Improving Kenya’s Domestic Horticultural Production, Marketing and Consumption Systems: Current Competitiveness, Forces of Change, and Challenges for the Future

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Presented at the GHA Regional Workshop Hosted by the AVRDC Regional Centre for Africa (RCA)

14th - 17th February 2004
Arusha, Tanzania

Outline

- Relative sizes and future prospects for export and domestic horticulture
- Horticulture in smallholder livelihoods
- Regional competitiveness
- Marketing channels
  - The traditional system and “the supermarket market”
- The way forward
Relative Sizes of Domestic and Export Systems

- Kenya’s export horticulture has received far more attention than the domestic system
  - Google search for “Kenya Horticulture”
    - Entries on export horticulture outnumber those on the domestic system by a factor of 8:1
  - Yet the domestic system is much larger, and has shown more absolute growth

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Market channel shares (farm, local sales, export sales) of total vegetable production in Kenya, 1997-2001, valued at farm-gate prices

![Market Channel Shares Diagram]

- Production Ksh 14.5B
  - Retained on Farm Ksh 5.2B (36%)
  - Sold then Consumed Domestically Ksh 7.5B (52%)
  - Sold and Exported Ksh 1.7B (12%)

Source: Derived from Tegemeo/MSU 2000 household survey data, production data from MoALRD, and export data from HCDA

*This provides an upper bound on export share*
Total value added (and share) in farm, local sales, and export sales channels for vegetables in Kenya, 1997-2001

Value of Production
Ksh 14.5B

Farm-gate Value, Retained on Farm
Ksh 5.2B (17%)

Retail Value, Domestic Sales
Ksh 18.8B (61%)

FOB Value, Export Sales
Ksh 6.8B (22%)

Source: Derived from Tegemeo/MSU 2000 household survey data, production data from MoALRD, and export data from HCDA

This provides an upper bound on export share

Export horticulture is substantial and important, but domestic system is much larger … and affects many more people

Nearly all smallholders produce, and 70% sell, but only 2% do so for export
Future Prospects for Domestic and Export Horticulture

- Growth in exports has declined over past decade
  - To 4%/year from 17% during 1974-1983
  - Good policies and programs needed to maintain that growth rate
    … and the rate could fall
- EUREPGAP
- Competition from other countries (Ghana, Morocco, Egypt, South Africa)

- Growth rates in domestic system could rival or exceed those in export sector over next several years
  - And domestic system is already much larger …
  - … and dominated by smallholder production

Future Prospects for Domestic and Export Horticulture (2)

- Smallholder share in export market has fallen
  - 75% in early 1990s, about 45% now
  - Real chance it could continue to fall
    - Traceability and process standards a big problem for smallholders, especially after 1 January 2005
  - Employment in processing plants is the real poverty reduction story in export horticulture
Horticulture in Smallholder Livelihoods

- Average share of FFV in total household income ranges from about 7% to over 25%, depending on region
- Production and sales are quite concentrated
  - Top 20% of sellers – 15% of population – account for 80% of sales
  - Concentration much higher for individual crops
- But income share of horticultural sales for even this top group is only 22%
  - 24% for off-farm work
  - More room for specialization!
  - And specialization is needed to reduce assembly costs
    - At farm and geographical levels

Regional Competitiveness

- Kenya does not appear to be “overrun” by imports
- But does import substantial quantities of some FFV

### Apparent Import Shares for Selected FFV in Kenya

<table>
<thead>
<tr>
<th>Crop</th>
<th>Formal Imports, Nov 01 - Oct 02 (mt)</th>
<th>Mean Production, 2001 and 2002 (mt)</th>
<th>Domestic Marketed Surplus, % of Production</th>
<th>Import Market Share Lower Bound</th>
<th>Upper Bound</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bananas</td>
<td>6,885</td>
<td>1,060,000</td>
<td>0.44</td>
<td>1.5</td>
<td>6.9</td>
</tr>
<tr>
<td>Tomato</td>
<td>3,255</td>
<td>262,500</td>
<td>0.72</td>
<td>1.7</td>
<td>7.9</td>
</tr>
<tr>
<td>Oranges</td>
<td>4,300</td>
<td>126,000</td>
<td>0.65</td>
<td>5.0</td>
<td>20.8</td>
</tr>
<tr>
<td>Onions</td>
<td>9,880</td>
<td>58,000</td>
<td>0.72</td>
<td>19.1</td>
<td>54.2</td>
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Regional Competitiveness (2)

- Dualistic system
  - FFV Export sector is internationally competitive
  - Traditional FFV system is not regionally competitive
  - Determinants
    - Very high transport costs
    - “Policing” orientation in seed sector
      - Less varietal development and dissemination than in Tanzania ➔ Onions, Oranges
    - Tough disease problems, e.g., citrus greening
  - But need to cast net wider
    - Does Kenya export processed fruit to the region?

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Market shares of various retail outlets in sales of “basic foods”, Nairobi, October 2003
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Slightly more than 1 in 10 Ksh spent on “basic foods” are spent in supermarket chains …

… but these purchases are concentrated among wealthiest 20% of the population
## Market shares of various retail outlets in sales of *fresh fruits and vegetables*, Nairobi, October 2003

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<tr>
<td>1 (lowest)</td>
<td>7,407</td>
<td>% of Total FFV Expenditure</td>
<td>0.0% 0.1% 0.2%</td>
<td>53.3% 42.9% 0.0%</td>
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*Fewer than 1 in 20 Ksh spent on fresh produce is spent in supermarket chains…*
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… and nearly ALL of this occurs among the wealthiest 20% of the population.
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## Overall Share of different Food Groups in Total Food Expenditure, by per capita Income Quintile

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<tr>
<th>Per capita Income Quintile</th>
<th>Mean Per Capita Income (Ksh)</th>
<th>Food Group</th>
<th>Staples</th>
<th>Dairy</th>
<th>Meat</th>
<th>Fruits &amp; Vegetables</th>
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What about rural markets?

- Rural survey of 2,300 smallholder farmers shows:
  - 96% purchase FFV as compared to 77% urban consumers
  - Estimated size of rural FFV market nearly 2/3 that of the urban market
    - Nearly 40% of the national market!
  - Supermarket share near zero

Why is the supermarket share so low?

- 60% more expensive on comparable items
Why is the supermarket share so low?

- Locational convenience of markets and kiosks
  - Not easily overcome by supermarkets
- Personal relationships in markets and kiosks
  - Credit to favored customers
  - Social comfort level for low income consumers

How rapidly is the supermarket share of FFV likely to grow in Kenya?

- The supermarket share of FFV in Kenya will certainly grow over time
  - The question is: how fast?
- Demand-side determinants include:
  - Per capita income
  - Urbanization
Kenya’s “traditional” marketing system will maintain a very large share of the FFV market for the foreseeable future

At least 80%, probably higher

What does this imply about policy?

A question of balance

- Supermarkets can be important forces of modernization
  - Affecting the practices of traditional marketing agents
  - Seeking out consumer demand, attempting to satisfy it
  - Paying better prices to farmers – higher incomes?
  - Very important!
- But they have a very small market share in FFV, and this is not likely to change as rapidly as some think
Modernize the food system …
… don’t just focus on one modern element within it

Domestic Marketing Channels (7)

- Recent investment in supermarkets does not alter the fundamental challenge facing development planners focusing on FFV:
  - How to expand domestic and regional markets and integrate smallholders into profitable supply chains
- Improving quality and reducing costs in assembly, wholesale, and “traditional” retail market outlets will be central to meeting this challenge
  - The rise of supermarkets creates one more competitive dynamic that may lend more urgency to these issues
Conclusions, Recommendations

- Need investment in three areas
  - Legal and regulatory environment
  - Technical production constraints
  - “Hard” and “soft” market infrastructure

- Legal/regulatory and technical aspects come together on seed
  - How to replicate Tanzania’s apparent success in village level Quality Declared Seed programs
  - Need a regulatory approach that facilitates innovation, avoids heavy policing approach

Conclusions, Recommendations (2)

- Hard and soft market infrastructure
  - Traditional wholesale and retail markets need to be one key focus
    - “All our major markets are characterized by chaos, cheating, thuggery, and dirt”. Simon Ethangatta, former head Fresh Produce Exporters’ Association
  - Need improved security, efficiency, hygiene, grades and standards, and price information by grade
Conclusions, Recommendations (3)

- Hard and soft market infrastructure, cont’d
  - Authorities need business orientation while realizing that they are creating a public good
  - Expanding access of smallholder farmers and poor consumers to more dynamic, lower cost marketing system
  - Public/private/NGO/donor partnering is crucial

Summary

- Domestic sector much larger than export, may grow faster
- Address Kenya’s regional competitive disadvantage
  - Roads
  - Seed system – learn from Tanzania – policy matters!
  - Disease control ➔ Oranges
- Keep supermarkets in perspective
  - One potentially important force of change
- Improve security, cleanliness, logistical efficiency, and services at wholesale, retail, and assembly markets
  - Partnering!
Ongoing Studies

- Urban marketing
  - Market shares, costs, SOPs and bottlenecks in procurement of various retail outlet types
  - Identify specific investments to improve logistics, hygiene, and market information in wholesale markets
  - Partnering is key

- Rural marketing
  - Many rural households likely to be net buyers
  - So performance of the rural marketing system will affect real incomes of net sellers and net buyers
  - Rural assembly is key determinant of final costs in both rural and urban areas

- Rural-Urban links
  - Linking farmers to the high volume high value urban markets