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## Kenya

## Exporter Guide

## Annual

## 2005

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**Report Highlights:**

Effective September 2005, all foodstuffs imported into Kenya will only be allowed if they have a Certificate of Conformity (CoC) to Kenya Standards. The new system of Pre-shipment Verification of Conformity (PVoC) to Kenya Standards programme replaces the pre-shipment inspection for imported foodstuff.

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## Section 1: Market Overview

The Kenyan economy has been on a recovery path since 2002. Real GDP computed on the basis of the new system of National Accounts gave 4.3 % in 2004 compared to 2.8 % in 2003. The sectors that recorded growth included manufacturing, wholesale & retail/trade and repairs, and tourism and Hotels. Agriculture sector GDP decelerated from 2.7 % in 2003 to 1.4 % in 2004. The decline was mainly attributed to poor performance in corn and coffee sectors. Agriculture contributes directly 24 % (2004) of GDP and about 60 % of foreign exchange earnings. The sector employs about 75 % of total labor force and indirectly contributes a further 27 % of GDP.

About 80 % of the total population lives in the rural areas and derive their livelihood from agriculture. Agricultural performance impacts significantly on nearly all other sectors. Kenya's long-term goals of self-sufficiency remain unmet, as the country is a net food importer. Droughts usually require donor provided food aid to mitigate the effects of hunger, especially in the arid and semi arid regions populated by livestock based pastoral tribes.

Kenya's food processing and agricultural sectors are showing some growth albeit slowly. A strong tourism sector, a developing retail sector and changing demographics and lifestyles have continued to influence growth of the food market. Maize is the major food staple and is synonymous with food. Other food products consumed are rice, sorghum and wheat products among others. High agricultural tariffs and non-tariff barriers on inputs continue to limit opportunities. The 2005 market economy in Kenya has been associated with a period of reflection and a search for new direction. The present government took office in 2003 and was elected on its promises of economic reform.

## U.S. Market Position

U.S. agricultural and food exports to Kenya over the last five calendar years (2000-2004) have averaged \$ 32.2 million. The most important exports in dollar terms are wheat, corn and vegetable oils, averaging about 80 % of U.S. agricultural shipments over the same period. A significant amount of U.S. exports to Kenya is food aid and monetized shipments. U.S. Imports of agricultural and food products from Kenya averaged \$ 44 million over the same period. Coffee, tea and tree nuts (macadamia and Cashew nuts) account for over 60 % of these imports. Kenya is eligible for preferential access to the U.S. market under AGOA.

Genetic materials have been key U.S. exports over the last years as 2005 also saw increased commercial wheat and rice exports from the U.S. to Kenya.

## Consumer Market

Kenya has a relatively well-educated population estimated at 31.4 million and a strong entrepreneurial tradition. With 44% of its population under the age of 15 years, Kenya has a high dependency ratio. Nairobi, the capital, is the largest city and has the highest population density. Most of the population in Nairobi is young - 18 to 37 years. Socio-economic surveys have categorized urban consumers based on their monthly earnings:

- Lower Income - monthly earnings below Kshs. 10,000 (US \$ 125); 29% of the total urban working population.
- Middle Income - monthly earnings between Kshs. 10,000 and Kshs.40, 000 (US \$ 125-500); 59% of the total urban working population.
- Upper Income- monthly earnings of Kshs. 40,000 (US \$ 500) and above; 12% of the total urban working population.

The growing middle class (5-10% of the total population) and the large expatriate community account for the relatively high demand for high value consumer-oriented food items.

Good prospects exist for U.S. food and agricultural high value products in the East African market. There is a growing supermarket industry in Kenya and competition is intense. Agents and distributors remain the key to developing export of U.S. consumer-oriented food items. The dominant supermarket chains in Kenya are offering American high value products (nuts, snack, salad dressings, sauces, canned and pet foods etc.).

Establishment of a personal relationship with importers is essential to selling food products in Kenya. There is no established direct presence of American distribution companies in Kenya. Appointing a sole distribution agent in Kenya may be a good strategy for some products. Currently, some Kenyan companies buy from U.S. suppliers and handle all the details of importing. It is important to have a knowledgeable Kenyan company involved on the import side to address the special characteristics of the Kenyan market.

<b>Advantages</b>	<b>Challenges</b>
On going restructuring of the Kenyan economy is enhancing free trade	Erratic and unpredictable policy shifts pose major challenges to the traders.
Imported products have a positive image in the local market.	Long distance to the Kenyan market keeps U.S. shipping costs high, resulting in high product pricing. There are no direct flights or shipping routes to and from the U.S.
U.S. producers offer quality and a wide range of high value consumer oriented food products	Kenyan consumers, importers and retailers are not aware of the wide range of U.S. high value products.
Growing trend of larger retail outlet size due to a growing urban population and exposure to the western lifestyle	High tariff rates and bureaucracy involved in clearing imported foodstuffs discourage importers interested in U.S. food products
Progressive and experienced business leaders	Relative proximity of South Africa and Europe to the East African market increases competitive posture vis a vis U.S.

## **Section 11: Exporter Business Tips**

### **Local Business Customs**

The principles of customary business courtesy, especially replying promptly to request for price quotations and orders, are a prerequisite for exporting success.

In general, Kenyan business executives are relatively informal and open. The use of first or surname name at an early stage of a business relationship is acceptable. Friendship and mutual trust are highly valued and once this trust is earned, a productive working relationship can be expected.

Like anywhere else in the world, negotiation is paramount. Early Indian and Arab influences in Kenya introduced haggling at retail level refined into bargaining at wholesale and distribution levels. Thus, Kenyan businessmen usually drive a hard bargain.

Business gifts are not common but business entertainment like lunches, golf and cocktails help finalize major deals and agreements.

Kenyan businessmen appreciate quality and service and are ready to pay extra if convinced of a product's overall superiority. The market is very price sensitive, however, care must be taken to assure that the delivery dates are closely maintained and that after-sales service is promptly honored. While there are numerous factors that may interfere with prompt shipment, the U.S. exporter should allow for additional shipping time to Kenya and ensure the Kenyan buyer is continuously updated on changes in shipping schedules and routing. It is better to quote a later delivery date that can be guaranteed than an earlier one that is not completely certain. Since Kenyan importers generally do a lower volume of business than the U.S. exporters, U.S. exporters should be ready to sell smaller lots than is the custom in the U.S.

The U.S. exporter should maintain close liaison with the importer to exchange information and ideas. The importer should serve as a good source of market information and as appraiser of product market acceptance. In most instances, mail, fax or telephone communications are sufficient but understanding developed through periodic personal visits is the best way to keep the importers apprized of new developments and to resolve problems quickly.

Prompt acknowledgment of correspondence by fax or email is recommended.

As is the case in most markets, vigorous and sustained promotion is often needed to launch new products.

### **General Consumer Tastes and Preferences**

The Kenyan market is very sensitive to price. Most of the consumers base their buying decisions more on price than quality. A big share of the food items (over 70 per cent) in the retail and food service sectors are locally manufactured, though there are some imported foodstuffs (refer to HRI and Retail Food Sector Reports). Consumers have a limited awareness of U.S. brands and product range.

### **Food Standards and Regulations**

Imported foodstuffs must comply with standards stipulated by Kenya Bureau of Standards (KEBS). In absence of these, Codex Alimentarius (international) standards apply.

In relation to the retail and food service sectors, the most important standards are the "Labeling of prepackaged Foods-KS -05-40 Parts 1-4", which has guidelines on nutritional requirements and claims. The standards are available from Kenya Bureau of Standards (KEBS) at a cost.

KEBS is currently reviewing all food standards and harmonizing with other standards in the East African region. Imported foods with non-nutritive sweeteners (e.g. aspartame, potassium cyclamate, sodium saccharine etc.) are restricted. If imported, KEBS must be informed.

### **Labeling and Shelf life requirements**

All labeling of packaging of imports shall include English and/or Swahili. Packaged foodstuffs shall indicate the batch numbers and dates of expiration and/or date of production. All imports with a limited shelf life shall have more than seventy five percent shelf life from the

date of expected landing in Kenya. Weights and measure indicators must be in metric and imperial forms.

### Container Sealing Requirements

Sealing of full container loads is required during physical inspection. Sellers are required to give advance notice to SGS of container stuffing arrangements.

### Import Documents and General Import and Inspection Procedures

Effective September 2005, Kenya Bureau of Standards (KEBS) implemented the Pre-Export Verification of Conformity (PVoC) to standards program as a conformity assessment and verification procedure applied to imported products. The system has replaced pre-shipment inspection for imported goods. KEBS appointed SGS societe de Surveillance S.A and Intertek under the PVoC program. Exporters should ensure that food products meet regulations and quality requirements as stipulated by Kenya before shipment by carrying out tests and/or obtaining the necessary certification from the appointed PVoC partners. SGS is the appointed inspection company for the U.S.

### Request for Certification

The Electronic Import Declaration Form (IDF) data is obtained from KEBS. The SGS office in the U.S. may contact the exporter and provide him with a Request For Certification Form (RFC). The exporter must send the form completed together with the pro-forma invoice providing details about date and place of inspection.

With the new system exporters have three routes:

**Route A:** Upon satisfactory inspection and testing SGS will issue a certificate of conformity (CoC). The CoC is valid only for one consignment and for a maximum of 90 days from the date of inspection.

**Route B:** Recommended for frequent exporters with homogenous products. Exporters register products with SGS registration and Licensing / Certification Centers and are issued with a statement of Registration for the products. Each time the product is shipped the exporter submits a copy (statement of Registration) to SGS. Testing will only be done on selected shipments to monitor continued compliance. Registration is renewable annually.

**Route C:** Exporters who have shown consistent shipment compliance can apply to have their products licensed by SGS Registration and Licensing/Certification Centres.

### PVoC Country Office Fees

Route A: 0.475 % of FOB value subject to a minimum of USD 180

Route B: 0.425 % of FOB value subject to a minimum of USD 180

Route C: 0.25 % of FOB value subject to a minimum of USD 135

Testing, registration and licensing fees are calculated on a case-by-case basis. SGS office will provide the details.

### Product specific permits and certificates

Some products require special permits and certificates before they can be imported i.e.

Plant and plant products:

- Plant Import Permit (PIP) from Kenya Plant Health Inspectorate Service (KEPHIS)
- Phytosanitary certificate from a competent authority in the exporting country.

KEPHIS is the regulatory agency for quality control of agricultural input and produce and is the designated authority on phytosanitary issues. For instance genetic modification status should be declared on certificate of analysis from an accredited laboratory.

#### Live animals

- Health clearance certificate from the Ministry of livestock and Fisheries, Department of Veterinary Services (DVS).

### Import Taxes

The East African Community (EAC) trading block, comprised of Kenya, Tanzania, and Uganda has approved a Customs Union Protocol, which sets zero duty on most goods traded between member nations. The Protocol took effect January 1, 2005. In addition, the Protocol established a Common External Tariff (tariffs on goods imported from markets outside the block), which has resulted in a harmonization of import tariffs for all three countries and a significant tariff reduction for most goods. However, import tariff rates for some key agricultural products have increased considerably.

As a rule of thumb, tariffs are divided into three categories:

Raw Materials	0%
Processed or Manufactured Inputs	10%
Finished Products	25%

#### TARIFFS ON SELECTED PRODUCTS

Year/Commodity	2004 (%)	2005 (CET – (%))
Maize/Corn	25	50*
Corn Flour	35	50
Hard Wheat	35	35*
Wheat Flour	60	60
Soya beans	5	10
Soya Bean oil	5	10
Rice	35	75
Rice Flour	15	25

\*Corn seed – 25 %

\*Durum Wheat – 0 %

CET – Common external Tariff

Value Added Tax (VAT) is levied on goods imported into or manufactured in Kenya, and taxable services imported or provided. The standard VAT is 16%. Restaurant services are also taxable at 16%.

Excise duties are levied on fruit juices, beer, tobacco products, matches, spirits, wines, mineral water and biscuits. The rates vary for different products; for example, for fruit juices is 10%, biscuits is Kshs.70 per kilogram (US \$ 0.875).

## Import Documentation

- Suppliers invoice
- Bill of Lading/airway bill
- Import Declaration Form (IDF – form C-61) – Issued by KRA Custom Services
- Declaration of Customs value (Form C-52) – Issued by KRA Customs Department
- Certificate of Compliance – Issued by KEBS, KEPHIS, Department of Veterinary Service (DVS)
- Release Order – issued by the port authority
- Certificate of Conformity (CoC) issued by SGS

## Section 111: Market Sector Structure and Trends

Kenya's food retail, food service and food processing sectors are simple but diverse.

Food wholesaling and distribution is relatively simple and direct. There is limited direct importation from the United States. Most high value food products from the US are imported via consolidators in Dubai (United Arab Emirates) or suppliers in South Africa and Europe.

Importing companies or agents sell the goods directly to the supermarkets and hotels and/or through appointed distributors/wholesalers. In contrast to local manufacturers, importers do no promotional activities.

Locally manufactured goods are sold either directly to the supermarkets and the food service sector and/or through appointed distributors.

Food service is a very important sector in the Kenyan tourism industry. Tourism is the third largest foreign exchange earner in the country. Earnings from the sector declined by US \$ 39.5 to US \$ 141 M in the first eight months of 2002 compared with US \$ 180.6M in a similar period in 2001. Tourists arriving at the main international airport (JKIA) declined by 9.5% in the same period. The slowdown is attributed to deterioration in the global economic environment and the threat of international terrorism.

With the economic growth rate estimated at 2.3% in 2004, a positive growth is also expected in the food industry.

**NOTE:** Please refer to the 2002 HRI Food Sector and 2000 Retail Food Sector Reports

## Section 1V: Best High Value Product Prospects

Generally a wide range of the dry groceries. Specifically,

- Breakfast cereals
- Snack foods (popcorn, sweets, confectioneries, etc...)
- Canned foods
- Nuts and dried fruits (almonds, peanuts, hazelnuts, walnuts).
- Salad dressings
- Soups and sauces
- Rice (brown long grain US rice and parboiled)
- Bread Spreads (jams, jellies, marmalade, and butter)
- Californian wines
- Energy Drinks
- Processed fruit and energy juices



**Section V: Key Contact and Information****US Embassy, Nairobi**

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