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KENYA AGRICULTURE SECTOR

OPPORTUNITIES AND CHALLENGES

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THIS POLICY PAPER ANALYSES KEY HURDLES IN KENYA'S AGRICULTURE SECTOR THAT LIMIT PRIVATE-SECTOR INVESTMENT, GROWTH AND IMPACT.

These policy barriers were identified in a preceding policy analysis report informed by in-depth open-source and ground-level investigative research.

CONTENTS

EXECUTIVE SUMMARY

01 **This policy paper analyses key hurdles in Kenya's agriculture sector that limit private-sector investment, growth and impact.** These policy barriers were identified in a preceding policy analysis report informed by in-depth open-source and ground-level investigative research. An analysis of existing agricultural policies was carried out, highlighting opportunities and gaps; the results of that policy analysis were presented to AmCham's agriculture taskforce members for their validation and input. The policy positions and recommendations developed in this paper are a result of both the policy research and consultation with members of the AmCham agriculture taskforce.

02 **Agriculture is integral to Kenya's economy,** contributing over 30% of GDP – and an additional 27% of GDP indirectly through the manufacturing, distribution and service sectors – and accounting for over 70% of the workforce.

03 **The broad direction of Kenya's agricultural policy is being driven by the Bottom-up Economic Transformation Agenda (BETA),** codified in fiscal policy within the Government of Kenya's Fourth Medium Term Plan (2023-27), in which agriculture is one of its five strategic pillars.

04 **Key policy hurdles in Kenya's agriculture sector include:**

1. **Policy and regulatory uncertainty** due to frequent shifts in national government priorities, politicisation of sector decision-making under influence from entrenched interests, and pressure to deliver results between five-year election cycles.

2. **Inadequate public financing and political will for agricultural development** due to severe fiscal constraints, competition from higher political priorities, and over-reliance on sector support from development partners.

3. **Long-standing structural food supply deficits** caused by i) low incentives for surplus food production, ii) a volatile policy environment, iii) insufficient storage infrastructure, and iv) corruption and mismanagement at state corporations responsible for ensuring food supply and price stability, and iv) climate shocks (e.g., droughts, floods), reliance in rain-fed agriculture, and underinvestment in climate adaptation and mitigation.

4. **Fragmented value chain development** fails to create strong linkages between agricultural production and manufacturing, and is driven by siloed, commodity-specific trade policies that miss opportunities to use Special Economic Zones (SEZs) to boost agro processing for both domestic consumption and international export.

5. **The enabling environment for technology use and innovation in agriculture** needs to be modernised and is struggling to keep pace with rapidly evolving breakthroughs in AI, precision agriculture, and biotechnology, and the intellectual property regime is not yet strong enough to make Kenya a competitive destination for research and development.

05 The following key legislative and policy recommendations are proposed as solutions to these challenges:

Policy and regulatory uncertainty

- Finalize and implement the National Agriculture Investment Plan III (NAIP-III, 2024-2029) in order to clarify the linkages between the BETA and the ASTGS and provide a new medium-term strategic roadmap.
- Improve regulatory efficiency by removing, consolidating, or re-designing overlapping regulations and agencies and right-sizing agencies to their mandates.
- Remove duplicative certification and inspection requirements and harmonise requirements with multi-lateral trade organisations.
- Gradually remove cess and value chain levies and only charge for services provided e.g. voluntary testing and voluntary certification.

Inadequate public financing

- Increase and ring-fence budgetary allocations for the agriculture sector to at least 10% of the national budget, in line with the Comprehensive Africa Agriculture Development Program (CAADP). County governments must also allocate at least 10% of their budgets to agriculture.
- Harmonise and standardise cess and market levies between national and county governments, as well as between counties.

Addressing the structural food supply deficit

- Restructure the Strategic Food Reserve (SFR) to improve efficiency and transparency.
- Transform the National Cereals and Produce Board (NCPB) into a competitive market player.
- Encourage farmer aggregation and cooperatives in food production and trade.
- Consider creation of a "Kenya Premium Produce" brand for food products to incentivise formal market participation by small-scale farmers and MSMEs
- De-risk food production by incentivizing further innovation on crop insurance, bespoke credit facilities, irrigation infrastructure for food producers, and incentivize operationalisation of the warehouse receipt system for food storage, safety, and trade.

Fragmented value chain development

- Develop a comprehensive, national agro-industrialisation policy framework that uses a "whole value chain approach" to firmly link agricultural production to manufacturing and agro-processing.
- Prioritize use of Special Economic Zones (SEZs) and Industrial Parks for agro processing and manufacturing.

Enabling environment for technology and innovation

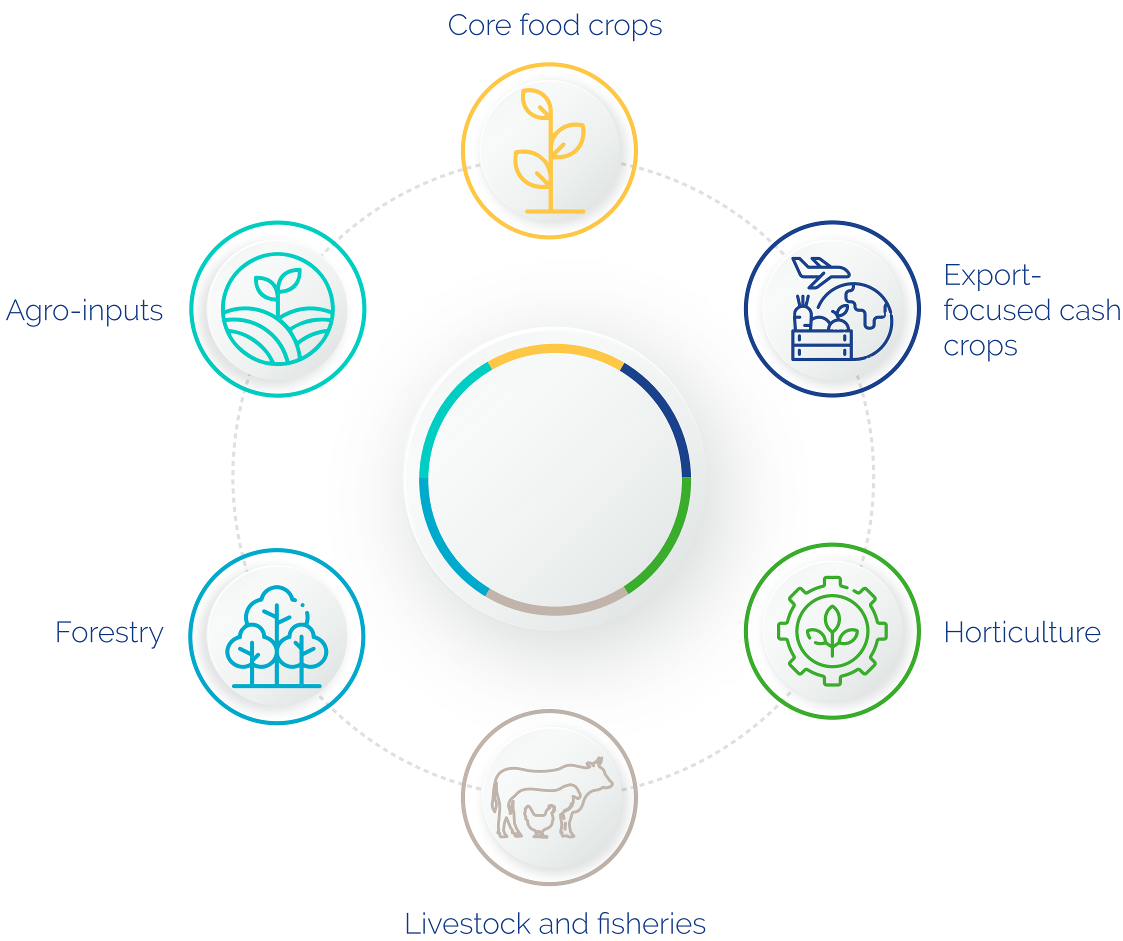
- Clarify and modernise regulatory frameworks for technology development and deployment, focusing on technology-agnostic frameworks that permit innovation while establishing standards-based licencing and safeguards for public health and safety.
- Further strengthen intellectual property (IP) protection frameworks to make Kenya a more competitive market for technology development and innovation.
- Reduce or remove import duties and other taxes on agricultural technologies and their component parts.

Agriculture is integral to Kenya's economy, contributing over 30% of GDP – and an additional 27% of GDP indirectly through the manufacturing, distribution and service sectors – and accounting for over 70% of the workforce.

BACKGROUND

Agriculture is integral to Kenya's economy, contributing over 30% of GDP – and an additional 27% indirectly through the manufacturing, distribution and service sectors – and accounting for over 70% of the workforce. Small concentrations of modernised and mechanised agribusiness investment exist, primarily in the country's central and western highlands. Many of these commercialised farms deploy more advanced technologies and equipment than anywhere else in East Africa. Beyond these pockets of efficiency, however, much of the sector has yet to modernise, and much of the sector continues to rely on rain-fed agriculture on small plots of land. Only 2.5% of arable land is currently equipped for irrigation, and 70% of all national commercial agricultural output comes from just 10% of the available arable land.

Broadly, agriculture in Kenya can be split into six categories:



1. **Core food crops,** including maize, rice and wheat, plus lower volume crops such as sorghum, millet, beans, green grams, pigeon peas, cowpeas, chickpeas, and roots and tubers (potatoes, cassava and yams).

2. **Export-focused cash crops such as tea, coffee, sugar cane and cut flowers** – Kenya is a leading exporter of both black tea and cut flowers globally.

3. **Horticulture** for domestic consumption or value-added export.

4. **Livestock and fisheries** – livestock contribute over 20% to agricultural GDP and plays an important socio-economic role among many communities, particularly in the country's northern arid zones.

5. **Forestry** – contributes to more than 3.6% of the country's gross domestic product, employs more than 50,000 people directly, and is a backbone of the tourism industry – providing much of Kenya's wildlife habitat.

6. **Agro-inputs** – including improved seed, fertiliser, lime, pesticides, animal feeds, farm equipment and energy.

The broad direction of Kenya's agricultural policy under His Excellency the President, William Ruto, has been driven by the Bottom-up Economic Transformation Agenda (BETA) introduced by the Kenya Kwanza government in 2022. This agenda has been codified in fiscal policy within the government's Fourth Medium Term Plan (MTP IV) (2023-27), and agriculture is one of its five strategic pillars. The BETA pillars include: i) agricultural transformation and inclusive growth, ii) micro, small and medium enterprise (MSME) economy, iii) housing and settlement, iv) healthcare, and v) a digital superhighway and creative economy.

The BETA is primarily focused on delivering the benefits of Kenya's post COVID-19 economic recovery to communities and households nationwide, including lowering essential commodity prices, increasing access to financing, and the delivery of input subsidies to boost agricultural production and improve livelihoods. The BETA also aims to transform, industrialise and commercialise the agriculture sector by increasing productivity and value addition across a range of value chains, including maize, dairy, beef, tea, coffee, cashew nuts, avocado, macadamia nuts, and pyrethrum. These goals are broadly in line with the National Agriculture Policy (2019), the country's current foundational policy framework for the development of the agriculture sector in line with Vision 2030 (Kenya's development roadmap).

SECTOR POLICY HURDLES

01

POLICY AND REGULATORY UNCERTAINTY

1. POLICY AND REGULATORY UNCERTAINTY

Under MTP IV (2023-2027), the Agricultural Sector Transformation and Growth Strategy (ASTGS) remains the Ministry of Agriculture's strategy to achieve both the objectives of the NAP/Vision 2030 and the agricultural transformation pillar of the BETA. However, there is currently a lack of clarity among sector stakeholders as to whether the ASTGS has been retained by the Kenya Kwanza administration, leading to confusion about the medium-term vision and direction for agricultural development. Since 2019, the ASTGS has been anchored on four pillars:

- Increase small-scale farmer, pastoralist and fisherfolk incomes
- Increase agricultural output and value-addition
- Boost household food resilience
- Create an enabling environment for agricultural transformation through skills development, better data use, and the deployment of technology

On the regulatory front, the mandates of sector agencies and laws governing the agriculture sector also continue to overlap, including between national and subnational (county-level) regulations and agencies. Therefore, improved coordination between national and county governments and their agencies (and between counties themselves) is imperative to creating an enabling environment that incentivises long-term investment in the agriculture sector and increases the ease of doing business.

Ongoing efforts to enhance the capacity and effectiveness of key sector regulatory bodies, such as the Agriculture and Food Authority (AFA) and Kenya Plant Health Inspectorate Service (KEPHIS) are commendable. These agencies have increased their involvement in trade regulatory practices, particularly on issues such as seed certification, pesticide regulation, and food safety, reflecting an increased emphasis on consumer protection.

However, further efforts are required to reduce redundancies and inefficiencies. For example, there continue to be overlaps of roles and functions between KEPHIS and the Kenya Bureau of Standards (KEBS) on enforcement of sanitary and phytosanitary (SPS) standards and issuance of quality certifications for agricultural products and inputs and often do not recognise the quality certifications issued by other countries and international agencies. Similarly, the return of crop-specific legislation and regulatory authorities (e.g., the Pyrethrum Act (2013), the Tea Act (2020), the Coffee Bill (2023), the Horticultural Crops Authority Bill (2020), etc.) are creating overlaps with the AFA Act (2013) and the Crops Act (2013) – bills that were originally intended to consolidate sector regulation and development planning. . These legislative efforts have increasingly led to an overly regulated and unnecessarily complex operating environment in the sector, including imposing value chain and other related levies (e.g., import and export levies) with no market benefit.

IMPACT ON THE SECTOR

SHORT-TERM POLICYMAKING:

While external shocks and challenging economic conditions in recent years have necessitated ad hoc policy responses aimed at providing immediate relief to businesses and households, this short-termism in policymaking is no longer serving the interests of the sector. Reactive policymaking creates market volatility that negatively impacts farmers, agribusinesses and investors.

POLITICAL INTERFERENCE IN KEY VALUE CHAINS:

The regulatory regime in many sub-sectors faces interference from political actors due to the presence of politically connected entrenched interests (e.g., coffee, pyrethrum, livestock), and the re-emergence of commodity-specific regulatory authorities that may face conflicts of interest between their regulatory responsibilities and commercial interests. Combined with inconsistent regulatory enforcement, there is a risk that collusion between public officials and private sector actors can lead to the abuse of regulatory functions to maintain market dominance.

AGRIBUSINESSES STRUGGLE TO ACHIEVE SCALE:
Overlapping and redundant regulatory requirements and agencies – e.g., the Kenya Plant Health Inspectorate Service (KEPHIS) and the Horticultural Crops Directorate (HCD); the Agriculture and Food Authority (AFA) and the Kenya Bureau of Standards (KEBS); the Kenya Dairy Board (KDB) and county government – which can change with geographic expansion, increase operating costs as companies grow. Wait times and costs for permits and certifications from multiple agencies lead to slow ~~growth and missed market opportunities and push many MSMEs into~~ the informal sector.

IMPORTED AND EXPORTED AGRICULTURAL PRODUCTS ARE SUBJECT TO MULTIPLE SANITARY CERTIFICATIONS AND INSPECTIONS.
Agricultural products arriving in Kenya are subject to re-inspection, even when arriving from a country with shared or internationally approved Sanitary and Phytosanitary Standards (SPS), and exports often face similarly redundant requirements.

IMPACT ON THE INVESTMENT LANDSCAPE

Overlapping regulations slow down certification processes and create confusion for investors. Approval processes are difficult and bureaucratic for agricultural exporters/importers and local producers. These bureaucratic procedures are particularly burdensome for MSMEs that may lack the resources to navigate them. Lengthy regulatory requirements delay products from reaching their intended markets. In the food and agriculture sector, regulatory delays not only affect business profitability but also food availability and access for consumers.

POLICY POSITION

We urge the government to articulate a clearer medium-term strategic direction for agriculture sector development, either by moving forward with the implementation of the existing ASTGS, or through the introduction of a new sector roadmap aligned more closely to the Bottom-Up Economic Transformation Agenda. Aligning sector stakeholders around a longer-term vision for agriculture remains essential for coordination and for projecting the government's commitment to a strong enabling environment for investment.

We also support efforts to reduce policy and regulatory uncertainty in the agriculture sector, recognising that predictable and streamlined regulatory frameworks are essential to attract large-scale investment, boost agricultural productivity, and commercialise agriculture in Kenya. Inconsistent policy enforcement, political interference, and the return of commodity-specific regulatory authorities create inefficiencies and wastage that undermine investor confidence and limit the sector's potential. We urge the Kenyan government to implement reforms to stabilise its regulatory environment and policy landscape to clarify roles, eliminate duplicate functions, and establish transparent, clear rules for the sector. We recognise that a "one-size-fits-all" Agriculture and Food Authority (AFA) approach does not always meet the specialised needs of Kenya's diverse agriculture sub-sectors and that new "middle ground" approaches are needed that can balance the benefits of centralised regulation and the specialised support that a more decentralised, sectoral focus can provide.

POLICY RECOMMENDATIONS

01

Complete and implement the NAIP-III to operationalise the ASTGS: The ASTGS was developed through a multi-stakeholder process with the deep support of Kenya's development partners and the private sector, and the government has an opportunity to reorient the sector around a longer-term vision now that economic conditions are stabilising.

02

Improve regulatory efficiency by removing, consolidating, or re-designing overlapping regulations and agencies and right-sizing agencies to their mandates. The benefits of a middle-ground model that can balance centralised coordination with commodity expertise can provide i) flexibility with consistency, ii) less duplication, ii) more engagement from industry stakeholders, and iv) local adaptation, creating an enabling environment for large-scale investment.

This can be achieved through a variety of models, drawing on successful governance structures adopted in other countries:

- **Central agency with commodity-specific divisions:** A centralised AFA with policy, standards-setting and coordination roles, with commodity-specific divisions or directorates to cater for the needs of specific sub-sectors. (EU DG AGRI model).

- **Divided roles between levels of government:** Clearer county-national government divisions – county-level authorities could be more empowered to support crop and livestock production specific to their regions, with national-level oversight of standards, trade, and export promotion. (India devolved agriculture model).

- **Commodity marketing board models:** A centralised AFA delegates some responsibilities to commodity-specific marketing boards, which handle sub-sector market regulation and development of commodities with a combination of government and industry input. (South Africa National Agricultural Marketing Board model).

03

Remove duplicate certification requirements for imported agricultural products. Kenya actively participates in international SPS standard-setting bodies. For imported agricultural products, we recommend removing phytosanitary re-certification requirements for products already certified and approved in countries with shared or internationally approved standard-setting practises – e.g. the International Seed Testing Association (ISTA), the International Union for the Protection of New Varieties of Plants (UPOV) and the Organization for Economic Cooperation and Development (OECD).

04

Remove duplicate certification of goods at the national level. We recommend delineating roles for standard-setting bodies such as KEPHIS and KEBS.

SECTOR POLICY HURDLES

02

INADEQUATE PUBLIC FINANCING AND POLITICAL WILL

2. INADEQUATE PUBLIC FINANCING AND POLITICAL WILL

Despite contributing over 30% of Kenya's GDP, public investment in the agriculture sector continues to fall far short of what is required for sector transformation as envisioned by the Kenya Kwanza government's Bottom-Up Economic Transformation Agenda (BETA). Agriculture spending as a percentage of the total budget has not materially changed since 2020, and has not kept pace with i) inflation, ii) the devaluation of the Kenya shilling against the global currencies, or iii) the overall growth of government spending.

Medium-term Economic Framework (METF) requirements vs. allocation for agriculture

	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25
Funds requested (MoA)	KES 90.3 b	KES 92.4 b	KES 96 b	KES 93 b	KES 87 b
Funds allocated (Treasury)	KES 52.8 b	KES 69.7 b	KES 46.8 b	KES 49.9 b	KES 54.6 b
% of request allocated	58.4%	75.4%	48.8%	53.7%	62.8%
Total budget	KES 2.79 t	KES 3.03 t	KES 3.3 t	KES 4.2 t	KES 3.7 t
% of total budget	1.89%	2.3%	1.42%	2.34%	2.37%

Amid public resource constraints, the implementation of BETA initiatives in agriculture has focused on the delivery of direct support to farming households, mostly in the form of subsidy programmes and short-term market interventions. Meanwhile, the more ambitious objectives of the sector's Medium-Term Economic Frameworks (MTEFs) face constrained and slowly paced allocations, leading to incomplete projects and initiatives and an uneven policy landscape. Delays in the release of funds from the National Treasury to counties also continue to negatively impact programme implementation and frontline service delivery in agriculture and have also created negative incentives for predatory agricultural cess collection at the county level that further hampers the business environment.

IMPACT ON THE SECTOR

STALLED PROJECTS:
Major projects on which the government has made public commitments do not materialise or are delivered on longer timelines and below the quality promised. This mixed record on project delivery creates perceptions among private players that public-private partnerships (PPPs) in agriculture will be risky endeavours in which the government may be unable to deliver on its commitments.

MAJOR SECTOR POLICIES EXIST ONLY ON PAPER:
Ambitious sector roadmaps such as the Agriculture Sector Transformation and Growth Strategy (ASTGS) remain mostly unimplemented due to lack of funding, limiting the ability of the sector to maintain a stable policy landscape and development vision over the medium- to long-term.

AGRIBUSINESSES OPERATING AT INTERNATIONAL, NATIONAL AND COUNTY LEVELS ARE OFTEN SUBJECT TO MULTIPLE REVENUE COLLECTION REQUIREMENTS AT BOTH THE NATIONAL AND COUNTY LEVELS:
This revenue collection affects multiple points in their value chain, e.g. production, market access, and transportation. Counties have varying cess rates for similar products and county services which lead to double taxation on goods and impact county competitiveness for agribusiness.

DIRECT PROCUREMENT AND DELIVERY OF SUBSIDIZED PRODUCTS DISTORTS THE MARKET AT THE EXPENSE OF THE PRIVATE SECTOR:
Government-led procurement and distribution is inefficient compared to private sector supply chains, can lead to delayed delivery of goods to intended recipients, and can crowd out the private sector leading to business closures and job losses.

IMPACT ON THE INVESTMENT LANDSCAPE

High operational complexity and unpredictable costs: Budget constraints have led to predatory revenue collection at every level of government, which makes the cost of doing business both high and unpredictable. The lack of harmonisation of national and county-level revenue measures, as well as those between counties, introduces variable costs across production, transport, and value-addition activities.

Negative signalling on political will: Low public spending on agriculture signals to investors that the sector is seemingly not a genuine political priority of the government, leading to a diversion of their focus to other sectors. This has real impacts on foreign direct investment (FDI), as reflected in a 6% reduction in FDI inflows into Kenya from 2022-2023[1].

POLICY POSITION

We urge the Kenyan government to commit public resources to the agriculture sector at levels that reflect the critical role the sector plays in driving economic growth, job creation, and food security for the country. Inadequate public financing limits the sector's ability to modernize, increase productivity, and maintain resilience against climate-related shocks. Given Kenya's constrained fiscal space and unpredictable trends in support from development partners, the government should focus on improving the efficient allocation of existing funds, strengthening governance in agricultural spending, and enhancing value for money to amplify the impact of existing investments. These efforts can unlock large-scale international investment and transform the agriculture sector as a true economic engine for Kenya's growth, food security, and climate sustainability.

Despite contributing over 30% of Kenya's GDP, public investment in the agriculture sector continues to fall far short of what is required for sector transformation as envisioned by the Kenya Kwanza government's Bottom-Up Economic Transformation Agenda (BETA).

POLICY RECOMMENDATIONS

01

Increase and ring-fence budgetary allocations for the agriculture sector: To safeguard sector development from budget fluctuations, it is important to maintain and gradually increase budgetary allocations for agriculture to at least 10% of the national budget per the CAADP Malabo commitment, even in the current fiscal climate. This may require tough political decisions, potentially reallocating resources from other sectors or programs. Ring-fencing sector resources and ensuring transparency in tariffs and taxes will also boost investor confidence and create opportunities for private sector collaboration and partnerships.

02

Harmonise and standardise cess and market levies between national and county governments, as well as between counties. Effective inter-governmental coordination on cess is essential to i) the management and regulation of the sector, ii) resource allocation to support sector development, iii) the transportation and storage of agricultural goods, and iv) the provision of essential services to farmers.

- **Ensure timely disbursement of equitable share from the National Treasury:** Delayed payment of equitable share disbursements to county governments has created the urgent need for new revenue sources that is driving trends of aggressive cess collection by counties.

- **Senate enforcement of cess regularisation:** We call on the Senate to carry out its constitutional mandate to regulate and oversee county revenue collection by providing clear guidelines on cess regulation that can reduce the trends of fragmented and inconsistent cess policies across the country. The Senate should also play a proactive role in mediating discussions between counties and the national government to develop a fair cess harmonisation strategy that takes the needs of revenue-poor counties into account.

- **CoG leadership on national dialogue on county-level own-source revenue needs and models:** We urge the Council of Governors (CoG) to co-lead a national, multi-stakeholder conversation on how to harmonise the use of cess and other county-level revenue measures. This effort will be essential to unlock the agriculture sector's economic growth and the creation of an enabling environment for business that can create jobs and improve household incomes.

- **Examine the feasibility of creating a national agriculture infrastructure fund:** A national fund dedicated to improving agricultural infrastructure (e.g., markets, storage, roads) in counties could reduce dependence on cess for these purposes. Counties that reduce reliance on cess could receive grants from the fund to offset revenue losses, and the fund could be operationalised through partnerships with development partners and the private sector.

03

Tap into private sector capital for sector financing by investing in trade facilitation and value chain development: The agriculture sector has the potential to be a more robust source of tax revenue for the government if its productive and job creation potential could be more fully unlocked. Raw agricultural commodities still constitute the bulk of agricultural exports and domestic trade in Kenya, with the economy missing significant opportunities for higher wage job creation and GDP growth that could be accessed through the production and trade of processed commodities (e.g., coffee, dairy products, canned produce). Creating the enabling environment for this type of industrial activity should be a top priority, both by establishing quality control systems to meet international standards (e.g., farm-to-fork traceability systems), and investing in marketing and trade facilitation of processed Kenyan products globally.

04

Reform subsidy programmes to reduce market distortions and improve service delivery:

- Phase out direct government procurement for subsidized products, and gradually channel them through established private sector actors with industry expertise and elaborate distribution channels

- Phase out the current form of subsidies by providing infrastructure, tax incentives and other less market-distorting forms of subsidy.

SECTOR POLICY HURDLES

03

STRUCTURAL FOOD SUPPLY DEFICITS

3. STRUCTURAL FOOD SUPPLY DEFICITS

Kenya has faced structural deficits in food crop production since the 1990s that have led to increasing dependence on imports to keep pace with consumption demand. Over 95% of Kenya's smallholder farmers produce maize; however, the country continually faces maize supply deficits, requiring a combination of declared imports and informal cross-border trade, primarily from Uganda and Tanzania, to meet demand. Similar patterns exist in other major food crops, notably wheat and rice. Agricultural imports currently supply 11% of domestic agricultural requirements but by 2040 consumption will likely outrun production by at least 20 million metric tonnes annually, meaning that imports would have to meet at least one-quarter of total demand.

In recent years, Kenya's food production deficit has been exacerbated by policy uncertainty, climate change, rising food prices, and global supply chain disruptions linked to the COVID-19 pandemic and the ongoing Russia-Ukraine war. These disruptions have led both to high costs for staple food commodities and the farm inputs needed to produce them.

IMPACT ON THE SECTOR

Kenya's perennial food supply deficit and resultant market volatility has several impacts on the sector:

ONGOING FOOD INSECURITY:
Several million people, primarily located in Kenya's pastoral and agro-pastoral zones in the arid north, continue to face significant food security risks. Food supply/price shocks due to drought, excessive rains or crop pests – which can significantly lower crop yields – can quickly leave segments of the population unable to grow or purchase sufficient food for their households, and unable to purchase inputs for the next season.

POLICY SHORT-TERMISM AND EXCESSIVE MARKET INTERVENTION:
Policymakers are consistently torn between the desire to boost domestic food production by protecting local farmers, and the need to import food staples from the regional or global markets to ensure price stability and to avoid food insecurity among vulnerable groups. The result is short-termism and excessive state intervention, creating a vicious cycle in which ad hoc interventions designed to stabilize crop supply and food prices lead (ironically) to greater price volatility, as policy uncertainty chokes off investment in food production.

FARMER DISEMPOWERMENT:
Due to the unpredictability of the market, farmers often face low and changing prices for their produce, forcing cash-strapped households into selling food low and buying high. This is further exacerbated by the nature of smallholder farming, in which farmers often lack effective avenues for collective action, are spatially dispersed, and lack access to market information. Much like a stock portfolio manager, Kenya's smallholder farmers must manage a "portfolio" of crops on small plots of land and must engage in speculation to determine which crops to plant, balancing risk and potential yield. The market volatility brought about by the structural food deficit and resulting policy and price volatility makes it difficult for farmers to maximise their returns, and this is before factoring in further uncertainties presented by weather, input quality, and soil conditions.

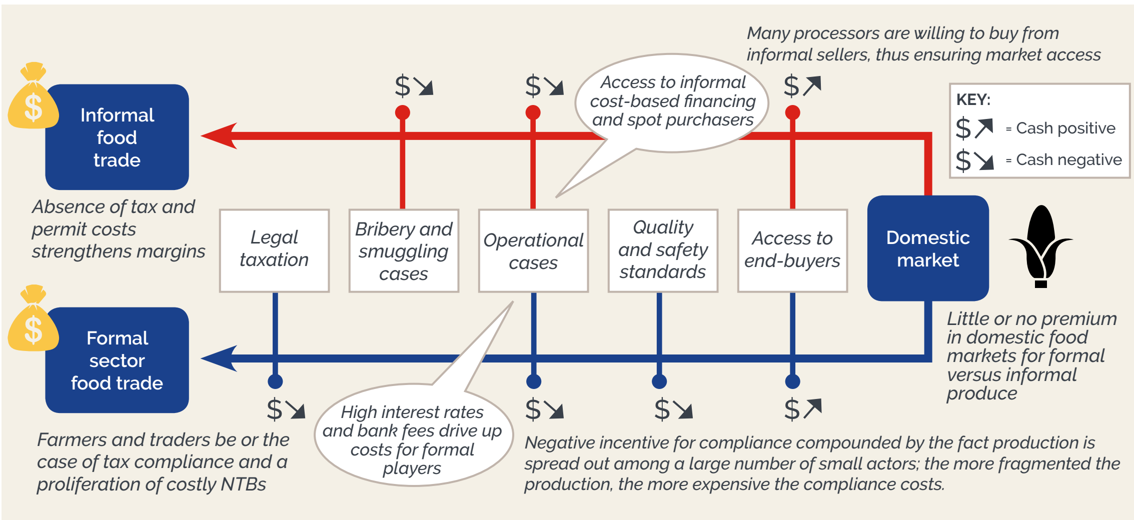
IMPACT ON THE INVESTMENT LANDSCAPE

Staple food trade remains mostly informal: The policy environment described above does not necessarily reduce agri-trade overall, but it forces farmers and traders into the informal sector. Regulatory uncertainty (e.g., unpredictable import/export bans, taxes, cess) and other non-tariff barriers (NTBs) (e.g., unpredictable subsidies or government buy-backs) create powerful incentives for informal trade. In the absence of formal sector price premiums and/or trusted and scalable intermediate infrastructure (e.g., transport, extension services, storage, financing, etc.), the formal sector doesn't offer enough upside for small-scale farmers and traders – who carry out most of the food production and trade – to compensate for the high costs of formalisation (e.g., certifications, quality controls, taxes, etc.).

This is an under-acknowledged reason for the underperformance of commodity exchanges for food products in African markets, for example. This pervasive informality prevents the integration of smallholders into structured, commercial food value chains (e.g., retail) and food-sector agro-processing.

- **The benefits of the informal sector need to be clearly understood by all stakeholders** – the economy benefits from having additional cash in circulation, and farmers benefit from lower production and marketing costs. Margins for small-scale farmers and traders are thin and can be wiped out by the costs of formal market participation (e.g., securing documentation, paying taxes, etc.). (see illustration below)

Costs and revenue opportunities in Kenya's formal and informal food markets



NTBs WITHIN THE FOOD TRADE PERSIST LARGELY BECAUSE POLICY UNCERTAINTY IS NOT HARMFUL TO EVERYONE.

A small group of politically connected food traders, brokers and processors benefit directly from the arbitrage opportunities created by persistent regulatory uncertainty, while a much larger collective of stakeholders – including farmers, agri-businesses, investors, and consumers – are marginalised or disincentivised.

POLICY POSITION

Market volatility, driven by Kenya's perennial supply deficit, acts as a critical constraint on efforts to create a more open and predictable market and policy environment for the food production sector. Ad hoc policymaking and a relatively high degree of market intervention have allowed NTBs to proliferate in the country's food trade regime, which places major constraints on the movement of goods within Kenya and between its neighbours. Farmer and business sector confidence is undermined by periodic market interventions, politicised subsidy schemes, and government price controls. Therefore, there is an urgent need to stabilise Kenya's food supply by reducing market interventions, incentivising food production, improving grain storage, and adopting longer-term food security policies.

POLICY RECOMMENDATIONS

01

Restructure the Strategic Food Reserve (SFR) to improve efficiency and transparency: Institutional reform at the SFR would be key to reducing the food supply deficit and providing more effective price stabilisation. A more market-oriented, transparent, and accountable SFR would include the following:

- **Establish clear trigger mechanisms for key activities:** The criteria for releasing food stocks or importing grain for the reserve should be more clearly defined, based on market signals such as weather data or price thresholds. This would reduce political interference with the operations of the SFR and improve intervention response times

- **A more market-driven model:** Kenya could move away from a state-managed reserve and adopt a public-private partnership (PPP) management model in which private sector players handle a significant portion of the reserve's procurement, storage, and distribution. This would reduce bureaucratic inefficiencies and allow for faster responses to changes in the market.

- **Improve transparency in procurement and release of stocks:** The SFR has historically faced significant challenges with corruption and mismanagement, leading to shortages, inefficiencies, and wastage of resources. Monitoring procurement and distribution through digital platforms could reduce shrinkage and ensure the SFR is equipped to fulfil its stabilisation function during shortages..

02

Transform the National Cereals and Produce Board (NCPB) from a monopolistic parastatal into an independent, competitive market player: The NCPB's quasi-monopoly over cereal distribution and storage should be reduced to create a level playing field for a competitive private sector market in the grain trade. Creating incentives for private investment in storage and marketing, if effectively implemented, could drive efficiency and lower costs. While the agency has primarily been involved in upstream value chain activities in staple crop production (e.g., input distribution, grain trade), the NCPB's mandate could be diversified into value addition services such as milling or packaging, supplementing private sector millers to ensure adequate availability of processed food products during shortages.

- This approach would align with the Kenya Kwanza administration's goal of privatizing state enterprises to reduce government spending. This could also be a less disruptive and costly market intervention over the long term than NCPB selling grain to private millers at artificially low prices or issuing import permits and tax exemptions to private players during the height of grain shortages.

03

Encourage farmer aggregation and cooperatives in food production and trade: Working with farmer cooperatives to aggregate grain would reduce transaction costs for farmers and the NCPB (or private buyers), ensure fairer prices and faster payments to farmers for their produce, and strengthen the position of smallholders in the market.

04

Simplify policy and regulatory frameworks in food production to reduce NTBs facing small producers and traders: Simplifying licensing, taxation, and import/export procedures can boost productivity and provide more incentives to farmers to increase their food crop production, increasing food production efficiency and reduce the swings in production volumes that drive supply shortages and price volatility.

05

Consider creation of a "Kenya Premium Produce" brand for food products sold through formal markets: Use formal sector branding as a tool to help farmers command higher prices for their produce in the formal market, both for domestic trade and exports. Similarly, create more opportunities for farmers to access certification programmes with market benefits (e.g., organic, fair trade, farm-to-fork traceable) that allow farmers to charge premium prices for their produce. This could be led by the Ministry of Trade's Brand Kenya Board (BKB).

SECTOR POLICY HURDLES

04

FRAGMENTED VALUE CHAIN DEVELOPMENT

4. FRAGMENTED VALUE CHAIN DEVELOPMENT

Investing in agro-processing can improve agricultural efficiency, create jobs, and boost economic growth. Building local manufacturing and agro-processing capabilities will be essential to the Kenya Kwanza government's vision for national self-reliance and economic independence, including achieving food self-sufficiency within the next decade. Integrated value chain development that ties production to manufacturing will allow for more comprehensive solutions to blockers of Kenya's agricultural potential, including:

- **Kenya currently loses almost half of its farm produce to poor infrastructure, overproduction, and regulatory challenges.** Many agricultural value chains remain underdeveloped, with a significant portion of produce being sold as raw commodities. The gaps extend beyond the lack of structured markets and include insufficient transportation, cold storage, and processing facilities, which increase produce loss and limit market access.

- **More than 95% of Kenya's agricultural output is grown in rain-fed farming systems, and only 2.5% of arable land is equipped for irrigation,** with more than 80% of Kenya's land area classified as arid and semi-arid land (ASAL). When combined with the emerging risks presented by climate change, this means that Kenya cannot reliably increase agricultural and food system productivity unless other sustainable and efficient techniques, such as irrigation and water harvesting, are used at scale for crop production. In the absence of commercial returns through structured, integrated value chains, incentives for private sector investment in large-scale irrigation for crop production remain low.

- **Kenya has an existing ecosystem of policies and strategies for industrialisation, agricultural production, and agro-processing/value addition,** but these policies often operate in silos and remain underfunded. There is also a lack of adequate integration between agricultural production policies and industrial policies, which means that value chains are often not fully developed or optimised to support agro-processing activities.

IMPACT ON THE SECTOR

KENYA'S AGRICULTURAL SECTOR REMAINS HEAVILY FOCUSED ON THE PRODUCTION, TRADE AND EXPORT OF RAW COMMODITIES:
Existing policies do not explicitly tie agricultural production to manufacturing or provide sufficient incentives or supporting services to attract large-scale investment in agro-processing. As a result, there are major gaps in infrastructure, technology, and capital investment needed to move from raw agricultural production to high-value processing industries (e.g., food and beverage processing).

INCONSISTENT SUPPORT FOR SMALLHOLDER FARMERS:
Smallholder farmers constitute the majority of agricultural producers in Kenya, but often do not receive adequate support from existing frameworks to participate in value chains linked to agro-processing. While existing subsidies and extension services address allow farmers to adopt some best practices and new technologies, these efforts are inadequate to meet existing needs, thereby limiting the productivity and profitability of smallholder agriculture.

MISSED OPPORTUNITIES FOR JOB CREATION:
In the absence of linkages between agriculture and manufacturing, sector employment remains concentrated in low-wage, low-skill farm-based jobs.

INEFFICIENT USE OF AGRICULTURAL SURPLUSES AND BUMPER HARVESTS:
Surplus production often goes to waste due to a lack of commercial off-takers with processing capacity. Without value chain integration, surplus grains and fruits that could be used in flour and juice production go unused or are sold at a loss.

IMPACT ON THE INVESTMENT LANDSCAPE

Limited value chain development reduces efficiency, increases business risk, limits market access and is a barrier to innovation and technology adoption. Without well-developed value chains, agri-investors are subject to inefficient and unreliable production, processing, and distribution channels. Poorly developed value chains restrict access to domestic and international markets, particularly for MSMEs. Agro-processing and value chain development are critical for competitive participation in global agrifood systems, which demand higher-value products, stricter food safety standards and product traceability.

POLICY POSITION

We urge the Kenya Kwanza government to prioritise integrated value chain development through targeted policy interventions that align the agriculture and manufacturing sectors. The lack of a cohesive policy or strategic framework that connects agricultural production with industrial processing is limiting the country's ability to harness the agriculture sector as an engine for economic growth, job creation, and global competitiveness. By developing an industrial policy that explicitly connects agriculture and livestock value chains to manufacturing – especially in underutilised Special Economic Zones (SEZs) – Kenya can move beyond subsistence-focused agrifood systems and raw commodity exports. Such an approach will attract private investment and allow the agriculture sector to serve as a catalyst for industrial transformation.

More than 95% of Kenya's agricultural output is grown in rain-fed farming systems, and only 2.5% of arable land is equipped for irrigation, with more than 80% of Kenya's land area classified as arid and semi-arid land (ASAL).

POLICY RECOMMENDATIONS

01

Develop a comprehensive, national agro-industrialisation policy framework: This policy framework should adopt a "whole value chain approach" that encourages backwards and forward linkages to increase and coordinate both agricultural productivity and value-addition. The ASTGS, while ambitious in its scope, does not adequately integrate with existing industrial policies under the Kenya Industrial Transformation Program (KITP) or other manufacturing initiatives. The ASTGS also does not explicitly establish financial mechanisms for investment and incentives in agro-processing and lacks a clear roadmap for integrating value chains seamlessly into industrial processes.

- **Inter-ministerial coordination will be essential:** Increased coordination and collaboration between i) the Ministry of Agriculture, ii) the Ministry of Trade, Investments, and Industry, and iii) the Ministry of Cooperatives and Micro, Small, and Medium Enterprises (MSMEs) Development, will be essential to developing integrated value chains that flow into processing and manufacturing (e.g., dairy, grains, horticulture).

- **This policy should identify and focus on strategic value chains with the potential for value addition** to ensure resource deployment toward the most promising opportunities. The policy must target and prioritise specific subsectors or crops in agriculture, e.g. rice, maize, livestock, etc., and provide tailored support across the entire values chain, including technology, skills, infrastructure and market development.

- **Establish effective, value chain-specific coordination mechanisms for strategy development:** The agro-industrialisation policy should be co-created with multiple stakeholders, including a range of private sector players of different sizes and in different roles across each priority value chain. A successful agro-industrialisation policy should support the coordination of value chain-specific regulations, programs, and capacity and ensure that economy-wide policies that impact all value chains are synchronized around the key needs of the growing and investing private sector.

- **Include coordinated support for smallholder farmers in industrial value chains:** The ASTGS focuses on farm productivity enhancements but does sufficiently support farmers to move up the value chain into agro-processing activities. Existing cooperative and contract farming models in Kenya (e.g., tea) can provide a starting point for how to approach smallholder support services.

02

Prioritize the use of Special Economic Zones (SEZs) and Industrial Parks for agro-processing and manufacturing: While agriculture-specific SEZs have been proposed, progress has been slow, and most specialised SEZs have been marketed as tech hubs (Konza Technopolis) or export hubs (Dongo Kundu SEZ) focused on textiles, logistics, and technology. SEZ's should be better utilised to boost agro-processing, which can be achieved through measures such as:

- **Industry-specific infrastructure:** To facilitate agro-processing, SEZs and industrial parks need to have specialised infrastructure, which many existing SEZs currently lack – for example, the absence of basic infrastructure for the handling and storage of perishable goods such as fruits, vegetables or dairy products limits the ability of SEZs to attract agro-processing companies.

- **Agrifood sector-specific incentives:** SEZs offer a range of incentives geared toward generally manufacturing, such as tax, import/export, and regulatory incentives. Agro-processing companies often need additional incentives such as lower electricity tariffs (due to energy-intensive processing), input subsidies, and equipment loans. The seasonality of agriculture also means agro-processors may face longer gestation periods before profitability, requiring bespoke fiscal and financial incentives.

- **Increased focus on domestic value addition:** Many SEZs are export-oriented and aim to attract manufacturers producing goods for international markets. The domestic agriculture sector often has more immediate opportunities for local value addition (e.g., food processing and packaging), which means opportunities are missed to use SEZs to develop industries that can serve local or regional markets.

SECTOR POLICY HURDLES

05

ENABLING ENVIRONMENT FOR TECHNOLOGY USE AND INNOVATION IN AGRICULTURE

5. ENABLING ENVIRONMENT FOR TECHNOLOGY USE AND INNOVATION IN AGRICULTURE

Even though Kenya accounts for nearly 25% of all ag-tech start-ups in Africa, technology, digital tools and artificial intelligence (AI) remain underutilised in the domestic agriculture sector. Few service providers have registered more than one million users and only 20-30% of farmers use a digital agricultural solution. While better than other countries in the region, higher adoption of agricultural technologies is limited by:

- Weak agricultural extension systems
- Fragmented infrastructure
- Poor linkages between research and extension services
- Lengthy technology verification and release systems
- High costs, including import duties and tariffs, on technology and digital infrastructure
- Fragmented and incomplete datasets coupled with ineffective regulation
- Undeveloped value chains and insufficient support of private sector players in these value chains

IMPACT ON THE SECTOR

Bringing digital and tech-based agriculture solutions to scale in Kenya remains challenging. Kenya's agricultural producers currently lack the contemporary technologies and decision-support tools necessary for sustaining and improving yields, and these challenges are further exacerbated by climate change, which has forced farmers to grapple with increasingly volatile weather, more frequent extreme weather events, and accelerated environmental degradation. Other stakeholders along the agricultural value chains, including input providers, distributors, and consumers, also face substantial challenges that can be addressed by data, digital and technology tools. These include product quality, monitoring, traceability, cold chain and storage, value-addition, automation, and communication.

Despite the 2019 Data Protection Act and the formation of the Office of the Data Protection Commissioner (ODPC), data regulation in the agriculture sector remains limited. Fragmented and unclear data governance reduces farmers' willingness to adopt digital solutions. This, in turn, reduces the availability and accessibility of agricultural data for policymaking, innovation and development of services for the sector. Due to governance and fiscal challenges, public institutions and agencies such as the SFR, NCPB, and Kenya Meteorological Department lack reliable data to inform decision-making.

IMPACT ON THE INVESTMENT LANDSCAPE

Fragmented datasets, poor connectivity and high costs limit the growth and scale of ag-tech investments.

High cost: Most ag technologies are imported and subject to high taxes and tariffs. This drives up not only the cost of doing business but also the cost of technology access for farmers.

Fragmented data: Publicly available agricultural data to inform investment decisions is often incomplete or unavailable. Recently introduced data regulations, such as the Data Protection Act (2019), need to find a balance between protecting farmers' interests and allowing private actors to access the data needed to inform business decisions.

Poor connectivity: The scale and reach of investments in ag-technologies and AI tools are limited by the reach of the infrastructure and connectivity needed to back them; these require public investment in roads, electricity, internet and mobile network coverage.

POLICY POSITION

We remain optimistic about the significant potential of Kenya's "Silicon Savannah" to consistently yield ground-breaking innovations that address both local and global challenges, spanning sectors such as fintech, agriculture, healthcare, education, and beyond. We urge the government to continue its regional and global leadership on innovation and technology deployment by prioritising policy reforms that foster technology adoption and innovation in agriculture (and other sectors). Specifically, we urge lawmakers to i) develop modern, technology-agnostic, standards-based regulatory systems and ii) further strengthen intellectual property protections to incentivize local research and development. These reforms should aim to unlock the potential impact of digital tools, precision farming, and agri-tech innovations through flexible compliance regimes that are performance-based and aligned with international best practices. A tech-enabled agriculture sector will promote more resilient and competitive value chains capable of driving long-term growth.

POLICY RECOMMENDATIONS

01

Clarify and modernise regulatory frameworks for technology development and deployment, focusing on technology-agnostic frameworks that permit innovation while establishing standards-based licencing and safeguards for public health and safety: The fast pace of technological development requires that regulatory frameworks not be overly prescriptive or sector-specific, as many technologies like AI, drone technology, and biotechnology have potential applications that cut across multiple sectors, many of which have not been envisioned yet. Standards-based regulations also create more room for data-driven decision-making on changes that can better keep pace with scientific and technological advancements.

02

Further, strengthen intellectual property (IP) protection frameworks to make Kenya a more competitive market for technology development and innovation: Despite recent improvements in IP regulations and enforcement, there are still gaps in the domestication of international IP treaties and enforcement standards, which continue to hinder Kenya's global competitiveness. IP-related issues such as the use of geographical indications (GIs) and the protection of emerging technologies like artificial intelligence (AI) are not fully addressed under current frameworks, necessitating further reforms.

03

Reduce or remove import duties on agricultural technologies and their component parts such as drones, farm machinery, and mobile phones, and offer tax relief on raw materials and replacement parts that can create domestic economic opportunities in machine/device maintenance and local assembly.

04

Implement and update existing data protection regulations to optimise the benefits of data-driven agriculture. Data laws should support and promote technology development, not impede it. Proper enforcement of data protection laws should encourage data sharing between stakeholders, such as farmers, agribusinesses, and research institutions. These collaborations can help aggregate and scale solutions.

04

Leverage private sector-led research and market development, including field trials and demonstrations that provide awareness and evidence-based support for emerging technologies. Piloting, demonstration plots, and public awareness campaigns raise farmers' awareness of the digital innovation and AI tools available to them.

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