

Kenya BDS Program

Activity 1: Sub-sector Selection

Presentation for USAID/Kenya

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Presentation Agenda

Introduction of Kenya BDS and Activity 1

Phase 1: Sub-sector Shortlist

Phase 2: Analysis of Sub-sector Shortlist

Phase 3: Scoring of Shortlist

Phase 4: Findings

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Phase 1: Sub-sector Shortlist

Phase 2: Analysis of Sub-sector Shortlist

Phase 3: Scoring of Shortlist

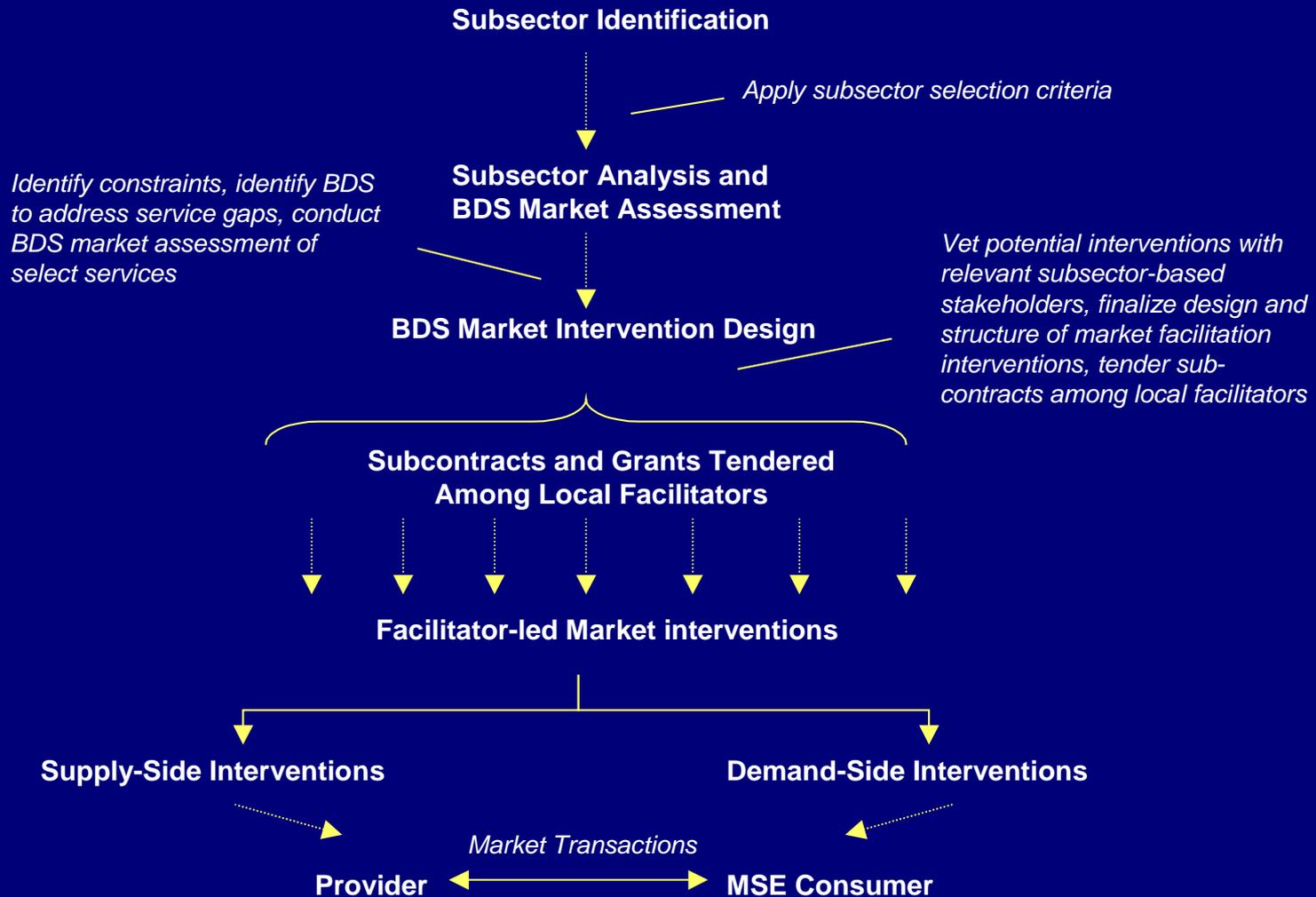
Phase 4: Findings

Kenya BDS Program

Objective - To increase economic opportunity and enterprise growth through more effective markets for business services.

- SO7: Rural Household Incomes Increased*
- IR 7.3: Increased access to Business Support Services for Micro and Small Enterprises*

Sub-sector/Business Services Approach



Activity 1: Sub-Sector Selection

Objectives

- Identify and select the first sub-sector for Program assistance
- Apply a comprehensive and methodical approach which balances the objectives of Kenya BDS with specific criteria for increasing rural household incomes

Activity 1: Sub-sector Selection

Scope of Work

- Conduct initial brainstorming session and develop raw list of potential sub-sectors
- Collect specific information on each short-listed sub-sector
- Describe primary actors operating in the subsector, and create “blue-print subsector maps”
- Score and rank each of the sub-sectors according to specific evaluation criteria

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Phase 1: Sub-sector Shortlist

Brainstorming Session

Initial criteria for consideration:

- » Maximizes impact and outreach at the rural MSE level
- » Existing unmet market demand and commercial orientation
- » Sensitive of other donor activity

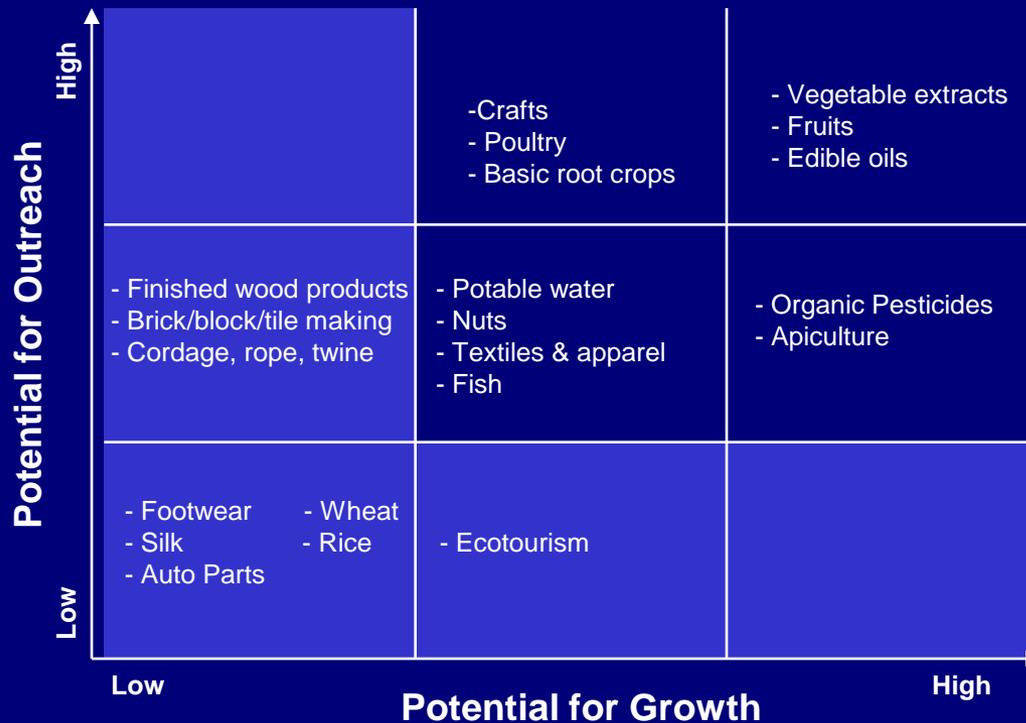
Phase 1: Sub-sector Shortlist

Raw List

- Vegetable extracts
- Potable Water
- Fruits
- Nuts
- Eco-tourism
- Handicrafts
- Textiles and apparel
- Footwear
- Finished wood products
- Apiculture
- Edible oils
- Poultry
- Fish
- Organic pesticides
- Auto parts
- Silk
- Basic root crops
- Rice
- Wheat
- Cordage
- Brick/block/tile making

Phase 1: Sub-sector Shortlist

Attractiveness Matrix



Phase 1: Sub-sector Shortlist

Quick Analysis for Further Refining

| | | |
|--------|--------------------|----------------------|
| High | Vegetable extracts | Fruits |
| | Edible Oils | Fish |
| | Basic Root Crops | Organic pesticides |
| | | |
| Medium | Apiculture | Nuts |
| | Handicrafts | Textiles and apparel |
| | | |
| Low | Potable water | Poultry |

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Phase 2: Analysis of Shortlist

Data collection

- General Characterization
 - Size of sub-sector, MSE employment, contribution to GDP, geographical distribution, participation of women, rural impact
- Key Players
 - Critical actors and stakeholders within the supply chain
- The Market
 - Domestic/international supply and demand, linkages with other industry, sectors
- Strengths, Weaknesses, Opportunities, Threats

Phase 2: Analysis of Shortlist

Vegetable Extracts

Size and Potential for Increasing Household Incomes:

- Total annual output of vegetable extracts derived from tomatoes, kales, cabbage, onion, and garlic is about 13,000 m. tonnes valued at 180 million Ksh.
- Kenya is one of the largest sub-Saharan producers of both the dehydrated vegetables and tomato products for export
- 200,000 rural MSEs derive incomes from this sub-sector

Strengths/Weaknesses:

- + Kenya is an established exporter of dehydrated vegetables to Europe
- + Unmet demand of tomato based products in the region
- Dehydrated vegetable

production is a near monopoly

Unorganized sub-sector at large processor and MSE level

Phase 2: Analysis of Shortlist

Edible Oils

Size and Potential for Increasing Household Incomes:

- Huge domestic consumption with 320,000 m. tonnes required annually, as well as some regional export
- Unmet market demand, with over 95% of annual requirements met through imports at an annual bill estimated to be higher than Kenya's export earnings from horticulture
- 100,000 estimated small-scale farmers (all oil crops put together)

Strengths/Weaknesses:

- + Strong movement towards cholesterol-free edible oils
- + Kenya agro-ecologically suited to cultivate oilcrops

- Economics of production unattractive

Phase 2: Analysis of Shortlist

Fish

Size and Potential for Increasing Household Incomes:

- Annual total production estimated at 180,000 m. tonnes valued at 6.6 billion (of this, 93% comes from Lake Victoria)
- 500,000 people derive livelihood from fish and fish related industry
- 18 processing plants around Lake Victoria who buy directly from about 30,000 fishermen

Strengths/Weaknesses:

- + Established market niche in Nile Perch
 - + Coordination with AFIPEK and GOK Fisheries

Department Kenya BDS Program - A USAID Funded Activity Managed by Deloitte Emerging Markets Diminishing Nile

Perch stocks: Aquaculture is incipient (4%): Marine is

Phase 2: Analysis of Shortlist

Fruits (avocado, mango, passion)

Size and Potential for Increasing Household Incomes:

- FY 2000, fruits subsector covered 60% of total area under horticulture
- Represents 150,000 farmers of which small-scale producers are approximately 95%
- 45% of total domestic value of horticultural production (19.1 billion Ksh); 8% of total horticulture export earnings (1.6 billion)
- Estimated 70% involved in cultivation/selling of fruit are women

Strengths/Weaknesses:

- + Strong private sector for export, with established EU market channels
- + Favorable climate for a wide range of products
- Expiry of preferential treatment

Phase 2: Analysis of Shortlist

Basic Root Crops (focus on cassava)

Size and Potential for Increasing Household Incomes:

- Cultivated by over 300,000 farmers in medium & low potential zones
- Productivity estimated to be 2-3 times that of maize
- Production in 1999 was 910,000 m. tonnes of fresh tuber in 98,000 ha and has been increasing steadily

Strengths/Weaknesses:

- + Potential domestic demand unlimited (food industries; animal feeds 500,000 m. tonnes; starch for pharmaceutical, textile, paper, adhesive)
- Sub-sector minimally commercialized. Still perceived as a food crop from a

Kenya BPS Program - A USAID Funded Activity Managed by DRI/Institute for Emerging Markets
subsistence perspective. (80% consumed subsistence, and 20% marketed in the local food industry)

Phase 2: Analysis of Shortlist

Organic Pesticides (focus on Pyrethrum)

Size and Potential for Increasing Household Incomes:

- 200,000 farmers currently cultivating the crop (95% small scale)
- Fourth largest foreign exchange earner in Agriculture after tea, horticulture, and coffee (9.8 billion Ksh earned in 1999)
- Highest labor absorption capacity
- Planted area in 2001 was 27,000 ha. Potential exists to increase 10 times.

Strengths/Weaknesses:

- + World leader in Pyrethrum production, with 65% of market share
- + Strong int'l market for organic pesticides (40% unmet market demand)

Kenya Blue Program (AKSAD) Funded Activity Managed by Deloitte Emerging Markets

- Monopolistic control of sub-sector by Pyrethrum Board of

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Phase 3: Scoring of Shortlist

Evaluation Criteria

| Subsector Selection Criteria | Rationale | Percentage | Ranking (1-3) | Score (% x ranking) |
|--|---|------------|---------------|---------------------|
| Potential for increase in rural household incomes | Potential exists to significantly increase revenues or sales within a range of areas or along all levels of the supply chain | 25 | | |
| Significant number of MSEs in the subsector to maximize outreach | Critical mass of active or "latent" MSEs exist with potential for program leverage, including women participants in the supply chain | 20 | | |
| Existing market demand for the good or service | Willingness to purchase particular product is evident, and there is potential competitiveness of the sub-sector in relation to the world market | 20 | | |
| Potential for positive synergies with donors and government | Opportunity exists to leverage off and complement other sub-sector based programs and activities | 5 | | |
| Existence of linkages conducive to market based approach | A variety of actors exist in the sub-sector who are linked through mutually dependent commercial transactions and relationships | 10 | | |
| Potential for employment generation | Significant opportunity exists for job creation within the sub-sector, and ability exists for USAID to have an impact on the sub-sector | 15 | | |

Phase 3: Scoring of Shortlist

Scoring Results

- Fruits 2.23 points
- Organic Pesticides 1.98 points
- Edible Oils 1.83 points
- Fish 1.73 points
- Vegetable Extracts 1.58 points
- Basic Root Crops 1.55 points

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Phase 4: Findings

- The Fruits Sub-sector is recommended for initial assistance under Kenya BDS
- Key questions to address for analysis of the fruit sub-sector include:
 - » Domestic vs. Export focus (or both?)
 - » Fresh Produce vs. Processing (or both?)
 - » Geographic Coverage and Synergies

Phase 4: Findings

Possible BDS Interventions may include:

- marketing and market information
- forward/backward linkages and out-grower assistance
- training of small farmers
- product quality, grading, transport
- labeling
- business and management skills training

Phase 4: Findings

Next Steps for sub-sector #1 (January-April '03).....

- Activity 2: Conduct sub-sector analysis and identify constraints to growth and service gaps
- Activity 3: Identify and define appropriate BDS to address constraints
- Activity 4: Conduct BDS market assessments of identified services
- Activity 5: Design BDS market interventions
- Activity 6: Tender and award market facilitation interventions