AgriculturalEconomyandPolicyReport-Kenya February 2009

POLITICAL SITUATION: Kenya suffered political violence when incumbent President Mwai Kibaki declared victory in the December 2007 elections and the opposing political party also claimed victory. Shortly thereafter the violence erupted. Eventual intervention by high-level African Union and United Nations leaders resulted in a power sharing agreement that left Mwai Kibaki as President but established a Prime Minister position for opposition leader Raila Odinga, in addition to doubling the number of cabinet-level positions. The political crisis disrupted every sector of the economy, and while the analysts estimate losses in the billion of Dollars, the true cost may never be fully understood.

Kenyans are now attempting to regain their status as one of the most dynamic countries in the east Africa region. Tourists are now returning to Kenya's wildlife and natural beauty; an important driver of the Kenyan economy. Kenya boasts a population of 36 million people comprised of a mosaic of ethnic communities.

In spite of the 2008 violence, Kenya's $ 27 billion economy (2007 GDP estimate) is still the largest and most diversified in the region. It's financial and transportation systems are the economic lifeline for much of east and central Africa, providing an operational platform for the United States and the United Nations to carry out conflict resolution, counter terrorism, as well as rescue and relief operations in regional trouble spots.

ECONOMIC: Kenyan economic growth is forecast at 4.5-6 percent for 2008. However, the country's poverty status will likely increase from the 45.6 percent registered in 2006 because of the post-election crisis. Kenya's economy registered 7 percent growth in 2007, 6.4 percent in 2006, 5.7 percent in 2005 and 5.1 percent in 2004. Kenya's economic growth faces a number of challenges such as high electricity, fuel and food prices, eroded transportation infrastructure, inadequate telecommunications, poor security, over-regulation, and corruption; all of which makes Kenya a high cost producer, reducing its competitiveness in the global economy.

THE ECONOMY AS IT RELATES TO AGRICULTURE: Agriculture is the leading growth sector in the Kenyan economy. It is estimated that agriculture accounts for about 24 percent of GDP and employment of about 70 percent of the country's labor force. The agricultural sector is dominated by production of a few commodities categorized as cash crops (tea, coffee and horticulture), food crops (maize, wheat and rice) for local consumption and livestock. Kenya's long-term goal of food self-sufficiency (most often in the literal sense of producing everything consumed in the country) remains unattainable. Frequent droughts usually require donor-provided food aid to mitigate the ravages of famine, especially in the arid and semi-arid regions populated largely by livestock-based pastoral tribes.

On January 9, 2008, Kenyan President Kibaki officially declared a food shortage for 10 million Kenyans (approximately 25 percent of the total population) and appealed for $406 million in food aid from the international community.

DOMESTIC AGRICULTURAL POLICY OVERVIEW: Kenya is a member of the Common Market for East and Southern Africa States (COMESA). COMESA established a common external tariff and low or zero internal tariffs for trade between its nine members. Those internal tariffs have produced economic stress in the sugar and flour milling industries.

In addition, Kenya, Tanzania and Uganda signed the East African Community Customs Union Protocol effective the beginning of 2005. The Protocol integrates nearly 120 million people, with a combined gross domestic product of $41 billion into a single market. As a result of this agreement, Kenya increased tariffs on some key agricultural products such as almonds, corn and rice.

GENERAL AND AGRICULTURAL TRADE SITUATION: Annual U.S. agricultural and food exports over the last five calendar years (2003-2007) have averaged $52.5 million. The most important exports are wheat, pulses coming in as food aid and monetized shipments under Food for Progress, Food for Education and P.L. 480 Title II. Recently, Kenyan officials imposed phytosanitary, and other documentation requirements that U.S. shippers cannot provide; FAS Nairobi and Washington D.C. are working on this issue.

Annual U.S. imports of agricultural and food products from Kenya have averaged $52.9 million over the same period. Coffee, tea, macadamia and cashew nuts account for over 60 percent of these imports.

USAID, and other United States Government agencies, also have initiatives that attempt to improve market access for U.S. agricultural exports, international assistance, and development in Kenya and other parts of East Africa.

In March 2007, Kenya and the United States signed a $12.7 million MCC Threshold Program agreement.

Kenya is a member of the World Trade Organization (WTO), and the international standard setting bodies of Codex Alimentarius, World Organization for Animal Health (OIE) and the International Plant Protection Convention (IPPC).

Under the African Growth and Opportunity Act (AGOA), Kenya is eligible for preferential access to the U.S. market.

In July 2008, the United States signed a Trade and Investment Framework Agreement (TIFA) with the East African Countries (EAC)

SPS AND REGULATORY SYSTEMS: Kenya Plant Health Inspectorate Service (KEPHIS), Kenya Bureau of Standards (KEBS) and the Department of Veterinary Sciences (DVS) are the key regulatory government agencies dealing with phytosanitary and sanitary issues. The Ministry of Health, through the Public Health Department, is a passive role player in the food-regulatory system. The level of coordination among the agencies, and between the regulatory agencies and the private sector is limited.

Kenya implements strict phytosanitary requirements on a number of agricultural commodities imported from the United States, mainly grains and seeds. Kenyan officials state that such measures address their concern that any whole-grain commodity could be used as seed by farmers.

USDA STAKEHOLDERS: FAS cooperators active in the region include: U.S. Wheat Associates, American Soybean Association (ASA)/World Initiative for Soy in Human

Health, U.S Dry Pea and Lentil Council, U.S. Dry Bean Council, U.S. Livestock Genetics, Holstein Association and USA Poultry and Egg Export Council. The cooperators provide technical assistance and trade facilitation which complements Post’s efforts.