Market Opportunities for Agriculture in Kenya
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PHASE 1- KENYA- PESTEL ANALYSIS

Kenya		Politica/Legal	Economic	Sociocultural	Technological	Environmental
	+	The government system is a republic; the chief of state and head of government is the president. Kenya has a mixed economic system which includes a variety of private freedom, combined with centralized economic planning and government regulation	Kenya is the largest economy in East Africa; Top 3 Trade Partners (2018): China, India, and Saudi Arabia; Top 3 Exported Goods (2018): Coffee & Spices, Live Plants, and Oil & Mineral Fuels; Top industries: Small-Scale Consumer Goods (Plastic, Furniture, Batteries, Textiles, Clothing, Soap, Cigarettes, Flour); Agricultural Products; Horticulture; Oil Refining	Population53,771,300 (2020) Population Growth Rate2.252 annual % (2020) Age Dependency Ratio69.776 % of working-age population (2020) Urban Population27.995 % of total (2020)	Diversified agriculture (third-largest tea producer in the world) and expanding services sector (telecommunications and financial services) Mombasa is the third-largest port in Africa Hydrocarbon deposits discovered in the northwest region of Turkana	a country bordering the Indian Ocean and Lake Victoria. Neighboring countries include Ethiopia, Somalia, South Sudan, Tanzania, and Uganda
		Continued execution of the president's Big Four Agenda. which is focused on food security, manufacturing employment, universal and affordable access to health, and affordable housing	GDP: $246 Billion; GDP Growth rate: -0.316% (2020 est); GDP Per Capita: $4566 (2020 est)	population heavily concentrated in the west along the shore of Lake Victoria; other areas of high density include the capital of Nairobi, and in the southeast along the Indian Ocean coast	The Government of Kenya (GOK) has initiated a broad range of pro-business reforms over the last few years, including regulations on starting businesses, obtaining access to electricity, registering property, protecting minority investors, and streamlining the business insolvency process	Unique Kenyan physiography, from highlands to glaciers, supports abundant and varied wildlife
		Kenya has built strong bilateral and multilateral trade relationships, including as a member of the East African Community, COMESA	Inflation, consumer prices (annual %)5.405% (2020) External debt stocks, total (DOD, current US$)$38,193,646,114 (2020) Total tax rate (% of commercial profits)37.2% (2019) Real Interest Rate (5 year average %)6.478% (2020) Manufacturing, value added (% of GDP)7.61% (2020) Current Account Balance (BoP, current US$)($5,559,231,017) (2019)	Population of 54,685,051 (July 2021 est.) with a growth rate of 2.15%		climate varies from tropical along coast to arid in interior
		mixed legal system of English common law, Islamic law, and customary law; judicial review in the new Supreme Court established by the new constitution	Seventh-largest African economy (2019), but the biggest in East Africa, playing a pivotal role in the East African Community, Africa's number-one common market	Ethnic groups: Kikuyu 17.1%, Luhya 14.3%, Kalenjin 13.4%, Luo 10.7%, Kamba 9.8%, Somali 5.8%, Kisii 5.7%, Mijikenda 5.2%, Meru 4.2%, Maasai 2.5%, Turkana 2.1%, non-Kenyan 1%, other 8.2% (2019 est.)		Natural resoueces include limestone, soda ash, salt, gemstones, fluorspar, zinc, diatomite, gypsum, wildlife, hydropower
			Agriculture remains the backbone of Kenya's economy and central to Kenya's development strategy. According to the Food and Agriculture Organization of the United Nations, the sector accounts for more than 26% of the gross domestic product (GDP), forms 65% of export earnings, and is a key supporter to many of the other non-agriculture sectors such as manufacturing, tourism, and social services among others	Languages: English (official), Kiswahili (official), numerous indigenous languages		urban population: 29% of total population (2022) rate of urbanization: 4.09% annual rate of change (2020-25 est.)
Kenya	-	Terrorist risk in the north near Somalia; political, social, and ethnic divisions Persistent corruption	Kenya's debt-to-GDP ratio increased from 62.1% in 2019 to 68.7% in 2020 and is forecasted to reach 71.5% in 2021. Inflation as of July 2021 is 6.32%, which is within the Central Bank of Kenya's 5±2.5% target band.	Kenya is a source of emigrants and a host country for refugees	Reliant on hydropower and rain-fed agriculture: sensitive to drought and flooding Weak public resources (17% of GDP) Persistent bottlenecks due to lack of infrastructure and skills shortages	Natural hazzards include recurring drought; flooding during rainy seasons
		country risk rating: B; Business climate rating: A4; CPI: 31	the unemployment rate increasing from 2.6% in 2019 to 6.2% in 2020 due to covid-19	More than 40% of Kenyans are under the age of 15 because of sustained high fertility, early marriage and childbearing, and an unmet need for family planning. Kenya's persistent rapid population growth strains the labor market, social services, arable land, and natural resources.		water pollution from urban and industrial wastes; water shortage and degraded water quality from increased use of pesticides and fertilizers; flooding; water hyacinth infestation in Lake Victoria; deforestation; soil erosion; desertification; poaching
			While Kenya has a growing entrepreneurial middle class and steady growth, its economic development has been impaired by weak governance and corruption			

PHASE 2

Background and Current Imports/Exports Situation

Kenya has the largest economy in East Africa and the seventh-largest in the entirety of Africa, with an estimated GDP of $246 billion. According to the World Fact Book, Agriculture remains Kenya's backbone, essential to the strategic development of its economy. The Food and Agriculture Organization of the United Nations also stated that this agricultural sector of the economy plays a pivotal role in the economy and country's development, accounting for more than 26% of the GDP and 65% of the net exports.

Roughly ¾ of Kenya's population, estimating 40.5Million works in the agricultural sector. This includes 40% of its total workforce and 70% of the rural workforce.

In addition, the agricultural industry plays a significant role in aiding other non-agricultural sectors such as tourism, manufacturing, social services, etc. This is seen as the Government of Kenya (GOK) has pushed out its "Big Four" agenda, including food security, affordable housing, universal health care, manufacturing, and Job creation. In 2019, the GOK's expenditure amounted to 25.41% of the country's real GDP.

Agriculture in Keyna is filled with complexity, as it is ranked the 77th most complex country in the Economic Complexity Index (ECI) ranking. In a 2018 study done by the International Business Center of Michigan State University, it was found that Kenya's top 3 trading partners were China, India, and Saudi Arabia, who are also its global players, and its top 3 exported goods were Coffee & Spices, Live Plants, and Oil & Mineral Fuels.

In 2019, it was estimated that Kenya imported $20.41 billion worth of commodities, including refined petroleum, cars, packaged medicines, wheat, and iron products. Its import/global partners were roughly China (24%), United Arab Emirates (10%), India (10%), Saudi Arabia (7%), and Japan (5%). On the other hand, Kenya's exports were estimated to be $11.49 Billion worth of commodities, including tea, cut flowers, refined petroleum, coffee, and titanium. Its export

partners were roughly Uganda (10%), United States (9%), Netherlands (8%), Pakistan (7%), United Kingdom (6%), United Arab Emirates (6%), and Tanzania (5%).

Market potential

- **The market's size, growth rate, and industry trends**

Kenya is one of the most developed countries in East Africa, with a lower middle income. It is a member of the East African Community (EAC) and Africa's number-one common market for Eastern and Southern Africa (COMESA).

It has a per capita Gross Domestic Product (GDP) ranking of 109th out of 133 countries. With a population of approximately 54.7 million (July 2021 estimation), Kenya has a GDP per capita of $1,816 ($4,512 purchasing power parity; 2019). Over the last five years, GDP per capita growth has averaged 3.1 percent, higher than regional averages (The Atlas of Economic Complexity by @HarvardGrwthLab, 2022).

According to Faria (2021), the value added by the agriculture sector to Kenya's GDP in the first half of 2021 was estimated to be around 1,409 billion Kenyan shillings (KSh) (approximately 12.5 billion U.S. dollars). In 2021, the cumulative value of the two first quarters was superior compared to the previous year, because of the increase in sugarcane production, tea output, and fruit exports.

Agriculture contributed 2,478 billion KSh (22 billion USD) to the Kenyan economy in 2020. It continues to be the backbone of Kenya's economy, accounting for one-third of its GDP. Small-scale, rain-fed farming and livestock production account for more than 75% of agricultural output. Around 75% of Kenya's population work in agriculture, including livestock and pastoral activities, at least part-time.

Kenya’s exports are valued at $10.08 billion (2019 estimation). It exports tea, cut flowers, refined petroleum, coffee, and titanium. The main export partners are the following: Uganda

for10%, the United States for 9%, the Netherlands for 8%, Pakistan for 7%, the United Kingdom for 6%, the United Arab Emirates for 6%, and Tanzania for 5%. On the other hand, Kenya's imports are valued at $18.73 billion (2019 estimation). It imports refined petroleum, cars, Packaged medicines, wheat, and iron products. The main import partners are the following: China for 24%, UAE for 10%, India for 10%, Saudi Arabia for 7%, and Japan for 5% (The World Factbook, 2022).

- **Tariff and non-tariff trade barriers to market entry**

Private firms consider the non-tariff trade barriers as a mixture of restrictions and procedural obstacles due to corrupt practices, administrative levies, imposition of import quotas, slow customs services, packaging, labeling requirements, as well as the requirement to get an import standards mark (ISM) for a list of sensitive products brought into Kenya (International Trade Administration U.S. Department of Commerce, 2021; Tabitha Kiriti Nganga 2014).

In addition to the non-tariff trade barriers, Kenya employs tariffs based on the international harmonized system (HS) of product classification and the East African Community (EAC) Common External Tariff. Customs duties can be charged at rates ranging from 0% to 100%, with an average speed of 25% (International Trade Administration U.S. Department of Commerce, 2021).

- **Standards and regulations that affect the industry**

I. The constitution

II. WTO Agreement on agriculture

III. Comprehensive Africa Agriculture Development Program (CAADP)

IV. The Sessional Paper Number 10 of 2012 on the Kenya Vision 2030

V. Crops Act

VI. Agriculture and Food Authority (AFA) Act, 2013

VII. The National Agricultural Sector Extension Policy (NASEP)

VIII. EAC Development Strategy and the EAC Agriculture and Rural Development Policy

IX. The Kenya Agricultural and Livestock Research Organization (KALRO) Act

X. The Science, Technology, and Innovation Act

XI. The Sessional Paper Number 3 of 2009 for the National Land Policy

XII. The Biotechnology Policy, 2006

XIII. The Biosafety Act

XIV. Cooperative Societies Act

XV. The Sessional Paper Number 3 of 2013 on the National Productivity Policy

XVI. National Food and Nutrition Security Policy

XVII. The Sessional Paper Number 2 of 2008 on the National Livestock Policy

XVIII. The National Irrigation Policy 2015

XIX. Irrigation Act

XX. Agricultural Finance Act

XXI. Seed and Plant Varieties Act

XXII. The Warehouse Receipt System Act

(KASHINDI,2020)

- **OBSTACLES AND CHALLENGES**

I. Declining Agricultural Performance

II. Limited High Potential Agricultural Land and Over-Reliance on Rain Fed Agriculture

III. Limited Diversification of Agricultural Production

IV. Limited Exploitation of the Regional Market Potential

V. Poor and Inadequate Rural Infrastructure

VI. Inadequate and Declining Research in Agriculture

VII. Agricultural Sector Financing and Related Activities

VIII. Lack of a Comprehensive Land Use Policy

IX. Climate Change

X. Soil Fertility and Land Degradation

XI. Public Expenditure

(KASHINDI,2020)

- **Availability and sophistication of distribution**

For corn

Year	2019	2020	2021	2022(f)
Local production (MMT)	4.00	3.8	4.0	4.0
Total imports (MMT)	0.50	0.27	0.4	0.5

For Wheat

Year	2019	2020	2021	2022(f)
Local production (MMT)	360	320	300	350

Total imports (MMT)	2000	2500	2200	2400

For Rice, the milled

Year	2019	2020	2021	2022(f)
Local production (MMT)	80	80	80	80
Total imports (MMT)	625	600	630	600

For Sugar

Year	2019	2020	2021	2022(f)
Local production (TMT)	500	475	600	650
Total imports (TMT)	510	590	350	250

Research the competitive intensity

According to the International Trade Administration, Kenya's major agricultural exports are tea, coffee, cut flowers, and vegetables. Kenya is the world's leading exporter of black tea and cut flowers. When comparing Kenya to other world's leading exporters of teas, we see that the top five countries are China earning approximately $2 billion, Kenya at $1.1 billion, Sri Lanka at $712.3 million, and India at $692.1 million, and Poland at $264.5 million. One of Kenya's main competitors in India. In 2020, with ongoing issues with the pandemic halting exports due to borders closing and not allowing India to send samples of their products and problems with receiving payments from Iran (being the biggest buyer of Indian tea), it led to Indian agriculture

struggling to not only export its products but also falling behind Kenya. As black tea production is going up significantly, it has made it easy for Kenya to offload tea at a much lesser price in the global market. We also see that the competition in agriculture, specifical tea, is intense because Kenya is right behind China, a higher-ranking country, a second-world country.
According to The Observatory of Economics, Kenya is the 4th largest exporter of cut flowers; in 2019, Kenya exported $596 million in cut flowers. Kenya exports to both the United States and Russia. When looking at leading cut flower exporters, Kenya's biggest competitors are Ecuador ranking in 3rd largest at $835 million, Colombia 2nd at $1.42 billion most significant, and The Netherlands being the leader at $4.01 billion, ranking as the largest exporter. At the beginning of the pandemic, Kenya's cut-flower industry was struggling, with many travel bans and borders being closed, the cut flower industry was failing to keep their plants alive, farmers were forced to come up with ways to not only keep their large harvest alive while not selling their average amount when the borders/restrictions were open and lifted, but this set back also gave Kenyan farmers the knowledge on how to work efficiently, effectively, and cut down cost. With Kenya being a leading exporter of tea and cut flowers, its competitive intensity shows that agricultural productivity can help reduce poverty in rural areas of many third-world countries or countries struggling overall. We see that not only is Kenya thriving in agriculture, we see that many of its leading competitors and exporters, such as The Netherlands, Poland, and China aren't third world countries but first or second world countries, which can be inspiring for countries that may be agriculturally rich.

Modes of Entry

Export:

Exporting is the most straightforward option to address the demands of Kenyan and East African markets. This strategy has a negligible impact on your company's regular operations, and the risks are lower than other options. Indirect and direct exporting are the two main types of exports. They are defined by how the exporting business controls the flow of transactions with the Kenyan importer or buyer. When it comes to indirect export, the manufacturer leverages the services of various independent marketing organizations based in Kenya that specialize in

product importation and distribution. Direct Importing entails your company importing and distributing the product.

The country’s major exports are tea, coffee, cut flowers, and vegetables. Kenya is the world’s leading exporter of black tea and one of Kenya’s top foreign exchange earners. In 2014, Kenya registered 444.8 million kilograms of local production and 499.9 million kilograms of exports.

Kenya's exports were worth Sh643.7 billion in 2020, up from Sh344.9 billion in 2010. Imports increased by 108 percent within the same period, from Sh788.1 billion in 2010 to Sh1.64 trillion in 2020.

As a result, the trade imbalance increased from Sh443.1 billion in 2010 to Sh999.9 billion in 2020.

While Kenya has put in place enablers and trade-specific regulations to assist attract investment and boosting local production of exportable commodities, these efforts have slowed in recent years, allowing peer and rival countries to gain an advantage in the race for international markets.
Africa and Kenya’s agriculture can benefit from shifts in global trade flows

Recent events such as the Covid-19 pandemic and the Russia-Ukraine conflict have significantly impacted global commodity markets. These disruptions open opportunities for businesses that can increase their production and export capabilities to fill the supply gaps that emerge.

Franchising:

Local business owners (franchisees) pay fees and royalties to your foreign company (franchisor) in return for the right to use your name, sell your products and services, and typically adopt your corporate structure and processes. The business format connection, in which you supply more than just a trade name, product, or service to the Local Firm, and the business system

relationships, in which you provide the Local Firm with a comprehensive system for running the firm, are the two types of franchising relationships.
In contrast, a conventional or product distribution partnership focuses on the product you produce or deliver to the local firm rather than how you do business.

While Kenya's physical infrastructure is better than its neighbors in many ways, it is nevertheless undeveloped and a significant roadblock to economic progress.

Especially in metropolitan areas, the government has been unable to maintain a secure environment for companies and people.

Lack of court support for intellectual property protection and quick settlement of IPR issues are two significant hurdles to franchising. Lack of available local supply that meets required quality standards, frequent infringement of the franchise agreement and lack of commitment by franchisees, a small customer base, and a lack of understanding of the franchising concept, in general, are all obstacles to expanding the number of US franchises in Kenya. Despite these obstacles, local questions regarding the United States have surged.
Franchising in agriculture is relatively new globally and it is specifically used to enhance food security and livelihoods for smallholder farmers.

Several groups have started franchising business concepts (called social franchising) to develop sustainable social companies in order to boost farm production and assist millions of smallholder farmers to rise out of poverty. Honey Care Africa, SIDAI, Babban Gona, Krishi, Utsho, and Farmers Pride, Farm, are just a few of them.

Mergers and acquisitions:

Local business owners (franchisees) pay fees and royalties to your foreign firm (franchisor) in exchange for the ability to use your brand, sell your products or services, and frequently utilize your business structure or processes. There are two sorts of franchising relationships: the business format relationship, in which you supply the Local Firm with more than just a trade

name, product, or service, but a whole system for running the business. The other form is a conventional or product distribution connection, which focuses on the development you create or deliver to the local firm rather than conducting business.
In Kenya, we don't have a significant application of merger or acquisition as a mode of entry in the agriculture sector. However, we can see it in the banking and oil sectors.

Recommendations:

Using the *light touch strategic approach*, managers, firms, and SMEs can ensure a successful market entry and sustained performance. The *soft-touch strategic approach* provides ample space to diversify calls for leveraging existing successes to enter more complex production.

In addition, traditional forms of advertising such as radio, tv, and print promote their business and products. According to trade.gov, “Many leading international advertising agencies, including Ogilvy & Mather, McCann Erickson, Publicis, and Omnicom, have local offices or affiliates in Kenya. Although there are no restrictions on importing ready-to-use advertising materials, managers and firms should consult closely with locally-based advertising firms to obtain leads on accepted advertising norms and adapt the material to fit local preferences and values, including translation into target languages such as Kiswahili.” This will ensure that business and products will maintain sustainability and performance.

Entering Kenya’s market, small and medium enterprises need to check the following conditions to ensure a successful market entry and sustained performance:

- The corruption rate of the country
- The classification and verification of goods
- The documentation procedures of import and export
- The administrative levies
-The transit fees and bonds

As an entrance option, small and medium businesses must choose between exporting and licensing and franchising.

This entrance technique can avoid the costs of starting operations in a new country.

Entrepreneurs and small enterprises are more inclined to implement exporting to get their products into marketplaces throughout the world since exporting is cheaper than other entry modalities.

Licensing can give a very high return on investment because it requires very little commitment on the side of the licensor.

Licensing saves money and minimizes risk.

Brand awareness is a significant benefit that franchisees obtain when they launch a franchise. If you were to establish a business from the ground up, you would need a large sum.

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