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

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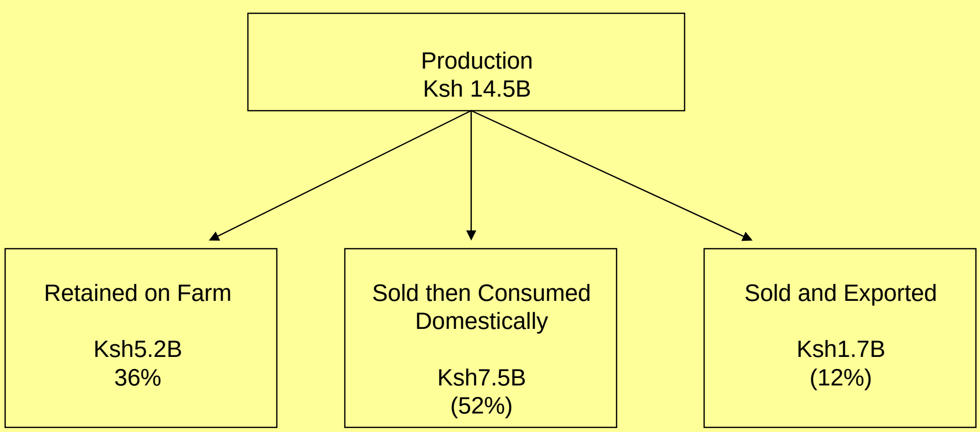
Outline

- Relative sizes and future prospects for export and domestic horticulture
- Horticulture in smallholder livelihoods
- Regional competitiveness
- Marketing channels
  - The traditional system and "the supermarket market"
- The way forward

Relative Sizes of Domestic and Export Systems

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

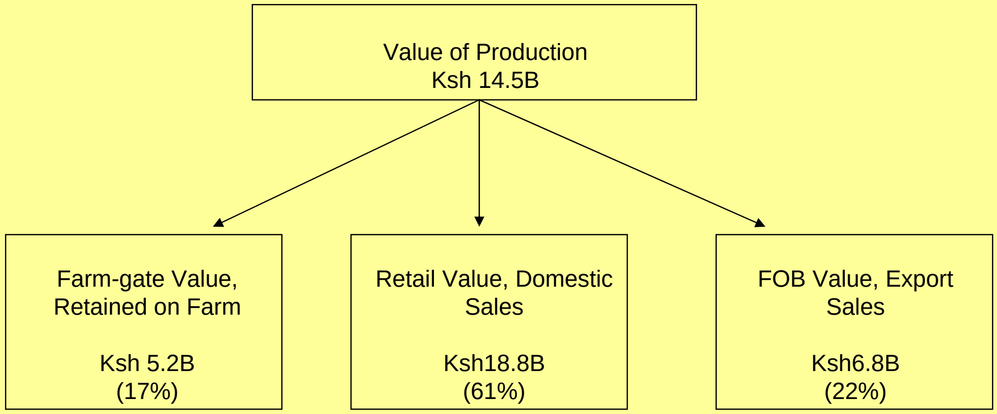
Market channel shares (farm, local sales, export sales) of total vegetable production in Kenya, 1997-2001, valued at farm-gate prices



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

This provides an <u>upper bound</u> on export share

Total value added (and share) in farm, local sales, and export sales channels for vegetables in Kenya, 1997-2001



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

Nearly all smallholders produce, and 70% sell, but only 2% do so for export

Future Prospects for Domestic and Export Horticulture

- Growth in exports has declined over past decade
  - To 4%/year from 17% during 1974-1983
  - Good policies and programs needed to maintain that growth rate … and the rate could fall
    - EUREPGAP
    - Competition from other countries (Ghana, Morocco, Egypt, South Africa)
- Growth rates in domestic system could rival or exceed those in export sector over next several years
  - And domestic system is already much larger …
  - … and dominated by smallholder production

Future Prospects for Domestic and Export Horticulture (2)

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

Horticulture in Smallholder Livelihoods

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

Regional Competitiveness

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

Apparent Import Shares for Selected FFV in Kenya

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

Regional Competitiveness (2)

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

Domestic Marketing Channels

- Dramatic language in recent "supermarket literature"
  - A "revolution" in food retailing
  - Supermarkets are "taking over" … small shops are "disappearing"
- … and in the popular press informed by this literature
  - "The growth of supermarket chains is threatening the survival of small-scale farmers in the developing world"
    East African Standard, Friday 19 March

Domestic Marketing Channels (2)

- Is the empirical evidence as dramatic?
  - One quote among many from Latin America:
    - "Despite the growth …, expectations regarding (supermarkets') … ability to displace traditional retailing have not been met." (Schwentesius and Gomez, 2002; Mexico)
- What about Kenya?
  - Current status
  - Likely rate of growth

Market shares of various retail outlets in sales of "***basic foods***", Nairobi, October 2003

Per capita Income Quintile	Mean Per Capita Income (Ksh)	Market Outlet						
		Super-market Chains	Small super-market	Duka/shop	Open Market	Kiosk	Butchery	Other Minor Outlets
		---------- % of total expenditure over 40 food items ----------						
1 (lowest)	7,407	2.5%	4.0%	33.9%	20.6%	19.6%	12.0%	7.4%
2	19,199	6.4%	5.0%	33.0%	17.4%	15.0%	16.2%	7.0%
3	33,567	2.8%	5.7%	34.7%	21.6%	13.4%	15.9%	6.0%
4	59,560	9.0%	4.3%	30.0%	19.8%	15.0%	18.3%	3.8%
5 (highest)	276,698	25.7%	4.9%	19.0%	15.7%	12.0%	18.1%	4.6%
Overall	79,079	11.5%	4.8%	28.7%	18.7%	14.3%	16.7%	5.4%

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… but these purchases are concentrated among wealthiest 20% of the population

Market shares of various retail outlets in sales of ***fresh fruits and vegetables,*** Nairobi, October 2003

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Open air markets and kiosks dominate

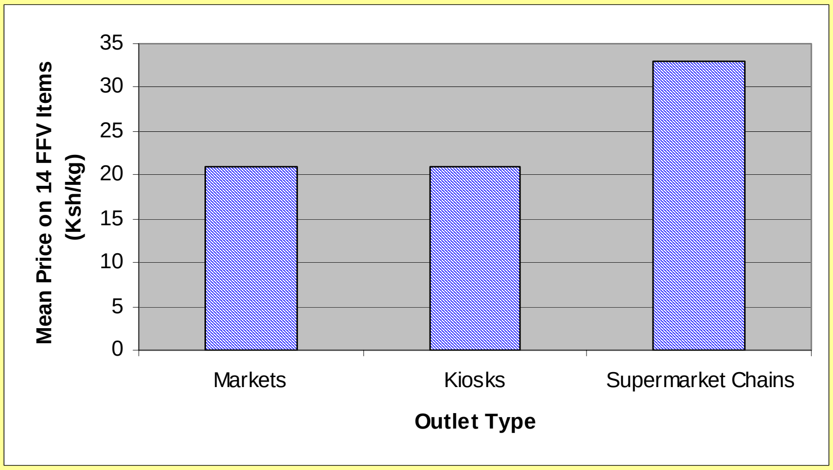
… and nearly ALL of this occurs among the wealthiest 20% of the population

What about rural markets?

- Rural survey of 2,300 smallholder farmers shows:
  - 96% purchased FFV last month
  - Estimated size of rural FFV market nearly 2/3 that of the urban market
    - Nearly 40% of the national market!
  - Supermarket share near zero

Why is the supermarket share so low?

- 60% more expensive on comparable items



Why is the supermarket share so low?

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

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

- The supermarket share of FFV in Kenya will certainly grow over time
  - The question is: ***how fast?***
- Demand-side determinants include:
  - Per capita income
  - Urbanization

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

Country	GNI per capita	PPP GNI per capita	Urban Pop. %	FFV supermarket share	Source of FFV share
Argentina	6,940	10,980	89	35 (2003)	Ghezán et al
South Africa	**2,820**	**10,910**	**55**	**15-20??**	**Weatherspoon, et al**
Costa Rica	4,060	9,260	52	18 (2002)	Berdegué, et al
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Kenya's "traditional" marketing system will maintain a very large share of the FFV market for the foreseeable future

At least 80%, probably higher

What does this imply about policy?

A question of *balance*

- Supermarkets can be important forces of modernization
  - Affecting the practices of traditional marketing agents
  - Seeking out consumer demand, attempting to satisfy it
  - Paying better prices to farmers – *higher incomes*?
  - ***Very important!***
- But they have a ***very small*** market share in FFV, and this is not likely to change as rapidly as some think

Modernize the food system …

… don't just focus on one modern element within it

Domestic Marketing Channels (7)

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

Conclusions, Recommendations

- Need investment in three areas
  - Legal and regulatory environment
  - Technical production constraints
  - “Hard” and “soft” market infrastructure
- Legal/regulatory and technical aspects come together on seed
  - How to replicate Tanzania’s apparent success in village level Quality Declared Seed programs
  - Need a regulatory approach that facilitates innovation, avoids heavy policing approach

Conclusions, Recommendations (2)

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

Conclusions, Recommendations (3)

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

Summary

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

Further Research

- Urban marketing
  - Market shares, costs, SOPs and bottlenecks in procurement of various retail outlet types
  - Identify specific investments to improve logistics, hygiene, and market information in wholesale markets
  - Partnering is key
- Rural marketing
  - Many rural households likely to be net buyers
  - So performance of the rural marketing system will affect real incomes of net sellers and net buyers
  - Rural assembly is key determinant of final costs in both rural and urban areas
- Rural-Urban links