



REPUBLIC OF KENYA

HORTICULTURE AND COMMERCIAL FARMING

**SECTOR PROFILE AND OPPORTUNITIES FOR PRIVATE
INVESTMENT**

MINISTRY OF TOURISM, TRADE AND INDUSTRY

OCTOBER 1999

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MESSAGE FROM THE MINISTER FOR TOURISM, TRADE AND INDUSTRY

On behalf of the Government of Kenya I am pleased to present to you this profile on horticulture and commercial farming sector in Kenya. The sector profile has been prepared jointly between this Ministry; the Ministry of Agriculture, Marketing and Livestock Development, and the Horticultural Crops Development Authority (HCDA). These three government institutions are key players in the development of agribusiness in Kenya in conjunction with many other public and private sector institutions and companies.

We sincerely hope that the profile, although not exhaustive per se, will guide you and enable you to make some meaningful decision on how to invest in the subsector of your choice. In this regard an attempt has been made to provide balanced information.

In most cases the most obvious investment opportunities in the various subsectors have been highlighted. We invite investors to carry out investment studies to determine the viability of these opportunities. We also invite the investors to identify further opportunities more suitable to their individual needs or experience.

Recently the three countries of Kenya, Uganda and Tanzania revived the old East African Co-operation which aims to establish a federation in the near future to create a larger market of over 71 million people and introduce the benefits of economies of scale. We welcome foreign investors to take advantage of this larger market and invest in Kenya.

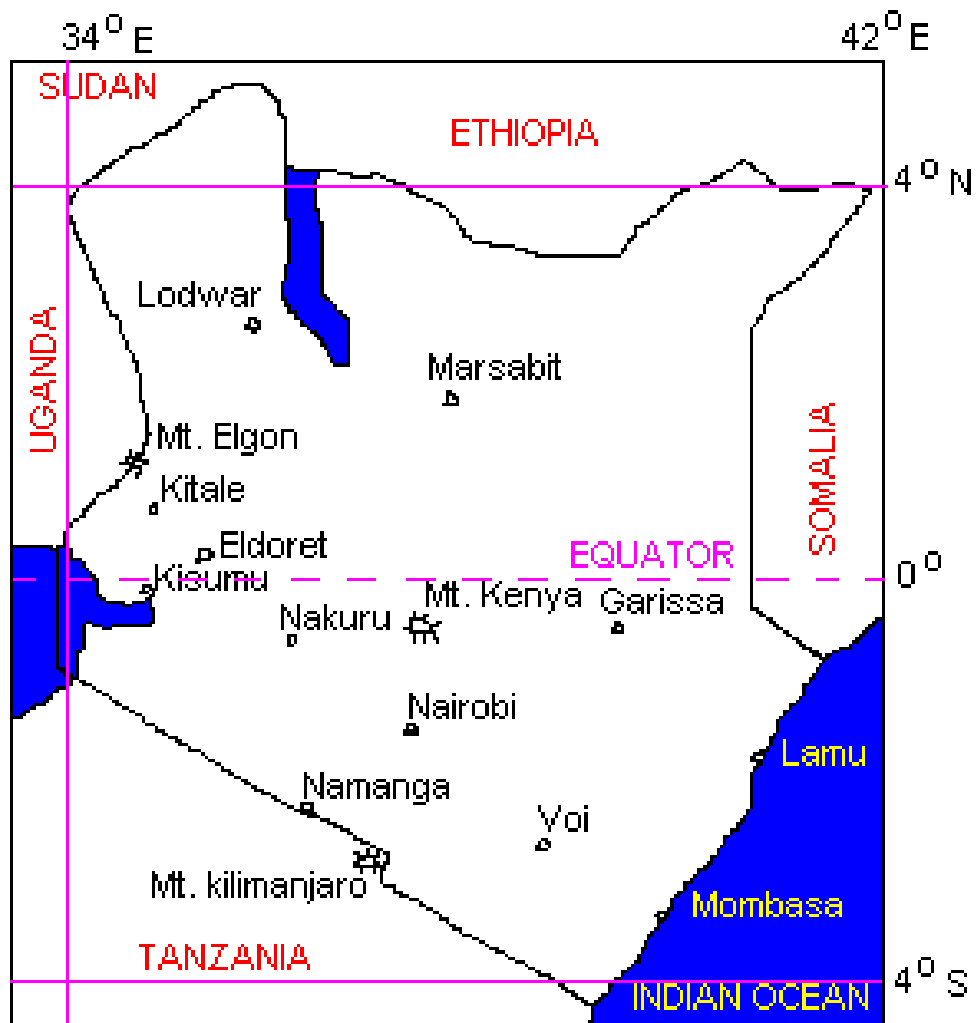
In case of need please do not hesitate to contact this Ministry, the Ministry of Agriculture, Livestock Development and Marketing or the Horticultural Crops Development Authority for further assistance. Just visit our offices any time, ring or send us a fax.

Thank you for your interest in the agribusiness sector of Kenya. We look forward to assisting you to implement your investment.

HON. KIPYATOR NICHOLAS K. BIWOTT, EGH, MP

MINISTER FOR TOURISM, TRADE AND INDUSTRY.

MAP OF KENYA



A: HORTICULTURE INDUSTRY

1.0 OVERVIEW

- 1.1 Cultivation of horticultural crops has made rapid strides over the last 20 years and has been one of the most rapidly expanding sectors of Kenyan agriculture. The sector has made substantial contributions to food needs, and plays an important role as foreign exchange earner. Being labour intensive the sector has been a major source of employment and offers great opportunities.
- 1.2 It is expected that the sector will continue to play a major role in stimulating and supporting the country's economic growth and in particular feeding the ever increasing population, generating foreign exchange earnings, providing and creating job opportunities and supporting growth in the urban centres through provision of raw materials for agro-based industries.
- 1.3 This remarkable growth is attributed to a dynamic private sector which has developed and profitably marketed a wide range of horticultural products to diverse international markets. Government intervention in the field of marketing has been minimal, playing a regulatory role and facilitating growth through infrastructural development, incentives, support services etc.

1.4 LOCAL MARKET

- 1.4.1 The Kenyan market is very open, hence prices are determined by supply and demand factors. The domestic market has concentrated on vegetables and fruits, such as: cabbages, kale, bananas (cooking and table), avocados, coconuts, citrus, mangoes (local), pineapples, plums and papaws etc.
- 1.4.2 Some cut flowers are also sold locally in main urban centres (Mombasa and Nairobi) by street vendors and floricultural shops in high/medium class shopping centres.
- 1.4.3 The main supply areas for these fruits and vegetables are; Kiambu, Meru, Machakos, Nakuru, Kajiado, Trans Nzoia, Narok, Bungoma, Nandi, Tana River and Kisii, etc. All in all most districts produce enough for own consumption, but some districts are in deficit and others produce surplus for other markets.
- 1.4.4 The distribution of the produce is either sold through the wholesale markets, except north eastern districts, directly to the retailers or pass through the hands of a number of middlemen.

1.5 CONSTRAINTS

- 1.5.1 Kenya is able to produce plenty of fruits and vegetables throughout the year because of its varied climate and use of irrigation, but the production fall into two main seasons, long rains (March-July) and short rains (October- December). This has a number of problems which affect the local market, some of which present opportunity for intervention by private investors:-

1. Storage facilities and preservation technologies are required in order to stabilise production.
2. There is high demand for introduction of modern post harvest technologies.
3. Poor packaging including the double bags. The standard packs are necessary as double bags are heavy to handle and hence lead to losses because of damages.
4. Insufficient certified and high yielding seeds. Plant breeders are now free to commercialise their results in Kenya as the country has now acceded to the accords of the Union for the Protection of Plant Varieties (UPOV) and the International Plant Breeders Rights Association(IPBRA).

2.0 CURRENT STATUS

Kenya exported 1,476 metric tonnes in 1968 which has risen to 84,800 metric tonnes in 1996. However, it is a known fact that Kenya was a major supplier of such temperate fruits and vegetables such as carrots, tomatoes and cabbages.

KENYA EXPORTS OF FRESH FRUITS, VEGETABLES AND CUT FLOWERS 1993-1997 ('000 Tonnes)

1990	49.15
1991	49.82
1992	57.36
1993	62.13
1994	65,18
1995	71.10
1996	84.80
1997*	84.20

- 2.1 The export of fresh tropical fruit, vegetables and cut flowers in the international market has become very sophisticated and competitive. The following constraints in the industry could benefit from private investment:

2.1.1 HIGH FREIGHT RATES

The crucial constraints of the horticultural export industry is very high airfreight rates, and at times limited cargo capacity. **This offers a good**

opportunity for increasing charter flights and also for exploring sea freight alternatives.

2.1.2 HIGH COST OF PACKAGING

Packaging constitutes a major item of cost for an exporter of horticulture. A major and recurring complaint from the importers is that the boxes are not strong enough especially during the rains. The problems intensify when produce is held in a cold store. It has also been noticed that the paper used in making cartons is very expensive, weak and in some cases has been recycled. There is therefore, good opportunity for investing in high quality packaging material production facilities in Kenya.

2.1.3 LACK OF PROPER HANDLING AND COLD FACILITIES

A number of exporters have established cold storage facilities at the farm level and at J.K.I.A and are making very good returns for their produce. **More private investment is required in this area.**

2.1.4 LACK OF FINANCE

Lack of reasonably interest rated finance (capital) to develop both horticultural production and marketing has resulted in considerable quantity and quality variations. The individual farmer or exporter has to make use of the established financial institutions to finance his activities. Only large scale farmers and exporters are able to use advanced technology to produce and market high quality produce and able to realize good prices.

There is good opportunity for financing of horticultural production in Kenya as this sector is becoming a major foreign exchange earner.

3.0 RECOMMENDED AREAS OF INVESTMENT

1. Cut flowers showed a major growth in the last two years. It recorded almost 20 percent in 1995 over 1994. With Kenya's advantage on water, harbour land proximity to the market it offers a great opportunity.
2. Cut foliage as above. Feelers will always be necessary to go with the cut flowers.
3. Pot plants.
4. Pre-cooling/cold storage facilities.
5. Modern irrigation facilities.

6. **Processing:** These is an opportunity for branded products: frozen vegetables, canned vegetables e.g beans, snow peas, peas, brussels sprouts.
7. **Packaging:** Clear punnets for prepackaging.
8. **Seeds and plants:** Now that Kenya has a plant breeders rights legislation in place, there is a great opportunity for seed production and plants propagation to meet with local and export demand in the neighbourhood.
9. **Airfreight:** Charters.
10. Establishment of banana/pineapple plantation in the coast for sea shipment to Middle East countries.

B: COMMERCIAL FARMING

1.0 OVERVIEW

The agricultural sector in Kenya has since independence heavily relied on the government for its development. The government in turn controlled the growth of the industry by controlling producer prices of commodities and prices of inputs. Except for the period 1985 to 1990, Kenya has since 1980 never experienced sustained agricultural sector growth. For the first time since independence, the agricultural sector recorded negative growth rates for three consecutive years in 1991, 1992 and 1993 during the turbulence following transition to multi-party democracy in Kenya. The government has since taken decisive measures to divest from agriculture and leave room for private investment and market forces to operate.

2.0 DEVELOPMENT IN THE INDUSTRY

2.1 In Sessional Paper No. 1 of 1986 on **Economic Management for Renewed Growth**, the following targets for agriculture to the year 2000 were indicated:-

- i) Provide food security for a population of almost 35 million in 2000
- ii) Generate farm family incomes that grow by at least 5 per cent a year over the next 15 years
- iii) Absorb new farm workers at a rate of over 3 per cent a year with rising productivity
- iv) Supply export crops sufficient for a 150 per cent increase in agricultural export earnings by 2000; and
- v) Stimulate the growth in productive off-farm activities in the rural areas, so that off-farm jobs can grow at 3.5 per cent a year.

These goals and targets remain relevant although they may not be achieved within the same time frame.

3.0 CONSTRAINTS TO AGRICULTURAL SECTOR GROWTH

3.1 The sector is however, characterized by major constraints some of which will present good opportunity for intervention by foreign investors. Some of the major constraints are:-

- i) Inadequate rural infrastructure: Agricultural production is particularly affected during the wet seasons where its increased output is unfortunately accompanied by reduced accessibility due to bad roads, thereby leading to on-farm wastage and reduced production by farmers. On-farm losses in milk due to poor rural infrastructure were estimated to be worth K£ 150 million in 1994. Other infrastructural constraints include inadequate electrification, irrigation and telecommunications.
- ii) High dependence on rain-fed production: Kenyan agricultural production is largely weather determined to the extent that any year characterized by poor rains is also a poor agricultural year.

This is so despite the country's relative fresh water availability as well as availability of potential land for irrigation estimated at about 320,000 hectares.

In addition, the vulnerability of the sector to weather related fluctuations as well as changes in international prices for major exports points to the need to expand the agricultural base as well as the need for unified development strategy that harness existing water resources for production, particularly in the medium and low potential areas where livestock, horticulture, oil crops have great production potential.

- iii) Inadequate inputs sector: The sector is not adequately served in the provision of seeds and inputs for the various crop. This situation is particularly wanting in the horticultural sub-sector where smallholder producers have no access to quality seeds since Kenya is not a signatory to the Union for the Protection of Plant Varieties (UPOV) and the International Plant Breeders Rights Association (IPBRA). In general there are few certified seeds in Kenya, given the diversity of existing crop production. Part of this problem is associated with the nature of the entry conditions which do not encourage investment in the activity by the private sector.

With the recent formation of East African Co-operation and Kenya acceding to UPOV and IPBRA accords, there is ample opportunity for foreign investors to enter the Kenyan and East African market.

- iv) Inadequate credit: Credit in any productive enterprise is an integral element of the production process. The agricultural sector credit demand is estimated at approximately K£ 8 billion yet the sector receives only 10 per cent of the total lending in the economy with only 2 per cent going to the smallholder, with a further bias towards the traditional cash crops. In view of the dominance of smallholder, emphasis is definitely required in the provision of credit to smallholder for increased agricultural production.

Foreign investors with experience or expertise in lending to the agricultural sector could take advantage of the large existing demand for agricultural credit in Kenya and East Africa region.

- v) Low investment in agriculture: Investment in the agricultural sector has been low since the 1980's. As a proportion of total Gross Capital Fixed Capital (GFCF) formation, the agricultural share has been, since 1980, below 10 per cent. For a sector which contributes at least 25 per cent of total GDP and is expected to carry the burden of ensuring sustainable economic growth, any annual Private Sector investment into the sector below 15 per cent per annum (of total GFCF) is unlikely to generate meaningful development of the sector on a sustainable basis.

Investments in any sector are critical for production, agriculture included. All efforts then need to be deliberately focused to those factors that impeded sustained investment in agricultural production by the private sector. Farmers on their own have made tremendous efforts in farm production investments. Lack of adequate access to credit and other constraints means that even farmers are under-investing in agriculture.

Foreign investors are welcome to invest in large scale irrigation projects to help boost agricultural production in the country.

Agricultural budgetary allocation: Agriculture expenditure as a percent of total government expenditure averaged at 9.1 percent between 1972 and 1980. From 1980 there was a decline and between 1980 and 1987 the allocation averaged at 8 percent while from 1988 to 1993 it averaged at 5.7 percent. Between 1990/91 and 1992/93 allocations were below 5 percent.

Recurrent expenditures as a per cent of total government recurrent expenditure has also been declining. Between 1972 and 1980 it averaged at 6.2 per cent while from 1980 to 1987 it averaged at 5.5 per cent. Since 1988/89 it has averaged at 2.4 per cent. The development vote has also faced similar declines. Between 1984/85 and 1992/93 it averaged at 3.2 per cent while in 1993/94 it has increased minimally to 5.4 per cent.

The government raised funding to agricultural sector from 4.9 per cent of national budget in the F 1992/93 to 7.4 per cent in the F 1993/94 (table 1). Although in nominal terms, the allocation in 1993/94 was 157 per cent,

which is reflected in the decline in agricultural gross domestic product of 32.2 per cent over the same period.

The 7.4 per cent allocation is still much far less than the 16 per cent recommended in order that agriculture may grow by over 5 per cent per year, given that this sector contributes nearly one third of GAP and about 45 per cent of Government revenue. There is, however, need to increase resource use efficiency through improved management in the sector.

Therefore, the future development of the agricultural sector will rely more on private sector financing as the government's role as an investor in the sector diminishes and gets replaced by private investment.

4.0 OTHER OPPORTUNITIES FOR INVESTMENT

Besides the opportunities mentioned in the text, the following also exist:

i) Market Infrastructure

Construction and maintenance of market infrastructure is important for growth of the agricultural sector. This should include the development of fully pledged commodity markets storage facilities.

ii) Artificial Insemination (A.I) Services

Artificial Insemination plays an important role in development of the dairy sub-sector. Since the Government is in the process of privatising these services, this offers an important opportunity for investment by the private sector.

iii) Dipping services

Dipping services are important in control of tick-borne diseases hinder the development of high quality beef and dairy products. In the past the Government has been providing the services which are now being privatised. This area offers an important opportunity for private investment.

iv) Clinical Services

Like dipping services, the Government is also privatising clinical services. The response by the private sector to invest in these areas has not been encouraging as it entails large capital investment. Therefore there is room for investment by the private sector in this field.

5.0 POLICY ISSUES AND INCENTIVES

5.1 Policy Issues

Since 1980's the Government has undertaken various policy changes in the sector, either on its own or as part of the structural adjustments together with donors. The Key policy document during the period was the Sessional Paper No. 1 of 1986 on **Economic Management and Renewed Growth** which sets a growth strategy to the year 2000.

In this paper a major role is given to agriculture in providing food security, absorbing the increasing labour force, and boosting export earnings and rural industrial development. The paper specifies policies to enhance incentives for producers; Promotion of agricultural research, extension, credit and input supplies, expansion of the private sector, rationalization of expenditure in public sector, reform of state corporations and civil service.

The policy changes include;

- i) Price decontrols and market liberalization - meat (1987), animal feeds (1989), fertilizers (1991), minor crops (1991) domestically marketed tea, rice and wheat (1991), cotton (1992), dairy industry (1992) sugar 1992), and maize (1993).
- ii) Policies on beneficiary participation and cost-sharing:- A.I, dipping and clinical service which Government hopes to eventually privatise.
- iii) Government has also implemented policies on marketing incentives in auctioning of tea and coffee using foreign exchange and allowing the maintenance of retention accounts
- iv) Other policy changes include, the restructuring of state corporations, rationalization of public sector and reforms in the legal framework to accommodate the various changes.

5.2 General Investment Incentives In Agribusiness Sector

Agribusiness relies mostly on domestic resources derived from or linked to agriculture.

The government places highest priority to agricultural development as it supports directly and indirectly close to 80% of the country's population.

Some of the incentives that investors in this sector will be entitled to include:

- Investment protection;
- Liberalised trade policies and virtual elimination of price controls to ensure on free market economy;
- investment allowances on buildings and machinery for manufacturing or processing;
- Duty free importation of agricultural inputs;
- Free repatriation of capital and profits;
- Local capital borrowing opportunities etc; and
- Indefinite loss carried forward.

USEFUL CONTACTS

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