



**Food and Agriculture  
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# LEVERAGING SMALL AND MEDIUM-SIZED ENTERPRISES FOR NUTRITION-SENSITIVE FOOD SYSTEMS IN KENYA

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The Food and Agriculture Organization of the United Nations (FAO) is implementing the project *Strengthening capacities for nutrition-sensitive food systems through a multistakeholder approach* in Ghana, Kenya and Viet Nam. Supported by the Ministry of Agriculture, Forestry and Fisheries of Japan (MAFF), the project targets small and medium-sized enterprises (SMEs) operating in the agrifood sector, while also including academia and civil society as agents of change.

Produced as part of the project, this policy brief outlines challenges and opportunities for small and medium-sized enterprises to build more equitable, sustainable and nutrition-sensitive food systems in Kenya.

## KEY DATA ON NUTRITION IN KENYA

Prevalence of stunting in children under 5 years of age: 35.5% (2012)* – 26.2% (2019)**	Prevalence of wasting in children under 5 years of age: 6.9% (2019)**
Prevalence of overweight in children under 5 years of age: 5.0% (2012)* – 4.1% (2019)**	Prevalence of obesity in adults (18 years and older): 5.9% (2012) – 7.1% (2016)
Prevalence of anaemia in women of reproductive age (15–49 years): 27.5% (2012) – 27.2% (2016)	

Notes: \*Based on latest data available from 2005 to 2012.

\*\*Based on latest data available from 2014 to 2019.

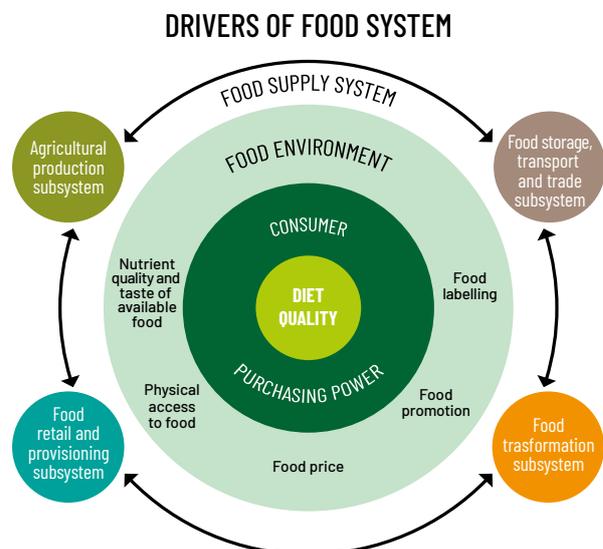
Source: FAO et al., 2020, Annex 1A, Table A1.1.

## 1. THE IMPORTANCE OF A FOOD SYSTEMS APPROACH TO DELIVERING HEALTHY DIETS

Although it performs relatively well against other developing countries, Kenya still suffers from malnutrition, occurring both among adults and children under five (Global Nutrition Report, 2020). The 2020 edition of *The State of Food Security and Nutrition in the World* confirms this trend (FAO et al., 2020). There are several pathways to improved nutrition and health; among these, the adoption of a nutrition-sensitive food systems approach is crucial to address the key drivers of malnutrition in all its forms (undernutrition,

micronutrient deficiency, overweight and obesity) (FAO, 2018a). Food systems and the way they are set up have significant impact on the availability of nutritious food and access to healthy diets. They encompass people and institutions involved across various processes and activities – including food production, processing, storage, transportation, trade, transformation and retail. It is therefore crucial to ensure that “all parts of food systems work together to deliver high-quality diets” (Global Panel on Agriculture and Food Systems for Nutrition, 2016).

Figure 1. Conceptual framework for the links between diet quality and food systems



Source: Global Panel on Agriculture and Food Systems for Nutrition, 2016, Figure 1.4.



Among private sector actors, there is considerable potential for SMEs to contribute to the transformation of food systems. Being closely linked to producers and familiar with the tastes and preferences of local consumers, SMEs can play a key role in the evolution of the nutrition landscape and in the transformation of food systems – particularly in terms of food environments (where food is sold and accessed by consumers). Food environments may be inequitable for many in terms of physical access, affordability, marketing and quality of foods (Development Initiatives, 2020). SMEs can contribute to improving nutrition by increasing the availability of nutritious food in food environments and by promoting informed and healthy consumer choices, but they can also increase food accessibility by driving job creation, income generation and innovation in rural areas (FAO, 2018b).

Before expanding on the potential of SMEs for improving nutrition in Kenya, it is important to understand the context in which they operate.

## 2. NUTRITION CHALLENGES ACROSS THE FOOD SUPPLY CHAIN

Significant political and economic reforms have largely driven socio-economic development in Kenya over the past decade. In 2019, the country's economic growth reached 5.7 percent, making Kenya one of the fastest growing economies in sub-Saharan Africa. A major driver of this growth is the agricultural sector, which is a significant source of employment for roughly half of the country's population (World Bank, 2019).

Despite the considerable socio-economic gains however, malnutrition is still a major issue, and the Kenyan Government has shown renewed commitment to tackle it through national strategies, such as the 2018–2022 National Nutrition Action Plan (Government of Kenya, 2018). Data from the Kenya Health Demographic Survey (KDHS) of 2014 (which are included in the Plan), indicate that between 1998 and 2014 malnutrition was linked to the coexistence of undernutrition, micronutrient deficiencies, and

overweight and obesity, including diet-related non-communicable diseases (NCDs). In addition, the data reflected remarkable geographic and demographic variations (Government of Kenya, 2018). All this underscores the need to reshape approaches to address malnutrition for greater effectiveness and coherence (RESULTS UK, Concern Worldwide and University of Westminster, 2015).

## 3. THE ROLE OF AGRIFOOD SMEs

Small and medium-sized enterprises are the backbone of Kenya's economy – as of 2016, they represented almost 80 percent of all businesses in the country, and approximately 40 percent of national GDP (Government of Kenya, 2016). Although operating mostly in the informal sector, SMEs are engines of job creation, income generation and innovation in new sectors and value chains (ITC, 2019).

A survey by the Kenya National Bureau of Statistics estimates the total number of licensed micro, small and medium-sized enterprises (MSMEs) in the country at 1.56 million, and unlicensed MSMEs at 5.85 million – with most of the unlicensed establishments operated at the household level (Government of Kenya, 2016).<sup>1</sup> Microenterprises made up the majority of licensed businesses, accounting for 92.2 percent of MSMEs.

The agriculture sector, which is composed mostly of smallholder farmers, is a key pillar of Kenya's economy. The sector also has the highest export potential in the country, although several gaps need to be closed in order for it to reach its full potential (ITC, 2019). Further development of the sector is considered key to poverty reduction and economic growth, and therefore remains central to the national agenda (Government of Kenya, 2019; FAO, 2019). In particular, the Government aims to transform smallholder agriculture into a modern sector, and local SMEs have been identified as key actors and beneficiaries of the planned transformation (Government of Kenya, 2019).

<sup>1</sup> A total of 50 000 MSMEs were sampled for the survey, which covered mainly non-primary product activities or businesses, as well as agribusiness.



## SUPPORTING SMEs IN KENYA

### Examples of policies and strategies:

- Kenyan Agriculture Sector Transformation and Growth Strategy (2019–2029);
- Kenya Youth Agribusiness Strategy (2017–2021);
- Kenya National Nutrition Action Plan (2018–2022); and
- Big Four Agenda.

### Examples of institutional and organizational support:

Key institutions supporting SME growth include the Scaling Up Nutrition (SUN) Business Network, the Global Alliance for Improved Nutrition (GAIN), the Kenyan Ministry of Agriculture, Livestock, Fisheries and Irrigation, the Kenyan Ministry of Health, the Kenyan Ministry of Industry, Trade and Cooperatives, the Kenya Industrial Research and Development Institute (KIRDI) and the Agriculture and Food Authority (AFA).

### Examples of the type of support provided:

- new business and revenue opportunities (Ministry of Finance Budget 2020);
- technical assistance in various sectors (manufacturing, agriculture, etc.);
- business incubation services (KIRDI);
- product development (KIRDI);
- training and capacity building (KIRDI);
- common manufacturing facilities where products can be processed (KIRDI); and
- development and transfer of technologies (KIRDI).

## 4. MAJOR CONSTRAINTS FOR AGRIFOOD SMEs

Various challenges and constraints hinder SMEs growth in Kenya, including inadequate capital, limited market access, poor infrastructure, inadequate knowledge

and skills, and rapid changes in technology (Deloitte & Touche, 2016). As part of the MAFF project, FAO conducted a study (FAO, 2018a)<sup>2</sup> to explore the specific constraints faced by SMEs engaged in nutrition improvement in Kenya, and identified the following:

- **Inadequate and stringent access to financing** – most MSMEs cannot rely on a large capital base, but many opportunities to access funding are either too stringent or too specific in the financing needs they address.<sup>3</sup>
- **Inadequate and inconsistent supply of raw materials** – SMEs face challenges in managing the raw materials value chain effectively, which hinders their access to these materials. The raw materials they typically need are also highly perishable, and are becoming harder to source.
- **Gaps in technical and managerial knowledge** – these relate to several areas, such as product development, safety and quality assurance, marketing, and the ability to raise awareness among consumers about nutritious food.
- **Limited access to markets** – SMEs face difficulties in creating or sustaining markets for their products, especially when competing with large-scale food manufacturers (whether domestic or foreign) and in complying with conditions for product availability and stocks, as often required by big retailers.
- Multiple, complex and/or stringent **food certification requirements**, and multiple taxation requirements (FAO, 2018c).
- **Lack of protection** from foreign markets.

## 5. OPPORTUNITIES FOR AGRIFOOD SMEs

Opportunities for the public and private sector to leverage the role of Kenyan SMEs while promoting nutrition-sensitive approaches may include (FAO, 2018c):

- **Addressing the root causes of financial challenges** for SMEs in the credit market.

<sup>2</sup> Undertaken between November 2017 and March 2018, the study relied on interviews with key informants, including policymakers, organizations working to strengthen SMEs, and SMEs engaged in nutrition improvement.

<sup>3</sup> For instance, a project may offer financing for the purchasing of equipment, but not for the training or engagement of skilled personnel to operate such equipment.



- **Boosting the technical and managerial competencies** of SMEs in targeted areas, such as business management and the management of supply chains for raw materials; food handling, storage and processing; food trade and marketing; and nutrition, food quality and safety standards.
- **Improving capacities among SMEs to use alternative distribution networks.**
- **Fostering policy coherence across sectors** such as food and agriculture, trade, nutrition, health, transport and finance.
- **Supporting further participation of SMEs in the development of policies** that can strengthen their role. Kenya has developed many policy frameworks (such as the Big Four Agenda), and has engaged in several exchanges with SMEs, but their involvement needs further improvement.

Additional opportunities (FAO and IFPRI, forthcoming) may include:

- **Facilitating engagement with business associations** that can reach a large number of SMEs and contribute to the uptake of nutrition-sensitive approaches.
- **Facilitating access to new technologies** for food production, processing, and logistics.
- Supporting SMEs in **raising consumer awareness** about nutritious food, and building trust in vendors.

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