Third Party Evaluator's Opinion on
Horticultural Produce Handling Facilities Project in Kenya

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Relevance

No horticultural sector policy has existed in Kenya despite being famous as one of the leading horticultural exporters in the world. The horticultural business continues to be a private-sector-led initiative with minimum government intervention or support. With innovativeness and efficiency, the private sector has vertically integrated, established cold storage facilities similar to those of HCDA, continues to obtain export markets on their own and has formulated its own code of practice (COP) - an industry governance tool- under which certified international food quality bodies audit them annually and award them either gold or silver quality marks that are recognized internationally. To give Government more teeth in the industry, it simply converted the industry COP into an industry Bill (2001) that was rejected by the industry stakeholders and is still shelved. The industry private sector, unfortunately views, the HCDA project as a competitor and not a facilitator. Although the project is still relevant, the small-scale farmer's entry and continued stay in the export market has become even more unattainable as the quality standards have been made more stricter due to quality consciousness. The smallholder should now aim at the latent domestic market that is still undiscriminating in terms of quality. Public policy support should aim at this market niche as they get prepared to meet the international quality standards.

Effectiveness

Three years after completion, the project is not financially attractive as its financial internal rate of return (FIRR) is negative. Due to poor cash flow, it has already defaulted in the servicing of the loan that was due in July 2004. Project capacity utilization is less than 3% mainly because (i) it cannot meet the competition from the private sector that offers perceived superior services; (ii) HPC is inconveniently situated outside cargo terminal center; (iii) lack of business trust by small holder producers; (iv) poor management as well as lack of an organization with mandate and (v) technical expertise to manage the project along strict business norms. The 6-year project delay saw over 15 large scale exporters construct similar facilities within the convenient cargo terminal area whose services are perceived to be superior to HCDA. They outsource and train out-grower farmers who have trust in them, virtues HCDA does not possess. The EU market that imports 80% of horticultural exports from Kenya has introduced directive EU/78/2000 that will unfortunately exclude small producers unless they comply with the traceability criteria that is rather difficult to attain by the majority of the small-scale farmers in the short run. So far, only 86 farmer groups (production units) have been contracted, trained and applied for certification under the 78/2000 EU criteria to pass produce via HPC, a negligible portion of the smallholder producers. The options of making the project more effective include immediate setting up of a business oriented firm with technical expertise, and financial muscle to run the project along business norms, organize farmers into product quality audited and certified production units of 100 farmers each with a contracted market and passing the produce through HPC. Secondly is to contract the O&M of the system facilities to private firms.