

Country Market Profile: Kenya

Market Overview

Euromonitor reports that the economy in Kenya grew in real terms in 2022, driven by rising public and private spending, capital investment and external demand. However, the global economic slowdown, elevated inflation and tightening financial conditions are set to undermine business and consumer confidence globally, weighing on the country's economic outlook.

- Following real growth of 4.8% in 2022, Kenya's economy was expected to expand at an average annual real gross domestic product (GDP) rate of 4.7% in 2023 and 5% in 2024.
- Inflation in Kenya was forecasted to slow down to 7% in 2023 from 7.7% in 2022.
- While Kenya's merchandise exports increased by 10.4% and imports rose by 9.5% during 2022, the country remained a net importer of goods.
- Gross fixed capital formation (GFCF) continued to increase over 2022, accounting for 18.9% of GDP.
- The public debt-to-GDP ratio in Kenya rose to 69.6% in 2022, standing above the regional average of 54.8%.

Over the course of 2022, the global economic outlook deteriorated considerably, as the war in Ukraine exacerbated energy and food supply issues and the price spike triggered in the aftermath of the COVID-19 pandemic. Following an expansion of 7.5% in 2021 supported by the post-pandemic recovery dynamics, real GDP in Kenya slowed down to 4.8% in 2022. In a regional comparison, Kenya's economy outperformed the average growth of 3.6% in Sub-Saharan Africa. As of 2022, GDP per capita reached USD2,097 in Kenya, which was higher than the average of USD1,751 per capita in Sub-Saharan Africa. During the year, the country's economic performance was supported by elevated private spending, USDA's Office of Agricultural Affairs in Nairobi, or FAS Post Nairobi, reports that Kenya is East Africa's economic powerhouse with a strong financial sector and a relatively well-developed logistics network, making it a regional hub. Kenya is a net importer of agricultural products. Agricultural and related product exports to Kenya reached US\$3.8 billion in 2022, an increase of 11% from 2021. Kenya's fast-growing population and middle class combined with an expanding food service and retail sector offer many opportunities for U.S. exporters.

Kenya imported consumer-oriented products valued at US\$529 million in 2022. Uganda, India, Europe, South Africa, and Egypt were Kenya's major suppliers with the U.S. providing 1.9% of total imports.

Kenya had a population of 57 million in 2023 (CIA World Factbook Est.). The median age is 20.9 years and the percentage of those over 65 years was 3.3% or about 1.9 million. Kenya's population is forecast to grow at an average annual rate of 2.2% between 2022 and 2025 and reach 60 million by 2025, according to the Economist Intelligence Unit (EIU). In 2022, the economy continued to improve with GDP increasing to US\$113 billion from US\$110 billion in 2021. Recovery from COVID-19-related

impacts and a sound macroeconomic environment contributed to the increased growth. However, Kenya's agricultural output was negatively affected by an extended drought and the Ukraine/Russia war which led to disruptions to global supply chains.

Market Opportunities and Key Issues for U.S. Exporter of Processed Food in Kenya

Market Opportunities:

- Kenya's strategic location in East Africa makes it a regional trade hub for eastern and central Africa.
- U.S. food products are associated with premium quality and have a positive image in the Kenya and East Africa market.
- Kenya has a vibrant and diversified private sector and consumer spending is expected to increase due to rising incomes.
- Kenya has an expanding modern food retail sector, foodservice sector, and food processing sector.
- An emerging eating-out culture in Kenya's middle class is driving growth in fast food outlets, restaurants, and coffee shops.
- Kenya has internet access rates at nearly 80% and a growing ecommerce sector. The spread of broadband internet and e-commerce platforms alongside deeper financial inclusion will continue to create new market opportunities.

Key Issues:

- U.S. suppliers face stiff competition from Uganda, India, South Africa, Egypt, and Europe (particularly the Netherlands, United Kingdom, and France) due to geographical advantages.
- Kenya consumers, importers, retailers, and processors have limited awareness and knowledge of U.S. agricultural and food products.
- Many Kenyan buyers are price sensitive.
- European vendors benefit from strong historical ties.
- Exporters face competition from locally produced goods through the Government of Kenya's "Buy Kenya, Build Kenya" campaign.
- East African Community (EAC) and COMESA member states have a preferential tariff advantage.

U.S. processed food exports to Kenya reached US\$25.6 million in 2022, ranking it seventh in Sub-Saharan Africa. That represented growth of 32% from the prior year and a new all-time high. Year to date (YTD) November of 2023 U.S. processed food exports to Kenya dropped 19% to US\$17.2 million.

Top U.S. processed food exports to Kenya in 2023 included:

- Food Preparations and Ingredients – down 97%.
- Fats and Oils – up 250%.
- Pasta and Processed Cereals – down 99%.
- Condiments, Sauces, Jams and Jellies – up 191%.
- Alcoholic Beverages – down 7%.

- Chocolate and Confectionery – up 92%.
- Processed/Prepared Dairy Products – down 39%.

Retail Sector Highlights:

According to Euromonitor retail sales of packaged food in Kenya is forecast to reach just over US\$5.1 billion in 2023. That represents growth of 47% and a US dollar equivalent of US\$1.6 billion from 2019. By 2028 Euromonitor forecasts that retail sales of packaged food in Kenya will reach US\$7.3 billion. This represents growth of 32.2% and a US dollar equivalent of US\$1.7 billion from 2024.

High growth products in the forecast include:

- Sweet Spreads
- Savory Snacks
- Processed Fruit and Vegetables
- Breakfast Cereals
- Processed Meat, Seafood and Alternatives to Meat
- Baked Goods
- Rice, Pasta, and Noodles

FAS Post Nairobi reports that Kenya's retail landscape is a mix of traditional, informal retailers and modern grocery channels which stock most imported consumer-oriented high value products. Grocery retail sales grew 11% in 2022 to reach US\$8.5 billion and are expected to grow at 10% on a compound annual growth rate (CAGR) from 2022 to 2027, according to Euromonitor International. Growth in Kenya's ecommerce sector has prompted most retailers to partner with online delivery firms like Glovo, Copia, and Uber Eats.

Euromonitor reports that brick and mortar grocery stores remain extremely popular in Kenya, despite ongoing strong growth in e-commerce. The number of grocery stores outlets continued to increase in Kenya in 2022 as operators looked to expand as the country continued its recovery from the impact of the COVID-19 pandemic. For example, Quick Mart opened several new outlets in Kenya in 2022. In addition, Naivas also opened a few new supermarkets in 2022, one at the Kiambu Mall in April 2022, another at Safari Center in Naivas, and the last one in Meru.

Both retailers have already seen notable expansion in terms of outlets and are expected to see further growth over the forecast period. Alongside this, the number of small local grocers also saw healthy growth as economic activity picked up and entrepreneurs looked for new opportunities. Despite the growing number of supermarkets being seen in Kenya it is small local grocers that continue to dominate both in terms of number of outlets and value sales.

Although some chained modern grocery retailers such as Naivas, Quick Mart, and Chandarana Food Plus focused on increasing their number of outlets in Kenya in 2022, others were forced to close outlets. These were mainly South African supermarkets and retail chains, with Uchumi, Tuskys, Nakumatt, Shoprite, Game Stores, and Choppies all

exiting the market. This was partly due to the difficult economic scenario with high inflation putting pressure on operating costs, but it was also due to the generally low penetration of modern grocery retailers in Kenya, with the majority of Kenyans continuing to shop at small dukas stores (small local grocers), which have a wider reach, including in rural areas.

The country's middle-income group offers key opportunities for modern grocery retailers to expand in Kenya, with these consumers more likely to be interested in purchasing a wider range of products and brands. However, low-income households are expected to grow at the expense of middle-income ones, with the challenging economy having a damaging effect on disposable income as the cost of living rises. If modern grocery retailers, and more specifically supermarkets and convenience stores, are to take sales from small local grocers then they will need to expand their reach into more neighborhoods, with many households still preferring to shop in stores close to their homes. They will also need to focus on targeting low- and middle-income households with more affordable products and private label ranges; given the fact many consumers in Kenya are extremely price sensitive.

Kenya's formal retail food sector continued to expand in 2022 reaching an estimated value of \$9.6 billion due to increased urbanization and growth in the e-commerce sector. Informal retail (consisting of small kiosks) still dominates the sector posing strong competition to modern grocery retailers. In 2022, the value of grocery retail sales grew 11% to US\$8.5 billion. Naivas Ltd is Kenya's leading grocery chain with a retail value share of 10%, and more than 100 outlets.

Retailers attract customers through a variety of product promotions and convenience services including 24-hour operations, customer loyalty shopping cards, and special offers. In addition, key retailers have adopted online retailing and partnered with delivery service companies to better service their customers. Local producers and importers of consumer-oriented products use in-store promotions, weekend and/or holiday discounts, billboards, brochures, and flyers to advertise products.

Foodservice Sector Highlights:

FAS Post Nairobi reports that Kenya boasts a thriving food service sector, which encompasses a diverse range of establishments, including upscale restaurants, local and international quick-service restaurants, specialty shops, online retail stores, cafes, and traditional markets such as kiosks. Most establishments utilize imported processed vegetables, including potatoes and canned foods.

American fast food chain outlets, such as Kentucky Fried Chicken (KFC), Subway Ltd., Domino's Pizza, and Cold Stone Creamery, are present in Kenya. American pizzeria, Papa John's International, opened a restaurant in Nairobi, and has plans to open 13 more restaurants by December 2024.

International hotel brands, such as the Best Western Group, Villa Rosa Kempinski, Crowne Plaza, the Marriot Group, Dusit2 International, and Accor, are present in Kenya.

Nairobi's growing role as a business and conferencing center has driven an expansion in the hotel sector. According to W. Hospitality's 2023 Pipeline Report, 25 hotels are expected to add 3,729 hotel rooms by the end of 2023.

Food Processing Sector Highlights:

Kenya's manufacturing sector declined 2.7 % in 2022, compared to a 7.3 % increase in 2021. Due to drought-related shortfalls in raw materials, manufactured and processed food production increased only 1 % in 2022 compared to 3% growth in 2021. Sub-sectors with the highest growth rates include fish (15.6%), sugar processing (13.8%), meat and meat products (6.4%), bakery products (6.3%), and prepared and preserved fruits and vegetables (5.3%). Dairy product processing declined 8.4% while animal and vegetable oil production declined by 9.4%.

Best Product Prospects:

FAS Post Nairobi reports that U.S. suppliers of food ingredients may find opportunities in Kenya's food processing sector. Local ingredient production does not always meet the processing industry's demand, including key ingredients such as soybeans, corn, wheat, and rice.