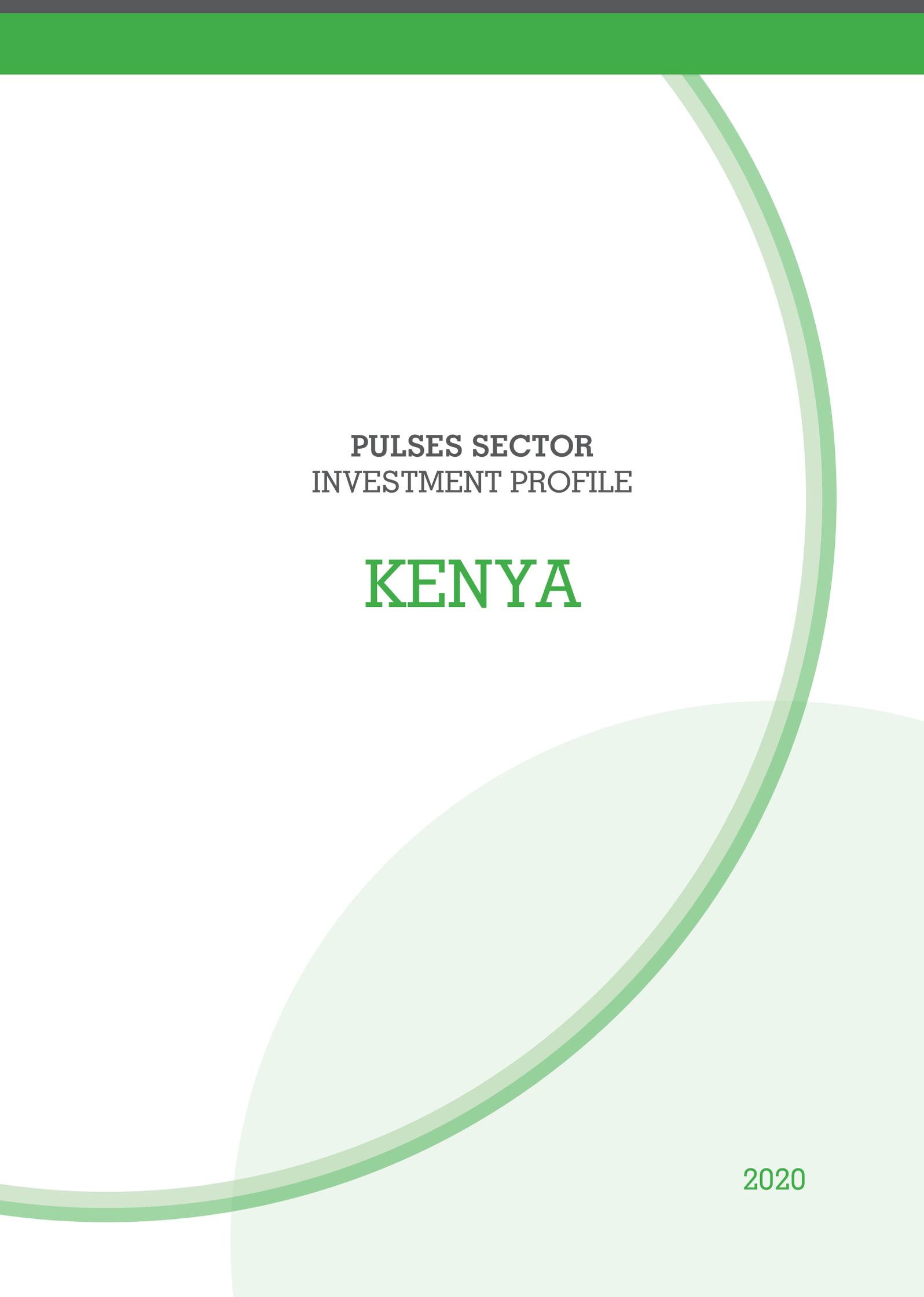


KENYA







**PULSES SECTOR
INVESTMENT PROFILE**

KENYA

2020

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Abbreviations & Acronyms

AFC	Agricultural Finance Corporation	NCPB	National Cereals and Produce Board
APC	Agricultural Produce Cess	SACCO	savings and credit cooperative credit union
ASAL	arid and semi-arid land	SADC	Southern Africa Development Community
CBK	Central Bank of Kenya	USAID	United States Agency for International Development
CET	common external tariff	VAT	value added tax
COMESA	Common Market for Eastern and Southern Africa	PAYE	pay as you earn
EAGC	Eastern Africa Grain Council	KRA	Kenya Revenue Authority
EU	European Union	EAC	East African Community
FAO	Food and Agriculture Organization of the United Nations	KBRR	Kenya Banks' Reference Rate
FAOSTAT	Food and Agriculture Organization of the United Nations statistics	LCB	Land Control Board
GDP	gross domestic product	ACE	agricultural commodity exchange
ICRISAT	International Crops Research Institute for the Semi-Arid Tropics	KACE	Kenya Agricultural Commodities Exchange
IMF	International Monetary Fund	MIS	market information system
KARI	Kenya Agricultural Research Institute	KALRO	Kenya Agricultural Research Institute
MoA	Ministry of Agriculture	FDI	foreign direct investment

Kenya: An Overview

Kenya is located on Africa's east coast, near the equator. It borders Ethiopia to the north, Tanzania to the south, Uganda to the west, Somalia to the north-east, South Sudan to the north-west and the Indian Ocean to the south-east. Kenya's total surface area is approximately 580,370 km², with about 11,000 km² of that area being water. Kenya's coastline is roughly 600 km and its seaport is Mombasa, making it an easy access point to landlocked Eastern and Central African nations, like the Democratic Republic of Congo (DRC), Rwanda, Uganda and Burundi.

MACROECONOMIC SITUATION

Kenya is a low middle-income country with a population of about 47.5 million people and a per capita GDP of about \$1,776 (2018). Between 2010 and 2018, Kenya's GDP surged from US\$ 40 billion to US\$ 88 billion

(table 1), and per capita incomes rose from US\$ 943 in 2010 to US\$ 1,776 in 2018. Kenya's GDP growth has averaged 6% in the last 8 years.

Indicator	2010	2011	2012	2013	2014	2015	2016	2017	2018
GDP growth (annual %)	8.4	6.1	4.6	5.9	5.4	5.7	5.9	4.9	6.3
GDP (billion \$ current)	40.0	42.0	50.4	55.1	61.4	64.0	69.2	78.8	87.9

*Source: World Development Indicators 2019



Table 2: Kenya's fiscal position (2014-18)

	2014/15	2015/16	2016/17	2017/18	2018/19
Government Revenue	21%	20%	20%	19%	21%
Government Expenditure	25%	25%	26%	25%	26%
Public Debt	41%	41%	46%	49%	51%
Tax Revenue	19%	18%	18%	16%	18%
Inflation	7.4	7	5.8	9.2	4.3

*Source: Final Economic Survey 2019.

Kenya belongs to the top 10 biggest economies in Africa. Its gross domestic product (GDP) rose from \$25,800 million in 2006 to \$88,000 million in 2018. With an average real growth rate of 6.3%, Kenya is gradually emerging as one of the economic powerhouses of the Global South. The key drivers for growth include a vibrant services sector, currency stability, low inflation, low fuel prices, a growing middle-class and rising incomes, a surge in remittances, and increased public investment in energy and transportation. Its position as the economic, commercial and logistical hub in Eastern and Central Africa places the country as one of the best investment destinations globally.

Kenya prides itself on a large pool of young, highly educated, English-speaking, skilled and sought-after workforce in Africa, trained from within the country and in institutions around the world. Of the adult population, 82% are literate, with a life expectancy of 65.9 years at birth. Kenya also has one of the largest youth populations in Africa. Kenya's entrepreneurship and human capital give it a huge potential for further growth, job creation and poverty reduction.

Kenya has a sound monetary policy system, which has resulted in general stability in inflation over the past 10 years. This environment is highly conducive to supporting and sustaining new local investment and foreign direct investment (FDI). The inflation stability, averaging 7.5% per annum between 2014 and 2018, has been instrumental in supporting economic growth.

According to the Kenya National Bureau of Statistics (KNBS), the overall inflation dropped from 5% from August 2019 to 3.83% in September 2019. The average inflation forecast for Kenya is estimated at 5% till 2022. Drought, however, remains a potential upside risk to inflation, as the country is dependent on rain-fed agriculture.

**Table 3: Sectoral Contribution to GDP**

% Contribution to GDP	2014	2015	2016	2017	2018
Agriculture, forestry and fishing	27.5	30.2	31.1	34.8	34.2
Manufacturing	10	9.4	9.3	8	7.7
Information and communications	1.2	1.5	1.5	1.3	1.3
Financial and insurance activities	6.8	6.7	7.1	6.1	6
Wholesale and retail trade	8	7.5	7.2	7.4	7.4
Transport and storage	8.6	8.1	8.1	7.5	8

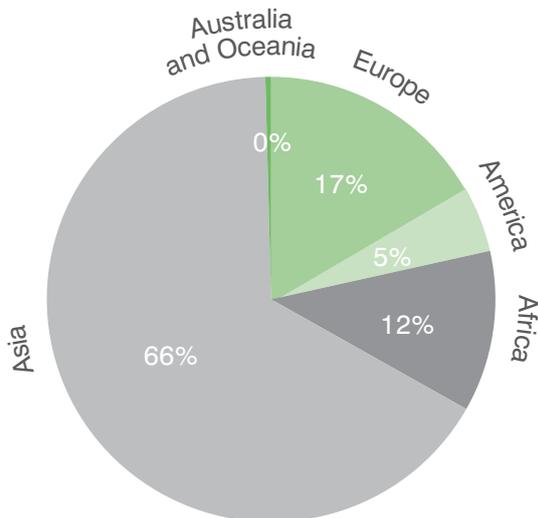
*Source: Final Economic Survey 2019, KNBS

Kenya is an open economy with a liberalized capital account and a floating exchange rate. Indeed, the exchange rate regime is fully liberalized, which allows easier and simpler repatriation of foreign currency. In addition, Kenya's Foreign Investment Protection Act (FIPA) guarantees capital repatriation and remittance of dividends.

Kenya has maintained a solid import cover. Reserves stood at \$8,748 million (5.43 months of import cover) as at November 28, 2019 as compared to \$7.7 billion (5.1 months of import cover) at the end of October 2016.

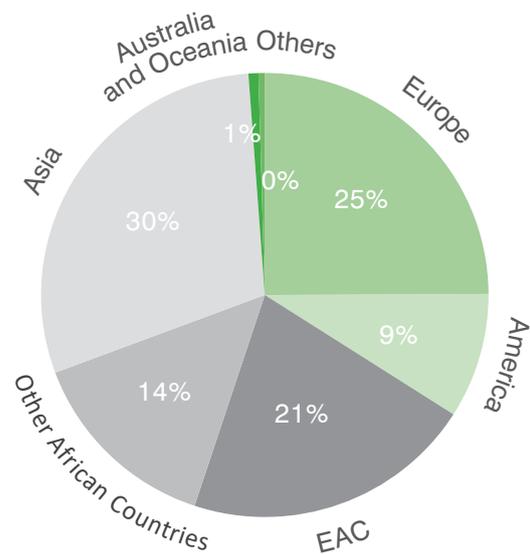
The country trade regime is liberalized, except for a few import-licensing controls based on environmental, health and security concerns. As a result of this liberal trade policy, the country's estimated value of its overall product import in 2017 was well above the estimated value of its overall product export in the same year; that is approximately \$17.3 billion for overall product import and \$6 billion for overall product export. While the Uganda is the largest importer of Kenyan products, followed by Pakistan and the United States of America, it is the People's Republic of China that heads the imports of products to Kenya, with the Republic of India being the second and Kingdom of Saudi Arabia the third.

Figure 1a: Origin of Imports (2018)



*Source: KNBS, 2019

Figure 1b: Direction of Exports (2018)



*Source: KNBS, 2019



BANKING AND CREDIT AVAILABILITY

Domestic lending has been on an upward trend in Kenya, contributing immensely to economic performance. New credit lines and products to support short-term and medium-term investments have been developed in tandem with the improved sophistication of the Kenyan financial sector. As a result, the Kenyan financial sector is one of the most sophisticated and strongest in the East African region and the African continent at large. Indeed, the annual growth rates of money supply and private-sector credit were consistent with the developments in the financial sector, in particular, the enforcement of the Banking (Amendment) Act 2016.

While money supply (M1) expanded by 6.6% in 2018, the extended broad money supply (M3) grew by 10.1% in 2018. Credit to the private sector expanded by 2.4% in 2018 and total domestic credit grew by 4.6% in 2018. In real terms there was a drop in the average deposit rates from 3.72% recorded in December 2017 to 1.70% recorded in December 2018 while the inter-bank rate also dropped to 2.44%.

In 2018, the CBK commenced distribution of new generation coinage for the country following a notice in the Kenya Gazette. In 2018, the International Accounting Standards (IAS) Board issued guidelines, International Financial Reporting Standard (IFRS). The standards aim to maintain a stable and efficient banking and financial system. The CBK issued a circular to commercial banks and mortgage finance companies to comply with the standards and the regulatory capital, with a five-year transition period that started in January 2018.

Kenyan banking sector comprised 42 commercial banks, 1 mortgage finance company, 13 microfinance banks, 9 representative offices of foreign banks, 72 foreign exchange bureaus, 19 money remittance providers and 3 credit reference bureaus as at December 31, 2018.

The Central Bank of Kenya pursued accommodative monetary policy by lowering the Central Bank Rate (CBR) twice in 2018. The CBR was 9.50% at end of March 2018 and 9.00% in July 2018.

Table 4: Nominal interest rates

	2014	2015	2016	2017	2018	
	December	December	December	December	June	December
CENTRAL BANK OF KENYA						
91-day Treasury Bills Rate	8.58	9.81	8.44	8.01	7.87	7.34
Central Bank Rate	8.50	11.50	10.00	10.00	9.50	9.00
Repo rate	8.29	9.23		7.75	6.16	7.72
Inter-bank rate	6.91	7.27	5.92	7.27	5.03	8.15
COMMERCIAL BANKS¹						
Average deposits	6.81	8.02	7.33	8.22	8.04	7.41
Savings deposits	1.85	1.56	6.37	6.91	6.60	5.13
Loan and Advances (max)	15.99	18.30	13.69	13.64	13.22	12.51
Overdraft	15.86	18.48	13.49	13.54	13.23	12.17
Loans-Deposits Spread	9.18	10.28	6.36	5.41	5.18	5.09

Per cent

Source: Central Bank of Kenya

¹ Weighted average commercial bank internet rate

There are not many restrictions on foreigners owning businesses in Kenya. However, restrictions are to be found in aviation, insurance, telecommunications and agricultural land, where the law requires that foreign ownership be restricted to not more than two-thirds. In addition, the country has few foreign investment incentives, with the exception of the export processing zones, where 10-year tax holidays are offered. Companies are allowed to repatriate income out of Kenya upon payment of any applicable taxes. While the government allows investors to hire expatriates to occupy key management positions or to fill vacancies where such skills are not available, work permits must be obtained. Granting non-citizens work permits is pegged on an understudy programme. Petitioners have to appoint a Kenyan employee as an understudy to the expatriate employee, who has to be replaced within a specified time period.



TAXATION POLICIES

Kenya's tax system has many modern elements, including a pay as you earn (PAYE) individual income tax with graduated, but moderate rates, a credit-invoice value-added tax (VAT), and excise taxes focussed on items such as cigarettes, alcohol and gasoline. Compared to countries of a similar income level, Kenya's total tax is impressive at 18% of GDP (table 2). The tax system has mainly concentrated on income taxes, and duties on goods and services. As given in Table 5, in 2018/19 total tax revenue is expected to increase by 20.9% to KSh 1,621.7 billion. Revenue from Income Tax and Value Added Tax (VAT) is estimated to grow by 18.8% and 22.1% to KSh 781.1 billion and KSh 435.9 billion, respectively, in 2018/19. In the same period, the Income Tax and VAT categories are estimated to account for 42.5% and 23.7% of the total tax revenue, respectively.

All business entities in Kenya must register with the Kenya Revenue Authority (KRA). KRA issues taxpayers with a PIN certificate that specifies the taxpayer's tax obligations, and a unique taxpayer personal identification number (PIN). The tax rate for a Kenyan company is currently 30% and that for a foreign company's branch office is 37.5% of taxable profits. The subsidiary deducts 10% withholding tax on any dividend payment, but the overall effect is that, subject to any double taxation agreements, the rate of tax on distributed

profits is lower for a local company than for a foreign branch. Some expenses payable by a branch to its head office can be deducted for local tax purposes. For example, exchange losses on loans, or interest.

Withholding tax is applied to a variety of payments made to non-residents and residents alike. The relevant non-resident rates for the commonest payments are: i) 20% on professional, management and other consultancy fees; ii) 10% on dividends; iii) 15% on interest; and iv) 15% on equipment rentals. There is no double taxation treaty that significantly reduces these rates.

Duties are charged on exports, imports and particular services and goods as set out in the amended East Africa Customs Management Act (2004), which sets out the services and goods chargeable as well as the rates of these duties, along with the exempt services and goods. Usually, exports are not taxed if the person who profits from the services or goods being exported is not a Kenya resident. Importing into Kenya entails using a clearing agent to electronically process the import documentation through Kenya's customs on the Simba 2005 system and clear the goods. The country's trade regime is liberalized, except for a few import licensing controls based on environmental, health and security concerns, while agricultural taxes have been abolished save for an Agricultural Produce Cess.

Table 5: Sources of Government Revenue

	2014/15	2015/16	2016/17	2017/18*	2018/19†
Taxes on income, profits and capital gains	509,159.84	569,811.18	627,469.00	657,233.21	781,104.09
Income tax from individuals (P.A.Y.E)	279,795.65	286,166.16	336,596.00	350,630.83	413,257.32
Income tax from corporations (other income tax)	228,785.25	279,834.49	288,454.00	289,962.42	363,707.25
Capital gains taxes	578.95	3,810.54	2,419.00	16,639.96	4,139.52
Taxes on property	472.21	404.84	244.81	3,285.77	3,305.26
Tax on property	472.21	404.84	244.81	3,285.77	3,305.26
Value Added Tax (VAT)	259,685.20	289,213.47	339,033.92	356,855.92	435,885.93
VAT on domestic goods and services	127,904.57	160,389.01	194,233.86	206,257.33	242,919.46
VAT on imported goods and services	131,780.63	128,824.45	144,800.06	150,598.59	192,966.47
Taxes on other goods and services	140,243.32	162,593.81	188,971.60	193,449.83	240,293.37
Excise taxes	115,871.72	139,540.34	165,473.91	167,777.13	210,090.75
Taxes on use of goods and on permission to use the goods or to perform services and activities	4,650.51	5,780.10	4,594.68	4,899.93	5,502.62
Taxes on goods and services collected as AIA	19,721.08	17,273.37	18,903.00	20,772.76	24,700.00
Taxes on international trade transactions	101,040.90	104,433.27	112,890.05	118,440.12	150,538.53
Custom duties	74,047.72	79,187.93	89,943.34	93,921.45	120,589.17
Other taxes on international trade and transactions	26,993.18	25,245.33	22,946.71	24,518.67	29,949.36
Other taxes not elsewhere classified	11,467.76	10,423.54	8,595.58	12,123.00	10,595.87
Total tax revenue	1,022,069.24	1,136,880.10	1,277,204.95	1,341,387.85	1,621,723.04

KSh million

Source: Final Economic Survey 2019

* Provisional

† Revised budget estimates

LAND AVAILABILITY

Kenya's land tenure system consists of three tenure regimes: private land, trust land and government land. Privately owned land comprises 16% of the country's total land area. Government land accounts for 20% of land and includes forest land, national parks, non-alienated and alienated land.¹ Trust land is the most extensive type of tenure and makes up 64% of the total land area. Land in Kenya can be owned by four types of entities: individuals, groups, county councils and the government. Each category of land and the owners thereof are governed by different legal instruments. Kenya also has two land registration systems: document registration and title registration.

Agricultural land is regulated under the Land Act CAP 302 of the laws of Kenya. According to the Land Act, the Land Control Board's (LCB's) consent is needed for some of the following: (i) Mortgage, sell, transfer, dispose of, lease or deal with land defined in the Act (primarily agricultural land); (ii) Mortgage, issue, sell, transfer, deal with or dispose of a private company's shares that owns such land.

The Act makes it compulsory for the LCB to turn down a request where the land or share is being disposed of to someone who is not a Kenyan citizen or a private company whose members are not all Kenyan citizens. The transaction is void if LCB consent is not obtained. Foreign citizens or entities are not restricted when it comes to the ownership of non-agricultural property, except that they can only have leasehold interest of a maximum of 99 years on the land. In terms of foreign investments' security in Kenya, Kenya's constitution assures the sanctity of private property in that the state can't appropriate investment or property unless it pays fair compensation.

The Foreign Investment Protection Act CAP 518 also guarantees that government will not expropriate private property, and the country has no history of expropriating foreign investments. However, foreign investment in agriculture is controlled if it entails land ownership or leasing. Foreigners cannot own land in Kenya, though they can lease it in 99-year increments. There is a need to obtain a license from the investment authorities in Kenya. To obtain the certificate, the amount to be invested by a foreigner has to be at least US\$ 100,000 or the equivalent in any currency.

¹ Mwangi, Esther (2005). The Transformation of Property Rights in Kenya's Maasailand: Triggers and Motivations, CAPRI Working Paper No. 35, Washington DC: IFPRI.

AGRICULTURAL MARKETING

Currently, the marketing of agricultural produce in Kenya has been liberalized and is undertaken within the framework of the East Africa Common Market Protocol. The regional integration agenda aims at eliminating trade barriers and putting in place regionally harmonised policies, systems, regulations and procedures. The Common Market for Eastern and Southern Africa (COMESA) and the EAC have transformed into full customs unions. On the other hand, negotiations are underway with the Southern Africa Development Community (SADC) for a grand Tripartite Free Trade Area. This would integrate the economies of 26 countries with an estimated GDP of US\$ 1 trillion. Policies at the regional level are in favour of a structured agricultural trading system that will reduce agricultural risks.

The most common risk management mechanisms in agriculture include warehouse receipt systems, agricultural commodity exchanges, contract farming, agricultural information systems, grain stock management, and price and marketing policies. In addition, insurance and technology development and adoption, along with farm safety nets, are also frequently used. Other less common risk management mechanisms include inventory credit, regional consultative systems and human capital development. Kenya has experimented with a range of structured marketing systems, including warehouse receipt systems, commodity exchanges, information systems, contract farming, index-based insurance and grain stock management.

WAREHOUSE RECEIPT SYSTEMS (WRS)

The National Cereals and Produce Board (NCPB) and the Eastern Africa Grain Council (EAGC) established pilot WRSs in 2008 and 2010 respectively. These WRS pilots have attracted participation by several banks and traders. The NCPB, with a network of 110 warehouses and a storage capacity of 1.8 million MT, established its WRS in 2010 with little success. So far, the EAGC has certified 10 warehouses with a storage capacity of 30,000 MT each. The problems of bank support in the EAGC WRS, often the bane of emerging WRSs, appear to have been largely overcome, as one bank has already committed to the product, while a further four are interested. However, the grain that has gone through the EAGC WRS over the last six years only represents 2.4% of the annual production of about 3 million MT of maize. The key constraint to developing WRS in Kenya is the lack of trust among farmers; an indicator of the absence of an enabling environment for the operation of a WRS.

AGRICULTURAL COMMODITY EXCHANGES (ACE)

The first agricultural commodity exchange (ACE) in Kenya was established in 1997, when a private entrepreneur started Kenya Agricultural Commodities Exchange (KACE). Since KACE did not have funds to create a trading platform, it focussed on providing market information, which development partners were more interested in. In the late 1990s, two other unsuccessful exchange initiatives – the Nairobi Coffee Exchange and Africa's first Internet-based exchange, Africanlion – were launched. In 2009, the Nairobi Stock Exchange (NSE), in collaboration with NCPB, KACE and EAGC, announced plans to launch an ACE to trade in maize, wheat, rice and beans without success. In 2012, the government issued a tender for an ACE. Despite attracting many viable offers, the Government of Kenya stalled the process in order to study the situation further, so there is no ACE operational in Kenya.

GRAIN STOCK MANAGEMENT

Even though Kenya's grain market is liberalized, the NCPB plays a social and a commercial role, dealing with various products and offering related services to its clients in competition with the industry's private players. The board trades in major grain products like wheat, maize, rice, beans, sorghum and millet, and also offers services like drying, cleaning, fumigation, grading and warehousing. Usually, the NCPB retains a SGR stock of as much as four million bags on behalf of the government, which is used as food security. Under the National Famine Relief Program, the NCPB expedites the procurement, storage, maintenance and distribution of such food to deficit areas.

AGRICULTURAL INFORMATION SYSTEMS (AIS)

Agricultural information systems are classified as follows: weather forecast and early warning systems (EWS), and market information systems (MIS). Due to agricultural markets' regional nature, emerging regional market information systems offer regional access to marketing and agricultural information like AMITISA and RATIN, which cover Kenya, Tanzania, Malawi, Uganda, Burundi, Rwanda, Mozambique and Zambia. Africa's early warning systems are usually founded by donors and managed internationally. Each type of information system has a specific focus (for example, income, earthquake or health monitoring). The two main global EWS dealing with agricultural risks are FAO's Global Information and Early Warning System (GIEWS) and the USAID's Famine Early Warning Systems Network (FEWSNET). These combine information on crop production, prices, vegetation conditions and weather hazards to provide the most accurate figures and promote a complete analysis that supports related decisionmaking processes. There are many local systems in place to provide market information and early warning, but they have lower methodological and analytical capacities that impede their functionality.

AGRICULTURAL INSURANCE

One recent agricultural insurance innovation in Kenya is index-based insurance. This type of insurance pays out when an independently observable trigger (e.g. rainfall at a local weather station) depicts that an insurable event has taken place, thereby protecting farmers against agricultural production risk. When the index drops below a particular level, farmers receive a payment without the need of an estimate of their potential yield losses. In Kenya, a consortium made up of the Rockefeller Foundation, Financial Sector Deepening Kenya (FSD Kenya) and the World Bank is leading a project whose main purpose is to develop and test index-based insurance products' market viability in order to reduce the impact of weather risk on pastoralists and smallholder farmers. The programmes cover the value of the inputs provided to farmers on credit. This allows farmers to safely increase their productivity, safe in the knowledge that, in the event of a drought, their loans will be repaid.

AGRICULTURAL CREDIT

Financial systems that function well are vital to efficient market-based approaches to risk management like WRS, ACE or insurance products. The Cooperative Bank of Kenya, a publicly listed company with an asset base of nearly US\$ 1 billion, provides agricultural financial services to around seven million clients, either directly or indirectly through cooperatives. The Agricultural Finance Corporation (AFC) has also been in the forefront in offering agricultural credit to farmers in Kenya. Moreover, DrumNet-Kenya has been facilitating riskmitigating tripartite linkages. It links commercial banks, farmer groups, processing companies and retail providers of farm inputs using mobile phones, SMS and e-mail.

CONTRACT FARMING

Contract farming is an agricultural production system governed by an agreement between a producer and a buyer concerning agricultural products' production and marketing conditions. Usually, a farmer agrees to provide an agreed quantity of an agricultural product that meets quality standards determined by the buyer, at a time and place decided on by the buyer. The buyer agrees to buy the product at the agreed price and, sometimes, to support production by offering inputs, credit, technical advice and land preparation, among others. Contract farming can apply to all types of agricultural products. There are plentiful examples of successful contract farming for cash crops, such as sugar cane in Kenya, Malawi, Tanzania, Zambia and the Republic of Zimbabwe, tea in Kenya, Malawi, Tanzania and Zambia, and cotton in Zambia and Zimbabwe. Other crops for which contract farming has been practiced include tobacco in Kenya and Zimbabwe, fruits and vegetables in Kenya, and dairy production in Kenya.



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EAC Trade Policy Overview

The EAC is the regional intergovernmental organization of the Republics of Kenya, Tanzania, Uganda, Rwanda, South Sudan and Burundi, with its head office in Arusha, Tanzania. The EAC was established in 1967, collapsed in 1977 and restored in 1999. The treaty for the EAC's re-establishment was signed on 30 November 1999 and commenced on 7 July 2000 after its endorsement by the initial three partner states: Kenya, Tanzania and Uganda. Burundi and Rwanda agreed to the EAC treaty on 18 June 2007 and became full members of the EAC on 1 July 2007.² The EAC trade zone, with six member states, has a population of 150 million and an estimated market value of about \$150 billion.

For their mutual benefit, the EAC seeks to greatly improve cooperation among partner states in economic, political and social fields. As such, EAC countries created a customs union (CU) in 2005 and a common market protocol in 2010. Under the customs union, intra-EAC tariffs were done away with, and a common external tariff (CET) was created for services and goods imported from non-EAC countries. The EACCET has three applicable tariff bands on imports originating from third countries (25% on finished products, 10% on intermediate products and 0% on raw materials), but rates of more than 25% are applicable to some of "sensitive" products.³

The EAC customs union trade regime has been designed to encourage intraregional trade in agricultural produce. In addition to enabling intra-EAC trade on an impeded basis, member countries have pledged to eliminate all existing non-tariff barriers (NTBs) with immediate effect and refrain from introducing new ones. This policy regime is expected to stimulate increased investments in the agricultural sector targeting the intraregional market.

With the exception of Tanzania, the EAC partner states are also members of COMESA, which is one of Sub-Saharan Africa's four main regional integration entities. Today, COMESA consists of 21 member countries in Eastern and Central Africa. Of the 21 COMESA member countries, 16 are signatories to the free trade area (FTA) that was established in 2000.⁴ The COMESA customs union was launched in 2009 and a CET was formed for services and goods imported from non-COMESA countries.

COMESA is not a big player in terms of world trade. Exports to the combined COMESA region make up less than 1% of total exports in big economies like the United States of America, Japan, China, South-East Asia, Latin America, the EU and the rest of Europe. Likewise, COMESA accounts for quite a small proportion large economies' import source. COMESA's biggest share is in the import bill of the neighbouring Tanzania, at 5.3% of total imports.⁵



² EAC (2012). Treaty establishing the East African Community.

³ Ibid.

⁴ Countries that have not yet joined the FTA are: DRC, Eritrea, Ethiopia, Seychelles, Swaziland and Uganda.

⁵ Dimaranan, Betina and Simon Mevel (2008). The COMESA Customs Union: A Quantitative Assessment, draft paper. Available from www.gtap.agecon.purdue.edu/resources/download/4048.pdf.

Overview of the Pulses Sector in Kenya

Some of the most widely produced pulses in Kenya include the common (dry) bean (*phaseolus vulgaris*), green grams (*vigna radiata*) and pigeon peas (*cajanus cajan*).

THE COMMON BEAN

Kenya is the seventh biggest global producer of common beans and the second leading producer in East Africa after Tanzania. Beans are cultivated almost exclusively by about 1.5 million smallholder farmers on about a million hectares, with yields of about 0.6MT/ha (table 6). The main producing areas for dry beans in Kenya include the Rift Valley, Eastern, Nyanza, Western and Central that account for 33%, 24%, 18%, 13% and 20% respectively of national production.⁶

National consumption is assessed to be about 755,000MT annually against a production of about 600,000MT a year (table 6). Per capita consumption is estimated at 14 kg per year, but can be as high as 66 kg per year in the country's western regions.⁷ The consumption deficit is filled through imports from Ethiopia, Tanzania and Uganda. In the last five years, imports have accounted for about 7% of consumption even though the consumption gap is more than 20%. The country imports about 10 times what it exports.⁸

Table 6: Common bean production trends in Kenya (2010–2014)

	Area (ha)	Production (MT)	Yield (MT/Ha)	Exports (MT)	Imports (MT)
2010	689 377	390 598	0.57	9 529	30 848
2011	1 036 738	577 674	0.56	836	52 870
2012	1 056 046	622 759	0.59	3 599	40 284
2013	1 083 604	714 492	0.66	7 264	51 697
2014	1 052 408	615 992	0.59	5 716	93 116

Source: FAOSTAT and Ministry of Agriculture (2015).



⁶ USAID (2010). Stape Foods Value Chain Analysis Country Report - Kenya. Available from http://pdf.usaid.gov/pdf_docs/Pnadw641.pdf.

⁷ Buruchara, R. (2007) Background Information on Common Beans (*Phaseolus vulgaris* L.) in Biotechnology, Breeding & Seed Systems for African Crops. The Rockefeller Foundation, Nairobi.

⁸ Ibid. 13

KENYA'S BEAN VALUE CHAIN

The beans value chain's main functions include production by smallholder farmers, assembling by agents/brokers and transport by traders, wholesaling and retailing in rural and urban markets. Other important actors in the beans value chain include service providers such as research and development organizations and extension providers (figure 2).

▪ Research and development

The major institution involved in bean research in Kenya is the Kenya Agricultural and Livestock Research Institute (KALRO). In addition to KALRO, NGOs and local universities, beans research is supported by the Eastern and Central Africa Bean Research Network (ECABREN), a network of bean researchers and their partners in 10 countries, which is part of the Pan-Africa Bean Research Alliance coordinated by International Center for Tropical Agriculture (CIAT).

▪ Input suppliers

The main inputs in Kenya's beans production are seeds (mainly retention from household harvests) and labour (mostly family labour). Seed companies in Kenya are estimated to number 76, but they consider bean seed production to be risky business since the crop is open-pollinated and self-fertilized. Other agro-input dealers selling seeds, fertilizers and other chemicals are distributed throughout the country. Recently, seed companies such as Kenya Seed Company Ltd and Dryland Seeds Ltd have taken up bean seed business of some of the new varieties.

▪ Producers

Production of dry beans in Kenya is wholly undertaken by about 1.5 million smallholder farmers using family labour. The crop is usually intercropped with maize, but also with other crops like bananas and coffee. There is minimal use of commercial inputs such as fertilizer, improved seeds and agrochemicals. A few varieties of beans are produced in Kenya, with the most widely produced including wairimu, mwitemania, rosecoco, nyayo and mwezi moja, and recently the KT bean types that are more adapted to droughts and with better productivity. Approximately 40% of total annual beans production is marketed and the rest is kept for household consumption.⁹

▪ Assemblers

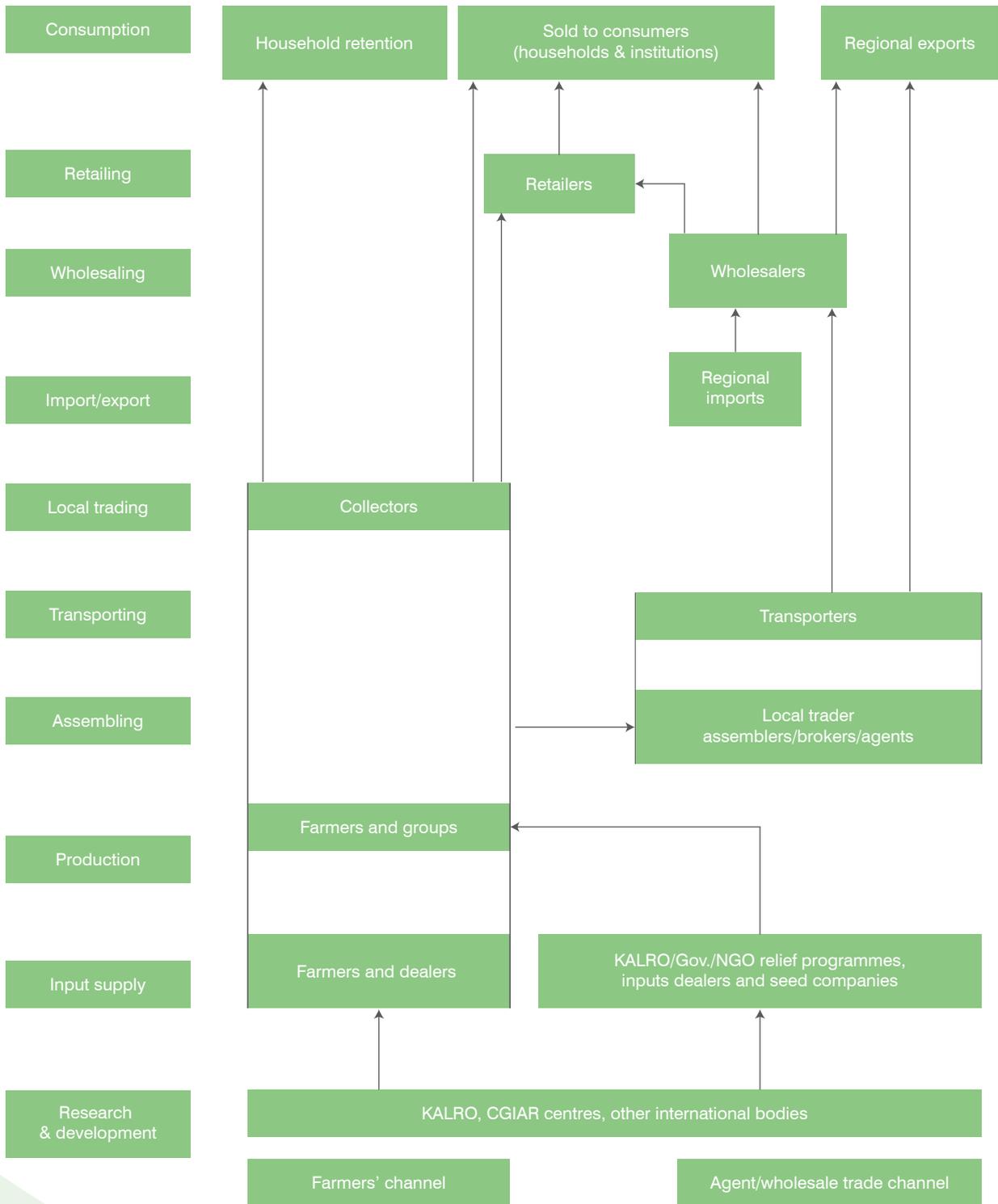
There are different types of assemblers who consolidate the beans for sale to wholesalers. Resident farm gate assemblers move from door to door to collect beans, either in cash or credit depending on level of trust. They handle small volumes, which they transport to local urban centres and sell to regional traders. Non-resident assemblers buy large volumes either from farmers or resident assemblers and transport to the local market centres, where regional traders purchase from them. Large-scale assemblers and traders buy from farmers, agents and other assemblers and transport the produce to local market centres, where they bulk and transport to markets in major urban centres and cities such as Nairobi and Mombasa.

▪ Wholesalers

Beans wholesalers are traders who buy and sell solely in bags as the lowest transaction volume. These types of traders undertake wholesaling as individual business entities or institutional entities, like the NCPB. They work at various levels of the beans value chain: at the regional level (long-distance wholesaler or assembler), at consumer level and at rural assembling level. Full-time beans wholesaling is rare and well-capitalized traders work solely as bean wholesalers when beans are moving fast in an active market, which is mostly during harvest time. In the off-peak season, these actors combine retailing and wholesaling or go completely out of the bean business. Often, only those who have obtained institutional contracts remain as wholesalers throughout the season.

⁹Ibid.

Figure 2: Kenya's dry bean value chain map



Source: Adapted from USAID, 2010

PIGEON PEA

Kenya ranks fourth in global production of pigeon pea after India, Myanmar and Malawi. Pigeon pea is Kenya's third most important legume, after cowpea and beans.¹⁰ It is primarily cultivated by smallholder farmers in the semi-arid and arid lands (ASALs), mostly for cash and food. The most important pigeon pea-producing counties in Kenya include Machakos, Makueni, Kitui and the drier parts of Embu County, specifically districts in Mbeere, in the semi-arid Eastern Province of Kenya.

During the last five years, yearly production has oscillated between 89,000 and 196,000 MT, from a yearly average of 240,000 hectares (table 7). Yields average 0.65 MT/Ha (table 7). The country consumes an average of 106,280 MT per year, while the surplus is exported. In the recent past, pigeon pea exports have averaged 34% of national production.

KENYA'S PIGEON PEA VALUE CHAIN

The key functions in the pigeon pea value chain comprise research and product development, production, inputs supply, value addition and processing, and marketing.

▪ Research and development

The key players in Kenya's pigeon pea variety development include the University of Nairobi, the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT), KARLO, and Winrock International. These establishments have developed and tested some improved varieties that can be classified into short-duration, medium-duration and long-duration types.

▪ Input supply

As mentioned, the key inputs in pigeon pea production include seeds and labour (mostly from farm households). Kenya has two sources of pigeon pea seeds: seeds kept by farm households after harvest (accounting for around 95% of farmers' seed needs, and certified seed, mostly from ICRISAT (accounting for about 5% of total availability). The use of agro-chemicals (e.g. insecticides, pesticides and fertilizers) is almost non-existent among pigeon pea farmers, but a handful of farmers use manure.

▪ Production

Production is undertaken completely by smallholder farmers who cultivate plots of between 0.2 hectares and 1.4 hectares, with most households being nearer to the lower end. Usually, the crop is planted at the start of the September/October short rains. A mixture of all types of pigeon pea varieties is cultivated. The majority of the short and medium-duration types are harvested as green (fresh) vegetables, typically between February and April. In August and September, the long-duration varieties are usually harvested as dry grain. Some farmers, however, harvest the long-duration varieties as vegetable pigeon pea, typically during June and July.

▪ Marketing

Figure 3 shows the flow of vegetable and dry grain pigeon pea. About 60% of the pigeon pea production is utilized as dry grain while the balance is used as vegetable peas.¹¹ The crop is marketed as processed (split) dry grain (dhal), dry grain, or green (vegetable) pigeon pea for human consumption but can also be used as animal feed and wood fuel.

Table 7: Pigeon pea production trends in Kenya (2010–2014)

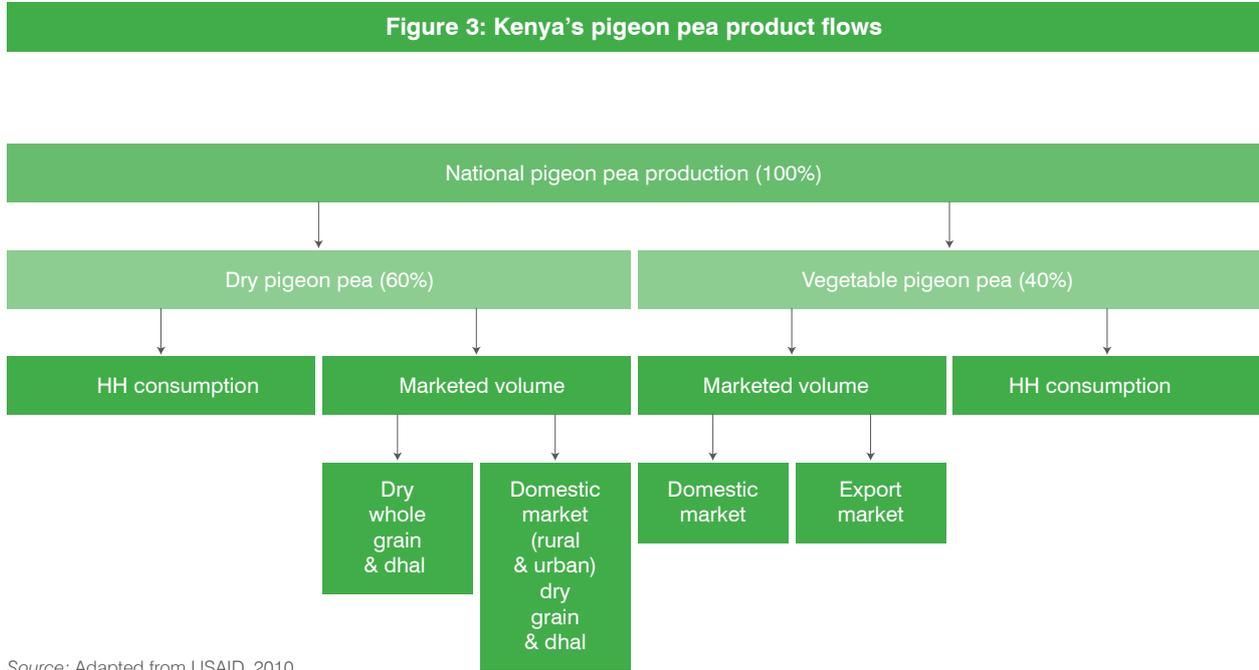
	Area (ha)	Production (MT)	Yield (MT/ha)	Exports (MT)	Imports (MT)
2010	158 746	103 324	0.65	–	2 956
2011	138 708	88 813	0.64	–	17 467
2012	271 136	167 623	0.62	61 343	–
2013	256 396	165 636	0.65	59 356	–
2014	276 124	196 324	0.71	90 044	–

Source: Ministry of Agriculture (MoA), Economic Review of Agriculture, 2015.

¹⁰ Mergeai, G., Kimani, P., Mwang'ombe, A., Olubayo, F., Smith, C., Audi, P., Baudoin, J.P., and Roi, R. (2001). A Survey of Pigeon Pea Production Systems, Utilization and Marketing in Semi-Arid Lands of Kenya. *Biotech., Agron., Soc. Environ.*, 5:145–153.

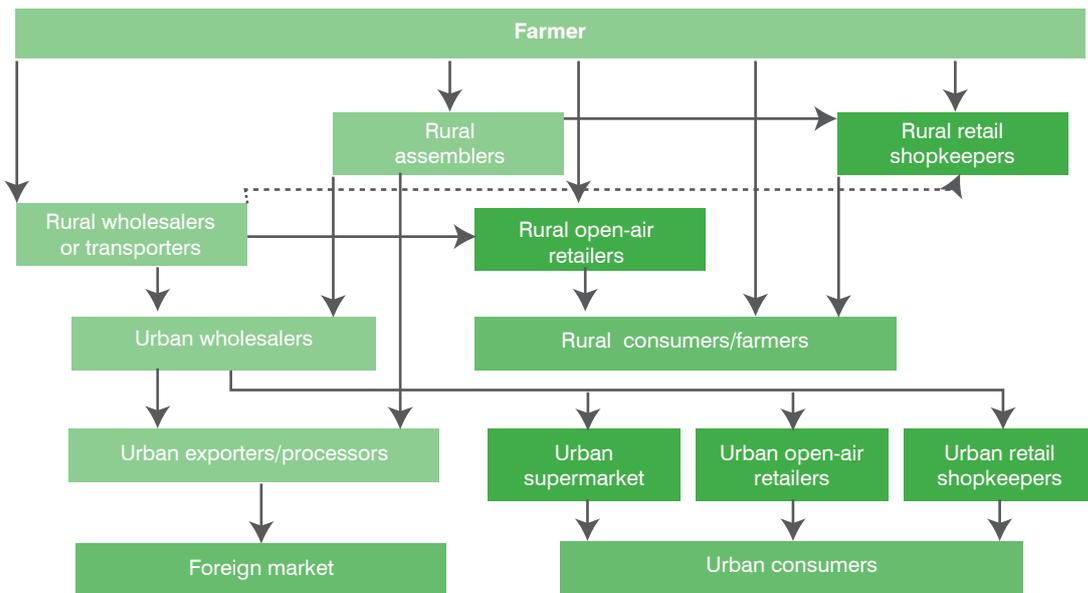
¹¹ Ibid. 13

Figure 3: Kenya's pigeon pea product flows



Source: Adapted from USAID, 2010.

Figure 4: Kenya's dry pigeon pea marketing channels



Source: Adapted from USAID, 2010.



Fresh or vegetable pigeon pea makes up approximately 40% of Kenya's total pigeon pea production.¹³ Close to 87% of the vegetable pigeon pea is kept at the farm for household use and the balance is marketed mainly in the domestic market, with exports totalling less than 20% of the traded volume. Vegetable pigeon pea is traded in both the export and local markets, predominantly via three channels: rural brokers and assemblers, rural wholesalers, and urban and local exporters

■ Processing

The only noteworthy form of pigeon pea processing in Kenya involves dehulling and splitting the pigeon pea grain to make dhal. Kenya's total number of processors is unknown, but the main ones include Spice World Ltd, Kenya Milers Ltd, and Pisu & Company Ltd. The majority of pigeon pea processors are situated in the country's main urban centres such as Mombasa and Nairobi.¹⁴

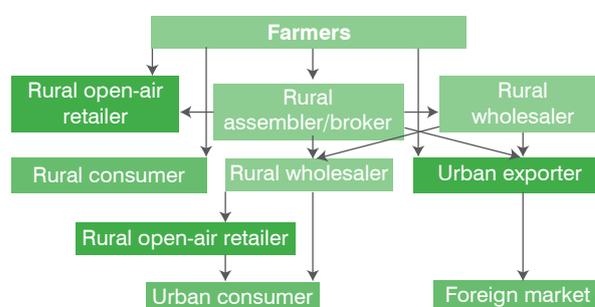
The key players in marketing are farmers, rural brokers and assemblers, rural and urban wholesalers, processors and exporters, open-air market retailers, rural and urban shopkeepers, rural and urban retailers, rural and urban consumers, and supermarkets. Trade is mostly limited to one season. There is very little inter-seasonal trade, due to storage costing so much, which is due to the fact that grains are susceptible to pests, for example, bruchids.

Dry grain pigeon pea is marketed via six channels, which are rural open-air markets, urban open-air retail markets, rural retail shops, urban supermarkets and retail shops, and export markets (figure 4). Marketing agents include petty assemblers, traders, large-scale merchants, brokers and retailers.

Between 15% and 25% of production is consumed in the form of dhal. The crux of processing is to minimize cooking time and improve the palatability, texture and physical appearance.¹² The typical conversion ratio of dry grain to dhal is anywhere between 65% and 75% of the original dry grain weight. More than 70% of the processed dhal is exported, mostly to the USA and UK, and the balance is sold via domestic urban supermarkets and a handful of urban retail shops that target Kenya's Asian community. Dhal is marketed via three channels: urban supermarkets, urban retail shopkeepers and foreign export markets (figure 5).

Processing of pigeon peas in Kenya has not been performing well, partly due to the domestic market's high cost of raw materials for dry whole grain and partly due to the high cost of processing and procurement.¹⁵ This reduces dhal's competitiveness, especially for export, and limits processing to small amounts to supply the Asian population settled in Kenya's major urban centres, mostly Mombasa and Nairobi. In the rural regions, there is not much processing of dried pigeon pea grain, due to the fact that many rural households cannot afford improved equipment and processing methods, or are unaware.

Figure 5: Kenya's dhal marketing channels



Source: Adapted from USAID, 2010.

¹² Freeman, H.A., Silim, S.N., Jones, R.B. and Ochere, M.A. (1999). The Pigeon pea subsector in Kenya, Memo.

¹³ Shiferaw, B., Okello, J., Muricho' G., Omiti, J., Silim, S. and Jones, R. (2008). Unlocking the Potential of High-Value Legumes in the Semi-Arid Regions; Analyses of the Pigeon Pea Value Chains in Kenya. Research Report no. 1, Institutions, Markets, Policy and Impact. ICRISAT.

¹⁴ Ibid.

¹⁵ Ibid. 19

GREEN GRAMS

Green grams are one of the popular pulses consumed in Kenya. They are grown in the ASALs, mainly for sale in local and export markets. The major producing regions are located in the eastern, Coast and Nyanza parts of the Rift Valley Province. The Eastern Province is by far the leading producer of green grams, with the major production districts in order of importance being found in Kitui, Makeni, Tharaka Nithi, Machakos and Mbeere.

About one million farmers in Kenya cultivate an average of 260,000 ha of green grams (table 8). National production in the last five years has ranged from 61,000 MT to 121,000 MT (table 8). Over the same period, national consumption has grown from 58,000 MT to 127,000 MT to imply a deficit in some years that is bridged through imports. Yields average 0.15 MT/Ha (table 7). The bulk of the produce is sold in local markets and the remainder is exported.

KENYA'S GREEN GRAMS VALUE CHAIN

The main functions in Kenya's green grams subsector include product development and research, production and inputs supply, processing and value addition, and marketing.

Research and development

The main players in green gram variety development include KARL), the University of Nairobi, Kenya Seed Company and Dry Land Seed Ltd. Two improved green gram varieties have been released in the local market. These are the N26 and KS20 varieties, locally named nylon and uncle respectively.

Input supply

The main inputs used by green gram producers include seed, fertilizers and chemicals. Green gram producers source their seeds from own-retained seeds, local retailers, other farmers and agro-input stockists. The use of improved seeds and agro-chemicals is very low.

Production

Most of Kenya's green gram production is done by smallholder farmers operating less than two hectares of land in the semi-arid districts of the Eastern Province. In most cases, green grams are intercropped with other crops such as maize and sorghum.

Processing

Green gram processing in Kenya involves dehulling and splitting the grain to make dhal. After being processed, the seeds are used in a variety of recipes, eaten as splits (dhals) or cooked whole beans, immature seeds, sprouts and flour. The flour or seeds can be used in many dishes, such as porridge, soups, noodles, bread, snacks and ice cream. A number of processors are to be found in Kenya's urban centres, such as Nairobi and Mombasa.

Marketing

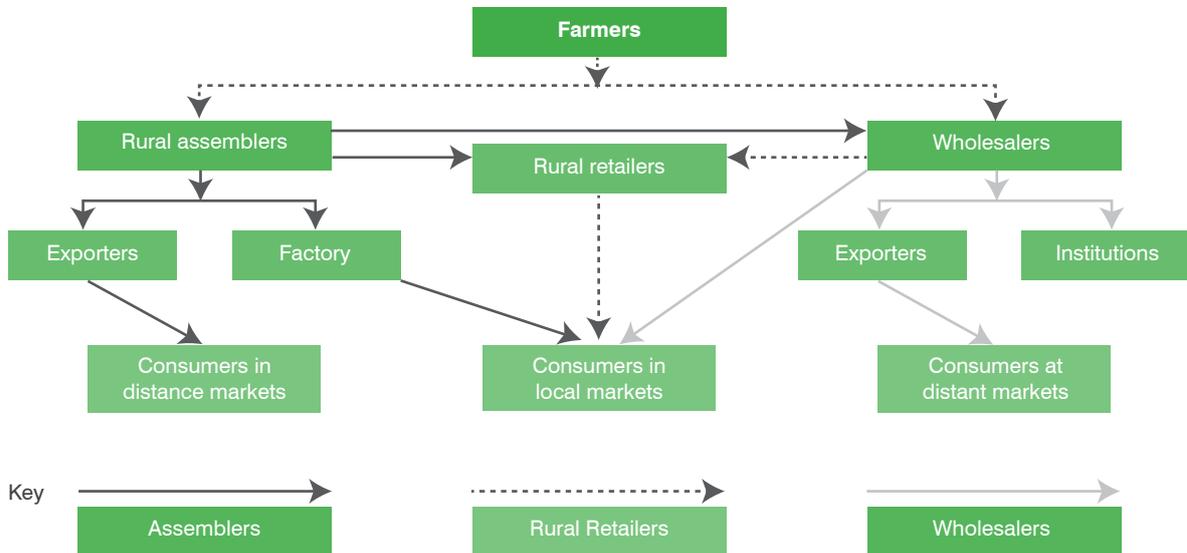
The marketing of green grams is undertaken through three channels: farmer to rural assemblers, farmer to rural retailers and farmer to wholesalers (figure 6). The red arrows represent the farmer to assembler channel. Farmers in this channel sell their green grams directly to rural assemblers located at farm gate or rural markets, who bulk the produce for resale to rural retailers, wholesalers and exporters.

Table 8: Green grams production trends in Kenya (2010–2014)

	Area (ha)	Production (MT)	Yield (MT/ha)	Exports (MT)	Imports (MT)
2010	147 352	61 125	0.41	2 625	–
2011	159 910	70 225	0.44	11 725	5 775
2012	188 416	91 824	0.49	–	4 176
2013	258 407	96 799	0.37	–	2 980
2014	259 167	121 076	0.47	–	6 054

Source: Ministry of Agriculture (MoA), Economic Review of Agriculture 2015, 58500.

Figure 6: Kenya's green grams marketing channels



Source: Adopted from Kihoro, 2015.

The black arrows in figure 6 represent the farmer to rural retailer channel that is the shortest among the three green gram marketing channels in Kenya. In this channel, farmers sell their produce directly to rural retailers, who later offload it to consumers. Rural retailers also obtain their green gram supplies from rural assemblers and wholesalers. In the farmers to rural retail channel, the retailers purchase the produce from the local markets and then sell

their stocks to consumers in both local and distance markets. This marketing channel does not have a lot of intermediaries and offers farmers slightly better margins.

The green arrows denote the farmer to wholesaler channels. The latter purchase the produce from farmers in large volumes. In this channel, farmers with large quantities of green grams sell directly to wholesalers, because they can bargain for a higher price. Typically, large-scale farmers transport their green grams output to wholesalers who are usually located in large market centres. Wholesalers later offload their stock to retailers, institutions and exporters, who, in turn, ship it to markets in Asia.

The major green gram exporters in Kenya include Capital Reef, Hidery, Regal, Kamili, Pisu and Spice World.





Investment Opportunities in Kenya's Pulses Sector

Kenya is a good example of foreign investments' potential to create multiplier effects as sources of employment, foreign exchange, and managerial and technological know-how. Despite the improvement of the business environment and friendly economic reforms, net FDI flows to Kenya have been very unstable, and there was a general decline in the 1980s and 1990s. Kenya's total FDI rose from 0.86% of GDP in 1970 to 1.22% of GDP in 2000, and then declined to 0.7% in 2010.¹⁶

Due to the export processing zones (EPZs) that offer foreign companies tax concessions, in the past 10 years, the agricultural sector's FDI has been concentrated mostly in the textiles and apparel sector and the horticulture sector. In the last 10 years, 12 multinational companies set up offices in Kenya, predominantly in the export of horticultural produce like flowers. These are big integrated companies that employ an estimated 5,000 Kenyans and obtained land around Lake Naivasha and other regions. At first, these companies had 10-year tax concessions; when these concessions expired, some of companies obtained Kenyan citizenship and remained in the country.

However, foreign investment in agriculture is controlled if it entails land ownership or leasing. Foreigners may not own land in Kenya – they can only lease the land in 99-year increments. There is a need to obtain a license from the investment authorities in Kenya. To obtain the certificate, the amount to be invested by a foreign investor has to be at least US\$ 100,000 or the equivalent in any currency.

Given the scant nature of information of FDIs into Kenya's agricultural sector, it is difficult to elaborate how much FDI has flowed into the sector and for which specific commodities. However, as noted earlier, the majority of the FDI inflows into Kenya's agriculture has been directed to the horticulture sector, with minimal investments in agribusiness, especially agro-processing. In the pulses sector, much of the FDI inflow is directed towards the production and marketing of French beans (green beans).

Kenya's pulses sector offers some unique investment opportunities, including those mentioned in the following subsections.

▪ Investment in processing

Except for the processing of dhal, very little processing of pulses is undertaken in Kenya. This offers an opportunity for investors to venture into bean canning, pigeon pea and green gram processing as a value addition initiative.

▪ Investment in grading and standards

The quality of pulses sold in Kenya is low when it comes to foreign particles, such as soil or dust. There is need for investment in sorting and grading to ensure the achievement of bean standards. This will improve the sector's productivity and profitability.

▪ Investment in storage

Storage losses account for about 30% of post-harvest losses in Kenya's pulses sector. Given this trend, investment in appropriate storage structures both on farm and in the market would reduce post-harvest losses and improve the output quality in the pulses sector.

▪ Investment in marketing

Unlike the maize market, where farmers have a ready market for their outputs given the existence of maize millers and traders, the marketing of pulses is not well-structured, because no single large-scale wholesaler or retailer exists. This creates an investment opportunity for a subsidiary company to set up a structure for buying pulses either for further processing before exporting or for direct exporting.

¹⁶Victor Ogalo (2011). Foreign Investment in Agriculture in Eastern Africa: A General Overview of Trends and Issues. Nairobi: Friedrich Ebert Stiftung-Kenya.

- **Investment in establishing vertical linkages**

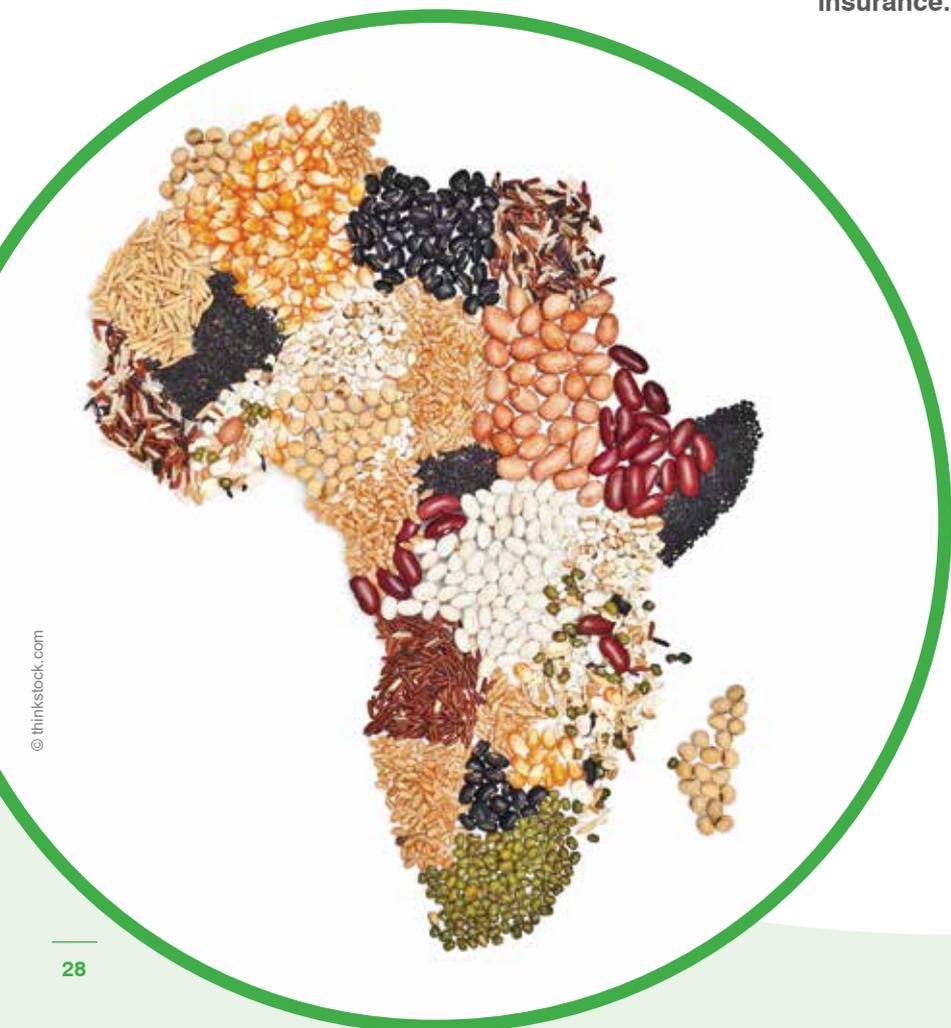
Business linkages in Kenya's pulses sector remain underdeveloped. Beans trade takes place under informal and temporary business relationships with traders, farmers, and assemblers who do not have supply contracts. Kenya has no traders' or farmers' associations – business is conducted via short-term relationships, mostly during harvest season. There is need for investment in collective marketing arrangements.

- **Investment in establishing horizontal linkages**

Horizontal linkages involve deliberately established business associations among actors in certain parts of the value chain (e.g. traders and producers). In Kenya, there is no sign of these types of associations; players in the various subsectors tend to work alone, with the exception of some women's groups.

- **Investment in support markets such as business development services**

Support market services for beans and other pulses are essentially nonexistent in Kenya. The only noteworthy market support services are KARI's research and variety development, and market price information. Other services are rarely available, creating an investment opportunity for other service providers, such as financial institutions and insurance.



Business Environment

The factors that make Kenya an attractive investment destination for foreign firms seeking to invest in the pulses sector include;

▪ **Investor-friendly policies**

The key corporate and investment laws applicable in Kenya are the Companies Act (Cap 486) and the Investment Promotion Act, 2004. The Promotion Act guarantees interest, remittance of dividends and capital repatriation to foreign investors. Moreover, the Foreign Investment Protection Act CAP 518 guarantees against private property being expropriated by government and the country does not have a history of expropriation of foreign properties. In addition to an enabling investment environment, Kenya has a vibrant banking sector and a modern taxation regime.

▪ **Fairly developed infrastructure**

Kenya has the advantage of having a port of its own – Mombasa – which is the biggest port in East Africa. The Port of Mombasa serves as a gateway for Central and East African markets. The country is also a local hub for airlines, enabling easy travel to and from anywhere in the world. The general infrastructure – power, roads and upcoming railways – is superior to most of the other East African nations.

▪ **Labour availability**

Kenya has an abundant, well-educated and easily trainable workforce available at reasonable rates. In addition, the presence of large export-oriented apparel manufacturing units has helped create a pool of relatively

trained workers. Kenya's constitution protects the right to reasonable working conditions, fair remuneration and trade union activities, as well as the right to strike in the Bill of Rights as an essential freedom. Labour laws mandate that the total hours that should be worked in a two-week period must not be more than 120 hours. Wage regulation is part of the Labour Institutions Act, and the Kenyan Government determines basic minimum wages by location and occupation, setting a minimum for hourly, daily and monthly work in each category.

▪ **Stable political climate**

Since its independence, Kenya has been one of Africa's most stable countries. Kenya is a multi-party democratic nation whose last elections were held in 2013. The elections were peaceful, with no instances of political violence.

▪ **Favourable climatic conditions**

Kenya's location along the equator guarantees favourable climatic conditions for producing a variety of agricultural commodities. The country has a bimodal climatic condition, which makes it possible to produce short cycle crops such as pulses twice a year. While bean production is suitable in the high and medium potential areas, green gram and pigeon peas are suitable in the arid and semi-arid areas and their productivity can be boosted by use of irrigation.

Useful contacts

Ministry of Agriculture, Livestock and Fisheries

Telephone: +254 20 2718870
E-mail: info@kilimo.go.ke
Website: www.kilimo.go.ke

Kenya Agricultural Research Institute (KARI)

Website: www.kari.org

National Cereals and Produce Board

Telephone: +254 020 236 0972
E-mail: info@ncpb.co.ke
Website: www.ncpb.co.ke

Kenya Association of Manufacturers (KAM)

Telephone: +254 (0) 722 201 368
+254 (0) 734 646 004/5
E-mail: info@kam.co.ke
Website: www.kam.co.ke

International Centre for Tropical Agriculture (CIAT)

Telephone: +254-20 8632800
E-mail: ciat@cgiar.org
Website: www.ciat.cgiar.org

Kenya Investment Authority (KenInvest)

Telephone: +254 (730) 104-200
E-mail: enquire@invest.go.ke
Website: www.invest.go.ke

Export Promotion Council

Telephone: +254 20 222 8534/8
Website: <https://brand.ke/>





