# Follow-up Review of Kenya BDS Facilitation Activities in Market Linkage (Brokerage) Services and Facilitation of the *Third National Conference of the BDS Donor Working Group*

***Technical Presentations By***

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# Market Linkage Review
## Findings and Follow-up Actions

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*(updated 26 November 07)*

# Market Linkage Review: 2006

Passion Fruit:

FRR supply grade 1 to EAGA and KHE

- *Increase qty/quality*
- *Service fee agreed*

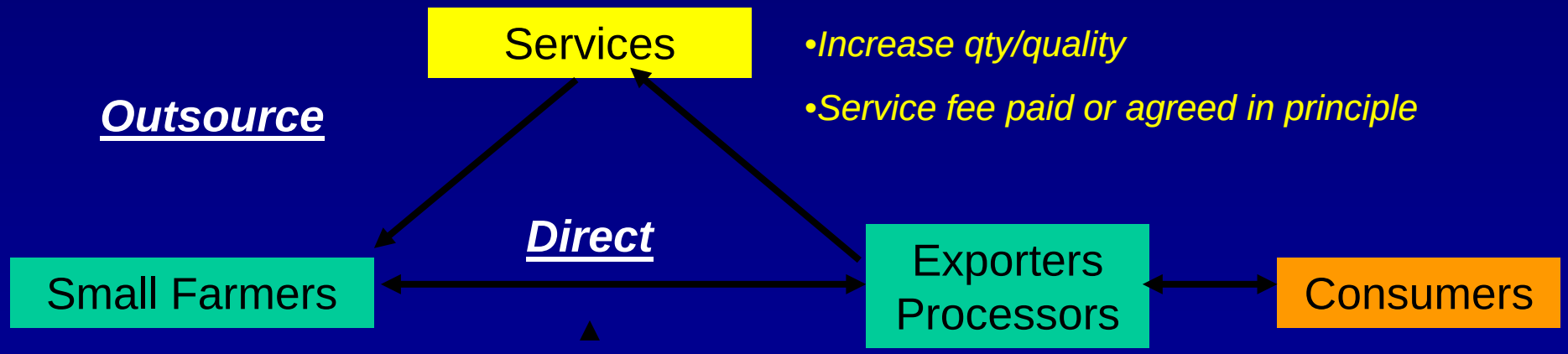
Avocadoes:

APEX builds in-house unit Indu Farm

WMG supplies grade 2 to processors

FRR will supply grade 1 to EAGA and KHE

- *Increase qty/quality*
- *Service fee paid or agreed in principle*




Recommendations to KBDS

- *Phase out operational subsidies*
- *Take on EurepGap challenge*
- *Cost-share business TA for commercial transformation*

# Market Linkage Review: 2007

| Small Farm Links | Sourcing Arrangements |
|---|---|
| AVOCADO | |
| Direct | INDU FARM stops (too costly)<br>KHE starts (avo + horticulture) |
| Outsource | Indu Farm starts with Sure-Link (small)<br>Sunripe starts with Sure-Link (small)<br>EAGA stops with FRR; starts with Ideal<br>Kakuzi starts with WMG-A/O<br>Processors continue/expand with WMG-A/O |
| PASSION FRUIT | |
| Direct | None |
| Outsource | EAGA continues with FRR<br>KHE continues (with caution) with FRR |

# Overview: Status, Prospects, Support

| | Operations | 1. Opportunities 2. Risks | KBDS Support |
|---|---|---|---|
| **FRR** | • Increased quantities<br>• MRL's detected<br>• Mixed buyer satisfaction<br>• Starting to implement central spraying teams<br>• GAP analysis in motion<br>• Operational B/E (?) | 1. Growth linked to certification<br>*Willing buyers*<br>*Farmer loyalty, good field staff*<br>2a. Firm level<br>*Weak internal systems*<br>*Readiness to invest?*<br>2b. System wide risks:<br>*Euro audit/MRLs*<br>*Crop protection*<br>*Planting material* | • Continue with QMS and MIS<br>• Start with TA financing business growth (see draft SOW) |
| **WMG** | • Increased grade 2 volumes<br>• More partner satisfaction<br>•More efficient grade 2 operations<br>• Poised to improve grade 1 sourcing efficiency<br>• Operational B/E (not yet covering field supervisor and HQ overhead | 1a. Enter grade 1 direct export<br>*Unique opportunity with Kakuzi*<br>*Improving sourcing efficiency*<br>1b. Penetrate processor market<br>2a. Firm level:<br>*Emerging commercial systems*<br>*Ready to invest!*<br>*Financing required*<br>*2b.* Export Market Risks<br>*A-O exposure* | • Continue with MIS<br>• Slow QMS<br>• Start with TA financing business growth (see draft SOW)<br>• Consider matching grant to share export risk based on TA findings |

# Overview: Performance and Prospects

| | Operations | 1. Opportunities 2. Risks | KBDS Support |
|---|---|---|---|
| **Sure-Link** | • Comparatively small linkage (tree numbers) with Indu and Sunripe<br>• Pilot crop diversification with existing/new farmer groups and Eaga, Sunripe and Indu Farm<br>• operational B/E (?) | 1. Crop diversification promising<br>*Improve yr round cash flow*<br>*Turnaround inactive schemes*<br>2. Firm Level<br>*Require overdraft financing*<br>*Willingness to grow/invest?* | •Continue QMS and MIS as these are areas of immediate priority |
| **Ideal** | Shake out from transition:<br>• Farmer dissatisfaction with FRR<br>• Resist spraying price increase<br>• Groups drop out | 1. Testing "one stop shop" crop management service<br>*Farmer/Buyer buy-in*<br>*Better coord/efficiency*<br>*2* Firm Level<br>*Enough trees to B/E* | •Continue with MIS and QMS<br>•Start: TA support on financing growth (see draft SOW |

# WMG/A-O Performance: Overall

Grade 2: Processors: Significantly expanded quantities in line with buyer requirements

- 1,349 MT delivered – met processors requirements (all but 100 MT sourced from groups; 100 T from individuals thru collection centers (50% paid up front; 50% paid later)
- Price Ksh 4.00/kg – lower than 2006 price (exchange rate loss)
- Experienced delayd (over 4 mths) in payment from processor (cash flow crunch)

Grade 1: Exporters (Kakuzi): (Re)entered the exporter market with moderate buyer satisfaction:

- 466,378 pieces or 27,434 cartons
- 13% share of Kakuzi Fuerte exports (5 of 39 containers)
- High percent of rejection (40%)
- Inconsistent and not timely delivery (3 days farm to pack house)

# WMG Lessons: Grade 2 Linkage Service

1. More satisfied buyers
   - Met quantities required, reliably
   - 60% market share – compared with traditional brokers
   - Built trust/confidence in A-O for next season
2. Improvements in supply forecasting
   - Updated tree census on numbers, yields and grade composition (estimates grade 1 about 10%/tree)
   - Critical information for negotiating supply arrangements
3. Better buyer forecasting required
   - Must diversify buyers especially at time of peak production (4th processor entering Kenya for next season)
4. Better service coordination
   - More direct supervision of spraying contracts required by field office.

NB: A-O perspective – didn't speak with processors

# WMG Lessons: Grade 1 Linkage Service

1. Can significantly reduce high rejection rate (from 40% to 16%)
   - shift from 3 to 1 ton pick ups
   - more cost-effective and reduces spoilage

2. Can reduce time required from farm to market
   - Training pickers in order to pick faster

3. Can better match production planning to market needs
   - Better targeting of production zones (hot, cold, middle)
4. Better logistics to reduce pack house costs
   - Aggregate before delivery

# Lessons: Grade 1 Linkage

From Kakuzi Perspective: Sourcing Fuerte from Small Farmer

Pros:

- Utilize pack-house in non-Hass season
- Satisfy customers for Fuerte variety (plan for 60 containers 2008)
- Support the community

Cons:

- Can't control for quality – high rejection rate (maturity/size; MRL's)
- Lack of timely delivery – 22 tons from farm to pack house in 3 days

Future options:

- A-O sourcing possible if quantity, quality and timeliness improved
- Prefers A-O to bear some market risk
  - *Two tier payment (modeled on tea): 1. after packing 2. after proceeds*
- Limited willingness to continue same arrangement medium term
  - *May farm themselves instead of outsourcing to control quality*

# Expansion Strategies

| Products | | |
|---|---|---|
| NEW | **Broker Grade 1**<br>Conditions: farm intensification; some pre-financing<br>Benefits: more service revenue<br>Risks: continued willingness of exporter (Kakuzi, others)<br>**Product Diversification** | **New Crops/Markets/Services**<br>Conditions: Understand potential in existing/new zones<br>Benefits: future source of revenues<br>Risks: investment (time/money)<br>**Market Development** |
| SAME | **Broker Grade 2**<br>Conditions: geographic expansion; some pre-financing<br>Benefits: low margins; cash flow<br>Risks: delayed payments<br>**Market Penetration** | **Exporter Grade 1**<br>Conditions: farm intensification; more pre-financing<br>Benefits: higher returns/upside<br>Risks: exposure to loss (price volatility, etc)<br>**Market Diversification** |
| | SAME | NEW |

**Markets**

# Recommendations

1. WMG/A-O should take advantage now (exciting and time sensitive) of opportunity to expand by diversifying into export market
   - *Contingent upon financing facility – how much financing can A-O raise?*
   - *Learn about market risk by taking it – how much trust do they have in Kakuzi?*

2. KBDS should facilitate A-O's consideration of this opportunity through (and in this order)
   - *TA support (on a cost-share basis) to assess costs, revenue prospects and related financing required for growth*
   - *Matching grant to offset market risks associated with avocado exports (thru Kakuzi)*

3. Tie support to
   - *continued progress in commercialization process*
   - *access to and use of commercial information to educate agencies on small farmers links to export markets*