# The small farmer on the way to the Global Market – The case of Kenya

*Kenya's external trade policy is designed to create a conducive environment for the promotion of its products on the international markets, especially those of developed countries such as the EU, America and Japan and also within Africa. The neighbouring East and Southern African countries (COMESA, 21 countries) remain Kenya's major export destination for manufactured goods, while the European Union remains Kenya's major destination for agricultural exports in which the smallholder farmers are involved. Major export crops are cut flowers, tea, leguminous vegetables, coffee and fruits.*

Agayo Ogambi
Manager, Trade Point Kenya
Kenya National Chamber of Commerce and Industry
Nairobi, Kenya
agayoo@yahoo.com

The markets for Kenyan exports have been transformed over the years, due to the changing policy environment, chiefly the departure from the restrictive import substitution policies, characterized by controls such as high effective rates of protection, price and foreign exchange controls, and import licensing, which restricted imported production inputs.

In addition, regional integration and bilateral agreements now provide market access to key trading blocks and markets. Examples include the East Africa Community, the Common Market for Eastern and Southern Africa (COMESA), the Cotonou ACP/EU Partnership Agreement, and the AGOA initiative, among others.

COMESA is Kenya's key export market, absorbing about 35 percent of total exports. The European Union is the second most important, absorbing about 30 percent of total exports. Like in most developing countries, especially in sub–Saharan Africa, Kenya's exports are predominantly composed of primary commodities, mainly tea, coffee and horticultural products, plus tourism. 70 percent of Kenya's merchandise exports are agricultural; and 33 percent of the manufacturing sector output is based on agricultural products. For a long time, and through to current times, agriculture in Kenya has played a vital role in national development, providing 60 percent of national employment, 75 percent of merchandised exports, 60 percent of export earnings. The sector also contributes directly about 25 percent of gross domestic product (GDP) and indirectly 27 percent of GDP.

Hence much of the intermittent strength and overall weakness in GDP and income growth in the country can be attributed to changes in agricultural performance. However, the sector has been experiencing a downturn in performance in recent years, dropping from a growth rate of 1.3 percent in 2001 to 0.7 percent in 2002, thus partly contributing to the drop in performance of the overall economy from 1.2 percent to 1.1 percent over the same period and picking up to 1.7 in 2003.

There are over 4 million small-scale farmers and about 72,000 large scale farmers. The horticultural producers amongst these export 3-4 percent of horticultural production (Source: Ministry of Agriculture 2005). By the late 1990s, Kenya was exporting 75 horticultural products not only as raw products but also as pre-packed and pre-pared vegetables (Dolan and Humphrey, 2000). The country now ranks among the world's top five exporters of horticultural products.

Exports to EU, by importance, are cut flowers, tea, leguminous vegetables, coffee and fruit which account for over 70 percent of the value of exports to the EU. Horticulture leads exports to the EU in value, accounting for about 26 percent of the total , followed by tea, vegetables and coffee.

In all, Kenya accounts for about 30 percent of the EU market for green beans, with the most important destinations in this regard being the UK (30 %), France (26 %) and Belgium (7 %). The country exports a substantial amount of fruit, especially avocadoes and mangoes, and is the fourth largest avocado exporter to the EU after Israel, Mexico and South Africa. With respect to cut flowers, the country accounted for 25 percent of the EU market in 2000, a substantial increase over 1994 (16.4 %).

## Kenya's exports to the international market

Since Kenya's exports to the EU are mainly agricultural, standards and regulations concerning the quality of agricultural inputs (seeds, fertilizers and agrochemicals) and of agricultural produce are critical for compliance with consumer health and environmental requirements in the EU and other international markets.

As a result of the free market economy and its implications, consuming countries require that many domestically produced and imported goods should satisfy minimum levels of quality, health and safety standards. These standards are prominent with respect to agricultural food and health products; and many fall under the category of sanitary and phytosanitary (SPS) measures. While SPS aims at protect-

ing human or animal life from risks arising from additives, contaminants, toxins or diseases and at protecting an importing country from the entry, establishment or spread of pests, disease-carrying organisms or disease-causing organisms, the same can also act as a trade barrier. Especially when an exporting country is unable to meet certain conditions imposed by the importing country.

**Implication of SPS and technical barriers to entering the EU Market.** Overall, there are several challenges posed by these SPS issues. First, preferential treatment is not accorded in areas covered by the sanitary and phytosanitary standards (SPS). Second, meeting the SPS is very challenging for agro-food exporters and this has been aggravated by the multiplicity of requirements across different markets. Considerable costs have to be borne in order to meet the health and environmental requirements (Prof Otieno Odek). Third, the way standards are set and the process of challenging their legality poses enormous difficulties to a country that lacks adequate technical and negotiating skills. The failure of one exporter within a country to meet the required standards generates repercussions for all exporters from that country – a regulation that is particularly unjust.
The SPS measures and their respective regulations that have important implications for Kenya's exports to the EU are: health requirements, labelling for purpose of health, authorization (for wildlife; standard for human health and quota for sensitive products).

**Supermarket requirements.** Legislation in the EU and requirements of the supermarktes have also resulted in the concentration of the fresh vegetable export trade in few large firms and have shifted production to large farms, many of which are owned by exporters (Dolan et al. 1999). These trends have marginalized small- and medium-sized exporters and small growers. The large supermarket chains are pushing for a marketing system where they source only from large growers who can assure them security of supply and have the capability to meet the detailed product specifications laid down by the supermarket chains. The likely effects of these measures are:

- a fall in export production and increased production cost,
- higher risk of crop wastage and crop failure,
- exclusion of small growers from the supply chain,
- importers will exclude exporters that rely on small growers,
- exporters will not source from smallholders where alternative sources exist,
- production costs will increase (more expensive chemicals and controls which smallholders cannot afford).

Small growers are thus most vulnerable as they have to rely on agents, middlemen and brokers who exploit them by paying them low prices. In addition, small-scale farmers require technical, marketing and general management assistance to be able to meet the demands of participating in the export market. To be sustainable, smallholder production will have to be organized around string associations or organizations.
The increasingly strict EU rules on minimum residue levels (MRLs) and social and environmental public pressure on horticulture exporters have had both positive and negative impact on producers. The rules have benefited workers by giving them access to better healthcare. The rules have, in addition, created incentives for technology development. On the negative side, MRL requirements have proved to be a major hindrance for smallholders and have contributed to the declining role of small-scale farmers in the industry.

**Kenyan exports into the EU have to fulfill its health and environmental requirements.**

Photo: GlobalAware

**Traceability requirement.** The most difficult aspect however, will be the traceability requirement. One of the latest and most critical requirements for Kenya's agricultural exports to the EU is that of traceability. The traceability requirement is likely to impact on trade in three key ways (CTA, 2003):

1. Distributors, in order to avoid accusations of contravening the regulations protecting the health of their consumers/clients will refuse to obtain supplies from importers who cannot guarantee the traceability and food safety of consignment.
2. Importers, in order to demonstrate that they have taken all possible precautions in terms of food safety, will demand that exporters adopt «good practices» from the field to the point of embarkation – to be certified by independent organizations.
3. Exporters, in order to prove the traceability and food safety of consignments for export, will limit supplies from producers who cannot adopt conforming agricultural practices.

This is the most challenging demand facing Kenya's smallholder producers of horticultural produce. Smallholder farmers are likely to be left out since they lack the capital to implement «good agricultural practices». Whereas the large commercial firms with sufficient capital are already working towards being compliant, the thousands of small-scale farmers lack these resources unless they are assisted by the state in collaboration with the private sector. Industry sources say that 2.4 billion Kenyan Shillings (Kshs) are urgently required to implement some of the conditions, especially those imposed by the group of supermarket chains. Following the introduction of the traceability rule, there are fears that small-scale farmers, who produce about 60 percent of the total horticulture exports to Europe, would be locked out of the lucrative market.
Other challenges include:

- certification schemes and testing which are mainly provided by foreign firms and the costs of test and certification;
- access to information about industry best practices or standards, especially for small- and medium-scale farmers.

A recent study by the World Bank (2004) entitled «Growth and Competitiveness in Kenya» confirms this scenario. The study states that 4,000 to 5,000 smaller and medium sized producers of cut flowers,

## Impact of SPS on Kenya's exports


Photo: Ogambi

A good example of the impact of SPS measures on Kenya's agricultural exports is provided by the level of rejection of horticultural exports that are prevented from entering the EU and other markets because of not meeting standards. For example, during the period June 1999 to June 2000, 13,707.7 metric tons (1.3 %) of produce was rejected during inspection due to the presence of pests and diseases. The pests and diseases were mainly in fresh produce. In the following year, June 2000 to June 2001, 120 tons of produce meant for export were rejected due to the presence of regulated harmful organisms. Advice notices were given for 1007 tons of produce for quality improvement. In the year June 2002 to June 2003, 150 tons of assorted plant materials were rejected from entering export markets (Baraza 2004). In the three years, therefore, considerable amounts of produce were not exported due to SPS.

who account for 5 to 13 percent of total export production and are largely from the indigenous community «face a doubtful future». The Kenya Flower Council estimates that Kenya's US-Dollar 290 million flower industry could suffer its biggest losses in 2005 following the implementation of new trade rules by the European Union. Possible casualties are small-scale farmers, who do not have the logistics for produce traceability. Flower producers are faced with the challenge of ethical production and social accountability. Consumers are demanding that producers respect the law and international labour and human rights conventions.

**Multinational companies.** In the horticultural sector, horticultural produce importers from the industrialized countries have now invaded the Kenyan horticultural industry. The importers, who control up to 40 percent of the export market, are now threatening to lock out the smallholder farmers from the lucrative European Union (EU) market. However, these investors had helped raise Kenya's exports of fresh fruits, vegetables and cut flowers to European supermarkets to a tune of 24 billion Kshs.

The Food and Agriculture Organisation of the UN (FAO) says in its report that in the 1990's smallholders produced 70 percent of the vegetables and fruits shipped from Kenya, but as the scale of exports grew, the share has dwindled. According to this report, by the end of the 1990s, 40 percent of the produce was grown on farms owned or leased directly by importers in the developed countries. Another 42 percent was produced by large commercial farmers, while smallholders produced a meagre 18 percent.

The major concern regarding market access for Kenya is to establish rules and disciplines that are genuinely fair for both food-importing and food-exporting countries, as well as for developed and developing countries. Both in WTO and ACP–EU negotiations, Kenya aims to maximize improved market access opportunities and to make the structure of tariff binding for WTO members more uniform.

## Role of government and associations

In the domestic market, the Ministry of Agriculture, despite limited funding – but with the assistance of some donor communities – has embarked on measures to ensure compliance to market requirements. The Ministry staff is working on a training programme to ensure that exporters and smallholder farmers are thoroughly trained on maximum residue levels, traceability, sanitary and phytosanitary standards. The government has so far trained 1,400 farmers' groups and 164 agricultural extension officers.

The government has also established the Horticultural Crop Development Authority and the Kenya Plant Health Inspectorate Services (KEPHIS), a regulatory body established to co-ordinate all matters relating to crop pests and to establish services laboratories to monitor the quality and levels of toxic residues in plants, soils and crop and animal produce. Dealing with SPS measures is a complex and expensive affair, thus KEPHIS operation has to be supplemented by donor funding.

Further, the government, in an attempt to maintain, secure and enhance markets for the exporters, is negotiating with the EU to ensure that in protecting EU human, animal and plant health, regulations are designed and implemented in ways which minimize the trade obstacles placed in the path of relatively small-scale least developed and developing country suppliers.

Sector Associations such as the Fresh Produce Association of Kenya (FPEAK) are preparing a code of practice in a move intended to expand the quality of local horticultural exports for EU markets. Kenya Good Agricultural Practice will be benchmarked with Euro Retailer Produce Working Group's Good Agricultural Practices (EurepGAP). EurepGAP subjects the horticultural industry to a list of 400 conditions that it has to meet.

FPEAK, with its knowledge of the emerging challenges facing the horticultural industry, has developed new strategies to counter these problems. The Kenya National Chamber of Commerce and Industry is involved in assisting small- and medium-scale farmers to explore and expand their markets. The major challenge remains the lack of access to information, the dissemination of market and market conditional ties, infrastructure, and resources to support smallholder farmers on their way to the international market.

Under the ongoing ACP-EU New Partnership Agreement negotiations, Kenya is negotiating for favourable market access conditions and removal of tariff and non tariff barriers. However, the government faces a daunting task in dealing with issues of private standards such as the EurepGAP devised by some of the major EU fresh produce retailers, including big supermarket chains, which constitute the bulk of buyers of Kenya's fresh horticultural produce. On the negotiation front, whereas the Government is in a position to negotiate with the EU on a number of concerns, the retail and European supermarkets which have no pre-requisites for negotiations pose a grave concern not only to the smallholder farmers but also to the governments.

## Conclusions

Compliance to international standards require farmers to invest in Integrated Crop Management (ICM) practices and Euro Retailer Produce Working Group's Good Agricultural Practice (EurepGAP) principles. Hazard Analysis and Critical Control Point (HACCP) protocols, and standards that require better enterprise-wide supply management techniques, record systems, and equipment, including detailed labelling and traceability systems, still remain a big challenge to the farmers. Especially the smallholder farmers who lack financial and human resources need to upgrade their products and production/farming practices and techniques to meet the international market requirements.

(The content and opinions expressed herein are those of the writer and not of the Trade Point/Kenya National Chamber of Commerce and Industry.)