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KENYA EXPORT DEVELOPMENT SUPPORT

KENYA HORTICULTURAL SUBSECTOR SURVEY

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KENYA EXPORT DEVELOPMENT SUPPORT (KEDS) PROJECT

KENYA HORTICULTURAL SUBSECTOR SURVEY

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LIST OF ACRONYMS

EEC	European Economic Community
EPZ	Export Processing Zone
FAO	Food and Agricultural Organization of the United Nations
FPEAK	Fresh Horticultural Produce Exporters Association of Kenya
GTZ	German Agency for Technical Development
HCD	Horticultural Crops Division
HCDA	Horticultural Crops Development Authority
HCU	Horticultural Cooperative Union
HEA	Home Exporters Association
IESC	International Executive Services Corporation
ITC	International Trade Center UNCTAD/GATT
JICA	Japanese International Cooperation Agency
KAHL	Kenya Airfreight Handling Limited
KARI	Kenyan Agricultural Research Institute
KEDS	Kenya Export Development Support Project
MoA	Ministry of Agriculture
NARP	National Agricultural Research Project
NEP	National Extension Program (I and II)
NRI	British Natural Resources Institute
ODA	British Overseas Development Administration
UN	United Nations
UNDP	United Nations Development Program
USAID	United States Agency for International Development

Notation on Source of Data:

All the statistical data presented in this report was obtained from HCDA's and the Ministry of Agriculture's archives. It should be noted that there were numerous inconsistencies in the reported data for the same year and country on a report by report basis. Therefore it is not possible to vouch for the complete accuracy of data although it is certainly valuable for trend analysis.

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EXECUTIVE SUMMARY

The purpose of this study was to provide a KEDS "road map" for the horticultural crops subsector in Kenya. An overview and analysis of the current situation is augmented with recommended changes to increase competitiveness in international markets. Information was compiled through an analysis of Ministry of Agriculture (HCDA) statistics; a review of previous donor agency and Government of Kenya subsector reports; inspections of airport handling facilities; and on-site interviews with a range of exporters. The report is divided into ten sections, each of which is summarized briefly below.

A. Background

Kenya is blessed with an agro-climatic diversity which allows the production of a very wide range of crops, however suitable land on which to exploit this opportunity is limited. The national economy is entering a critical phase where imports are double the level of exports and population growth has meant that vastly more people are now looking for work than there are jobs available.

Expanding horticultural exports in an environment of this type makes sense because it offers a significant potential for increased employment opportunities and increased foreign exchange earnings. Moreover, production can be rapidly expanded for many horticultural crops, with the additional advantage of maximizing utilization of the limited land resources.

Government hopes were raised sufficiently, based on this rationale and the fact that fresh horticultural exports grew rapidly in the 1980's (peaking in 1988 at over 59,000 tons), to make ambitious projections for the sector's foreign exchange earnings in the 1990's. In reality, while horticultural exports are the third most important foreign exchange earners after tourism and tea, fresh produce exports slumped to 50,000 tons in 1989 and have remained static since. This can be attributed to a variety of reasons, chief among them limited cargo space, but also increased export competition, decreased demand in Middle Eastern and some European markets, and a reemphasis by large Kenyan exporters on lower volume, value-added products.

The end result, however, is that Kenya must aggressively protect its existing market share while laying a foundation for growth if it is to enjoy improved employment prospects and foreign exchange earnings from its horticultural industry.

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B. Donor Activities in the Horticultural Sub-Sector

A large number of international donor agencies have made contributions to the further development of Kenya's horticultural sub-sector, mainly in the areas of institutional strengthening, policy and legislative reform, and infrastructure rehabilitation and development. Recent or on-going activities have been undertaken by the United Nations agencies (UNDP, ITC, FAO) in areas of crop production profiles, sub-sector assessment, project design, and marketing workshops; the World Bank in rationalization of extension services, sectoral adjustment, cargo handling equipment, policy reform; the British Overseas Development Administration in postharvest and transportation seminars; the German Agency for International Development in tree fruit production and postharvest, and sea transportation trials and technology; the Japanese International Cooperation Agency in cargo-handling studies and the development of the macadamia nut industry; and the U.S. Agency for International Development (USAID) in drylands crop production, soil and water management, sub-sector studies, and through support to the International Executive Services Corps in avocado production and postharvest technology.

C. Analysis of Export Performance

What appears at first to be a wide diversity of fresh produce export crops is actually revealed as a strong dependence on just four main product groups: processed pineapples (61%); cut flowers (13%); French beans (12%); and Asian vegetables (7%). The processed volume, while much greater, does not carry as high a value as the latter three product groups, which reflect over 81 percent of Kenyan fresh exports.

The European market is the only significant export destination and the most important countries by volume are: the United Kingdom (34%); France (20%); the Netherlands (22%); and Germany (13%).

In terms of probable market "trends," it is expected that the U.K.'s share of Asian vegetables from Kenya will decline, but that the demand for pre-packed French beans will increase in market value (though not volume); prices for beans to France are likely to fall as more West African exporters enter the trade; and both the Dutch and German cut flower markets will continue to expand, with the latter also showing growth for produce.

D. The Production Environment

The large producers of fruits, vegetables and cut flowers are vertically integrated and utilize up-to-date production methods, high quality seed and good quality land resulting in high yields and top product quality. Problems facing these large estates are likely to be lack of security about land tenure and foreign exchange restrictions.

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As much as 75 percent of fruits and vegetables (excluding pineapples) are grown by smallholders under contract to exporters, however. Therefore the smallholder's problems with lack of capital, insufficient extension and technical advice, and marketing uncertainties take on great significance.

Another major problem facing small and medium-sized producers and exporters is a lack of imported seed, due both to availability and cost. Most of the major seed companies operating internationally refuse to allo seed material of new and improved varieties into Kenya because the Government has not signed the International Plant Breeders Rights Agreement (protection for the collection of royalties from sales of certified seeds). The large exporters are still able to import seeds because they have the capital and can guarantee proper seed usage. Therefore they obtain higher yields, more disease resistant and better quality products.

E. The Postharvest Environment

On-farm precooling is rare: Lack of adequate feeder and access roads adds to exporter costs and impacts negatively on quality. Locally manufactured packaging materials are of relatively poor quality and expensive, and customs bottlenecks create a problem with importing packaging. Public handling and refrigeration facilities at the airport are substandard. Air freight capacity is saturated and sea freight opportunities have not been exploited. And the market information resource base is poor with many of the small and medium-sized exporters operating with little understanding of the export marketplace.

Given the myriad of postharvest-related problems, most particularly the transportation situation (exacerbated by the government's high taxation on aviation fuel), KEDS should examine opportunities for horticultural processing industries. These are not constrained by air freight capacity, have the potential to create large employment, and might be able to take advantage of the export processing zone incentives. Negatives based on past experience might be poor management and insufficient investment capital.

F. Export Markets

Western Europe is the largest produce importer in the world, accounting for 50% of world trade at US$17 billion each year, and is also the largest importer of cut flowers at US$2 billion per year. The United States imports US$5.5 billion of produce, and US$225 million of cut flowers, while Japan imports US$4 billion of produce, and US$100 million of cut flowers. Japanese imports of cut flowers are rising rapidly and, in fact, growth in demand for imported cut flowers is expected to outpace produce in all of the major industrialized markets. Further concentration on cut flowers is therefore recommended.

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The European consumption trend towards "fresh and healthy" produce has been negatively impacted by economic recession, Eastern European food shortages, and unification in 1992. These factors, coupled with the eventual possibility of European community regulations on pre-cooling and air freight availability and costs, should encourage Kenyan expansion and diversification into more processed products (especially canned and frozen fruits and vegetables) and value-added fresh products. The large Kenyan exporters are already diversifying from French beans into mangetout, cherry tomatoes, and pre-packed beans. Another option is to rapidly develop sea freight linkages for less perishable and bulkier crops such as avocadoes and mangoes.

G. Kenyan Horticultural Exporters

There are approximately 200 licensed fresh produce exporters but only about 50 are regularly active. The remainder are "briefcase exporters" who tend to export only sporadically during the peak season from October to April, and then only when prices are at their highest in the European markets. It is very common for these briefcase exporters to remain in the marketplace for only one or two seasons.

The largest flower exporters are majority owned by multinational corporations or are owned by foreign investors in partnership with local Kenyans. The largest of the fruit and vegetable exporting companies are majority owned by European or Asian Kenyans. Most of the smaller exporting companies are owned by African Kenyans. One company, Kenya Canneries Ltd., a subsidiary of Del Monte, wholly dominates processed horticultural exports (canned pineapples). Refer to page 36 for a percentage breakdown of export market share by individual exporters.

H. Institutional Interface

The Ministry of Agriculture is the key public sector institution responsible for agricultural development and farmers services; The Horticultural Crops Division (HCD) is responsible for seed certification, farmer extension and phytosanitary inspection: The Horticultural Crops Development Authority (HCDA) is responsible for export licensing, market information dissemination, monitoring of prices and foreign exchange remittances, and general market support such as assistance with grading, storage and collection. The Kenya Agricultural Research Institute (within the Ministry of Science and Technology) is tasked with applied research.

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The Fresh Produce Exporters Association of Kenya (FPEAK) is the only active private sector organization and is still very much in its infancy. Therefore exporters continue to rely on HCDA for assistance. While they agree, almost unanimously, that HCDA is one of the few organizations trying to help the growers, they feel that the industry has outgrown HCDA and its present capabilities in terms of technical development and extension needs. Most knew little about FPEAK but were supportive of its intent to serve the commercial and promotional needs of the industry. Concurrent with this report, another KEDS consultant assessed the institutional needs of both organizations, taking into account the concerns expressed during the subsector interview process. A training program is now being finalized which should be directly responsive to industry concerns.

I. The Enabling Environment

Several strategic papers and plans for the development of the horticultural subsector have been produced by government, but actual activities and adequate public funding have yet to be committed.

There have been substantial and positive changes in export legislation and the creation of incentives to encourage exporters. However three of the four schemes (export compensation, manufacturing under bond, and export processing zone) can only be applied to qualified processing companies in the horticultural subsector since fresh exporters have no manufacturing input. The fourth, Duty-VAT Remission, ostensibly benefits any company importing inputs for export operations (i.e. packaging materials), but it has been blocked or seriously delayed in many cases.

In terms of availability of domestic commercial finance and credit, the lion's share goes to the larger exporters and processing enterprises who have sufficient assets to secure loans. Access to credit remains a major constraint for the small and medium-scale exporters for even basic improvements like equipment and input supplies.

With regard to export finance and credit, the Central Bank operates a preshipment finance facility for commercial banks which allows them to extend credit to exporters to cover investment and operational costs. However, because it is dependent on the exporter having a letter of credit, most fresh produce exporters cannot qualify (since Letters of Credit are not used). A post-shipment facility has been proposed which would provide finance to small and medium size companies, who wait a considerable period after making a shipment to receive payment. Approval would be based on evidence of the buyer's credit-worthiness.

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J. Recommendations

In the absence of continued growth in horticultural exports, the Kenyan economy may well continue to flounder and unemployment continue to rise. Overall recommendations are therefore put forth for both government and private sector consideration. These are aimed at improving the quality of production, postharvest handling, transportation, and market information so that existing employment can be protected while laying a solid and realistic foundation for the future. A select number of these recommendations could be implemented within the context of the KEDS project, particularly those related to export training, market information, and institutional support strengthening.

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SECTION I
BACKGROUND

OVERVIEW

- Kenya is blessed with an agro-climatic diversity which allows the production of a very wide range of crops but equally is beset with problems of suitable land availability to fully exploit the opportunities. The economy is entering a critical stage with imports double exports. Population growth has meant that more people are now looking for work than there are jobs available.

- The horticultural export industry is recognized as a prolific employer, especially of rural labor, and a significant earner of foreign exchange. Overall horticultural exports grew steadily in the 1980's, peaking in 1988 at over 59,000 tons. Horticultural exports are now the third most important foreign exchange earner after tourism and tea with coffee in fourth place. After 1988's prodigious export achievement, the Government made some ambitious predictions for the future of horticultural exports. In reality exports declined to 50,000 tons in 1989 and have remained static since.

- Agriculture is, and always has been, the mainstay of the Kenyan economy. The coffee and tea industries first established in colonial times are still among the top four earners of foreign exchange in spite of the prolonged slump in world prices for these commodities. Other agro-industries such as cotton and sisal have largely ceased to be of importance in foreign exchange earnings while tourism and horticulture have risen steeply to the point where they now occupy first and third places respectively in the foreign exchange earnings table.

A. 1930's - 1950's

The first significant horticultural export from Kenya was passionfruit juice in the 1930's and Kenya was a major exporter of temperate vegetables such as carrots, cabbages and tomatoes to the U.K. during the Second World War. During the 1950's a pineapple plantation and canning industry was first established and during this time the first air freighted exports of fresh horticultural produce began intermittently to Aden to supply the needs of the oil companies expanding operations in the Middle East. In the late 1950's the first air shipments of high value fresh produce to the U.K. were made and directed to high-class stores and hotels in the winter off-season for temperate produce. These air freighted exports were pioneered by the Horticultural Cooperative Union (HCU) which had been created to provide marketing services for European growers in Kenya and to import a range of commodities into Kenya. However, shipment

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volume and regularity were tightly constrained by the lack of air freight space, and until the end of the colonial period, horticultural exports were dominated by canned pineapple.

B. 1960's - 1970's

The decade following Kenya's independence in 1963 witnessed a substantial diversification in horticultural exports. In 1964 a vegetable dehydration plant was established at Lake Naivasha which exported almost its whole production and served as an important market outlet for new production by local growers. From the mid-1960's a number of large growers and wholesalers of fruits and vegetables followed the initiative of the HCU and began exporting fresh produce, mainly to the U.K. These export commodities were mostly off-season vegetables such as French beans, capsicums and courgettes. A number of Kenyan Asian and African farmers were encouraged to grow a range of Asian vegetables for export to the U.K. in order to satisfy the demand created by that country's growing immigrant population, mostly from South Asia.

The pineapple canning industry came to be dominated by Del Monte in the early 1970's, first through a management contract and later through a majority ownership of Kenya Canners Ltd. However growth in canned products was poor and occasionally negative. It was not until the latter part of the 1970's that Kenya emerged as a major world supplier of canned pineapple products.

The Horticultural Crops Development Authority (HCDA) was first formed in 1967 with a wide legal authority to support and regulate the horticultural trade and to engage directly in trade itself. Soon after, in 1969, a Danish firm set up production of flowers near Lake Naivasha for air-freighted export to Europe but initial export volume was low and did not become significant until the early 1970's when air cargo space increased. This increase in air cargo space combined with major expansion in horticultural production led to a rapid expansion of fresh produce exports. The number of smallholders supplying large growers or exporters expanded rapidly and a great many new exporters entered the arena. On the back of this enthusiasm and from market indications in Europe and the Middle East smallholdings increased plantings of mango and avocado.

C. 1980's

By 1980 the flower export industry had grown in importance to assume a major share of foreign exchange earnings; but the exports of off-season capsicums, aubergines and courgettes were rapidly losing market share in Europe to new competitors who had extended their harvest season in southern Europe, and in West Africa. Cheaper air or sea transportation allowed these competitors to seriously undercut the price of the Kenyan airfreighted produce. In response, the Kenyan exporters concentrated on expanding French bean and Asian vegetable exports in which Kenya had a clear edge in quality and productivity by virtue of climate.

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Independent research and development by the large flower exporters allowed them to retain their edge in exports through improved productivity and the regular introduction of newer varieties, mostly from their own breeding schemes. But while fruit and vegetable export industry required relatively little in the way of capital investment, and thus attracted participation by large numbers of small entrepreneurs, the same could not be said of the flower industry. Here the investment in capital intensive technology had now become mandatory for success and the pattern of very few large and highly-integrated operations wholly dominating the cut-flower export industry was set. As will be seen later, this pattern is, if anything, more permanent than ever.

Beginning in 1980, growth in fresh produce exports continued to expand steadily and peaked sharply in 1988 as a result of large volume exports of fresh pineapples to Italy. Encouraged by this steady growth, the Government of Kenya forecast further expansion in export volume and foreign exchange earnings. However, this pineapple market was not sustained in 1989 and for the last several years fresh produce exports have been flat at just below 50,000 tons. The probable reasons for the recent plateau of export volume are discussed later in this survey, but whatever the causes it is the likely consequences which are most important.

D. 1990's - Outlook

The recent levelling off of fresh produce export volume will adversely affect employment prospects. In addition, the switch by many of the larger exporters to lower volume but higher value commodities, such as pre-pack beans and more exotic flower lines, may have a further negative influence on employment. While some additional employment may be gained from the relatively immature but growing horticultural processing industries, Kenya must aggressively protect its existing market share while laying the foundation for growth if it is to enjoy improved employment prospects and foreign exchange earnings from its horticultural industry.

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SECTION II
DONOR ACTIVITIES IN THE HORTICULTURAL SUB-SECTOR

OVERVIEW

A number of international donor agencies have made contributions, either directly or indirectly, to the further development of Kenya's horticultural sub-sector. The main areas of focus for assistance have been institutional strengthening or policy and legislation reform coupled with infrastructure rehabilitation and development. Unfortunately, and in common with many other countries, the donor assistance has not always been well coordinated and some overlap and repetition of activities has occurred.

The assistance described below pertains only to recent or ongoing activities of relevance to the horticultural export industry.

A. United Nations Agencies (UN)

Three United Nations agencies have been active in the development of Kenya's horticultural sub-sector over the last two decades, namely: the United Nations Development Programme (UNDP); the Food and Agriculture Organization of the United Nations (FAO); and, the International Trade Centre UNCTAD/GATT (ITC).

UNDP involvement has been as a funding agency for projects largely executed by FAO and in direct collaboration with the public sector institutions. One particular FAO executed project, which is scheduled for completion and termination in September 1992 is providing assistance through the Kenyan Agricultural Research Institute (KARI). This project has three components: to provide technical assistance to small scale flower growers looking to commence exports to Europe; to provide technical assistance in acquisition and propagation of improved mango varieties; and to provide technical assistance to small-scale growers looking to export Asian vegetables to Europe. A key output of the assistance to the flower growers has been the preparation of detailed technical crop production information for the major export cut flower varieties. It is not known if similar crop profiles for mangoes and Asian vegetables will also be published by the project.

In 1989, a mission from the FAO Investment Centre completed a study of the horticultural sub-sector and prepared a project outline, ostensibly for funding by the African Development Bank but also for the interest of other possible funding agencies, for institutional strengthening of HCDA and infrastructural improvements to ports, especially cargo handling and refrigeration facilities for export produce at Nairobi airport. The mission report stressed that project implementation was subject to liberalization of export legislation, privatization of the cargo handling operations and

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amendments to the taxing of aviation fuel. The project outline did not elicit a response from ADB or any other funding agency and a follow-up mission was fielded by the FAO Investment Centre in February 1992. This latest mission updated the previous survey of the sub-sector and produced two new project proposals: a horticulture development project; and an indigenous crops support project. The proposed horticulture project is intended to: develop and rehabilitate about 1,500 ha of existing small irrigation schemes; apply soil conservation measures; construct access roads to irrigated areas; offer support to farmer organizations through establishment of water users associations, performance of adaptive research trials with KARI, and through training programs for HCDA and MoA extension agents; construct collection centers for grading and packing produce; and lastly provide institutional support to HCDA in the form of marketing extension, and to an exporters association (FPEAK not identified) for coordination and promotion of export activities, training and laboratory equipment for the phytosanitary inspectors.

This latest Investment Centre mission was fielded after the KEDS project had been approved by USAID and at around the same time that contractors were being selected. However, the Investment Centre mission failed to recognize that the KEDS project included direct technical assistance and institutional strengthening of both HCDA and FPEAK and this component of their project proposal is thus wholly duplicative.

In 1991, FAO convened a Regional Horticultural Marketing Workshop in Nairobi, which was attended by representatives of export marketing organizations from the region, including Kenya. A series of papers were presented at the workshop by marketing consultants specializing in exports to the European markets, including export specific details and recommendations for a whole range of fresh produce crops and cut flowers.

Details of the next Country Programme for UNDP have yet to be finalized, but the Programme is expected to concentrate on human resource development in both the private and public sector, employment creation, civil service reform, and restructuring of parastatals. It is also expected that involvement in the horticultural sub-sector will continue as part of this overall Country Programme. Support to gender in development and other humanitarian issues such as AIDS will be ongoing.

B. World Bank

The World Bank supported the National Extension Programme I (NEP I) for the introduction of T & V systems and the rationalization of the various agricultural extension services. In 1990, the Bank financed NEP II in order to complete harmonization of extension efforts, to expand coverage to 40 out of the 45 districts and to take into consideration the arid and semi-arid lands.

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Directly relevant to the horticultural export industry, the World Bank is financing the Export Development Project ($100 million credit) which is aimed at sectoral adjustment and includes supply of improved cargo handling equipment at the airport alongside policy reform in this area, notably the lifting of the monopoly on cargo handling by KAHL and the eventual release to the private sector. The Export Development Project also includes the establishment and development of the EPZs and the Kenya Export Assistance Scheme (KEAS).

C. British Overseas Development Administration (ODA)

In recent years ODA has funded a series of specific in-country training courses and seminars organized and delivered by the British Natural Resources Institute (NRI). The first course was held in 1990 and a follow-up course in March 1991. More recently (November, 1991) the NRI undertook a short training course in commercial post-harvest practices for horticultural crops and provided technical assistance at a seminar on sea transport for horticultural produce. These courses and seminars were conducted through HCDA and participants included a wide range of individuals from both public and private sectors.

D. German Agency for Technical Development (GTZ)

GTZ has been involved continuously in the development of the horticultural sub-sector for two decades or more. During most of the 1980's, GTZ support was targeted towards institutional development in the public sector and the training of individuals in horticultural production techniques. A major feature was the establishment of tree-crop nurseries and then mother-tree orchards as the basis for dissemination of improved planting materials and the introduction of new varieties. The first emphasis of the GTZ programme was to create self-sufficiency in tree-fruits leading to industrial development and finally export.

Recently GTZ funded a detailed survey by HCDA of the tree-fruit population in Kenya as a baseline for the development of high-volume sea freight exports. The initial survey report prepared by HCDA has not yet met with GTZ requirements and a modified approach to information gathering may be adopted before completing the survey.

GTZ plans to actively support sea freight exports in the near future by assisting with trials and providing specific technical assistance in developing the necessary post-harvest technology.

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E. Japanese Government and the Japanese International Cooperation Agency (JICA)

The Japanese Government has funded a number of technical studies of cargo handling facilities and requirements at the airport. Although specific details could not be ascertained during the course of this sub-sector survey, it is believed that the Japanese Government will finance the construction of improved cargo handling facilities, including new and much larger refrigeration facilities, at the airport. There is a strong possibility that funding will be from non-project grant aid and will almost certainly be implemented by Japanese contractors.

Assistance from JICA to the sub-sector has been specifically targeted at the establishment and development of Kenya's macadamia nut industry, including introduction and support to exports of the crop to the Japanese market. The beneficiary of this assistance was the Kenya Nut Company, who now export all their crop to Japan.

F. United States Agency for International Development (USAID)

The USAID Mission in Kenya provided direct field support in the arid and semi-arid lands, relevant to drylands crop production, soil and water management. Coordination for implementation of the National Agricultural Research Project II (NARP II) which is expected to be part-funded by USAID in conjunction with a large number of other donors (IDA, EEC, ODA, UNDP, etc.) is currently under discussion.

The USAID Mission in Kenya commissioned several studies of the horticulture sub-sector during the late 1980's. These studies were part of the build-up towards the KEDS project.

G. International Executive Services Corporation (IESC)

IESC has provided short-term technical expertise in avocado production and post-harvest technology and is now considering provision of short-term technical assistance and guidance on organization and management to FPEAK. This is subject to approval by USAID and the FPEAK Board.

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SECTION III
PRELIMINARY ANALYSIS OF KENYA'S RECENT EXPORT PERFORMANCE IN FRESH HORTICULTURAL CROPS

OVERVIEW

- Fresh horticultural exports grew steadily in the 1980's, peaking in 1988 at over 59,000 Kg. and then declining to 49,503 Kg in 1989 where is has remained for the past two years. Exports of fresh and processed horticultural exports earned Ksh 2.3 billion in 1989. Total horticultural exports are now the third most important foreign exchange earner after tourism and tea, with coffee slipping to fourth place.

- At first sight there appears to be a wide diversity of crops exported, but a more detailed appraisal reveals a strong dependence on just four main commodity lines - processed pineapples, cut flowers, French beans and Asian vegetables.

- In addition there is a strong dependence on four main countries - the U.K., France, Germany and the Netherlands. Cut flower export volume is dependent on the Netherlands and German markets while Asian vegetable exports are almost exclusively dependent on the U.K. market.

- The desk research and interview activities undertaken as part of the preparation for this survey resulted in the accumulation of a considerable body of data and general information, most of it obtained from the HCDA archives. One of the principal outputs from the KEDS project is to be an enhanced information and analysis capability for both HCDA and FPEAK. Accordingly, this survey will focus on key indicative data only and the analysis must be considered as merely a preliminary to further work by the KEDS project.

The most relevant and accurate information on fresh produce exports is collected by HCDA from the Appendix III forms filled out by every exporter for each individual export shipment as part of the mandatory export documentation procedures. This information is unloaded and stored on the HCDA computer. HCDA staff utilize basic data handling software to analyze the data and determine export trends which are available in hard copy. However, a major system failure on this computer has meant that HCDA has not been able to access the data for some time.

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All the HCDA statistical data presented herein was obtained through photocopies of archive materials. In some cases, notably export values, this proved to be incomplete. In the case of export volume data, data was inconsistently reported, and the photocopies supplied by HCDA were often illegible. Consequently, it's not possible to vouch for the complete accuracy of the data presented although it is valuable for trend analysis. To correct this situation, the KKDS Project will be providing HCDA with computer equipment, programs and training particularly in management information systems.

A. Kenya Fresh and Processed Horticultural Exports, 1968 - 1991

Fresh produce export volume was initially low and slow growing but by 1980 the volume had expanded considerably, and there was rapid growth in the mid 1980s. Peak export volume for fresh produce was experienced in 1988 primarily due to pineapple exports to Italy in that year. In 1989, pineapple exports to Italy almost disappeared although the background trend of increasing volume continued. However, since 1989 further growth in volume has been almost non-existent although export value has continued to increase, mostly as a result of devaluation of the Kenyan shilling.

TABLE 1

Kenyan Fresh & Processed Horticultural Exports, 1968-1991

Year	Volume (000Kg)		Value (Ksh millions)		
	Fresh	Processed	Fresh	Processed	Total
1968	1,476				
1970	3,224				
1980	22,000				
1984	31,000				
1985	30,000	54,465	469	590	1,059
1986	36,211	74,209	620	703	1,323
1987	36,557	100,319	900	633	1,533
1988	59,119	92,344	1,328	546	1,874
1989	49,503	77,175	1,440	940	2,380
1990	49,147		1,678		
1991	49,848		2,011		

Source: Fresh Exports - HCDA Archives; Processed Exports - Ministry of Agriculture; missing date not available (see previous page for explanation.)

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The processed horticultural exports are dominated by canned pineapple; volume increased almost 50 per cent per annum after 1985 until peaking in 1987. It seems likely that world markets became oversupplied and prices fell, as can be seen by the fall in export value in 1987 despite a 50 per cent increase in volume. Accordingly, Del Monte's exports of fresh pineapple to Italy in 1988 can be explained by the need to clear existing production which had been designated for processed exports, and to scale back future production. This strategy would recognize the rapid introduction and immense expansion of competitive pineapple processing plants in South East Asia at that time.

Processed volume was still much greater than fresh volume in 1989 and indications are that this situation remained unchanged in 1990 and 1991, although there is no data available to confirm this. However, fresh produce carries a much higher value than processed, (+ 53% in 1989 for last year for which data exists).

B. Kenya Fresh Produce Exports by Product or Product Group, 1987-1991

Overall, French beans represented almost 30 per cent of all Kenyan fresh produce exports in 1991 with cut flowers representing almost 33 per cent, and Asian vegetables 18.5 per cent. In aggregate, these three product groups represented over 81 per cent of all Kenyan fresh produce exports as indicated in Table II on the following page.

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*Pineapple exports increased dramatically in 1988 from a low base when Kenya Canneries diverted fresh production away from canning to the Italian market in what appears to be an effort to reduce excess production. As a consequence of that action coupled with a commensurate production scale-back, volume fell dramatically in 1989 and returned to its former low base in 1990 and 1991.

TABLE II

Kenyan Fresh Produce Exports by Product or Product Group

Commodity	Annual Export Volume to All Countries (000 Kg)				
	1987	1988	1989	1990	1991
Pineapple	925.2	16,745.1*	3,254.6	767.0	580.1
Mangoes	1,872.3	3,485.1	2,971.2	2,612.6	1,745.2
Avocadoes	2,002.7	3,753.2	3,437.7	3,310.7	4,193.0
Strawberry	248.4	622.9	777.8	638.8	398.4
Passionfruit	1,161.0	733.0	390.0	445.8	619.1
Melon	154.9	385.3	129.6	55.2	97.4
Pawpaw	112.2	116.2	114.7	92.5	74.0
Lime/Lemon	62.2	59.4	45.2	34.7	27.5
Misc. Fruits	697.7	544.8	353.2	329.4	635.0
French Beans	9,766.3	12,009.5	15,227.0	16,329.6	14,855.0
Bobby Beans	345.2	268.2	251.6	297.9	451.1
Capsicums	42.8	36.7	25.5	27.1	14.0
Asian Veg.	9,557.7	8,573.0	8,588.3	9,248.6	9,230.0
Courgettes	80.3	54.4	37.4	52.1	20.4
Tomatoes	289.9	246.8	234.3	142.1	101.7
Leeks	12.3	17.9	15.3	8.6	4.7
Carrots	27.8	23.3	10.1	10.0	2.8
Misc. Veg.	385.0	378.7	349.3	276.6	353.4
Misc. Roots	200.5	119.7	45.6	46.7	42.3
Cut Flowers	8,612.9	10,946.1	13,245.2	14,422.6	16,405.0
Totals	36,557.3	59,119.2	49,503.6	49,147.5	49,848.1

Source: HCDA Archives. Columns may not add to total due to rounding.

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In 1987, Asian vegetables were the second most important export after French beans, closely followed by cut flowers. However, static export volumes of Asian vegetables since 1987 have reduced them to third place in 1991 following cut flowers and French beans respectively.

Mango exports rose in 1988, principally to the Middle East countries, but have since fallen below 1987 levels because Kenyan varieties failed to achieve sufficient demand in any of the markets.

Avocado exports have doubled over the 1987 to 1991 period. However, poor price competitiveness versus other suppliers' sea freighted deliveries coupled with a less desirable variety have prevented volume from reaching even higher levels. Avocado could be a major export crop for Kenya if and when large volume, sea freight transport is established.

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C. Kenya Fresh Produce Exports by Country, 1987-1991

Removing the exports of pineapples to Italy from the overall figures allows a more consistent and coherent understanding of export market trends over the previous five years. As indicated in Table III, four countries - U.K., France, Netherlands and Germany - accounted for 82.9 per cent of all Kenyan fresh exports in 1987. And in spite of varying trends among these four countries, they still account for a total of 88.4 per cent of export volume in 1991.

In 1987, exports to the U.K. were outstandingly dominant. Market share has since declined resulting from the lack of growth in Asian vegetables coupled with more rapid growth in exports of French beans and cut flowers to other European markets. The German market has kept its proportional share of Kenyan exports throughout; this reflects the relatively steady growth in export volume to this country. France's export market share has also grown throughout the period, posting gains in successive years and reflecting the consistent growth of French bean exports. The same can be said of the Dutch market where share of Kenyan exports has grown with volume increases in cut flowers.

While the Middle East countries of Saudi Arabia and Djibouti represented 5 percent of Kenya's fresh produce exports in 1987, this proportion has fallen in the last two years reflecting zero growth in export volume. None of the other countries, either individually or collectively, are of significance in terms of proportion of exports.

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TABLE III
KENYA FRESH PRODUCE EXPORTS VOLUME AND SHARE BY COUNTRY 1987 - 1991
(KGS'000)

COUNTRY	1987	1988	1989	1990	1991
UK					
Volume	15721	16100	17067	17325	16919
%change vs YA	-0.7	2.4	6.0	1.5	-2.3
%Vol Share(1)	43.0	27.2	34.5	35.5	33.9
GERMANY					
Volume	4543	5583	6025	6521	6419
%change vs YA	-10.1	23.1	7.9	8.2	-1.6
%Vol Share	12.4	9.4	12.2	13.3	12.9
FRANCE					
Volume	4735	6809	8479	9292	9851
%change vs YA	0.1	43.8	24.5	9.6	6.0
%Vol Share	13.0	11.5	17.1	18.9	19.8
SWITZERLAND					
Volume	813	958	956	931	932
%change vs YA	-0.3	17.8	-0.2	-2.6	0.1
%Vol Share	2.2	1.6	1.9	1.9	1.9
BELGIUM					
Volume	2067	2204	2116	2671	1807
%change vs YA	20.7	6.6	-4.0	26.2	-32.3
%Vol Share	5.7	3.7	4.3	5.4	3.6
NETHERLANDS					
Volume	5283	6954	8677	9557	10844
%change vs YA	15.5	31.6	24.8	10.1	13.5
%Vol Share	14.5	11.8	17.5	19.4	21.8
ITALY					
Volume (2)	213	15677	2410	196	285
%change vs YA	54.4	7260.1	-84.6	-91.9	45.4
%Vol Share	0.6	26.5	4.9	0.4	0.8
SWEDEN					
Volume	55	98	79	135	72
%change vs YA	17.7	78.2	-19.4	70.9	-46.7
%Vol Share	0.2	0.2	0.2	0.3	0.1
MIDDLE EAST					
Volume	1887	2162	1077	1060	636
%change vs YA	-18.5	14.6	-50.2	-1.6	-40.0
%Vol Share	5.2	3.7	2.2	2.2	1.3
OTHERS					
Volume	1249	2573	2617	1459	2083
%change vs YA	-6.7	111.2	1.7	-44.2	42.8
%Vol Share	3.4	4.4	5.3	3.0	4.2
TOTAL					
Volume	36557	59119	49503	49147	49848
%change vs YA	0.9	61.8	-16.3	-0.7	1.4

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Notes: (1) Represents percentage each country's export volume represents of the total volume exported by Kenya.

(2) 1988 exports to Italy include one time shipment of pineapples by Kenya Canners

(3) Middle East = Saudi Arabia and Djibouti

(4) Others = All other countries not listed

Source: HCDA Export Statistics per country per year.

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D. Summary of Kenyan Fresh Produce Exports to the United Kingdom, 1991

The U.K. market is the major single destination for Kenyan fresh produce but as can be seen from the following table, 50 per cent of this market volume was Asian vegetables in 1991 and over 30 per cent was French beans. No other single product groups were of any real significance. The relatively low volume of cut flowers exported to the U.K. in comparison with other European importers is symptomatic of the low consumption of cut flowers in the U.K. as a whole, rather than any indication of a weak market share by Kenyan exports.

With sales of Asian vegetables fairly static, it may be expected that the U.K.'s share of Kenyan exports will further decline. However, the U.K. market is leading the demand for pre-packed French beans and so market volume may remain static but market value will probably increase.

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TABLE IV
KENYA FRESH PRODUCE EXPORTS TO THE UK, 1991 VS 1990

COMMODITY	VOLUME (000 KG)			% VOLUME SHARE OF TOTAL EXPORTS		
	1990	1991	%CHANGE VS YA	1990	1991	Pt.Chg VS YA
Mangoes	400.9	260.4	-35.0	2.3	1.5	-0.8
Avocadoes	991.7	749.3	-24.4	5.7	4.4	-1.3
Straw-berries	513.5	316.1	-38.4	3.0	1.9	-1.1
Passion-fruit	133.2	210.6	58.1	0.8	1.2	0.5
Other Fruit (1)	182.0	186.4	2.4	1.1	1.1	0.1
French Beans	5358.2	5195.2	-3.0	30.9	30.7	-0.2
Bobby Beans	51.2	120.9	137.1	0.3	0.7	0.4
All Asian Vegs	8440.6	8460.5	0.2	48.7	50.0	1.3
Other Vegs (2)	196.3	196.5	0.1	1.1	1.2	0.0
Cut Flowers	1057.3	1222.6	15.6	6.1	7.2	1.1
TOTALS	17324.7	16918.5	-2.3	100	100	TOTALS

Notes: (1) Other Fruit: pineapples, melon, pawpaw, limes/lemons, misc.
(2) Other Veg: courgettes, tomatoes, leeks, carrots, misc vegs, misc. roots.

Source: HCDA Archives.

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E. Summary of Kenyan Fresh Produce Exports to the Netherlands, 1991

The Netherlands is famous as the most important market for flowers in the world, and it should not, therefore, be a surprise to see the supremely dominant market share occupied by cut flowers as indicated in Table V. That other fresh produce does not register higher in relative importance may be a reflection of the cut flowers being transported largely by charter or dedicated cargo plane to the Netherlands. The fruits and vegetables have a much lower profit margin, and in any case the major cut flower exporters do not export fruits and vegetables. Domestic consumption of fruits and vegetables in the Netherlands is relatively small because of the small population. Exports to other European countries are being sent directly from Kenya rather than transhipped, at more expense, through the Netherlands.

The volume traded by the ten Flower Auction Houses in the Netherlands, especially at Aarlsmeer, continues to expand each year, with more increases forecast. Accordingly, Kenyan export volume and the value of cut flowers should continue to increase provided Kenya can stay in the forefront of development and promotion of new varieties and flower types of the highest quality.

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TABLE V

KENYA FRESH PRODUCE EXPORTS TO THE NETHERLANDS, 1991 VS 1990

COMMODITY	VOLUME (000 KG)			% VOLUME SHARE OF TOTAL EXPORTS		
	1990	1991	%CHANGE VS YA	1990	1991	Pt.Chg VS YA
Mangoes	126.4	189.3	49.8	1.3	1.7	0.4
Avocadoes	100.8	225.9	124.1	1.1	2.1	1.0
Straw-berries	1.5	3.8	153.3	0.0	0.0	0.0
Passion-fruit	56.5	73.2	29.6	0.6	0.7	0.1
Other Fruit	41.4	63.6	53.6	0.4	0.6	0.2
French Beans	467.5	579.6	24.0	4.9	5.3	0.5
Bobby Beans	34.1	97.5	185.9	0.4	0.9	0.5
All Asian Vegs	139.2	128.9	-7.4	1.5	1.2	-0.3
Other Vegs	4.2	19.2	357.1	0.0	0.2	0.1
Cut Flowers	8585.6	9463.4	10.2	89.8	87.3	-2.6
TOTALS	9557.2	10844.4	13.5	100.0	100.0	

Source: HCDA Archives.
Other Fruit: - pineaapples, melon, pawpaw, limes/lemons, misc.
Other Veg. - courgettes, tomatoes, leeks, carrots, misc. veg., misc. roots

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F. Summary of Kenyan Fresh Produce Exports to France, 1991

The French, on a per capita basis, are noted as the most prolific consumers of French beans and avocadoes in Europe and probably the world. With increased population as a result of immigration from its former colonies, the demand for these commodities has continued to increase. However, some of the Francophone West African countries are increasing their production of French beans and looking to exploit greater proximity to the French market and their obvious cultural connections. A summary is provided in Table VI on the following page.

There is not expected to be any immediate large scale trend towards pre-pack beans for the French market because of current purchasing preferences of the consumers although this could change. Bulk bean supplies, with less added-value, from Kenya should continue therefore, but further increases in export volume cannot be comfortably forecast. Market prices are likely to fall as more West African beans enter the French markets, and Kenyan exporters will have to concentrate on improving efficiency and maintaining top quality if they are to continue to compete.

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TABLE VI
KENYA FRESH PRODUCE EXPORTS TO FRANCE, 1991 VS 1990

COMMODITY	VOLUME (000 KG)			% VOLUME SHARE OF TOTAL EXPORTS		
	1990	1991	%CHANGE VS YA	1990	1991	Pt.Chg VS YA
Mangoes	245.9	84.6	-65.6	2.6	0.9	-1.8
Avocadoes	1428.8	2265.4	58.6	15.4	23.0	7.6
Straw-berries	30.2	9.5	-68.5	0.3	0.1	-0.2
Passion-fruit	112.5	149.3	32.7	1.2	1.5	0.3
Other Fruit	111.1	69.3	-37.6	1.2	0.7	-0.5
French Beans	7007.0	6757.8	-3.6	75.4	68.6	-6.8
Bobby Beans	27.2	109.2	301.5	0.3	1.1	0.8
All Asian Vegs	184.4	170.8	-7.4	2.0	1.7	-0.3
Other Vegs	17.3	79.3	358.4	0.2	0.8	0.6
Cut Flowers	127.5	155.7	22.1	1.4	1.6	0.2
TOTALS	9291.9	9850.9	6.0	100.0	100.0	

Source: HCDA Archives.

Other Fruit: - pineaapples, melon, pawpaw, limes/lemons, misc.
Other Veg. - courgettes, tomatoes, leeks, carrots, misc. veg., misc. roots

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G. Summary of Kenyan Fresh Produce Exports to Germany, 1991

Cut flowers dominate the share of Kenyan exports to Germany (73% of exports), with avocadoes and French beans having considerably less share (10.8%, 6.4% respectively) and no other product of any significance. (See Table VII summary). While the German market has received a steadily increasing volume of Kenyan exports, these could be increased in the near future with development of sea freighted exports of avocadoes to compete more favorably with other suppliers. Mangoes would also be a target for this market provided that the correct varieties are sent and sea freight is used; although development of Kenyan mango exports is likely to be some way off in the future.

Sales of cut flowers to Germany should continue to grow steadily in this market of strong demand and now expanded population although sales to East Germans may take some time to develop.

TABLE VII
KENYA FRESH PRODUCE EXPORTS TO GERMANY, 1991 VS 1990

COMMODITY	VOLUME (000 KG)			% VOLUME SHARE OF TOTAL EXPORTS		
	1990	1991	%CHANGE VS YA	1990	1991	Pt.Chg VS YA
Mangoes	298.0	136.1	-54.3	4.6	2.1	-2.5
Avocadoes	574.5	695.9	21.1	8.8	10.8	2.0
Straw-berries	28.1	9.3	-66.9	0.4	0.1	-0.3
Passion-fruit	57.0	55.2	-3.2	0.9	0.9	0.0
Other Fruit (1)	170.3	221.3	29.9	2.6	3.4	0.8
French Beans	547.9	408.5	-25.4	8.4	6.4	-2.0
Bobby Beans	101.2	86.0	-15.0	1.6	1.3	-0.2
All Asian Vegs	110.3	109.0	-1.2	1.7	1.7	0.0
Other Vegs (2)	638.7	14.8	-97.7	9.8	0.2	-9.6
Cut Flowers	3994.6	4683.5	17.2	61.3	73.0	11.7
TOTALS	6520.6	6419.6	-1.5	100.0	100.0	

Source: HCDA Archives.
Other Fruit: - pineaapples, melon, pawpaw, limes/lemons, misc.
Other Veg. - courgettes, tomatoes, leeks, carrots, misc. veg., misc. roots

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SECTION IV
THE PRODUCTION ENVIRONMENT FOR HORTICULTURAL EXPORT CROPS

OVERVIEW

- Kenya is blessed with agro-climatic diversity which allows the production of a very wide range of crops but equally is beset with problems of suitable land availability to fully exploit the opportunities.

- The export production of fruits and vegetables is mostly in the hands of smallholders, many of whom have arrangements or long-term contracts for supply to specific exporters. Flower cultivation for export is almost wholly grower/exporter vertically integrated on large estates. Export fruits are likely to be concentrated on nucleus estates with long-term contract growers and controlled by a few large exporters.

- The Government has not been sufficiently responsive to the detailed needs of horticultural production for export, particularly in their failure to fully adopt the International Plant Breeders Rights Agreement. The supply of new and improved seed varieties necessary to compete with other exporting countries has thus been impeded.

- Ministry of Agriculture extension services remain largely weak and ineffectual. HCDA and HCD technical specialists offer useful advice to exporters and their growers but cannot cover the comprehensive needs of the industry. Technical advisory literature has been prepared on a piecemeal basis but has not penetrated beyond senior extension agents.

A. Climate, Land and Labor

Kenya has a wide diversity of agro-climatic conditions ranging from temperate to tropical zones. This diversity allows for the production of a wide variety of fruits, vegetables and flowers for both the domestic and export markets. Nevertheless, for the agricultural sector as a whole the shortage of good land is a major constraint to development. It has been estimated that only 18 per cent of the total land area of 567,000 sq km might be considered as having medium to high agricultural potential with the remainder consisting largely of arid or semi-arid areas. Expanding agriculture through irrigation is costly and requires managerial and technical skills not in abundance in Kenya. Horticulture, being both land and labor intensive, allows for more efficient exploitation of the available land resources and, through exporting of produce to Europe, brings in much needed foreign exchange to the Kenyan economy.

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B. Production and Marketing Channels

A detailed review of the horticultural export sector was made by Jaffee in 1986 which focussed, amongst other aspects, on the marketing arrangements and channels in operation.[1] Since that review there appears to have been little substantive change.

Small Producers

Production of horticultural produce for the domestic market is based almost exclusively on smallholders, although there is recent evidence that some larger growers are switching to the domestic market supply to meet the shortfall at better prices and more profitable margins. A smallholding in Kenya is defined as being less than 10 ha but only a small fraction (less than 0.5 ha) of this is usually devoted to horticulture. Cultivation on smallholdings is mainly manual and the use of modern inputs is only more common in the case of export-oriented production. Crop sales from smallholdings are usually on the spot and with little sense of production planning for specific buyers. Many smallholders grow produce under contract for exporters. It was estimated in 1988 that as much as 75 per cent of the volume of fruits and vegetables (excluding pineapples) exported came from smallholder production, compared to only about 10 per cent of the cut flowers exported. Discussion with exporters would suggest that even less of the cut flowers are now grown by smallholders while the proportion for fruits and vegetables remains unchanged.

In recent years, it has become a widespread practice among many of the small and opportunistic exporters to "poach" produce from smallholders who had promised their crop on a regular basis to a regular exporter. By offering higher prices in the short-term the opportunist exporter perverts the marketing channel by raising farmgate prices just to meet a temporary rise in export prices. In the longer-term the export price drops and the opportunist exporter simply ceases trading and leaves the smallholder with no market. However, the major exporters, which easily account for most of the export volume of fruits and vegetables, rely on regular, if not long-term, contracts with large and small growers to augment their own production.

Large Producers

Large production units, in several cases units with more than 100 ha (some as large as 8,000 ha), are specializing in producing horticultural crops for the export market. The largest of these units are vertically integrated, linking production to exports and frequently have links with the import trade. These larger growers/exporters run very efficient farms with a high level of mechanization and efficient water use and in several instances the management is expatriate. Cut flowers for export are almost

[1] Steven Jaffee, (1986) The Kenyan Horticultural Export Sector: An Economic and Institutional Analysis of Alternative Marketing Channels. Final report for USAID Kenya.

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all grown on large estates with a full complement of support services from agronomy, through breeding and research, and quality control.

The production of avocadoes for export is now being approached in a more integrated way by some of the large exporters looking to expand sea freighted volume. They realize that production must be on larger orchards with centralized control of crop timing and harvest and the application of modern pest and disease management. Accordingly, a progression is likely towards nucleus estates with satellite outgrowers all supplying one exporter. Mango production for export is also likely to follow this route.

Sometimes estate production is linked to outgrower schemes which receive a full complement of extension and support services from the estate to ensure high quality production. Through the use of up-to-date production methods and high quality seed on good quality land, yields tend to be high and quality assured for the larger growers. Thus, the two production systems operate in parallel rather than together and each has vastly different problems. The smallholder generally lacks capital, has insufficient extension and advice and marketing uncertainties. The large estate is more likely to be concerned about lack of security of tenure and foreign exchange restrictions.

C. Input Supplies

Aside from general fertilizers, which are widely distributed by the private sector in Kenya, most smallholders have limited access to improved seeds and pesticides, either because these inputs are not available or because they cannot afford them. In many cases, smallholders will produce on a contractual basis for exporters who supply seeds and other inputs on credit. Similarly, exporters may supply export packaging materials directly to the smallholders so that grading and packing can be done on-farm.

Many regular exporters are now becoming wary of providing inputs on credit to smallholders because of the poaching of produce by the opportunist exporters. Having supplied the inputs, the regular exporter may be left with no produce and little chance of receiving payment for the inputs supplied.

Large exporters are able to import seeds of improved varieties for their own use and may multiply that seed and release it to their long-term contract growers. Most medium-scale exporters and all small exporters are unable to obtain such imported seed, or prefer not to, because of the cost differential (local seed is Ksh50/Kg versus Ksh250/Kg or more for imported seeds).

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Most of the major seed companies operating internationally refuse to allow seed material of their new and improved varieties into Kenya because the Government has not signed the International Plant Breeders Rights Agreement which protects the rights of the seed company for the collection of royalties from sales of certified seeds. The Government has now passed the Seeds and Plant Varieties Act which allows foreign seed companies to collect royalties from sales of flowers and ornamental varieties under their copyright. In the long run, the Government agrees that they shall probably adopt all of the requirements of the Plant Breeders Rights Agreement, but for now are content to keep the legislation as it is.

The inability of the small producers to import seeds due to the cost and absence of signatory Agreement approval has had a direct, adverse effect on Kenyan French bean exports due to a deterioration in product quality. The local supply of French bean seed is now undoubtedly not pure, and most growers will admit in confidence that yields are down and quality has also fallen. Consequently, the larger exporters, who have been able to convince Vilmourin of France (the originators of high quality "Monel" bean seed) that they can control release of the seed only to their contracted growers, are able to reap the benefits of higher yields, more disease resistant and better quality product. The small and medium-scale exporters are thus disadvantaged. Unfortunately, however, the poor quality released by the latter threatens the overall image of all Kenyan bean exports. Therefore the situation must be addressed promptly if Kenyan market share in export markets is to be maintained.

D. Production Extension Services

In spite of continued efforts to rehabilitate the agricultural extension services within the MoA, most growers receive poor service. Extension agents are infrequent visitors to their land and often lack sufficient information to give useful advice. When growers ask for assistance they must often do so repeatedly in order to gain a response. When the response is inadequate they lose confidence and respect in the extension service and ignore it in the future.

The HCDA technical officers together with those from the HCD are able to respond to specific requests from exporters for advice and guidance to their contracted growers. However, they clearly do not have sufficient skilled manpower and transport to fully service export production needs. Technical literature has been prepared as a result of special projects and seminars funded by donor agents, often in the form of crop production profiles, but these do not appear to be penetrating beyond senior extension agents who perhaps feel that knowledge is power and to disseminate freely is to lose their authority.

The KEDS project can target the improvement of HCDA technical services through assistance in the development and sponsorship of: technical workshops/seminars targeted to HCDA technical officers, exporters and farmers; production and dissemination of a detailed crop manual including production guidelines; dissemination of export market data, standards, regulations; product promotion brochures, etc.

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SECTION V
THE POST-HARVEST ENVIRONMENT

OVERVIEW

• Cut flower exporters have made substantial investments in improved post-harvest technology to safeguard the export quality of their products. Fresh produce exporters operate in a more fragmented way and only the large and medium-scale exporters have made sufficient investment in improved post-harvest technology, including pre-pack operations. The small exporters are reliant on the grossly inadequate public sector facilities at the airport.

• Locally manufactured packaging materials are of relatively poor quality and more expensive than imported cartons. Despite recent changes in legislation, the importation of better quality, cheaper cartons is still problematic.

• The Government has failed to make sufficient investment in improved feeder and access roads servicing the production areas, and this adds to all exporters' costs and impacts negatively on their product quality. Government has also failed to invest in the necessary handling and refrigeration facilities at the airport. The larger exporters have had to provide their own facilities while the small and medium-sized exporters must rely on the inadequate, and often dysfunctional, airport facilities.

• By persisting with a policy of high taxation on aviation fuel, the Government is placing all of Kenya's fresh horticultural exports at a price disadvantage to competing suppliers. Air freight capacity is saturated and is the principal reason for the static performance of fresh produce exports. Some airlines already refuel in Tanzania in preference to Kenya and may switch their hub of operations to that country.

• Kenya has been slow to exploit sea freight opportunities for exports of fruits such as avocadoes and mangoes. The applied research and development has had to be done entirely in the private sector.

• The market information resource base remains poor and exporters operate independently. Promotional activities in export markets are often poorly targeted with little useful follow-up from either sector.

• Export processing is dominated by canned pineapple products. Canning of fruits and vegetables for export is expanding, although some factories have gone bankrupt through poor management and insufficient investment. One company has started freezing vegetables for export.

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Fresh horticultural produce, especially the higher value commodities, is inherently perishable and the post-harvest distribution environment from farm to importer will largely determine the end product quality and hence its value. Export markets won't accept less than first quality produce. Down-graded produce may either be rejected totally by the importer or receive a price which fails to meet air freight and packaging costs. Therefore in order for Kenyan exporters to remain competitive and profitable, it is critical that investments, public and private, be made in the post-harvest marketing environment and infrastructure. Government plays an important role in these areas, particularly relative to the small exporters who do not have the resources for private investment and are therefore disadvantaged versus large exporters.

A. On-Farm Activities

The large cut flower exporters operate in a highly integrated manner because that is the best way to produce high quality and to maintain that quality after harvest and until the flowers are sold. Accordingly, flowers are taken from the point of harvest immediately to the packhouse and generally held in cold rooms prior to selection, grading and packing.

The production base for fresh produce is generally more fragmented. Crops such as French beans may be harvested by a smallholder and either held at ambient temperature in field crates prior to collection by the exporter, or more normally selected, graded and packed by the edge of the field under rudimentary shelter and then handed over for collection by the exporter. Medium and large exporters may have some centralized packing facilities near the production area, but on-farm pre-cooling for fresh produce is still rare in Kenya.

Fresh produce growers have acquired considerable experience in immediate post-harvest handling of fresh produce. By harvesting at the coolest times of day, harvesting on the day of export, keeping produce well shaded and ventilated, they are able to deliver a reasonable quality product. However, all of these careful practices mean nothing if the exporter involved is an opportunist with no refrigeration equipment and little in the way of resources. Under such conditions, produce is handled carelessly and quality drops sharply. Unfortunately, these exporters are still able to get their poor quality product to the export markets which then reflects badly on Kenya's reputation. Thus the price offered, to even good quality suppliers, is often lowered. The result then is a serious loss of foreign exchange; and the grower may not get paid at all.

B. Export Packaging

Export, especially air freighted export, of fresh horticultural produce and cut flowers to the European markets is not possible without investment in good quality attractive fiberboard cartons. While Kenya has had a substantial carton manufacturing industry for many years, it has not kept pace with developments in the international horticultural packaging industry. Cartons manufactured in Kenya are of inferior quality, especially in terms of wet-strength and stacking strength, largely because

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of the poor quality paper used in their production. While white-faced cartons can be produced and over-printing is acceptable to the market, the overall appearance and utility of Kenyan cartons is below current European market expectations. Larger exporters prefer to import their cartons from Europe, or increasingly South Africa, because cartons from these sources are cheaper, of better quality, and are available in a very wide range of styles and finishes.

Although technically, exporters should now be able to import the cartons duty-free, there are considerable delays at the point of entry and thus exporters are obliged to carry additional stocks in the event of delayed delivery. This naturally increases their inventory costs substantially and thus affects their competitiveness.

C. Domestic Transport

The main highways in Kenya are in reasonable condition but the access and feeder roads to the main growing areas are often in very poor condition. Transport of perishable and delicate fresh produce under these conditions is fraught with difficulties. Most exporters arrange their own transport to collect the produce from smallholders or contracted growers in modified vans with extra ventilation. Larger exporters use covered trucks which may be insulated if the produce has been pre-cooled on-farm. Although the larger exporters would like to transport pre-cooled produce in fully refrigerated trucks, their experience has been that the poor state of the roads leads to rapid breakdown of the refrigeration systems and the investment becomes too expensive to maintain.

The smaller exporters often transport direct to the airport where they check the quality and possibly regrade and repack immediately prior to shipment. The medium-scale exporters transport the produce to a small warehouse for grading and packing prior to refrigeration or delivery direct to the airport. The largest of the fresh produce exporters have invested in large warehouse and office complexes close to the airport where they can directly control all pre-shipment activities.

D. Airport Facilities

The principal facilities at the airport consist of one large semi-open shed for reception, inspection, weighing and palletization of fresh produce exports. Alongside the reception point is a large cold room intended for pre-shipment refrigeration (pre-cooling) of export produce. Both facilities are managed by a parastatal, Kenya Airfreight Handling Limited (KAHL), who charge Ksh 0.50 per kg handling charges for fresh produce and Kshs.0.75 per kg. for cut flowers. Previously, KAHL had the monopoly on handling of all fresh produce exports but when they could not cope with the volume, the larger

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exporters invested in their own handling equipment and staff and thus operate independently. However, they still pay KAHL "not to handle their produce". Recently, the Government agreed to lift the KAHL monopoly and the larger exporters can now legally handle their own produce. However at the present time; all of the large exporters interviewed as part of this study acknowledged that they are still expected to pay KAHL not to handle their produce.

For the less well organized medium-scale exporters and all small exporters, there is no alternative but to continue to use KAHL. The KAHL employees rough handle the produce to the detriment of the quality, and thus the smaller exporters are further disadvantaged.

The single reception shed is hopelessly inadequate to usefully accommodate an orderly reception, inspection, weighing and palletization of small exporters produce. Produce is often man-handled several times to different parts of the shed to facilitate export procedures. Phytosanitary inspection under such conditions and the assurance of quality for Kenyan exports cannot possibly be performed. Much larger facilities need to be purpose-designed and built to accommodate a linear progression of export procedures and produce being handled on live conveyors instead of being walked from point to point.

One of the greatest bottle-necks at the KAHL shed is the shortage of weighing equipment. KAHL possesses three weighing scales: one is relatively small and is kept for occasional specialist use; a larger weighing scale for general use has y. to be installed (many months after it was delivered); and the third scale is in use but often breaks down and causes a bottle-neck.

Handling operations at the airport have been assessed in the past by several specialist consultants. All have concluded that the service provided by KAHL is inefficient and should and could be operated by the private sector at a healthy profit.

E. Air and Sea Freighted Export

The expanding export trade took an increasing proportion of the available cargo space until the late 1980's when the saturation point was reached and no further cargo space was available. This more than any other factor was responsible for the levelling off of fresh produce exports in recent years.

Kenya's fresh produce exports are almost wholly dependent on air freight cargo on passenger airlines with regular connections to European destinations. Airlines with regular northbound direct flights to major European airports include British Airways, Lufthansa, Air France, Swiss Air, Sabena, and Kenya Airways. Air freight costs from Kenya to the European markets are $1.30 to $1.40 per kg of fresh produce and often higher, depending on the airline. There is little incentive for the airlines to drop prices since there are always a large number of exporters competing for freight space. The largest cut flower exporters utilize

chartered cargo aircraft for their export needs, but the smaller cut flower exporters and all of the fruit and vegetable exporters rely on passenger airlines for their cargo space. The largest of these growers have sufficient capital and regular high volume exports to dominate airline space through advanced block bookings with certainty on the part of both exporter and airline that space will be fully utilized. Consequently, the smaller exporters are left to fight over what cargo space remains.

Further, passenger airlines rely upon the tourism industry for volume sales and thus air freighted horticultural exports are closely linked to the success or otherwise of the tourist industry in Kenya. In 1991, there were clear signs that tourist numbers were falling and unofficial estimates predict a further slow-down in 1992. Conversely, Tanzania and Uganda have reported a rise in tourist numbers in what are still relatively immature industries in those countries. The precariousness of available cargo space is further exacerbated by the GOK's policy of exacting a high tax rate on aviation fuel resulting in air freight rates from Kenya to Europe being the highest in Africa. Some airlines are already calling at Tanzania to refuel and just collect passengers and cargo in Nairobi. If the tourism market switches in a big way to Tanzania and that country also expands its horticultural exports, then some airlines may be interested in switching their hub of operations away from Nairobi.

Consequently, the future expansion of fresh horticultural exports from Kenya will largely be dependant on the exploitation of sea freight, particularly for crops such as avocadoes and mangoes. In fact, the only time that fresh horticultural exports from Kenya have exceeded 50,000 tons per annum was when fresh pineapples were sea freighted in large volume to Italy. However, more development of the post-harvest technology will be necessary if the lengthy transport time (26 to 28 days) is to be accommodated without loss in product quality or competitiveness with other international suppliers.

F. Pre-cooling and Cold Storage

All of the large and medium-scale exporters realized early on that rapid pre-cooling of their produce soon after harvest and maintenance of the produce in cold stores right up to the point of export was mandatory if they were to compete on a quality basis in the European markets. Accordingly, they invested in refrigeration equipment and cold storage facilities as close to the airport as they could manage. The Government financed a single cold store at the airport, but this has inadequate refrigeration capacity to rapidly cool produce and is far too small to accommodate the current volume of fresh produce exports. Most of the time the airport cold store is non-functional or so inefficient as to cause more damage to produce than if it was simply left at ambient temperature.

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The small exporters, without capital and with low volume operations, cannot afford to invest in refrigeration and the airport facilities are inadequate. They are therefore severely disadvantaged in terms of the quality standards they can supply to their customers in the European markets and thus are more likely to experience produce rejection, lower prices and little opportunity to expand sales. The supply of lower quality produce to the market also reflects badly on Kenya's overall market reputation and may drive prices down for all Kenyan exporters. The lack of public sector investment seems particularly insensitive to the core Government policy of expanding horticultural exports and maximizing foreign exchange earnings.

The Japanese Government has plans to finance refrigeration facilities at the airport and at key wholesaling points in Kenya, but neither loan nor grant funds have yet been committed for construction. In the meantime, the potential implications of the open European market at the end of 1992 and the potential of stricter postharvest quality standards (the EC regulators are recommending but not requiring that pre-cooling be performed by exporters so as to fall in line with EC practices) may well serve to eventually exclude all small exporters from the European markets.

G. Processing for Export

There has been a long history of processing of horticultural produce in Kenya, starting perhaps with passionfruit processing in the late 1930's. In recent times the horticultural export processing industry has been almost totally dominated by one factory for canning pineapple products. A few factories can beans and other fruits and vegetables for export, and while the volumes are relatively small, the trend is for expanded production. However, not all the current canning operations have proven management capabilities. One has recently gone bankrupt and another is up for sale. The major non-pineapple cannery is Njoro and is under the same ownership as Kenya Horticultural Exporters (one of the three largest fresh fruit and vegetable exporters) and another company Frig-o-Ken which has pioneered freezing of vegetables for export.

The margins on canned and processed exports in general is nearly always low, but there is usually the opportunity to exploit economies of scale and develop high volume business. As such, horticultural processing industries encourage very large employment both in the agricultural production of produce and in the factory environment. The end products are stable and distribution is certainly not constrained by air freight capacity. It is perhaps likely that new horticultural processing industries could develop within an Export Processing Zone environment.

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SECTION VI
EXPORT MARKETS FOR KENYA'S HORTICULTURAL CROPS

OVERVIEW

- Western Europe is the world's biggest market for horticultural produce and will remain so for at least the next 20 years. Although market growth is greater in the USA and Japan, supply logistics prevent penetration of Kenyan fresh produce into these markets. The Middle East market for fresh produce can be high priced, but volume demand is relatively small.

- The European market for horticultural produce may exhibit some volatility as a result of changes in consumer trends, the current and on-going economic recession, the re-structuring of Eastern Europe, and the establishment of the open European market at the end of 1992.

- Unless there is a major change in air freight availability and cost, the future of Kenya's horticultural exports to Europe will depend upon: further concentration on the most profitable added-value air freighted products, such as cut flowers and pre-pack French beans; the rapid development of sea freight transport for the less perishable and bulkier crops, such as avocadoes and mangoes; and, expansion and diversification into more processed horticultural products, especially canned and frozen fruits and vegetables.

Please note: A more detailed appraisal and analysis of the export markets for Kenyan horticultural produce is being performed by the KEDS project in the latter part of 1992. Specific market analysis and more substantial desk research will be completed. However, a brief review of the European market is included below for completeness and suggests the likely direction for Kenyan exports in the short and medium term future.

A. World Markets for Horticultural Produce

Western Europe is the biggest market in the world for horticultural produce accounting for 50 per cent of the world's trade in horticultural food products with an estimated value of around $17 billion each year. In addition, Europe is the largest importer of cut flowers with Western Europe countries importing approximately $2 billion of cut flowers per annum.

The USA is a market of approximately one third of the size of Western Europe (approximately $5.5 billion, with cut flower imports approximately $225 million). Japan imports about $4 billion annually of horticultural food products and cut flowers to the value of about $100 million (but rising

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rapidly). The Middle East market is relatively small in terms of indigenous population size, amounting to only some 13 million consumers (about the size of Switzerland) but there are large numbers of temporary immigrant workers engaged in construction and other industries. The rapidly developing economies of South East Asia may offer considerable scope as potential export markets but this is seen as being some years away yet.

Amongst these major markets, Western Europe has experienced a declining rate of growth, falling from some 11% in the mid-1960's to the mid-1970's, down to less than 5% annual average growth in the following decade. However, while the rates of growth in both the USA and Japan have been much higher, it is expected that Western Europe will retain its position as the largest market over the next 20 years or so. The International Food Policy Research Institute in the USA has predicted that by the year 2010 the Western Europe market for horticultural food products will be worth around $22.3 billion and the market for cut flowers to be worth around $3.2 billion. Interestingly, and in all markets, it is predicted that growth rates will be much higher in cut flowers than for food products.

B. Consumer Trends, Economic Recession, Eastern Europe, and 1992 - Complex and Possibly Far-Reaching Consequences

During the 1980's, particularly the latter part of the decade, European consumers enjoyed a substantial increase in their standards of living and began to take much greater interest in exotic or unusual high value products. Horticultural fresh produce was itself a key marketing attraction to giant retailing multiples. Aided and abetted by the popular media and increasing awareness of the benefits of fresh produce in a "healthy" diet, sales of these luxury products expanded.

Considerable research and development was focussed on creating or adapting different versions of established products. For example, supplying a popular product such as asparagus all the year, and taking advantage of the fact that the consumer did not need educating about the product, simple promotion and well-organized supply allowed the retailer to sell at higher prices and higher margins. Apple bananas and Cherry tomatoes are good Kenyan examples of "improved" varieties of existing products. Alternatively, outright exotic produce such as lychee or mangosteen was actively promoted, especially by Thailand and Malaysian exporters, and became items of great interest to the consumers. Some very high priced commodities such as tree-ripe fruit, or baby vegetables and unusual herbs also featured in low volumes. All of these commodities offered significant opportunities for developing countries to supply by air freight, provided the consumers could acquire the habit of buying them.

At the end of the 1980's the consumer boom stalled and most European economies went into mild recession. This recession has since widened and deepened and has had a profound effect on consumer purchasing trends.

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Although the healthier eating habits loudly promoted by all forms of the media appeared to have stuck, consumers are much more cautious over their spending. If the recession continues in Europe for much longer there may be a reversion to the cheaper, but less healthy, processed products. While there is a school of thought that suggests that the truly wealthy will continue to consume the absolute luxury items, a detailed market survey would seem essential before investing substantial capital and organizing production and marketing for such low-volume items.

The fragmentation of the Communist Bloc countries and the absorption of East Germany into West Germany are bound to have a dramatic effect on the future European market for horticultural fresh produce. The absorption of East Germany is already proving to be more expensive than first thought and high German interest rates are adversely affecting recovery from the European recession. An expanded Germany should eventually mean an expanded market for horticultural exports but until the East Germans have recovered from the economic shock they are not likely to demand air freighted high value products, preferring instead cheaper sea freighted imports or more likely at first, processed and canned goods. The fragmented Communist Bloc countries are all experiencing grave food shortages as their supply systems have collapsed without central authority. High value goods can be immediately discounted for many years to come, but substantial export opportunities for canned and otherwise processed horticultural products may be attractive if prices are low.

As if all of the above changes were not sufficient, the 31st of December 1992 sees the start of the open European market. For fresh produce exports the European market has been an "open" market with closely adhering standards for many years, but exporters need to be aware of the potential of new regulations affecting fresh produce imports into Europe post-1992. The most important of these is likely to be the insistence on pre-cooling of fresh produce prior to export at some point, though only a recommendation is being put forth by regulators for 1993. Although the larger and medium scale exporters have invested in cooling facilities, the smaller exporters are reliant upon the presently in-operative facilities at the airport, so this could present a major problem if investment in handling and refrigeration facilities is not increased.

C. Supplies of Horticultural Produce to Western Europe

The European market is primarily supplied by imports which are trucked from North Africa and shipped from Israel, the Caribbean, South America and West Africa. Air freighted horticultural food products represent a very small proportion of the total market. Air freighted products come in specialized charters from Israel and on board passenger flights, notably from East and Southern Africa, but more recently from the Caribbean and Central America. Flowers are air freighted from Israel, Colombia and Eastern Africa.

The Western European markets are the major outlets for African exports. Horticultural markets and opportunities are largely determined by logistics of supply. Eastern and Southern Africa and Kenya in

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particular, have built their export trade on the back of passenger airlines because of the shortage of south-bound freight sufficient to attract scheduled dedicated cargo services. Accordingly, air freight rates have been more expensive than would be expected for dedicated cargo services and has necessitated a concentration on high value, perishable and typically labor intensive crops. Thus limited air freight capacity has also meant that the exports have been low volume and mostly specialist and luxury items. The larger volume export business is based on much cheaper transport links i.e. sea freight and trucks.

Unless there is a major change in air freight availability and cost the future development of Kenya's exports to Europe will depend upon:

- **refining and improving air freight export operations by still further concentration on the most profitable added-value products (i.e. specialist cut flowers and luxury pre-pack vegetables and fruits); and**

- **developing sea freight linkages to transport less perishable and bulkier crops as well as processed products.**

History indicates that horticultural export operations based on air freight have typically gone through three distinct phases. In the first phase exporters concentrate on exporting relatively low value indigenous fruit and vegetables to supply an identified immigrant market. In the second phase, specialist fruit and vegetables are specifically grown to supply mainstream markets. Then, in the third phase, the proportion of floricultural products increases because they have higher unit value and can more easily withstand high air freight costs. Not all countries currently exporting from Africa have undergone the three phases sequentially.

In Kenya, where horticultural exports started earlier than other African countries, Asian vegetables were seen as an exploitable commodity because of the low level of capital investment required for their production in Kenya, the production expertise was already available, and market demand was matched by family connections in the U.K. market to create a market representation and presence. However, the volume of Asian vegetable exports from Kenya levelled off several years ago and only chillies are showing any signs of continued growth. Asian vegetables are now relatively less important compared with exports of other produce. French beans dominate Kenyan vegetable exports but the large exporters are now moving out of bulk bean exports towards higher value products such as mangetout and cherry tomatoes or to added value products such as pre-pack beans. Cut flowers are already dominant among all fresh produce exports but even here there is a clear progression away from volume products such as spray carnations and chrysanthemums to higher value lines such as standard carnations, roses and niche market flower types. With each progression in the series, a much higher capital investment is inherent.

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By contrast, in Zimbabwe, the development phases have been greatly foreshortened. The Asian vegetable export stage has been omitted entirely. The exporters already had the required level of capitalization from traditional agricultural commodities to place immediate heavy investment in cut flower exports and high value luxury fruits and vegetables. Now exporters in Zimbabwe have begun to move out of field-grown flowers to plastic tunnels and roses with much higher value. The persistent and severe drought has substantially set Zimbabwe back in terms of export development, or Kenya's market share would undoubtedly been under siege in these niche product markets.

Zambia started horticultural exports relatively recently, in 1985, with strawberries, mangetout and okra. Now they have included flowers such as gladiolus and roses and look set to expand asparagus exports. Tanzania has been another relatively late starter but is already leap-frogging the usual evolutionary path by making larger investments in technology earlier. For example, Tanzania looks set to exploit sea freighting opportunities rather than become reliant on air freight volume.

Several West African countries, after a mixed start, have begun to supply larger volumes of French beans in order to exploit closer (and cheaper) proximity to France, the major importer of beans, and also to exploit cultural links between Francophone countries and France. The Gambia has been receiving substantial technical and marketing assistance from aid donor organizations and has encouraged immediate investment in higher technology production of higher value products such as mangetout and baby vegetables.

D. Outlook for Kenyan Horticultural Exports

The following forecasts are not written in stone because the very nature of the European market is liable to change as soon as new technologies become available or consumer patterns, for whatever reason, undergo modification. It has been assumed that the current, very high air freight rates may drop slightly but not substantially. Actual export volumes and values will depend on market demand and are thus not included here, although the more detailed market survey to be performed by the KEDS project late in 1992 should allow for more specific projections.

1. French beans

The trends already exhibited should accelerate: volumes of bulk beans will decline further until only the smaller and medium scale exporters handle this commodity; and larger exporters will increase their share of pre-packed beans, possibly diversifying into simple recipe-style preparations including other products such as chopped onions and prepared mixed vegetable packs for immediate retail sale. It seems likely that many small exporters will not remain competitive with other African suppliers of bulk beans. They will either have to switch to other commodities or just disappear from the market altogether since they are not likely to have sufficient credit and capital resources to get into pre-packs.

Kenya is still perceived as the most consistent and high volume supplier of Extra-Fine beans and should remain competitive in the short-term although West African Francophone countries are well-placed to take market share provided they do not suffer undue disease and crop failure.

The larger exporters in Kenya are still able to acquire authentic seeds of the Monel variety produced by Vilmourin under the condition that they only propagate for their own use and do not distribute to other exporters or non-contract growers. These improved seeds will remain unavailable to the smaller and medium scale exporters until such time as Kenya signs the International Plant Breeders Rights Agreement. In the meantime, reduced yields and quality may make many such exporters uncompetitive in the market place and thus accelerate the move to fewer, larger exporters (and it follows, to fewer Kenyan African exporters).

Increased export volume should also come from expanded processing of beans, either by canning or by freezing. Kenya Horticultural Exporters Ltd. already have a canning plant from which they export canned French beans and they are also major shareholders in Frig-o-Ken, the only company thus far to freeze beans for export. Other medium and larger scale exporters are entering into canning operations, or are planning to do so over the next two years. Freezing equipment, especially the large volume blast freezers and cold storage facilities required, are capital intensive and not many exporters have sufficient resources to make this kind of investment.

2. **Asian Vegetables**

Of all the immigrant populations in the U.K., the Asian communities have exhibited the most loyalty to traditional foods and thus the export volume of Asian vegetables should remain relatively constant in the short to medium term. There are some signs that specific products such as okra may become more attractive to European consumers generally and hence there may be more scope for increased sales to other European countries besides the U.K. A switch to higher value pre-pack looks to be essential if the potential supermarket consumer is to be served in any volume.

The market for chillies, especially in the U.K. has continued to grow steadily for the last decade as more and more interest has grown in exotic foods based on "hot and spicy" ingredients. However, the chillies currently exported in volume from Kenya are of relatively poor quality as a result of continuous use of seed collected from the production areas. New seed of new and more varied chillie varieties are urgently required if Kenya is to exploit the on-going market opportunity. Some exporters have developed special promotional pre-packs incorporating several different chillie types and colors but these have a limited appeal to most immigrant consumers in the U.K. Exporters should investigate possibilities with Lantern and Scotch Bonnet type chillies for the U.K. in addition to the long thin Asian chillie. The German "ethnic" market is for the large Cayenne type chillie while the Dutch Indonesian and Surinamese consumers tend to prefer the smaller more potent Birds-Eye types of chillie, especially for incorporation with pickles.

3. Avocado

Avocado imports to Europe underwent a major growth phase with the sophisticated marketing ploys used by the Israelis backed with large volume consistent supplies. Recently the Israeli industry experienced a massive crop failure which allowed market access to other suppliers. Israeli supplies have now recovered but there is strong competition for market share. Air freighted avocado now carries a very low margin and most supplies are sea freighted. After several failed attempts over the last few seasons some Kenyan exporters now feel that they have overcome the post-harvest technical problems of sea freighting in reefer containers and are set to greatly expand export volume. One exporter alone is anticipating his own exports to grow from 730 tons in 1991 to 2,500 tons in 1992 as a direct result of sea freight. While there will remain opportunity for some air freighted avocado, the volume is expected to decline rapidly because of the difference in air and sea freight costs.

Kenya is currently able to export Fuerte avocadoes from March to October based on its production areas in Thika and Nyeri. There is a possibility of planting in the west of the country, perhaps near Kisumu, and thus benefitting from different seasonality. With appropriate cultural practices and careful selection of aspect of planting sites, it may be possible to supply Fuerte avocadoes year- round and increase market share in Europe by more consistent sales.

4. Mango

The principal varieties of mango in Kenya are Ngowe and Apple Mango which are not widely appreciated in the European markets except by some immigrant communities. However, even among immigrant communities there is strong competition among suppliers from Latin America, the Caribbean, India and Pakistan. The Florida- type varieties such as Haden, Tommy Atkins and Keitt etc., which have more coloration, are now preferred by most European consumers and volume demand is growing. In the last two years, Latin American suppliers have steadily improved production and post-harvest techniques to the point that large volume exports by sea freight are now commonplace and prices have continued to fall. Attempts to sea freight Kenyan mangoes have failed miserably so far and until more appropriate varieties and improved production conditions are met, Kenya is not likely to enter the mainstream market for mangoes in Europe.

While exports to the Middle East have looked promising in the past, the volumes have not been significant in comparison with other export products. The Middle East market should be thoroughly re-assessed before going into expanded production and export for this market.

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5. Cut Flowers

Continued steady growth in cut flower exports can be expected in line with growth in the export market demand. The domination of the cut flower exports by two large companies with highly integrated and well-managed operations means that market share for Kenyan exports will be successfully defended. It is highly probable that spray carnations and statice will continue to be main volume products. But a gradual shift to higher value standard carnations and lower volume but still higher value flowers such as roses is almost inevitable. There are currently 60 acres of roses planted out in Kenya, which is probably close to capacity for market share at present. Any further substantial expansion in these flowers will depend upon expanding export market share at the expense of other African suppliers such as Zimbabwe.

Growth in cut flower exports is not constrained by limited air freight capacity on passenger airlines since most goes by chartered cargo aircraft. However, air freight costs are still affected by the Government tax on aviation fuel unless the charters refuel in Tanzania prior to stopping at Nairobi.

6. Assorted Niche or Luxury Products

Subject to the performance of a more detailed market study soon to be performed under the KEDS project, it is likely that several niche market for luxury horticultural exports with low-volume but very high value sales can be expanded or newly introduced in Kenya. Many such products are already under production and export, for example mangetout and cherry tomatoes. Other opportunities need to be better identified and exploited by Kenyan exporters if they are to maximize foreign exchange returns with limited air freight capacity on passenger airlines.

7. Processed Products

Exports of canned pineapple products are likely to show little or no growth because of abundant supplies on world markets, particularly from Thailand and other South East Asian countries. However, if Kenya is to substantially increase horticultural exports and significantly raise employment prospects it must invest in more diversified processing industries. Some fresh produce exporters are already active in processing of fruits and vegetables and others see the opportunity to start-up new businesses. This is a movement that should be encouraged by the KEDS project through assistance with market intelligence to ensure that suitable market demand is concrete and to advise on quality standards.

The EPZ scenario could prove particularly attractive to many potential investors in horticultural processing for exports. However, the recent bankruptcy of one processing firm and the fact that another firm is up for sale, should be acknowledged and efforts made to ensure that business management and operations are efficient.

SECTION VII
PROFILE OF KENYAN HORTICULTURAL EXPORTERS

OVERVIEW

- There are approximately 200 licensed fresh produce exporters but only about 50 are regularly active. The remainder are largely opportunistic small exporters exploiting short-term market conditions and then leaving the industry. These opportunists export mainly poor quality fruits and vegetables and seldom have any business support infrastructure. Their activities adversely affect Kenya's reputation for consistent quality product and thus drive export prices down.

- One cut flower exporter (Sulmac), is responsible for 27 per cent of all fresh horticultural produce export earnings. 75 per cent of all cut flower exports are provided by two companies. The other 25 per cent is shared among a handful of other smaller exporters.

- Fresh fruits and vegetable exports are dominated by three large companies and a handful of medium-scale exporters. But there is a plethora of very small exporters most of whom are wholly opportunistic in their marketing behavior. In the absence of a dynamic and professional private sector association, the exporters operate in a fragmented and independent way, especially with regard to market intelligence and promotion in the export market.

- One processing company (Kenya Canneries) wholly dominates all horticultural exports and equally dominates processed horticultural exports. Several of the processing companies have suffered under weak management and poor investment and are either bankrupt or up for sale.

A. Broad Description of Exporters of Horticultural Produce

Processed - Exports of horticultural produce are dominated by processed products, most of which are exported by just one company, Kenya Canneries Ltd. This company processes and exports pineapple products and was originally set up in its present form and size by the Del Monte Corporation. Kenya Canneries operates in a highly integrated manner and is managed by expatriate staff. All of the company's products are marketed worldwide by Del Monte.

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Fresh - Export of fresh horticultural produce is performed by some 200 licensed exporters but only about 50 of these are regularly active. The cut flower exporters source their produce from their own estates with only a little sourced from outgrowers under long-term contracts. However with fruit and vegetable exporters, there is much more reliance on supplies from smallholders and larger growers under long-term contracts.

Apart from the regular exporters the remainder are "briefcase exporters" who tend to export only sporadically during the peak season from October to April, and then only when prices are at their highest in the European markets. These opportunists rarely have regular supply arrangements with growers but tend to "poach" produce from other regular exporters by offering higher farmgate prices. Since they rarely have an office, let alone any supporting infrastructure, their overheads are much lower than those of the regular exporters. It is very common for these briefcase exporters to start and finish completely in one or two seasons, often leaving growers unpaid. The absence of any supporting infrastructure and their mode of operation generally means that poor quality produce is exported to the same markets as the regular exporters. This has the double effect of lowering Kenya's reputation as a quality supplier, and also drives down the prices that all Kenyan exporters receive.

Ownership - The largest flower exporters are either majority- owned by multinational corporations with other business interests in Kenya and other countries or are owned by foreign investors in partnership with local Kenyans. Senior management tends to be expatriate and they have a much greater proportion of permanent local staff. The largest of the fruit and vegetable exporting companies are majority owned by European Kenyans or Asian Kenyans, senior management is either Asian or expatriate and the core of permanent staff tends to be smaller with much more use of casual labor. Although African Kenyans may be quiet partners in some of the medium or even larger fresh produce exporting companies, they rarely if ever play an active executive role. Most of the smaller exporting companies are owned and managed by African Kenyans with a very small permanent staff plus some casuals. The smaller exporters do very little in the way of adding value and usually buy their produce already packed by the grower and merely check the quality with little regrading or repacking (which is often done at the export shed operated by KAHL).

B. Share of the Export Market by Individual Exporters, 1991

Cut Flowers - As can be seen from the table on the following page, cut flowers exports are dominated by Sulmac, who in turn dominate all fresh produce exports (27% of value). Thus 75% of all cut flower exports are down to just two companies (Sulmac and Oserian) and the other 25% down to just a handful of other companies. Interviews with selected cut flower exporters indicated that some of the smaller companies have undergone substantial expansion in the very high value flowers. Shalimar, for example, have 20 acres of roses. These smaller companies will have an increasing share of Kenyan exported value in 1992 with further growth in 1993.

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Fresh Produce - Fresh fruit and vegetable exports are dominated by three large companies (Homegrown, Kenya Horticultural Exporters, and Vegpro) with a handful of medium-sized companies responsible for most of the rest. Interviews with several of these medium- sized companies indicate that some are set for substantial expansion either into sea freight of avocadoes (Indu farms) or into processing (Sunripe) and that in any case the volumes shipped by these companies was much greater in 1992 than in 1991.

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TABLE VIII

Share of the Export Market by Individual Exporters, 1991					
Name of Exporter	Volume Exported (000 Kg)	% Share by Volume		% Share by Value	
		(1)	(2)	(1)	(2)
FLOWERS					
Sulmac	7,450	45%	15%	53%	27%
Oserian	5,273	32%	11%	23%	12%
Sher Agencies	2,903	18%	6%	6%	3%
Yoder	266	2%	1%	1%	<1%
All Others	513	3%	1%	11%	6%
Total Flowers	16,405	100%	34%	100%	51%
FRUIT & VEG.					
Homegrown	2,584	8%	5%	24%	12%
Kenya Hort. Exp.	3,769	11%	8%	22%	11%
Vegpro	2,451	7%	5%	15%	8%
Makindu	1,365	4%	3%	7%	3%
Indu Farm	2,778	8%	6%	7%	3%
Sunripe	1,780	5%	4%	6%	3%
Everest	1,313	4%	3%	6%	3%
E. African Growers	1,264	4%	3%	5%	3%
Others	16,139	48%	32%	8%	40%
Total Fruit & Veg.	33,443	100%	67%	100%	49%

(1) % share as proportion of product group
(2) % share as proportion of all produce exports
Source: The data above was extracted from the limited data held by HCDA on individual exporter volumes and values. The total values for flowers correspond well with the figures given in Section III, Part B of this survey and hence market share indicated should be considered as reasonably accurate. However, the data for fruits and vegetables exported volume appears to be flawed and thus market shares given should be considered as indicative only. Only the leading fruit and vegetable exporters are given but no figures were available for Greenfields whose share is believed to be significant among the medium-scale exporters.

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C. Institutional Needs of the Exporters

Credit - The large exporters have the advantage of relatively easy access to credit because they have collateral, whereas the smaller exporters tend to operate on low capital investment and day-to-day cashflow. The volume of business of the larger exporters means that advanced booking of the lions share of the limited air freight volume is not a problem. The smaller exporters on the other hand often have to struggle to get even relatively small amounts of air freight space with any regularity.

The higher degree of integration enjoyed by the larger exporters together with the security of ongoing long-term arrangements with a better class of buyer and good access to credit means that they are able to make the investment jump into high volume sea freighting or into added-value operations such as pre-packing of beans. The smaller exporters have none of these advantages and are largely confined to exports of Asian vegetables and bulk French beans at lower margins to a range of small buyers very often operating on the fringe of the main wholesale European markets. These buyers are infamous for switching suppliers with great regularity, making frequent and often spurious claims for spoiled or low quality produce, and some may not pay their suppliers at all unless sued or otherwise coerced.

Market Information - The market information resource base for all exporters remains poor. Because they operate independently they cannot take advantage of shared market intelligence. Those exporters without a regular presence in the export markets (ie do not physically visit the markets at least twice a year) and who do not have representation (such as sister companies or family members living there and selling their produce) are supplying product largely in ignorance of market conditions.

In the absence of a dynamic and professional private sector association, the exporters have no cohesive approach to the markets and are not able to take advantage of generic promotion of Kenyan horticultural export produce. While the larger exporters have their own promotional brochures and leaflets, there are no suitable materials for presentation at trade fairs or during organized market visits. Some of the trade fairs attended by the exporters have been poorly targeted and were not organized until the last moment. Not surprisingly the impact created at such trade fairs has been fairly poor with insufficient feedback to the industry on the return of the Kenyan representative, be they public or private sector.

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SECTION VIII
THE INSTITUTIONAL INTERFACE WITH THE HORTICULTURAL SUB-SECTOR

OVERVIEW

- The recent mission from the FAO Investment Centre reviewed the organization and coordination of the various agricultural institutions in Kenya and concluded that it is extremely complex. There are 9 ministries and 40 agricultural agencies or boards involved with agricultural operations in the country. The Ministry of Agriculture (MoA) is the most important institution for agricultural development and farmers services. Technical and field services are under the authority of the Directorate of Agriculture which comprises the divisions of extension, crops development, horticulture, farm management, engineering, training, and liaison to research. Agricultural research is carried-out by the Kenya Agricultural Research Institute within the Ministry of Science and Technology.

A. Horticultural Crops Division - Within the MoA the Horticultural Crops Division (HCD) was formed in 1990 with the responsibility for providing efficient technical extension services in production, local and export marketing, and processing. The HCD is to provide the farmer with information and training; ensure certification of seeds, trees and other planting materials; carry out regulatory functions of production and product quality inspection; coordinate marketing and processing; establish post-harvest handling facilities; and identify possible horticultural enterprises for external funding and prepare funding documents. Thus the phytosanitary inspectors at the airport are controlled by the Deputy Director for Horticulture, the head of HCD.

B HCDA - The Horticultural Crops Development Authority (HCDA) has wide powers for the control and coordination of the horticultural industry. The principal functions are to: regulate the industry through licensing and application of the rules; provide an advisory service to the Government and industry; provide marketing intelligence information to the industry for planning purposes; organize the provision of vital inputs to farmers, and assist in grading, storage, collection, transport, and warehousing of produce destined for markets; monitor prices and foreign exchange remittances; regulate and control the cultivation, picking, and transportation of horticultural crops; impose levies; fix prices; raise loans; and establish, acquire and operate processing factories.

HCDA had been in deficit until 1988 but since that time it has been able to break even or make a small profit thanks to the levy of an export cess of Ksh 0.12/ Kg on all fresh produce exports and a variable levy on

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processed produce. In addition, HCDA has maintained a monopoly in the marketing of onions in some areas and continues to play a mandatory role in the sale of fresh pineapples from the Kenya Canneries estate to exporters and other processors. Projected income for HCDA in 1991 was Ksh 18 million against anticipated expenditure of Ksh 15 million.

As part of the structured interviews conducted with a number of horticultural exporters, opinions and views were sought as to the services provided by HCDA and the various needs of the exporters and whether HCDA could better fulfil such needs. In general the conclusion, which was almost unanimous, was that HCDA was one of the few organizations trying to help the growers and exporters, but that the industry had outgrown HCDA in terms of technical development and extension needs. As a source of technical information HCDA was not sufficiently comprehensive and responses were often delayed and thus ineffectual when a dynamic response is generally required. Market information supplied by HCDA was fairly limited and greatly inferior to that already acquired by the larger and medium size exporters. The information provided by the ITC Market News Service through HCDA was felt to be more valuable to HCDA in preventing under-invoicing on export documentation (i.e. setting minimum price guides) than offering the dynamic information required in volatile markets.

HCDA has responsibility for spraying of key nurseries and orchards of export fruits against pests and diseases. While this was initially performed successfully and pesticides were made available through HCDA for their own programs, the spray program has been severely curtailed in recent years and pesticide supplies are often arranged independently by larger exporters in preference to going through HCDA.

Although exporters felt that HCDA had many limitations it was concluded that the institution was nevertheless vital to the industry but required substantial restructuring and strengthening if it was to fully assist in the further professional development of the industry.

C. **FPEAK** - On the private sector side, there is currently only one active organization, the Fresh Horticultural Produce Exporters Association of Kenya (FPEAK). FPEAK was formed originally in 1975 but has only become functional in the last year. At present, all horticultural exporters are considered to be automatic members of FPEAK by virtue of their payment of the export cess to HCDA, of which one cent per Kg is directed to FPEAK. Another organization, the Home Exporters Association (HEA) was formed in the mid-1980's as a vehicle for African Kenyan exporters to enable them to secure guaranteed air freight space on Kenya Airways in light of dominance in the industry by Asian Kenyans. Some 26 tonnes per week were secured for the members of HEA on Kenya Airways; but in recent years this arrangement has collapsed, the HEA has experienced internal problems and is no longer an active organization.

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Many of the exporters actually knew very little about FPEAK but were interested to find out more and to learn how it might best serve the commercial and promotional needs of the export industry. It was felt by all exporters interviewed that the creation of simple but attractive promotional materials for Kenyan exports as tentatively planned under the KEDS project support to FPEAK was extremely important when exporters visited the European markets and attended trade fairs.

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SECTION IX
THE BROADER ENABLING ENVIRONMENT FOR HORTICULTURAL EXPORTS

OVERVIEW

- The KEDS Project is concurrently producing a separate report entitled "Kenya-An Export Policy Inventory" which covers this topic in much more depth. Readers are cautioned that this report includes only brief coverage of the Kenyan Policy environment.

- Until 1986, there was no coherent Government policy for the development of the horticultural sub-sector. Although policy has been formulated subsequently, a detailed action plan and strategy with identified budgetary commitments remains absent.

- The better organized large and medium-scale exporters have acquired assets as collateral for loans to acquire improved equipment and input supplies for the development of their export businesses. The export legislation now coming into effect allows considerable scope for these larger businesses to take advantage of duty remission on imports; and other schemes give a good incentive to invest in processing operations,either as individuals or perhaps in partnership with foreign investors. However, for the small exporter and those less-organized medium-scale exporters of fresh produce, access to credit for even basic improvements in their business is a major constraint.

- The Foreign Exchange Retention Scheme may attract a new wave of exporters into the fresh produce industry but with no previous experience, solely for the opportunity to acquire foreign exchange which they can then turn into goods for import into Kenya at more profit. The number of opportunist exporters currently threatening Kenya's export reputation may increase unless quality standards are rigidly applied.

A. Government Policy and Legislation in Horticulture

Prior to 1986, any consistent and coherent policy and legislation directed towards the horticultural sub-sector was conspicuous by its absence, and indeed this lack of government attention may well have been considered favorable by many exporters at that time. Sessional Paper No.1 (SP1) presented in 1986 the basis for the Government's agricultural strategy and this was then updated in the Sixth Five-Year Plan (1989-93). While the strategy proposed some profound targets for growth and productivity in the agricultural sector as a whole, the horticultural sub-sector was singled out for a growth rate of 10 per cent per annum. Horticulture is indeed the sub-sector most likely to best contribute to

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the substantial foreign exchange earnings under such a strategy, though the target looks overly optimistic in the light of recent plateauing of export volume.

In January 1991, the Ministry of Agriculture published a paper entitled "Strategies for Developing the Horticultural Industry". While many of the proposed activities merit serious consideration and are wholly appropriate there has been no development of a plan of action with identified funding to project this strategy into reality. The only clear development activities have occurred as a direct result of donor agency project preparation and implementation and the Government has not committed adequate funds in support of the sub-sector.

B. Domestic Finance and Credit

Over the past ten years, about 16 to 17 per cent of the annual credit allocation has gone to agriculture, although around 30 per cent of GDP comes from agriculture, so that overall, the sector has probably been under-funded. This can be expected, given the difficulties of getting credit to the smallholder and small producer. That the percentage to agriculture is as high as 17 per cent is almost certainly due to the requirement by Government that commercial banks deliver at least 17 per cent of their lendings to agriculture. It is estimated that only 20,000 farmers presently receive credit from commercial banks. The majority of the credit to small producers of export horticultural crops is from exporters who supply key inputs such as seeds and pesticides and deduct the costs when paying for the crop. Credit from the commercial banks is thus largely directed at the medium and large scale growers in the form of short-term loans for purchasing input supplies.

Interest rates from commercial banks are between 20 to 23 per cent and the current inflation rate has been estimated at around 25 per cent.

C. Export Legislation

In recent years there have been substantial changes in export legislation and the creation of incentives for exporters. However, it is fair to say that the main framework is now in place but subject to considerable fine-tuning and adjustment.

There are presently four main schemes under which exporters can benefit:

- Export Compensation;
- Manufacturing Under Bond;
- Export Processing Zone; and
- Duty-VAT Remission.

Under the Export Compensation scheme there are specific limitations as to the type of company that can qualify. The goods produced must have at least 30 per cent domestic value added, but the exporter can claim a wide range of tax advantages and privileges. Kenya Canneries pineapple

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canning operations benefit from this scheme.

For exporters to qualify under the Manufacturing Under Bond scheme, 100 per cent of the goods must be exported although some slight allowance is made for waste and rejects. In return, the exporter can claim a 100 per cent tax allowance on all establishment costs and can import all necessary raw materials free of duty. Import and Export licenses are granted automatically on a one stop shop service facility at the IPC and foreign exchange allocations are also automatic.

Operation in one of the Export Processing Zones is mainly intended for foreign companies and those Kenyan companies with access to their own foreign exchange sources. All investments in setting up the plant must be in hard currency. In return, the exporter has a 10-year tax holiday from the date of the first sale and a guaranteed maximum corporation tax ceiling of 25 per cent for the next ten years. In addition, all investment in the establishment of the plant are 100 per cent allowable against taxes, and the company can freely repatriate dividends and capital.

Since fresh horticultural exports have no manufacturing input, exporters cannot qualify under any of the three schemes above unless they set up another company to engage in processing of produce for export.

However, under the Duty/VAT Remission scheme exporters can benefit from effective duty and VAT remission (Subject to the opening of a bond in favour of customs) on the import of necessary inputs for export operations (for example, packaging). Approval under the Duty/VAT Remission scheme is made either on each consignment of materials imported or on the basis of the import requirements for 6 months of export production. The exporter must have an export license (given automatically). The exporter declares to EPPO the nature and full details of the materials to be imported and EPPO must approve or disapprove properly completed forms within 7 days. Upon EPPO approval, the Ministry of Commerce issues an import license and foreign exchange allocation is given from the Central Bank provided the goods are on the import priority list. If the goods to be imported are not on the priority list, then an import license is still issued almost automatically, but the exporter must apply to the commercial banks for the foreign exchange. Control under the Duty/VAT remission scheme is by submission of a reconciliation form within 9 months of the importation followed by an audit within 3 months of the submission date after which the bond to cover duty and VAT remitted can be canceled.

In practice, larger exporters take out commercial insurance for a bond to cover the duty cost. The insurance premium is around 2 per cent of the duty payable. However, smaller exporters may not be able to obtain insurance, and they may not be able to obtain a bank guarantee because of insufficient collateral. They tend therefore to rely entirely on locally available materials for their export needs.

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The current shortage of foreign exchange at the commercial banks is anticipated to be resolved over the coming months with the passage of new legislation in August 1992 of a Foreign Exchange Retention Scheme which allows exporters to retain 100 per cent of their foreign exchange in hard currency accounts in Kenyan banks. A number of export commodities are currently excluded from the retention scheme, including canned and otherwise processed pineapple products, but generally horticultural exporters are eligible to open external accounts under this scheme.

D. Export Finance and Credit

The Central Bank operates a Pre-Shipment Finance facility for commercial banks which allows them to extend credit to exporters to cover their operational costs prior to making the first export shipment. However, since the scheme depends on the exporter having a Letter of Credit from his buyer, fresh produce exporters cannot qualify because Letters of Credit are not used for these exports.

A Post-Shipment Finance facility has been proposed to provide additional finance for small and medium size companies who may have to wait considerable periods after making the shipment before receiving payment. The scheme will probably be based on evidence of credit-worthiness of the buyer and a "credit-rating system" may be produced by a specialist private sector company.

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SECTION X
RECOMMENDED ACTIVITIES FOR THE KEDS PROJECT IN THE HORTICULTURAL SUB-SECTOR

OVERVIEW

Based on the findings of the KEDS-sponsored Horticultural Subsector Study, and other reports to date, it is apparent that in order to protect existing employment and exploit new opportunities for Kenya, a series of activities must be launched quickly. We have made recommendations towards this end, and determined that the KEDS project could assist in implementing many (see "KEDS Action"). Sustainable success, however, is dependent on the combined efforts of government ministries, industry associations, private producers and exporters, and other donor agencies.

RECOMMENDATIONS

Product and Export-Market Specific

1. **Explore new and expanded export market opportunities for fresh and processed horticultural products from Kenya.**

   KEDS action: Retain a market research team in October 1992 to examine the British, German, Dutch, French, USA, and selected Middle Eastern and Asian markets for a variety of fresh and processed horticultural products, including information on market trends, grades and standards, and buyer contracts. The product list should include pre-packed French beans and Asian vegetables, mangetout, cherry tomatoes, avocadoes, cut flowers, and mangoes in the fresh category; and a range of fruits and vegetables in the processed categories, including canned and frozen beans. The results should be disseminated in a "user-friendly" format to exporters through HCDA and FPEAK. Follow-up activities will be dependent on these preliminary findings but might include in-depth, on-site analysis for targeted markets or products with high potential (which would include matching Kenyan exports with appropriate importers). Export marketing seminars will also be sponsored by FPEAK under the auspices of KEDS in 1993, as will participation in overseas produce trade fairs -- both activities aimed at exploiting market opportunities.

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2. **Examine Kenyan capabilities and opportunities in the processing sector, providing direct firm-level assistance as warranted.**

   KEDS action: After reviewing the results of the desktop market study, the KEDS/PEMU long-term advisors will assess current processing capabilities. Direct firm-level assistance will then be provided in such areas as product/packaging marketing development, and pricing to those companies identified as having new or expanded export potential.

3. **Increase exporters' access to technical and export market information.**

   KEDS action: Improve the institutional capabilities of HCDA and FPEAK to publish and disseminate field manuals, promotional materials, and newsletters for member farmers and exporters; establish resource libraries within the institutions which provide public access to industry periodicals and price services; sponsor regular technical seminars; and coordinate private sector participation in overseas trade shows.

4. **Monitor new regulations affecting fresh produce imports into Europe post-1992.**

   KEDS action: Cognizant that protecting market share is vital while examining diversification and expansion possibilities, the KEDS' home office team will monitor new regulations on a monthly basis from affiliate offices in Europe and will publish updates on a quarterly basis in the Tropical Produce Marketing News, the HCDA newsletter and the FPEAK bulletin.

5. **Continue research and development efforts to improve varieties of cut flowers, chillies, mangoes, and avocadoes.**

   GOK and large exporters' action: Current efforts through KARI and in-house at the large export companies need to be strengthened and more widely shared based on pursuit of product opportunities identified in the aforementioned steps.

Infrastructure

6. **Improve on-farm precooling facilities**

   GOK and large exporters' action: Only the large vertically integrated companies in the private sector have the financial capability to establish pre-cooling facilities. The resulting quality improvement, and reduced spoilage, will benefit Kenya's overall image in the export marketplace. It is anticipated that the European Community may make pre-cooling of fresh produce a regulatory requirement, thereby necessitating the establishment of such facilities by the GOK to assure the Kenyan small exporters continued viability.

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7. **Improve access and feeder roads to main growing areas.**

GOK action: Roads must be repaired and maintained to ensure that product can be transported to distribution centres and arrive in good condition for export.

8. **Improve public handling facilities at the airport.**

GOK action: Either disband Kenya Airfreight Handling Limited, allowing operations to be privatized; or invest in expanded and improved facilities, purchase more weighing equipment, and train KAHL employees in better handling techniques.

Transportation

9. **Maximize the efficient utilization of limited air freight space by further concentration on added-value products such as specialist cut flowers and pre-pack fruits and vegetables.**

Medium and large exporters action: Efforts in this direction, to date, have been most successful and should continue without GOK intervention.

10. **Develop sea freight linkages and technologies to transport less perishable and bulkier crops as well as processed products.**

KEDS action: Sponsor seminars through HCDA and FPEAK on technologies in sea transportation for less perishable and bulkier crops, paying particular attention to avocadoes which could become a major Kenyan export item if sea transport improves.

11. **Re-examine the Kenyan government policy of imposing a high tax on aviation fuel.**

GOK action: The high VAT is the main reason that air freight rates from Kenya to Europe are the highest in Africa. This rate must be reduced if Kenyan horticultural exports are to remain competitive in an increasingly competitive marketplace.

Export Incentives

12. **Fully adopt the International Plant Breeders Rights Agreement.**

GOK action: The Kenyan government should fully adopt this agreement to allow Kenya access to the new and improved seed varieties necessary to maintain product competitiveness with other exporting countries.

13. **Eliminate the bottlenecks exporters face when importing cartons and other inputs since current delays are increasing exporters' inventory costs and affecting their competitiveness.**

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GOK action: Streamline customs procedures so that the turn-around time for procurement of imported agricultural inputs is shortened.

14. **Enact more stringent export licensing requirements or a quality "certification" to reduce the admission of "briefcase" exporters into the marketplace.**

KEDS action: Through its assistance to FPEAK, KEDS will sponsor a seminar on "How to Export" in 1993. It is anticipated that this will be repeated on a regular basis by FPEAK, once it is strengthened, and could eventually be offered as an optional course to new exporters prior to license application at HCDA.

15. **Re-examine the issues facing small growers' and exporters,' particularly with regards to export activities.**

KEDS action: Topics of finance and credit should be addressed in all seminar agendas, regardless of the main context. It is also recommended that a special seminar with banks, donor agencies, small growers and exporters be sponsored by the KEDS project, in association with either HCDA or FPEAK, in late 1993/early 1994.

OTHER

16. **Donor agencies should collaborate more closely to ensure that their assistance is well coordinated and that the overlap and repetition of activities is avoided.**

KEDS action: In preparation for this report, KEDS contacted the UNDP, the FAO, the World Bank and GTZ offices in Nairobi. Regular contact should now be maintained by the KEDS/PEMU team.

17. **Improve the agricultural extension services provided by the HCDA through provision of: technical training for extension agents; and broader dissemination of technical literature to farmers.**

KEDS action: Technical literature has seldom reached the front line extension staff and only rarely exporters and growers. KEDS is planning, again through association support, to assist HCDA with the preparation and publication of a posthavest manual. It will cover 15-20 crops with color photographs. Dissemination will be carefully monitored to ensure that copies reach all extension workers, exporters, and contracted growers. Extension workers will also be encouraged to participate in all KEDS-HCDA-FPEAK sponsored technical seminars.

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