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Exporting Kenya's Horticultural Products: Challenges and Opportunities in The 21st Century

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Abstract: The horticultural export sector has experienced rapid growth since 1966 because of the active role by the private sector and minimum government intervention. The European Union is the largest consumer of Kenyan horticultural exports. Kenyan horticultural exports to the European Union accounted for 45 percent of the total exports in 2000. In recent years, horticultural export growth has declined. The quality of production has declined, following a reduction of the role of exporters in supporting production by small-scale farmers. This has reduced Kenya's competitiveness in the horticultural export market at time when the sector is faced with increased competition from other producer countries. The reform of the European Union Common Agricultural Policy (CAP) and other emerging issues in the on-going negotiations on the Agreement on Agriculture (AOA) at the World Trade Organization (WTO) present other pertinent issues as concerns expanded export horticulture. This paper, firstly, reviews the performance of the export horticulture over the last four decades, it delineates challenges facing export horticulture, it highlights opportunities available for expanded export horticulture and suggests measures for revitalizing the sub-sector. It concludes that, competition for the EU market will continue to intensify as the world opens up due to globalization. This calls for proper understanding of the existing and emerging threats to the Kenyan export horticulture. This will guide the development of both defensive and offensive strategies for not only survival in the EU market, but also venturing in non-traditional horticultural export markets. Such strategies would include (i) Education of producers to understand the EU import requirements which encompass both tariff and non-tariff measures, (ii) penetration of new markets in Asia, USA, and Africa, (iii) encouragement of organic farming where necessary, and (iv) creating an enabling environment for small scale farmers to access credit.

Key Words: Kenya, Export Horticulture, Challenges, and Opportunities.

1. Introduction

Horticulture deals with growing of fruits, vegetables and flowers. While horticultural commodities have been grown in Kenya since the 1950's, the government only began to allocate resources for research and export promotion programmes in the late 1960's (Shapiro and Wainaina, 1991). As a result of the government's encouragement the volume of horticultural exports from Kenya rose almost 25-fold between 1968 and 1986, becoming a major source of foreign exchange. By 1986 it was the third largest source of foreign exchange among agricultural exports and accounted for over 3 percent of the value of all exports as compared to 0.3 percent in 1968. By late 1990's, Kenya was exporting 75 horticultural products not only as raw products but also as pre-packed and prepared vegetables (Otieno-Odek, 2003).

Table 1: Major horticultural commodities in Kenya

Vegetables	Artichokes	Cauliflower	Lettuce
	Asparagus	Celery	Okra
	Baby marrow	Chilies	Onions
	Beetroot	Cucumber	Potatoes
	Brinjal	Dudhi	Radish

	Brussels Sprout Cabbages Capsicums Carrots	Alka Karela Kolrabi Kale	Snake gourd Spinach Turia Turnips
Fruits	Avocadoes Apples Bananas Cape Gooseberries Figs Grapes Guavas Lemons Limes	Mangoes Mulberry Oranges Papayas Passion fruit Pears Pineapples Plums Pomelos	Strawberries Sweet Corn Sweet Melon Tangerines Tomatoes Tree Tomatoes Water Melons
Cut flowers	Agapanthus Alliums Alstromeria Bells of Ireland Carnations	Chrysanthemum Heliconia Iris Liatris Mollucella	Orchids Ornithogalum Roses Strelitzia Tuberose

Source: Horticultural crops Development Authority (HCDA), 2004.

The horticultural export sector has experienced rapid growth since 1966 because of the active role by the private sector and minimum government intervention (Nyoro, 1993). The European Union is the largest consumer of Kenyan horticultural exports. Kenyan horticultural exports to the European Union accounted for 45 percent of the total exports in 2000 (Otieno-Odek, 2003). For most of the horticultural export products the European Union accounts for the bulk of the trade with Kenya. As indicated in table 1 over 90 percent of Kenya's total fresh horticultural exports end up in the European market with Holland leading in market share followed by United Kingdom, France and Germany respectively. A meager 6 percent is exported to Middle East and other countries.

Table 2: Kenya's fresh horticultural exports by destination 1995

<i>Country</i>	% Of total exports
1. Holland	33
2. U.K	29
3. France	16
4. Germany	8
5. Middle East	3(excluding Saudi Arabia)
6. Other EU countries	4
7. Non-E.U countries	3
8. Other countries	3

Source: HCDA, 1996.

In the 1960's, Kenya was largely dependent on two export crops, coffee and to a lesser extent tea for foreign exchange earnings. The country was also faced with a rapidly growing population, excessive rural-

urban migration, and regional inequities. To address these problems, the government through the horticultural development plan (initially proclaimed in 1969) set the following goals: -

- Increase the productive use of land without depleting land resources.
- To generate income, especially for small-scale landholders.
- To increase foreign exchange earnings.
- To expand domestic food production, thereby raising nutritional levels and reduces the need for expensive food imports.

These goals were realistic for a number of reasons. While Kenya has scarcity of highly productive farmland, it does have quantities of marginal land suitable for horticulture and also an ample supply of unemployed youth and underemployed agricultural workers available for the labor-intensive requirements for horticultural production. Horticulture also became very attractive to the small-scale farmers, anxious to find profitable products other than coffee and tea especially considering the turbulent world market for the two commodities.

The government also realized early enough the existence of several obstacles to the expansion of the horticultural sector which include: - irrigation expenditures, extension services, poor infrastructure development, shortage of air cargo space and expanding external competition from Pakistan, India, Israel, Ivory coast, Morocco and South Africa.

However, Kenya has certain comparative advantages. In comparison to other countries, its government has been progressive and stable. Its climate makes it possible to grow tropical, semitropical and temperate fruits and vegetables, for which there is a huge demand during the European winter. Its towns are also well distributed within a very small area. Also important is Nairobi's central location and its use by many world airlines serving a well-developed tourist industry, attracted by the countries exceptional climate, beaches and game parks. Another advantage Kenya has is the existence of a large group of African Asians who have become United Kingdom residents. These Asians have become skilled export agents who collect the produce from farmers thereby arranging its transport and sale abroad thus enabling such perishable products as flowers and French beans to reach European shops within 48 hours of being picked in Kenya.

This paper consists of five sections. The first section examines the historical development of Kenyan export horticulture. In section two, the performance of the export horticulture over the last four decades is reviewed. In section three, challenges facing export horticulture are delineated. Section four highlights opportunities available for expanded export horticulture while section five, suggests measures for revitalizing the sub-sector.

2. Historical Development of Kenyan Export Horticulture

This section examines the development of Kenya's horticultural exports over the last four decades. It delineates organization of production, marketing, forms and intensity of government intervention, the international environment faced by Kenya's exporters and levels and composition of trade.

Origins and development through World War II

The historical origins of Kenya's horticultural export trade date as far back as 1500 when traders in the coastal ports of Kilwa and Malindi provided fruits and vegetables to Portuguese ships sailing to and from India (Jaffee, 1995). More recently in 1800, Arab and Indian traders along the coastal towns traded in fruits and vegetables among other agricultural commodities, which were dispatched to Zanzibar. During the colonial rule (1895-1920) attention and investment in horticultural production and trade was very low. This was characterized by mediocre marketing facilities, and non-existence of nation-wide marketing organizations, well-recognized grades and standards for fresh produce and research and advisory services. During the World War II, there was intermittent export of potatoes and passion fruit juice with most of the produce being low quality thus rendering Kenya a net importer of horticultural products.

The first commercial processing plants were four small factories constructed during the 1930's to extract juice from passion for export to South Africa and Australia (Jaffee, 1995). Raw materials for the factories emanated from European farmers in Western Kenya who had planted passion fruit to supplement depressed income from cereals. The wartime restrictions on non-essential imports stimulated investments in import substituting fruits and vegetables processing operations. The development of the dried vegetable project to provide the Kenyan army and allied troops in East Africa with supplies of dehydrated vegetables for use in soups and other foods was a major success in 1945 involving over 13,500 farmers, an agricultural and factory staff of more than 3,500 people and deliveries of more than 22,000 tons of produce to the factories. The need for dehydrated vegetables terminated with the end of World War II. However, the institutional and technical features of the dried vegetable project later on influenced the development of the smallholder agriculture in Kenya. The project therefore served as a model for post-independence programmes to increase the incomes of farmers settled under the million acres settlement scheme.

Post World War II to Kenyan independence

Food import restrictions instituted by the British government against United States and other dollar countries resulted in major shortages for these products (Jaffee, 1995). This opened doors for the colonial Agriculture department to set up a horticulture section whose initial mandate focused on experimental research into fruit and vegetable varieties suitable for canning and advisory services to farmers on cultivation practices and post-harvest procedures. Fruit and vegetable canning became an important area where the government encouraged foreign investment through tax relief and other investments. These

research, advisory and investment promotion efforts played a critical role in the establishment of a pineapple canning industry. The pineapple canning industry, however, survived in this period due to government interventions in the form of price guarantees for producers, taxes on pineapples sold in fresh markets, enforcement of exclusive crop buying zones for firms, duty exemptions on imported inputs and negotiations for improved international freight rates.

During this period export trade in both fresh and processed fruit and vegetables was initiated. In 1955, a local (Asian owned) farming and trading company began to send consignments of lettuce, tomatoes, and other temperate zone vegetables by sea to Aden in order to supply ships calling at that colony and oil companies operating in the Persian Gulf. The fresh produce trade with the U.K. initially consisted of small volumes of strawberries, mangoes, pineapples, green beans and chilies. Although this 'off season' fresh produce market was as yet undeveloped, the U.K demand for Kenyan produce far exceeded latter's supply capability throughout the late 1950's and early 1960's.

A very small commercial trade in cut flowers was developed during this period, with a limited number of European settler farmers participating. Cut flower production among African smallholders also began although this was limited to a few locations and only involved sales to Nairobi hotels and florists. At independence, Kenya's horticultural exports were relatively insignificant, amounting to 1.2 million Kenyan pounds or 2.8 percent of Kenya's total exports in 1963(Jaffee, 1995). While the European market for fresh horticultural produce appeared to provide Kenya with significant trading opportunities, the country lacked the level of production and infrastructure required for economical sea shipment of the produce and its trade in highly perishable commodities was restricted by limited airfreight facilities.

First decade of independence

The first decade of Kenyan independence witnessed a moderate expansion and considerable diversification of Kenya's horticultural exports. Structural changes in the sub-sector was a result of new foreign investments, , major financial and managerial problems encountered by a "Kenyanized" horticultural union and the entry of new firms into the fresh produce trade. Horticultural production support services were badly neglected during this period. With respect to crop research, most of the activities previously undertaken at the National Horticultural research station and its various substations were terminated after independence as result of severe shortages of qualified staff and financing.

Similarly, very limited public resources were directed towards developing the infrastructure for horticultural marketing. During this period, little official attention was given to developing a proper regulatory framework for horticultural production and trade. In 1967, a Horticultural Crops Development Authority was created and endowed with an extremely broad yet vague set of powers (Shapiro et al, 1991). The agency's support to the export trade was limited to operating a small shed at the airport; convening meetings between exporters and airfreight suppliers and instituting common standards for produce packaging. However, among its most useful activities have been: -

- The licensing of all exporters of horticultural produce.
- The allocation of air cargo space.
- The standardization of containers.
- The establishment of warehouses for smallholders in different areas.
- The development of a marketing information system along with international trade center.
- The guide of the Ministry of Agriculture's efforts to meet the industry's extension and research needs.

Foreign investment in fruit and vegetable processing

According to Jaffee(1995), the recovery of West European economies during the 1950's and the growing incomes and demand for convenience food that resulted from it produced a major increase in international trade in a wide range of processed fruit and vegetable products. The expanding demand and trade triggered relocation of tropical fruit industries away from high-income countries towards sites in developing countries. This was stimulated by cost savings objectives of European and U.S. multinational corporations. Kenya therefore became a beneficiary of this industrial relocation and thus attracting foreign investment in several product lines. To access such investment commitment from the Kenyan government was a pre-requisite. This came in the form of equity holdings in joint venture, provision of land, technical staff or financial support to expand raw materials supply.

A major foreign investment undertaken was in the area of dehydration of vegetables for export. The initial investment in 1964 was a joint venture between a British trading company and the parastatal development finance company of Kenya. Many of the project's components were modeled on the wartime dried vegetable project. This project was to serve both the large-scale European farmers with extensive irrigation systems and the small-scale farmers. However, this project did not record any commercial success. This resulted in the Kenyan government buying out the bankrupt company in 1968. Subsequent years witnessed

modest increases in production and trade; even when international market for dehydrated vegetables was favorable, resulting in accumulation of financial losses. Faced by intense criticism for failing to develop a commercially sound long term plan the government entered into a joint venture in 1972 with Germany's largest manufacturer/distributor of dehydrated vegetables. This led to the construction of a large modern factory at Naivasha and a shift toward higher value crops and more reliance on large-scale production with the government having majority equity shareholding.

Further transformation of the pineapple canning industry went on during this period via government supported foreign investment. In the first few years (1965-66) under Calpak management, Kenya Cannery continued to face major problems with raw materials supply in both quantity and quality due to the extended drought and sale of some European estates. A switch of farmers from pineapple production to coffee in pursuit for better remuneration worsened the situation. With the Kenya Cannery being given a 10 year-monopoly to process pineapple in Kenya and other incentives such as reduction in rail, wharfage and handling charges the area leased to the company for the nucleus estate increased from 5,000 to 18,000 acres. This resulted in a major investment program to develop its nucleus estate and construct a modern factory with an annual processing capacity of 170,000 tons, five times that of the existing factory. This eventually led to the phasing out of the out grower supplies.

Another joint venture was also developed in passion fruit juice industry in 1965(Jaffee, 1995) between an Australian firm (Cottees Ltd) and Kenyan parastatal Agricultural development Corporation (ADC). This modernized the existing factory, developed an extended fruit collection system and raised producer prices considerably only for the crop to be wiped out by a plant disease. Cottees abandoned the project, to be replaced by a Swiss Company (Passi AG) which came with limited financial investment, but managed to obtain sole control over marketing and received a commitment from the Kenyan government to provide financial and technical support to increase smallholder production of passion fruit. Kenya's fruit processors' production and trade expanded rapidly during this period, leading Kenya to emerge as one of the leading international suppliers of passion fruit juice.

Foreign investment in flower production

Commercial cut flower production expanded in the 1960's. However, limited local investment in post harvest facilities and lack of local marketing expertise limited Kenya's cut flower exports to only 75 tons in 1969. The cut flower industry was transformed by a multimillion-dollar investment in 1969 by a Danish firm, Dansk Chrysanthemum Kultur (DCK). DCK was then the world's largest producer of chrysanthemum cuttings and a major player in European markets for other types of flowers.

DCK was offered highly favorable terms to invest in Kenya. The Kenyan government provided the firm with a long term, low-cost lease of a 15,000 acre estate (at Masongaleni), exclusive growing and trading rights for several types of flowers for eight years, extensive work permits for expatriate workers and a twenty five year *status quo passus* with regard to changes in the laws about foreign investor taxation and profit repatriation (Jaffee, 1995). This was complemented by reduced start up costs via a cash grant from the Danish government equivalent to one third of the initial investment cost. Although DCK (K) initially experienced major technical production problems, by 1973 large increases in both quantity and quality of production were recorded and raising flower exports to 1500 tons.

Expansion and diversification in the fresh fruit and vegetable trade

The first decade of Kenya's independence was characterized by favorable European fresh produce market conditions for new and established suppliers. The demand for "out of season" and "exotic" produce expanded rapidly as a result of increased income, greater awareness of tropical products, growing health awareness and expanding European population of "guest workers" and immigrant communities from Asia, Mediterranean and other origins. The country faced few competitors in the product markets during the season in which its supplies were concentrated. The country's ability to service the growing European market was further enhanced by investments in production infrastructure and expanded availability of airfreight facilities.

During this period Kenya's fresh produce trade expanded both in size and diversity. The different commodities exported on seasonal or more extended basis included tropical and sub-tropical fruits (pineapples, mangoes, avocados, and passion fruit), temperate zone vegetables (French beans, sweet pepper, and zucchini), and a broad range of "Asian vegetables" (chilies, okra, karela and dudhi). Initially Kenya's fresh produce trade concentrated in the U.K. market, before expanding to the rest of the European continent. While three companies accounted for the bulk of this growing trade, a large number of companies began to involve in the fresh produce trade. Despite the growth and product diversification of the fresh produce export trade; this trade still had a very limited base with only about 150-200 farmers accounting for the bulk of the supplies.

3. Performance of the Export Horticulture.

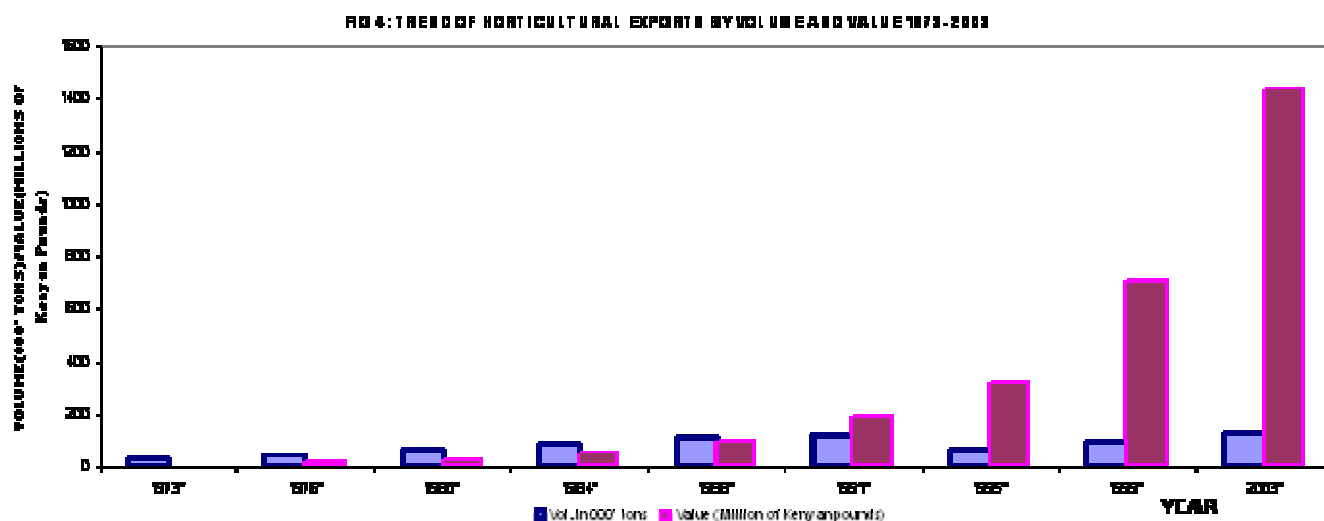
Over the past three decades, horticultural export sub-sector has become a key component of the Kenyan economy, providing foreign exchange earnings, farm income opportunities and a sizable employment.

During this period the aggregate volume and value of horticultural exports increased substantially and steadily. As table 3 and fig 4 indicates, horticultural exports have increased nearly five-fold in volume and thirty six-fold in dollar value terms since 1973. However, the rise in value of horticultural exports was more sudden and pronounced between 1991 and 2003 due to the exchange rate devaluation and removal of other exchange rate restrictions resulting in weakening of the local currency and a favorable regime for exporters.

Table 3: The Growth of Kenya's Horticultural Exports, 1973-2003

Year	Volume (000s Tons)	Value (Millions of Kenyan pounds)	Value (\$ Millions equivalent)	Average Unit value (\$ Per Ton)
1973	27.4	3.6	10.4	380
1976	47.3	13.2	31.8	672
1980	66.3	23.1	61.0	920
1984	90.0	51.6	65.4	727
1988	111.1	99.9	107.4	967
1991	125.1	187.3	133.4	1,066
1995	71.1	320	95.5	1,343
1999	99	710	205.8	2,076
2003	133.2	1,440	369.2	2,772

Source: Horticultural Crops Development Authority



Cut flower production and Trade

Table 4 traces cut flower exports in Kenya. Generally, both the volume and value of cut flower exports increased over the last two decades. Similarly, the total volume of fresh fruits and vegetables rose over the same period (table 5). The continued rise in horticultural exports has been attributed to government restraint rather than a coordinated effort by government to promote exports through higher budgetary allocations to the sub sector.

Table 4: Kenya's Export of Cut flowers 1975-1991

	1975	1978	1980	1982	1984	1986	1988	1990	1991
Volume (Tons)	2746	3214	3499	4194	6941	8264	9809	14,423	16405
Value (\$ Millions)	8.9	8.3	8.1	6.4	8.9	15.3	35.8	37.8	
Value &\$/Ton	3241	2582	1743	1526	1282	1851	3650	2621	

Source: Central Bank of Kenya

Fresh Fruits and vegetables

Table 5: Fresh Fruit and Vegetable Exports (Tons)

Commodity(s)	1974	1976	1978	1980	1982	1984	1986	1988	1991
Fresh Fruits									
Pineapple	2445	1878	3717	1882	517	807	864	16,745	580
Avocado	281	407	717	654	963	1400	2151	3753	4193
Mango	674	718	878	1308	1735	2472	2941	3485	1745
Passion fruit	80	101	138	264	324	425	646	733	619
Other fruit	123	202	772	486	432	816	665	1728	833
Total fruits	3603	3306	6222	4594	3971	5920	7267	26,444	7970
Fresh Vegetables									
French beans	921	2324	3187	4964	6306	7524	9674	12,269	14,855
Asian Vegetables	3741	4811	5953	7079	8,051	9050	10,102	8582	9230
Sweet Pepper	854	573	497	111	50	81	16	37	14
Courgette	758	881	787	780	891	814	231	54	20
Other Vegetables	159	294	1096	950	1003	949	761	787	956
Total Vegetables	6433	8881	11,520	13,884	16307	18,418	20,679	21,729	25,075
Total Fruits and Vegetables	10,036	12,187	17,742	18,478	20,278	24,338	27,946	48,173	33,035

Source: HCDA Trade Statistics

4. Challenges facing exported horticulture.

The major challenges facing export horticulture can be categorized into the following: -

- Tariff barriers
- Non-tariff barriers
- Competition
- Soaring costs of imported farm inputs due to weak currency.
- Declining trend in external assistance to agriculture
- Access to high quality seed

- g) Lack of market information
- h) Research and extension

The export performance of the horticultural sector depends on its competitive position, distance from the market, formal and real barriers affecting the exports of horticultural produce. These barriers to horticultural exports can also be categorized into tariff and non-tariff barriers.

Formal barriers encompass the following: - (i) customs duties and other import charges, (ii) quantitative restrictions, (iii) anti-dumping and countervailing restrictions, (iv) standards, testing and certification rules, (v) government procurement laws (vi) counter trade requirements, (vii) child labour laws, (viii) exchange and financial controls, and (ix) export and other subsidies. Custom duties and other import charges represent some of the border measures used to prevent imports. These are forms of taxes on imports, which have the effect of making imported commodities more expensive than domestically produced commodities. As a result horticultural exports from Kenya are rendered more expensive in the European Union market. Quantitative restrictions in the form of import quotas are another form of border measures that are used to circumvent imports thus protect local producers or industries. Such measures are used when local production does not meet demand. Demand deficits for fresh horticultural produce are normally experienced in winter in Europe, when most agricultural activities are reduced to a minimum. That is the time limited imports are allowed to meet the demand deficits. Such restrictions hinder some horticultural exports from accessing the EU market.

There comes a time when the EU resorts to anti-dumping and countervailing restrictions as a measure of keeping off some imports from their market. This measure prevents poor quality and cheap commodities from entering the EU. There are cases when some commodities can be branded poor quality using a hastily developed criterion for the sake of keeping them out of the EU market. This can therefore be used as a means of keeping some horticultural imports out of the EU market.

Standards, testing and certification rules in the EU have remained a major obstacle to horticultural exports. With the European market becoming environment conscious the standards, testing and certification procedures are becoming more elaborate and comprehensive and change every day. This presents difficulties to horticultural exporters who export their produce to the EU only to be rejected due to their failure to meet the new specifications.

The government procurement laws can be another source of barrier to exported horticulture. This relates to the procurement of farm inputs to be used in horticultural production. Some of the farm inputs used in horticultural production especially cut flowers are imported and have to be subjected to the government procurement laws before they can be accessed. They must meet *phytosanitary* requirements administered by Kenya Plant Health Inspectorate Service (KEPHIS). This bureaucratic red tape involved can slow down the production process.

Counter trade requirements could also be a barrier to horticultural exports. This arises when there is trade imbalance between two nations. The country facing unfavorable trade terms may be forced to institute counter trade requirements. This has not been a major issue since Kenya's imports from the EU far exceeds its exports.

With the highlighting of child labour laws all over the world, it has become very important to be sensitive to the rights of the child. A number of complaints have been raised concerning violation of children rights in horticultural farms in Kenya. There are cases where underage children have been employed on such farms instead of being left to fully develop through the education system. Such an image has reflected negatively among consumers of horticultural products in Europe.

Exchange and financial controls, as well as export and other subsidies can be other sources of barriers to exported horticulture. However, in Kenya with the advent of liberalization there is no control in the financial markets and no support at all in the form of subsidies for the horticultural sector. According to Shapiro and Wainaina (1991) the success in this sector is attributed mainly to government restraint, particularly avoiding excessive interference with the market mechanism.

Real barriers to trade include: - (i) lack of security in market access, (ii) functioning of regulatory systems, (iii) harassment, and (iv) unofficial payments. Lack of security in market access is associated with frequently changing domestic regulations, erratic applied tariff rates, arbitrary product classification and valuation, and political insecurity. With such unpredictable markets it becomes very difficult to plan production for the export market. Consequently, most horticultural products fail to access export markets due to the emergence of new barriers.

The functioning of the regulatory systems may also circumvent horticultural exports. In some instances tariff preferences are not published thus creating room for barring certain exports. There are also cases when formally non-existing tariffs/taxes are suddenly imposed by customs without prior warning. This has resulted in a number of exporters incurring huge losses. In some instances conditions for import tariff refund on inputs for exports are too stringent thus rendering the whole scheme unbeneficial to exporters. Poor functioning of the regulatory system can also result in smuggling of commodities across the border.

Harassment can also be a big impediment to horticultural exports. This can be in the form of individual harassment from civil servants, negative attitude of customs officers towards business people, harassment through official actions such as anti-dumping or application of regulations by the authorities with specific intention of creating a barrier. This is one challenge that many upcoming small exporters have had to contend with resulting in abandonment of the venture.

On many occasions, some unofficial payments have had to be paid by exporters. Such payments are made through local forwarding and customs clearance agents or directly to customs officers who request for it knowing very well it is not official. This in the long run ends up increasing the cost of exporting thus hindering trade.

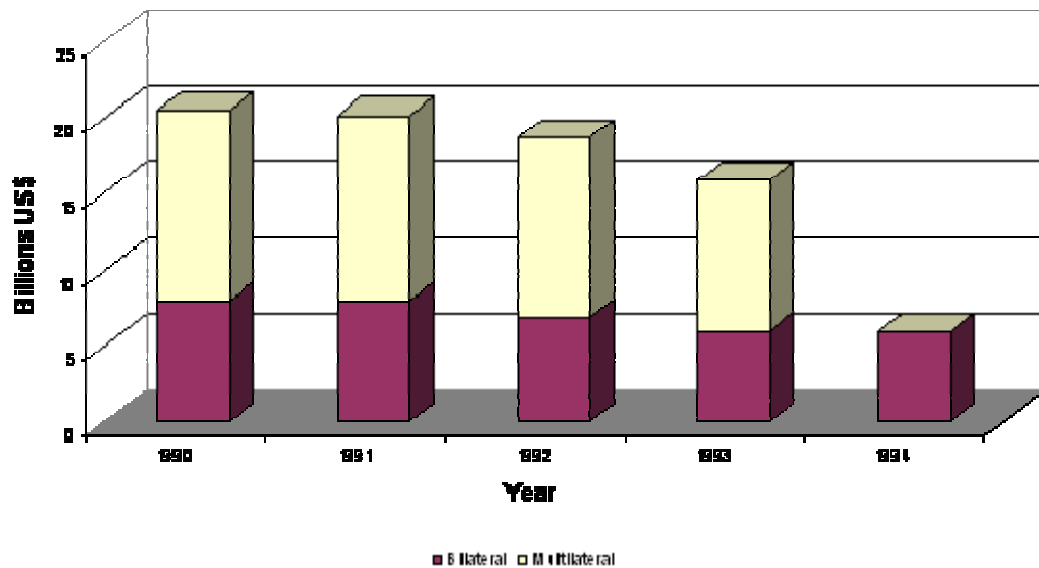
For a long time Kenya reaped benefits from horticultural exports to Europe with minimum competition from Sub-Saharan Africa. This was attributed to political turbulence in South Africa. Over the last decade, competition for horticultural exports to the EU has been growing. The major competitors are South Africa and Zimbabwe. The two countries pose a big threat to Kenya's exported horticulture in terms of the quality of products.

Soaring costs of imported farm inputs due to weak currency has also been a key obstacle to exported horticulture. In less than two decades, the Kenyan currency against the dollar has depreciated by more than double its initial value of Kshs. 35. The weakening of the Kenyan currency has therefore made importing farm inputs for horticultural production very expensive.

Fig. 1 traces external assistance to agriculture in the world. The declining trend in external assistance to agriculture is a major source of concern, occurring at a time when many low income agriculture dependent countries are facing increasing difficulties in exploiting the potential of their agriculture as support of overall development, poverty reduction and food security (FAO, 1995). This has resulted in poor development of the agricultural sector in terms of communication infrastructure and marketing system.

This exposes the big multinational companies involved in exported horticulture to unnecessary transaction costs as they struggle to operate in poorly developed markets. The small-scale farmers, who require a substantial assistance to penetrate export markets, are left with no option but to abandon the trade. Such small-scale farmers find themselves between a rock and a hard place when they lose their only source of livelihood to be exposed to poverty in a country where the gap between the rich and the poor rises by the day. (Figure 1 not provided)

**Fig 1: COMMITMENTS OF EXTERNAL ASSISTANCE TO AGRICULTURE
(At constant 1990 prices)**



Nyoro (1993) identified three main constraints faced by export horticultural producers, which reduce their competitiveness in the world market and therefore reduce land and labour productivity. These constraints are (i) access to high quality seed, (ii) lack of market information, and (iii) Research and extension. Small-scale farmers have limited access to high quality, improved vegetable seeds and fruit tree seedlings. Since locally available seed are of poor quality, farmers resort to using own seed, which eventually results in low yields, poor quality produce and high susceptibility to diseases and pests. Such produce is faced with an uphill task of penetrating the EU market.

Lack of market information can also hinder free flow of horticultural produce from the producer to the export market. Horticultural Crops Development Authority (HCDA) receives daily price and quantity information from ITC in Geneva. While such information is readily available to exporters, it is not disseminated to producers. The possibility for collusion among buyers and agents and asymmetrical market information flow between producers and exporters can cause farmers to receive low prices. When farmers receive low prices they may be discouraged from producing because of the inefficient flow of information.

Research on exported horticultural commodities is limited, and until recently there was no technical information on how to grow certain commodities such as Asian vegetables. Lack of research trials on many vegetables and fruits has impacted negatively on the production of high quality fresh horticultural produce at reduced costs. The most affected group due to inadequate research are small-scale and medium-scale farmers. Large-scale producers, on the other hand, have few problems since they receive a full complement of support services in breeding, agronomy, disease control, research and quality control from their own management.

Inadequate extension on horticultural crops has also hindered expanded export horticulture. Some crops that used to produce high yields are no longer in production in certain areas; because yields have declined dramatically due to build up of pests (Nyoro, 1993). Extension service on flower production for middle-sized and small-scale farmers is completely lacking due to the lack of information on floricultural production techniques.

5. Opportunities Available for Expanded Export Horticulture

The country has not fully utilized the opportunities available for expanding the volume of exported horticultural crops. The opportunities available can be categorized into: -

- a) Strengthening the countries position in the EU.
- b) African Growth and Opportunity Act.
- c) Venturing into non-traditional horticultural export markets e.g. Asia, Africa, and Eastern Europe.
- d) Capitalizing on favorable clauses in the WTO Agreement on Agriculture.

The European union is currently reforming its agricultural sector as embodied in the Common Agricultural Policy (CAP). The main thrust of CAP policy reforms is the shift from protectionism regime to free trade area. Policy changes in the EU Agricultural Sector need to be monitored, particularly in the context where the EU is seeking to introduce free trade areas as the basis for its trade relations with ACP countries. Traditionally, Kenya has enjoyed non-reciprocal preferential access to the EU market under successive Lome Conventions and now Cotonou Agreement, which will continue until January 1st 2008 (Otieno-Odek, 2003). To continue benefiting and competitively accessing this European market Kenya must come up with an offensive and defensive strategy. The “**offensive**” interests relates to areas where Kenya needs to negotiate modifications to EU policies in order to preserve and enhance the real value to Kenyan producers of trade arrangements for access to the EU market. On the other hand, “**defensive**” interests relates to policy framework that Kenya has to adopt in light of the trade arrangements the EU is seeking for its exports to Kenya, in the interests of the EU economic operators.

A defensive strategy is used to protect sensitive products. Sensitive products are products that can be imported from the EU, but are also produced locally thus subjecting local production to unwarranted competition. According to Otieno-Odek (2003), the following factors are critical to identifying sensitive products: -

- (i) The product’s contribution to employment creation and sustainable livelihood;
- (ii) The number of persons employed in transport, distribution and value-added processing of the product;
- (iii) The contribution of the product to the Gross domestic Product (GDP);
- (iv) The threat posed by EU exports in the context of CAP reform under moves towards free trade with EU;
- (v) The importance of the product to gender relations;
- (vi) Food security concerns;

- (vii) Ability of the product to support poverty alleviation;
- (viii) Ability of the product to assist in rural development;
- (ix) Degree of sensitivity of the product to market signals and disturbance;
- (x) The importance of the product to a given geographical region.

Using the criteria enumerated above, tomato juice and tomato paste emerge as horticultural products sensitive to the introduction of free trade with the EU under a reformed CAP. The Kenyan government has four options from which to choose when developing defensive strategies for addressing tomato juice and paste imports. These are:-

- Excluding the product from the coverage of the free trade.
- Subjecting the product to “special arrangements” under the free trade area agreement.
- Establishing simple and swift safeguard measures linked to effective monitoring and surveillance mechanisms so as to allow swift and effective response to any import surges.
- Only phasing in tariff reductions at the end of the transitional period after sectoral restructuring programmes have been implemented.

The key question in the offensive strategy is the extent to which Kenya would be likely to face a re-imposition of import duties on products currently exported (Table 6) duty free to the EU under trade provisions of the Cotonou Agreement, once this agreement expires in January 2008. About 45 percent of the total exports emanate from horticultural crops reinforcing the importance of the sector. There is therefore a need to establish the expected import duties on Kenyan products once the Cotonou trade provisions expire. Trade without the Cotonou provisions fits very well in the EU standard Generalized Scheme of Preferences (GSP scheme).

Table 6: Kenya’s Main Exports to the EU by Importance of the Product in 2000

Product		% Total Exports to EU 2000
0604	Flowers	19.1
0902	Tea	17.9
0901	Coffee	17.4
0708	Leguminous vegetables	11.9
2008	Fruits and Nuts	5.6
0709	Vegetables	4.2
0602	Live Plants	2.2
2401	Tobacco	2.0
0804	Dates, Avocadoes, Pineapples	1.8
1604	Prepared Fish	1.7
2005	Preserved Vegetables	1.5
2101	Coffee Extracts	0.8
2009	Fruit Juices	0.6

Source: Horticultural crops Development Authority (HCDA), 2003

Table 7 sets out the Most Favored Nation (MFN) rates applied by the EU to Kenya’s principal horticultural exports to the EU. The 1996 EU GSP regulation sets out 4 levels of sensitivity: -

- For “**very sensitive**” products 85% of the standards MFN duty was applied;
- For “**sensitive**” products 70% of the standards MFN duty was applied;
- For “**semi-sensitive**” products 35% of the standards MFN duty was applied;
- For “**non-sensitive**” products duty free access is granted.

Horticultural exports will continue to face tariff and non-tariff issues as relates to future relations with the

EU. As indicated in table 7, MFN duties on cut flowers range from 8.5% to 12 %, while for other

horticultural products they range from 8% to 19 % with additional special fixed duties also being applied.

A proper documentation and understanding of what Kenya is likely to lose, due to erosion of MFN status, will enable the country to develop a strong offensive strategy during the EPA discussions with the EU.

Table 7: The Standard GSP Treatment Accorded Kenya's Main Exports to the EU

Very sensitive (Subject to 80% MFN Duty, minus 3.5%)		MFN Duties Bound Rates of Duty
Cut flowers		
(0603 10.20)	1 June –31 October	12.0%
(0603 10.60)	1 November- 31 May	8.5%
(0603 90.00)	Others	10.0%
Leguminous vegetables		
Peas (0708 10 11)	1 September-31 may	8.0%
(0708 10 90)	1 June-31 August	13.6%
Beans (0708 20 10)	1 October-30 June	10.4% +Min
(1.6 Euro/kg)		
(0708 20 90)	1 July-30 September	13.6+Min
(0708 90 00)	Others	1.2%
Vegetables		
Artichokes (0709 10 00)	1 July-31 October	10.4%
	Others	10.4%
Asparagus (0709 20 00)		10.2%
Aubergines (0709 30 00)		12.8%
Celery (0709 40 00)		12.8%
Mushrooms (0709 51.10)		12.8 %
(0709 51.30)		3.2%
(0709 51.50)		5.6%
(0709 51.90)		6.4%
(0709 51.00)		6.4%
Sweet pepper (0709 60 10)		7.2%
Salad vegetables (0709 90 15)		10.4%
Capers (0709 90 40)		5.6%
Fennel (0709 90 50)		8.0%
Sweet corn (0709 90 60)		94Euro/tonne (SSG)
Courgettes (0709 90 70)		12.8% +152Euro/tonne (SSG)
Others (0709 90 90)		12.8%
Dates, Avocados, Pineapples		
Pineapples (0804 30 00)		5.8%
Avocados (0804 40 10)	1 December-31 May	4.0%
(0804 40 90)	1 June-30 November	5.1%
Guavas, Mangoes		
Mangosteens (0804 50 00)		0.0%
Fruits and Nuts (2008)		15.2%-25.6%
Fruit Juices (2009)		12.2%-15.2%
Preserved Vegetables (2005)		
Peas (200540)		19.2%
Asparagus (200560)		17.6%
Sweet corn (200580)		5.1%+ Euro 9.4/100kg

Source: Adopted from Otieno-Odek 2003

Over the last four years, the Kenyan government has benefited from the African Growth and opportunity Act (AGOA) by the American Government, which gives selected African countries preferential access to the American market. This preferential access was extended by another act which was signed mid June 2004. Textile products have been the major beneficiaries of this initiative even though the trickle down effects of such benefits have been minimal. A potential exists for including horticultural products in a basket of products, which preferentially access the American market through AGOA. This will present an expanded market for Kenya's horticultural products and therefore better opportunities for foreign exchange earnings from the sector.

With the world moving towards free trade areas, over reliance on the EU market can be disastrous. This is because a sudden change in EU policy can result in a substantial number of horticultural products being locked out of the EU market. This therefore calls for exploitation of non-traditional horticultural export markets. Such markets include Asia, Eastern Europe, and Africa. A number of flights operate between Nairobi and the Asian continent. This could be used as a conduit for exporting horticultural products to the Asian market. Most countries in Africa have a sizable population of Asians based in major towns. This group of people can be targeted as a ready market for Asian vegetables and such a market is available throughout the year. Spreading the market base reduces the risk of doing the business and also stabilizes the production regimes.

6. Measures for revitalizing export horticulture.

Several measures can be used to revitalize the Kenyan horticultural exports. They include:-

- 1) Penetration of non-traditional export markets in Asia, USA and Africa.
- 2) Increased budgetary allocation to research and extension in horticultural sub sector with a view to improving access to high quality seed.
- 3) Education of producers to understand the EU import requirements that encompass tariff and non-tariff measures.
- 4) Encouragement of organic farming where necessary.
- 5) Creating an enabling environment for small-scale farmers to access credit.
- 6) Re-examine the external assistance to the agricultural sector, which is the engine of economic growth in Kenya.
- 7) Proactive policy measures aimed at full market development to enhance free flow of commodities and market information.
- 8) Value adding some of the horticultural produce.

7. Concluding Remarks

Kenya's horticultural export sector has experienced rapid growth over the last three decades because of the active role of the private sector and minimum government intervention.

The European Union is the largest consumer of Kenyan horticultural exports accounting for 45 percent of the total exports in 2000. In recent years, horticultural export growth and quality of production has declined, following a reduction of the role of exporters in supporting production by small-scale farmers. This has reduced Kenya's competitiveness in the horticultural export market at time when the sector is faced with increased competition from other producer countries. The reform of the European Union Common Agricultural Policy (CAP) and other emerging issues in the on-going negotiations on the Agreement on Agriculture (AOA) at the World Trade Organization (WTO) present other pertinent issues as concerns expanded horticultural export.

The major challenges to horticultural export are tariff barriers, non-tariff barriers, competition, high cost of farm inputs, low external assistance to agriculture, inadequate research and extension, and lack of market information. However, a number of opportunities are available for expanding export horticulture. These include strengthening the countries position in the EU, AGOA, venturing into non-traditional horticultural export markets and capitalizing on favorable WTO Agreement on Agriculture.

A number of measures for revitalizing the sub-sector include:- export markets diversification, increased budgetary allocation to R and D, education of producers on EU import requirements, encouragement of organic farming where necessary, improved access to credit by small-scale farmers, re-examine the external assistance to the agricultural sector, Proactive government involvement in market development to enhance free flow of commodities and market information and value adding.

Overall, competition for the EU market will continue to intensify as the world opens up due to globalization. This calls for proper understanding of the existing and emerging threats to the Kenyan export horticulture. This will guide the development of both defensive and offensive strategies for not only survival in the EU market, but also venturing into non-traditional horticultural export markets. Such strategies would include (i) Raising capacity of producers to understand the EU import requirements which encompass both tariff and non-tariff measures, (ii) penetration of new markets in Asia, USA, and Africa, (iii) encouragement of organic farming where necessary, and (iv) creating an enabling environment for small scale farmers to access credit.

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