



Republic of Kenya



NATIONAL AGRIBUSINESS STRATEGY

Making Kenya's agribusiness sector a competitive driver of growth

JUNE 2012

— *Making Kenya's agribusiness sector
a competitive driver of growth*

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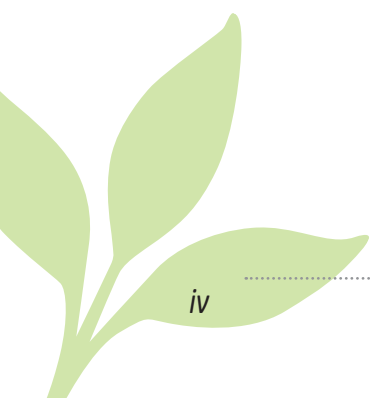
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LIST OF ABBREVIATIONS

ASCU	Agricultural Sector Coordination Unit
ASDS	Agricultural Sector Development Strategy
ASAL	arid and semi-arid lands
BDS	business development services
CAADP	Comprehensive Africa Agriculture Development Programme
CBK	Central Bank of Kenya
CEO	Chief executive officer
COMESA	The Common Market for Eastern and Southern Africa
DVS	Department of Veterinary Services
FPEAK	Fresh Produce Exporters Association of Kenya
GDP	gross domestic product
HCDA	Horticultural Crops Development Authority
ICT	information and communication technology
IPR	intellectual property rights
KEBS	Kenya Bureau of Standards
KENFAP	Kenya National Farmers Association
KEPHIS	Kenya Plant Health Institute
KenInvest	Kenya Investment Authority
KEPSA	Kenya Private Sector Alliance
KFC	Kenya Flower Council
KIPI	Kenya Industrial Property Institute
Kshs	Kenyan shillings
M&E	monitoring and evaluation
MSME	micro, small and medium-sized enterprises
MTIP	Medium Term Investment Plan
NARS	National Agricultural Research Systems

NASEP	National Agricultural Sector Extension Policy
NCPB	National Cereals and Produce Board
NGO	non-governmental organisation
PPP	public–private partnership
R&D	research and development
SACCO	Savings and Credit Cooperative
SAP	Structural Adjustment Programme
SMEs	small and medium-sized enterprises
SPS	sanitary and phytosanitary
SRA	Strategy for Revitalising Agriculture
STI	science, technology and innovation
ToR	terms of reference
TWG	Thematic Working Group

MESSAGE TO THE READER

Kenya's agricultural sector has over the years developed many excellent visions, policies, strategies and plans, but the sector is still not achieving its potential and growth targets. How can one more agribusiness strategy make a difference? Surely, you might reasonably ask, if all these policies, strategies and good capacities are in place, why is the agribusiness sector – which comprises all businesses involved in agricultural production, including farming and contract farming, seed supply, agrichemicals, farm machinery, wholesale and distribution, processing, marketing and retail sales – not taking off?

The answer is that, like many good ideas that don't quite flourish without a catalyst, the agribusiness sector needs a little help to realise its true potential. The Kenya Agribusiness Strategy identifies, analyses and overcomes the systemic bottlenecks that stand in the way of realising Kenya's enormous entrepreneurial potential. It proposes concrete and strategic actions that will enable Kenya's resourceful entrepreneurs to take on the opportunities of local, national, regional and international markets.

The strategy proposes how to introduce the systems and structures needed to bring about a dynamic and competitive agribusiness sector in Kenya. It aims to make existing systems work more flexibly and adaptively to suit changing conditions and in a way that can exploit new market opportunities.

The strategy proposes how the agribusiness sector can play a key role in realising Kenya's 2030 vision of annual economic growth rates of 10 percent from 2012. The strategy, if successful, will deliver wealth creation, job creation and food security within national borders, even in a context of rapidly changing climate and environmental degradation. Importantly, it will feed from and deliver to Kenya's other economic sectors, in a virtuous circle. It will contribute significantly and positively towards the fulfilment of all the six pillars of the Medium Term Investment Plan (MTIP) of the Agricultural Sector Development Strategy (ASDS).

The strategy seeks to achieve the following:

- Remove barriers and create incentives for the private sector to invest in agribusiness and related business opportunities;
- Invest public resources more strategically to trigger growth in agribusiness;

- Make agribusiness systems more competitive, easily adaptable and ‘fleet-footed’ in order to deal with dynamic markets and the opportunities they bring; and
- Encourage institutional frameworks, which enable all actors to utilise market opportunities.

The strategy is inclusive. It addresses the needs of small, middle and large-scale farming and business operations, and deals with multiple economies of scale. It puts emphasis on bringing smallholder farming into mainstream agricultural value chains and is relevant for all commodities, but is not commodity specific.

The time horizon of this strategy is eight years. Some interventions will take longer. The creation of sustainable solutions is not a ‘quick fix’ activity and there are very few ‘quick wins’ – although we seek them out where we can. The Kenya Agribusiness Strategy lays down the foundations for positive and sustained growth of the agribusiness sector in the long term. We believe that the implementation of this strategy will contribute significantly to the transformation of the sector into an innovative, competitive and modern agricultural sector. Kenya’s bright economic future depends on it.

Sally J. Kosgei, EGH, MP

Minister for Agriculture

ACKNOWLEDGEMENTS

I wish to acknowledge the tremendous efforts of the technical experts from the public and private sectors, Non-Governmental Organisations and Research Institutes who actively participated in and contributed to the development of this National Agribusiness Strategy.

In particular, we want to thank the National Agribusiness Task Force under the chairmanship of Mr. John Karuga and the ASDS Thematic Working Group (TWG) on Agribusiness and Financial Services for guiding the whole process of developing this strategy.

The coordinating role of the Agricultural Sector Coordination Unit (ASCU) led by Dr. Mussolini Kithome and the resource people under his leadership is also highly acknowledged.

Since it is not possible to mention everyone and every institution individually, kindly take this acknowledgement as an expression of sincere gratitude.

Romano M. Kiome (PhD, CBS)
Permanent Secretary, Ministry of Agriculture
Chairman, Agricultural Sector
Interministerial Coordination Committee

EXECUTIVE SUMMARY

In Kenya, agriculture contributes about 25 percent of gross domestic product (GDP) and provides a livelihood to three-quarters of the population. Food production plays an important part in maintaining the country's food security, while the industrial and horticultural crops subsectors are important foreign exchange earners. However, the country's agricultural potential is still unrealised and its growth targets are not being met. Opportunities to add value to agricultural produce are largely unexploited. This, coupled with high production costs arising from escalating energy prices and poor infrastructure, makes Kenyan agricultural exports less competitive in global markets.

Kenya Vision 2030 identifies agriculture as a key sector through which annual economic growth rates of 10 percent can be achieved. Under the Vision, smallholder agriculture will be transformed from subsistence activities, marked by low productivity and value addition, to 'an innovative, commercially-oriented, internationally competitive and modern agricultural sector'.

One of the key drivers for this transformation is agribusiness, which is defined as including all businesses involved in agricultural production, including farming and contract farming, seed supply, agrichemicals, farm machinery, wholesale and distribution, processing, marketing and retail sales.

The Kenya National Agribusiness Strategy has been developed by a National Agribusiness Task Force. This is made up of private agribusiness practitioners and the public sector, and supported by the Agricultural Sector Coordination Unit (ASCU).

The strategy's vision is to bring about a highly productive and efficient agribusiness sector, competitive both locally and internationally. It will help the agricultural sector move from a focus on subsistence to a focus on meeting market and commercial demands. It will increase the competitiveness of large-scale producers as well as smallholder farmers.

The strategy is inclusive. It addresses the needs of small-, medium- and large-scale farming and business operations, and deals with multiple economies of scale. It puts emphasis on bringing smallholder farming into mainstream agricultural value chains and is relevant for all commodities, but is not commodity specific.

The objectives of the strategy are to:

- Remove barriers and create incentives for the private sector to invest in agribusiness and related business opportunities;
- Invest public resources more strategically to trigger growth in agribusiness;
- Make agribusiness systems more competitive, easily adaptable and 'fleet footed' in order to deal with dynamic markets and the opportunities they bring; and
- Encourage institutional frameworks, which enable all actors to utilise market opportunities.

The strategy identifies ways to overcome the systemic bottlenecks that stand in the way of realising Kenya's enormous potential. The strategy has the potential to create wealth and jobs and improve the country's food security. It seeks to enable and encourage the private sector to invest in agribusiness and related business opportunities, and to make better investments of public resources to trigger growth in agribusiness. It also aims to make existing agribusiness systems become more competitive, work more flexibly and exploit new market opportunities. It will encourage institutional frameworks which enable all actors to use market opportunities.

During the consultative process of developing the strategy and in various stakeholder meetings, five strategic priorities were identified to be key to trigger agribusiness growth:

- A:** Put markets at the centre of all production, processing, product development and packaging
- B:** Focus research and development and innovation to better catalyse growth of a vibrant agribusiness sector
- C:** Promote smarter organisation of the actors in the sector to enable enterprises to benefit from economies of scale and improved productivity
- D:** Improve the range and effectiveness of financial and non-financial services
- E:** Attract investment by creating an enabling environment and putting performance above politics

The time horizon of this strategy is eight years.

To address these strategic priorities, the strategy proposes implementation arrangements in terms of institutional roles and responsibilities in which different actors play their roles effectively and efficiently.

1

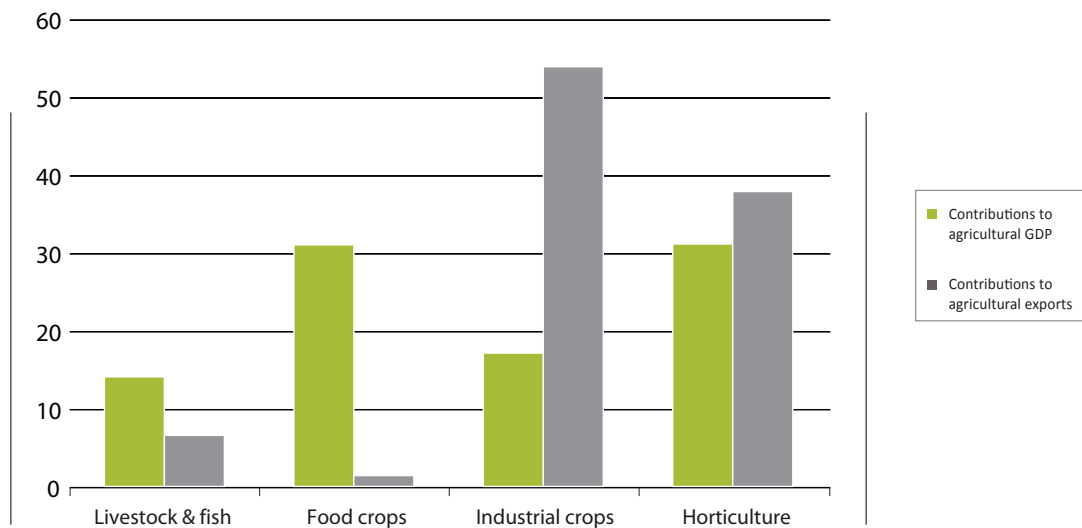
INTRODUCTION AND BACKGROUND

Transforming subsistence activities into an innovative and commercially-oriented, modern agricultural sector

Agricultural development in Kenya

In Kenya, agriculture is a major contributor to the economy and provides livelihoods for the majority of the population. Primary production plays an important part in maintaining the country's food security, while the industrial and horticultural crops subsectors are important foreign exchange earners. Figure 1 shows the relative contributions of the subsectors to both Kenya's economy and export earnings. A range of policies and strategies has been developed to maximise its potential (see Box 1), but more needs to be done.

Figure 1: Contribution of agricultural subsectors to GDP (%) 2004–2010



Kenya's potential to add value to agricultural produce is largely unexploited. This, coupled with high production costs arising from escalating energy prices and poor infrastructure, makes Kenyan agricultural exports less competitive in global markets. The country needs to 'scale-up' activities such as processing, branding, quality certification and accreditation, as well as farm level quality improvements that increase the market value of primary products. Agribusiness needs to become the driver improving the agricultural sector's productivity and contribution to economic growth.

Why the agribusiness strategy?

The Kenya Vision 2030 identifies agriculture as a key sector through which to deliver 10 percent annual growth rates. Under the Vision, smallholder agriculture will be transformed from subsistence activities, marked by low productivity and low value addition, to ‘an innovative, commercially-oriented, internationally competitive and modern agricultural sector’.¹

One of the key drivers for this transformation is agribusiness. Defined as ‘a sector that comprises all businesses involved in agricultural production, including farming and contract farming, seed supply, agrichemicals, farm machinery, wholesale and distribution, processing, marketing and retail sales’, the potential for agribusiness in Kenya is enormous.

In recognition of this, the government and stakeholders prioritised the need for a National Agribusiness Strategy. To allow for stakeholder inclusiveness in formulation, the strategy was developed under the auspices of the Agricultural Sector Coordination Unit (ASCU) through a National Agribusiness Task Force whose membership was drawn from private agribusiness practitioners and the public sector. The National Agribusiness Task Force is nested within the ASDS Thematic Working Group (TWG) on Agribusiness and Financial Services.

The strategy was therefore drafted by practitioners, policymakers, commercial enterprises and development actors who already work in agribusiness, and who are well placed to identify and troubleshoot the

[BOX 1]

EVOLUTION OF AGRICULTURAL POLICY IN KENYA

The agricultural sector has endured a turbulent policy period since independence. Import substitution during the 1960s and 1970s followed by Structural Adjustment Programmes (SAPs) and market liberalisation in the 1980s and 1990s produced a chequered performance in the whole economy, which was mirrored by agriculture.

The Strategy for Revitalising Agriculture (SRA), launched and implemented in 2004–2010, set out a vision for a commercially viable agricultural sector that would tackle food insecurity, poverty and unemployment. Regarded as successful, the SRA was succeeded by the ASDS 2010–2020, which is aligned to the African Union agricultural sector initiative, the Comprehensive Africa Agriculture Development Programme (CAADP). These strategies, which feed into and are informed by Kenya’s Vision 2030 document, recognise and tackle the major challenges to the agriculture sector. These challenges include: the lack of value addition, low productivity, poor market access, marketing inefficiency and poor land use.

The ASDS MTIP for 2010–2015 sets out how Kenya will implement the strategic ambitions of the agricultural sector. It has six investment pillars and a set of key targets that show the agriculture sector’s contribution to the country’s national developmental goals. These include increasing the contribution of agriculture to GDP by more than 80 billion Kenyan shillings (Kshs) per year; privatising all state corporations handling production, processing and marketing activities that could be better done by the private sector; and reforming and streamlining agricultural services such as research, extension, training and regulatory institutions to make them more effective and efficient.

¹ Government of the Republic of Kenya 2007 www.vision2030.go.ke

challenges that currently exist. They are believers in the sector's potential to drive growth and increase opportunity for those working at all levels within it. The strategy seeks to increase the competitiveness of large-scale producers as well as the smallholder farmers in whose hands the GDP growth potential rests.

2

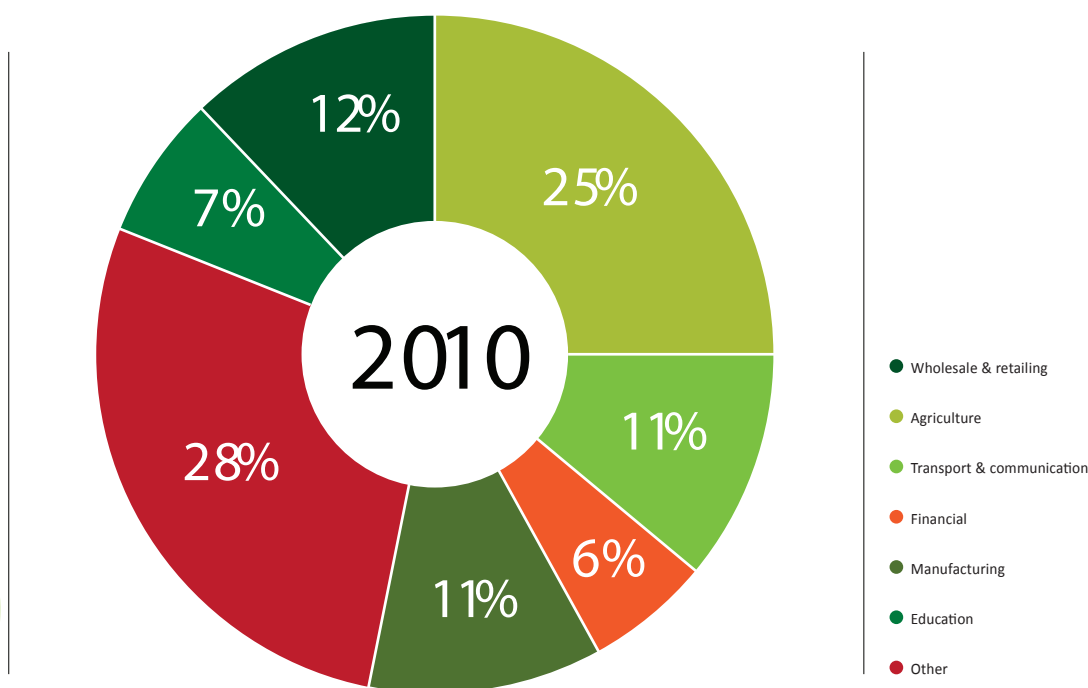
AGRIBUSINESS IN KENYA

The sleeping giant that could help to deliver 10 percent annual economic growth for Kenya

2.1 WHERE WE ARE NOW

Agriculture is a major driver of Kenya’s economic growth. Its contribution to the country’s GDP is around 25 percent, not counting indirect contributions through links with manufacturing, transport and communication, wholesale and retail and financial services (Figure 2). It is Kenya’s main export earner. In 2010, for example, the export of tea, horticulture, coffee, and clothing provided 51 percent of total export earnings. Agriculture is profoundly important to nearly every one of Kenya’s 41 million people. Around three quarters depend on the sector for their livelihood and survival, and around 90 percent of rural incomes come from agriculture. There have been wide fluctuations in Kenya’s agricultural productivity since 2004. This has been explained by the country’s overdependence

Figure 2: How different economic sectors contribute to Kenya’s economic growth



on rain fed agriculture and by low levels of agro-processing activity. Up to 91 percent of Kenya's total agricultural exports are sold in their raw, crude or semi-processed form. This limits the number of people who can be employed in the sector. It also makes the country vulnerable to fluctuating and declining commodity prices and increasingly fierce competition from cheap imports.

In addition, inappropriate land use is degrading the quality of Kenya's natural resources, and resulting in low farm productivity levels across the country. Average yields of selected commodities (except tea) in Kenya over the last two decades have tended to be lower than that of the average developing country.

The state of the country's rural roads, rail and transport facilities is poor. There is little incentive for anyone to invest in improvements because smallholder farmers are widely dispersed and do not create sufficient demand for investment to be profitable. It is quite common to see produce assemblers – who are the first link in the distribution chain, transporting produce from surplus-producing areas – using passenger transport vehicles to transport foodstuffs. Most vehicles are poorly maintained and often over-loaded, leading to high transit losses, the cost of which is passed on to consumers. The imposition of levies by local authorities, and several checkpoints, also increase the cost of transporting agricultural produce and inputs.

Lack of other support infrastructure. Kenyans pay some of the highest tariffs on electricity in the region, and lack access to reliable water supplies because of inadequate storage and distribution infrastructure.

[BOX 2]

THE LANDSCAPE OF AGRICULTURAL PRODUCTION IN KENYA

More than two thirds of Kenya's marketed agricultural produce is produced on small-scale, subsistence farms averaging 0.2 to 3 hectares in size. Use of improved inputs such as hybrid seed, fertiliser, pesticides and machinery is relatively low.

Medium-scale farms ranging from 3 to 49 hectares are receptive to technology, make use of credit to make farm improvements, invest in inputs and actively market their produce.

Large-scale farms, exceeding 50 hectares in size, are involved in growing crops such as tea, coffee, maize and wheat. Livestock, dairy and beef are common enterprises.

The private sector is largely responsible for the supply of seed, agrichemicals, farm machinery, and the supply of processing equipment and materials.

Suppliers range from local agro-chemical stockists, animal feed millers and small and medium-sized enterprise (SME) agro-machinery fabricators, to large multinational companies involved in manufacturing, distribution and wholesaling. A range of public institutions, universities, private companies, non-governmental organisations (NGOs) and research institutions are also involved in agro-technology development and dissemination.

A rapidly changing and increasingly complex market environment. The increasing globalisation of agricultural markets presents smallholders with complex challenges. They must work around increasingly complex economic landscapes, which include growing specialisation in distribution channels and logistics; rapidly changing and differentiated consumer preferences; and

increasingly complicated norms, standards and technical specifications. This puts pressure on smallholder farmers not only to produce more efficiently, but to perform well as sophisticated businessmen and women and competent managers.

Small enterprises operate in isolation. The majority of people work on small farms that are located both far from each other, and from services and markets which they need. This increases the costs of production, and limits the range of technologies that can be economically applied at the farm level.

Small-scale producers are not integrated into value chains. With the exception of producers of major traditional (and some high-value export) commodities, the vast majority of farmers tend to be cut off from the remaining segments of the agricultural value chains. This means that, while they are comfortable and reasonably successful in growing and selling individual commodities, they do not achieve the greater profit margins that can be gained from processed or semi-processed commodities. The reasons why they remain 'detached' from the chain include not being able to guarantee a consistently high-quality product; not being able to reliably produce enough of the same product week after week; and being unable to afford storage and transport costs.

Financial services and products rarely suit small-scale rural agricultural enterprises. The costs of delivering financial services to fragmented and small-scale businesses are generally high. This means it is expensive for businesses to borrow money and many do not invest in their own enterprises as a result. This low usage for financial services puts up the cost of lending – and hence the spiral continues. Even though some of these services are already available, the financial sector has little incentive to lend to these kinds of investors, and does not pay much attention to creating additional financial services and products that meet their needs.

Unstable policy environment for agribusiness. Different ministries, departments and agencies have their own agribusiness agendas. They are rarely co-ordinated. This results in duplication, wastage of resources and inefficiencies. Interference in markets driven by political motives also contributes significantly to uncertainties and market distortion.

Weak governance. Political interference has been noted to result in market distortions in Kenya. Poor resource management and misappropriation of public funds, cartels, poor security for investors and flouting of procurement rules are some of the challenges that must be addressed if investment in the agribusiness industry is to be encouraged.

A weak agro-machinery subsector. Many investors who supported agro-machinery operations have switched allegiance to import-substituting traders. They blame this on the high cost of procuring raw materials, expensive electricity, transportation and labour costs, and the insecurity of their investments.

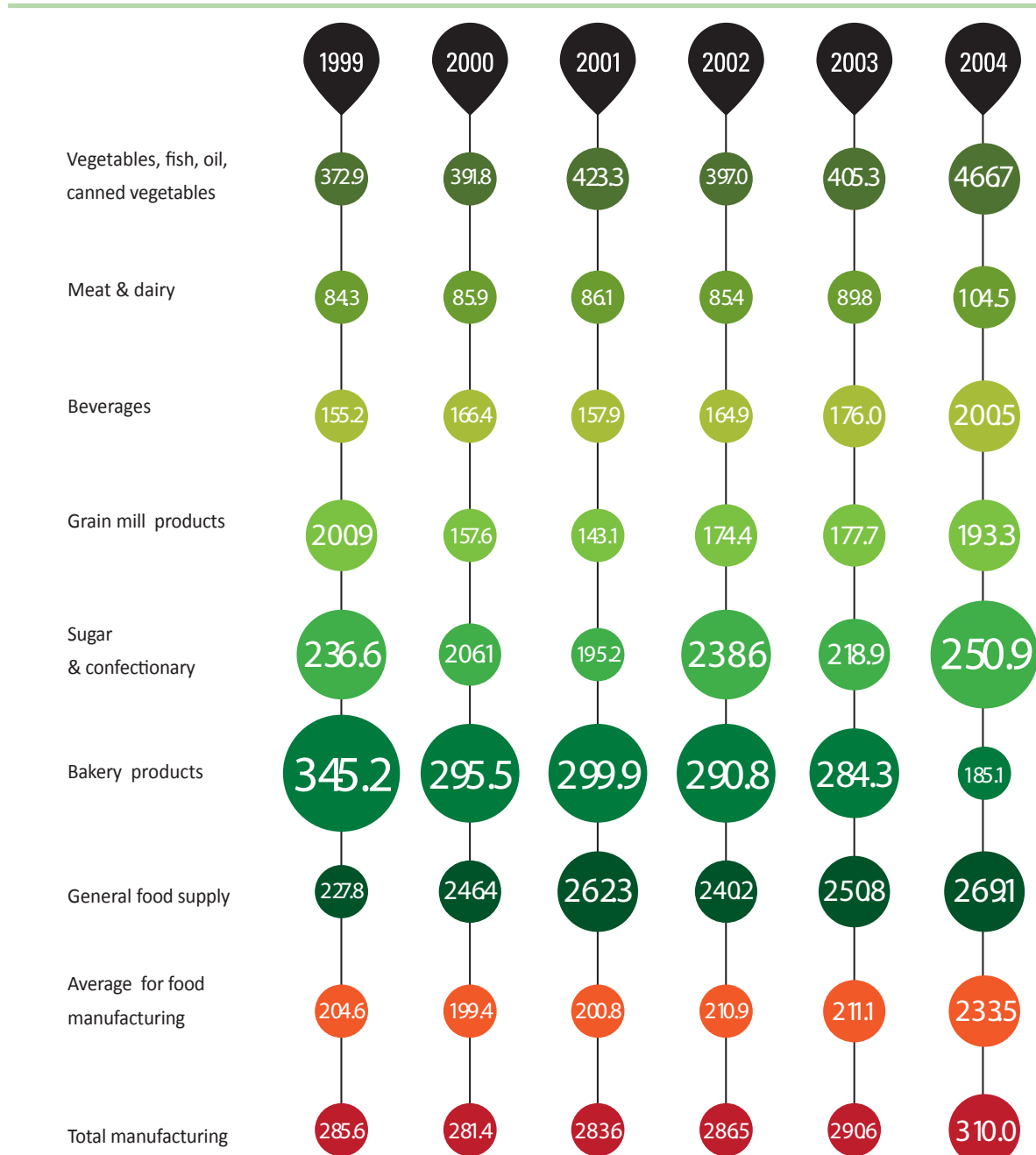
Productivity for some key commodities is among the lowest in the world: the average yield of maize, the staple food crop, is about 1.5 tons per hectare, even

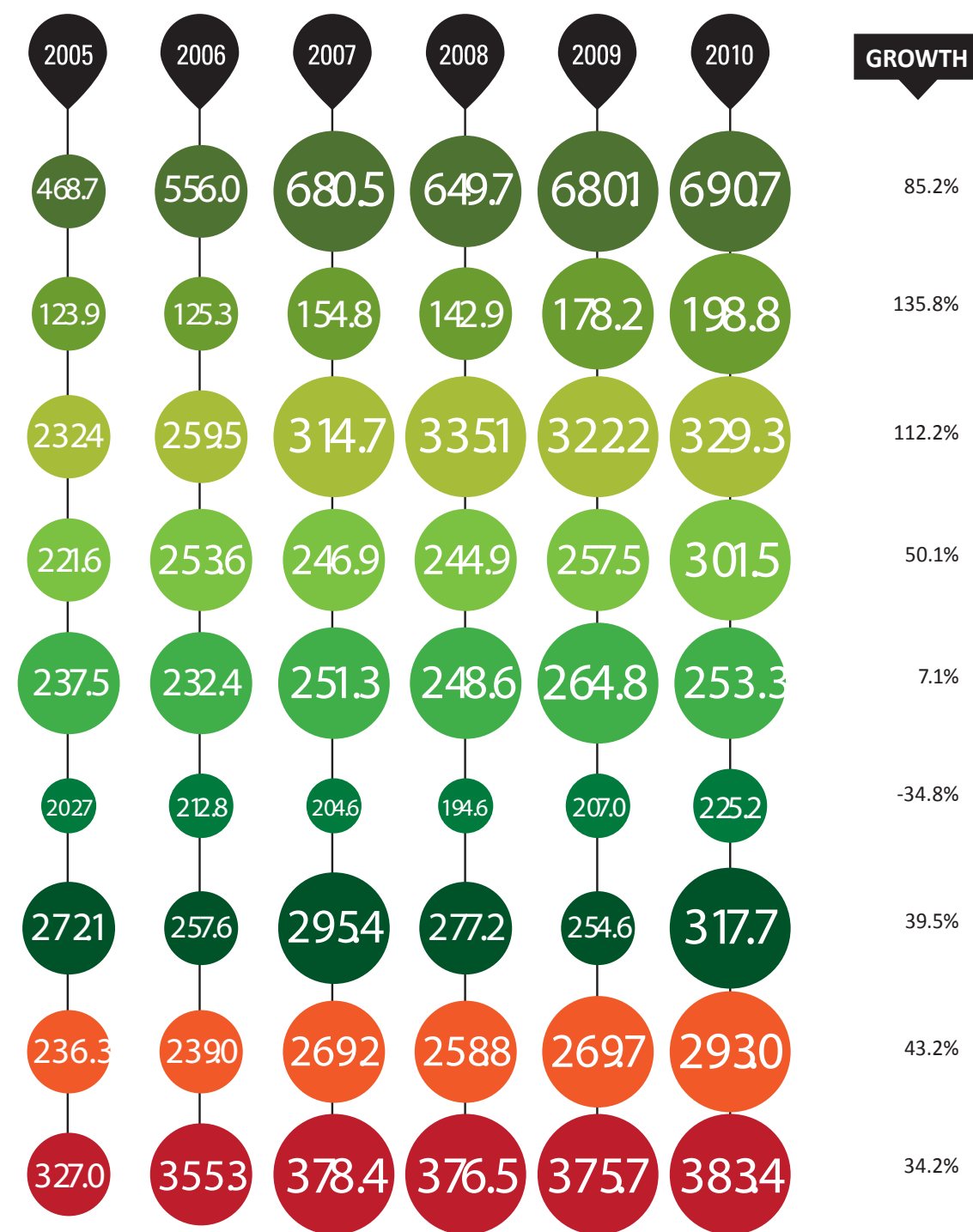
though crop varieties exist with potential yields of 5 to 7 tons per hectare. These weak results are partly explained by low adoption of science, technology and innovation by smallholder farmers, because of illiteracy, lack of capital and poor technology transfer mechanisms.

2.2 HOW CAN AGRIBUSINESS UNLOCK THE POTENTIAL FOR AGRICULTURAL GROWTH?

The Kenya Vision 2030 names agriculture as one of the key sectors to deliver the desired 10 percent annual economic growth rate for the country. It proposed that smallholder agriculture should be transformed from its current subsistence level, marked by low

TRENDS IN MANUFACTURING PRODUCTION INDEX (1976 = 100)





productivity and low ‘added-value’, to ‘an innovative, commercially-oriented, internationally competitive and modern agricultural sector’.

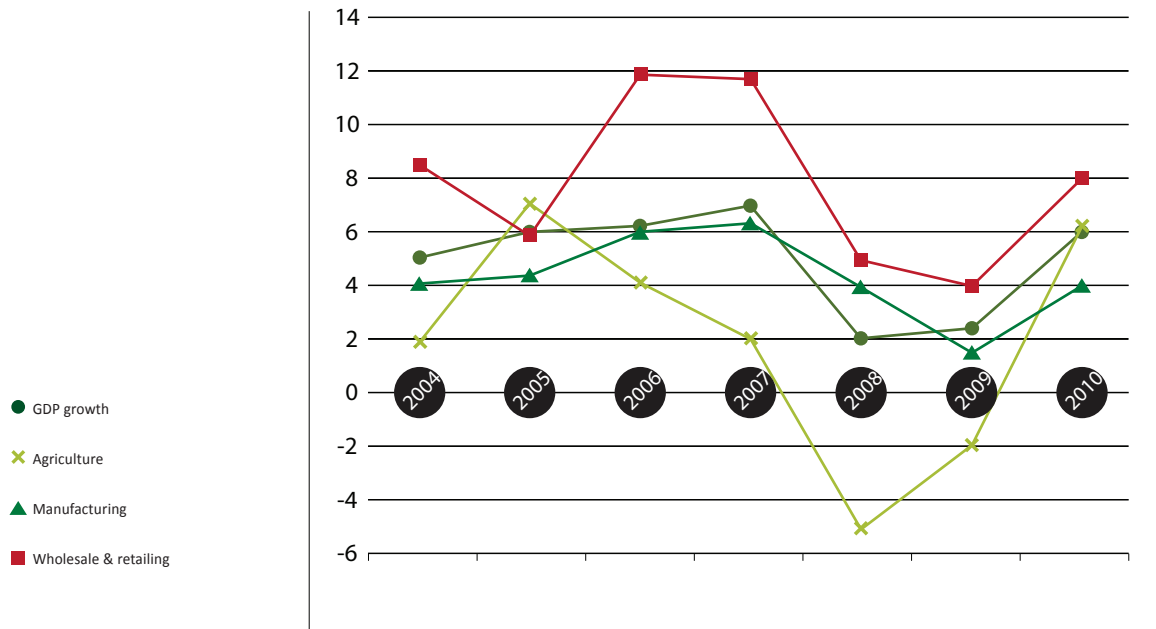
Agribusiness holds the key to this transformation. It is the sleeping giant that could realise the potential of the agriculture sector across a wide range of subsectors including food, textile, energy industries and biotechnology.

Agro-industrial activities lend themselves to creating jobs in the places where people actually live and work. Most processing sites are located in rural areas

where processing materials are produced and where 78 percent of Kenya's people live. Many people are or have been involved with agribusiness in one form or another: more than 20 percent of formal sector and 15 percent of informal sector employees have engaged in agro-industrial activities.

Manufacturing and the wholesale and retail sectors have shown more stable growth than agriculture over the last decade (Figure 3). Aligning agriculture with these two sectors holds the promise of stabilising and strengthening agricultural growth rates.

Figure 3: Economic growth rates (%)



Source: Economic Survey 2007 and 2011

Agribusiness has already shown its potential to integrate smallholder farmers into the sector in a range of innovative ways. First, by farmers organising themselves into co-operatives which can take advantage of the economies of scale of larger organisations, e.g. for bulk buying of inputs and bulk selling of produce, as well as adhering to quality standards. Second, by becoming contract farmers to a commercial company with responsibility for supplying specific agricultural commodities. These schemes, also known as 'outgrower schemes', provide growers with security of supply and product integrity, and protect them from the fluctuations in both price and demand that exist in the open market. Also storage and packaging can be a way of unlocking the potential of the agricultural sector. Through appropriate and attractive packaging, higher prices may be attracted to the benefit of the farmer, while storage increases shelf life and reduces post-harvest losses.

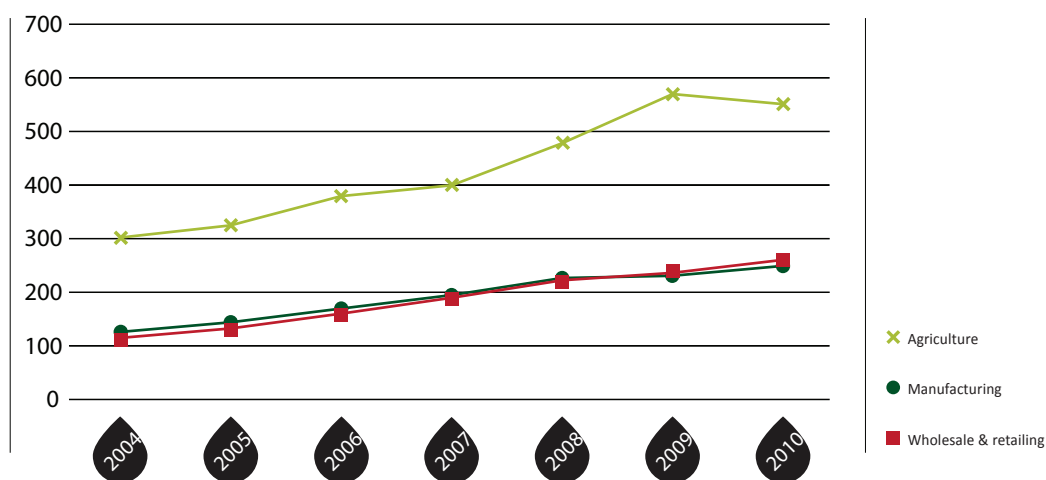
2.3 WHAT ARE THE TRENDS THAT AFFECT AGRIBUSINESS POTENTIAL?

Increased value of marketed production

The value of manufactured products increased from Kshs127.44 billion in 2004 to Kshs254.46 billion in 2010. Its share of GDP remained fairly stable, rising marginally from 10 percent in 2004 to 10.8 percent in 2008 before dropping to 10 percent in 2010.

The same trend has been recorded in the wholesale and retail sector, where wholesale value increased from Kshs117.35 billion in 2004 to Kshs262.13 billion in 2010, surpassing manufacturing for the first time in 2008. Its share of GDP increased marginally from 9.2 percent in 2004 to 10.1 percent in 2008 and 10.3 percent in 2010.

Figure 4: Value of marketed production (billion Kshs)



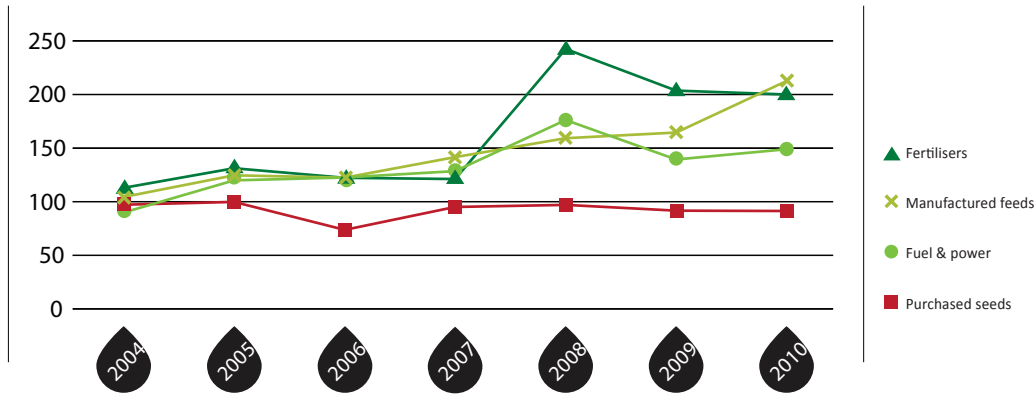
Source: Economic Survey 2007 and 2011

The rising costs of agricultural inputs

The importation and use of agricultural inputs such as chemical fertilisers and pesticides has increased since 2007, despite their prices almost doubling over the same period. The rising prices of crop inputs is evident in Figure 5, more so in the year 2008 when there was a surge in world market prices of inputs.

Figure 5: Price index for agricultural inputs

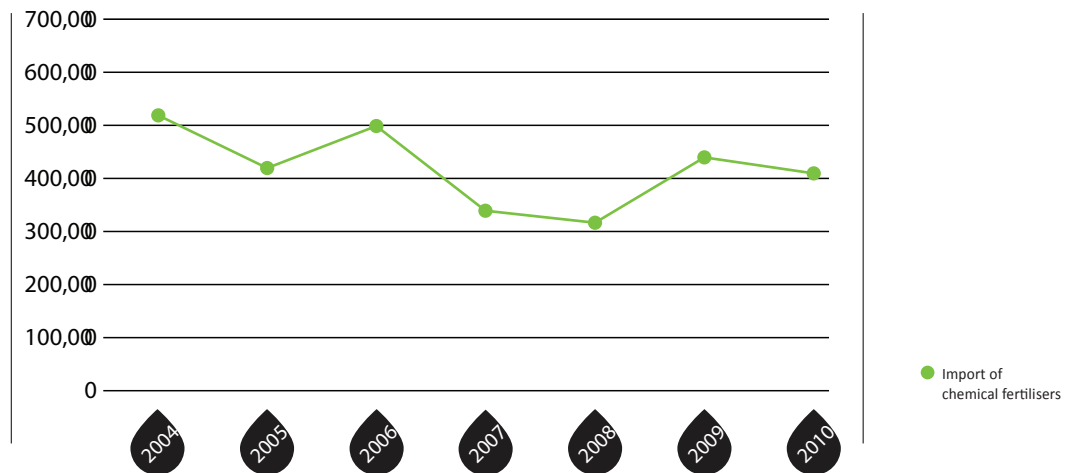
(Base: 2001=100)



Source: Economic Survey 2007 and 2011

The surge in input prices in 2007–2009 resulted in a slump in the use of fertiliser in those years (see Figure 6). However, actual increases in imports and use from 2009 illustrate that the sector is getting stronger, to the point of being able to absorb global shocks such as massive price rises.

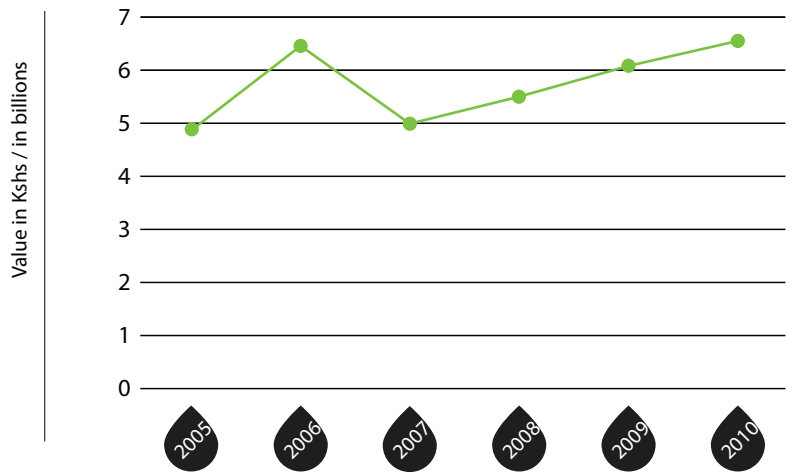
Figure 6: Imports of chemical fertilisers (tons)



Source: Economic Survey 2007 and 2011

Over the same period, the importation of pesticides showed a similar trend. The total value of imports increased from Kshs 4.9 billion in 2004 to Kshs 6.6 billion in 2010.

Figure 7: Importation of pesticides 2005–2010

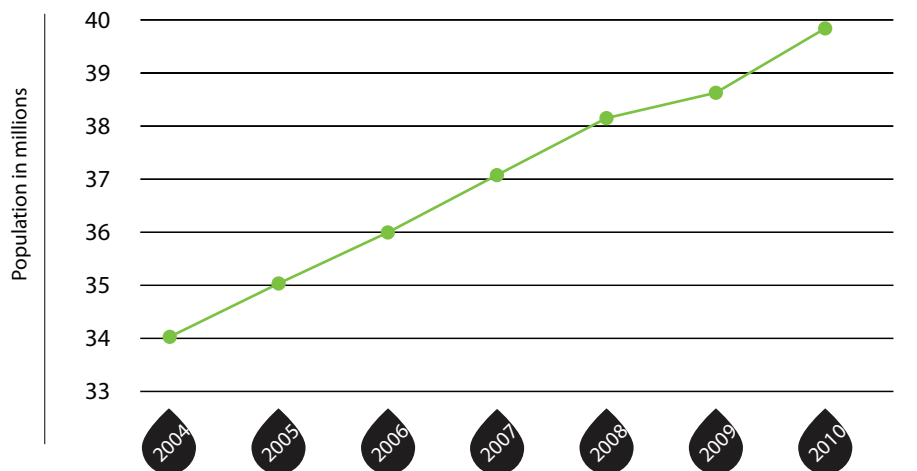


Source: Economic Survey 2007 and 2011

Kenya’s rising population

Kenya’s human population is growing rapidly at annual rates of around 2.46 percent (see Figure 8). Feeding this growing population requires a rethink of conventional agricultural development strategies, and a focus on the technologies that will intensify agricultural production. Farming needs to be considered as a business, which might lead to reconsidering the belief that every Kenyan must own a parcel of land.

Figure 8: Kenya’s human population trends 2004–2010



Benchmarking to ensure high-quality growth

No country has achieved either significant or sustained poverty reduction without a coincidental increase in economic growth. For most, agricultural growth underpins this economic growth, and precedes growth in other sectors.

China’s remarkable annual economic growth rate of 9.5 percent during the 1980s

and 1990s was preceded by rural and agricultural policy reforms in the late 1970s and early 1980s. Indonesia and Thailand also experienced strong agricultural growth periods before attaining high non-agricultural growth.

Countries have experimented with a range of different strategic approaches to create an 'enabling environment' for agribusiness to flourish, with variable successes (see Boxes 3 to 5).

Studies have shown that rural road development has the potential to reduce transport costs, generate market activity and increase opportunities for off-farm and female employment (Box 3). Similarly, countries like Israel that have trained their diplomats on export promotion have had significant success in agricultural sector development (Box 4).

Appropriate policy has also been reported to provide a firm foundation to agricultural sector development. This is especially so if the policy is associated with public funding of basic infrastructure and services (Box 5).

[BOX 3]

IMPROVING ROAD SYSTEMS

Rural road development has the potential to reduce transport costs and generate market activity. The renovation of roads in Vietnam increased the variety of goods that households sold in the market – primary fruits, vegetables and meat – and encouraged greater participation in trade and services.

In Georgia, the construction and rehabilitation of roads increased opportunities for off-farm and female employment. Simulation modelling in Madagascar has suggested that the country could increase rice production by one percent if the time taken to travel on roads was halved.

[BOX 4]

TRAINING DIPLOMATS TO BECOME EXPORT PROMOTERS TOO

Israel's successful export-promotion strategy involved instructing and training Israeli diplomats in export-promotion methods, specifically playing a leading role in export-promotion events and activities organised by government offices and economic organisations. The strategy also created business opportunities for exporters through their professional organisations.

[BOX 5]

INTRODUCING INFRASTRUCTURE, POLICY AND TECHNICAL REFORMS

A handful of factors have been key to the success of Brazil's agricultural sector. Well-articulated policies, supported by publically funded agricultural research and development and laws that are designed to equip small-scale farmers with adequate technical support, have provided a firm foundation. A programme of infrastructural development designed to improve the movement of goods to the country's ports has recently been completed or is currently in progress. This has included the privatisation and upgrading of the railways.

2.4 WHAT ARE THE OPPORTUNITIES FOR AGRIBUSINESS GROWTH?

A wide range of opportunities exists that provides fertile ground for the agribusiness sector to flourish.

Rapid urbanisation and increasing demand for processed foods

Up to thirty percent of Kenyans live in urban areas and the rate of urbanisation is high at 4.2 per cent per year. As people get richer and more live in towns and cities, this offers great business opportunities for agriculture if well-harnessed. Urban consumers will demand better quality, packaged, processed and more diverse food products: the products of agribusiness. Recent consumption of dairy and meat products provides evidence of this trend. This demand could create jobs, especially for young people.

High world food prices

Surging world prices have highlighted Kenya's dependence on food imports: more than half of the country's rice, oranges, wheat and vegetable oils are imported. This trend – set to continue – provides plenty of reasons to support and strengthen local production through sector support.

Dominant sector within the economy

Compared to other sectors of the economy, agribusiness has the potential to absorb and creatively employ large numbers of underemployed rural people.

It can make a massive contribution to the country's poverty reduction strategy.

Large potential to generate export earnings

Agribusiness already generates 60 percent of Kenya's export earnings through horticulture, industrial crops, and livestock and fishery products. The Common Market for Eastern and Southern Africa (COMESA) is the market for about 70 percent of Kenya's total exports to Africa.

Comparative advantage in the region

As the most economically advanced country in the region, endowed with a good geo-location and natural resources, Kenya has a comparative economic advantage. However, competition is on the rise from neighbouring countries, and a concerted effort is needed to maintain this position.

3

FRAMEWORK FOR AGRIBUSINESS DEVELOPMENT IN KENYA

...Building an enabling environment in which the sector can flourish

A conceptual framework, building on the challenges examined earlier and based on critical success factors for agribusiness development, as identified by stakeholders, has been developed to guide this strategy. It is intended to create an enabling system where the different parts of the wheel work together to achieve one goal: developing agribusiness in Kenya. The framework consists of four drivers for agribusiness development, which include eleven critical 'cornerstones' that are needed to make agribusiness development a success. The framework is presented graphically in Diagram 1.

3.1 THE FOUR DRIVERS THAT MAKE UP THE ENABLING ENVIRONMENT FOR A FLOURISHING AGRIBUSINESS SECTOR AND THEIR RESPECTIVE CORNERSTONES ARE:

1. An enabling and predictable policy and institutional framework

This driver consists of the following cornerstones:

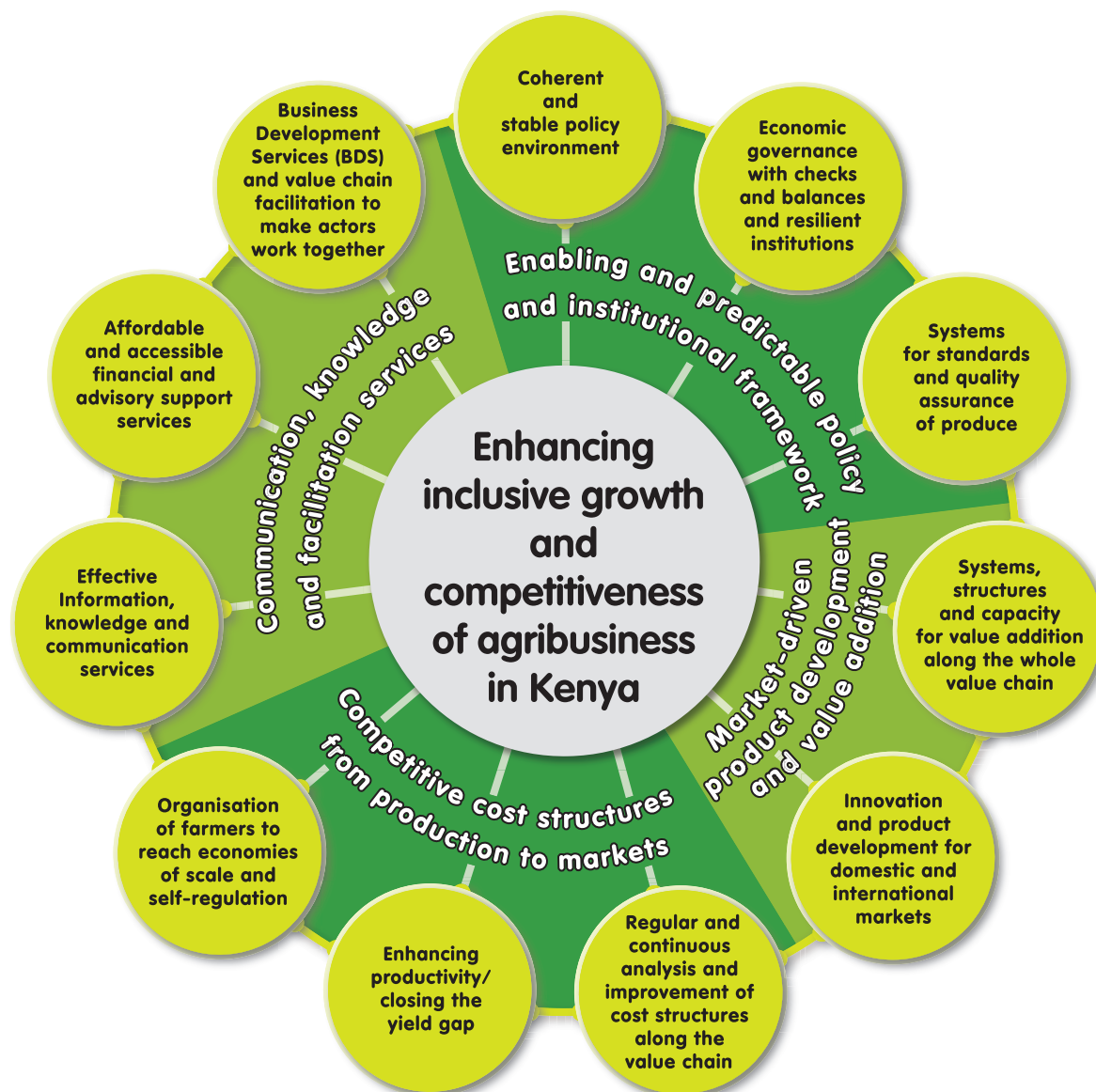
- Coherent and stable policy environment;
- Economic governance with checks and balances and resilient institutions;
- Systems for standards and quality assurance of produce.

Nobody will invest in a business – however good it is on paper – if they risk losing their investment as a result of sudden changes in regulation or unpredictable government interference, or because the law doesn't protect their investment. Policies are needed that create a safe and predictable environment for investors and anyone else working along the value chain.

Independent, resilient and non-political institutional and governance structures are also necessary. These need to have relevant mandates and power, as well as proper checks and balances. The structures also need to be independent of both government and vested interests, with clear lines of accountability.

Last, there should be a comprehensive system for standards and quality assurance in place, which includes training, control mechanisms and reporting structures. These are important to ensure the quality

DIAGRAM 1: Enhancing agribusiness in Kenya – a conceptual framework



and competitiveness of Kenyan agricultural products, with farmers given adequate support to achieve high standards. Self-regulation and controls are needed to ensure compliance with these systems.

2. Market-driven product development and value addition

This driver consists of the following cornerstones:

- Systems, structures and capacity for value addition along the whole value chain; and
- Innovation and product development for domestic and international markets.

Most of the goods that Kenya exports are raw, have little 'added value' and earn scant profit. Some products are even exported for processing and then re-imported for sale in the country. Systems, structures and capacity need

to be put in place to help Kenya's producers add value to their products, for sale in both domestic and international markets. This would improve both profitability and competitiveness.

Better links between public and private innovation and product research and development (R&D) and businesses are essential to improving the competitiveness of the sector. Improved structures and processes for better dialogue and exchange are also important so that research addresses practitioners' needs at the same time as giving researchers practical results.

3. Competitive cost structures from production to markets

This driver consists of the following cornerstones:

- Regular and continuous analysis and improvement of cost structures along the value chain;
- Enhancing productivity/closing yield gaps; and
- Organisation of farmers to reach economies of scale and self-regulation.

Small-scale entrepreneurs who work individually in the agricultural sector face huge challenges, and do not realise the economies of scale achieved by farmers, traders, processors and marketers who co-operate and collaborate across the value chain. There is a need to continuously analyse and improve cost structures for processes in order to achieve higher efficiencies and to improve business competitiveness. This may also be achieved by supporting farmer organisations to reach economies of scale and undertake self-regulation.

4. Communication, knowledge and facilitation services

This driver consists of the following cornerstones:

- Effective information, knowledge and communication services;
- Affordable and accessible financial and advisory support services; and
- Business development services (BDS) and value chain facilitation to make actors work together.

Non-financial services such as training, consultancy and advisory services, marketing assistance, and technology development and transfer all play a crucial role in increasing the competitiveness and efficiencies of small businesses. But these BDS are seldom available to small entrepreneurs who work in remote physical locations, and do not know what kinds of services are available – and therefore do not make demands of them. In particular they lack access to state-of-the-art advisory and facilitation services that help farmers increase productivity sustainably, and link them to innovations.

Entrepreneurs operating at all levels of the value chain also lack access to up-to-date information on prices, weather, pest control and other topics that would help them do business in a planned and efficient way. Such knowledge

and information management systems are essential to link producers with markets, and to improve long-term planning and quicken reaction times to changing external circumstances.

Each of the above clusters presents factors that are required to make the Kenyan agribusiness sector work as a system. The framework is being used to analyse the state of the different factors in a given situation, and to assess the gaps that need to be addressed most urgently to make the system work. Not all the factors have to be addressed at the same time. However, any that are creating a real bottleneck at any given time should be dealt with immediately. The framework helps to prioritise which parts of the system should be given the highest priority to enhance agribusiness.

Work is needed to improve the prevalent perception held by the public and promoted by the media that agriculture is ‘something you do when there is nothing else left for you to do’. This negative attitude is damaging. A positive image of agriculture as a modern sector is crucial to both attract young entrepreneurs, and to give small farmers the chance to transform their subsistence agriculture into effective businesses.

This framework has not only helped to conceptualise an efficient and effective agribusiness sector, but to identify at a more detailed level the real bottlenecks and gaps in the Kenyan situation. Using this, it has been possible to identify and prioritise five key strategic areas in which action is required to realise the sector’s potential. These Strategic Priority Areas are the subject of the next chapter.

4

THE STRATEGIC PRIORITIES FOR AGRIBUSINESS IN KENYA

...Aiming for a highly productive and efficient agribusiness sector that is competitive both locally and internationally

4.1

STRATEGIC PURPOSE AND OBJECTIVES

The purpose of the strategy is to guide the agricultural sector's development and transformation towards its re-orientation from a focus on subsistence to a new focus on meeting competitively the demands of the market and of commercialisation.

The strategy has four objectives:

- Remove barriers and create incentives for the private sector to invest in agribusiness and related business opportunities;
- Invest public resources more strategically to trigger growth in agribusiness;
- Make agribusiness systems more competitive, easily adaptable and 'fleet-footed' in order to deal with dynamic markets and the opportunities they bring; and
- Encourage 'the right kind' of institutional frameworks that enable all actors to utilise market opportunities.

These objectives will be realised by pursuing five strategic priorities. Each is of equal importance, and will need to be pursued at the same time to bring overall results.

All stakeholders will need to play an active role, both individually and together, to achieve these ambitious priorities. At times, government will need to take the lead, e.g. by facilitating closer interaction between the private sector and the public sector, or by sharpening up the policy environment so that it actively encourages innovation. In other strategic areas the private sector will need to take the lead, expanding the range of financial services available to small-scale entrepreneurs and actively marketing these services.

4.2

STRATEGIC VALUES AND PRINCIPLES

The strategy is underpinned by a set of core values that guide the actions emerging from the strategy. These are:

- All actions should be driven by the aim to reach higher competitiveness through efficiency gains in value chains.

These gains can be in terms of actors working together more effectively or through better technology, systems and processes.

- **Inclusiveness:** including all actors – particularly smallholder farmers – in value chain processes. The strategy aims at an inclusive development, where different interests are well negotiated while providing space and freedom to innovative and entrepreneurial forces.
- **Performance over politics:** pursuing a performance-based approach, where political dimensions are recognised and appreciated while checks and balances ensure that political interference cannot override performance. This applies to organisational management and politics in public and private organisations, as well as political interference. Technocratic performance issues will be the strategy's drivers.
- **Let roles be assigned to those who are best suited to play them:** a core value is that roles need to be carefully analysed, and those who are best placed and have the best performance records should be mandated to play these roles to achieve the highest performance. A continuous assessment of traditional and non-traditional actors will identify those who are best placed to lead. In many cases this might be new partnerships (public/private) which can deal best with the complex issues involved in agribusiness. The issue is not people or institutions, but performance.
- **Systemic approach:** the strategy aims at developing functioning systems through its interventions. It does not encourage single activities that have no impact on the functioning of the systems' capacity to perpetuate its efforts in a self-driven and self-organised fashion.
- **Transformation:** the present situation is largely influenced by the status quo of institutions, attitudes and people. The strategy aims at transformation of people's attitudes and of institutions and organisations as a base to unleash the potential that Kenyans and their institutions have.

4.3

STRATEGIC PRIORITIES

The five strategic priorities for agribusiness development in Kenya were identified through an in-depth analysis of the situation, guided by the conceptual framework. The strategic priority areas are all operational responses to the four drivers in the conceptual framework, while the issue of information and communication has been fused into five priority areas. All priorities need to be tackled at the same time, with the lead being taken by different actors in each case.

The five priorities are:

Strategic Priority A:

Put markets at the centre of all production, processing, product development and packaging

Strategic Priority B:

Focus research and development and innovation to better catalyse growth of a vibrant agribusiness sector

Strategic Priority C:

Promote smarter organisation of the actors in the sector to enable enterprises to benefit from economies of scale and improved productivity

Strategic Priority D:

Improve the range and effectiveness of financial and non-financial services

Strategic Priority E:

Attract investment by creating an enabling environment and putting performance above politics

The important issue of effective communication and information for growth in agribusiness is not listed as a separate priority since it is cross cutting through all the priorities and has to be an integral part of all interventions and activities.

4.3.1 Strategic Priority A: Put markets at the centre of all production, processing, product development and packaging

Background/current issues

The agricultural sector in Kenya to date has been largely 'supply driven', i.e. it has focused on production and getting the product to market. It has not concerned itself with the needs of the market, and how to satisfy them. This first strategic priority therefore, aims to re-configure the sector so that it understands the needs of, and produces for, the market.

The first challenge is for producers to understand market demand, using information that is timely and detailed. They need intelligence that is up-to-the minute on quality standards, sanitary and phytosanitary requirements (food safety and plant health), price indicators, production volumes etc. to help them realise the potential of their goods and services on the open market.

The needs of different kinds of market – domestic, regional and international – should be factored into business plans, because they vary hugely. For example, domestic and regional markets focus on

different commodities and high value products from international markets. The potential of local and regional markets is generally significantly underestimated. The focus over many years has been all on international markets as foreign currency earners. As in many other countries, agribusiness will in future need to pay a lot more attention to local and regional markets to utilise their potential.

For international markets, emphasis should be placed on maximising income and creating local jobs through the export of higher value products. For regional markets, prominence should be given to the production of commodities in which Kenya already has a comparative and competitive advantage in the region. For the domestic market, the strategy should aim to create more structured and organised markets that enable other players, such as processors, marketers and financial services providers, to participate.

Objectives of this priority area

In order to realise the first strategic priority of making the agriculture and agribusiness sector more market-oriented, we need to do four things:

- Establish a market-oriented agriculture and agribusiness sector for Kenya in which all activities from breeding, to production, processing and packaging address the needs of the market;
- Identify new and emerging markets for Kenyan products, and innovate around our products to better meet niche and premium markets;
- Better position Kenyan products, possibly through the creation of a strong brand like 'Made in Kenya', which would communicate quality and distinctiveness; and
- Improve the physical market infrastructure in Kenya, to include aspects as diverse and fundamental as sanitation and storage facilities.

Main challenges

The main challenges are enabling producers to understand and stay well informed about markets, and to add value to their products to meet market needs. Questions to consider in this respect include:

- How to create access to up-to-date and relevant market information by all key actors in the value chains?
- How to drive value addition based on the needs of the market and reach the type, quality and quantity of products the market requires?
- How to discover and explore new markets?

- How to promote innovation and product development in the various stages in the value chains?
- How to create value through a quality brand 'Kenya' in the domestic, regional and international markets?
- How to develop market infrastructure that fulfils hygiene standards, that is reachable and affordable (value for money)?

Strategies to address the challenges:

a. Improve market intelligence systems

Establishment of a central repository

A central repository will be set up which will cover all markets (domestic, regional and international). An appropriate agency will be identified to host the repository, and it will be charged with compiling, regularly updating and passing on up-to-the-minute market information and intelligence to agribusiness players.

International and regional markets

The central repository will hold intelligence on market conditions such as prices of related competing products, demand trends for products, existing competition, packaging requirements, regulatory requirements, tariffs and non-tariff barriers, and SPS requirements.

Domestic markets

Less complex information is needed for producers working in a domestic market, but they will still require intelligence on buying patterns and trends in different parts of the country, in order to set production and distribution targets.

Production and market mapping

Mapping will be carried out to accurately capture what products can best be produced in different parts of the country, and where there are markets for these products. This will help to optimise production, and avoid waste in both production and marketing.

Dissemination of non-market related information

Producers need access to a wide range of information in order to carry out their operations efficiently. They also need to communicate what they are doing so that others can find them and use their services. As well as market information, the central depository will gather, collate and circulate all other up-to-date information required by agribusiness players.

b. Involve the private sector to improve market infrastructure

Physical markets

An established market infrastructure – including actual market locations accessible to producers and distributors – is essential. Collaboration with the private sector holds promise, so long as roles, responsibilities and returns are clearly identified from the start.

Special agro-economic zones

The government will work closely with non-state actors on mapping different agro-economic zones in Kenya and identifying the most suitable products and value chains for each. Once mapping has been carried out, investment will be promoted in special agro-economic zones to include business incubation, banks and financial services.

c. Help producers become innovators who develop new products for new markets

To develop new products and boost the productivity of existing ones, producers need to become more innovative, and they need help in doing so. This will be done by setting up Centres of Excellence, where research and demonstrations about production methods are on display, and by benchmarking the world's most productive producers to help local producers set targets for their own work. Specific initiatives will include Kenya's Embassies actively promoting Kenya's production capabilities abroad, where consumer interest is likely to be high.

d. Provide incentives for adding value to products, and remove disincentives for exports

Value addition

For Kenya's products to be competitive in the domestic, regional and international markets, the percentage of produce undergoing value addition has to be increased dramatically. Currently more than 90 percent of Kenyan produce is exported in raw or semi-processed form, leaving many opportunities for income and employment generation underused. Also for the domestic market, market-oriented value addition to products is important for exploring new markets, increased income and employment generation. Therefore the government will support producers, processors, traders and marketers to develop innovative products in value added form, and create and provide incentives for those actors to invest in the facilities needed for value addition for their respective products. Value can be added to a product on any level of the chain – including production, processing, trading, marketing and packaging. A first step is to analyse the various value chains to identify areas for value addition and improvement in structures. The next stage is to develop targeted interventions addressing the urgent issues and potential areas in the different value chains.

Product competitiveness

For Kenyan products to compete effectively in the marketplace, they need to be competitively produced. The extraordinarily high input costs of electricity and fuel, coupled with high transaction costs, are massive impediments to producers competing successfully in export markets. Cheap imports from other countries also bring fierce competition domestically. The government will consider tax concessions for export-bound agricultural-based products, and will help producers to tap into alternative and cheaper energy sources. Cheaper transport systems, such as rail, will be fast tracked to reduce transport costs.

e. Create brand awareness in Kenya and internationally

Local products, if they are to become successful brands globally, should first become recognised in Kenya. With a good domestic reputation, they are more likely to attract international investors. This is shown by the successful example of a mobile phone-based money transfer service that originated in Kenya, but has been recognised internationally. The government will support programmes of brand building and brand marketing for new and existing products destined for international markets.

4.3.2 Strategic Priority B: Focus research and development and innovation to better catalyse growth of a vibrant agribusiness sector

Background/current issues

New products, processes and services, coupled with expansion to new markets, are critical to the survival of Kenya's agribusiness in the domestic, regional and global markets. R&D and innovation form the foundation stone to a vibrant sector.

Kenya has considerable capacity for research, development and innovation, but has limited ability to translate science and technology into new products and processes, wealth and jobs. Smallholder farmers and agribusiness entrepreneurs neither drive nor (hardly ever) inform national research agendas. They do not find it easy to access the results of research, or put them to productive use. It is particularly difficult for individuals who are not connected to any formal association, to make use of the information and services that might be available to others more visible in the sector.

Success has been achieved to date in catalysing the development of a number of successful agribusiness sectors, but a number of challenges still exist.

Some of the challenging issues affecting the effectiveness and efficiency of agricultural research are already being addressed through initiatives like the National Agricultural Research System (NARS) policy, which is complete and awaiting government approval. This

policy will address the issues of inadequate interaction within the research system, duplication, collaboration and synergies. The National Agribusiness Strategy will identify and address the capacity needs of agribusinesses; support the establishment of at least one priority reverse engineering facility; set up and support technology incubation centres at all national agricultural research centres; and identify individuals to assist technology transfer among clusters of technology users.

Objectives of this priority area

The ambitions of the second strategic priority are threefold. First, to bring about closer collaboration between research and industry (including farmers and research organisations) on product development that is driven by market demand. Second, to see a commitment of half of all research resources invested in research and development and commercialisation. Third, to reorient national research agendas so that they respond rapidly to both market opportunities and demands, and deliver impact together with private-sector partners.

Main challenges

The main challenges involve how to make sure that research, development, innovation and technology are used to improve productivity. Questions to consider include:

- How to create institutional arrangements that enhance collaboration and synergies between research institutes, industry and other stakeholders, so they produce products and processes for the markets?
- How to encourage greater use of technologies by enterprises to improve productivity?
- How to develop capacity for research on secondary (value addition) and tertiary (market and consumer) levels of agribusiness value chains?
- How to develop mechanisms for sustainable funding of research for agribusiness?
- How to develop capacity for reverse engineering for faster technology and product development?
- How to develop capacity to address post-harvest losses?

Strategies to address the challenges:

- a. **Strengthen incentives and mechanisms to build stronger institutions that collaborate to effectively meet the needs of the market**

Weak links exist within the research, education, extension and industry innovation system. There is little interaction between the different organisations that need to work together to maximise productivity. Current R&D efforts often overlook the dynamism that exists within the sector, focusing

simply on improvements within a given value chain, rather than exploring how value chains can be shifted to target different, more attractive markets and business strategies. Effective R&D must be informed and underpinned by robust understanding and analysis of the market, and an appreciation that this is constantly changing. Mechanisms for rewarding innovators, including making sure that their intellectual property is safeguarded, will be developed.

Easily accessible and interactive knowledge-sharing platforms need to be created that allow producers and others working within a sector to find out about market information and communication exchange initiatives. These should also enable them to link with other strategic partners, and show off successful initiatives within a sector. R&D will focus on opportunities to deliver a package of products and services that the market or customer will find desirable.

b. Improve smallholder farm productivity with increased use of technology

Higher agricultural productivity in the small-scale farming sector is a precondition for growth and development in the agribusiness sector. Several transformative steps are essential if the sector is to realise 7 percent annual growth in agricultural output, as set out in the ASDS:

- Promote new models of technology and knowledge transfer among small-scale farm holders. For example, research institutions and other innovation agents can partner with change agents residing in farming communities to provide training and demonstrations on new technologies, innovation and knowledge.
- Support agribusiness development service providers and other mechanisms for capacity building of agribusiness enterprises.
- Develop innovative cost sharing and risk management approaches for small-holder farmers to adopt.
- Create (better) mechanisms to enable the public and private sector to work together on innovation and product development, for example, by guaranteeing funds provided by the private sector through cheaper loans.
- Develop the necessary regulations, systems and processes to stamp out illegal copying of patents and other practices that undermine Kenya's intellectual property rights (IPR) laws.

c. Build capacity to engineer and manufacture appropriate technologies

There is no need for every developing country to invent the basic agribusiness technologies that already exist and are used globally. However, it is very important that a country has engineering capabilities to analyse the function and purpose of any technology or process and reproduce it, with improvements suitable to their location and business purpose. In this respect, building of engineering capacities will be promoted.

Kenya's agribusiness sector would benefit if it had the capacity to manufacture

small tractors and simple farm tools like crop sprayers, cottage industry processing equipment and even some weed and pest control chemicals. Incentives will be provided to encourage and attract private sector partnerships to help build this capacity. Emerging economies like China, India and Korea have taken this path.

d. Build capacity to carry out innovation and research beyond improving agricultural productivity

Traditionally, agricultural research has concentrated on increasing the productivity of agricultural commodities. Capacity is low around adding value to agricultural products and marketing. The sector also has a weak track record in achieving innovation success.

Collaboration between research organisations, universities, private agribusiness and government will be encouraged both to build human resource capacity and attract adequate funding. Smart funding arrangements will be explored to encourage private funds into this area. Incubation arrangements will be encouraged, in which research and industry work together to drive product development.

Research should be mindful of the different needs of national, regional and global markets. Research will focus on the following as priorities: partnerships with international companies and branding agencies; better branding of national products; developing and applying Kenya good practices in the value chains; and systems of self-regulation and compliance with market requirements.

e. Build capacity for research in post-harvest engineering and technology

A considerable percentage of agricultural produce is lost through poor post-harvest handling and lack of proper post-harvest handling technology. Investment is needed to build national capacity for research in post-harvest engineering and technology to address this challenge. This should also address aspects of education/training in post-harvest engineering and technology, as well as provision of advisory and, or, consultancy services and promotion of entrepreneurship.

4.3.3 Strategic Priority C: Promote smarter organisation of the actors in the sector to enable enterprises to benefit from economies of scale and improved productivity

Background/current issues

A chain is only as strong as its weakest link. For enterprises to work with maximum efficiency, each actor must operate optimally for everybody's mutual advantage. Micro, small and medium-sized enterprises (MSMEs) need to be horizontally linked to get the best out of each other, and the vertical links within a value chain also need to be strong and effectively aligned for the sector to be productive and profitable.

The catalyst to more productive working arrangements lies in the different actors finding reciprocity of interest in co-operating and co-ordinating with each other. Creating a common forum for people to come together to learn more about what different enterprises do and what individual actors need and can offer to their 'business neighbours', would engender understanding and expose potential synergies that bring benefits to all. Such a forum could demonstrate the principles and practices of good corporate governance for individual members to learn from, and would hold both public and private agencies responsible and accountable.

There are instances where farmers in Kenya have organised themselves to form viable groups and co-operatives, but the level of success varies from group to group.

Objectives of this priority area

Greater co-operation and exploitation of synergies between different businesses and actors across the sector could bring about cost-efficiencies for individual enterprises, improvements in product quality; more consistent production levels to satisfy more demanding markets; and greater commercialisation overall.

The ambition of the third strategic priority is to encourage greater organisation of agribusiness enterprises in order to reap commercial benefits. Specifically, to enable smallholder farmers to form farmers' marketing groups or co-operatives; small traders to form traders' associations; and processors to create processors' associations. The main aim of coming together is to enjoy the benefits of organised bargaining and business operations. These benefits include economies of scale through training, value addition, sourcing markets, greater price control through bulk purchases, increasing bargaining power, lobbying and advocacy, networking and collaboration, information sharing, support services, commercialisation, and quality assurance. Greater self-organisation and self-disciplining of the actor groups through collective action would enable them to gain benefits which

only larger operations can have. Strong checks and balances in farmer organisations – both internal and external – are required.

Main challenges

The main challenges are clustered around how to bring about an ‘enabling business environment’ in which farmers and their organisations can flourish. Questions to consider include:

- How to establish organisational arrangements for smallholder farmers to deliver both more and better quality products, and to enhance their bargaining power vis-à-vis cartels?
- How to develop the services of farmer organisations so that they are effective and efficient, and attract members and stimulate business growth?
- How to capture, chronicle, communicate and replicate successful approaches and business models of farmer organisations?
- How to catalyse the transformation of subsistence farmers into commercial entrepreneurs?
- How best can farmers obtain consistent supplies of high-quality inputs for their businesses, such as market information, credit lines and affordable raw materials; as well as ensure clear and reliable delivery mechanisms for their merchandise?

Strategies to address the challenges:

a. Identify successful organisational models and share knowledge and best practices to promote those models among other groups.

In Kenya (and in the region) there are good examples of farmer organisations and groups that have succeeded in reaching an economy of scale and a scope going way beyond production. These examples will be sourced, documented and shared among farmer groups and organisations.

b. Foster self-organisation and self-regulation of groups and associations.

Governance in farmer organisations has generally been weak. This strategy will develop a methodology to facilitate the strengthening of leadership and governance from both ends: the members who elect leaders, and the leaders themselves. Ultimately, better leadership and internal management lead to better self-regulation and collective action. One central aspect here is the separation of leadership and management (board members, shareholders etc.). Facilitators need to be developed in all farmer organisations in order to unblock leadership-related bottlenecks and allow members to take charge.

c. Create linkages among producers, processors, traders and suppliers.

While self-organisation among farmers appears to be the biggest bottleneck, it also applies to other peer groups. This strategy will develop the legal and capacity conditions that are required to facilitate the formation of effective

peer associations with good leadership. Platforms will be developed to link the different actors and thrash out their bottlenecks to make their systems work for themselves. These platforms will be fora where services can be brokered and functioning links can be established between farmer groups and service providers. Brokering of services through middlemen has to be designed to be mutually beneficial.

d. Create systems for bulk-buying of inputs.

Besides collective action and economies of scale being a function of self-organisation and good leadership, this strategy will focus on the development of systems that enable bulking. These can be electronic systems and/or financial mechanisms and products that are outside farmer organisations and so inhibit the abuse of money by individuals.

e. Strengthen service development in farmer organisations.

Getting farmers to become active members of their organisations depends on the value they see in those organisations. This strategy will support farmer organisations to develop effective services for their members (e.g. bulking services, advisory services, financial services), which can motivate farmers to join.

f. Enhance saving among group members to enable better access to affordable credit/borrowing facilities.

Self-organisation and empowerment of groups and farmer organisations is a function of their financial independence. This strategy will focus on savings rather than simply 'credit and repayment schemes'. Modern information technology makes it easier to develop savings systems that are safe from fraud by members and leaders. These will be identified and actively promoted.

g. Build capacity of small-scale producer/commodity and agribusiness associations.

Most small-scale producer/commodity and agribusiness associations in Kenya are in their formative stages and face challenges to graduate to higher levels in terms of group dynamics. They have no technical or financial capacity to meet expectations from their members and potential members. The result is a vicious cycle where members do not see any benefits to joining and/or paying subscription fees. In agricultural regimes that are dominated by smallholder farmers and entrepreneurs, government has a key role to play in building the capacity of these private sector stakeholders. This is important because the goal of 'doing agriculture as a business' will be more easily attained if key sector players have the capacities needed to develop and reap the benefits of more competitive value chains. Agribusiness firms prefer to set up value chain linkages with large farmers or organised small farmers. Furthermore, globalisation has led to costly and very dynamic market entry requirements which favour better-resourced and organised producers and entrepreneurs.

There are certain innovative models of this kind of capacity strengthening that have been piloted by various agencies, including ASCU. These should be scaled up to deliver the required impact.

4.3.4 Strategic Priority D: Improve the range and effectiveness of financial and non-financial services

Background/current issues

A vicious circle exists that condemns many enterprises at the 'low end' of the value chain to remain there. Their low levels of productivity tend to make the cost of borrowing money relatively high, which discourages them from doing so, and inhibits growth and expansion of the business. Their low demand for financial services means that there is little incentive or profit for the financial sector to provide a wide and diverse range of products for these small-scale enterprises. As a result, the financial sector offers a limited range of services, with some conditions that cannot be met by a majority of smallholders, for example, the need for them to own land to act as security for loans.

As well as lack of access to finance, small-scale entrepreneurs lack access to business development services (BDS), which are essential to the entry, survival, productivity, competitiveness, and growth of small enterprises.

BDS provide a range of non-financial services to organisations that are working at different stages of the value chain. Operational services, which transform inputs into the final product, are important for those organisations producing primary products at the micro-level of the value chain. Support services, which operate at the meso-level, become more important as the business product becomes more sophisticated. There are some innovative solutions to some of these problems, where government and donor agencies are providing guarantees for loans to farmers. However, these are limited in scope and scale, and hold back the sector.

Non-financial services also include extension and technical advisory services. Existing services have to be transformed into demand-driven services focusing on farmers' needs. Consistent with the objectives of the new National Agricultural Sector Extension Policy (NASEP), harmonisation of the extension service delivery by various players is needed to ensure effective and efficient technical advisory services.

Agribusinesses face multiple, often simultaneous, risks such as weather, market prices and disease. Normal risk, such as variations in price or yield, can usually be managed at a household level using general tax, health and social systems. However, potentially insurable risks, such as hail damage, and catastrophic risks, such as flooding, drought or disease outbreaks, although infrequent, can bring about substantial and potentially terminal losses for the farmer.

Objectives of this priority area

The ambition of the fourth strategic priority is to improve accessibility to affordable financial and non-financial services; to increase confidence levels in the agribusiness sector to encourage investment in it; and to bring about holistic agricultural risk management systems.

Main challenges

The main challenges are encouraging financial institutions to produce financial services that will meet the needs of smallholders and other entrepreneurs, and making sure these services support smallholders to move from subsistence farming to a focus on markets. Questions to consider include:

- How to create incentives and motivate financial institutions to design and develop financial products that meet the needs of agribusiness entrepreneurs?
- How to strengthen the financial management capabilities of agribusiness entrepreneurs?
- How to mentor farmers and traders to change their attitude towards credit and agriculture insurance?
- How to transform smallholder farmers from subsistence to market oriented agriculture?
- How to strengthen poor risk analysis and mitigation mechanisms?
- How to improve, co-ordinate and harmonise business development services, and make information about these and other information services more easily available?

Strategies to address the challenges:

a. Improve range and accessibility of financial and non-financial products that are suitable for agribusiness

Concrete measures are needed to both incentivise the financial sector to provide more appropriate products and services for agribusiness, and to improve the capabilities of smallholder farmers to function as businesses. Alongside specific measures outlined below, initiatives such as risk guarantee funds, insurance guarantee, and incentives such as zero tax, preferred loan and input tax concessions will help to entice the private sector into this area of work. The possibility of setting up a fund, similar to the Constituency Development Fund, for agribusiness, will be explored to help generate resources for start-up businesses.

Create incentives for financial institutions to develop appropriate financial products

Financial institutions need to know about the range and business potential of existing agribusinesses before they can be encouraged to lend to them. Improved information flows about small-scale entrepreneurs, as well as better risk-sharing incentives, are needed to encourage more lending. Alternative collateral systems such as cash flow savings, guarantees and contracted production, invoice discounting and warehouse receipt systems will need to be explored if the sector is to grow.

Market financial services to agribusinesses

Small and growing agribusinesses need to know what kinds of financial and

non-financial services already exist to meet their needs. Existing schemes will be marketed more aggressively and appropriately, using appropriate formats including vernacular languages. Efforts will be made to strengthen fora where stakeholders can exchange information, and to create an interactive platform to link existing information and communication exchange initiatives, including radio, information events, TV and other media.

Co-ordinate, harmonise and market BDS

Steps will be taken to create fora for BDS providers, and a co-ordinating mechanism. Measures will be adopted to ensure that all businesses working across the complete value chain have access to the full range of services. An Operations Manual for users of these services will be created.

Harmonisation and consolidation of extension and advisory services

Once approved, the new NASEP will transform the existing extension services into demand-driven services focusing on the farmers' needs. Harmonisation of activities by various service providers in the sector is necessary to ensure efficient and effective service delivery. All actions towards transformation of extension services will be carried out as defined under the NASEP.

b. Improve management capabilities of agribusiness entrepreneurs

Developing and offering tailored business and management skills training for small-scale entrepreneurs, including how to be a successful entrepreneur, will be encouraged. Exchange visits to successful enterprises, to give people an idea how flourishing businesses operate and, for example, promote cash flow savings, guarantees and contracted production, invoice discounting and warehouse receipt systems, will also be promoted.

c. Improve risk management capabilities and insurance schemes

Strengthen the range and robustness of insurance schemes for small businesses

Entrepreneurs are finding that the kinds of risk analysis and mitigation mechanisms they need to perform effectively are not available. More reliable data collection, management and analysis systems are needed, along with better information on risks (climate, diseases, market trends etc.) and how to overcome them. Early warning systems will be strengthened and enhanced to reduce losses.

Create awareness and scale up agricultural insurance products

Agribusiness industry players will be encouraged to exploit the full range of communication media such as posters, radio, TV and print media to create awareness of insurance schemes that are already available, and develop and offer specific training on agricultural insurance for agribusiness entrepreneurs. The government will work with insurance providers to provide incentives for them to scale up promising insurance schemes that closely meet the needs of small-scale business and farming entrepreneurs.

4.3.5 Strategic Priority E: Attract investment by creating an enabling environment and putting performance above politics

Background/current issues

Agribusiness does not currently present itself as an obvious investment opportunity. The infrastructure required to do good business is poor. Ministries and departments charged with co-ordinating the sector do not work together smoothly. Businesses are poorly governed and the costs of doing business are high because of multiple taxation and licensing and high input costs. Political interference has continued to impede implementation of policies affecting agribusiness. The sector could be a honey pot for investors, but this requires fundamental reforms and realignments.

Objectives of this priority area

The strategy will work at three levels to make agribusiness more attractive for investment. It will first create a stable agribusiness environment that is easy to work in and predictable, and where policies are consistent and harmonised. Second, it will create strong institutions that embrace good governance and self-regulation; and third it will reduce transaction costs.

Main challenges

The main challenges are creating a more stable policy environment, improving institutional governance and reducing costs. Questions to consider include:

- How to remove uncertainty in the policymaking environment that is usually caused by random taxation, export bans or duty waivers?
- How to achieve good governance and transparent management of the agricultural sector?
- How to improve sector-relevant infrastructure to reduce transaction costs?
- How to increase co-operation between sector ministries and departments?
- How to create strong institutions to support vibrant agribusiness?
- How to reduce the cost of doing business?

Strategies to address the challenges:

a. Create a stable policymaking environment

A predictable and stable policy environment is crucial for attracting investment and triggering business growth. This strategy will remove uncertainty in the policy environment. Government will involve stakeholders in its policymaking, and ensure that businesses are given advance notice/information of policy changes: not only large policy decisions but the smaller decisions and pronouncements that affect agribusiness such as duty waivers, export bans, taxations etc. for relevant commodities.

Consultative forums will be created and the relevant stakeholders identified and mobilised. The private sector will be involved to organise, lobby and engage the government and other stakeholders, and capacities will be built where necessary.

Existing agribusiness policies and laws will be streamlined and harmonised. A core institution, e.g. an Agribusiness Council, with the power and authority to co-ordinate and implement policies and regulations, will be created. It will have jurisdiction over the agribusiness sector.

The government, in partnership with the private sector, will carry out key institutional and policy reforms. Priority will be given to appropriate land reform policies that bring land to landless and marginalised farmers, and to mechanisms that speed up the transfer of agricultural land between willing sellers and buyers. The government recognises that macroeconomic, social and political stability is essential to attract investment. It will create appropriate and strong governance structures, deploy peace-building mechanisms to prevent conflict and political violence, and build institutions for inclusive growth.

The government's political arm will be separated from its technical arm so that ministerial and institutional policies and plans are not made and implemented based on the political inclinations and system of the day.

b. Enable and enforce good governance by creating a strong institutional framework

Both private and public sector agribusiness organisations suffer from poor governance and weak management. This makes them ineffective and unprofitable and gives them poor investment opportunities. The sector needs to demonstrate ethical and judicious management and a zero-tolerance approach to corruption and misappropriation of funds will be adopted. The government will use the full force of the law to pursue those who do not adopt the highest standards in public and private business, and the power of the media to enhance social values and collective responsibility. This will require strengthening the office of the Ombudsman to enhance good governance and reduce political interference by giving agribusiness players the chance to report problems. Specifically, the government will:

- Recruit 'the best person for the job' in public institutions and promote and support performance contracting as a way of improving efficiency and effectiveness in public service delivery.
- Maintain and fortify the independence of key audit institutions such as the Public Accounts Committees, Kenya audit office/controller and auditor general, the Ethics and Anti-Corruption Commission, and the Efficiency Monitoring Unit.
- Use the Economic Crime Act to pursue wrongdoers in public institutions and make sure the laws around counterfeit goods are upheld.

c. Invest in infrastructure development

The creation of a flourishing agribusiness sector will not be possible without investment in key infrastructural facilities such as roads, railways, energy, communication and physical market areas. Upgraded facilities will reduce the transaction costs of doing business. Clear criteria for prioritisation of infrastructure projects will be developed to form the basis for all investment in infrastructure. The government will work on three levels to attract such investment. First, it will encourage public-private partnerships where they are viable, and the government itself will invest in those projects where the consumer cannot – at the outset – pay. Second, it will issue concessions and other tax relief to spur greater investment such as infrastructure bonds to raise funds for heavy investments, e.g. roads, electricity. Third, it will make more money available for infrastructure development, specifically the following:

- Strengthening of the agro-machinery sub-sector;
- Upgrading of rural access roads;
- Improved agricultural water management to include expanded irrigation infrastructure;
- Access to affordable fuel energy and other renewable energy;
- Establishment of accessible and modern physical agri-food markets, especially in urban areas; and
- Establishment of adequate storage and collection (e.g. pre-cooling) facilities in production areas.

5

IMPLEMENTATION ARRANGEMENTS

...A strategy is as good as its implementation in practice.

In order to make it happen, solid arrangements in terms of institutional roles and responsibilities, monitoring and evaluation and financing are needed so that different actors can play their roles effectively and efficiently.

5.1

INSTITUTIONAL ARRANGEMENTS TO DRIVE THE STRATEGY

Agribusiness reaches beyond the agricultural sector and cuts across many sectors. At the moment there are no structures to co-ordinate such a wide spectrum of actors in public and private and third sectors. A suitable institutional arrangement is needed to connect a diversity of forces into a functioning agribusiness sector.

5.1.1 The roles of the different actors in putting the strategy in action

The functions and responsibilities of making agribusiness work effectively and efficiently are spread across 19 sector ministries and a large number of other stakeholders. This makes implementation arrangements very challenging, and demands major co-ordination. The specific roles of different stakeholders in facilitating, synergising and supporting the development of agribusiness and its competitiveness in Kenya need to be defined and nurtured. The main roles are:

The government's role with regard to agribusiness is to facilitate services (e.g. information, extension/advisory) and to provide an enabling environment (institutional, legal, infrastructure etc.) to enhance the competitiveness of the Kenyan agribusiness sector. At present more than 19 sector ministries have a stake in agribusiness. However, this setup is expected to change with the consolidation of ministries under the new constitution.

Private sector organisations – producers, processors and traders – are the drivers of a thriving agribusiness sector. They are motivated fundamentally by business interests. With effective business models, values and external conditions providing secure investment conditions, the private sector will play a very active role in making the system work in a self-sustaining way. Most functions can be carried out by

the private sector as long as business approaches with good business models are used.

Farmer organisations are central in the development of agribusiness. As stated in this strategy, without an economy of scale in input and output markets efficiency gains are difficult to achieve. The mobilisation of farmers for collective action in marketing, training and innovation as well as in implementing quality standards are classical functions of farmers' organisations, either groups, co-operatives or businesses.

Commodity associations made up of actors in agribusiness value chains have a role in enhancing investment in and increasing the competitiveness of their respective value chains. They also play a part in passing on information and ensuring their members are contributing to putting the agribusiness strategy into practice. Through regulations and other activities they can crucially influence their members to implement the strategy.

Banks and financial institutions – this includes insurance companies, savings and credit co-operative organisations (SACCO) and microfinance institutes. They need to develop and provide innovative products and services that meet the needs and requirements of small producers and actors in the value chain. Due to the specific arrangements within the agricultural sector, especially for small entrepreneurs, services have to be tailor-made to be functional. These services are urgently needed by those value chain actors to access markets and increase their competitiveness.

NGOs involved in agribusiness are important stakeholders and actors in this strategy. Depending on their specific area of work, their roles might vary. They often have a comparative advantage and capacity over the public or private sectors in, for example, helping partnerships work and supporting small producers to get access to markets. NGOs also need to play an important information dissemination role in relating activities to the local level not entirely sure of sense here – does it mean relating as in telling, or as in linking, i.e. linking national/regional activities to the local level?

Research institutes play a fundamental role in providing innovations and technologies that enhance competitiveness for both large and small producers and all other actors throughout the various value chains. It is especially important to ensure that innovations are actually reaching practitioners to be transformed from research results into something functional.

Regulators have to provide a regulatory environment that supports quality assurance and product safety with the goal of increasing competitiveness. Farmers have to be supported in their aim of reaching standards, as the procedures and costs regarding compliance with standards are often hard for a small entrepreneur to bear. Through supportive regulations regulators can make access to markets easier. They can also help producers who were locked out because they were unable to meet regulations get back to the market.

Media and information and communication technology (ICT) will also play a crucial role by spreading information and helping to create a modern image

of agriculture and agribusiness in Kenya. This will help make the sector attractive to people seeking employment and to the younger generation. Providing communication technology to farmers and other actors throughout the value chain is fundamental to enabling the use of new technology services for information exchange and business handling. This includes all kinds of mobile services. With the TV network soon to go digital, there is the chance to reach a broad number of stakeholders and interest groups through special programmes and shows on agriculture and agribusiness.

There are a vast number of other actors who are not named specifically, but who will have a central role in the development of value chains.

5.1.2 The functions required to put the strategy in action

There are clearly many different actors involved. It is therefore essential to have an implementation framework that will facilitate coherent operations by stakeholders across several sectors. The following functions need to be put in place by any agency or mechanism that takes on the task of driving this strategy and facilitating agribusiness actors:

Networking, co-ordination and facilitation of different actors in contributing to coherent implementation. This should be done through a) communicating and creating awareness among the different actors on the benefit of working together; b) providing opportunities for interaction where deeper underlying and inhibiting issues can be identified and dealt with by the actors themselves; c) engaging with individual actors and actor groups to support them in aligning their actions and linking them to service providers and sources of information and innovation; and d) enabling joint planning of actions where required and feasible.

Organising an information and knowledge sharing hub which will provide information on agribusiness. Information and the knowledge of various actors will be networked, managed and continually updated. This will also include the sourcing and documentation of successful experiences and the encouragement of exchange and learning from these cases and ideas, from both Kenya and other countries.

Monitoring and evaluation (M&E) of the implementation of the strategy. An effective M&E system is needed to rapidly identify gaps and bottlenecks and address them accordingly. This function includes a 'watchdog' function to monitor the policy and investment environment and the effectiveness of the roles of public and private actors.

Lobbying and advocacy for constructive policies and external environment This function will involve active lobbying for agribusiness through a variety of tools like campaigns, creative networking and influencing policy.

Attracting investment and resource mobilisation from private sector and other actors, nationally and internationally. Investment promotion requires many actors to work together. This would enable a coherent and concerted approach among the key players.

5.1.3 A Kenyan Agribusiness Council to drive the strategy and co-ordinated action

Dealing with these complex and cross-cutting functions requires a substantive and authoritative body that has the clout to work with powerful actors. Therefore it is suggested that an 'Agribusiness Council of Kenya' be formed through an act of parliament. It will evolve gradually from a smaller entity to a full-blown council, based on merit.

Core values and principles of the council:

- Independence and no political affiliation. The council will not allow any of their members to act as promoters of any political initiative or any particular interests of the broader agribusiness actors.
- Promoting the whole agribusiness system and national. The council is expected to look at the development of the whole agribusiness system in the long term as outlined in this strategy. It should not focus only on the development of specific value chains.
- Performance-driven. Positions in the Council will be filled on the basis of competence and demonstrated performance as well as absence of conflicts of interest. Non-performance of staff will lead to dismissal.
- Public and private sector partnership. Membership of the Council will be drawn from both public and private sectors. The chair shall be from the private sector while the vice-chair shall be from the public sector. Both positions and that of the chief executive officer (CEO) shall be filled through a competitive selection process. Funding will be through public and private sector funds. The major share should come from the private sector.
- Organic evolution and development of a lean organisation. The council will evolve and grow organically with the scope and focus of its task. It is not envisaged to develop a large institution from the outset, but a lean secretariat which works through members and other actors in a facilitative way. It will not substitute for any activities which other actors can do equally well. It will work through platforms and networks in a smart way. It will be staffed with key professionals in the agricultural sector who are able to drive and initiate the processes needed.

DIAGRAM 2: Organisational structure of the Agribusiness Council



The structure of the Agribusiness Council will evolve with its growth. It will start with the chair, vice chair and CEO and for each of the strategic thrusts there will be a platform of key actors: a -task force with a leader. These platforms, as operational arms of the Council, will define their agenda, aimed at working effectively and efficiently. They will be guided and co-ordinated by the CEO. The platform leaders (not necessarily employees of the Council) and the CEO will form the management team who will drive the Council. With time the structure will be differentiated more, as required.

Evolution of the Agribusiness Council as an institution

Stage 1:

Formation of a small secretariat within ASCU. This will drive the process of developing the Agribusiness Council, and the initial

activities to implement the strategy. As an oversight body and champion, the present agribusiness task force will stay in place to support the secretariat.

Stage 2:

Once the secretariat is well established and successful activities have started, the secretariat will transform into a semi-autonomous government agency, but private sector driven. This will happen after the first year of operation at the latest. A formal board will then replace the agribusiness task force as oversight body.

Stage 3:

With an increasing number of stakeholders engaging and becoming members, the organisation will evolve into a fully fledged independent council which will maintain links with the government. This process should happen after two to three years of operation. It requires a legal framework, which will be developed.

The transformation into the next stage will be dependent on need. It will arise from and be driven by increasing demand for the Council's activities and by its performance and delivery.

The membership of the council will consist of representatives of all stakeholders in the agribusiness sector who have the necessary mandate and power to ensure the implementation of this strategy. Through that structure, the competitiveness of the Kenyan agribusiness sector will be enhanced as all relevant actors will be working together in the implementation processes. Membership might be small to begin with, but is anticipated to increase as the Council's usefulness and impact becomes clear.

5.2 MONITORING AND EVALUATION

Within the agricultural sector there is not yet a comprehensive co-ordinated M&E system. However, a sector-wide M&E system is currently being developed to ensure co-ordinated action. It is therefore necessary to link and align the M&E system very closely to the sector-wide system.

Primary monitoring will be done by the secretariat through reports and work plans based on specific indicators defined for each activity in the work plan. All stakeholders involved will be responsible for reporting and providing their data to the secretariat for monitoring purposes. The compiled and analysed information will then be forwarded to the TWG on Agribusiness and Financial Services and the Agribusiness Council for further analysis and evaluation, and for planning purposes.

The TWG on Agribusiness and Financial Services will carry out a watchdog function, performing secondary monitoring on behalf of the government and other stakeholders.

It is crucial to link M&E to future planning processes to adapt activities to new findings and the changes that are likely to result. Mechanisms for rapid feedback loops to ensure learning will be an integral part of the M&E system.

The development of the M&E system will be one of the first steps in the implementation plan. It will be carried out by an expert in designing M&E systems.

5.3 **FINANCING**

The cost of implementing this strategy will be shared among different interest groups, mainly the Government of Kenya, development partners and the private sector. Sharing the costs of implementation between all stakeholders strengthens commitment and shared responsibility. Detailed costing will be done in a medium-term plan detailing specific activities. Important funding mechanisms will include the Agricultural Development Fund and resources gained through public-private partnerships (PPP).

After defining and costing activities, contributions and funding for those activities will be sought.

5.4 **FROM STRATEGY TO ACTION (THE PLANNING PROCESS)**

After finalising the strategy, it will be launched by His Excellency the President. To secure buy-in by all stakeholders, there will be information and awareness raising events in different parts of the country. The strategy, with a timeframe of 10 years, will then be transformed into an implementation plan. Out of this implementation plan will be drawn a medium-term plan for five years. This plan will include specific activities with timelines and costing, and will be developed by the ASCU and the TWG. Annual work plans will be drawn from the five-year plan and these will be used for monitoring. Work plans and budgets must then be agreed upon by the TWG and the Agribusiness Council of Kenya. These will then finally be approved by the TWG, to be implemented by the Council.



STRATEGIC PRIORITY A

Put markets at the centre of all production, processing, product development and packaging

OBJECTIVES

- Achieve a market-oriented agricultural sector
- Transform the agricultural sector from one that focuses on production into one that produces for specific market needs
- Focus on how best to increase agricultural exports
- Identify the competitive advantages of agricultural goods in the region
- Enhance development of market infrastructure
- Identify new markets for Kenyan products at the national, regional and international levels

STRATEGY

ACTIVITY

ACTORS

TIMEFRAME

TOTAL BUDGET (in millions Ksh)

1. Improve market intelligence, information and communication in agribusiness

Set up a central repository to gather relevant, timely and accurate market information (domestic, regional and international) for agribusiness	ASCU, stakeholders	DEC 2012	23.6
Incorporate agribusiness needs in the ASCU	ASCU, stakeholders	JUNE 2012	3.6
Collate, update and disseminate all necessary agricultural market information	Central repository, ASCU	CONTINUOUS	240
Map products and markets to optimise resource utilisation	Central repository, ASCU	DEC 2012	20
Foster joint ventures with IPR holders	Research institutions (public and private), stakeholders	ANNUAL REVIEWS	300

2. Improve market infrastructure with involvement of the private sector e.g. through PPP and shared management of the built-up markets

Strengthen inter-sectoral linkages for market development	ASCU, TWG	JUNE 2012	300
Establish structures that promote PPPs	ASCU, TWG	JUNE 2012	90,000
Develop systems and structures that promote development of market infrastructure that supports all levels of the agribusiness value chain	ASCU, ministries and private sector	JUNE 2013	5,000
Promote investment in identified agro-economic zones	ASCU, Kenya Investment Authority (KenInvest)	CONTINUOUS	10,000

STRATEGY	ACTIVITY	ACTORS	TIMEFRAME	TOTAL BUDGET (in millions Ksh)
3. Explore and expand to new export markets	Innovate and develop new products for new export markets	Industry players, research institutions	CONTINUOUS	1,000
	Explore innovative ways of entering foreign markets	Kenyan Embassies, business delegations, Ministry of Trade (for trade fairs), trade centres, etc	YEARLY	-
	Promote compliance with international standards e.g. through setting up and strengthening Centres of Excellence	KEPHIS, KEBS, HCDA, DVS ministries, private sector	JUNE 2012	50
4. Promote and encourage value addition	Provide incentives for producers to engage in value addition e.g. by reducing input costs (e.g. electricity, fuel) through tax concessions and setting up central packaging services	Industry associations, ministries, ASCU	DEC 2012	5,000
	Capacity building for value addition	ASCU, stakeholders (private and public)		55,000
5. Promote product branding	Create awareness of branding in Kenya	Brand Kenya, ASCU	CONTINUOUS	1,000
	Establish programmes that promote brand building of Kenyan products internationally	Industry players, Brand Kenya	MARCH 2012	6,000
SUB-TOTAL				263,937

B

STRATEGIC PRIORITY B

Focus research and development and innovation to better catalyse growth of a vibrant agribusiness sector

OBJECTIVES

- To ensure research & industry work hand-in-hand in product development, driven by market demands
- To achieve 50% research resources being invested in research and development and commercialisation
- In partnership with the private sector, ensure that the research agenda responds rapidly to market opportunities and delivers
- To ensure that research institutes work as networks
- Focus on R&D to achieve a competitive, market-driven value chain for processes, products & services
- Achieve an environment that encourages the formation and growth of STI enterprises
- Achieve adequate funding of value chain research and innovation

STRATEGY

ACTIVITY

ACTORS

TIMEFRAME

TOTAL BUDGET (in millions Ksh)

1: Improve the system of interaction within the research institutes and also with other important actors/ stakeholders in agribusiness value chains

Support the NARS effort to design and implement an interactive platform linking research-research, research-education, research-extension, and research-industry	Research institutions (public and private), stakeholders	JULY 2012	2,000
Facilitate exchange programmes between public and private R&D and industries	ASCU, research institutions (public and private), and other stakeholders	JULY 2012	5,000
Link the market dynamics to R&D	ASCU, research institutions (public and private), and other stakeholders	JUNE 2012	
Enhance incubation arrangement in which research and industry together drive product development and contribute resources	Public research and private sector	DEC 2012	40,000
Foster joint ventures with IPR holders	Research institutions (public and private), stakeholders	JUNE 2013	
Strengthen value chain associations that articulate their research demand and engage with researchers in agenda setting	Research institutions (public and private), stakeholders	DEC 2012	3,000

STRATEGY	ACTIVITY	ACTORS	TIMEFRAME	TOTAL BUDGET (in millions Ksh)
2. Improve productivity of the small holder farm sector	Promote new models of technology and knowledge transfer among small scale farm holders	Ministries, private sector	JULY 2014	3,000
	Support agribusiness development service providers and other mechanisms for capacity building of enterprises	Ministries, private sector	CONTINUOUS	5,000
	Identify productivity and competitiveness benchmarks against best practices and encourage implementation	ASCU	JUNE 2012	3,000
	Enforce and create awareness on regulations, systems and processes to stamp out practices that undermine IPR regulations	KEPHIS, DVS, KIPI	DEC 2012	200
3. Build capacity to engineer and manufacture appropriate smallholder hardware technologies	Identify the priority areas of intervention in engineering	Innovators and research institutions	DEC 2012	3,500
	Invest in research engineering and protect innovations	Innovators and research institutions	DEC 2013	
	Create incentives for PPP investment in engineering capacity	Innovators and research institutions	DEC 2012	300
4. Improve research in secondary (value addition) and tertiary (market and consumers) levels of agribusiness value chains	Establish collaboration between research organisations, universities, private agribusinesses and government to build capacities in HR infrastructure and funding	Innovators and research institutions	DEC 2012	400
	Establish partnership between international companies and national businesses	Ministries, private sector	CONTINUOUS	
	Develop codes of conduct for agribusiness (a 'Kenya Good Practice') as a standard in the value chain	KEPHIS, FPEAK, KFC, KEBS, and private sector	ANNUAL REVIEWS	100
	Generate systems of self-regulation	KEPHIS, FPEAK, KFC, KEBS, and private sector	CONTINUOUS	
	Invest in training and infrastructure for product development research	KEPHIS, FPEAK, KFC, KEBS, and private sector	CONTINUOUS	500
5. Increase funding for research move to top of box to match other points	Identify the priority areas of intervention in engineering	Research institutions	DEC 2012	
	Invest in research engineering and protect innovations	KEPHIS, FPEAK, KFC, KEBS, and private sector	DEC 2013	
	Create incentives for PPP investment in engineering capacity	KENFAP, KEPSA, commodity associations	DEC 2013	
SUB-TOTAL				66,000



STRATEGIC PRIORITY C

Promote smarter organisation of the actors in the sector to enable enterprises to benefit from economies of scale and improved productivity

OBJECTIVES

- To enjoy the benefits of organised bargaining and business operations and economies of scale through training, value addition, sourcing markets, greater price control through bulk purchases, increased bargaining power, lobbying and advocacy, networking and collaboration, information sharing, support services, commercialisation and quality assurance
- A greater self-organisation and self-disciplining of the actor groups through collective action

STRATEGY

ACTIVITY

ACTORS

TIMEFRAME

TOTAL BUDGET (in millions Ksh)

1. Support farmers to develop organisations which are transparent, accountable, and provide good leadership and governance

Foster self-organisation and self-regulation of farmer organisations through capacity building e.g. on effective organisational structures, leadership skills and financial management	Private and public sector, KEPSA	DEC 2012	100
Create systems for bulk buying of inputs	Private and public sector	ANNUAL REVIEWS	250
Develop specific information and communication kits on organisational development	ASCU and stakeholders	DEC 2012	

2. Create linkages among producers, processors, traders and suppliers

Create platform for dialogue and information sharing	ASCU and stakeholders		2,000
Promote establishment of long-term business relationships between producers, processors, traders and suppliers	Private sector and industry associations		

STRATEGY	ACTIVITY	ACTORS	TIMEFRAME	TOTAL BUDGET (in millions Ksh)
3. Strengthen brokering/facilitator service to support farmer organisations	Identify and strengthen agencies already offering those services	ASCU, public sector		20
	Link service providers to farmers and carry out sensitisation of farmers on those services	Private sector, ASCU		400
	Develop marketing and promotion campaigns presenting farming as a business and show opportunities for making money out of agriculture	Private and public sector	JUNE 2012	6,000
	SUB-TOTAL			8,770

D

STRATEGIC PRIORITY D

Improve the range and effectiveness of financial and non-financial services

OBJECTIVES

- To achieve commercialisation, savings in synergy, cost efficiency, quality products, high and equitable returns, consistent and high volumes to maintain regular supply to sustain market

STRATEGY

ACTIVITY

ACTORS

TIMEFRAME

TOTAL BUDGET (in millions Ksh)

1: Improve range and accessibility of financial and non-financial products that are suitable for agribusiness

Review and support risk sharing initiatives to leverage financial institutions to lend to agribusiness	Financial institutions, ministries, beneficiaries, development partners	CONTINUOUS	60
Create incentives and motivate financial institutions to design and develop financial products that meet the needs of agribusiness entrepreneurs	Ministry of Finance, CBK, financial institutions, beneficiaries	AUGUST 2012	250
Institutionalise effective provision of agribusiness information, particularly that targeting financial institutions and other service providers	ASCU, central repository	DEC 2012	600
Carry out sensitisation and capacity building of financial institutions on agribusiness	ASCU, ministries, development partners	CONTINUOUS	500
Promote alternative collateral systems such as cash flow savings, guarantees and contracted production, invoice discounting and warehouse receipt system	Ministries, financial institutions, development partners, beneficiaries	CONTINUOUS	500

2. Market financial services by packaging and disseminating this information to agribusinesses

Develop and implement communication and information plan to make financial and non-financial services known to all actors in the value chain	ASCU, central repository	JUNE 2012	300
Create an interactive platform to link existing information and communication exchange initiatives, radio, information events, TV and other media	ASCU, central repository	CONTINUOUS	

STRATEGY	ACTIVITY	ACTORS	TIMEFRAME	TOTAL BUDGET (in millions Ksh)
3. Improve financial management capacities of the agribusiness entrepreneurs	Improve financial management capacities of the agribusiness entrepreneurs	ASCU, financial institutions	JUNE 2012	500
	Develop and offer specific business /financial/management training for agribusiness value chain actors	ASCU, financial institutions, development partners	YEARLY	
4. Create awareness and upscale agricultural insurance products	Develop and offer specific training on agricultural insurance for agribusiness value chain actors	Insurance service providers, ASCU		500
	Carry out awareness creation of insurance schemes available for agribusiness through both print and electronic media such as posters, radio, TV	Insurance companies, ASCU, central repository, Insurance Regulatory Authority	JUNE 2013	200
	Identify and document promising agricultural insurance schemes and promote their upscaling	ASCU, insurance companies and central repository	DEC 2012	
5. Transform smallholder farmers from subsistence to market-oriented agriculture	Upscale the innovation fund for agriculture and agribusiness	ASCU, development partners	JULY 2012	5,000
	Introduce mechanisms to encourage producers to adopt a culture of farming as a business	Ministries, stakeholders, processors, service providers	JULY 2012	10,000
	Introduce local cottage industries aligned to value chains	Ministry of Industrialisation, stakeholders	DEC 2013	
6. Carry out risk analysis and implement mitigation mechanisms	Provide information on risks (climate, diseases, market trends, etc.) and mitigation measures along value chains	Ministries, Kenya Meteorological Department	CONTINUOUS	1,000
	Establish reliable data collection, management and analysis systems for risk mitigation	Central repository, ASCU	DEC 2012	
7. Mentor farmers and traders to change their attitude towards credit and agriculture insurance	Create awareness of credit services and their terms and conditions	Financial institutions, insurance service providers	CONTINUOUS	100
	Promote exchange tours and other educative activities (e.g. mentorship schemes such as model farmers) to beneficiaries of credit facilities	ASCU, ministries, financial institutions	CONTINUOUS	4,000
	Promote warehouse receipt system, invoice discounting and other alternative collateral systems	Ministries, NCPB, first use –stakeholders	CONTINUOUS	

STRATEGY	ACTIVITY	ACTORS	TIMEFRAME	TOTAL BUDGET (in millions Ksh)
8. Co-ordinate, harmonise and market BDS to improve access to financial services	Build capacity of all actors along the value chain in entrepreneurship	Ministries, NGOs, KEPSA, development partners	CONTINUOUS	600
	Create forums of BDS providers along value chains	Ministries, NGOs, KEPSA, development partners	CONTINUOUS	5,000
	Promote production of operation manuals along value chains	Ministries, NGOs, KEPSA, development partners	CONTINUOUS	
	Establish a co-ordination mechanism for BDS providers	Ministries, NGOs, KEPSA, development partners	CONTINUOUS	
9 Harmonisation and consolidation of extension and technical advisory services	Support efforts by NASEP to reform extension service delivery by both public and private sectors	Ministries, private sector service providers, NGOs	CONTINUOUS	5,000
	SUB-TOTAL			34,110



STRATEGIC PRIORITY E

Attract investment by creating an enabling environment and putting performance above politics

OBJECTIVES

- Create a stable agribusiness environment that is easy to work in and predictable, and where policies are consistent and harmonised
- Create strong institutions that embrace good governance and self-regulation
- Reduce transaction costs



STRATEGY

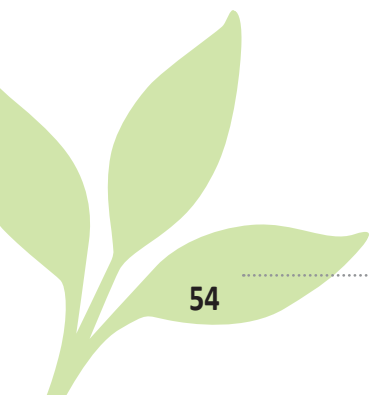
ACTIVITY

ACTORS

TIMEFRAME

TOTAL BUDGET (in millions Ksh)

Initiate an inclusive, participatory and consultative process of policy harmonisation/consolidation	ASCU	CONTINUOUS	500
Create an overview of policies affecting agribusiness and identify overlaps or gaps in clear mandates and responsibilities (taking into consideration the newly consolidated agricultural legislation)	ASCU	OCT 2012	
Establish consultative (institutional) fora for information and notice in case of changes in areas like duty waiver/imposition, export bans, taxation etc.	ASCU, private sector, development partners	CONTINUOUS	300
Establish structures for private sector participation and engagement (e.g. representative of private sector in ASCU, PPP focal unit etc.)	ASCU, private sector	JUNE 2012	10



STRATEGY	ACTIVITY	ACTORS	TIMEFRAME	TOTAL BUDGET (in millions Ksh)
2. Enable and enforce good governance by creating a strong institutional framework	Consolidate and bundle responsibilities and mandates concerning agribusiness in as few bodies as possible, with clear terms of reference (ToR) and formalised linkages and structures for collaboration	Ministries, ASCU	JUNE 2014	90
	Produce an information and communication kit presenting structure and giving actors clear indications where responsibilities lie (e.g. agribusiness web portal with all institutions, contacts, ToR)	ASCU, TWG	JUNE 2012	
	Establish an Agribusiness Council to co-ordinate implementation of the strategy	ASCU, ministries, development partners	DEC 2013	5,000
	Develop and set up system and structures for monitoring and evaluation of strategy implementation in accordance with the sector-wide M&E system for the agricultural sector	ASCU, TWG, Agribusiness Council	APRIL 2012	100
3. Invest in infrastructure development	Ensure proper consideration of agricultural needs and requirements in the Land Use Master Plan (ref. Vision 2030, Land Use Policy)	Ministries, Vision Delivery Secretariat	CONTINUOUS	
	Promote PPP for infrastructure development	Ministries and the private sector	YEARLY	
	- Establish a focal unit/point for PPP in agribusiness	ASCU, Agribusiness Council	DEC 2012	5,000
	- Establish criteria for prioritisation of infrastructure projects for agribusiness	Ministries, stakeholders, and county governments	MARCH 2013	
	SUB-TOTAL			
GRAND TOTAL				383,807