



2016 Top Markets Report **Cold Chain** Country Case Study

Kenya

Kenya and the other members of the East African Community (Tanzania, Rwanda, Uganda and Burundi) are making progress in improving their regulatory environment and may have great long term potential. The massive amount of infrastructure investments necessary, combined with the risk of government change and the limited retail market size, however, currently put Kenya in the lower half of our top market survey.

Overall Rank

19

Lower-Middle
Category
Ranking

4

The following case study highlights and is primarily sourced from a Kenya Cold Chain Assessment performed by the Global Cold Chain Alliance in partnership with the International Trade Administration. The full assessment report is available at: <http://www.gcca.org/resources/publications/white-papers-reports/keeping-it-cool-assessing-cold-chain-in-kenya/>

Kenya has an estimated GDP of \$61 billion, and exports of goods from the U.S. amounted to \$936 million in 2015. U.S. majority owned foreign affiliate sales in Kenya were \$966 million in 2013, an increase of 33 percent from 2012, though distribution services data is not available for the country.¹

The population of Kenya is considered lower middle income, with a per capita income of about \$2,940 (PPP) per year. Unemployment has held steady at 9.2 percent, but it should be noted that some unofficial estimates range as high as 40 percent. Inflation was 7.5 percent in 2014.²

Food spending is expected to grow 10 percent annually to reach \$17.6 billion by 2020, boosted by rising incomes and awareness of the health benefits of fresh foods.

Franchising in Kenya is most common in the hospitality sector with about a dozen world-renowned firms.

Food and beverage franchises have seen the most growth despite the challenges in supply chains.

Internet use in Kenya is low by many measures with less than 25 million users. Due to the expansion of wireless cell phone service, however, the country is seeing a rapid growth in users. E-commerce is limited to only a few industries, including airline hospitality, banking and courier services. Opportunities may exist for 3PLs that can harness the power of the growing cell phone market to schedule pickups and deliveries from the thousands of small farms spread across the country, which currently have virtually no access to global trade markets.

Pharmaceutical sales in Kenya are estimated at \$797 million in 2015 and are anticipated to increase at a compound annual growth of 9.5 percent to reach around \$1.2 billion by 2020.³

Figure 1:

Competitiveness Index	Score
Government/Regulatory	3.8
Labor Force	4.4
Infrastructure	3.8
Demand	4.3
Industry Interest	3.0

World Economic Forum and Global Cold Chain Alliance

Economic Statistics	
Population	204 Million
Cold Storage Capacity	N/A
Pharmaceutical Sales	\$742 Million
Food Spending	\$10.9 Billion
Food Spending per Capita	\$236
Agribusiness Market	\$8.9 Billion
Agriculture Imports	\$234 Million
Agriculture Exports	\$643 Million

BMI and Global Cold Chain Alliance

Kenya’s agri-business is estimated at \$8.9 billion in 2015 and is expected to rise \$10.6 billion by 2020.⁴ Approximately 30 percent of Kenya’s economy is based on agriculture despite a virtual lack of options for most farmers to reach global markets. Opportunities may exist for 3PLs and logistics providers that can navigate the complicated challenges of linking farms to the global market.

Kenya ranked 108th in the World Bank’s 2016 Ease of Doing Business, an improvement of 21 places since 2015, when the survey was recalculated. The country was one of the survey’s largest movers, with improvements in Getting Credit, Getting Electricity and Registering Property.⁵

Kenya is ranked 101st out of 124 countries in the World Economic Forum’s Human Capital index 2015. The population has a median age of 19 and a labor participation rate of 67.3 percent. Less than 6 percent of the population is tertiary educated, and the country is ranked 14th in ease of finding skilled employees.⁶

Figure 2: World Bank Doing Business Ranking

Country	Ranking (2016)	GDP Per Capita (PPP, 2014)
Kenya	108	\$2,954
Russia	51	\$25,635
China	84	\$13,206
Brazil	116	\$15,838
India	130	\$5,701

In Sub-Saharan Africa, nearly 94 percent of all wasted food is a direct result of insufficient supply chains.⁷ As such, the Middle East and Africa is a significant long-term expansion goal for many food franchises. To date, investment has been centered in the Middle East, North Africa and South Africa. In the past few years, however, franchises have begun to look at underdeveloped markets, such as Kenya, as an expansion opportunity. While franchises such as YUM Brands already have locations in several Sub-Saharan markets, the area remains largely underdeveloped.

Kenya is the largest and most dynamic economy in the East African Community. It has a highly entrepreneurial population that serves as the logistics and financial hub for the region. The quality of transport infrastructure is ranked 69th out of 140 countries in the World Economic Forum Global Competitiveness index,⁸ but Kenya has increasingly become an important player in global food markets with a thriving vegetable export industry. This is largely due to Kenya’s location near many shipping routes and increasing capabilities of food processors and producers. Kenya is one of only two EAC countries with seaports that serve as gateways to its landlocked neighbors.

Kenya’s 45 million people are classified as lower-middle income, which puts it in the same classification as Egypt, Indonesia, Morocco, Nigeria, Senegal and Ukraine. The country prioritizes academic education, but it lacks vocational training, which has led to a skills gap in the labor market. The country also has some of the highest minimum wages in the East African region.

Agriculture represents 30 percent of Kenya’s GDP, and the majority of the production occurs on small farms that are engaged primarily in subsistence farming. These farms have neither the means nor incentive to invest in cold storage and lack the knowledge or capacity to apply proper packaging or handling techniques. Furthermore, a lack of access to adequate transportation infrastructure virtually cuts these farmers off from all but the most local, informal consumer markets. Many agriculture products can be seen transported along motorways in wheelbarrows or on motorbikes, oxcarts or small vehicles, and many markets are supplied by pushcart.

Current return on investment for cold chain in Kenya is estimated to take eight to ten years, far longer than the three year ROI that is expected by most foreign

direct investors. High startup costs, long bureaucratic delays and confusing rules and regulations combined with numerous legal and illegal fees throughout the business process make entering the market a daunting task, especially for a capital intensive industry like cold chain.

Most warehouses in Kenya are established for the export market, and many are created expressly for air shipment. The flower industry is one area that is well-established and follows best international practices for exporting. Kenya is a large exporter of fresh cut flowers and accounts for 38 percent of flower imports into the European Union.

On the domestic side, there are a few small firms within the major metropolitan areas that have cold facilities, though most are not designed and built for higher volume or efficiency befitting retail distribution networks. Manual labor is often substituted for use of proper equipment and design, which leads to inconsistencies, product damage and breaks in the cold chain.

Retailers and quick service restaurants face significant constraints in Kenya and East Africa, including the lack of cold storage facilities, poor infrastructure and the seasonality of supplies. Despite this, many have committed to expanding operations, and quick service restaurants are becoming a major driver in the growth of cold chains. Most franchises have strict sourcing controls and requirements that prevent the use of lower standard produce, thus having well-established cold chain systems in place are necessary for their growth. Despite the challenges, some franchisees have reported that demand is out-pacing growth in the region.

Kenya ranks 145th out of 175 on Transparency International's Corruption Perception Index, and many businesses consider any interaction with government as having a negative impact on business. Kenya operates a tax on the movement of agriculture products called a "cess". The rate of the cess and the application process seem to be arbitrary and up to the discretion of the local authority, allowing opportunities for illegal tariffs and fees. There are suggestions that illegal government "fees" or payoffs may cost as much as 10 to 15 percent of revenue. Businesses that do not pay these fees may see delays in shipments.

The lack of clarity in food safety regulations and enforcement is a major concern for cold chain operators. Across Africa, cold chain providers are often hesitant to invest in the market due to a lack of transparency in government regulations that sometimes can generate an appearance of corruption.

Kenya ranked 74th out of 160 countries in the World Bank's 2014 Logistics Performance Index (LPI). The LPI is an indicator of key dimensions of a country's logistics performance, including Customs, Infrastructure, International Shipments, Competence, Tracking and Tracing, and Timeliness. Overall, the country has shown slight improvements since 2007, though the category of Customs has declined significantly to rank 151st out of 160 in 2014.⁹

3PLs in Kenya are virtually non-existent, forcing most cold chains in Kenya to be vertically integrated and designed to meet the specific needs of individual businesses. These businesses invest in vertical integration, primarily to export commodities; as a result, food-handling practices for exported products follow international best practices, including Hazard Analysis and Critical Control Points (HACCP) and BRC Global Standards. More than 80 percent of the local food market in Kenya is informal, and these products suffer from a fundamental lack of understanding or consumer demand for best practices in handling and transportation.

Rural distribution for food products is often based on informal networks where firms, such as Coca-Cola and Unilever, employ locals to take goods to consumers. While these distribution networks are somewhat functional, they are often not efficient. Exporters that can make large investments in distribution networks to supply the mass market may therefore develop a competitive advantage.¹⁰

Approximately 18 percent of households in Kenya are connected to a power grid, and the lack of access to electricity makes building a cold storage facility outside of the main metropolitan zones very difficult. Even within metropolitan areas, weekly or even daily outages are common, necessitating backup systems. Power surges and fluctuations are also common, adding to wear and tear on compressors and other equipment. Sourcing repair parts and services can also be a major challenge for operators in the region.

There is significant opportunity for Kenya to increase the competitiveness of its exports through investment in ports. Refrigerated storage at the Port of Mombasa does not exist, congestion is sometimes an issue and most shippers of perishable products spend a premium on airfreight to avoid these issues. Uganda has also complained of theft of transit cargo at the Port of Mombasa.

Kenya has a generally well-educated and mobile workforce with an entrepreneurial spirit. A lack of vocational training, however, will need to be taken into account for businesses entering into the market. Also, a fundamental lack of basic food safety knowledge and best practices by food handlers within the country's local supply chain mean that cold chain operators must be diligent in establishing procedures, training and guidelines for food safety and handling.

Unemployment in Kenya ranges from 10 to 20 percent, and the majority of Kenya's workforce is engaged in the informal economy. In fact, USAID estimates that a little more than 10 percent of employed youth are engaged in the formal economy.

Most Kenyans make purchases through local markets or directly from farmers. These markets tend to sell lower quality products that have never been refrigerated. Consumers generally cannot afford the higher quality products that would come from an established cold chain system.

A growing middle class that has seen significant wage raises indicates that there is potential for demand to increase over the long term, and recent growth in quick service restaurant franchises in the Kenya market demonstrates a positive development.

Resources:

U.S. Commercial Service:
<http://www.export.gov/kenya/>

Country Commercial Guide:
<http://export.gov/ccg/kenya>

African Growth and Opportunity Act (AGOA):
www.agoa.gov

Kenya Customs Department:
www.kra.go.ke

East African Community:
www.eac.int

Industry's Take:

A recent study of the cold chain sector in Kenya showed the need is great, but consumer demand currently does not allow for sustainable growth in the near future. The challenge is how to match the domestic growth in the cold chain to complement what is being done for exports.

Global Cold Chain Alliance Industry Member

¹ Bureau of Economic Analysis; <http://bea.gov/international/factsheet/factsheet.cfm?Area=418>.

² The World Bank; <http://worldbank.org>.

³ Business Monitor Online; <http://bmo.bmiresearch.com>.

⁴ Business Monitor Online; <http://bmo.bmiresearch.com>.

⁵ World Bank 2016; "Doing Business 2016: Measuring Regulatory Quality and Efficiency"; <http://www.doingbusiness.org/~media/GIAB/Doing%20Business/Documents/Annual-Reports/English/DB16-Full-Report.pdf>.

⁶ World Economic Forum 2015; "Human Capital Report 2015"; http://www3.weforum.org/docs/WEF_Human_Capital_Report_2015.pdf.

⁷ World Economic Forum, Enabling Trade: From Farm to Fork, January 2014.

⁸ World Economic Forum 2015; "Global Competitiveness Report 2015-2016"; http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf.

⁹ World Bank 2014; "Connecting to Compete: Trade Logistics in the Global Economy"; http://lpi.worldbank.org/sites/default/files/LPI_Report_2014.pdf.

¹⁰ Food and Drink Report, 2015: Kenya. Business Monitor Online