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“Development on the margin”

Determinants of Collective Marketing Performance: Evidence from Kenya’s Coffee Cooperatives

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Abstract

In Kenya, coffee produced by smallholder farmers is marketed through farmer-based coffee cooperatives. Since the liberalisation of the coffee sector, coffee cooperatives can choose a market outlet and negotiate prices with their buyers, however, very few have made use of these new market opportunities so far. Relying on collective action theory this paper analyses the performance of Kenyan coffee cooperatives using a random sample of 120 coffee cooperatives in Central and Eastern Province that were surveyed in early 2011. Performance is measured in two different dimensions; firstly, in terms of the average amount of coffee delivered to the cooperative by its members. The ability of the cooperative to attract larger volumes of coffee from individual members is expected to be a function of the extent and quality of services and inputs supplied by the cooperative. Secondly, we use the average coffee price paid by the cooperative to its members as a performance measure. Higher prices paid to farmers are assumed to reflect better marketing and management skills of the cooperative.

Our results show that in 2009/2010 cooperatives received an average of 312 kg (S.D. 138) of coffee per member and paid an average of ksh 48.2 (S.D. 14.14) per kg of coffee. The standard deviations reported in brackets indicate that there is substantial intra-cooperative variation. The main factors explaining the performance of cooperatives identified in our econometric analysis include indicators that reflect: (i) the alignment of members’ goals with the goals of the cooperative and the prevalence of free riding, (ii) problems of mismanagement at the management level of the cooperative as measured by incidences of corruption, and, (iii) the transparency and stability of the cooperatives’ marketing strategy. Finally, this paper examines the importance of voluntary formal control mechanisms in reducing problems of free-riding, corruption and lack of transparency in Kenya’s coffee sector. We conclude our paper with implications for public sector interventions that can help to facilitate collective action.

Keywords: Coffee cooperatives, collective action, corruption, free riding, Kenya, marketing performance, transparency