

Kenya's Avocado Manufacturing Potential



Executive Summary

- **Kenya has the potential to become a major exporter of avocado products to the Chinese market.** Its avocado production has been growing at a faster rate than that of South Africa over the last ten years of data recorded. Kenya has experienced a positive average growth rate of **1.5 %** over the last ten years compared to South Africa that has a negative average growth rate of **-3.4 %**.
- Kenya's avocado value chain contributes to the household income and foreign exchange reserve. According to the International Trade Center, agriculture contributes to half of Kenya's GDP and employs 75% of the workforce. **The horticulture sector is the largest source of foreign exchange earnings in Kenya.**
- Organizations in the **agribusiness sector** in Kenya provide **business development services**, operational equipment, and technical training to enable profitability. **Organizations associated with providing support mechanisms in the avocado sub-sector include: Kenya Business Development Services (KBDS), Avocado Growers Association of Kenya (AGAK), Horticultural Crops Development Authority (HCDA), and the Fresh Produce Exporters Association of Kenya (FPEAK).**
- Avocado processors have the potential to manufacture and export various processed avocado including the following: crude avocado oil, refined oil, extra virgin oil, dried avocado, and avocado pulp. **Currently, avocado processors in Kenya produce mostly crude avocado oil not because of inadequate supply of avocado but because of insufficient capital for advanced machinery. There is a huge demand for other avocado products by importers, hence the untapped opportunity.**

I. Kenyan Avocado Sub - Sector

Avocado farming in Kenya

Avocado comprises of approximately 57% of fresh fruit exports recorded by HCDA in 2010.

Snapshot

- Avocado cultivation is concentrated in the highlands between 1,200 and 1,800m above sea level. Central Province produces 38.9%, Eastern 12%, Western 6%, Rift Valley 8%, Nyanza 34% and Coast 1% and Nairobi Province 0.1% (Ministry of Agriculture, 2010).
- Horticulture is the largest subsector in agriculture contributing 23% of the agricultural GDP (International Trade Center, 2014). 85% of avocado production is undertaken by smallholder farmers.
- The main varieties of avocado grown in Kenya are Hass (20%) and Fuerte (80%) for export market and Puebla, Duke and G6 for the domestic market (Mellado and Ferrari, 2011).
- Kenya's main competitors on the European market are **South Africa, Israel and Spain**. France is the main avocado importer, which takes 39% of total imported volume, U.S.A (10%), U.K (6.5%) , Belgium(6.5%), and the rest of the world (38%). Japan is the main importer in Asia.

KENYA PRODUCTION CYCLE

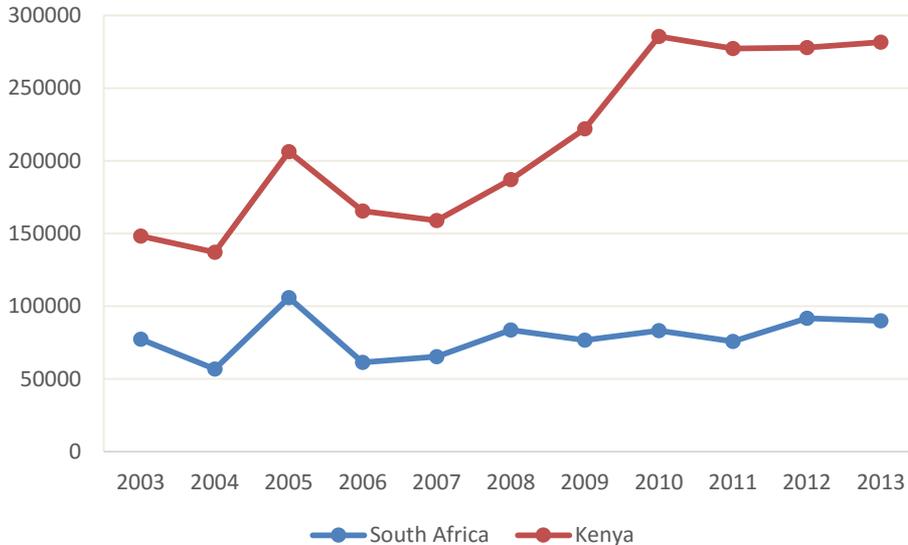
PROVINCE	JAN	FEB	MAR	APR	MAY	JUN	JUI	AUG	SEP	OCT	NOV	DEC
Central		*	*	*	*	*	*	*	*	*		
Rift Valley				*	*	*	*	*	*	*	*	
Nairobi			*	*	*	*	*	*	*	*		
Eastern			*	*	*	*	*	*	*	*		
Nyanza						*	*	*	*	*	*	*
Western	*	*							*	*	*	*
Coast										*	*	*

Country Comparisons: South Africa vs Kenya

Kenya's avocado production is increasing in a faster rate than that of South Africa.

South Africa exports a narrow range of avocado sizes for its Hass and Fuerte variety while Kenya has a wider range of avocado sizes. South Africa produces and exports 12-18 ounces of Fuerte and 16 ounces of Hass while Kenya produces and exports 12-24 ounces of Fuerte and Hass. Since Kenya exports similar Hass size variety as Mexico and Peru, Kenya has the advantage of extracting more avocado oil per fresh weight than South Africa. This represents a key competitive advantage.

Avocado Production (tonnes)



According to Food and Agriculture Organization (FAO), Kenya has produced more avocado than South Africa indicating the potential for higher growth in exports than South Africa.

Source:FAOSTAT

Europe, Middle East and United States: A potential Market

The Europe and the United states are the largest consumers of avocado in 2013-2014 season.

➤ Market penetration in Europe and the Middle East:

Kenya is one of the major exporters in Europe alongside Peru, Chile, and South Africa. Kenya ships 1,000 containers of avocado annually to France, Denmark, and Dubai. Though, there is an opportunity to expand avocado consumption through other countries in Europe and Middle East.

➤ Market development in the United States:

Demand for avocados is concentrated in the United States and European markets, which are the largest consumers of this fruit, with total consumption of 750,000 tonnes and 290,000 tonnes respectively in 2013 from avocado exporters. It is estimated that total consumption of avocados in the United States reached 750,000 tons in 2013, with average annual growth (CAGR) of 9.2%. Kenya can enter the market by expanding its geographical presence in the United States by supplying avocado products that are not commonly exported from Mexico or Peru.

Asia: An Untapped Market

There is an untapped opportunity for Kenya as the main avocado exporter for the Chinese market.

➤ Why is China an attractive market ?

The Asian giant has opened its market to more avocado suppliers. This a great opportunity for exporters because of its large consumer and importer base. The growing middle class healthy lifestyle is another reason for a surge in demand for avocados.

➤ Opportunities for exporting countries in the Asian market

Avocado consumption is increasing in the Asian market, Countries like Malaysia, Japan and South Korea are the largest consumers These global consumers are importing avocado products from Mexico, Chile, South Africa, Peru and the United States. Major exporters like Mexico and Peru are interested in increasing their shipments to the new Asian markets. China is a very attractive market; it has opened its market to suppliers interested in entering. This is a great opportunity for avocado exporters like Kenya to enter the market because of its huge pool of consumers and the growth rate of avocado consumption in China has increased by 46 folds from 2013-2014. According to China Business Network, Chinese avocado consumption has jumped 127 times over the past four years, with total consumption of 4,000 tonnes in 2014. There is an expected increase in demand for avocado from major markets, as well as newer markets such as China.

II. Value Chain

Avocado value chain process

Kenya 's Avocado value chain is contributing to the household income and foreign exchange reserve.

Snapshot

- The value chain actors include nursery operators, farmers, processors, traders, and exporters. Farmers get information on changes in demand and market sizes in order to fulfil the quality standard of the domestic and foreign market.
- The domestic market is the largest source of demand for Kenyan avocados accounting for over 80% of the total production and the rest are exported as fresh fruits or processed and exported as crude avocado oil (Mwangi, 2006).
- The growing demand for avocado in the export markets and the low exports to domestic ratio of avocado creates an opportunity for Kenya to increase its exports in processed avocado.
- USAID has partnered with local businesses and Kenya Business Development Services (KBDS) to improve Kenya's ability to compete in the European Union market.

Value chain upgrading

The value chain upgrading include facilitating the provision of grafting, pruning and spraying services, connecting exporters to avocado farmers to foster market linkages and mobilizing farmers ' group training on certification standards; technical advice on good agricultural practices; harvesting and grading services .

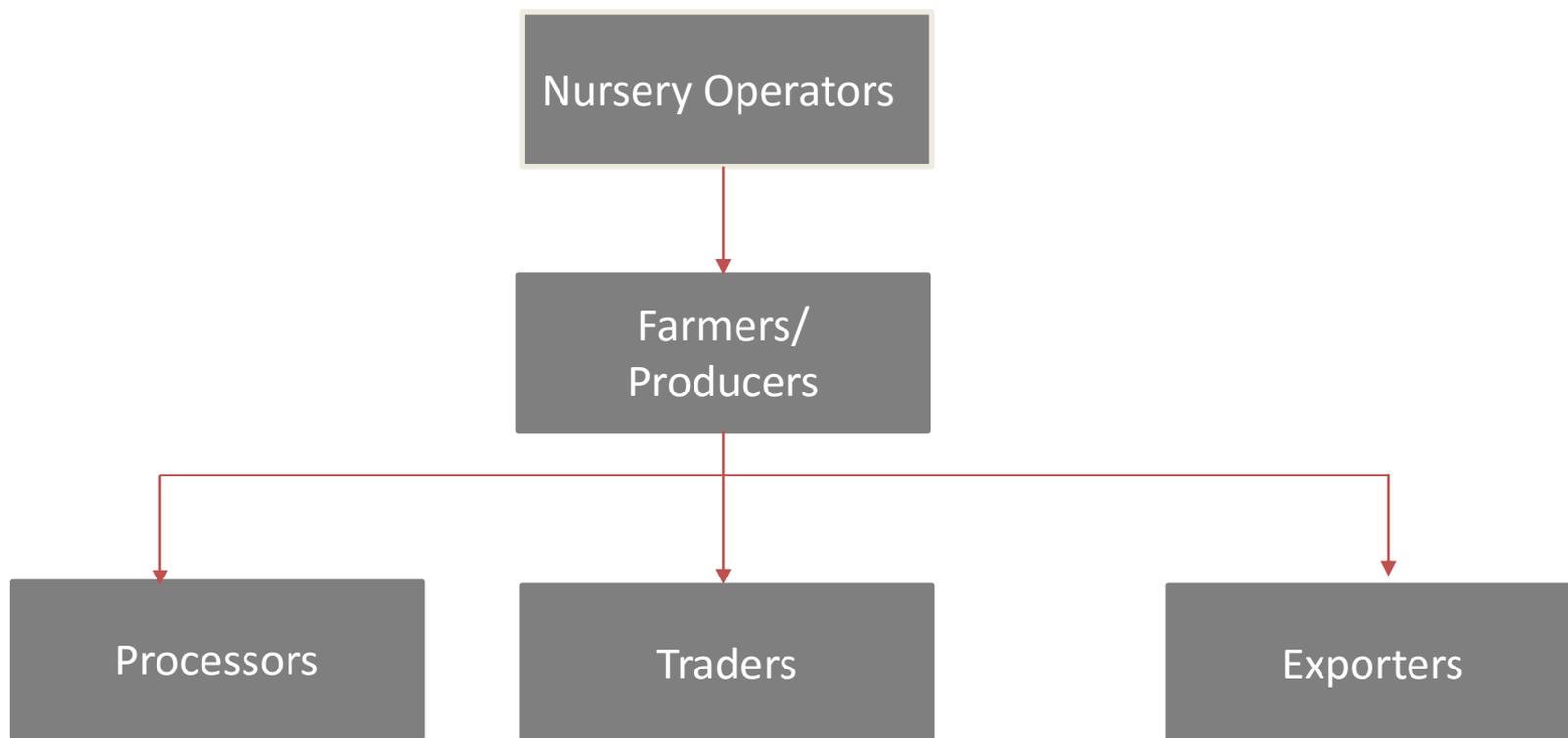
Regulatory bodies

Regulatory bodies to ensure quality control and export standards include :

- Avocado Growers Association of Kenya (AGAK) that coordinates the farmer groups and facilitates the linkage between producers and exporters
- Horticultural Crops Development Authority (HCDA) and associations such as the Fresh Produce Exporters Association of Kenya (FPEAK) that regulate the quality of avocado right from production to export.

Main actors in the value chain

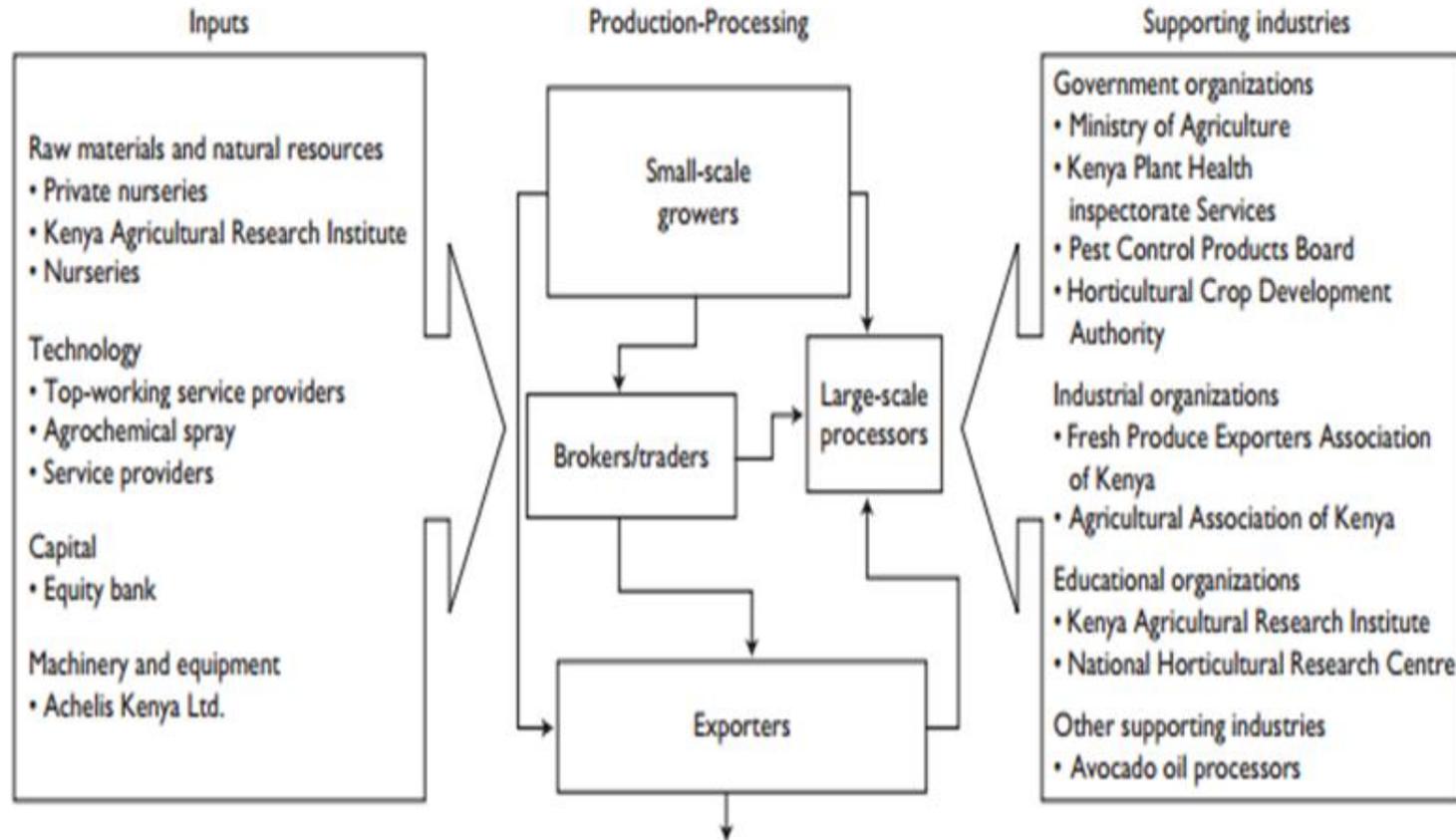
Large traders buy avocado from individual farmers and sell them to exporters, processors, and traders



Oil processors provide a growing market opportunity for grade 2 avocados which are not suitable for direct export or sale in the domestic fresh fruit market. Value addition to grade 2 avocados will increase the supply and export of processed products.

Value Chain and cluster

Farmers get market information required from exporters, brokers, and traders & associations.



Sources: J. E. Austin Associates, Inc.; Kenya BDS.

IV. Development and Opportunities

Global Investment Trends

Major exporting countries like Chile and New Zealand are investing in the avocado subsector

➤ Chile:

The Inter-American Investment Corporation (IIC) provided \$7 million in loan to an Chilean exporting company, which it lent to its avocado growers. The first phase of the project provides long-term financing for the small growers who supply the exporting company with avocado. The second phase involves financing certain fixed assets, both at the exporting company and at some of the small growers. The IIC loan created approximately 7,500 temporary jobs by project completion in 2005.

➤ New Zealand:

An angel fund invested \$600,000 in an avocado manufacturing company to increase production, sales, and marketing capabilities to meet the growing demand of avocado pulp from the biggest global fast food chains. The growing demand and investment has enabled the company to compete in the global market.

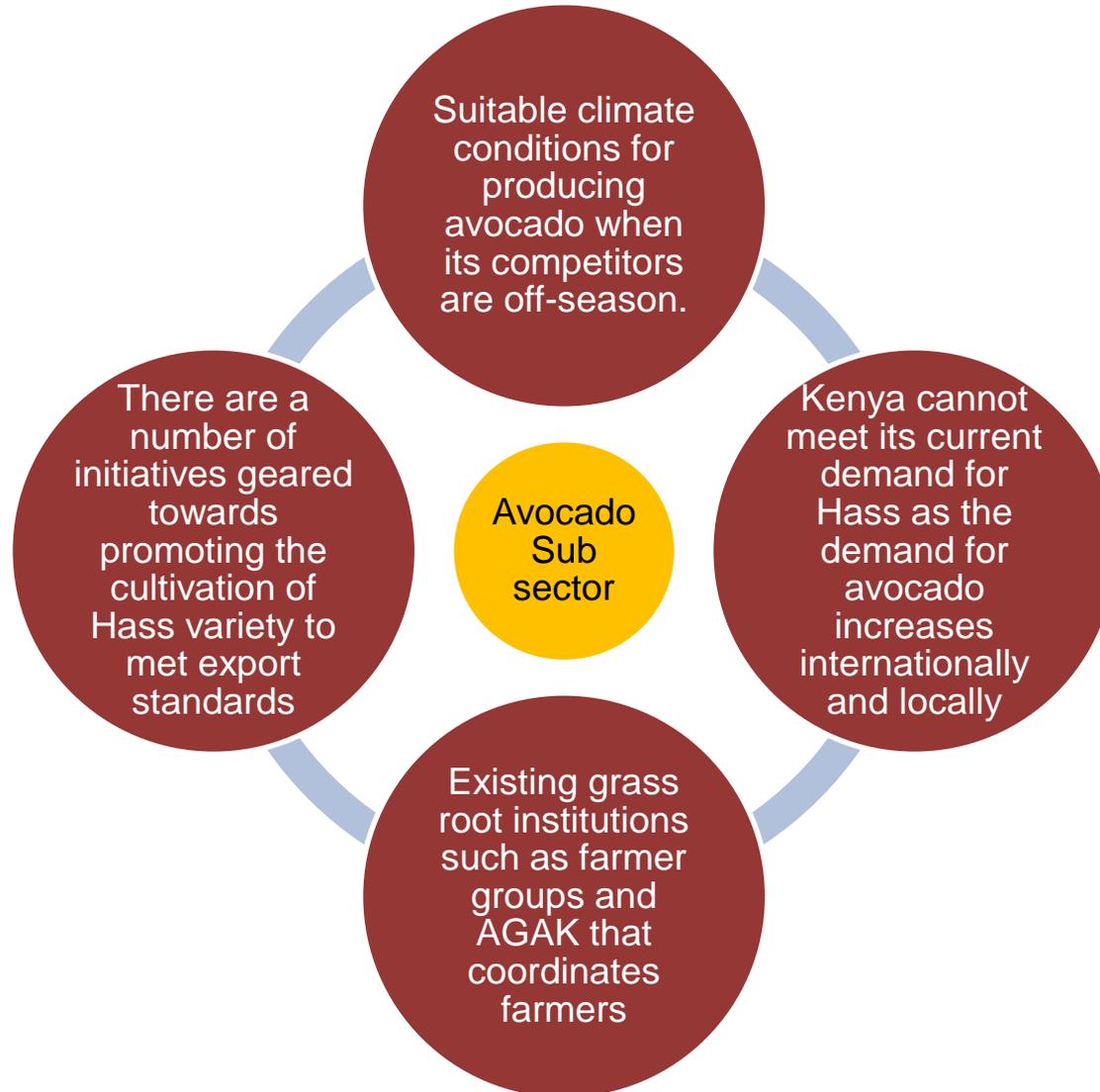
Processing gap : Key Drivers

Kenya has the potential to manufacture and export processed avocado commodities for the following reasons:

- **Continuous Supply:** Kenya has an edge to supply of avocados all year round relative to its competitors. The top six producing counties have different production cycles that sum up to all the months of the year.
- **Small pool of processors:** The Avocado processing industry is dominated by few and well established processing companies. According to the processors, there is unmet demand for processed avocado oil both locally and internationally. This is a chance to produce and expand the supply of processed avocado products both locally and internationally. Hence, there is room for more processors to enter the industry.
- **Increased Utilization of avocados:** Oil processors provide a growing market opportunity for grade 2 avocados which are not suitable for export or sale in the domestic fresh fruit market. Processors utilize avocados that have been rejected by the exporters as over mature or physically damaged. This will reduce wastage and increase efficiency in the value chain by creating value addition and profit margins of key value chain actors.
- **Gross profit margin gap:** The value addition is the game changer that provides prospects for job creation and revenue generation. The export market price of a carton of avocado fruit (4kg) is approximately 8 euros while the market price for an avocado oil (25.9 oz.) is approximately 14 euros. More profit is generated from exporting avocado products than avocado fruits.

Opportunities for avocado oil in Kenya

There is vast potential for avocado that are unexploited by the value chain actors.



Conclusion

Why invest in Kenya's avocado subsector?

Kenya is the second largest African exporter of avocado after South Africa. **Despite ranking second on the continent, Kenya has the potential to overhaul South Africa to become one of the top five exporters in the world.** Below are the factors that make Kenya a destination for avocado and its by-products:

- Conducive government and investment policy
- Private sector leadership
- Low risk investment environment
- Climatic advantage to produce more avocados relative to its competitors
- Largest source of foreign exchange earnings
- Well established avocado processing companies