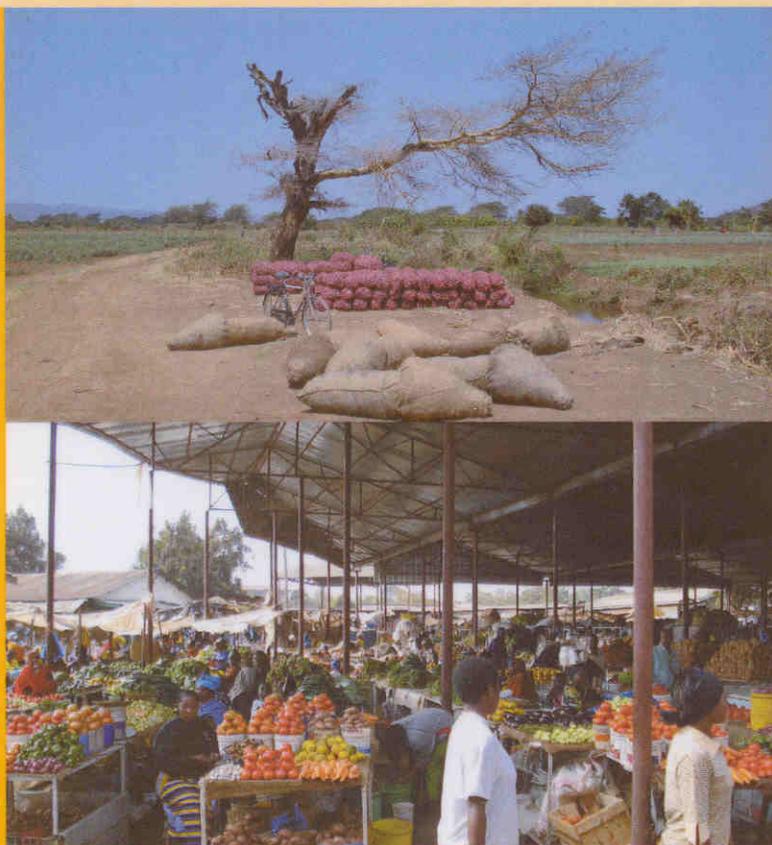


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**Market-driven development and poverty reduction:  
A value chain analysis of fresh vegetables in Kenya  
and Tanzania**



SLE Publication Series

# Market-driven development and poverty reduction: A value chain analysis of fresh vegetables in Kenya and Tanzania

Commissioned by

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and

The World Vegetable Center – Regional Centre for Africa (AVRDC-RCA)

Associated Partners

GTZ – PSDA Nairobi

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## Executive Summary

In recent years horticulture's relevance has increased in East Africa. Mainly export oriented middle and large scale enterprises have benefited from this development. At the same time, domestic demand for horticultural products has increased due to a rapidly growing urban population and relatively high income elasticity linked to demand for vegetables. Agriculture in general plays an important role in both countries' economies as the share of the Kenyan and Tanzanian GDP indicates (24% in Kenya und 45% in Tanzania).

Strengthening the labour intensive horticulture sub-sector could contribute to poverty reduction, because the majority of the poor population lives and works in rural areas. This is one of the core hypotheses of the present study. Horticulture in this context includes the entire value chain from production up to consumption of vegetables. Tomatoes and onions were chosen as the focus products of the study, because both commodities play an important role in the domestic vegetables market and, furthermore, the two research institutes icipe and AVRDC, with whom the study team cooperated, are particularly interested in these crops.

The following three major research areas were identified:

- Investigation into the potential for poverty reduction within a market-driven development of the respective value chains,
- Analyses of the cross-border onion trade between Tanzania und Kenya,
- Value chain comparison of the two countries.

First of all, in order to carry out the survey the poor actors of the value chains were identified, secondly their relation and power distribution among the actors was analysed and thirdly the legal regulations in force, the issue of standards in particular, were considered.

The analyses of fresh vegetables' value chains include the input supply, production, various stages of trading and marketing and finally consumption. Transport has been considered as a cross-sectional issue, because different actors provide this service at different stages within the chains. The regional cross-border trade of onions between Tanzania and Kenya is subsumed under domestic trade in statistical terms.

In addition to this functional perspective of value chains, there is an institutional perspective focusing on the actors' contribution to the chains. The study team combined this institutional perspective with the livelihood approach in order to determine the actors' living conditions and their vulnerability within the value chains. Qualitative and quantitative data were collected at production sites in the Arusha region, and the related market places in Arusha (Tanzania) and at markets in Nairobi

as well as in production areas in the north of Nairobi located in the Central Province of Kenya. The markets and production areas selected provided information to cover the issue of cross-border trade. The study team carried out the investigation from both ends of the value chain simultaneously.

Basically, both commodities are produced in two seasons. Hence, costs and profits are described separately according to one high supply and one low supply season. This seasonality causes both a high price fluctuation within one year and a different number of actors being involved in the chains accordingly. The brokers are an ideal example to illustrate this consequence. They normally do not purchase the commodities but they can connect business partners due to their knowledge of the markets. In high supply season, their service is very important for all actors but in low supply season supply and demand match up without any assistance. Furthermore, it is true to say that value chains are characterised by a huge number of business relations. There is not just 'that one' marketing channel, but the consumer receives the produce via different channels. One rationale is the actors' different level of organisation. If producers have direct access to the wholesale market, fewer actors will be involved in the chain. In the case of tomatoes, brokers do not play that role because their information is not required. In contrast, transport services are in strong demand in the high supply season at an increased price.

The analysis of profit distribution in combination with livelihood data was used to determine who are the winners and who are the losers within the chains. The profit margins of the tomato chain in Kenya indicated that the producers gain the highest profit per kilogram during the low supply season. In the same season, the retailers earn less followed by the wholesalers. A different picture is presented if the volume traded is included in the calculation: the wholesalers gain most in both seasons, whereas it has to be said that in the low supply season the total amount of profit per unit to be distributed among all actors is much higher. The livelihood data confirm this finding. The majority of poor actors in the chains are the 'porters', on the one hand those who carry onion bags or tomato crates by hand and on the other hand the handcart drivers who carry the commodities, for instance from the wholesale to the retail market stall. The qualitative interviews clearly demonstrated these findings. On a country by country comparison the situation is very similar. One major conclusion is that the farmers do not belong to the poorest actors in the chains, although mainly smallholders were considered. Those farmers, even smallholders, growing vegetables as cash crops are equipped with a set of beneficial factors compared to many other actors from the informal sector.

As far as market-driven development is concerned the study established that there is no political restriction on prices or volumes. Many of the actors in trade, marketing

and transport operate in the informal sector. Standards related to food or consistent measuring do exist but hardly any actor is aware of them. Hence, the study team could not prove the hypotheses that standards used in the export business of vegetables currently have a positive impact on the domestic market (trickle-down effect). In addition to that, general demand for tomatoes and onions is high in both countries, but a specific demand e. g. related to food quality issues plays a minor role as a driving force on the market. However, an exception might be the cross-border trade of onions from Tanzania to Kenya. Kenyan consumers in Nairobi and surrounding towns prefer Tanzanian onions because of better quality in terms of storability and visual appearance. Looking at the cross-border trade, clearing agents are additional actors in the value chain running a profitable business. The Kenyan onion producers compete seriously with Tanzanian onion suppliers, consequently a number of Kenyan farmers have to respond through greater diversification.

The recommendations for further research and possible implementation at the end of the study are based on bottlenecks and opportunities identified. For example, the issue of contract farming is seen to be very controversial. Farmers are rather sceptical of this binding relationship, while a number of NGO and state actors perceive contract farming as a chance to improve the farmers' situation particularly if smallholders are involved. Further investigation could help to clarify this issue. As a second example the study team established that several actor groups along the chain faced cash constraints. Very often a small amount of money is required which is difficult to borrow due to the limited access to the financial sector. This demand is met by various offers from microfinance institutions. This gap in the market can be closed through improved information flow.