



NAIROBI COFFEE EXCHANGE 2014 – 2017 STRATEGIC PLAN



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Vision Statement

To be the preferred national and regional coffee exchange with a global reach

Mission Statement

To facilitate a marketing system that is transparent, competitive, efficient, secure and innovative to stimulate growth in the industry.

Core Values

Transparency

Accountability

Integrity

Innovativeness

Professionalism

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ABBREVIATIONS

KCPTA	Kenya Coffee Producers and Traders Association
CBK	Coffee Board of Kenya
NCE	Nairobi Coffee Exchange
AFFA	Agriculture, Food and Fisheries Authority
CD	Coffee Directorate

FORWARD BY THE CHAIRMAN

Coffee was for a long time Kenya's most important agricultural export, accounting for as much as 40% of the total value of exports in some years. This situation has changed dramatically since coffee production peaked in 1988. In recent years, coffee accounted for only about 6% of agricultural exports, while horticulture and tea exports have increased substantially, accounting for 34% and 32% percent of agricultural exports, respectively.

Kenya has a dual production system with about 3 300 large-scale coffee estates and over 600 000 smallholder producers organized into about 550 cooperatives. Smallholders account for 75% of the land planted to coffee but only slightly over half of production. Yields are much higher on the estates because of the more intensive use of fertilizers, pesticides, herbicides and fungicides, as well as irrigation.

Coffee production in Kenya has been on the decline between 1989 and 2008-10. There are a number of possible reasons for this production trend:

- The decline in world coffee prices between 1986 and 1992. Prices recovered partially between 1993 and 1997, but declined again between 1998 and 2002
- Berry Disease and Coffee Leaf Rust remain a major factor affecting cost/ yields for most varieties grown in Kenya.
- Another possible reason may have to do with productivity. This is attributed to reduction in productive population due to aging population and rural-urban migration of youth.

The authority to regulate the coffee sales and marketing in Kenya has been vested into the Coffee Directorate, which licenses all the players in the coffee value chain. The auction, which is central trading floor, is managed by the Nairobi Coffee Exchange. The coffee itself moves forward in the value chain to its ultimate buyers in Kenya, the 50 or so traders licensed to trade on the Nairobi Coffee Auction. The Exchange is therefore a major component and player of Kenya's value chain that does work well, by providing an extremely transparent mechanism to determine price, with incentives to produce the high quality coffee for which Kenya is known.

Therefore, this strategic plan document will go a long way in improving the role the Exchange plays in the coffee industry.

Joseph Koskei – Chairman, Nairobi Coffee Exchange Management Committee

PREFACE BY THE EXECUTIVE OFFICER

The Nairobi Coffee Exchange is mandated to manage the coffee central auction in the country. In order to achieve its mandate as the manager of the trading floor as efficiently and to the benefit of the coffee industry, the Management Committee initiated this first ever strategic plan. In this strategy paper, the Exchange desires to articulate the government's vision in the agricultural sector and in particular, the coffee sub-sector as envisaged in the vision 2030.

The Management Committee, being the first managers of the Exchange after KCPTA, found it necessary to refocus its role in the industry and ensure that it eliminates the malpractices and loopholes that have affected the trading floor in the past few years. This was only possible through a strategic approach that led to the development of this 3-year (2014 – 2017) NCE Strategic Plan – so designed to conform to the three (3) term of the Management Committee. The development process of the plan involved different players in the industry: the Coffee Directorate who gave unparalleled support and legal guidance in the wake of the new dispensation of AFFA Act, which took effect during the development of this strategy.

Needless to say, this is also coming up when Kenya as a country is embracing a new constitution enacted in 2010 which, among other things, devolved agriculture to the county government. It is envisaged that, the full implementation of this plan will enhance, improve and bring new approaches to the all-time-tested auction system of marketing coffee to cater for these changes. It will also and eventually demystify the perception that there are manipulative practices and cartels on the trading floor by availing relevant information to all the stakeholders.

The commitment of the Exchange is that it will be able to meet the needs of all the coffee stakeholder by embracing the best practices, improve the institutional capacity of the Exchange, engage in strategic partners for the benefit of the trade and embrace technology through the implementation of the Strategic Plan.

The Exchange wishes to appreciate all who participated in one way or another in the development this document and seek to appeal to all as well to give us the necessary support in equal measure in its implementation.

Daniel Mbithi – Executive Officer

EXECUTIVE SUMMARY

The NCE Strategic Plan 2014-2017 was developed through consultation of relevant legal instruments, Coffee Directorate and other Government's policy documents, including the Kenya Vision 2030, the millennium development goals and the Strategic plans of other relevant institutions. Other sector policy documents were also followed to enable the Exchange to identify the national, sectoral, ministerial and the Exchange's policy priorities that the strategic plan would address.

Kenya currently produces about 50,000 Metric tonnes of coffee and over 90% of this sold through the Nairobi Coffee Exchange, which is managed by an Exchange Management Committee as stipulated in the Nairobi Coffee Exchange Trading Rules, 2012.

In order to carry out its mandate efficiently, the Exchange has developed this strategic plan by subdividing it into four (4) chapters. Chapter one gives the background and the functions of the Exchange, detailing how the crop was introduced in the country, its evolution to its current status today and the different players involved. Chapter two (2) covers the situational analysis by looking at the overall governance of the industry, the different marketing channels in place, the PESTEL and SWOT analyses. In chapter three, the strategic direction is given by stating the vision, mission and the core values of the Exchange. Most importantly, the strategic objectives and strategies are defined.

Five (5) main strategic goals are coined as below:

- Effective and Effective Marketing of Coffee
- Attain High Governance Standards
- Institutional Capacity of The Exchange
- Financial Sustainability
- Strategic Partnerships

Under each these goals, objective strategies and strategies, specific activities are identified to help achieve each of the goals through a well-thought out matrix.

Finally, in chapter four (4), the monitoring and evaluation guide is highlighted.

CHAPTER ONE: INTRODUCTION

1.1 Background and Functions of the Nairobi Coffee Exchange

1.1.1 Background

Coffee is undoubtedly the most important agricultural commodity in the world. It is estimated that about US \$ 30 billion worth of green coffee is traded while commanding over US\$ 80 billion at consumer level annually, thereby making it the second most traded commodity after oil. Its production is fundamental to over 35 developing nations, to which it is frequently the main source of foreign exchange earnings.

Coffee growing was introduced in Kenya by the British around 1900. Since its introduction as a cash crop in Kenya, coffee has remained one of the most important products of Kenya's agriculture. All coffee grown in Kenya is Arabica and is grown on the rich volcanic soil that is found in the highlands of the country. The most well-known varieties are SL28 and SL34 that are known for the distinctive big body and winy blackcurrant flavor.

The first coffee auction was inaugurated in September 1935 when the first coffee was auctioned under KCA. The function of coffee marketing was placed under the Coffee Marketing Board (CMB) which was established under the Coffee Marketing Ordinance No. 6 of 1946. In 1960 the Coffee Industry Ordinance and the Coffee Marketing Ordinance were merged to form the Coffee Ordinance Cap 333.

Following independence from the British in 1963, Kenya organised their coffee industry around a weekly government-run open auction system. This transparent system is establishing a pricing hierarchy based on quality with finer lots fetching higher prices. There is now increasing competition for the better-known estates and co-ops and particularly for the AA grade beans. The grades are simply a measure of bean size, not of defect tolerance.

The coffee marketing function has evolved over the years around various legislations. Act 13 of 1971 abolished the CMB and consolidated the function of coffee marketing with the regulatory functions of the CBK. Since then, CBK controlled the industry up to July 2001 when a new Coffee Act was enacted to amend Cap 333 that specified new roles for CBK as an industry regulator.

Subsequently the Coffee (General) Rules of 2002 gave an association the mandate to manage NCE. In 2006, section 62 of the rules was further amended to specify Kenya Coffee Producers and Traders Association (KCPTA) as managers of the NCE, until July 2013.

Via Legal Notice no. 79 of 2012, the amendment entrenched NCE in coffee law and the Exchange would be managed by an Exchange Management Committee as provided for by the Nairobi Coffee Exchange Trading Rules, 2012.

The NCE is one of the most important institutions in the coffee industry contributing to over 90% of the total Kenya coffee produced being traded through it.

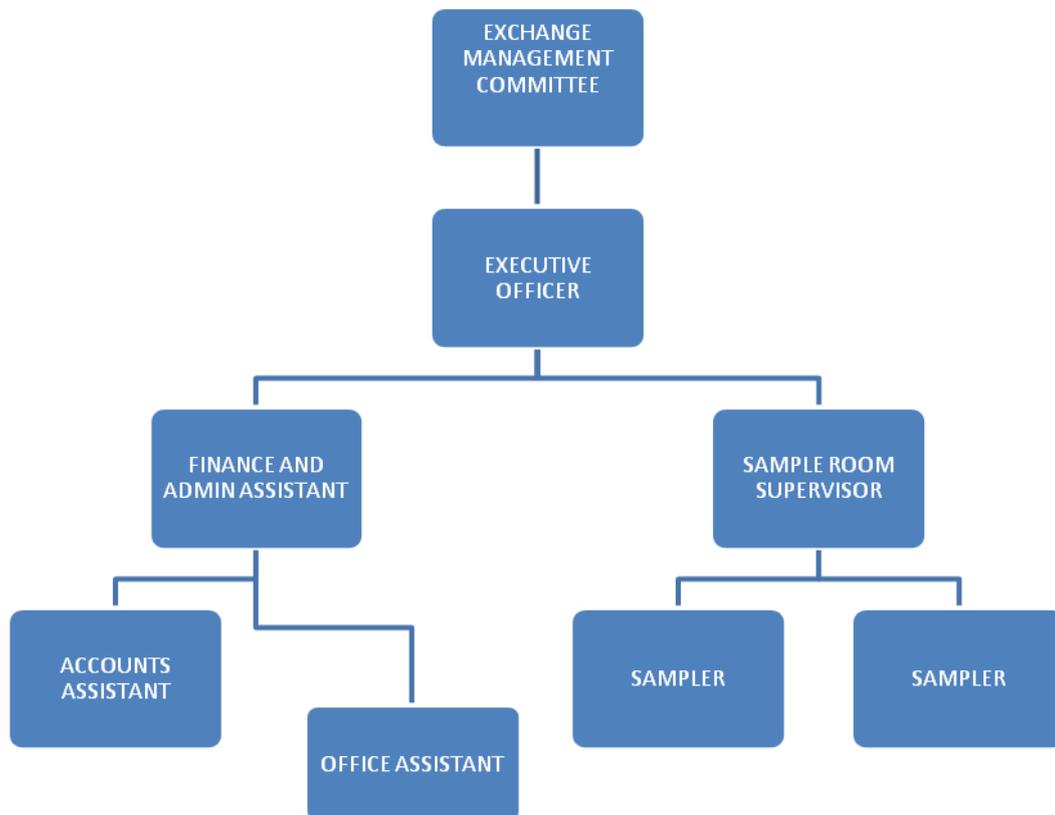
The purpose for which the Exchange Committee is established is to manage the operations of the Exchange for the benefit of the coffee industry in an efficient, prudent, and professional manner

1.1.2 Functions of the Nairobi Coffee Exchange

Through Legal Notice 111 Section 44 of the Coffee Act 2001, the Minister for Agriculture in consultation with the Board, made The (Nairobi) Coffee (Exchange Trading) Rules, 2012. These rules stipulate the functions of the Exchange as:

- a) manage all the operations of the Exchange including the trading floor and the sample room;
- b) formulate policies, conditions of sale and set regulations and any other instruments or regulations deemed necessary for the operations of the Exchange in consultation with stakeholders in the coffee industry and with the approval of the Board;
- c) promote and participate where necessary in all matters relating to or affecting trading at the Exchange;
- d) promote efficient, innovative and transparent marketing arrangements at the Exchange, including coffee auctions and commodity exchange;
- e) Comply with such rules and directives made or given by the Board pursuant to section 44 (2) (d) of the Act;
- f) determine coffee volumes for each auction and other price discovery mechanisms in accordance with the Act;
- g) provide all the necessary facilities for the management, administration and operations of the Exchange;
- h) Perform all or such other acts as may be necessary for the proper performance and operations of the Exchange.

1.2 The Organization of the NCE



a) Management Committee:

The Nairobi Coffee Exchange is managed by nine (9) member management committee appointed by the Cabinet Secretary of the Ministry of Agriculture, Livestock and Fisheries. The membership comprises of five (5) growers, two (2) trade, one (1) Marketing Agent & Commercial warehouseman, and one (1) directorate representative respectively.

The Exchange Management Committee offer oversight to the overall NCE mandate. In order to effectively do this, the Exchange Committee has constituted two (2) standing sub committees:

- Marketing, standards and quality and mediation committee;
- Staff, finance and contracts committee

b) Staff:

- Receipt of coffee samples from the Marketing Agents
- Distribution of coffee samples to Traders and the Directorate
- Release of Sweepings to the Marketing Agents on a lot prorated basis for sale

- The day-to-day running of the Exchange's operations

1.2.1 The NCE stakeholders and each of their roles:

a) Marketing Agents:

- Contracted by farmers to present coffee for sale at the Exchange
- Prepare sale catalogues
- Draw and present Representative Samples to the trade Sample room
- Auction the coffee on behalf of the farmers
- Prepare invoices for the buyers
- Receive payments from the respective traders for coffees bought at the auction
- Prepare and remit coffee warrants to the traders after payments have been made.
- Process payments for the farmers
- Arrange for warehousing of coffee within Nairobi county.

b) Traders:

- Collect and analyze coffee samples
- Bid/buy coffee from the auction
- Export coffee to overseas roasters and import trade or roast for local consumption.

c) Warehousemen:

- Store coffee on behalf of the Marketing Agents
- Prepare warrants for coffees on offer at the auction on behalf of the Marketing Agents.

1.2.2 The NCE efficiency in relation to the general industry performance

- The Exchange ensures that the trading rules are adhered to by all the players participating at the trading floor.
- Efficiency in the management of sample room has greatly been improved. This has led to elimination of zero-bag traders from collecting samples thereby reducing the representative sample size from 14 to 9 kilos and thus 5 kilos going back the farmers. The sample room operation is further being improved by automating the process.
- Ensures that communication and information flow between the producer (represented by the Marketing Agents) and the trade is smooth.

- The Exchange generates market reports which are disseminated immediately to the industry players to help in decision making.

1.2.3 NCE Integrity and stability as an organization

Since it was placed under the new Exchange Management Committee, the Exchange has shown a lot of improvement in terms of integrity as far as its operations are concerned. This has increased the confidence of the trade toward it and therefore becoming the preferred selling centre.

1.3 Role of NCE in the Government Development Agenda and Vision 2030

The Vision 2030 is anchored on three key pillars: Economic, Social and Political Governance. The economic pillar aims to achieve an economic growth rate of 10 per cent per annum and sustaining the same till 2030 in order to generate more resources to address the Medium Development Goals (MDGs). NCE through this strategic plan will play a role in the implementation of the Economic pillar.

The coffee industry, like all other industries, is expected to contribute towards achievement of the vision 2030 through its phased Medium Term Plans (MTPs). Some of its identified interventions include:-

- (a) Capacity building among growers on market access through:
 - Training;
 - Market intelligence;
 - Market information dissemination
- (b) Formulation of appropriate trading policies and legal framework for the auction of coffee in consultation with the Directorate;
- (c) Enhanced ICT to support innovative and efficient trading;
- (d) Creation of employment opportunities for the youth;
- (e) Promoting good corporate governance practices within the industry.
- (f) Expansion into the regional markets as well as increase the volumes of coffee traded through the auction system.

1.4 Rationale for Development of the Strategic Plan

The Nairobi Coffee Exchange has undergone through a lot of transformation over the years. In February 2014, a new management committee came into office and found no strategy to help carry out its mandate and therefore saw the need to come up with a strategic plan. This strategic plan will help the management committee in steering the Exchange into repositioning itself as the preferred point of sale for Kenyan coffee. The strategy will help the Exchange integrate and be part of the ongoing changes in the county governments especially in the coffee growing counties.

The strategy will align into the government policy and plans through the vision 2030 as well as the new AFFA Act that will govern the agricultural sector. The strategy implementation will be through short term, midterm and long term objectives all geared to achieving the overall NCE strategy.

1.5 Process of Developing the Strategic Plan

The strategic plan was initiated by the Exchange Management Committee by tasking the Executive committee to carry out the exercise. The Executive Committee started by drafting the strategic plan framework which was used to draw the other details of the plan. After the first working draft was done, a two-day retreat was organized and invited the Coffee Directorate technical staff.

After the retreat, a draft of the plan was done and then presented to the Exchange Management Committee for their adoption, after which it was presented to the Coffee Directorate before presenting to the Ministry of Agriculture, Livestock and Fisheries. The coffee industry stakeholders were also given an opportunity to give their views on it before it was implemented.

Much of the Data was drawn from the appropriate legal instruments, Coffee Directorate's policy documents, Government's policy documents, including the Kenya Vision 2030, the millennium development goals and the Strategic plan of the Ministry of Agriculture.

Strategic plans and other sector policy documents were also followed. This enabled the strategic planning team to identify the national, sectoral, ministerial and the Exchange's policy priorities that the strategic plan would address.

CHAPTER TWO: SITUATIONAL ANALYSIS

2.1 Industry Analysis

2.1.1 The overall governance of the industry

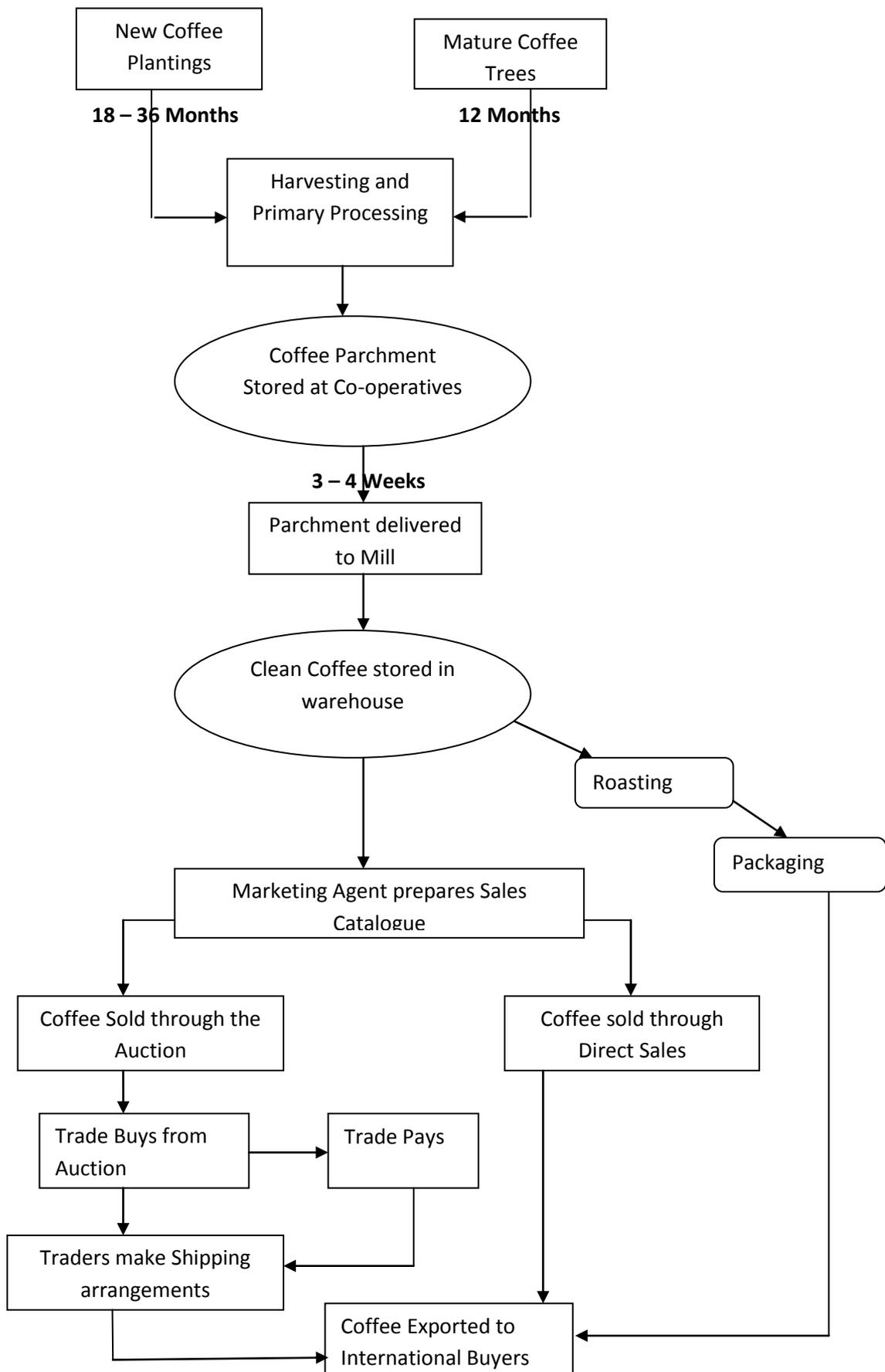
The coffee industry is legislated and regulated under the Ministry of Agriculture, Livestock and Fisheries. The Ministry establishes AFFA Act that governs eight (8) directorates, Coffee Directorate being one of them. The Coffee Directorate regulates the coffee industry through the Coffee (General) Rules, 2012, which establishes the Nairobi (Coffee) Trading Rules, 2012.

The coffee industry of Kenya is noted for its cooperative system of production, processing, milling, marketing, and auction system. About 70% of Kenyan coffee is produced by small-scale holders. It was estimated in 2012 that there were about 150,000 coffee and farmers in Kenya and other estimates are that six million Kenyans were employed directly or indirectly in the coffee industry.

All coffee farmers are registered by the Coffee Directorate and classified as cooperators and planters for the purposes of growing and pulping. Commercial Millers and Marketing Agents provide milling and marketing services to the producer for a fee.

The Exchange provides a platform for the Marketing Agents for sale of the farmers' coffee.

2.1.2 Coffee Value Chain in Kenya



2.1.3 The marketing systems:

Currently, there are two coffee marketing systems in Kenya: The central Auction system and direct sale.

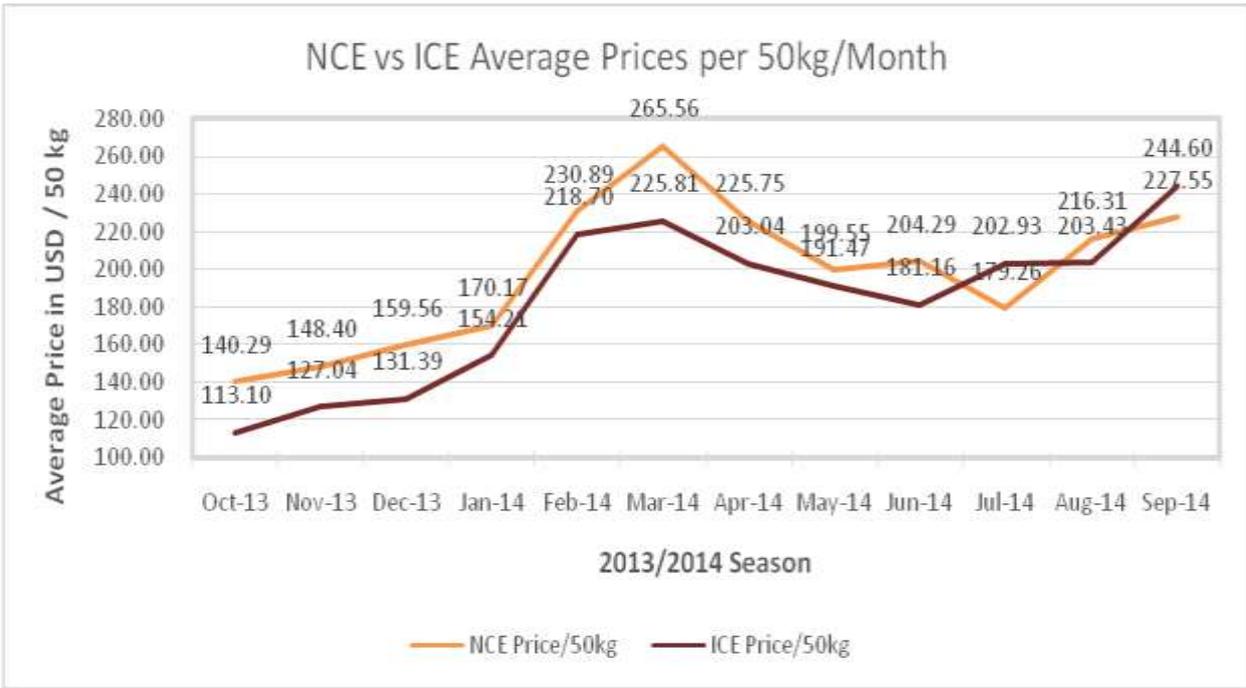
2.1.3.1 Auction System:

This is the time-tested central auction system, commonly referred to as Nairobi Coffee Exchange (NCE), where coffee is bought by the licensed coffee traders through competitive bidding. Coffee auctions are conducted every Tuesday of the week, unless there is a holiday where it is usually pushed to Wednesdays.

Trading at the auction is guided by a very well-spelt set of rules which dictates the responsibility of each of the players.

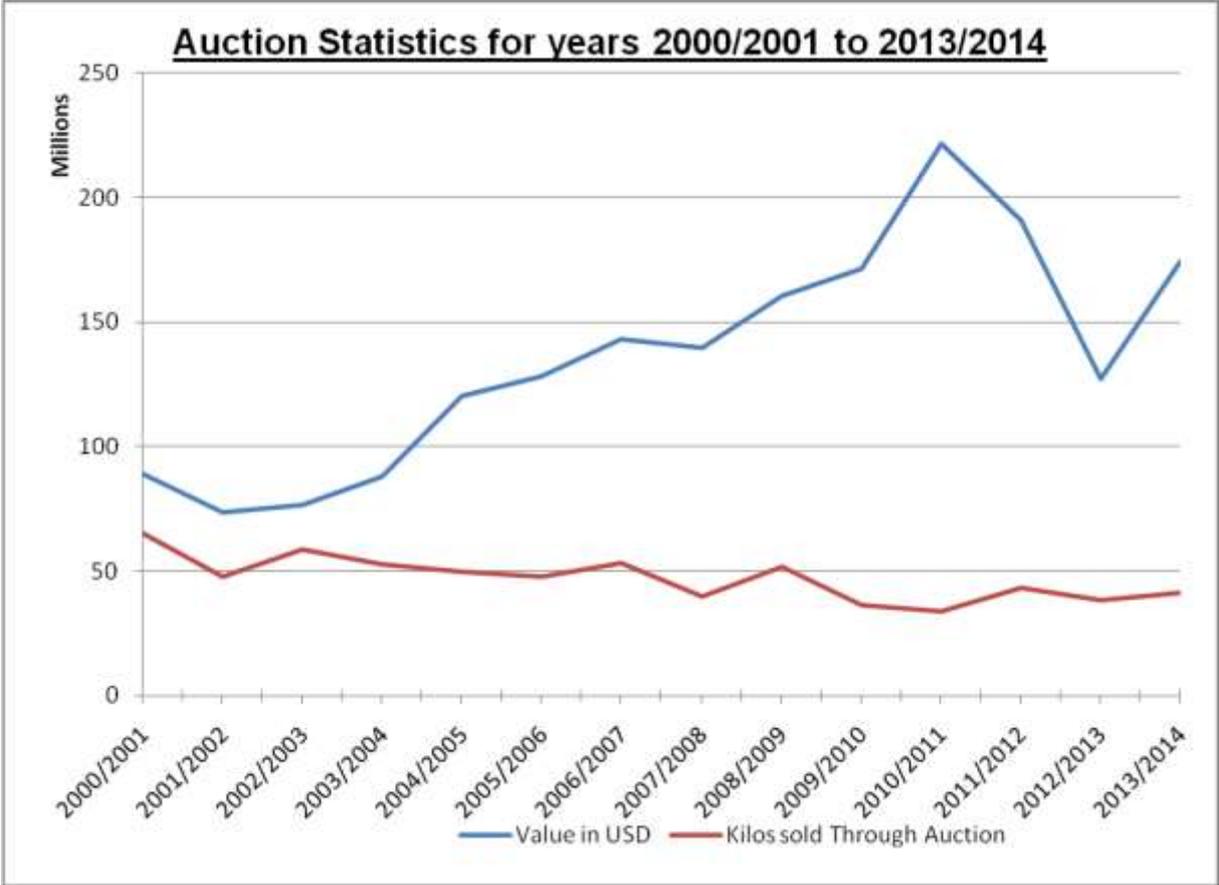
Kenya coffee sold through the Exchange fetches a premium against the price at ICE.

Graph 1: The Price trend for a half a season showing the premium Kenya coffee has over ICE



The graph shows that on average kenya Arabica coffee sells at a premium over the benchmark ICE in New York. The slight overlap in July was caused by the annual recess that took place between 17th June and 15th July, 2014.

Graph 2: Volumes of coffee sold through the Exchange and the average Price trends from 2000 through 2013.



2.1.3.2 Direct Sales:

In 2006 direct sale option was introduced as the second window for coffee marketing. It provides another marketing outlet for the Kenyan coffee farmers to negotiate directly with overseas buyers other than the auction.

2.2 External Environment – PESTEL Analysis

2.2.1 Political Factors

- New Constitution and Vision 2030 – this has brought about Improved governance and clearly defined road-map through the three (3) pillars respectively
- Political transitions – this may come with new political manifestos that may derail prevailing smooth running of the trade, thereby losing focus.

2.2.2 Economical: NCE’s Contribution to the Economy

Since its introduction as a cash crop in Kenya, coffee has remained one of Kenya’s most important crops and major contributor to the economy due to its significant contribution in form of foreign exchange earnings, employment opportunities and income to farmers.

Although it used to be the leading contributor, it is currently ranked fourth after tea, tourism and horticulture contributing to foreign exchange earnings.

Currently, coffee is ranked fourth after tea, tourism and horticulture contributing greatly to foreign exchange earnings. Over the last ten (10) years, the industry has earned the country a considerable income, approximately 10% of agriculture GDP. Out of this, well over 90% of the coffee was traded through the Nairobi Coffee Exchange, meaning it plays a major role in the economy of this country.

In the 1980's, Kenya produced approximately between 100,000 and 110,000 metric tonnes. However, due to local and global challenges facing the Coffee Industry, the production experienced a downward trend and has been oscillating below 50,000 metric tonnes in the recent years.

Vision 2030 identifies the Agricultural Sector as being central to realization of the vision. Being a major pillar in the Agricultural Sector, the Coffee Industry is expected to make a significant contribution towards realization of the national goals.

2.2.3 Social Factors

- Disharmony in the coffee industry – there is imbalance in the number of women involved in coffee growing.
- Reduction in productive population – due to aging population and rural-urban migration of youth.
- Lack of succession across generations – more elderly population control the farming fraternity and therefore need to encourage young people getting involved from early age.
- Aging workforce in the coffee industry – this has created lack of able bodied workers to grow coffee. Most young people have not embraced coffee farming citing the length it takes to see returns.
- HIV and AIDS has had an effect in the productivity of the farmers.

2.2.4 Technological Factors

- The Exchange has an automated Auction System established back in 1998, being the only coffee system of its kind then globally. However, technology has evolved introducing new tools that call for an overhaul of the system.
- NCE needs a website to help improve communication and market information dissemination.

2.2.5 Environmental Factors

Unfavorable weather conditions due to climate change has led to unpredictable crop cycles

2.2.6 Legal Factors

Before liberalization of the coffee industry the Coffee Directorate served both as a regulator and the sole marketing agent for all coffee in Kenya. At that particular time the Nairobi Coffee Exchange (NCE), the institution established under the coffee Rules to market coffee for, was run by Kenya Coffee Auctions Limited (KCA) whose shareholding was, CBK as the Marketing Agent 51% and KCA with Mr. Valentine as the Chief Executive Officer (CEO) and chief auctioneer (49%).

Upon liberalization of the industry and subsequent amendment of the Coffee Act in 2001, Directorate’s core mandate changed to regulation only. This transition left the NCE without any manager. Consequently, commercial Marketing Agents and Traders organized themselves and managed the operations of NCE until sometime in the year 2004. The Coffee (General) Rules were subsequently amended in the year 2002 to give an association the mandate to manage NCE without specifically stating which association. In 2006, section 62 of the rules was further amended to specify KCPTA as the manager until July 2013.

However, there was widespread dissatisfaction from the industry players about how KCPTA was managing the auction. KCPTA being an association and as such established under the Societies Act, it was difficult for the Directorate to intervene since they not reporting to them. Therefore the Minister for Agriculture in consultation with the Directorate through Section 44 of the Coffee Act, made amendments to the trading rules to provide that the NCE shall be managed by an Exchange Committee.

2.3 SWOT Analysis

Strengths	Weakness
<ul style="list-style-type: none"> • The exchange is a long established institution that has been in existence for many years with a strong global reputation • Highly transparent automated price discovery auction system. • Facilitate secure settlement of Coffee traded within minimum default risk. 	<ul style="list-style-type: none"> • Lack of promotional strategy • Lack of market diversity • Legal constraints to deal with malpractices • Financial constraints for capital projects • Inadequate policy and procedure manuals

<ul style="list-style-type: none"> • Experienced staff. • Established, well managed trade sample room. 	
<p>Opportunities</p> <ul style="list-style-type: none"> • Explore forward contracts • Opening up the Exchange to regional and global markets • Strategic partnership with other organizations. • Capitalize on emerging ICT technology 	<p>Threats</p> <ul style="list-style-type: none"> • Technological redundancy • Volatile global coffee prices • Low volumes traded at the auction. • Insecurity in the country. • Delayed payment of fees and levies.

2.4 Stakeholders Analysis

This section discusses the various groups that form the coffee stakeholders, spanning from the farm to the market.

2.4.1 Producers

Kenya coffee is produced by small scale farmers who form co-operative societies and plantation growers who own their own farms with representation of 60% and 40% respectively. Almost all Kenyan coffee is processed by a wet method, which guarantees the best quality. Growers pick only the red-ripe cherry. At the factory, the cherries are sorted before processing and unripe, overripe or diseased cherries removed. The cherries are then pulped to remove the outer skin.

The slimy sugary coating (mucilage) – which remain on the beans is removed through fermentation process. Fermentation of parchment should be completed within 36 hours.

The parchment is now ready for sun drying on drying tables where it is regularly turned to obtain the bluish colour for which Kenya coffee is famous.

Drying the coffee is the last process on the farm. When it is fully dried the coffee is bagged and ready to be sent to the mills.

2.4.2 Coffee Traders

These are the buyers of the coffee that is offered at the auction for subsequent export to the overseas buyers and roast for the local and international market.

2.4.3 Service Providers:

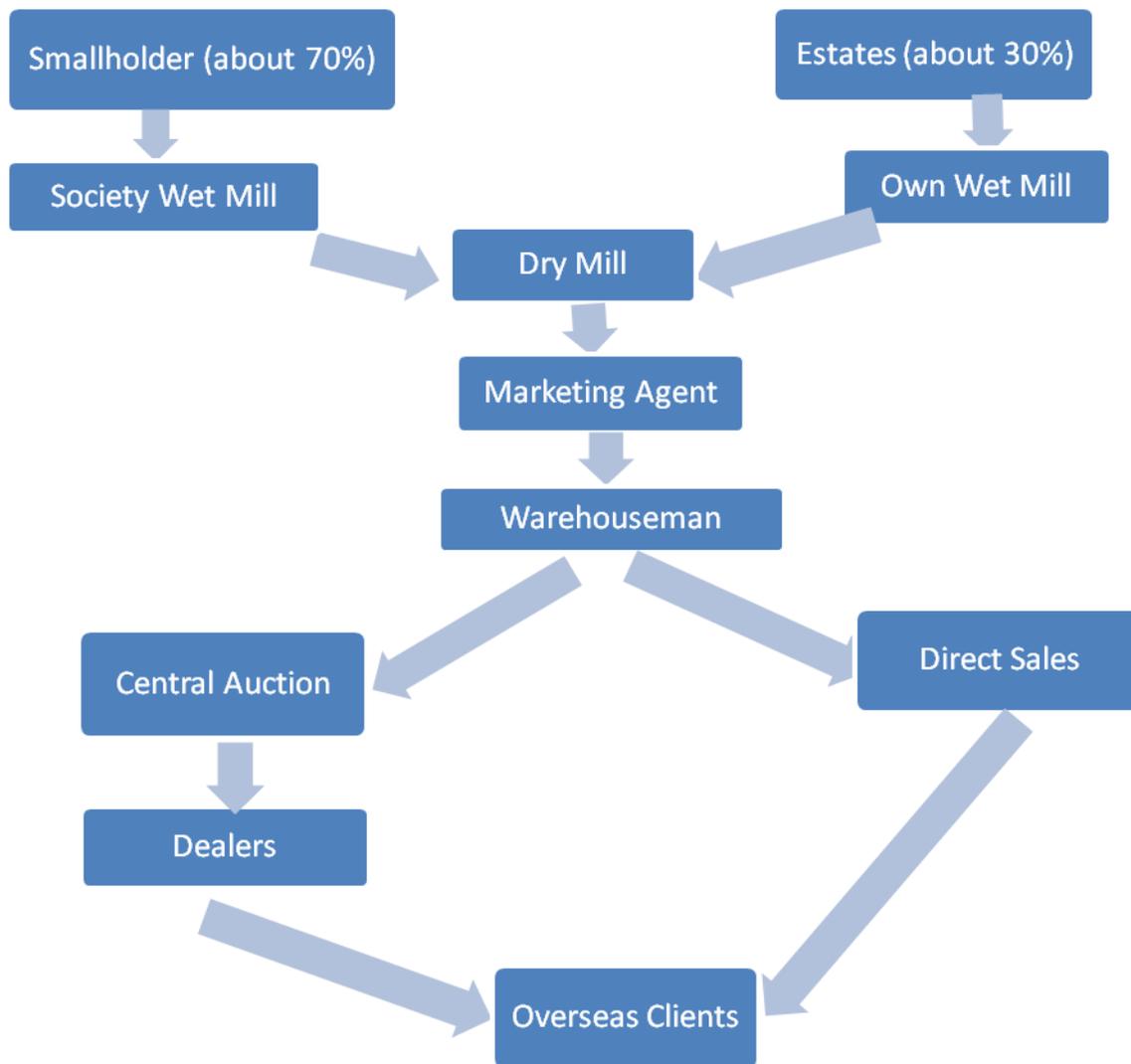
- **Millers** – At the mills the dry parchment is hulled, polished and mechanically separated into various grades according to size, density and shape of the bean. Currently there are a number of licensed private and commercial coffee mills.
- **Marketing Agents** – Perform the marketing of coffee on behalf of the producers either through the auction or the direct sale channels.

There are two categories of Marketing Agents namely: Commercial Marketing Agents, who offer their services purely for commercial purposes and the Grower Marketing Agents, who sell their own coffee.

The Commercial Marketing Agents offer the coffee for sale at the auction while Grower Marketing Agents may sell directly to an overseas buyer. The coffee offered through the auction is bought by licensed coffee traders or traders or exporters for onward export overseas.

- **Warehousemen** – store the coffee on behalf of the Marketing Agents before presentation to the market.
- **Financiers** – These provide finances to the stakeholders along the value chain
- **The Government** – Provides general regulatory oversight in the coffee industry.

Fig. 1: Coffee Flow Chart



The figure above shows the various activities along the coffee value chain.

2.5 Summary of Key Strategic Issues

- a) Legal and regulatory framework for the Exchange;
- b) Institutional capacity of the Exchange;
- c) Improvement of the Exchange's services to the industry;
- d) Stakeholders' education and public awareness.

CHAPTER THREE: STRATEGIC DIRECTION

3.1 Vision Statement

To be the preferred national and regional coffee exchange with a global reach

3.2 Mission Statement

To facilitate a marketing system that is transparent, competitive, efficient, secure and innovative to stimulate growth in the industry.

3.3 Core Values

- a) Transparency
- b) Accountability
- c) Integrity
- d) Innovativeness
- e) Professionalism

3.4 Key Result Areas (Pillars)

- a) Embrace Technology for greater efficiency
- b) Governance – adherence to trading rules, arbitration
- c) Strategic partnerships
- d) High Customer satisfaction levels – information dissemination,
- e) Ensure sustainable financing

3.5 GOALS, STRATEGIC OBJECTIVES AND STRATEGIES

Strategic Goals	Strategic Objective	Strategies
EFFICIENT AND EFFECTIVE MARKETING OF COFFEE	<ul style="list-style-type: none"> • Create awareness to all farmers and other value chain members of NCE functions and activities. • Ensure trading is done in a competitive, transparent and fair manner. • Maintain and expand the customer base 	<ul style="list-style-type: none"> • Develop appropriate communication channels to disseminate market information to create awareness to all stakeholders • Conduct regular auctions as per the trading rules • Implement the Sample Management System • Arbitrate all trade disputes • Train participants on conduct and rules of the auction • Retain existing and identify new potential customers
ATTAIN HIGH GOVERNANCE STANDARDS	<ul style="list-style-type: none"> • To enhance governance tools and benchmark them with the best practices 	<ul style="list-style-type: none"> • Review of trading rules in consultation with stakeholders • Evaluate the existing governance structure of NCE
INSTITUTIONAL CAPACITY	<ul style="list-style-type: none"> • Adopt modern technology to enhance NCE efficiency • To enhance NCE's capacity to attract, motivate, retain and develop staff 	<ul style="list-style-type: none"> • Enhance ICT infrastructure development • Undertake human resource development
FINANCIAL SUSTAINABILITY	<ul style="list-style-type: none"> • Ensure financial sustainability of NCE 	<ul style="list-style-type: none"> • Enhance financial resources • Ensure proper planning and adherence to budgets and financial reporting

STRATEGIC PARTNERSHIP	<ul style="list-style-type: none">• Establish strong relations with like-minded partners in furtherance of NCE interests	<ul style="list-style-type: none">• Develop modalities for engagement of strategic partners
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3.6 Implementation of the Strategic Plan

3.6.1 Implementation framework

GOAL 1: EFFICIENT AND EFFECTIVE MARKETING OF COFFEE						
Strategic Objective 1: <i>Create awareness to all farmers and other value chain members of NCE functions and activities.</i>						
Strategy	Activities	Performance Indicator	Target	Expected outcome	Time frame	Budget (Ksh)
<ul style="list-style-type: none"> Develop appropriate communication channels to disseminate market information to all stakeholders 	<ul style="list-style-type: none"> Participate in stakeholders fora Place news articles and adverts on existing coffee industry bulletins Release circulars Develop and use short code messages Maintain trade records 	<ul style="list-style-type: none"> No. of forums attended Number of articles and adverts released Number of circulars released Number of short code messages sent Complete and accurate records 	<ul style="list-style-type: none"> All stakeholders All stakeholders All stakeholders All stakeholders All stakeholders 	<ul style="list-style-type: none"> High levels of awareness amongst the value chain members Availability of accurate data 	<ul style="list-style-type: none"> Continuous 	<ul style="list-style-type: none"> 330,000
					<ul style="list-style-type: none"> 30.06.2015 	<ul style="list-style-type: none"> 166,000
					<ul style="list-style-type: none"> Quarterly 	<ul style="list-style-type: none"> 20,000
					<ul style="list-style-type: none"> 30.03.2015 Continuous 	<ul style="list-style-type: none"> 360,000

Strategic Objective 2: <i>Ensure trading is done in a competitive, transparent and fair manner</i>						
<ul style="list-style-type: none"> Enforce the coffee trading rules 	<ul style="list-style-type: none"> Conduct regular auctions as per the trading rules Arbitrate all trade disputes Train participants on conduct and rules of the auction Ensure compliance to quality standards 	<ul style="list-style-type: none"> Full compliance to trading rules Effectively arbitrated trade disputes Competent operators High product quality 	<ul style="list-style-type: none"> Trade participants Trade participants Trade participants Trade participants 	<ul style="list-style-type: none"> Fair play Dispute resolution Fast and efficient auctions Minimized quality disputes 	<ul style="list-style-type: none"> Continuous 	120,000
					<ul style="list-style-type: none"> Continuous Annually Continuous 	170,000
Strategic Objective 3: <i>Maintain and expand the customer base</i>						
<ul style="list-style-type: none"> Retain existing and identify new potential customers 	<ul style="list-style-type: none"> Conduct annual customer satisfaction surveys Establish feedback mechanisms for customers Implement regional auction Make the auction the preferred market channel 	<ul style="list-style-type: none"> High customer satisfaction scores No. of mechanisms established Volume of traded regional coffee Market share 	<ul style="list-style-type: none"> All Stakeholders All Stakeholders Regional producers Trade participants 	<ul style="list-style-type: none"> Loyal customer base Increase interaction with customers Diversification High market share 	<ul style="list-style-type: none"> Annually Continuous October 2014 Continuous 	

	<ul style="list-style-type: none"> • Explore forward contracts 	<ul style="list-style-type: none"> • Additional product 	<ul style="list-style-type: none"> • Trade participants 	<ul style="list-style-type: none"> • Increased trade 	<ul style="list-style-type: none"> • December 2015 	
GOAL 2: ATTAIN HIGH GOVERNANCE STANDARDS						
Strategic Objective 1: <i>To enhance governance tools and benchmark them with the best practices</i>						
<ul style="list-style-type: none"> • To review of trading rules in consultation with stakeholders 	<ul style="list-style-type: none"> • Identify areas for review in consultation with stakeholders • Benchmark existing trading rules with the best practices • Document areas for review and forward to the Directorate • Create awareness on the reviewed rules 	<ul style="list-style-type: none"> • Revised rules 	<ul style="list-style-type: none"> • All stakeholders 	<ul style="list-style-type: none"> • Improved trading environment 	<ul style="list-style-type: none"> • Annual 	
<ul style="list-style-type: none"> • Evaluate the existing governance structure of NCE 	<ul style="list-style-type: none"> • Identify areas for review • Benchmark the existing governance structure • To develop a risk management framework 	<ul style="list-style-type: none"> • Improved governance structures • Operational risk 	<ul style="list-style-type: none"> • Exchange Committee • NCE Staff • NCE Staff 	<ul style="list-style-type: none"> • Efficiently managed, well governed and complaint Exchange • Compliant 	<ul style="list-style-type: none"> • Every 3 years • Annual • March 2015 	20,000

	<ul style="list-style-type: none"> • Develop operations policies and procedures • Keep proper books of accounts • Embark on ISO 9001 certification 	<p>management policy document</p> <ul style="list-style-type: none"> • Audit compliance to policies & procedures • Independent audit reports • Internal audit reports • Requirements documented 	<ul style="list-style-type: none"> • NCE Staff • Directorate • Exchange Committee • NCE Staff, Stakeholders 	<p>Exchange</p> <ul style="list-style-type: none"> • Efficient, well managed, governed & complaint NCE • Efficient, well managed, governed & complaint NCE • Efficient, well managed, governed & complaint NCE • ISO Certification 	<ul style="list-style-type: none"> • Annually • Annually • Quarterly • March 2016 	<p>140,000</p> <p>300,000</p>
GOAL 3: INSTITUTIONAL CAPACITY						

Strategic Objective 1: <i>Adopt modern technology to enhance NCE efficiency</i>						
<ul style="list-style-type: none"> Enhance ICT infrastructure development 	<ul style="list-style-type: none"> Implement the Sample Management System Develop website Modernize the automated auction system 	<ul style="list-style-type: none"> Regular sample management reports Functional, informative and updated Website Operational new auction system 	<ul style="list-style-type: none"> Exchange Committee, NCE staff Stakeholders Trade participants 	<ul style="list-style-type: none"> Effectively managed sample room Credible source of information and communication medium Fast, reliable and diverse trading platform 	<ul style="list-style-type: none"> October 2014 	500,000
					<ul style="list-style-type: none"> December 2014 	200,000
					<ul style="list-style-type: none"> October 2015 	20.0M
Strategic Objective 2: <i>To enhance NCE's capacity to attract, motivate, retain and develop staff</i>						
<ul style="list-style-type: none"> Undertake human resource development 	<ul style="list-style-type: none"> Develop a Performance Management System (PMS) Develop a Human Resource Manual 	<ul style="list-style-type: none"> Performance contracts and appraisal system for full-time staff Complaint HR manual document 	<ul style="list-style-type: none"> NCE staff NCE staff 	<ul style="list-style-type: none"> Clearly defined expectations and objectives Minimized staff disputes A defined staff development framework 	<ul style="list-style-type: none"> Annually 	100,000
					<ul style="list-style-type: none"> December 2014 	50,000

GOAL 4: FINANCIAL SUSTAINABILITY						
Strategic Objective 1: <i>Ensure financial sustainability of NCE</i>						
<ul style="list-style-type: none"> Enhance financial resources To ensure proper planning and controls 	<ul style="list-style-type: none"> Explore new sources of revenue in consultation with the Directorate Ensure full remission of auction levies and other fees by auction participants Develop financial planning and monitoring tools 	<ul style="list-style-type: none"> Additional revenue sources identified and utilized Compliance to financial obligations Financial projections achieved 	<ul style="list-style-type: none"> Stakeholders Trade participants Exchange committee 	<ul style="list-style-type: none"> Increased revenue Capital projects funding Operational costs covered Cost controls 	<ul style="list-style-type: none"> Continuous Continuous Quarterly 	
GOAL 5: STRATEGIC PARTNERSHIP						
Strategic Objective 1: <i>Establish strong relations with like-minded partners in furtherance of NCE interests</i>						
<ul style="list-style-type: none"> Develop modalities for engagement of strategic partners 	<ul style="list-style-type: none"> Identify relevant stakeholders for collaboration Engage with selected local, regional and international partners 	<ul style="list-style-type: none"> Numbers of partners identified Number of engagements 	<ul style="list-style-type: none"> Potential partners Potential partners 	<ul style="list-style-type: none"> Established potential partners Increased capacity and market linkages 	<ul style="list-style-type: none"> October 2015 October 2016 	

3.6.2 Critical success factors

- Leadership and commitment
- Understanding of the strategy by all involved in its implementation
- Effective communication between implementers on activities and outcomes
- Timely implementation of activities
- Appropriate allocation of resources as identified for each activity
- Effective translation of strategic plan targets and individual work plans for each activity.
- Regulation review, performance oversight, monitoring measurement and reporting

3.6.3 Accountability

Accountability is the expectation that each employee will be responsible for results achieved in performing the assigned tasks. Employees will report results of their work to their respective sections to enable management to make timely and accurate decisions.

The Exchange Management Committee will be in charge of policy formulation, and general monitoring and evaluation of the Plan's implementation. The Executive Officer and Heads of sections will be responsible for the day-to-day implementation, monitoring, and evaluation of the plan.

3.6.4 Assumptions and Risks

3.6.4.1 Assumptions:

- *Economic stability* - key destination markets will be stable and experience growth leading to continued demand for the Kenyan coffee
- *Political stability* – during strategic plan tenure there will be political good will and stability to provide the right environment to implement the strategy
- *Legal* – there will be no major legal policy changes that will affect the Management Committee implementation of the plan
- *Sustained market share*

3.6.4.2 Risks:

- Climate change that that adverse affect coffee production
- Change of land use. E.g. a considerable part of the central region has seen coffee being uprooted in favor of real estates.
- Social factors, e.g. aging farmer population.
- Inadequate Coffee farmers education
- Coffee Theft and illegal trading

- Negative coffee politics
- Growth of alternative market channels e.g. Direct sales

CHAPTER 4: MONITORING AND EVALUATION

4.1 Introduction

Monitoring the progress of implementation and reviewing of the activities against the strategic plan will be an ongoing process.

Progress will be monitored through tracking the implementation approaches that work well and which need refinement and then adapting future implementation approaches.

4.2 Monitoring and Evaluation Strategies

To ensure that all parties involved in the plan implementation understand their role in the process, there will be:

- Established standard data collection and reporting templates.
- Clearly defined documents to be prepared, periods to be covered and detail of information to be supplied.
- Implementation of a Performance Management System (PMS) making every committee member and employee of the NCE accountable for the use of resources and attainment of set targets.

The Plan will also be monitored through monthly and quarterly reports from the various implementing committees and departments.

Tracking of specific activities associated with the implementation of the Plan will be on a regular basis, at least quarterly, so that adjustments can be made appropriately

4.3 Strategic Plan Review

A midterm review of the Strategic Plan will be undertaken in August 2015 and appropriate amendments made at that time.

4.4 Key Performance Indicators

Indicator	Measure	Base 2013/14	2014/15	2015/16	2016/17
Market share of national crop	Percentage	90	90	90	90
Market share of regional coffee traded	Percentage	0	5	10	10
Number of active participants	Number	48	50	52	55
Customer satisfaction rating	Percentage	75	80	85	90
Number of forums	Number	5	10	15	20
Number of articles & adverts	Number	1	4	6	6
Operating surplus	Kshs `000	-400	0	+100	+200
Strategic partners	Number	0	1	2	3

ANNEXES

Diagram 1: The proposed organizational structure

