

# POLICY BRIEF



## Dutch Companies and Productive Employment in the Flower Sector in Kenya

### The flower sector in Kenya

In 2017, floriculture in Kenya earned KES 82.2 billion. It is Kenya's fourth foreign exchange earner after remittances, tea and tourism. Within the plant growing sub-sector, we distinguish three main activities: breeding (developing new varieties), propagation (multiplying by any process of natural reproduction from the parent stock) and growing plants. Growers provide the highest employment opportunities in the entire chain, predominantly for women. Due to the nature of their work, breeders and propagators hire less people. However, breeders contribute substantially to indirect employment creation. Indirect employment is also created by a number of local and international companies operating in the flower value chains. The Kenya Flower Council (KFC) estimates indicate that the sector generates about 90,000 jobs directly at flower farms and about 500,000 indirectly. Through backward linkages, the floriculture industry has an impact on over 2 million livelihoods, which equates to five per cent of the Kenyan population.

Foreign investors and partners played a critical role in launching and expanding the floriculture industry in Kenya. Initially, large and medium flower farms were owned mostly by foreigners, Kenyans of foreign descent or members of the Kenyan (political) elite. Kenyan smallholders were also involved in flower growing at that stage. Danish and Dutch companies started flower export businesses, and Dutch and Israeli advisors have been important sources of technical support. Since the liberalization in the 1990s, the sector has largely been driven by the market forces with the private sector taking the lead. Today, flower growing is done predominantly by Kenyan-owned farms, while Dutch companies dominate the breeding and propagation activities.

An important step in Kenyan floriculture was signing the International Convention for the Protection of New Plant Varieties (UPOV) under the 1978 Convention in May 1999 and the 1991 Convention in May 2016. Since then, several breeding companies have entered the Kenyan market. As a result, foreign breeders swiftly started to introduce their flower (and other horticultural) varieties in Kenya, with the majority of applications for

protection concerning different varieties of roses.<sup>1</sup> All flower breed varieties were of foreign origin; nevertheless, their introduction has contributed to the diversification of the Kenyan floricultural sector and to the development of a global trade of floricultural products. Consequently, the export of Kenyan cut flowers to the European market increased rapidly and substantially.

In 2016, more than 3,000 hectares, divided into 190 flower farms owned by 145 companies<sup>2</sup> (medium enterprises and large multinationals), were devoted to commercial floriculture. Out of 190 farms bigger than three hectares, 17 per cent (33 companies) can be considered Dutch (Table 1). The expression ‘can be considered’ is used deliberately, as actually all the companies are registered as Kenyan. For the purpose of this study, however, we ‘consider’ a company Dutch when capital and management come from the Netherlands; or when there is an active link with a Dutch

‘mother company’. It is therefore observed that while local Kenyan investors have been able to enter into the cut flower growing business, the young plant segment is somehow off their limits and remains dominated by the established European, mostly Dutch, breeding companies. Under strict breeders’ licences, young plant material is increasingly propagated at production facilities in low-cost countries like Kenya.

As for the flower production, roses constitute 75 per cent of the overall flower production, but we can observe a (re-)growing number of smallholder flower farmers and companies who source flowers from them. Smallholders grow mostly summer flowers. The main flower growing areas are concentrated around Nairobi and its environs, Mount Kenya, and the Central and Rift Valley, with the biggest production taking place around Lake Naivasha. Finally, there is a number of companies, both international and local, that work in the supply chain. The companies are responsible for selling chemicals (usually Kenyan companies representing international brands), necessary equipment, farm inputs and infrastructure (like greenhouses and other tools), packaging, transport and handling.

**Survey**

The survey looked at the impact of (predominantly Dutch) multinational companies on the promotion of productive employment in Kenya in the sector of floriculture. The data used in this paper was gathered using a mixed methods approach. First a survey was conducted among 46 firms operating in the Kenyan flower production sub-segment using a standardized questionnaire. This was followed by a case study of selected farms drawn largely from the survey information to get in-depth information, as well as interviews with seven companies in the supply chain.

The survey was conducted by the University of Nairobi (UoN), Kenya Association of Manufacturers (KAM) and African Studies Centre Leiden University (ASCL) in the frame of a NWO-funded project “Dutch Multinational Businesses, Dutch Government and the Promotion of Productive Employment in Sub-Sahara Africa: A Comparative Study of Kenya and Nigeria”.

**Table 1. Flower companies in Kenya**

	Number of all companies	Number of Dutch companies	% Dutch
Grower	135	19	14%
Grower, propagator	18	0	0%
Propagator	1	1	100%
Breeder, Propagator	3	3	100%
Breeder	9	7	78%
Grower, sourcing	5	0	0%
Sourcing	4	2	50%
Flower broker	11	1	9%
Small scale grower	4	0	0%
<b>Grand Total</b>	<b>190</b>	<b>33</b>	<b>17%</b>

*Source: Own calculations based on the desk research and field data (information for June 2016).*

<sup>1</sup> Between 1997 and 2003, the number of applications for roses represented 40.4 per cent of the total applications for protection.

<sup>2</sup> As the sector is very dynamic, the companies’ mergers and/or takeovers are quite frequent.

## Main results

Out of the 46 surveyed companies, over half (61 per cent) consider themselves a Kenyan company with headquarters located in Kenya. Only nine indicated having headquarters elsewhere (one in Israel, one in Germany and seven in the Netherlands). Although more companies could be classified as Dutch (by having a Dutch Director and owner or by having a sister company in the Netherlands), these companies are officially registered as Kenyan entities and present themselves as Kenyan. As one of the objectives of this survey is to compare how Dutch companies perform compared to non-Dutch flower firms, companies with a ‘Dutch connection’ are considered as Dutch for the purpose of this analysis.

Table 2. Surveyed flower companies in Kenya

	Kenya	Kenya w/Dutch connection	Netherlands	Germany	Israel	Total	% Total
Breeder		1	1			2	4%
Breeder, propagator			3			3	7%
Propagator		1				1	2%
Grower, propagator	3				1	4	9%*
Grower	21	7	3	1		32	70%
Grower, sourcing	2					2	4%
Flower broker	1					1	2%
Small-scale grower	1					1	2%
<b>Grand Total</b>	<b>28</b>	<b>9</b>	<b>7</b>	<b>1</b>	<b>1</b>	<b>46</b>	<b>100%</b>
	61%	20%	15%	2%	2%		

\*Companies in this category are counted as growers (and not as propagators), as growing remains their primary activity.

The majority (83 per cent) of the responding companies are growers, while 13 per cent are breeders and propagators. Among the latter group, all the companies are Dutch. The survey was also conducted with one small-scale grower and one flower broker (Table 2).

## Employment created

Total employment created by all the respondents was estimated to be 23,849 in the flower production and 1,227 in the interviewed companies operating in the value chain. Regarding the flower production, Dutch companies are responsible for 33 per cent of the total figure. Growers and propagators are responsible for the majority (98 per cent) of the employment created by the respondents, while breeding companies for least of it (0.03 per cent).

## Salary in the sector

With regard to the salary, on average the surveyed flower producing companies provide higher than minimum wage in the agricultural industry (2016: KES 6,780 on average and KES 5,436 for unskilled labourers) but not yet an equivalent of the (rural) living wage of approximately KES 14,000. If we zoom in on the Dutch companies in the sector, we will see that they provide an average sector salary, which is double the statutory minimum wage, but only in two cases of breeding companies, it surpasses the (rural) living wage standard for the production workers. Working for a breeding and/or propagating company requires higher skills and additional training even for the production workers. Finally, it can be observed that Dutch companies are offering a much more attractive salary on the management level in comparison to the sector average.

Figure 1. Average salary in KES in the floriculture sector (2016)

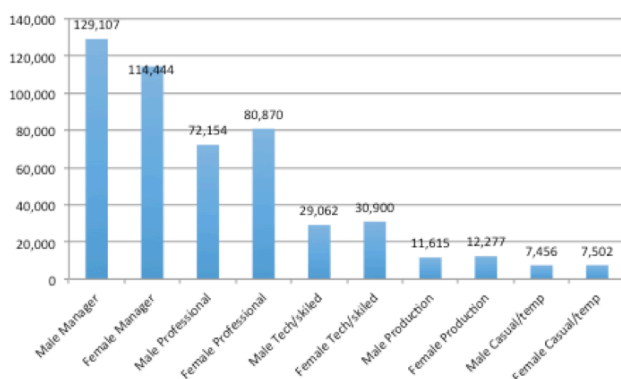
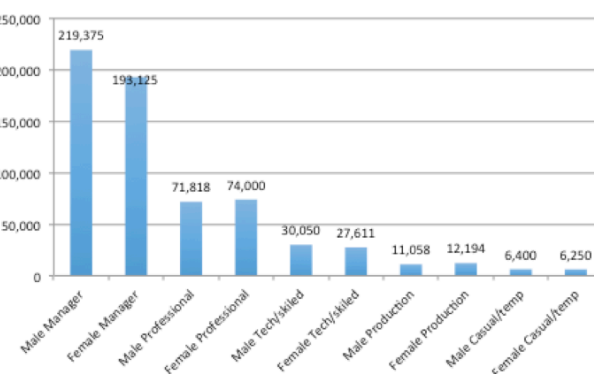


Figure 2. Average salary in KES by the Dutch companies in the floriculture sector



All companies offer additional benefits on top of the base salary. In addition to obligatory housing or housing allowance, most of the employers provide their employees with written contracts, maternity/paternity leave, meals, transport (allowance), healthcare, breastfeeding facilities and childcare facilities. Dutch companies appear to discriminate least regarding the division of the benefits among the high management and permanent production workers, and they provide most of the benefits to their temporary and casual labourers.

**Skills development**

Most of the companies provide on-the-job, in-house training for their employees, but they do not provide training to other national companies. If the sector is to develop further, the following skills are in the high demand:

- Agronomist (incl. pests & diseases management)
- Breeding and propagation
- Good agriculture practices
- Post-harvest handling
- Technical (i.e. maintenance for machines)
- Management (including aspects of H&S; logistics)
- Professional sales support

**Supply chain and imported products**

The majority of the companies in the supply chain are local suppliers, yet they are distributors of imported products. Among the most frequently imported products, the following can be distinguished:

- Greenhouse and irrigation materials
- Organic inputs
- Fertilizers / Chemicals

**These products are imported because of three predominant reasons:**

- There is no domestic source of the product in Kenya
- The domestic source is of an inferior quality
- The imported product or service is significantly cheaper

Picture 1. A part of pending unpaid VAT returns for flower export



Source: Photo by Kazimierczuk (2016)

**Bottlenecks linked to the supply chain**

1. Bureaucracy

- Delays with VAT refunds
- Too much paperwork and delays in getting documents for import
- Unreasonably high import duty
- Long clearance time in Mombasa

2. Transport

- High freight charges
- Bad roads
- Harassment of transport by police

3. Input/Seed

- KEPHIS restrictions on importing seeds
- Quality, price and availability of inputs
- Many counterfeit products
- High costs of royalties dictated by breeders (this often block flower smallholders)

4. Quality and price of packing materials

**Key issues linked to operations in the flower sector**

“Over-regulation”

- Some contradictions on national vs. county level
- No government help nor incentives provided to the sector
- Corruption on many levels
- Many standards and certification
- Many companies are signatory of one or more standards

- Very important role of the KFC (and Dutch government) in pushing the sector to reach international standard

Operational issues

- Exchange rate volatility
- High labour and living costs
- High costs of electricity and production

## Policy Recommendations

Kenya is in the world elite of countries producing flowers. The sector has matured over the years and today is operating based on high international standards. Most of the necessary mechanisms are already in place, but they may still need to be enhanced. We therefore recommend the following:

### To the Kenyan Government:

#### 1. Capacity building

- a. Invest in capacity building at the higher level and at the Technical and Vocational Education and Training (TVET) level to increase the pool of skilled labour in the sector for competitiveness.
- b. Invest in local R&D and public research to promote the development of indigenous flower varieties for commercialization.

#### 2. Enhance conducive business environment

- a. Improve on productivity and competitiveness of the sector by enhancing coordination mechanism between counties and national government on key issues in the sector. Use the opportunities created by platforms like the Council of Governors Agriculture and Lands Committee, as well as the Presidential Round Table (PRT).
- b. Continue the fight against corruption.
- c. Improve the speed of tax refunds for the industry.
- d. Finalize special economic zones provision for the sector.
- e. Provide tax exceptions for companies that invest in in-country R&D activities.

#### 3. Productivity

- a. Review and improve subsidies implementation on agricultural inputs and equipment to benefit the growers to reduce costs of production.
- b. Continue improving infrastructure.
- c. Expand provision of agricultural insurance to consequences of climate change.

#### 4. Wage

- a. Engage labour organisations and workers during wage discussions for consumer/stakeholder input without overriding the employers.

### To the International Community:

#### 1. Technology and Knowledge transfer

- a. Technical knowledge
  - i. Engage in trainings of local companies.
  - ii. Provide more technical knowledge and support on national level.
- b. Promote R&D in-country and contribute to public research.
- c. Undertake mentorship programmes in partnership with running institutes (Universities, TVET) and local companies.
- d. Challenge a 'closed network' of breeding companies.

#### 2. Responsible business practices for sustainability

- a. Biological pest control and fertiliser development and use.
- b. Integrate CSR into the core business operations for enhanced community benefits.
- c. Commit to using a significant level of local materials in the production process.
- d. Honour and implement climate change agreements in the business operation for sustainable production.

#### 3. Expand financial instruments to SMEs and smallholder flower growers to support professionalization, inclusiveness and sustainability of these businesses.

#### 4. Invest in capacity training of trade unions for professionalization, including mentorship for proper worker representation.

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