countries. This allows them to pay relatively lower prices for primary goods that they add value to and export. Consequently they are able to extract resources form the peripheral at low cost and set prices for agricultural products.

This theory helped the study to analyze the impact of Neo-colonialism which has proven that Britain and other nations in the west still has grip over Kenya, and she still controls much of the Kenyan economy and political structures (Young 1998). At the development stage he says, it is very difficult for the Third World states to evade depending on the Western nation for their self-development. Young argues that the economic growth, the economic output measures, and the progressive linear model of development in the third world states are so deeply entrenched to Neo-colonial powers since they lack alternate recourse but to be part of this exploitative system (Young 1998).

2.3 Empirical Studies

2.3.1 The Concept of Neo-colonialism

Despite its frequent use over the past fifty years, there is no general definition or a clearly identifiable origin of the concept of Neo-colonialism. Some author’s attribute its coinage to Jean-Paul Sartre in 1956 who criticized the francophone practices in their colonies
stating that they were far from the French belief of “liberty and equality” (Hagg, 2011). Vasili Vajrushev (1974) on the other hand defined Neo-colonialism as a colonial policy performed by the imperialist powers with new hidden mechanisms in order to reinforce capitalism, maximize profit and maintain the economic, political, ideological and military influence of colonial times (Vajrushev, 1974).

All-African People’s Conference in the 1961 Resolution on Neo-colonialism gave the official definition as “The survival of the colonial system in spite of formal recognition of political independence in emerging countries (Hagg, 2011). From a political perspective Neo-colonialism was widely used by the late 20th century critics to refer to a mode of exploitation that perpetuate colonization, though in a different way. Nag (2013) states that initially, the term was used in reference to Africa soon after the commencement of the decolonization process. Instead of the formal and direct imperialist control of employing political exploitation or by effecting administrative structures to rule and dominate the colonized masses, Neo-colonialism operates indirectly by controlling the economic and cultural dependence of the newly decolonized countries.

Martin (1985) indicates Neo-colonialism as the new way of paralyzing the economic growth of a decolonized nation for the sake of gratifying the imperialist hunger for resources and labor. Since then, the concept of Neo-colonialism has enjoyed much political attention coming to denounce a multitude of different forms of dependence and interferences which become victims of an indirect and subtle form of domination by political, economic, social, military, or technical means”.
Ndirangu Mwaura (2005) has pointed out the crucial factors that directly or indirectly responsible for Neo-colonialism in Africa. He points out that the primary objects of Neo-colonial oppression is for economic advantages. Reflecting on the economic cycle of the African nations most of the economies largely depend on agriculture which historically was a preserve of the colonial masters for the benefits of the European nations during the colonial period. The situation did not change even after the African nations achieved flag independence. Compounded as the global North their strategy of trade and commerce affects African agriculture immensely as Africa’s exports are less in value than imports (Mwaura, 2005).

Fanon (1970), in his seminal text “Towards the African Revolution” has pointed out the crucial factors responsible for the birth of Neo-colonialism as well as those fallacies rooted in it. He posits unequivocally that Neo-colonialism is the result of an indetermination present in the very decolonization process. The indetermination refers to the lack of collective nationalist consciousness of the people, formerly colonized, who after many years of suffering were struggling to liberate their nations from Neo-colonial oppression. The nationalist struggle for liberation from the colonial slavery is refusal, at a glance, of political non-existence, of wretchedness, of illiteracy, of the inferiority complex so subtly instilled by oppression. The colonialist empires give everything to the colonies but in return extort an absolute economic dependence. Fanon underlines that commercial hunger is the most important factor for which the colonialist empires wear the masks of good will and go on exploiting the economy of the nominally sovereign countries (Nag, 2013). In reference to the agricultural sector this forms of control might
include the control of prices of primary goods, the control of capital through imposed foreign exchange, and the obligation to sell uncompetitive products from colonial masters and sell a determined quantity of raw materials. Foreign influence of domestic decision-making is also a key element of the concept (Haag, 2011).

2.3.2 Neo-colonialism and the Coffee Production

Farnworth and Goodman (2006) state that all major ACP (African, Caribbean and Pacific region Countries) coffee producers are located in Africa, with an exception for Papua New Guinea (PNG). The main ACP producers in 2009-2010 were Ethiopia (with almost 7.5 million bags produced, and an increase of 7.5% over the previous year), Uganda (3.1 million), Ivory Coast (2.2 million) and Tanzania and Kenya (approximately 0.9 million). Over the 2001-2010 decade, ACP countries accounted for less than 15 per cent of the total coffee production, showing a decreasing trend if compared with the 19 per cent share they held in 1990 and 25 per cent in the 1980s.

French missionaries introduced coffee in Kenya in the Coast Province in 1893. Coffee farming was an exclusive economic privilege of the colonial settlers. Africans were not allowed to grow coffee for commercial purposes (Hornsby and Throup, 1998, Killick, 1983). The repressive colonial policy was aimed at keeping the locals out of the most lucrative sector of the economy.

Although the colonial settlers practiced economic discrimination within the Kenyan coffee sector, they nevertheless played an instrumental role in creating institutions for the structure of coffee production in Kenya from the 1900 to about mid-1950s. However on
the consumption side, neither the colonial coffee growers nor the post-colonial economic policy were sufficiently targeted for the expanding domestic market (Kenya European Commission, 2004). It was not be until the Mau Mau uprising beginning in 1952 that Kenyans began to control most coffee production in Kenya, (Pendegrast, 1999).

Killick (1983) posits that the Kenyan colonial government in the pre-independence years was crucial in building and facilitating the support structures by protecting and promoting the Kenyan coffee standards abroad. The importance of maintaining the coffee quality and keeping the cost low was paramount especially during the expansion phase, because many of the newcomers to the industry (local Africans) in the domestic market were still undergoing a steep learning curve, and in addition the lack of infrastructure development in terms of roads, technology, and cooperative banks justified the need for a single institution like the KPCU to bring together the various coffee farmers and the disparate versions of coffee quality under one institution without compromising the growth of the sector.

The purpose of KPCU was to offer cost effective processing of coffee and to auction the processed coffee on behalf of the farmers. This was done by pooling the coffee produced from the various parts of the country and processing it at designated local KPCU processing stations. By doing this economies of scale were achieved and the high quality of Kenyan coffee maintained as coffee production, processing facilities and payment networks expanded, so too were the benefits enjoyed by the multitude of the new small-scale farmers.
Most Kenyan coffee is grown from Mount Kenya to areas near Nairobi, the capital of Kenya, and at the border with Uganda to the west. With the high altitude, warm climate, and fertile soil, these regions are well suited for producing Arabica coffee (David, 2001). The coffee industry in Kenya is noted for its cooperative system of production and processing. About 60-70% of Kenyan coffee is produced by small-scale holders. Over 85% of the coffee is sold through auctions at the Nairobi Coffee Exchange.

Despite revolutionary changes in global agricultural production, the farming population in Kenya still continues doing farming in a labor-intensive manner, typically confined to small plots. These small farmers are languishing under deflated prices for coffee crops as markets integrate, greatly influenced by large-scale, industrialized production from the North. This has caused the coffee farmers to face new vulnerability, having been incorporated into markets in which they struggle to earn incomes that cannot sustain their households (Njuguna, Katumanga and Gareth, 2009).

The largest coffee farms in Kenya are still owned by foreign corporation, companies or individual. For example, the Kenyan largest coffee farm Mbumi coffee estate and Onyx Coffee Lab is owned and managed by a Swiss company known as The Swiss Water Decaffeinated Coffee Company. At this company the harvested coffee is washed, sundried then packed for exportation to Switzerland where the graded coffee is roasted then manufactured before it reenters the Kenyan market as a coffee brand from Switzerland (Mbataru, 2013). From independence up to 1989 the Kenyan coffee industry was at its peak producing nearly 129 million Kilograms for export. According to the
CBK records of 2006, the period after saw decline in coffee production with some years even recording half of its peak periods production (CBK ,2006).

Mbataru (2013) posits that after independence, the newly formed government adopted intervention policies that favored the economy. Consequently, parastatals and marketing boards were set up to oversee the production and marketing of most cash crops and other production sectors that were fully financed and controlled by the government. In the agricultural sector, the control was on the production part of what, how and where and eventually where it would be marketed. Cooperatives and the Kenya Planters Cooperative Union (KPCU) heavily organized coffee plantations and marketing. This economic model worked for the first fifteen years but from late 1970's and early 1980's, it was evident that economic growth had not only stagnated but they were clear indications of a spiraling downward trend. However, this problem was not unique to Kenya but a common phenomenon to many young African nations then.

Olukoshi (1998) notes that as a response to the economic challenges and state directed economy, Kenya was encouraged by the World Bank to liberalize the sector through the Structural Adjustments Programs (SAP). The idea was to increase free competition. These programs aimed to liberalize markets and cut back on state intervention in the economy, enabling the private sector to be a competitor in the coffee production. As a consequence, the government removed its regulation and support mechanism to the coffee sector, thus causing direct and harder exposure of producers to stronger competition on the globalized market.
Rono (2002) argues that SAPs not only failed to achieve their target, but led to high income inequalities, inflation, unemployment, declining agricultural output and other negative impacts. Another immediate effect was felt when all subsidies in chemicals and fertilizers were scrapped meaning that production cost increased as farmers absorbed all the cost. Also the trade treaties like the ICA were scrapped hence removing cover for the coffee producers. Countries like Vietnam and some part of Asia entered the market with massive production flooding the coffee market. This hit Kenya as the coffee farmers were left with huge costs of productions without the global demand to cover for that.

By 2004 the coffee crisis had caused some farmers to replace their coffee plantations with other crops. This had negative consequences on the quality and quantity of the Kenyan coffee production. The Kenyan coffee industry is still recovering from this crisis, which asks for the rehabilitation of the growing zones and the improvement of both quantity and quality of coffee produced. The deregulation of the production system that Kenya went through in the form of liberal formation of cooperatives is an important aspect of Neo-colonial programs since the sector was inherited from the colonial government (Mbataru, 2009).

Karanja (2002a), points out that the proportion of production by coffee farmers has been on the decline especially the large plantations in the growing areas of Kiambu County that borders the capital city, giving way to housing developments projects. While demand for Kenya’s coffee remains high due to its blending properties, a coffee farmer here is unable to supply this quality due to a myriad of challenges. Furthermore, land under
coffee is slowly dwindling as farmers abandon the crop in favor of what they view as more profitable ventures. This problem is acute especially around Nairobi’s Kiambu road area where most land previously under coffee are disappearing, to be replaced by real estate development.

2.3.3 Neo-colonialism and Coffee Marketing

Marketing is a management philosophy according to which a firm's goals can be best achieved through identification and satisfaction of the customers’ stated and unstated needs and wants (Baker, 2008) The major marketing constraints in the agricultural sector include high transportation costs due to dilapidated roads, inappropriate handling, poor storage facilities and wastage. These result in oscillations in both productions and incomes. Promoting marketing of agricultural produce will require the government to provide all-weather rural access roads, improve communication facilities and market information systems among others (Marocchino, 2009).

Shepherd (2009) states that since the departure of the white farmers, the Kenyan coffee traders have been victims of a warped marketing system that hardly auctions their coffee based on quality. Today it is run by a cartel of coffee barons who have established a rigged marketing system, which heightens unsanctioned prices along the chain. This coffee barons are just but a shadow of the international coffee traders who are in control of Kenya’s coffee through ownership of dealerships, marketing agents, mills and farm-management companies. The coffee network in Kenya is massive and well lubricated. At the top of the list are the major global coffee-buying companies and roasters such as the
US’s Starbucks and Stump town, Germany’s Neumann, Swiss’ Nestle, Kraft, Sara Lee, and Procter and Gamble. The problem is that foreign traders have vast market knowledge and they therefore box out the local coffee farmers.

A range of institutions, chief of which was the Coffee Board of Kenya (CBK) established in 1933 by the GoK (Government of Kenya), controlled coffee marketing under the colonial government. CBK as an institution was empowered to issue licenses for the growing of coffee in designated areas, to authorize coffee dealers, to approve the operation of coffee marketing agents, coffee millers, auctioneers, warehouse man and coffee packers. In addition to these duties the CBK also regulated coffee quality and promoted the industry at the international export market. The KPCU was the first commercial institution established to serve the interests of coffee farmers from across the country. The KPCU members consisted of small, large, European and non-European coffee farmers. KPCU is an institution owned collectively by all coffee farmers, whether small or large estate operators (CBK: Coffee Traders Licensed Dealers, 2007).

Small-scale farmers are by law required to belong to a co-operative society, marketing institutions, which supervises production process and market the produce. Co-operative societies are the major channel that markets coffee from small-scale farmers in Kenya. The co-operative movement is governed and controlled by the government and for a long time, it has been the only channel through which small-scale farmers could market their produce. While the cooperative movement is the bedrock of coffee farmers in Kenya, it is
also an arena of challenges that impede the development of the coffee sector in the country (Karanja & Nyoro, 2002).

One of the main ways in which the coffee sector was regulated in Kenya was by fixing price and output quota through central planning. Often farmers tend to expand their production beyond the gazetted area when coffee prices are high and subsequently substitute coffee to other crops when coffee prices are low (Karanja & Nyoro, 2002). This did not only make the regulation of coffee production and prices ineffective, but it was also detrimental to the quality of coffee that was produced because of the cross use of land for different crops, made coffee plants yield lower quality cherries. Added to this, the channels of communication between the central institutions and the farmers were not highly developed for the farmers to respond to the predetermined price and output information in timely fashion. As a result often the farmers over-produce when the global prices are low and under-produce when the global prices are high (Kenya European Commission, 2004). As a consequence the farmers were not able to enjoy the best prices offered by the global coffee market (Karanja & Nyoro, 2002).

With the liberalization of the industry in October 1992, the government transferred the marketing of coffee from the Coffee Board of Kenya to the KPCU. KPCU was established in 1937 with the main objectives and roles being to enable farmers improve their yields, quality and returns on their coffee. But as time went by, leadership wrangles characterized by mismanagement, corruption, nepotism and political interferences led to the collapse of this giant organization (Swynnerton, 2004).
In 2006 the new government chose to liberalize the coffee marketing by stripping the Coffee Board of Kenya from being the sole marketing agency for coffee. This curtailed the coffee barons who had mismanaged the coffee industry for a long while. The Government also introduced direct sales so that farmers could sell their produce to any coffee mill, stripping the KPCU of its monopoly status in the milling business (Stefano, 2009). In a liberalized environment, coffee farmers are able to receive payments in US dollars, access buyers’ directly in overseas markets through the auction and choose where to mill their produce. But this is where the era of Neo-colonialism story begins.

With the collapse of KPCU, many coffee farmers affiliated to this co-operative society suffered major financial loss. There was disruption of importation of such inputs such as fertilizer for farmers. Individual farmers were not able to import inputs cheaply from the world market due to lack of economies of scale (Stefano, 2009). They also had a challenge of processing their produce and at the same time also marketing their produce. These challenges have had a net effect on coffee farming in Kenya by reducing the coffee traders’ incomes and thus pushing them to the edge of poverty.

Kenya has often failed to secure fair prices for her coffee, which is its primary export commodity, and one of its key sources of income (Stefano, 2009). This is because Kenya has little control over the foreign capital market as it is predominated by the large single economy. For many years, inflated prices for the imported consumer goods have affected the Kenyan economy. Profit maximization in the manufacturing industry has always been
highly regarded as the basic business principle. These profits made by the multinational companies are predominant in the trading and manufacturing of the coffee products.

Around 400 billion cups are consumed per year, most of which are sold in Europe where drinking coffee is an integral way of life. Demand for coffee in the Middle East countries as well as in newly industrialized countries like China is increasing. As such, coffee is crucial to the economies and politics of many developing countries among which is the 21st coffee producing country, Kenya. It is to be noted that, according to ICO, in the 1990s coffee producing countries earned US$10-12 billion per year while the value of retail sales in industrialized countries was about US$30 billion. In 2002, the sales exceeded US$70 billion but coffee’s producing countries only received US$5.5 billion per year. In 2010, the exports nearly reached US$18 billion while total consumption amounted to US$100 billion through retail and food services for 2011 (Swynnerton, 2004).

Daviron & Ponte (2005) argue that the global coffee market is currently plagued by two paradoxes: a coffee boom in consuming countries, and a coffee crisis in producing countries, characterized by oversupply of low quality coffee and shortage of high quality coffee. Therefore, the challenges of the coffee sector in Kenya are twofold: to improve quality on the international markets; to secure supplies in order to satisfy the demand in coffee and fully benefit from their product from an economical point of view.

International Coffee Organization (2010) notes that coffee market often displays price volatility, which is deeply felt, by the suppliers or the producers but the same is not
conveyed to the consumer, as their prices remain relatively the same. ICO further notes that between years 1990 and 2008, due to over production, coffee bean prices on the future market fell by 57 percent while retail prices in the same period dropped only by 10%. The reason behind this is noted as a marketing strategy devised by roasters and other middlemen to cushion retailers from constant price volatility and also enhance the said cartels to maximize optimally from any over-production experienced. While growers are languishing in poverty, roasters and international coffee industries dealing in canned coffee are reaping record profits as they take advantage of the low prices and technology.

2.3.4 Neo-colonialism and Coffee Financing

Several factors can be attributed for the decline in coffee prices. The dismantling of the International Coffee Agreements', price regulation, a fluctuating market, and the exploitation of market power by roasters and retailers. In addition the rapid supplier growth with not enough demand and policies implemented by the World Trade Organization (WTO) and the International Monetary Fund (IMF) has also negatively impacted the industry (George, 1990).

Price volatility in futures markets (New York and London) occurs because of certain trigger signals that may or may not have to do with expected supply and demand of coffee. For example, uncertainty in the US economy encourages investors to flee from US currency and invest in the commodity market to hedge against inflation, which forces commodity prices up. This highlights the disjoint between prices and real supply and demand fundamentals. Since investment funds have increasingly traded in commodity
markets and perform on the basis of trend following, price swings in commodities have been magnified, having the greatest effect on those who do not have access to hedging instruments – the rural farmer (Farnworth and Goodman, 2006).

The international coffee agreements supported coffee prices above market levels, and as far as many coffee-exporting countries were concerned this was the major purpose of the agreements. With the ending of controls when the agreements collapsed, the prices of coffee went down by the early 1990’s. This affected the farmers who could not maintain their cost of production. Weis argue that the structure of agriculture in developed countries has implications for farmers in developing countries. The multilateral trade negotiations, on the other hand worsen the situation even further. Global markets have seen intense pressure due to the subsidies provided by the USA and the EU to their farmers (Weis, 2007). The agro-based subsidy regimes in these countries have a destabilizing effect on the unsubsidized Third World smallholders, who cannot possibly compete with underpriced agricultural from abroad. These countries not only have control over input and output sides of agriculture, they also have the capacity to rewrite, in their favor, the rules of the multilateral trading system under the WTO. In addition they can affect national-level regulation and subsidy regimes, setting their sights on a supranational constitution that would expand market access, impede national supply management systems and price supports. All these measures have detrimental effects on the fate of the small farmers from developing countries.
The lack of restrictions on international investments by multinational corporations force countries to compete against one another in a "race to the bottom," lowering wages in order to maintain business. The corporate products that have the lowest price and highest profitability on the world market win out, often devastating the economies and communities in smaller, poorer countries. Speculators in New York City (who trade up to ten times the amount of coffee that is actually produced each year) trade most coffee. While the coffee farmers are living off their savings, these multinationals profits seem unstoppable. This is attributed to the fact that they have high levels of brand loyalty and command a market dominance of their products (Farnworth and Goodman, 2006).

Due to the effect of the Structural Adjustment programs pushed for by the IMF and World Bank on Kenya, Coffee earnings has been adversely affected by the reduction of the world prices as production outstripped consumption leading to a free market economy since the 1970s. This price drop led to the suspension of the coffee quotas by the International Coffee Organization (ICO) in 1989 allowing the foreign companies such as the US’s Starbucks and Stump town, Germany’s Neumann, Swiss’ Nestle, Kraft, Sara Lee, and Procter and Gamble to take advantage of the coffee farmers by ruling the world market and determining the farmer prices, by paying as little as six per cent of a cup price. This system has been heartless with little interest in the welfare of the Kenyan coffee farmers (Patel, 2007).

Financial institutions like the Co-operative Bank, the Union of Banking Sections, foreign and local dealers emerged to seize the commercial opportunities within the coffee sector
by offering lending and investment financial products (Johnson, Malkamaki & Wanjau, 2005). In the 90’s several initiatives under the world-bank group were made to support and promote the coffee industry in Kenya while the CBK offered and consolidated under their rules facilities and advise on stock management. Swynnerton, 2004 cites two of the most notable initiatives under the World Bank group have been the Second Coffee Improvement Project (SCIP II) and Stabilization of export (STABEX) funded projects. SCIP II was negotiated and signed in October 1989 between the Government of Kenya (GoK) and the International Development Agency (IDA) of the World Bank. The objective of the project was to increase the incomes of smallholder farmers and small/medium coffee estates through increased production and improved coffee quality. It was also aimed at increasing foreign exchange earnings, create employment and strengthen institutional capacity in key participating agencies.

Coffee factories development scheme (CFDS) component remains one of the most contested project under SCIP and its main objective was to provide funds to coffee societies to develop and improve their coffee processing factories (Swynnerton, 2004). The justification of increasing processing capacity at a time when coffee production was declining was an injustice to the farmers. It is no wonder that a big proportion of outstanding debts in the coffee co-operatives is associated with CFDS.

Shepherd, 2009 points out that the world coffee market is dominated by four multinational corporations: Kraft General Foods (owner of Maxwell House and other brands), Nestle, Proctor and Gamble (owner of Folgers and other brands) and Sara Lee
(owner of Chock Full O'Nuts and Hills Brothers). In an unregulated market, such large corporations were able to control the price of coffee-as they purchased more products, prices skyrocketed (Shepherd, 2009). After the auction in Nairobi, the Kenyan coffee makes its way to the New York Coffee, Sugar and Cocoa Exchange (CSCE) where most world Arabica coffee is sold. In the market, the Kenyan coffee is Colombia Mild (C) type and fetches a premium price to the foreign market brokers and international coffee traders who auction the coffee from the farmers at very low prices.

2.4 Summary and Gaps to be filled by the Study

Kenya’s underdevelopment experience in the coffee industry was not because the economy is static. Instead what is being experienced is rather, a consolidation of subjection to the power of capital. It means a continuation of the structure of exploitation and domination as the prices are determined by powerful economic interests in Europe and North America the big industry players who will continue to profit from the coffee crisis.

Several researchers have delved into the coffee trade research work such as:

Mbataru (2009) in “The Coffee Crisis: Old interests, new interests and illusions of development” sought to work through the coffee value chain and analyze the strategies of stakeholders in the wake of devastating socio-economic effects of the coffee crisis. Mbataru whose work is highly referenced in my research comes close in pinpointing the coffee problem as global in scope, a situation that threatened economies painstakingly built over the years in the south. His study asks if there is emerging a society whose
economic foundations are not built on coffee: a post-coffee society which is the context of radically changing value chain.

Mwangome (2011) in the “Impact of liberalization of coffee marketing rules on the performance of coffee industry in Kenya: A survey of Coffee Farmers’ Cooperative Societies in Mathira Division, Nyeri District” assessed the impact of liberalization on the coffee farmer. The study embarked to investigate the impact of liberal marketing rule to the performance of coffee industry in Kenya with a case study of Nyeri District. The main objectives being the impact of the new liberalization of marketing rules on coffee output, farmers’ incomes, coffee prices and also make policy recommendation to the regulating authorities on coffee marketing in Kenya. His study did not provide the linkage between Neo-colonialism and coffee farming in Kenya.

Njaramba (2014) in his thesis sought to come up with the supply function of Kenyan coffee to the international market. Coffee supply in Kenya has continued to decline despite policy reforms in the coffee sector. Despite the popular belief that falling international prices paid for coffee is the course of decline of supply from Kenya. The study found out that the international prices did not have significant effect on the supply of coffee from Kenya to the international market. Rather he found out that the supply is affected by cost of inputs both in the short and long run, the cost of moving coffee from the farm to the market, weather and the policies employed by the government.

Gathura (2013) carried out a study to determine the factors affecting Small-Scale Coffee Production in Githunguri District, Kenya. It was to determine whether marketing factors,
finances, government policies and physical and human resources affect coffee production in Githunguri District. Researcher established that marketing factors, finances, government policies and physical and human resources greatly affected coffee production.

From the above researchers work there is clear indication of an ailing coffee sector as the effects of liberalization appear to not have been successful. The main argument that this research aims to bridge the gap is that Neo-colonialism through liberalization programs within the coffee sector of Kenya have largely focused on the neo-classical free market economic policy prescriptions with little or no attention to the institutional arrangements and conditions faced by the beneficiaries prior to implementing the program. The transition to free market economics has resulted in a disappointing set of outcomes such as increase in the cost of processing of coffee and a decrease in the share of income received by the farmers.

For this Research the study is cognizant that the coffee trade policy in Kenya, governance and most of its domestic affairs are shaped by the intense interaction between several international and domestic actors with foreign linkages. Most coffee dealers are intermediaries of overseas coffee buyers; as such, their interest in the trade of coffee is to fulfill their contract with the roasters abroad in terms of quantity and quality agreed. Kenya is an active participant in the regional and global trading agreements that has been viewed by local economies to be highly detrimental to its own economic development due to unfair playing field more so with the western partners.
2.5 Conceptual Framework

Guy Martin argues that Neo-colonialism results from a mutually beneficial alliance between former colonial masters and the ruling African elite (Martin, 1985). This definition of Neo-colonialism captures how former colonial masters create system of domination and exploitation of African economies by installing favorable domestic leaders. Consequently this study utilized a three dimensional criteria of factors that are measureable to analyze how Neo-colonialism hinders the coffee trade in the selected case study. These include economic, political and financial influence on the coffee value chain: production, marketing and financing. Within this framework the study will focus on the direct and indirect interventionist policies of former colonial powers. Despite these shortcomings the above selected criteria is key to gaining a general understanding of the threat that Neo-colonialism pose to development on the continent.

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CHAPTER THREE

3.0 DATA ANALYSIS-IMPACT OF NEO-COLONIALISM ON COFFEE PRODUCTION

3.1 Introduction

This chapter presents a detailed analysis of findings on coffee production. The data collection and analysis is aligned to the study objectives and falls within the broad categorizations of coffee production, specifically on inputs’ costs, farming technology, product quality, land acreage and climate change. The analysis was guided by the dependency and world system theories to provide linkages between neo colonialism on coffee production and how it has hindered coffee growth and trading activities in Kenya. To this end, this section presents findings from the global, regional and the Kenyan perspectives.

3.2 Neo-colonialism and Coffee Production

Neo-colonialism on coffee production in Kenya is exhibited in the distortion of coffee prices in the international markets which translates into low level of productivity and production. Various studies (Sahn et al., (2013); Kherallah et al., (2012); Barrett and Mutambatsere (2014); Diao et al., (2014); and Anderson and Masters (2009) emphasize that in Africa one of the key issues for the food-import dependency has been the weak supply response of the domestic market.

Key economic policies such as the sessional paper no. 10 of 1965, and other subsequent economic policies emphasized the role that technology could play in improving
productivity of agriculture in key sectors of the economy. This however was faced by external influences such as the SAPs that caused a restructuring of national policies. In general, in the high cost of agriculture adoption by Kenyan coffee farmers can be put forward to explain the low levels of productivity amongst coffee farmers in the country. The findings assess how the effect of Neo-colonialism has impacted negatively productivity in the area of cost of inputs, quality of product, farming techniques adoption, acreage and to some extent climatic conditions. The Figure below discloses how the overall national export of coffee declined by almost 50% in the decade between 1988 and 1999.

![Figure 1: Trend of Coffee Exports in Tonnes (1989 - 1998)](image)

3.2.1 Cost of Inputs and Farming Technology in Kenya

Varqa (2008) in his study pointed out that the Kenya European commission report of 2004, stated that CBK was unable to control the production of coffee despite having a highly structured top-down approach mainly because producers and institutions had conflicting incentive structures. The producer’s incentive was to respond to prices and maximize the gain of coffee farmers in Kenya but the incentives by CBK were to respond to bureaucratic procedures of stable production and prices as outlined in the liberalization policies that promoted free markets approach in Kenya. In this instance, the government, through CBK, had limited options for protecting the coffee farmers’ interests. This is exemplified by the fact that their sole objective was to implement the SAPs in line with donor demands and expectations. The liberalization and globalization agenda hampered the development of small scale coffee farming enterprises which had limited financial resources to obtain the necessary farm inputs. Karanja and Nyoro (2002) however point out that for the coffee farmers to realize efficiency, growth and stability; controlled regulations by the government were necessary.

The figure below extracted from Okibo, B. W., & Mwangi, J. K. (2013) study on the effects of liberalization on coffee production in Kenya show that 87% of the farmers indicated that withdrawal of government controls resulted in a decline in coffee production while 13% of the farmers indicated that these changes resulted in an increase on coffee production based on the fact that farmers gained direct control without government intervention. The 87% of the respondents felt deregulation led to lack of
adequate supervision of the sector exemplified by deterioration of service provision and no extension services formerly provided by the Government. Farm inputs also became expensive and difficulty in accessing cheap credit. This findings affirm that coffee production was indeed affected adversely by the SAP led liberalization policies.

Kimathi (2015) found out that small coffee farmers in Kenya felt that the cessation of subsidies and liberalization policies imposed by IMF through SAP’s, the prices of most inputs such as fertilizers and pesticides kept increasing and were expensive for most farmers. Consequently the farmers were forced to either do without these inputs or improvise cheaper alternatives. This was exemplified by a farmer in Nyeri County who narrated how he mixed a variety of wild plants and fermented them for a couple of days to be used as pesticide. In place of fertilizer, coffee farmers depended completely on compost and farmyard manure contrary to the previous combination of the three inputs. As a result, the troubled coffee sector has experienced a net effect of poor yields, in both quantity and quality. The low quality and quantity in yield was caused by the fact that organic manure (farm yard and compost) took a long time in the soil before complete
decomposition and release of nutrients required by the coffee plants. This led to reduced output which had a ripple effect of lowering incomes and effectively denying the farmers credit facilities from their cooperatives as the crop output yield was too low to support such loans.

Njaramba (2014) found out that the cost of inputs had a correlational effect to the supply of coffee in the international market. The variables he used in his study were the cost of fertilizers, cost of manure, insecticides and labor cost. The findings provided significant evidence that farmers respond to the change in the cost of inputs negatively- indicating that as cost of input rises, the amount of Kenyan coffee supplied to the international market declines. This indicates that high cost of inputs inhibits coffee production in Kenya. The government was no longer providing subsidized fertilizer to coffee farmers because one of the SAPs policies was to minimize government intervention in the economic affairs, coffee trade notwithstanding. This untimely regulation fronted by the IMF was detrimental as it did not appreciate the fragile role that the government was playing in protecting its farmers and consequently the coffee trading businesses.

According to Hagg, 2011 technological knowledge and accumulation of capital is concentrated in the western world. This is exemplified by the fact that these countries are advantaged through their multinational arms. Kenya exports unprocessed green coffee beans and has minimal influence in the refined coffee product. Coffee multinationals have research and development departments that keep on innovating new ways of capturing the coffee consumer market. This places Kenya at a disadvantage, as there is no
technological transfer. Research institutions and Universities in Kenya lack capacity for research and innovation into coffee variations that could salvage the industry locally. They are under-funded and lacking in technical capacity to independently commission and appraise research ventures. These institutions therefore rely on the information generated from research institutions of the western world, which patent information and as such, inhibit growth of coffee industries in Kenya. Much as the coffee multinationals have presence in Kenya, there are no deliberate attempts from them to build local capacity that may enhance processing and value addition. This means that Kenya stands to lose the benefit arising from coffee trade exposure and the ‘spillover’ effects as well as the opportunity to accumulate and imitate the technology embedded in coffee products, reducing innovation and increase of productivity.

Other findings that link neocolonialism and coffee production in the area of farm technology reveal that the local coffee farmer lacks the access to technologically advanced farming techniques leading to poor yields. The same yield is expected to compete with the superior product fronted by some of the donor backed countries like Vietnam who have access to expansive technological equipment. Vietnam was funded by the World Bank to improve its coffee production industry to counter Brazil’s hegemonic influence in the coffee supply. Vietnam is now considered a key supplier of coffee alongside Brazil which skews the market as too much supply distorts coffee prices.

This unequal ownership of technology, intellectual property rights and over production has raised the value of farm inputs hence raising the price of production leaving the local
farmer with marginal profits. This has caused a lot of farmers to abandon growing the crop in favor of other economic activities (Karanja, 2002).

3.2.2 Quality of Product and Land Acreage in Kenya

The long run effects of policy distortions that the coffee sector in Kenya has endured include the persistent efficiency loss in misallocation of resources. As Coe and Helpman (2012) found, endowments such as labor and land that have been left idle or unproductive for a long period because of lack of coffee market opportunities may take a long time to adjust to new improvements in the market. Due to the liberalization policies, a lot of underhand dealings were experienced in the coffee trading sectors especially in the cooperative societies. Cartels and unscrupulous dealers who represented the interests of foreign buyers undercut the prices of coffee leaving farmers with no recourse but to abandon coffee farming altogether. As a result, land was used for other lucrative crops such as subsistence farming. Mixing coffee with other crops altered soil acidity levels reducing the quality of coffee berries harvested.

Mbataru (2008) noted that complicating the problem of high cost of inputs is land fragmentation. In Nyeri, the average land acreage was 1.5 ha in 2008 and continued to be subdivided by the day. Decreases in coffee farms have been witnessed over the last decade. These could be attributed to neglect of farms and uprooting mainly as a result of the slump in coffee prices and competition from other farm enterprises. Since coffee farming is no longer profitable, farmers previously in the coffee industry have opted for other lucrative businesses including pig and poultry farming. These enterprises are
prolific and have high turn-overs compared to coffee farming. In addition, traditional coffee planting areas are being affected by population explosion in major towns. Regions such as Kiambu and Muranga have witnessed mass influx of people in recent years. Coffee farms are therefore being cleared to accommodate population spill-overs from cities such as Nairobi. Coffee estates are slowly becoming investments for real estate business which is offering very high returns compared to the coffee trade.

Kimathi (2015) analyzed that even with reduced land available for coffee farming, most coffee farmers have not sufficiently embraced high yielding varieties that can be grown on smaller pieces of land yet produce higher yields. She cites that the small scale coffee farmers continue to plant the traditional varieties of Scot Laboratory (SL) 28 and SL 34 which were introduced before independence. These varieties do not yield high returns, require a higher acreage, not drought resistant and are not resistant to coffee berry disease and other pests. While in the late 1980s, farmers did not embrace the new breed, Ruiru 11 citing its inferior quality to both SL 28 and SL 34. The farmers observed it would fetch lower prices in the coffee market despite the breed being resistant to coffee berry disease and leaf rust. Most of the foreign roasters and buyers of Kenyan coffee have expressed concerns about the deteriorating quality. This is because similar varieties have been planted over the years, without much improvement in productivity and quality. Growing similar varieties of coffee over the years, owing to the farmers’ limited financial resource base, have led to depletion of soil organic matter thereby reducing the nutrients available for effective coffee production. Depleted soil nutrients take several years to replenish and therefore the capacity of these soils to support production is compromised.
The availability of reliable marketing intelligence to disseminate to the coffee farmers has been lacking and where available the quality has been wanting. Without a dynamic and competent research component within her coffee production ranks, Kenya is unable to meet the ever changing consumer preferences and international market demands. As earlier noted in this study, research and development departments have no presence in Kenya even though the coffee multinationals have a strong presence locally. The dynamic consumer preferences are increasingly becoming more complex than they were in the past with most of the global market players seeking after any supplier who is able to meet their requirements for timeliness and quality. As a result of this Kenyan coffee production is impacted negatively if quality is not improved to rhyme with the changing consumer tastes and preferences. Kenya therefore loses market to nations such as Vietnam and Brazil which grow coffee of superior variety.

The improvement of quality are crucial to sustain coffee consumption in the long run, add value to the end product and ensure compliance with international food safety requirements, thus contributing to a healthier equilibrium between global supply and demand. The bottom line is that consumers will drink more coffee if the quality is good, an advantage to the coffee trade in Kenya. This can be done through: disseminating awareness of marketing and preparation methods appropriate to high quality coffee; improving cultivation, processing, storage and transportation practices; and through protection against pests, diseases and contamination during storage (UNCTAD, 2010).
3.2.3 Climate Conditions and their Impact on Coffee Production in Kenya.

Since early 1920’s, there has been clamor for industrialization in the world as they mushroomed in Europe and America. These industries have continued to emit huge quantities of carbon, a greenhouse gas that heavily contributes to global warming and climate change. As such, world climate is rapidly changing. Over the last two decades, there has been a steady increase in temperature, rise in sea levels, fall in rainfall amounts and worrying cases of food insecurity and livelihood losses, especially in Africa and the tropical countries, Kenya being one of them.

Rising temperatures have adversely affected farming activities in Kenya. In the last decade, Kenya has witnessed a sharp drop in coffee yields triggered by proliferation of disease vectors and pathogens which destroy coffee trees while at the production stage, negatively influencing total coffee output. Besides, shortage of rainfall and weather patterns have limited the production capacity of coffee and altered farming calendars. Therefore, there is a great impact felt in Kenya’s coffee industry as a result of industrial activities taking place in Europe, America, and lately China and Japan. Even though there are international treaties such as the Kyoto and Montreal Protocols that regulated the amount of carbon that industrialized nations could emit, these western nations have rarely adhere to them.
CHAPTER FOUR

4.0 DATA ANALYSIS – NEO-COLONIALISM ON COFFEE MARKETING AND FINANCING

4.1 Neo-colonialism and Coffee Marketing Activities in Kenya

The study sought to determine the impact of Neo-colonialism in the Marketing activities of coffee trade in Kenya. In line with the coffee act of 2002, the marketing of coffee was liberalized to be no longer monopolized by the Coffee Board of Kenya though it still retained influence as a regulatory body. Several marketing agents were licensed as part of the liberalization process. According to Chokera (2011), 76.2% of the marketing agents companies in Kenya are multinationals under the influence of vested interests that affect coffee trading in Kenya. He further alludes to the fact that various strict requirements associated with selling at the international market, present barriers to marketing and higher revenues for coffee farmers. The issues that neocolonialism pauses to marketing Kenyan coffee to the global market revolve around competition, costs and market volatility.

4.1.1 Competition in Kenyan Coffee Trade.

Kimathi (2015) found that coffee liberalization did not open avenues for the Kenyan coffee farmer to access direct market. It was expected that liberalization would provide direct linkages to buyers or representatives of the multinational companies in Kenya to the farmers. The farmers had a strong belief that if they could access the international buyers then they would eliminate the middle men who had for a long time manipulated
the coffee prices. However coffee trade liberalization was still elusive in that it continued to be controlled largely by the local middlemen with vested interests of the multinational corporation. Some of these middlemen were subsidiary agents of the multinationals. As a mitigation to this GoK in 2006 attempted to rejuvenate the coffee sector through the introduction of direct marketing dubbed the “second window”. This was meant to do away with the middlemen who controlled the coffee trade in Kenya. Nonetheless this attempt has not borne considerable results. The lifting of preferential treatment by the Kenyan government as recommended by the IMF and World Bank increased uneven competition as the Kenyan coffee industry was now competing with the major global coffee producers. In addition the lowering and harmonization of tariff barriers on food consumables resulted to affecting coffee industry in equal measure.

According UNCTAD (2010) the severe frost of 1994 in Brazil led to price increase by 118%. Notably coffee farmers all over Africa including Kenya experienced a boom in the coffee trade, as the product was sold at a record high. Interestingly worth noting is that when Brazil replanted, by 1999 its production had risen by 35% compared to 1994. And the prices for coffee had dropped by 38% indicating the uncontrolled/liberalized market period was characterized by greater price volatility than under the regulated market. Vulnerability is also enhanced by the relatively high degree of dependence that the world coffee supply has on Brazil.

Swinnen (2009) found out that western countries have quality protection barriers that increase the competitiveness among developing nations. This western culture was meant
to control, manipulate and rip big from the coffee trade with the developing countries. In Kenya, unlike other developing countries the policies that governed coffee farming and marketing are un-harmonized which results to low production of coffee never witnessed over the past years. As a result farmers have abandoned the coffee farming. Due to weak policies in developing countries as illustrated in the Kenyan case, the western countries continue to benefit from maximization of profits as a result to uncontrolled market mechanisms.

4.1.2 Costs of production and the Kenyan coffee trade

Coffee production costs have escalated in the recent past mainly due to major increases in the cost of purchased farm inputs and the reducing coffee yields. Currency devaluation, inflation and inefficient input markets have been some of factors behind the increase in costs. Poor road infrastructure also has significantly contributed to the costs of inputs due to high transport costs. Mwangome, (2015) in his study pointed out that disease and pest control are a major cost center estimated to account for 30-35% of total variable costs of coffee production. Coffee Berry Disease (CBD) and coffee leaf rust, which are the major coffee diseases, can cause crop loss of up to 80% if uncontrolled. However, the prices of fungicides used to control these diseases have also increased significantly in the last decade. Studies done by CRF have shown that, over 70% of smallholder farmers have abandoned the use of fungicides or use of them sub-optimally, citing the high cost. In addition there have been increased cases of substandard pesticides in the market whose use could even cause destruction of coffee trees. Because of the liberalization policies the
government removed subsidies for farm inputs to the farmers. Consequently most of the farm inputs that made their way to the Kenyan market were manufactured by the western countries and sold to the local farmers at an uneven pricing with the aim of profiteering the western based companies.

Njaramba (2014) also studied how the cost of handling coffee was used to capture the effect of middlemen, infrastructure, cost of transportation and marketing from Kenya to the international market. The above variable were found to be statistically significant at 5 percent level and negatively affected the coffee supply. This meant that as the cost increases, the amount of coffee supplied reduces. The study asserted the fact that production costs are inversely related with supply. This is in agreement with this thesis report in that middlemen who are representatives of multinationals corporations distort the market for coffee: Where middlemen are involved, the coffee distribution chains become unnecessarily long thereby increasing the ultimate consumer prices.

With regard to production, effects are likely to differ considerably among countries. However, whatever the response, there appears to be no change in the underlying reality of the world coffee market: prices remain at levels that do not reward much-needed investments in future production. All costs incurred during coffee marketing as mentioned above have a correlation to Neo colonialism. Before 1989 the GoK controlled the inputs markets and distribution channels for fertilizers, after liberalization policies the industry was privatized and is currently dominated by foreign private companies who control the distribution channels using middlemen who have minimal interests to the
farmer. These middlemen as pointed out earlier in the study are pawns of foreign owned coffee trading companies who lengthen the distribution chain, consequently hiking prices of farm inputs beyond the reach of ordinary coffee farmers.

4.1.3 Market Volatility and Neocolonialism on Coffee Trade in Kenya.

Joseph Stiglitz (2006) states that part of the reason that international trade agreements have been so unsuccessful in promoting growth in poor countries is that they were often unbalanced: the advanced industrial countries were allowed to levy tariffs on goods produced by developing countries that were, on average, four times higher than those on goods produced by other advanced industrial countries. While developing countries were forced to abandon subsidies designed to help their nascent industries, advanced industrial countries were allowed to continue their own enormous agricultural subsidies, forcing down agricultural prices and undermining living standards in developing countries.

The coffee industry in Kenya is characterized by intricacies since there are so many vested interests by local and external parties. The privatization of the coffee industry has been slowed down due to the many determinants seeking to influence domestic policymaking. The handing out of licenses for coffee marketing to increase the number of agents has been marred by claims that powerful interest groups outside the country back such companies (Okibo and Mwangi, 2013). The former leads to skewed policy making that favors foreign interests over interests of domestic coffee farmers To become a marketing agent, the licensing process is marred by corrupt and uneven dealing as it’s a reservation of an exclusive group of a select few fronted by the local representatives of
foreign traders. As a consequence this has resulted to uneven and unfair trade during the coffee auction.

A key component in the response of Kenyan coffee traders would be the exchange rate policy as devaluation of the US dollar in recent years has had a major impact on profitability. On one hand, producers in countries with currencies not linked to the US dollar, such as Vietnam, were able to take advantage of higher prices on the international market Chokera (2011). In Kenya however, where the currency is more directly linked to the US dollar, the impact of price fluctuations on the terminal markets were directly transmitted to coffee traders specifically the growers. The currency movements have become a driving force in the price behavior of futures markets for many commodities, and coffee is no exception.

Taylor (2014) observes that with respect to the balance of payments, earnings by coffee producing countries Kenya not withstanding slumped by more than 50% implying losses in earnings in excess of US$30 billion. The way the coffee supply chain in Kenya operates means that small farmers usually capture less than 10% of the retail price of coffee. On the other hand, the study noted that the coffee market in industrialized countries continued to be relatively healthy with steadily rising retail sales, particularly in terms of value. This affirms to the study that global markets do have an undue advantage over the coffee trading in Kenya in that they access cheap unprocessed coffee beans and sell them at a premium rate in this market. This points out to the angle where neocolonialism tendencies take precedence in the way they behave in this Kenyan market segment.
4.2 Neo-colonialism and the International Financial Systems

Sessional paper no. 10 of 1965 advocated for the development of a mixed economy based on African socialism. In actual fact the Kenyatta state encouraged a combination of both domestic and foreign private enterprise, while at the same time promoting large investments in the public sector corporations as well as in physical and social infrastructure. The presence of large amounts of foreign capital in the country created a strong incentive for foreign groups to take interest in domestic politics. Such interest included active intervention in political processes and policy making and/or payment for bureaucratic favors or political elites/kleptocracy. (Arkadie, 2002). The latter however
has led to widespread corruption during coffee marketing. The fact that foreign financing of coffee is not controlled by the government points to an inadequate legal, policy framework to address these challenges. Aid agencies such as foreign governments and international financial institutions have increasingly been characterized by promotion of agendas that at times disadvantage the receiving states (Okibo & Mwangi, 2013). Such agendas such as the market liberalization and SAPs have led to long-term negative effects on coffee farming in Kenya, as they clip the local policies that govern coffee production.

4.2.1 Capital, Financial Systems and Access to Credit and Neocolonialism in Respect to Coffee Marketing and Production in Kenya

According to Barrett & Mutambatsere, (2014), macroeconomic policies have unambiguously impacted Africa’s coffee productivity because the agricultural sector has been deeply entrenched in African economies. Market liberalization has also lead to the formulation of donor pushed domestic policies that offer little protection to farmers. The revision of the Coffee act in 2001 is a case in point as it led to extensive privatization and ended the CBK monopoly in marketing of coffee in Kenya. SAPs also lead to devaluation of currency, reduction in tariffs and other conditionality’s that have negatively impacted the sale of coffee in Kenya (Okibo & Mwangi, 2013).

At the international level there exist some requirements of sale that have also hindered the coffee industry. These include export licenses, minimum volume and quality consideration that act as bottlenecks to coffee traders. Such conditionality has also limited the ability of small-scale producers to access revenue and credit facilities. For
instance, in Kenya following the currency devaluation, which was aimed at increasing export competitiveness, the production and productivity of many export products including coffee suffered while the prices of imported inputs (fertilizers, insecticides) rose harming productivity of crops such as coffee. These arguments based on price incentives, trade and technology spillovers offered useful explanations of the contribution of various policies such as liberalization has to the current state of coffee trading in Kenya.

Karanja & Nyoro (2002) in their study revealed initiatives that have hampered smallholder coffee development in the country in the last decade. Two of these initiatives were SCIP II funded by the World Bank and STABEX. SCIP II provided smallholder farmers loans for input credit, advance payments, factory development as well as for training before the project ended in 1998. Some of these project components particularly factory development were unsustainable. It’s a wonder that the World Bank would fund for factory development when the sector was reeling under low coffee production due to declining coffee prices at the global market. This clearly points to how these World Bank policies despite their good intention were not provided at a conducive atmosphere to encourage positive growth of the industry. As a result, these measures contributed towards increasing the indebtedness of coffee societies through high deductions (low producer share) by co-operative. Some of these debts are estimated to be standing at Ksh. 4.2 billion of which Ksh 550 million are bad debts. The high debt portfolio in the coffee cooperatives have acted as a disincentive to coffee production as the loans are only paid by the few farmers who remain in coffee production.
Source: Karanja and Nyoro 2002 - Smallholder coffee production trend

According to Croser and Anderson (2010), economic policies in western world were guided by taxation of processed over unprocessed commodity at the expense of poor coffee producers. Tariff escalation in the international market limits developing countries’ market access and discourages the food sector in Africa from exporting processed food. Developed countries in the west have ring-fenced their economies with high tariff and protection barriers. This has reduced the amount of exports that the developing world can export to these countries. For example, this study found out that
Kenya can only export green unprocessed coffee beans to Europe at a tax-free rate. However processed goods are slapped with a hefty rate which reduces the incentive to trade with value added goods, African countries are consequently left with little choice but trade in primary goods which have minimal returns.

Kimathi (2015) found out that coffee farmers identified challenges like lack of farm inputs and credit facilities as rating highest at 28%. They cite that they are not privy to price setting and are forced to wait for at least four to five months after delivering the produce to factories for payment. As a result of these challenges, farmers have continued to realize low yields and profits from coffee growing, sometimes, going without pay in spite of them delivering coffee to the factories. To mitigate the challenges they face, farmers try to maximize on the various forms of capital at their disposal, however little, to be able to increase their income from coffee and reduce their vulnerabilities.

Horticulture farming was never taken seriously until the collapse of coffee economy and its currently number two after dairy farming in terms of alternatives to coffee farming.

Karanja & Nyoro (2002) in their study state that liberalization of the coffee industry in line with the SAPs guidelines, CBK was required to conduct the Nairobi coffee auction in US dollars. Gradually permission was given for coffee farmers to be paid in dollars to make it possible for farmers to benefit from currency gains while providing them with a platform to participate in foreign exchange dominated trade. Due to the overvaluation of the Kenya shilling prior in 1992, exporters of commodities like coffee had a heavy indirect tax. The overvaluation of the Kenya shilling in 1992 resulted in coffee farmers
and other agricultural exporters carrying an implicit tax burden of 29% exposing the coffee farmers to price volatility.

In addition the study found out that the Kenyan coffee sector consists of large number of smallholder farmers who need assistance to: strengthen grass root organizations and build up the capacity of coffee sector institutions; develop their capacity to compete in the market; obtain access to commercial credit and technical information; cope with price volatility and other risks through appropriate financial instruments; to generate any consequential benefits to the coffee traders in Kenya.
CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, a hypothesized summary of derivatives, findings, that will build up to a conclusion and recommendations shall be derived from the study flow of the impact Neo-colonialism has on coffee trade in Kenya. As it has been conclusively discussed in the previous chapters, it is therefore a key move to draw a summarized plot based or rather informed by the development theories of dependency and world systems theories while at the same provide linkages of Neo-colonialism through the conceptual framework proposed which the research is based on.

5.2 Summary of findings

The thesis studied the impact of Neo-colonialism on the coffee trade in Kenya. In this study three objectives were identified: coffee Production, on coffee marketing and on the coffee financial systems. The argument in this thesis is that freeing the coffee industry from institutional constraints perpetrated by Neo-colonial rulers would result in an increase in Kenya achieving economic pluralism and subsequently higher returns to the growers.

5.2.1 Production

The chapter on coffee production was dedicated to discussing the evolution of the coffee sector in Kenya since the colonial period up to the present day. Most of the discussion
focused on the post independent regime and on the supporting institutions inherited by the post independent government of Kenya. The coffee industry suffered from constraints of colonial legacy, particularly those arising from the regulatory regime implemented by the post independent rulers in Kenya. This continued to affect the production, marketing and financial systems in the sector. Of greater influence was the IMF led SAP’s that weakened the production of coffee in Kenya as the producers did not have incentives to cushion the high costs of production in the midst of the volatile market prices that were unfriendly for their continuity. Other spillover challenges identified as a result of these SAP’s liberalization reforms were lack of farm inputs and declining quality of coffee from a global scale since most producers chose to crossbreed their farms with other subsistence crops resulting in poor coffee varieties.

As a result of the persistence of these problems, particularly within its institutions the coffee sector had to endure adverse outcomes in terms of inefficiency, governance and rising cost. The research established that the coffee sector though facing serious challenges in Kenya is still an important economic activity in terms of income generation and employment creation.

The first two decades after independence witnessed a gradual coffee production increase. It is therefore critical to dissect through this increase to ascertain the causal effects. Nonetheless, the coffee industry has been on a downward trend since the said decades except for a brief spell in 1999–2000. As a result, coffee’s contribution to incomes, employment creation and foreign exchange earnings has also recorded a decline. It is
therefore important to study the factors that contributed to this decline in production having Neo-colonialism on the sidebar. Over the years, the coffee prices have been on the rise while the production has been on the decline. With this in mind, it is therefore needful to have a look other underlying factors that may be hampering the production of coffee in Kenya such as the Lengthy gestation period between the planting of the coffee seedling to the harvest of cherries. The first harvest for a newly planted coffee tree usually takes place after two years, and optimal yields are reached two to three years later. Taking a cue from the latter, most of the older trees, at any rate, may have reached the stage of diminishing returns.

The research established that the decline in production was attributed to the fact that the farmers felt discouraged by production costs and marketing constraints which usually showed up at the farm-gate in the net price received and the domestic terms of trade. This would lead to neglect of the coffee bushes and substitution of the crop with other economic activities. To get to the root of this issue it is therefore important to take a holistic approach to look at how the value added is shared by the various stakeholders/actors in the Kenya coffee sector rather than on a singular primordial of Neo-colonialism.

5.2.2 Marketing

The thesis has explored the literature review on the impact of Neo-colonialism on marketing approaches to achieving economic growth in the coffee sector. Using the two
main theoretical schools used in this study emerge from the components of Neocolonialism are the:

i. Dependency of developing nations specifically Kenya in the coffee sector that argues the problem of lack of economic development is because of the unequal international trade pattern and;

ii. Expanding capitalist growth who argue that the lack of capital formation as the main cause for the lack of development among the developing countries in the world.

With the liberalization models fronted by IMF It is argued that there was an obsession with creating market oriented reforms in the hope that resource allocation would automatically be achieved through competition and privatization, however in many developing countries, marketing of the coffee produce, the other vulnerabilities and challenges faced in the coffee trade were also cited in the political interference at the buying center/auction center as coffee is hawked without referencing the cost of production that the coffee producers have incurred.

5.2.3 Financial Systems

Several factors can be blamed for the decline in coffee prices: the dismantling of the International Coffee Agreements' the price regulation, the fluctuating markets, the exploitation of market power by roasters and retailers, rapid supplier growth with not enough demand and policies implemented by the World Trade Organization (WTO) and the International Monetary Fund (IMF) reforms. In 2001 and 2002, world coffee
production was estimated to be about 116 60-kilogram bags, while consumption only totaled five million bags. During the 1990s, Vietnam also became a major coffee producer and exporter, increasing its coffee production by 1,400 percent, at the expense of smaller coffee producers in other countries Kenya notwithstanding.

Further, the study established that over the years, the impact of coffee has been felt in all spheres of life in Kenya. There have been backward linkages with farm input suppliers, forward linkages with the savings and credit institutions as well as political environment at the factory level.

There is a need to build marketing capacity in the cooperative sub-sector; but even if they do not eventually participate in direct sale, auction prices will rise due to the cross influence of direct sales on the auction prices, resulting in overall gain.

Improving liquidity of the coffee industry as farmers would receive payments for their coffee promptly from brokers; and enabling the development of a futures market – a major problem in the coffee industry today is price instability and lack of a mechanism to insure farmers against such developments. With a futures market, farmers would produce their coffee with an assured price.

5.3 Conclusion

Coffee sector is an important economic activity in Kenya in terms of income generation, employment creation and foreign exchange earnings. Over the years, the impact of coffee has been felt in all spheres of life. However, several underlying factors such as the effects of Neo-colonialism have been cited as some of the challenges affecting the coffee trade in
Kenya. Out of this research study, the following conclusions have therefore been deduced as a study summary;

Structural Adjustment Programmes (SAPs) weakened the production of coffee in Kenya as they scrapped off incentives that initially buffered farmers against high production costs hence reducing their profit margins in the world markets. SAPs further led to decline in quality of coffee as breeders opted for crossbreed coffee varieties. Being a vital economic activity in Kenya, reduction of coffee quality and profit margins has adversely affected Kenya’s GDP.

Liberalization by IMF has been riddled with political interference even as there are attempts to meet reforms by enhancing competition through privatization and competition. The coffee trade liberation opened up unequal ground to do business with a lot of benefit inclined towards the developed countries with the likes of Kenya grappling with uneven market tendencies. With substantially further liberalization, a different system for funding and managing research for coffee in Kenya is needed. An evaluation of alternative models should be carried out to determine options to improve outcomes.

The dismantling of the International Coffee Agreements’, the price regulation, the fluctuating markets, the exploitation of market power by roasters and retailers, rapid supplier growth with not enough demand and policies implemented by the World Trade Organization (WTO) have led to decline in coffee prices as other countries such as Vietnam bolster their production capacity in coffee farming at the expense of developing nations like Kenya.
5.4 Recommendations

This study recommends the following:

1. The government should institute incentives and subsidies to coffee farmers across the country. This will motivate even more farmers to grow coffee and therefore boost the country’s potential to compete in the global markets.

2. A coffee exchange should be established as an alternative marketing channel to take advantage of all market segments and to improve overall liquidity in the industry. With a central depository and settlement system, the exchange would be a first step towards development of a fully-fledged commodity exchange. This commodity exchange can borrow operation model from the already successful NSE.

3. Kenya should go full throttle for value addition through branding, certification, total quality management, attractive packaging, niche positioning and other creative marketing strategies, taking into consideration that the paradox of the coffee global market is the oversupply of low-quality coffee and shortage of high-quality coffee.

These recommendations may pose a great challenge to affect and their implementation may be resisted to a greater extent. It is therefore important to seek further expert opinion in form of a research to develop a system that puts farmers at the bottom of the pile and makes them bear most if not all the risks in the value chain of production, marketing and distribution.
5.5 Suggestions for Further Studies

Research gap can be defined as a research question or problem with insufficient information or limited in explaining a specific phenomenon during a study. The data on value chain costs and coffee trade in Kenya are nearly ten years old. They should be updated with various price indices, which should be anchored on some more recent direct estimates study.

In the course of this research, the following areas were determined to be non-conclusively researched on during this and the previous studies, it is therefore my recommendation that further work would be useful to this specific areas:

1. Auction to border market access costs and the link between export prices and auction prices in coffee farming in Kenya in relation to the international coffee markets;

2. More recent data on primary and secondary market access costs in the Kenyan coffee trade;

3. Evaluation of alternative marketing and financial systems, especially those which may provide more choices to producers, including an immediate payment.
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## APPENDICES

### Appendix 1. Table 1: Quantitative Data from Secondary Source

<table>
<thead>
<tr>
<th>Variables</th>
<th>Source</th>
<th>Content Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total production of exporting members in crop years [<a href="http://www.ico.org/historical.asp">http://www.ico.org/historical.asp</a>]</td>
</tr>
</tbody>
</table>
## Appendix 2: Table 2: Summary of Research Gaps

<table>
<thead>
<tr>
<th>Study</th>
<th>Focus</th>
<th>Findings</th>
<th>Research Gaps</th>
<th>Focus of the Proposed Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mbataru, P. (2009).</td>
<td>The Coffee Crisis. Old Interest, New interest and Illusions of Development.</td>
<td>Working through the coffee value chain and analyze the strategies of stakeholders in the wake of devastating socio-economic effects of the coffee crisis. The fall in quantity and prices consequently affected the livelihoods of over two million people who depended on coffee.</td>
<td>The study was conducted in Nyeri District in the context of radically changing value chain providing a perfect microcosmic mirror of the world of peasant cash crop production and the inherent paradoxes. Thus the findings did not pin point to the Neo-colonialism.</td>
<td>Current research focused on proving Neo-colonialism as the helm of coffee trade crisis in Kenya.</td>
</tr>
<tr>
<td>Mwango, K. M. (2011)</td>
<td>Impact of liberalization of coffee marketing rules on the performance of coffee industry in Kenya.</td>
<td>The impact of the new liberalization of marketing rules on coffee output, farmers income and coffee prices. The finding revealed that the effect of the new liberal marketing rules had little impact on coffee farms in Nyeri District but that coffee is fetching a higher price per kilogram than before.</td>
<td>The Study was conducted in Nyeri District investigate the impact of liberal marketing rule to the performance of coffee industry in Kenya with a case study of Nyeri district.</td>
<td>Current research focused on proving Neo-colonialism as the helm of coffee trade problems looking in totality at the full ecosystem of supply and demand.</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Title</td>
<td>Summary</td>
<td>Additional Information</td>
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<tr>
<td>Njaramba, S. G (2014)</td>
<td>Supply function of Kenyan coffee to the international market</td>
<td>The study found out that the international prices did not have significant effect on the supply of coffee from Kenya to the international market but rather supply is affected by cost of inputs both in the short and long run, the cost of moving coffee from the farm to the market, weather and the policies employed by the government.</td>
<td>The study was conducted to identify the determinants of coffee supply from Kenya to the international market. Coffee supply in Kenya has continued to decline despite policy reforms in the coffee sector.</td>
<td></td>
</tr>
<tr>
<td>Gathura M. N (2013)</td>
<td>factors affecting Small-Scale Coffee Production in Githunguri District, Kenya</td>
<td>the study established that marketing factors, finances, government policies and physical and human resources greatly affected coffee production</td>
<td>the Study was conducted in Githunguri Kiambu county to determine whether marketing factors, finances, government policies and physical and human resources affect coffee production in Githunguri District.</td>
<td></td>
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<tr>
<td></td>
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<td>Current Research focusses on proving the linkages of Neo-colonialism on the variables mentioned in Gathura's research.</td>
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</table>
Appendix 3: Coffee Map of Kenya