Kenya: Exporting Out of Africa—Kenya’s Horticulture Success Story

With over 70 percent of the poor in developing countries living in rural areas, agricultural growth must play a significant role in poverty reduction, and in small low-income countries this is likely to require improved agricultural export performance. In Kenya, horticultural exports have demonstrated huge potential in terms of both growth rates and overall demand, generating jobs that directly support a half million workers, small farmers, and their families.

Small farmers have proven to be effective suppliers for horticultural products such as French beans or avocados, when satisfactory contracting arrangements are established with an exporter or processing firm. Large farms have been more conducive to the cultivation of other crops, notably cut flowers, but have generated thousands of jobs for laborers who own little or no land and who are the truly poor. Many more urban poor find full- or part-time employment in the packhouses, cutting and packaging produce for export. Working conditions vary but available evidence shows that these employees and farmers are better off than their peers outside the industry. Recently, the industry associations within the horticulture sector have adopted employment guidelines that go beyond official government policy.

The sector’s development has been gradual and eclectic, with many ups and downs, and many different actors. It is primarily a private sector story, with entrepreneurs and farmers innovating and taking chances. The government has played an ambiguous role, being broadly supportive but often interfering; it sometimes contributed the most by leaving the sector alone, but gradually it has learned to be a facilitator.

Background

Horticultural products—vegetables, fruits, and cut flowers—have grown steadily to become the single largest category in world agricultural trade, accounting for over 20 percent of such trade in recent years. The horticultural exports of Sub-Saharan Africa now exceed $2 billion, yet this is only 4 percent of the world’s total and there is plenty of room to expand. Not surprisingly, this sector has attracted the attention of policymakers, the aid community, and the private sector in low-income countries where traditional exports are the norm.

The Kenyan horticultural industry shows what can be achieved. Horticultural products have accounted for two-thirds of all growth in agricultural exports and recently surpassed coffee to become the second largest merchandise export, after tea. Kenya is the second largest horticultural exporter in Sub-Saharan Africa (after South Africa), the second largest developing-country exporter of flowers in the world (after Colombia), and the second largest developing-country supplier of vegetables to the European Union (after Morocco). Approximately 135,000 people are now directly employed in the sector. Most are poor Kenyans, for whom the industry has made a real difference in their lives.
A long and winding road

The horticulture industry is defined broadly in this case study to include processed fruits and vegetables, fresh fruit and vegetables, and cut flowers. In the last decade in Kenya, fresh fruit and vegetables and flowers have seen impressive growth, which appears to have accelerated recently. The value of fresh fruit and vegetable exports increased from $29 million in 1991 to an estimated $164 million in 2002, while cut flower exports expanded from $39 million to $175 million over the same period. Total horticulture exports were estimated to exceed $350 million in 2003, or 35 percent of all Kenyan agricultural exports.

Horticultural export growth benefited from sound economic management and political stability that characterized the first decade after independence, but then had to fight an uphill battle against deteriorating economic and political circumstances. The leading role played by Kenyan Asians and Europeans, and the expulsion of Asians from neighboring Uganda in the 1970s, created tensions and prompted government interference. An extended period of structural adjustment ebbed and flowed over the next 20 years and political instability returned in the late 1990s. Against this backdrop, the surge in horticultural exports is indeed impressive.

There are many different paths to poverty reduction

Export horticulture represents an opportunity for reducing poverty through income generation among smallholders, rural laborers on larger farms, and unskilled or semi-skilled processing factory workers. No reliable figures are available, in part because it is difficult to separate the export segment from the much larger, domestically-oriented business. However, if we conservatively assume that each farmer or laborer supports on average at least three other persons, then the industry affects roughly one-half million Kenyans.

A recent survey provides detailed information on the incomes of a sample of horticultural-sector workers and comparative data for a similar control group. This analysis provides strong support for the conclusion that urban employees draw substantial benefits from involvement in the horticulture sector, and that rural laborers are also better off as a result. However, the comparison of smallholders is more complicated. While the average income of export vegetable growing households is several times that of other farm households in the same geographical areas, those participating in this activity tend to be better resource-endowed (especially in terms of land and access to water for irrigation), complicating the issue of causality.

Women are actively involved in various segments of the horticultural industry. An estimated 70–80 percent of the packhouse workers, or table operatives, are women. Women also tend to play a leading role in vegetable production on smallholder farms, by one estimate accounting for two-thirds of the hours worked over the course of a season. They appear to be better-off as a result, and the new labor code will help reduce the potential for adverse working conditions or pressures.

Learning the tricks of the trade

Sunripe Ltd., founded by the Shah family and its partners in 1969 to market vegetables, is one of a half-dozen family-based companies which have played a major role in Kenya’s growing horticultural industry. It now supplies over 17 countries annually. Sales growth has averaged about 20 percent per year over the
last 15 years, reaching $13 million in 2003. The company employs 1,200 full-time and 1,000 part-time workers. In addition to large farm suppliers, it buys from 1000 smallholders, including many women, predominantly through contract farming.

The landscape for smallholder participation is changing and, at least for export vegetables, their role seems destined to decline. Some new crops are unsuitable for small farmers. The contract farming arrangement has proven insufficiently reliable for many vegetable exporters. Perhaps most important is the growing concern among consumers for food safety certification and compliance with environmental and ethical standards. Meeting these requirements presents a real challenge and some observers worry that smallholders will be unable to remain as suppliers to the fresh vegetable trade with Europe. Yet, the rising food safety and other standards have provided an important opportunity to Kenya’s fresh produce trade more generally. While relatively high transport costs inhibit its ability to compete in the lower cost/average quality segments of the European, the industry has moved to differentiate itself on the basis of product innovation and stringent quality assurance/food safety management systems.

Njoro Canners (NC) and Kenya Canners (KC) have been important players in Kenya’s processed fruit and vegetable industry, each drawing strength from foreign partnerships, yet having had very different experiences with smallholder participation. NC became the largest private-sector contract farming operation in Kenya, thanks to a joint venture with Saupiquet, a large French firm, which successfully transferred its Moroccan experience with canned French beans. For a time, it served as a model for how to engage smallholders in export agriculture and inject money into a hitherto isolated local economy in Western Kenya. However, a variety of external market and internal operational changes eventually contributed to its decline in the mid-to-late 1990s.

The KC canned pineapple business brought in Del Monte in the 1960s for its financing, marketing, and management expertise, with important early support from the government of Kenya. Initial attempts to engage smallholders were not successful and so a large plantation was established. The project has proved successful and sustainable, establishing Kenya as one of the world’s five largest exporters of canned pineapple, and employing 6,000 workers.

From bust to boom: letting 1000 flowers bloom

What started as a humble cottage industry—cut flowers—underwent a significant transformation in 1969 when the Danish company, Dansk Chrysanthemum and Kultur (DCK), undertook a large-scale investment on a 6,000-hectare estate in Kenya’s Eastern Province. The Kenya government gave the company many tax and financial advantages, and the Danish government provided a large grant. DCK expanded its operations in the 1970s, but within ten years the project had collapsed. However, many of the employees who gained experience with DCK went on to play a major role in subsequent flower companies. Brooke Bond, a tea company, invested its profits in one of DCK’s farms. Renamed Sulmac, the farm is a major player in Kenya’s flower industry today.

In the 1980s, another international investor (from the Netherlands) built on their experience with vegetable exports to launch the Oserian Development Company, which has become the industry leader. The government’s attempt to control airfreight rates and its failure to recognize plant breeders’ rights had a negative effect on the industry, but the private sector learned to work around these constraints. Today
the government is playing a generally constructive role, notably in the areas of plant variety protection and meeting product standards, and exports are booming.

The industry is nevertheless undergoing significant changes. Export production is concentrated in about two-dozen large-scale farms, which account for 75 percent of the industry. Small-scale farmers face an uncertain future because of declining demand for lower-quality flowers and increasing production and marketing costs. Their lack of access to adequate credit and inputs, logistical constraints, environmental concerns, and other issues exacerbate these problems. The costs of complying with changing standards have an inverse relation with company size and present a real challenge to small-scale farmers. There has also been growing pressure from nongovernmental organizations (NGOs) for the industry to take bolder steps to preserve the environment. A few flower farms have taken steps to address some of these concerns by building water treatment and water harvesting facilities.

Lessons learned

Kenya’s lessons learned may help other countries embarking on a similar export promotion path.

- *External catalysts were critical.* Foreign investors and partners played a critical role in launching and expanding the industry, while donors played a relatively minor role. Internal players, regarded as external by many Kenyans, were equally critical to the industry’s success.

- *Learning and experimentation have been constant.* The industry’s success is in large measure a testimony to the private sector’s capacity to adapt to changing circumstances.

- *Political commitment helped at times, but could have been much more positive.* The government’s concern for smallholder development probably helped promote their participation in the industry; the government’s approach to the export horticulture sector has improved so that it can now serve as a fairly effective facilitator.

- Contract farming is vital for the inclusion of small farmers, but the employment of laborers may be even more important for poverty reduction. Ways need to be found to strengthen the contractual arrangement, especially with the growing importance of reliable supply volumes and traceability of inputs and agricultural practices. The government can facilitate the continued participation of smallholders in various ways, such as the dissemination of good practice in contracting, awareness-raising on export standards, certification of compliance, and support to producer associations. But, smallholder involvement in export horticulture may not be any more pro-poor than production in large farms.