
Improving Kenya's Domestic Horticultural Production and Marketing System: Current Competitiveness, Forces of Change, and Challenges for the Future

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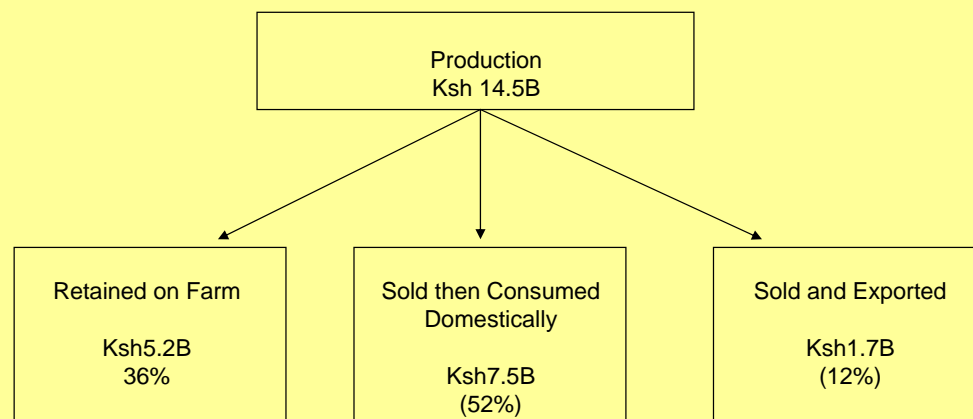
Outline

- 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
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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"
 - 31,700 entries
 - Of first 80, 40 were about export system, 5 about domestic system, and 35 about other aspects of horticulture
- Yet the domestic system is much larger, and has shown more absolute growth

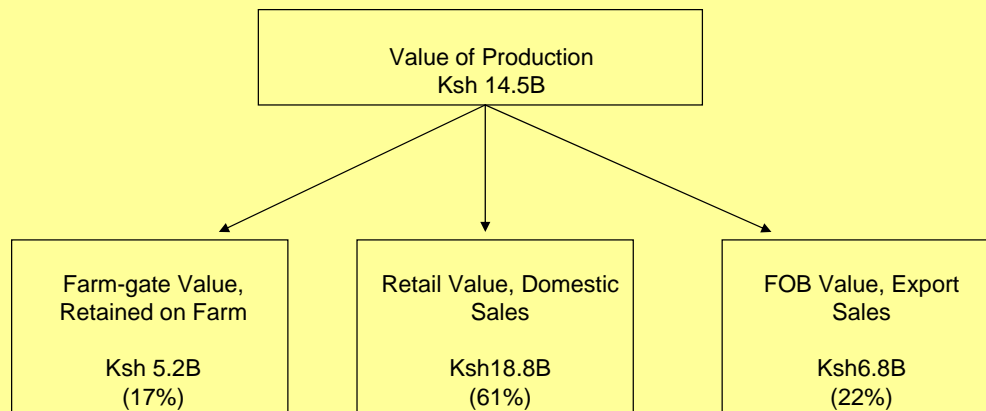
Market channel shares (farm, local sales, export sales) of total vegetable production in Kenya, 1997-2001, valued at farm-gate prices



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



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
- 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
- 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

Horticulture in Smallholder Livelihoods

- FFV income shares for smallholders range 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

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

Marketing Cost Summary for Bananas, Tomatoes, Oranges and Onions from Kenya and Regional Competitors

Cost/Revenue Item	Bananas		Tomatoes		Oranges		Onions	
	Ugan	Kenya	Tanz	Kenya	Tanz	Kenya	Tanz	Kenya
Mean purchase price	20	60	180	357-400	375-1009	192	1,483	1,447-1,560
Mean selling price	80	140	638	700-825	850-2006	660	2,400	2,300-2,367
Gross Marketing Margin	60	80	458	343-425	475-997	468	917	740-920
Marketing Costs	40	47	279	123-159	227-349	278	560	595-777
Wholesaler profit	20	33	179	184-302	248-648	190	357	143-145

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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?

Domestic Marketing Channels

- Dramatic language in recent “supermarket literature”
 - A “revolution” in food retailing
 - Supermarkets are “taking over” ... small shops are “disappearing”
 - ... and in the popular press informed by this literature
 - “The growth of supermarket chains is threatening the survival of small-scale farmers in the developing world”
East African Standard, Friday 19 March
 - Is the empirical evidence as dramatic?
 - One quote among many from Latin America:
 - “Despite the growth ..., expectations regarding (supermarkets’) ... ability to displace traditional retailing have not been met.”
(Schwentenius and Gomez, 2002; Mexico)
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Domestic Marketing Channels (3)

- What about Kenya?
 - Supermarket share of FFV <10% in Nairobi, even lower elsewhere
 - Based on relative price levels, patterns in other countries, and emerging survey research
 - How rapidly is this share likely to grow in Kenya?
 - Demand-side determinants include:
 - Per capita income
 - Urbanization
-

Comparison of per capita incomes, urbanization, and supermarket share of FFV market in selected Latin American and African countries (sorted by PPP per capita income)

Country	GNI per capita	PPP GNI per capita	Urban Pop. %	FFV supermarket share	Source of FFV share
Argentina	6,940	10,980	89	23 (1997)	Ghezán et al
South Africa	2,820	10,910	55	15-20??	Weatherspoon, et al
Costa Rica	4,060	9,260	52	18 (2002)	Berdegúe, et al
Chile	4,590	8,840	85	3-8 (2001)	Reardon and Berdegúe
Mexico	5,530	8,240	74	21 (2001)	Schwentesius and Gomez
Brazil	3,070	7,070	81	37 (1996)	Farina
El Salvador	2,040	5,160	47	11 (2002)	Berdegúe, et al
Guatemala	1,680	4,380	40	9 (2002)	Berdegúe, et al
Honduras	900	2,760	47	12 (2002)	Berdegúe, et al
Nicaragua	355	2,150	65	5 (2002)	Berdegúe, et al
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Domestic Marketing Channels (5)

- Kenya's per capita purchasing power less than 1/2 that in poorest Latin American country
- Urbanization also the lowest of all these countries
- FFV market share of supermarkets generally about 20% or less even in wealthiest Latin American countries
 - Brazil an exception at 37%
- Overall food shares of supermarkets can be much higher
 - 36% overall food share in Central America, only 10% on FFV
 - Similar patterns in South America, though both shares a bit higher
 - Almost certainly the same in Kenya, though data lacking

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?

Domestic Marketing Channels (6)

- Recommendations out of the recent “supermarket literature”
 - “... development agencies must internalize the fact that, increasingly, ‘product markets’ will mean ‘supermarkets’.” (Reardon and Berdegué, 2002)
 - “... a market-demand driven approach would start by identifying the principal buyers that are leading the market ... these ... are the supermarket procurement officers of the leading chains ...” (Weatherspoon et al, 2003)
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*We believe that, for FFV supply chains,
these conclusions are overstated and risk
misallocating scarce government
and donor resources*

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
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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
 - 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
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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!

Further Research

- 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