

Summary

Kenya is predominantly an agricultural based economy. Most of its produce is consumed unprocessed or is processed using imported equipment. Kenya's agro-processing industry is relatively well developed has several distinct sectors for both domestic and foreign markets. These include: dairy, fish, meat, grain, fruits and vegetables, edible oils and fats, sugar, baked goods, beverages, and tobacco. The sector is capital intensive and relies heavily on imported inputs, although U.S. products are under-represented. It has experienced steady growth in the last few years (9.5% in 2004 alone) due to increased demand for Kenyan goods from regional markets (i.e., exports). The promise of peace in Southern Sudan and Somalia has also created greater demand for products from Kenya.

Market overview

Kenya's economy has been on a generally upward trend since a new government took over in December 2002. GDP grew by 4.3 per cent in 2004 to stand at about USD14.6 billion, making Kenya the most developed economy in Eastern Africa. The geographical location and industrial development of Kenya places it as the trade hub and gateway to the entire Eastern and Central African region. Kenya's food processing industry registered growth of 9.5% in the year 2004 after registering marginal growth in 2003:

	2002	2003	2004
Total Market Size	11.3	13.7	14.6
Total Local Production	0.8	0.1	0.2
Total Exports	nil	nil	nil
Total Imports	10.5	13.6	14.3
Imports from the U.S.	0.43	0.54	0.71

Source: U.S. Census Bureau & Kenya Statistical Abstract 2004. All figures in millions of USD. Exchange rates: 2002 – 1 USD/KSh 78; 2003 – 1 USD/KSh 75; 2004 – 1 USD/KSh 79.3

In 2004, the Government of Kenya (GOK) held an investors conference to stimulate interest in Kenya by both local and international investors, and one of the key areas of emphasis was the agro-processing sector (listed in the National Export Strategy Action Plan for 2005-2008 by the Ministry of Trade & Industry). As with other sectors, the GOK is promoting export oriented manufacturing as the key to Kenya's industrial policy, and has specifically included food manufacturing in its export promotion programs. By manufacturing under bond and in export processing zones, manufacturers benefit from duty exemption on imported capital equipment, machinery, raw materials and other imported inputs.

Agro-processing is reported to be Kenya's largest manufacturing subsector, accounting for over 30% of total manufacturing output (Economic Survey 2005). In 2004, there were more than 1200 businesses in Kenya's food and beverage processing industry, including small, family-owned businesses, large businesses listed on the Nairobi Stock Exchange, and subsidiaries of multinational companies. Several major multinationals have operations in

Kenya, either independently or as joint ventures, including Nestle, Unilever, Cadbury, Coca Cola, Cirio Del Monte, and Wrigley. They typically supply both the domestic and export markets.

Demand for processing equipment for the agro-processing and packaging sector has increased as a direct result of growth in the agricultural sector overall. Locally produced machinery accounts for only a very small portion of market, with nearly all advanced equipment imported. The market has historically been dominated by Europe, but recently Asian countries have advanced due to low prices and reduced transport costs – making their equipment attractive especially to small-scale food processors. The amount of imported machinery has grown to USD 14.3 million in 2004 from USD 13.6 million in 2003 and USD 10.5 million in 2002. However, of the above, U.S. imports accounted for only some \$713,000, or 4.9% of the import market (in 2004). U.S. made equipment, while of superior quality, is more expensive compared to similar products from Europe and Asian countries. U.S. firms may wish to focus initially on small sales of off-the-shelf products, sales to Kenyan subsidiaries of existing U.S. or Europe-based customers, and well maintained used or refurbishes equipment.

Top sectoral areas for long-term growth include processing machinery for dairy, fish, meat, grain, oils and fats, and sugar. A brief summary of several of these sub-sectors appears below.

Dairy processing

Kenya has one of the largest dairy industries in Sub-Saharan Africa, and the Government of Kenya has given promotion of the dairy industry high priority as it has potential for creating employment, particularly in processing and distribution. It is based primarily on smallholder milk production (employing some 450,000 farmers and family members) and accounts for about 10% of Kenya's GDP. The Kenya Dairy Board, consisting of appointed members, regulates the industry. Laws and implementing agencies complete an efficient regulatory framework. Other contributory factors to the success of dairy production include a suitable climate for large cattle populations and the historical importance of milk in the Kenyan diet.

Current annual milk production is 3.1 billion liters; the dairy processing sub-sector grew 5.2% in 2003 and 10.5% in 2004. Output was boosted by the revival of the New Kenya Cooperative Creameries, improved milk prices to farmers, good weather conditions conducive to milk production, and increased demand in the regional market. The Kenya Co-operative Creameries is estimated to have a processing capacity of 1.2 million liters of milk per day, and the other processors combined about 1.3 million liters per day during flash seasons, giving the industry a total processing capacity of 2.5 million liters per day.

Prior to 1992, a huge de-facto parastatal dominated the dairy industry: Kenya Co-operative Creameries (KCC) purchased milk from many of the country's producers. Since liberalization, the Kenya Dairy Board has licensed over 40 new market entrants (private firms and co-operatives) and competition in milk processing and marketing increased accordingly. Downstream products include milk powder, UHT milk, pasteurized milk, cheese, butter, yogurt, ghee, cream, ice cream, milk ice, ice confections, and flavored and chocolate milk.

Fish processing

With 536 kilometers of coastline, Kenya has a long history of sea fishing for local consumption. Trawlers fish for shrimp, but opportunities are limited due to coral outcroppings and ocean depths of a hundred fathoms or more just offshore. Exports only began in the 1980s following the establishment of processing facilities on Lake Victoria, which continues to dominate Kenya's output. The lake accounts for over 90% of Kenya's catch, while marine fishing accounts for only 4% (the balance is inland lakes and aquaculture). Fresh water fish caught increased by 15.2% from 121,366 tons in 2002 to 139,811 tons in 2003. Kenya's total catch rose from 128,227 tons in 2002 to 147,665 tons in 2003.

This sub-sector has evolved from domestic use to value-added exports, and today is a major export generator. 80-90% of Kenya's Nile perch is exported. Kenya's eighteen fish processing plants, located around Lake Victoria, Nairobi, and Mombasa, process Nile perch, prawns, lobsters, octopus, cuttlefish, and squid. The industry is self-regulating and has stringent quality control procedures -- including having all plants HACCP-certified and issued with EU factory numbers (in 2002, after Kenya introduced improved legislation, the EU lifted a four-year ban on fish exports from Lake Victoria imposed due to failure to meet EU standards on fish and fish products).

Meat processing

Prompted by increased regional demand for high-quality products, the meat processing sub-sector is growing 3-5% annually, with sausage processing growing 7-10%. According to Farmer's Choice, the leading processor and distributor of pork products in Kenya and a leading sausage manufacturer, the sector has great potential for growth. Kenya produces meat and meat products both for export and for local consumption. The country exports live animals and processed meat (tinned meat, bacon, etc.) mostly to other East African countries and the Middle East regions. Recently, Kenya is exporting more pork than beef, mutton, and goat combined. Of the 65 slaughterhouses registered in Kenya, most of which handle only red meat, nearly all serve the local market. Farmer's Choice exports about 1500 tons per year, or 20% of its total production.

Red meat (beef, mutton, goat, and camel) accounts for more than 80% of all meat consumed locally. About 67% of red meat is produced in Kenya's arid and semi-arid lands under a pastoral production system. Pastoralists maintain close to 70% of the national livestock herd, estimated to be about 9.7 million beef cattle, 9.6 million goats, 8.3 million sheep, and 800,000 camels. White meat (poultry and pork) accounts for about 19% of the meat consumed in the country (the main producer of poultry is Kenchic Ltd.). Overall, beef production went up just slightly in 2004 while that of sausages increased by 7.3 per cent. Processed chicken production reportedly decreased by 7.3 per cent.

Grain milling and processing

The grain processing sub-sector is another leading sector, including major cereal foods such as maize, wheat, rice, sorghum, millet, and barley. In 2004, overall sector production grew by about 6% (the exception was a decline of millet). The National Cereals and Produce Board of Kenya (NCPB), established in 1985, regulates the marketing and processing of grains in Kenya by licensing and regulating traders, farmers, millers, and distributors.

Maize in Kenya is concentrated in the Rift Valley districts of Trans Nzoia, Uasin Gishu, and Nakuru: a region often called the "Granary of Kenya." Maize production relies on small-scale farmers, who contribute about 75% of the overall production. Products derived from

maize include whole and sifted maize meal flour, vegetable oil, flour for confectionery, dough, corn flakes, snacks and crackers, starches, and process sugars like glucose syrup and dextrose.

Wheat is the second most important cereal grain in Kenya after maize. The crop is grown largely for commercial purposes on a large scale with production averaging 270,000 tons annually. In Kenya, wheat is mainly for domestic and commercial baking. Products derived from wheat include doughnuts, cakes, biscuits, bread, and confectionaries. Wheat farm byproducts (e.g., hay) are widely used as animal feed. Rice is the third most important staple food and forms much of the diet of the urban population. Annual production averages 50,000 tons. About 95% of Kenyan rice is grown in irrigated paddies managed by the National Irrigation Board (NIB). The remaining 5% is rain-fed. Rice milling is done by privately owned small-scale milling enterprises. Sorghum is important as a semi-arid tropic cereal. It is unique due to its tolerance to drought, water lodging, saline alkali, infertile soil, and high temperatures. In Kenya, sorghum is grown principally in the drought-prone marginal agricultural areas of Eastern, Nyanza, and Coast Provinces, and consumption is primarily localized to the growing areas.

The grain sub-sector is stabilized by the presence of several major local millers with international reach, particularly to the EAC and COMESA markets. These include Unga Group Limited, Pembe Maize Millers, and Mwea Rice Millers. Unga, the largest grain miller and animal feed manufacturer in Kenya, exports its products to most neighboring countries. Millers buy produce either directly from farmers or from produce boards such as the NCPB.

Fruits and vegetables

Kenya has an ideal climate for the production of horticultural produce and produces a wide range of vegetables, fruits, and cut flower products for both local and international markets. From a very low base, Kenya's fruit and vegetable exports have grown an average of 12% per year since independence. Growth slowed in the 1980s and 1990s, but still averaged about 4% annually. In 2003, fruit and vegetable exports amounted to USD 260 million, or 15% of Kenya's total exports. Currently there are more than 20 companies dealing in fresh produce in Kenya, and most are export oriented. They process vegetable and fruits including canned, frozen, bottled, solar dried, dehydrated, or brine preserved goods. Specific items include: chutney, canned fruit, juices, health drinks, jams, marmalades, pickles, sauces, tomato sauce, ketchup paste, canned vegetables, dehydrated vegetables, peanut butter, and canned soups.

Edible oils

Kenya's domestic production of edible oils is estimated at 380,000 tons, accounting for a third of its annual demand. The rest is imported at a cost of at least USD 140 million, making edible oils the country's second most important imported item after petroleum. Production of edible oils increased 21.7% to 88.7 million liters in 2004 from 72.9 million liters in 2003. Key players in the vegetable oil industry in Kenya include processors who extract oil from seeds and also produce oil cake for use in animal feed, as well as refiners who convert crude oils into forms suitable for human consumption. Kenya currently has about 30 vegetable oil refiners producing cooking oils, fats, edible oils, copra oil, and corn oil. The larger companies include Bidco Oil Refineries, KAPA Oil Refineries, Palmac Oil Refiners, Pwani Oil Refiners, and Unilever.

Kenya exports vegetable oil and fats products, mainly to East and Horn of African countries, as well as Europe and the U.S. Kenya is ranked 15 worldwide in export of vegetable

fats and oils and their fractions (according to data available at the Ministry of Trade & Industry). This is occasioned by the fact that Kenya does not produce enough raw materials for oil production. It therefore imports crude palm oil for processing which it then consumes locally and re-exports to the region and internationally.

The GOK is considering alternative crops for oil production to increase output, and the Food & Agricultural Organization (FAO) -- in partnership with the Kenya Agricultural Research Institute (KARI) -- is exploring the potential of oil palm in western Kenya in partnership with one of the region's largest agro industrial producers, the Mumias Sugar Company (with its outgrower network of some 60,000 farmers).

Sugar

The sugar industry in Kenya dates back to 1922. Sugarcane is grown primarily on relatively flat regions in the Western, Nyanza, and Coast Provinces. About 85% of the total cane supply is from small-scale growers, with the remaining coming from estates owned by large sugar factories. The country has 7 major factories with an annual production capacity of between 550,000 and 600,000 tons. By-products from the factories include molasses, mostly for alcohol production; baggase for power generation, and waste used as fertilizer.

Kenya currently produces about 70% of its domestic sugar requirements, with the rest being met through imports from COMESA countries. However, experts believe that Kenya could be self-sufficient in sugar production and also produce surplus amounts for export, so the GOK is facilitating the establishment of new factories. Kenya was recently made an exporting member of the International Sugar Organization, which provides the opportunity of benefiting from annual export quotas to the European Union (other potential markets include the COMESA and IGAD regions). The Ministry of Agriculture has overall responsibility for the sugar industry, and agencies such as the Kenya Sugar Board (KSB) undertake policy formulation and implementation. The sugar industry has faced problems including uncontrolled importation, non-payment of dues to farmers by cane factories, inefficiency, low productivity, weak management, distortions in the sugar market, inadequate credit facilities for sugarcane development, persistent droughts, and the occasional fire. The GOK is working with industry contacts to mitigate these issues.

Best prospects

Overall prospects for growth in food processing machinery and services are very bright as Kenya shifts from simple agricultural production to value added manufacturing for both local consumption and export.

Dairy: The dairy industry provides opportunities in milk processing, equipment for production of high value milk products such as milk powder, fermented milk, and butter for export, and provision of low cost and affordable technologies and equipment for small-scale processing. Other possibilities include packing, storage, transportation, and irrigation technologies.

Fisheries: The major need is for equipment for production of packaging materials for fish for export. Currently, most fish processing machinery comes from the U.K., Israel, and Sweden, while packaging is mostly done using locally manufactured polyethylene. The GOK in its National Export Strategy identified key areas for growth and investment including development of full-service landing beaches, complete with ice plants and auction halls (estimated cost: approximately USD 100,000 per site). The GOK is also looking for investors in processing

plants at the port of Mombasa and will support programs that provide boats and gear (engines and nets) to local fishermen. Processors seeking to diversify their products and add value are focusing on gelatin extraction and production of fish fingers to minimize waste. Other opportunities include investment in deep-sea fishing (including technical support) and the setting up of tuna factories (at present, Kenya has only one factory that produces cooked frozen tuna loins for further processing in the EU).

Meat & Meat Products: Industry sources have indicated an unmet market for sausage fillers and smoking units. Most equipment in this sub-sector is sourced from the E.U., with majority being German. Producers tend to keep renewing their equipment on a regular basis, thus providing opportunity for U.S. equipment exports, parts and services. Although U.S. technology is competitive, industry contacts have expressed frustration due to poor after sales service and non-responsiveness from U.S. suppliers. Distance is a large hindrance as well, since shipping costs from the U.S. are significantly higher than from European ports. The Kenya Meat Commission (KMC), a government owned meat-processor once Kenya's largest processor, will be restructured by GOK. KMC's equipment is mostly worn out and in need of replacement or upgrading. Another opportunity lies in development of slaughterhouses to international standards. The need for more beef processing units in major livestock production regions such as the Rift Valley Province creates an excellent opportunity for U.S. equipment. At present, commercial poultry processing is almost a monopoly, but prospects of additional production and processing facilities may be an area of interest for U.S. equipment suppliers.

Grain processing: Maize provides opportunities for production of corn oil due to the ever-increasing demand for cooking oil both locally and regionally. Consumer health concerns over high cholesterol have generated further demand as more people switch to oil from cooking fat. There is also opportunity for U.S. firms to provide parts and servicing of equipment for grain millers. This however would require local agents/representatives.

Vegetable and fruit processing: Best prospects include improved cooling and cold storage facilities to assist exporters with maintaining high export standards. The use of sea freight for exports provides additional opportunities for investment in refrigeration facilities. Fruit and vegetable processing, especially mango and passion fruits, is forecast to rise rapidly thus creating a need for additional processing equipment.

Vegetable oils: The GOK is encouraging more value added in edible oil processing, especially for sunflower, simsim, groundnuts, and soybeans presenting opportunities for extraction equipment. Additional opportunities also exist in expanding production of high quality packaging for vegetable oil products.

Sugar processing: With increasing sugar consumption per capita in Kenya, a rapid increase in population, and export potential, and increase in Kenyan production capacity seems imminent. Refined sugar, at present wholly imported, is an essential raw material in food processing, beverage manufacture, soft drinks, and pharmaceutical products, and local producers are highly interested in obtaining capital equipment at affordable prices. The rehabilitation and expansion of existing factories is another area of opportunity. Cheaper and more efficient technology for the sugar factories is necessary to reduce production costs, thus making Kenyan sugar more competitive regionally. Local agents can serve the market for replaceable parts well.

Import market, composition, and competition

The value of imported food production machinery has grown steadily over the last two years with 2004 figures of USD 14.3 million. U.S. imports account for only about 5% of the import market. U.S. equipment, though of superior quality, is far more expensive compared to similar products from Europe and Asia. U.S. firms should consider offering financing options to make their products more attractive. A sample list of machinery and countries of origin:

Cereals milling	South Africa, Switzerland, Germany, Italy, UK, UAE, China, India
Parts	South Africa, Switzerland, Germany, Italy, UK, USA, Indonesia
Oils/fats machinery	Denmark, Italy, USA, India, Germany, Brazil
Bakery machinery	South Africa, Italy, Netherlands, UK, USA, India, Japan, Taiwan
Chocolate machinery	South Africa, Germany, Israel, India, Japan
Sugar refining	UK, India
Meat preparation	South Africa, Switzerland, Belgium, Germany, Italy, UK
Fruits preparation	South Africa, Germany, Italy, UK, USA, Brazil, UAE
Other	South Africa, Spain, Turkey, Italy, UK, USA, India

Market entry and access

Like many other industries in Kenya, the agro-processing industry suffers from incidences of excessive bureaucracy and “red tape,” lack of coordination between GOK officials and private sector operators, inefficiency, and petty corruption. Although the GOK has publicly reiterated many times its firm opposition to corruption, enforcement and prosecution of violations remains uneven. Success in the Kenyan market typically requires that U.S. suppliers establish a permanent presence within the country, either directly owned or through an agent or local representative. A local representative can provide the U.S. supplier with vital market information, personal networks, and technical assistance – especially when bidding on GOK procurements for large projects.

Import Duties & Standards: Duties/taxes applied to agro-processing equipment and products are set at 10% excise duty. All imports are subject to standards compliance requirements by the Kenya Bureau of Standards (KEBS). The requirement for pre-shipment inspections was removed in June 2005 in compliance with WTO regulations. Kenya Revenue Authority is charged with collection of taxes.

Import Documentation: Any company that is interested in importing into Kenya must obtain an import declaration form (IDF), which costs 2.75% of the CIF value. The supplier’s pro forma invoice is required to apply for the IDF. Important shipping documentation includes the commercial invoice, bill of lading or airway bill, packing list, and certificate of origin. The commercial invoice must indicate the import license number, delivery terms, and any commissions or discounts. The commodity description and the value shown on the invoice must agree with those on the license.

There are several basic methods of receiving payment for products sold in Kenya, the selection of which is usually determined by the degree of trust in the buyer’s ability to pay. Payment alternatives that U.S. exporters might consider, in order of the most to the least-secure, include: cash in advance; confirmed irrevocable letter of credit; irrevocable letter of credit; documentary drafts for collection; open account; and consignment sales.

There are more than a hundred U.S. firms or affiliated companies operating in Kenya. U.S. business investment in Kenya is estimated at about USD 285 million, primarily in sales, light manufacturing, and tourism. Shipment times from the U.S. average eight weeks, although

customs irregularities are not unusual. If market size warrants, U.S. firms should consider warehousing in Kenya for prompt supply and customer service. Catalogs and product brochures are useful marketing tools, and Kenyan businesses encourage the use of cell phones for doing business and telemarketing. Fixed lines are hard to obtain, relatively inexpensive, and of poor overall quality. The electrical current in Kenya is 240 volts, 50 hertz.

Key Contacts

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For information on doing business in Kenya, please read the Country Commercial Guide (CCG) on Kenya available online at www.buyusa.gov/kenya

The American Chamber of Commerce in Kenya (ACCK), founded on 1st July 2005 by American investors, is one of 86 international AmChams in 76 countries affiliated with the U.S. Chamber of Commerce based in Washington, D.C. and the first in sub-Saharan Africa. The contacts are: Brenda W. Gitonga – Administrator, American Chamber Of Commerce in Kenya Wilson Airport, AIS Hangar, Langata; P.O. Box 49778 – 00100 Nairobi, Kenya
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