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FROM SEED TO SHELF – VALUE CHAIN DYNAMICS IN KENYAN HORTICULTURE

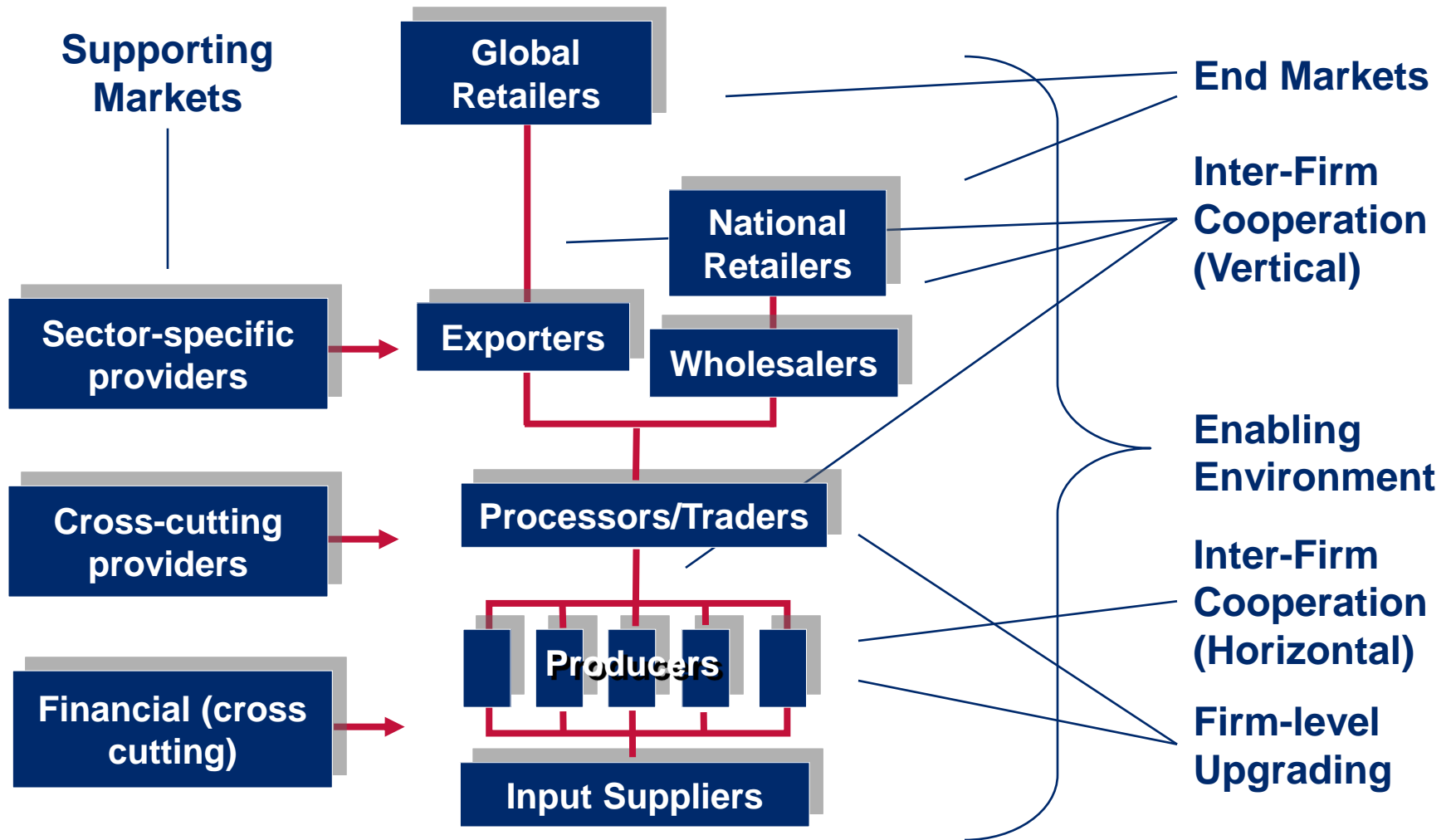
David Knopp – Emerging Markets Group, Ltd.

10/5/05

KEY MESSAGES

1. Value Chains are dynamic and complex. A facilitator must carefully prioritize interventions at **key leverage points** throughout the chain.
2. Development of a business services market (and other supporting markets) is directly dependent upon growth within the **core value chain**.
3. When developing **supporting markets** within a value chain, a careful balance must be struck between **stand-alone** and **embedded service offerings**.

VALUE CHAIN: A FRAMEWORK FOR INTERVENTION



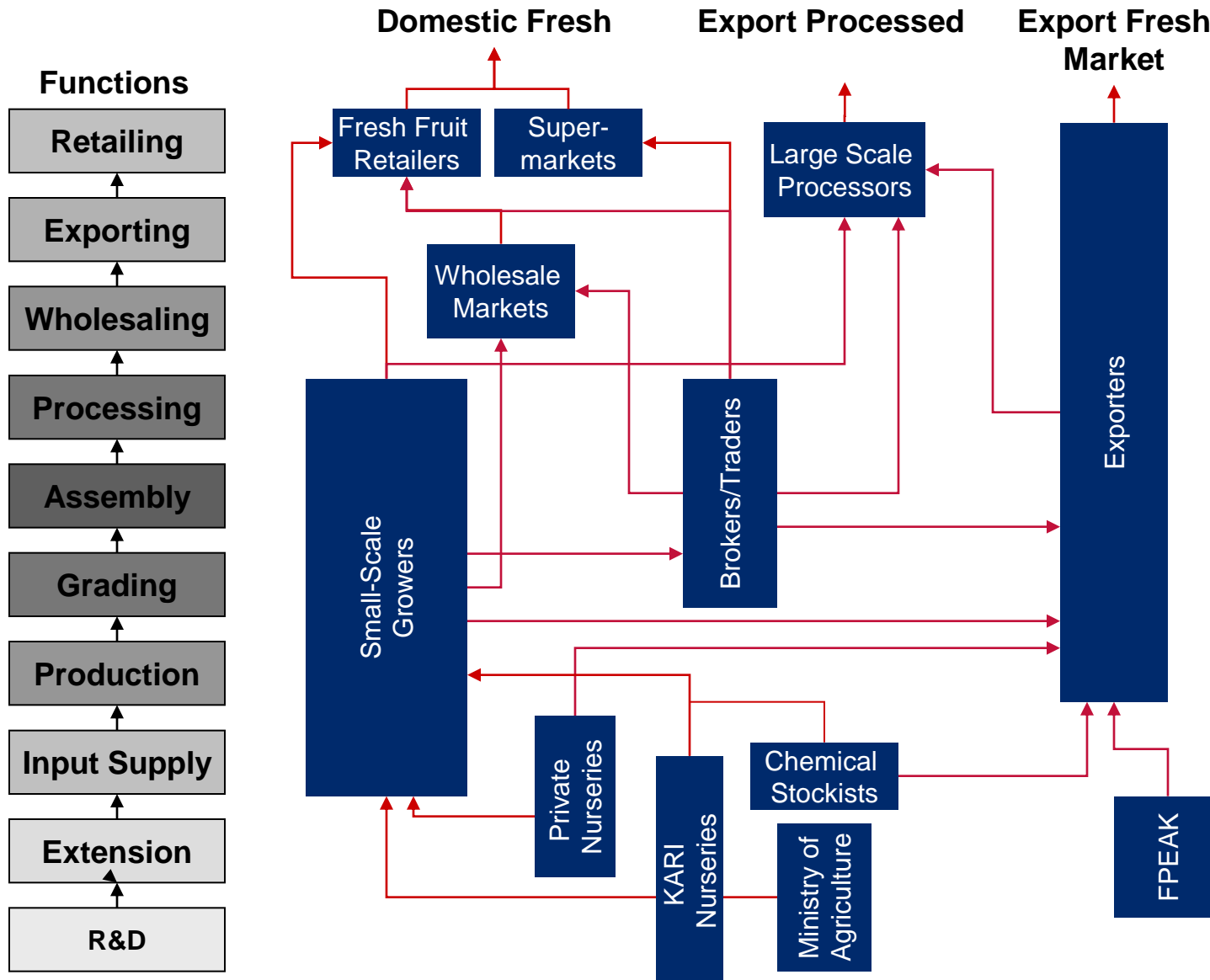
KENYA BDS PROGRAM

1. Period of Performance: September 2002 – September 2007
2. Funding Level: USAID funded, \$5 million
3. Objective: To increase **growth and income** among rural micro- and small-enterprises through increased access to business services
 - ✓ Access to **Markets**
 - ✓ Access to **Resources and Skills**

KENYA BDS APPROACH

1. Select Target Industry
2. Conduct Value Chain Analysis
3. Identify and Prioritize Constraints
4. Design Interventions
5. Tender Among Local Facilitators
6. Award, Support, and Monitor

KENYAN AVOCADO SUBSECTOR



AVOCADO VALUE CHAIN FRAMEWORK (Jan. '03)

Enabling Environment	⇒	<ul style="list-style-type: none">• EurepGAP, Traceability, MRLs• Weak regulatory enforcement = exportation of low quality fruit = poor image abroad
End Markets	⇒	<ul style="list-style-type: none">• Exporters targeting wholesale speculative markets• Secondary market non-existent
Supporting Markets	⇒	<ul style="list-style-type: none">• Under-developed supply of business and financial service markets• Access to material input markets limited
Inter-Firm Cooperation	⇒	<ul style="list-style-type: none">• Lead firms purchasing through spot market brokers• Smallholders selling as individuals
Firm-level Upgrading	⇒	<ul style="list-style-type: none">• Smallholder trees dominated by indigenous and non-marketable varieties• Failure by smallholder farmers to operate farm as a business

INTERVENTION SEQUENCING

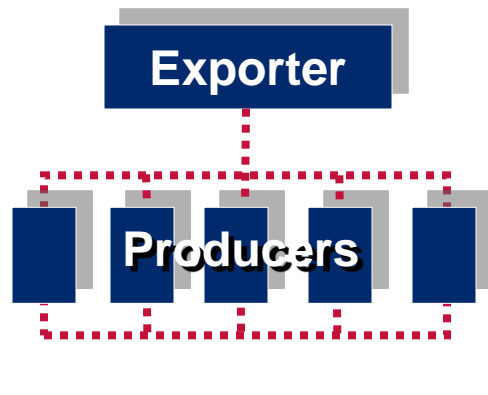
But which comes first?!

How do we prioritize interventions?!

Kenya BDS started with an end market orientation, followed by strategic inter-firm cooperation (i.e. business linkages) which were critical for injecting cash within the system and stimulating growth throughout the value chain.

COMMENCEMENT OF INTER-FIRM COOPERATION

Initial out-grower scheme piloted with one exporter



Vertical Linkages

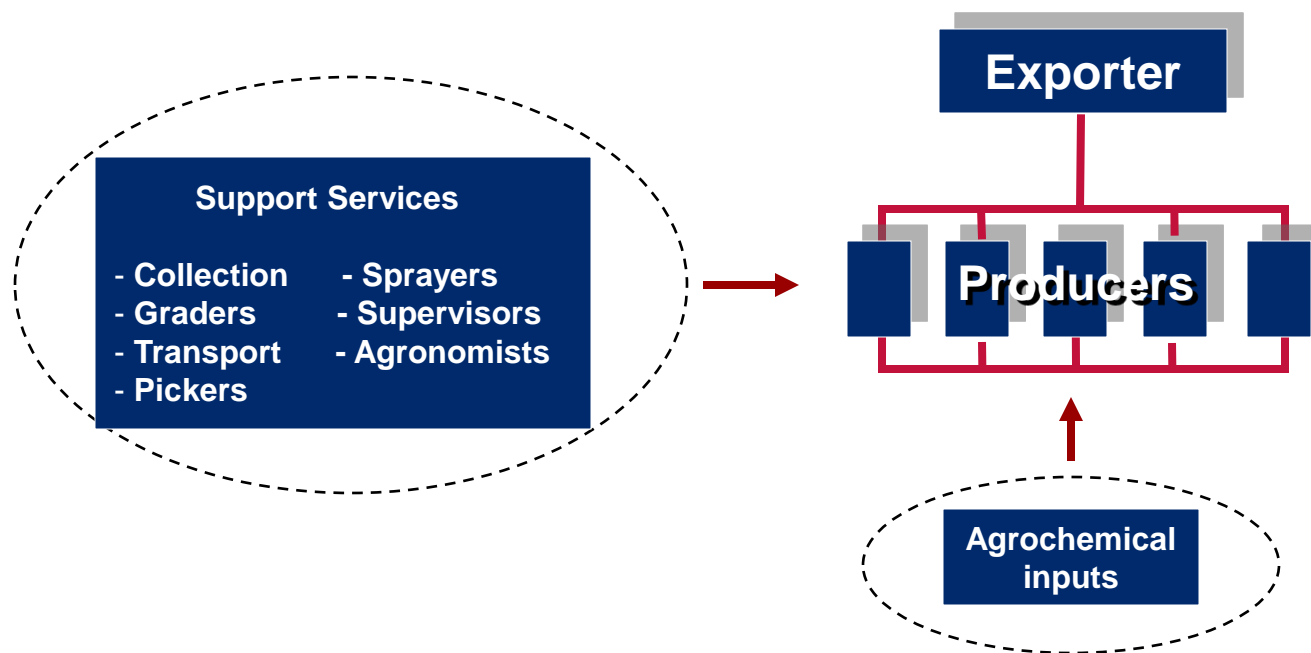
- MOU with Lead Firm
- Negotiation of Supply Contracts
- Hand-holding of “the deal”

Horizontal Linkages

- Cluster Analysis and Production Census
- Identification, Formation, Capacity-Building of Groups
- Development of “Group Management Officers”

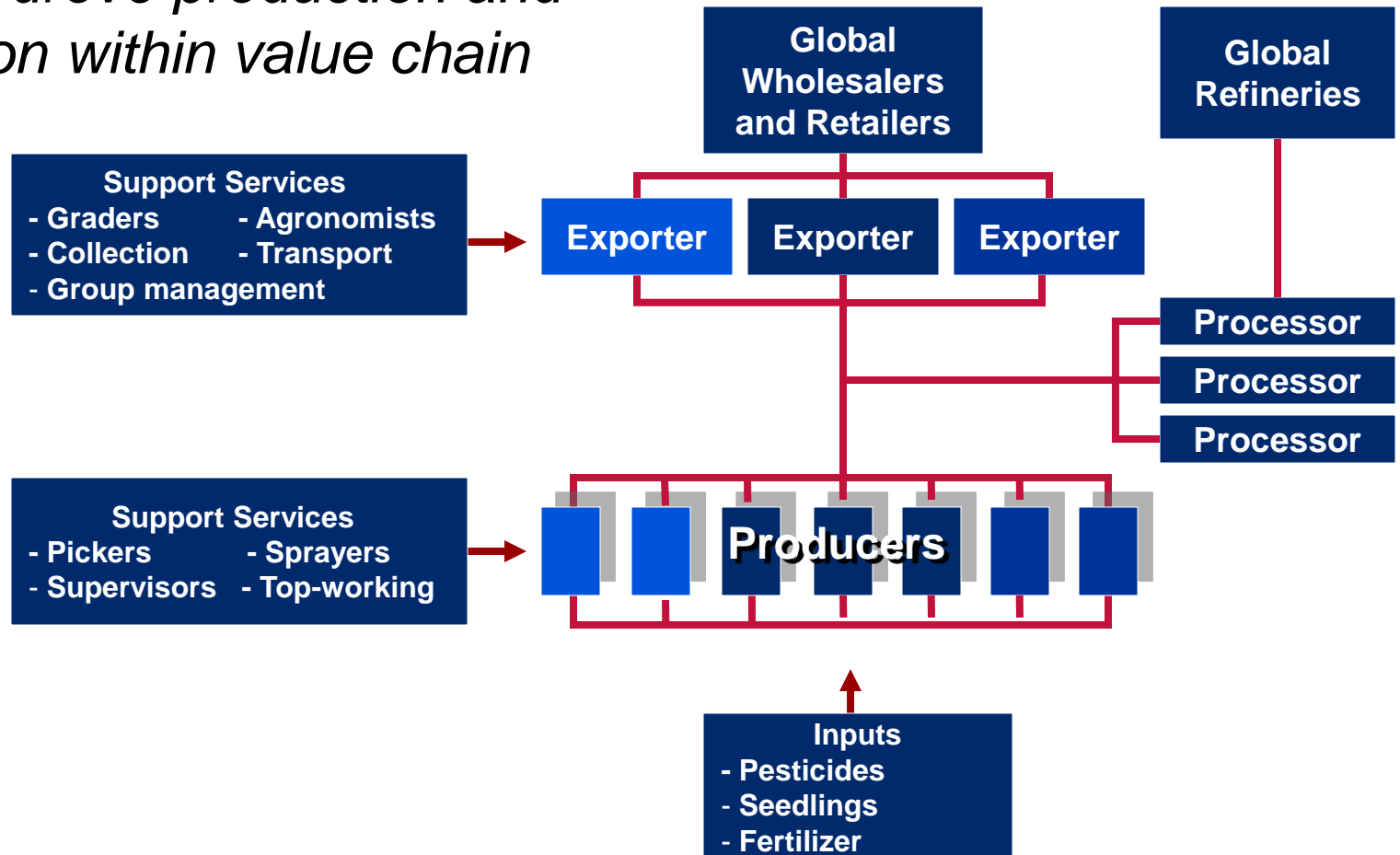
EMERGENCE OF SUPPORTING MARKETS

Business services and inputs offered on credit through “embedded arrangements”



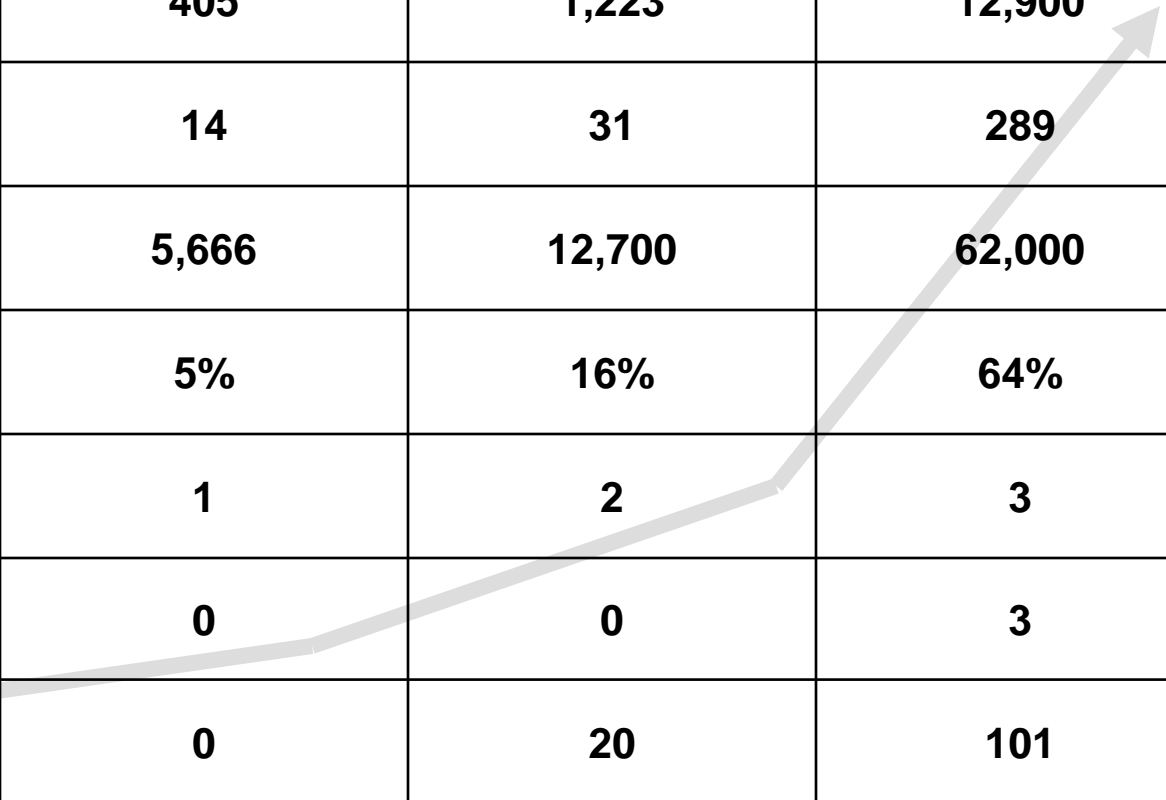
GROWTH OF END MARKETS DRIVES PRODUCTION

Business transactions from pilot initiative drove production and expansion within value chain



EVOLUTION OF THE VALUE CHAIN

	Year 1	Year 2	Year 3
Smallholder Farmers	405	1,223	12,900
Registered Producer Groups	14	31	289
Market-Variety Avocado Trees	5,666	12,700	62,000
Grade 1 Yield per Tree	5%	16%	64%
Exporters with Supply Contracts	1	2	3
Processors for Secondary Market	0	0	3
Stand-Alone Service Providers	0	20	101



MARKET ACTOR – SMALLHOLDER FARMER



Peter Kariuki:

- 140 avocado trees
- 2002 – 1,000 grade 1 pieces sold at Kshs 1.00 per piece
- 2005 – 50,000 grade 1 pieces sold at Kshs 3.00 per piece
- Enjoys guaranteed market and price
- Plans to fence farm and drill a borehole for regular water supply

MARKET ACTOR – SERVICE PROVIDER



Anthony Mwangi:

- Previously an avocado broker
- Under program was trained as a sprayer by exporter, servicing 65 trees/day at Kshs 200
- Has gone “independent” this season, and anticipates on spraying 85 trees/day at Kshs 297
- Welcomes the idea of self-employment

MARKET ACTOR – PROCESSOR



Sunil Savla, AvOil Industries, Ltd:

- Commenced crude-oil processing operations May 2005
- Processing 20 tons per day through supply contract arrangements
- Will propagate grafted Hass seedlings for participating farmers next season

GROWTH WITHIN THE “CORE” DRIVES DEVELOPMENT OF SUPPORT MARKETS

Pilot linkage kick-starts **support service delivery** through **embedded** arrangements



Pilot program success serves as **demonstrator effect** with other farmers and lead firms



Participating farmers ready to **upgrade farms**. Other farmers ready to **enter program**



Increased cash flow within entire value chain

- ✓ Demand for business services exists
- ✓ Monies are available to purchase services
- ✓ Role of facilitator to develop supply

EMBEDDED VS. STAND-ALONE – WHICH IS BETTER?

Embedded Services

Benefits

- Enables lead firm to produce per market specifications
- Overcomes financing constraints among MSEs
- Useful when support market is immature or non-existent

Risks

- Heavy investment may overexpose a lead firm
- May inhibit development of stand-alone service providers
- Potential to “over-service” leading to market distortions

Stand-Alone Services

Benefits

- Increased competition leads to lower prices and improved service delivery
- Maximizes outreach
- Levels power relationships amongst value chain actors

Risks

- Lead firm has limitations on quality and standardization
- Financing constraints may inhibit service delivery
- Difficult to kick-start in an immature market

EMERGING LESSONS LEARNED IN VALUE CHAIN FACILITATION

1. A facilitator may exploit a pilot linkage opportunity to catalyze growth within the chain and commercially upgrade an entire industry. (*start small...think BIG*)
2. Value Chains are continually evolving. A facilitator must “ride the momentum” while ensuring a fair distribution of benefits throughout actors in the chain.
3. Embedded arrangements can serve to kick-start immature service markets, however stand-alone offerings may provide greater opportunities for outreach and enhanced competition.



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ASANTE SANA!

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