

Utafiti Sera Policy Brief 002

Creating Employment in Horticulture Sector in Kenya: Productivity, Contracting and Marketing Policies

Summary

- Despite improved overall economic performance, the horticulture industry has experienced reduced/stagnating job mainly due to weak governance of contracts, low labor productivity and limited market access.
- Interventions aimed at enhancing competitiveness of the industry in the domestic, regional and global markets can help unlock the blockages to wage employment creation.
- Such interventions can include investment in appropriate research and technologies/innovations; designing volunteer programs that minimize skills erosion, enforcement of horticultural codes of practice, strengthening farmer institutions and investment in appropriate infrastructure.

I. Background

Horticulture is the largest sub-sector of agriculture, contributing 33% of the Agricultural GDPⁱ. Horticulture industry is made up of five commodities: vegetables (accounting for 44.6% of the total value of produce); flowers (20.3%), fruits (29.6%), nuts and; medicinal and aromatic plants (MAPS) at 5.8%). In 2015, the industry contributed 1.45% to the national GDP. Small scale farmers (below 10 acres) produce a majority of these crops contributing about 50-60% of the total productionⁱⁱ. About 95% of horticultural production goes to the domestic market and 5% to the export market. The value of domestic horticulture in 2015 was KES 211 Billion (2.1 Billion USD) with a total area under production of 719,158Ha. Horticulture industry is the second biggest foreign exchange earner for the country (after tourism), generating approximately KES 90 billion in 2015. The main horticultural crops exports are: flowers, vegetables and fruits; with European Union (EU) being the major destination accounting for over 80% of total exports (See table 1).

Table 1: Value of Horticultural exports (Million Ksh)

	2013	2014	2015
Flowers	55,976	59,893	62,938
Fruits	4,483	5,411	6,562
Vegetables	22,923	18,781	20,940
Total	83,382	84,085	90,439

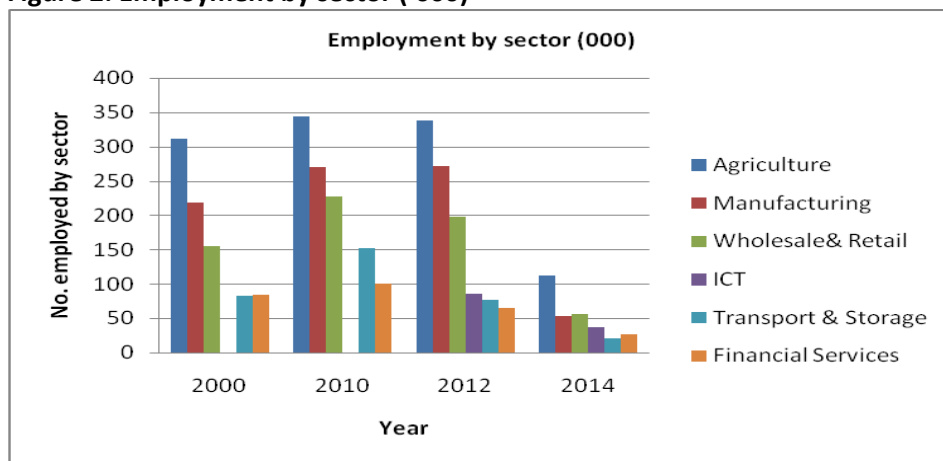
Source: Agriculture and Food Authority (AFA), 2016

This Policy Brief presents findings from a study done to understand the blockages to employment in agriculture and agri-processing in Kenya (Mitullah et al., 2016) and a synthesis of policy recommendations from Utafiti Sera forum which discussed the same.

Horticulture is a major employer

Horticulture industry directly employs approximately 6 million people while 3.5 million people benefit indirectly through related activities. There is high concentration of women and youth at various stages of the value chain. Between 2005 and 2015, employment in the cut flower industry witnessed a steady growth in job creation, accounting for over 65% of all new jobs created in agriculture sector (Ibid). The floriculture industry employs approximately 500,000 people and impacting over 2 million livelihoods.

Figure 2: Employment by sector ('000)



Source: Economic Survey, 2015ⁱⁱⁱ

II. Blockages of employment creation in horticulture sector

The main blockages to employment creation in the horticulture industry are: low labor productivity, weak governance of contracts and limited access to markets.

i. Low labor productivity

According to ILO (2013)^{iv}, agricultural labor productivity (which represents the amount of output per unit of input) in Kenya has been on the decline for the last three decades. For instance, in 1980, agricultural labor productivity was about US\$400 but by 2010, it had fallen to US\$350 (in constant 2000 purchasing power parity, PPP¹ dollars), marking a 12 per cent decline. The Kenyan Government recognizes the critical role of productivity in realizing the aspirations of the *Kenya Vision 2030* and *Kenya Constitution 2010*.

Although Kenya has made advancements in provision of secondary and tertiary education, vocational skills' training has been weak yet all the three are essential factors in productivity growth. The World Bank's *Kenya Economic Update*^v echoes that lack of training opportunities after school which undermines labour productivity in the country. These on-job training opportunities build cognitive skills, which are a strong prerequisite for formal wage employment. In addition, the second Medium Term Plan (MTP 2)^{vi} outlines inadequate infrastructure and obsolete technology in industrial training centers as major challenges affecting productivity of labour.

¹ Purchasing power *parity* means equalising the purchasing power of two currencies by taking into account cost of living and inflation differences.

Low labour productivity in the horticulture sub-sector is characterised by mismatch between educational training, research and the industry requirements; and inadequate access to capital for investment in expanding production or in labor-enhancing technologies/innovations. This forces large scale producers to invest additional resources in specialized training of employees, mechanization, automation of activities and employment of more skilled laborers as opposed to semi-skilled laborers. Although Kenya provides tax rebates for such investments, most horticultural companies shy away from making claims because the process is long and tedious. Also, the low input system and limited level of investment by the majority smallholder horticultural farmers limit labor productivity. The youth (15-34 years) who constitute two thirds of the labour force are the most affected by low labour productivity (World Bank, 2014b, 2016; NESC, 2010, 2011; KIPPRA, 2011, 2012). Thus, increased employment can only be assured with new investments, which are not forthcoming owing to the reducing/stagnating profitability in the sector and initial high investment costs.

ii. Weak contract governance

Contract farming is an institutional innovation that addresses severe shortages of finance, inputs, technical support and markets. It is through contract farming that smallholder horticultural farmers are able to participate in formal horticultural production and marketing. A major challenge to improved governance of contracts has been delayed review and enforcement of the horticulture code of practice-KS 1758. This code provides among other things, guidelines for contractual agreements between the producer and dealer in the industry and for development of legally binding contracts. Until 2015 (when the process of review began), the code of practice had gone for over 10 years without review. Yet, the horticulture industry is highly dynamic (in terms of production, market requirements and consumer demands) and requires constant review of standards in line with global requirements as well as supportive policy frameworks for implementation of the same. Another contribution to weak governance of contracts is weak farmer institutions. Weak farmer institutions makes it difficult for investors to determine potential for production, it also limits access to domestic and export markets and leads to frequent breaching of rules by either of the parties to the contract. All these limitations of weak farmer institutions serve to reduce potential gains of contracts. Consequently, the weak governance of contracts leads to shrinking opportunities for employment creation and narrowing source of livelihoods for the smallholder farmers.

iii. Limited access to markets

Although the market for fruits and vegetables across Africa has been rising due to increasing urbanization and rise of the middle income consumers supported by changes in consumer habits to healthy-eating, market access has been a major challenge for majority of smallholder farmers. If well tapped, the expansion in domestic and regional markets can increase opportunities for wage employment creation for many African economies. To do so, countries such as Kenya will need to support small scale farmers to overcome: a) limited access to information on market requirements, b) irregular supply due to over-reliance on rain-fed production and; c) limited uptake of post-harvest technologies which could enhance longevity of the produce and enhance sale of high value processed goods. Since most smallholder farmers operate independently (thereby limiting their bargaining power in the market), governments need to put in place measures to strengthen farmers unions including supportive regulatory environment for them.

III. Policy Implications

The challenges highlighted above should push stakeholders to think about innovative interventions aimed at enhancing competitiveness of the industry in the domestic, regional and global markets. Going forward, policies to address the highlighted challenges will need to focus on fast-tracking enforcement of legal and regulatory frameworks including strengthening the same through regular reviews. Strong norms and enforcement mechanisms have the potential to improve governance of contracts leading to increases in

incomes, improvement in living standards of out-growers and creation of additional jobs in the economy. Finally, the fast-growing domestic and regional markets in Africa offer a more dependable business case for smallholder horticultural farmers than the high value export markets. Given this situation, policy needs to focus on institutional support and investment in appropriate infrastructure to enhance smallholder farmers' participation as well as trigger employment creation along the value chain. Below we recommend some policy options to address the noted challenges.

IV. Recommendations

Based on results of the study^{vii} and the national stakeholder dialogue, the following policy options can enhance opportunities for employment creation in horticulture industry.

- i. ***Investment in appropriate research and technologies/innovations for enhanced productivity of labor in the horticulture industry.*** Both county and national government should fund productive horticultural value chains; support full development of the value chain, from R&D to value addition; and establish a productivity fund to provide grants and loans to firms investing in specialized employee training;
- ii. ***Improve contract governance through enforcement of the Horticulture Code of Practice-KS1758:*** adopt the National Produce Traceability System for the domestic market; regular review of standards to respond to the emerging dynamisms in horticulture industry; invest in strong farmer institutions to ensure development of legally binding contracts;
- iii. ***Enhance access to markets especially for smallholder farmers*** through organizational innovations as well as strengthening contract governance. The suggested form of organizational innovation is Market Service Centers (MSCs) for smallholder horticultural farmers. An MSC model provides forward and backward linkages and serve as a platform for farmers to lobby stakeholders for appropriate support services and also address emerging challenges in the industry.

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Further information about this Policy Brief and reports of the study and the stakeholders are available at: www.Cabe-africa.org. Utafiti Sera appreciates the support of the Knowledge Platform for Inclusive Development Policies (INCLUDE).

ⁱAgriculture and Food Authority, AFA. 2017. Creating Wage Employment in Horticulture Sector in Kenya. Agriculture and Food Authority.

ⁱⁱASDS, 2010. Agricultural Sector Development Strategy, 2010-2020. Government of Kenya.

ⁱⁱⁱEconomic survey. 2015. Kenya National bureau of Statistics. 2015 Economic Survey.

^{iv} International Labor Organization, ILO.2013. Studies on Growth with Equity. Making Quality Employment the Driver of Development.

^v World Bank. 2016. Kenya Economic Update. Edition No.13

^{vi} Medium Term Plan (MTP) II. 2013. Medium Term Plan 2013-2017. Government of Kenya.

^{vii} Mitullah, W., Kamau, P., and Kivuva, J.M. 2016. Employment creation in agriculture and agro-processing sector in Kenya in the context of inclusive growth: political economy and settlement analysis. Institute for Development Studies, University of Nairobi. Unpublished.