REBUILD
FINANCE FACILITIES

Restoring Farmer Confidence in Regenerative Coffee Production

Case study

Supported by:

Federal Ministry
for the Environment, Nature Conservation,
Nuclear Safety and Consumer Protection

IKI INTERNATIONAL CLIMATE INITIATIVE

based on a decision of
the German Bundestag

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REGENERATION
ACCELERATING NATURAL SOLUTIONS

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Regeneration is a partnership between Systemiq and Palladium International.
Regeneration's mission is to accelerate natural solutions to tackle the climate crisis.

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Foreword

The Rebuild Facility is a returnable grants facility that supports sustainable cocoa and coffee enterprises in East and West Africa by providing working capital to deforestation free cocoa and specialty coffee ventures that protect, restore, and regenerate nature.

Jointly implemented by the Palladium Group and Systemiq under the Regeneration umbrella, the Facility works with funding from the German Federal Ministry for Environment, Nature Conservation, Nuclear Safety and Consumer Protection (BMUV). The Rebuild Facility's portfolio spans 5 countries - Ethiopia, Uganda, Kenya, Ghana, and Cote d'Ivoire.

The Rebuild Facility's mission is three-pronged: to protect smallholder livelihoods, conserve tropical forests, and strengthen the private sector. Providing working capital, offered as a returnable grant, facilitates the continued purchase of sustainable commodities from smallholder farmers and cooperatives. As the commodities are successfully sold to end-markets, the grant is returned and redistributed to strengthen other market access players.

As of March 2023, the Rebuild Facility has successfully unlocked over 4.5 million euros of private finance to benefit over 50,000 smallholder farmers, keeping over 100,000 hectares of land under sustainable land management. The Rebuild Facility is projected to unlock over 14 million euros of private finance for sustainable market access players by the end of 2023.

This case study, focused on project country Kenya, discusses the Rebuild Facility's work with Rockbern Coffee and the Thiriku Cooperative in Nyeri, Kenya.

Executive summary

The Rebuild Facility provided a working capital grant to Rockbern Coffee Group Ltd, a Kenyan coffee exporter promoting transparency in the coffee market by linking farmers directly to the international market.

The returnable grant provided Rockbern with support in recovering from the impact of the COVID-19 pandemic and provided income security and agroforestry trainings for the Thiriku Cooperative farmers in Nyeri, Kenya, who sell coffee to Rockbern. The grant also supported Rockbern, and its buyer Trabocca, to expand land restoration efforts in the Mount Kenya region.

Kenya Coffee Context

Kenya is ranked as the 16th largest coffee producing country,[i] exporting an annual average of 50,000 metric tonnes (MT) of coffee. Kenya's rich soil and temperate climate produces some of the best coffee in the world.[ii] Coffee provides income for over 700,000 Kenyan households who fall within three main groups: smallholder farmers, micro-estate owners and medium-large estates. Smallholder farmers, of which there are an estimated 600,000, are organized into more than 400 cooperatives and produce 55% of Kenya's coffee.

There are two distinct systems of coffee trading in Kenya. The most common method through which most Kenyan coffee is traded is the Nairobi Coffee Exchange (NCE), the weekly auction floor run by the government during which coffee buyers bid for coffee. This method has been criticised for its impact on farmer livelihoods because even though it intends to guarantee that coffee will be sold at the highest price, this is not always the case. For buyers, this method also makes it difficult to build long-lasting relationships with Kenyan farmers, buy from the same producer group or develop a more transparent value chain.

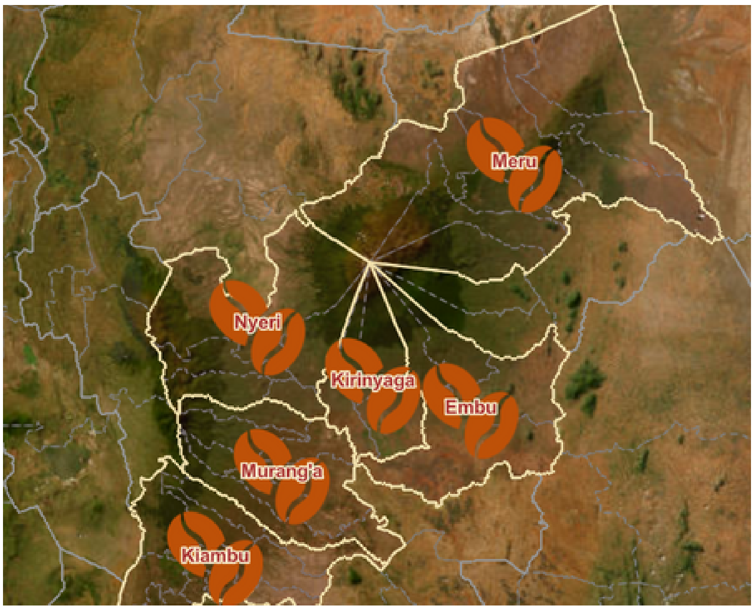
The other method, known as the 'second window, is the direct trade of coffee between buyers in coffee consuming markets and farmers in Kenya, usually organized by coffee farmer cooperatives.

Direct trade for coffee was only made legal in Kenya in 2006, following years of advocacy by farmers and cooperatives. Direct trading remains a comparatively novel concept, and anywhere between 85% and 94% of the country's coffee is still sold on the NCE.[iii]

Although underutilized, direct trading is gaining popularity in Kenya, albeit with some intermediaries. Local intermediaries oversee the financing of growers throughout the crop cycle, provide agronomic advice based on observation and measurements, and prepare export logistics, packaging, quality control, documentation, and ensure overall execution of shipments.[iv] Some intermediaries also help farmers in price negotiation with buyers because in many cases, smallholder coffee producers are price takers rather than negotiators with their buyers.

In a bid to resolve the challenges within the sector, the Kenyan Senate is considering a Coffee Bill[v] that will establish a Kenyan Coffee Board, responsible for certifying and licensing coffee growers, millers, and buyers, enforcing quality standards for coffee, and setting up a coffee traceability system. Under the proposed bill, processors who blend any or various grades of coffee produced in Kenya with any other coffees produced outside Kenya are required to declare the percentage of Kenyan coffee in the blend.

The Coffee Bill also introduces a 1% levy on marketed coffee to increase funding for Kenya's Coffee Research Institute.



Kenya's six main coffee growing regions, where 60% of Kenyan coffee originates from.
Credit: Rebuild Facility.

The Mount Kenya and Mount Aberdare landscape

The smallholder farmers of the Thiriku Cooperative grow coffee close to the Aberdare and Mount Kenya region. The forests of the mountain ranges form two of Kenya's main water catchments and the source of two of the country's largest rivers, the Tana and Ewaso Nyiro.

The Aberdares and Mount Kenya are protected within a national park and is home to diverse landscapes and wildlife. The ranges collectively support most of the country's surviving Afro-montane Forest and Afro-alpine moorland. Within the mountainous peaks and deep valleys live many animals including lions, leopards, elephants, black rhinoceroses and over 250 bird species. The soil around the national park in this coffee growing region is renowned for its high fertility and good drainage during the rainy seasons.

Rhino in Aberdare National Park, Kenya. Credit: Discover Africa

The Mount Kenya forest was designated by UNESCO as a Biosphere Reserve in 1978 and a World Heritage Site in 1997. Located about 85 miles (136 kilometres) northeast of the capital Nairobi, Mount Kenya is Africa's second tallest mountain.

The Mount Kenya region is regarded as the 'champagne' region of Kenyan coffee, but with increasing land degradation resulting from logging, charcoal burning and forest fires, coffee farmers now face low yields and poor quality coffee which threaten their livelihoods.

In 2019, week-long fires razed over 100,000 hectares of moorland beside natural bamboo trees.
Credit: Kenya Forest Service

Apart from environmental threats to coffee production, there is a general decline in Kenyan smallholders' confidence in coffee as a legitimate means to improve their livelihoods. Current production levels show a decline of more than 60% from peak production in 1987.[vi] Lack of transparency around coffee pricing and low farmgate prices have resulted in some farmers uprooting their coffee trees.[vii] Simultaneously, the younger generation is abandoning coffee as a future livelihood and heading for the cities. The current average age of coffee farmer is 73. With fewer young farmers to learn how to tend to their coffee trees, the sector faces a potential knowledge drought that will be hard to recover from.

Grantee in focus:

Rockbern Coffee and the Thiriku Coffee Growers Cooperative

The Thiriku Coffee Growers Cooperative Society, located in Nyeri County in central Kenya, has an active membership of 1,192 smallholder farmers who grow coffee across 477 hectares of landscape on the slopes of Mount Kenya and the Aberdare Mountain range.

The average size of a Thiriku smallholder's farmland is 0.4 hectares. Approximately 25% of the land is used for coffee production with the remaining land being used to grow staple crops such as maize, beans, potatoes and vegetables, fast-growing wood like the eucalyptus, and keeping cattle. However, low yields and uncertainty around prices have led to mismanagement of the coffee landscape which now requires an intensive rehabilitation program.

The Thiriku Cooperative sells its specialty Arabica coffee to Trabocca, a specialty coffee importer headquartered in Amsterdam, through Rockbern Coffee. Rockbern and Trabocca have formed a partnership to deliver an innovative sourcing model that prioritizes smallholder livelihoods and regenerate the coffee growing landscape in the region.

The agreement with the cooperative includes an offtake guarantee which assures farmers of a market and a higher price for their coffee – 40 shillings/kg (about 30 euro cents) more than the average market price.

Rockbern prioritises transparency with the cooperative, making 2% revenue on the value of coffee it buys from the cooperative. Rockbern-Trabocca's payment cycle under this model is 3-4 months faster than the typical arrangement between exporters and producers in the Kenyan market.

Rockbern also delivers training and certification programs to the farmers of the Thiriku Cooperative. With increased deforestation around the boundaries of the Aberdare National Park lying adjacent to the Thiriku Cooperative, Rockbern and Trabocca have also initiated a land rejuvenation program aimed at restoring coffee trees and improving current yields of 0.5 -1kg of coffee cherries per tree, to 6kgs of cherries per tree.

Covid-19 impact on the Thiriku Farmers and Rockbern Coffee

The Kenyan coffee sector was hard hit by the Covid-19 pandemic. In a study by Technoserve, 76% of coffee households had lost income as a result of the pandemic. 94% of farmers felt financially worse off than a year before the pandemic. With coffee shops closing and purchase contracts cancelled on account of the pandemic, job losses in the coffee sector accounted for the biggest cause of reduced incomes.

For Rockbern, the pandemic proved challenging, as banks were cautious and unwilling to take on the risk of financing coffee in the middle of the pandemic. Rockbern required financial support, without which it could not honour its direct trade agreement with the Thiriku farmers and Trabocca.

Given that the Thiriku farmers were reliant on Rockbern to ensure the offtake of their coffee, Rockbern risked losing trust with the farmers and breaking the direct value chain they had put in place. Additionally, farmer trainings were delayed as a result of the pandemic, adding to the challenges Rockbern had to overcome to ensure high quality coffee.

Impact of the returnable grant

Returnable grant went toward procuring coffee beans from the Thiriku cooperative. The additional working capital freed up some of Rockbern's resources, allowing the company train employees and suppliers for Fairtrade and Rainforest Alliance certifications. Rockbern was also able to keep all 18 employees at the time (and 34 casual employees at the peak of the season), at the height of the pandemic. Thiriku farmers were also trained on growing macadamia for income diversification, as well as agronomy topics like disease management, financial management, and equipment handling.

The income security for the farmers had the biggest impact. Thiriku farmers benefit most from payment before April - when their children's school fees are due. With the grant, Rockbern was able to pay farmers on time, and the security from timely payments led to cooperation from farmers during trainings, which contributed to keeping their farmlands under sustainable land management.

For Rockbern Coffee's offtaker, Trabocca, the grant ensured the continuation of their new direct supply agreement with Rockern and the Thiriku Cooperative.

“We are able to support the farmers with agronomy skills to improve on quality and also harness the natural methods such as the shade tree growing while increasing forest cover... The grant also helped us to show our proof of concept to the banks and the market. It also gave us a credit history and showed Rockbern as an investable company.”

Peter Muchiri, Co-Founder/CEO, Rockbern Coffee.

“We used to buy from large companies, but this was an untransparent chain and farmers had no information on the value on their coffee. We needed more local presence so we engaged Rockbern and also hired an agronomist who helped us double farmer yield in two years. We have been able to expand coffee sourced from one container to 7-8 containers... The finance was extremely helpful to continue the agreement with the farmers.”

Menno Simons, Founder, Trabocca

Lessons from Kenya

The grant delivery process with Rockbern Coffee reaffirmed the value of the Rebuild Facility's due diligence process; beyond the benefits of the working capital, grantees are supported to set up policies that meet international standards and make them eligible for loans and other financing opportunities in the future. For example, the Rebuild Facility supported Rockbern with the development and implementation of a whistleblowing mechanism at their coffee site in Thiriku.

The due diligence and reporting guidelines enforced by the Rebuild Facility builds the internal capacity of grantees, leaving them as stronger institutions long after the Rebuild Facility's exit.

With demand for the returnable grant at over 65 million euros, the Rebuild Facility may not have the resources to meet total working capital needs, but it can explore offering technical assistance for potential and unsuccessful grant applicants who stand to benefit from institutional governance support.

[i] Mercanta The Coffee Hunters

[ii] Impacts of Certification on Organized Small Coffee Farmers in Kenya. https://thecosa.org/wp-content/uploads/2016/12/ISEAL-DIPI-Kenya-baseline-study-report.pdf

[iii] Understanding the co-operative model in Kenya's coffee sector. https://perfectdailygrind.com/2022/08/the-cooperative-model-in-kenyas-coffee-sector/

[iv] Understanding coffee & direct trade in East Africa. https://perfectdailygrind.com/2022/01/understanding-coffee-direct-trade-in-east-africa/

[v] The Coffee Bill, 2023. via http://parliament.go.ke/sites/default/files/2023-03/The%20Coffee%20Bill%2C%202023.pdf

[vi] Kenya baseline study report. https://thecosa.org/wp-content/uploads/2016/12/ISEAL-DIPI-Kenya-baseline-study-report.pdf

[vii] Standard Media 'Farmers uproot coffee trees to protest Sh14 pay per kilo.'

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